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ABERDEEN
CITY COUNCIL

To: Pensions Committee
Councillor Crockett; Convener; and Councillors Donnelly, Kiddie, Laing, Malone, McGregor, Noble, Reynolds and Young

Pensions Board
Mr J Mulholland; Chairperson; Councillors Cowe, Howatson and Ironside; and Mr D Briggs, Mr R Henderson, and Mr A Walker

Town House, ABERDEEN
10th June 2015

PENSIONS COMMITTEE AND PENSIONS BOARD

The Members of the **PENSIONS COMMITTEE AND THE PENSIONS BOARD** are requested to meet in on **MONDAY, 15 JUNE 2015 at 10.00 am** in Committee Room 2 - Town House.

KAREN DONNELLY
LEGAL MANAGER

BUSINESS

1 Exempt Business

Members are requested to resolve that any exempt business listed on this agenda be considered with the Press and Public excluded.

2 Apologies for Absence

3a Minute of the Meeting of the Pensions Committee held on 9th March 2015 - For Approval

3b Matters Arising

4a Minute of the Meeting of the Pensions Board held on 26th April 2015 - For Approval

4b Matters Arising

EXEMPT BUSINESS

5 Presentation from Aberdeen Asset Managers Global Ex UK (Pages 1 - 58)

Representatives from the Fund Manager will attend the meeting at 10.45am in order to present to Members.

6 Fund Performance Report (Pages 59 - 82)

7 Investment Strategy Update (Pages 83 - 132)

PUBLIC AGENDA ITEMS

8 Corporate Governance Report (Pages 133 - 186)

9 Business Plan 2015 - 2017 (Pages 187 - 202)

10 Administering Authority Discretions (Pages 203 - 226)

11 Governance Report (Pages 227 - 236)

12 New Local Government Pensions Scheme (Scotland) 2015 Report (Pages 237 - 250)

13 Actuarial Valuation Report (Pages 251 - 376)

14 Request for Admitted Body Status - ISS Facility Services Group (Pages 377 - 386)

15 Request for Admitted Body Status - The Landscaping Group (TLG) (Pages 387 - 394)

16 Financial Forecast plus Out Turn 2014/15 Report (Pages 395 - 398)

17 Internal Audit Report - Pension Fund Financial Controls and Pension Payroll (Pages 399 - 418)

18 NESPF Annual Report and Financial Statements - 2014/15 (Pages 419 - 544)

Website Address: www.aberdeencity.gov.uk

Should you require any further information about this agenda, please contact Fiona Smith, tel 522516 or email fismith@aberdeencity.gov.uk

Agenda Item 5

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Exempt information as described in paragraph(s) 8 of Schedule 7A
of the Local Government (Scotland) Act 1973.

Agenda Item 7

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ABERDEEN CITY COUNCIL

COMMITTEE:	PENSION COMMITTEE
DATE:	15 JUN 2015
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	CORPORATE GOVERNANCE AND SRI
REPORT NUMBER:	PC/JUN15/CORPG

1. PURPOSE OF REPORT

To review the Pension Fund's Corporate Governance and Social Responsible Investment activity for the three month period ending 31st March 2015.

2. RECOMMENDATION(S)

It is recommended that the committee note the report.

3. FINANCIAL IMPLICATIONS

The costs associated with Corporate Governance and Socially Responsible Investment activity are met by the Fund. Good corporate governance is a vital element of effective corporate management leading to good management, performance and stewardship of shareholders money, and gives reassurance to those with an interest in the Fund.

4. OTHER IMPLICATIONS

None

5. BACKGROUND

5.1. Corporate Governance

Good corporate governance is a vital element of effective corporate management leading to good management, performance and stewardship of shareholders money. Through its policy of In-house voting and membership of the Local Authority Pension Fund Forum, and the UNPRI, the Fund supports good corporate governance in the companies in which it invests, and challenges companies who do not meet the standards set by their peers or reasonable expectations as measured by best practice.

A report is presented quarterly to the Pension Committee on the Fund's Corporate Governance and Socially Responsive Investment Activity.

5.2. Quarterly Report

5.2.1 VOTING

During the Quarter to end Mar 2015 the Fund voted at 21 meetings.

Our Quarterly Voting Report is attached in Appendix 1

The most contentious areas were:

Directors

- Independent Directors who the company claim as independent but who have spent over 9 years on the board and can no longer be classified as such.
- Concerns over aggregated time commitments
- Against the chair of the Nomination Committee, for not adhering to the Davies recommendation of setting a target for female Board representation by 2015.

Annual Reports

- No Vote on the Dividend or Dividend Policy has been put to the shareholders to vote on.

Non-Voting

- The figures given for Non-Voting Abstain and Oppose on page 8 are incorrect. The error occurred because the resolution's were original Non-Voting but were subsequently amended to Voting.
  Non Voting resolutions are normally admin items, times, venues for meetings etc.

5.2.2 LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)

LAPFF is the UK's leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together 64 local authority pension funds from across the country with combined assets of over £160 billion. The Forum provides a unique opportunity for local authority pension funds to discuss investment issues and participate in shareholder engagement.

Mar 2015 Business Meeting

At the LAPFF business meeting held on the 24th Mar the following topics were discussed.

- **Quarterly Engagement Report**

A report on LAPFF's engagement for the quarter ending Mar 2015 can be found in Appendix 2, Other LAPFF Collaborate Initiatives are listed in Appendix 3

- **Achievement -BP and Shell Resolution**

LAPFF members filed a resolution at both BP and Shell's AGM's asking for the their annual report's from 2016 to include further information on:-

- Ongoing operational emissions management
- Asset portfolio resilience to the International Energy Agency's (IEA's) scenarios
- Low-carbon energy research and development and investment strategies
- Relevant strategic key performance indictors and executive incentives
- Public policy positions relating to climate change.

In an unprecedented move both company's advised shareholders to vote in favour of this resolution.

- **Corporate Tax Transparency Initiative (CTTI)**

CTTI is an initiative led by the LAPFF whose aim is a general improvement in corporate governance, transparency and disclosure standards around taxation issues.
LAPFF wrote to all FTSE 100 companies with a short list of questions seeking transparency and disclosure around taxation issues. Once the replies have been collated direct engagement with company will commence in Q3 of 2015.

5.2.3 UNITED NATION'S PRINCIPLES FOR RESPOSIBLE INVESTMENT

The Fund is a member of an engagement group working on a collaborative engagement proposal for more Sustainable Stock Exchanges (SSE). This is 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.

The latest Project is to provide a SSE Model Guidance on Sustainability Reporting. Our Fund is now a member of the Advisory Group for this Project.

The purpose of this is to

- To create an application-oriented, voluntary technical tool to help stock exchanges in communicating to their listed companies on the issue of sustainability reporting.

- To assist the majority of stock exchanges who currently do not provide any guidance to their listed companies but may wish to. (A preliminary study shows only 11 out of 55 exchanges analyzed have sustainability reporting guidance for their listed companies.)
- The Model Guidance will be a general guidance that exchanges are encouraged to customise to their own markets, adding additional material as they see fit.

Features of the Model Guidance

- The Model Guidance will identify key steps in the reporting progress, including different roles played by management, board members and other relevant actors.
- The Model Guidance will be a general guidance that exchanges are encouraged to customise to their own markets, adding additional material as they see fit.
- The Model Guidance will include a mix of short case studies/examples on how companies have implemented different steps in the reporting process (varied examples by industry and level of reporting experience), as well as how exchanges and other experts in the field suggest approaching the process.
- The Model Guidance will be a complementary document to support exchanges existing work. It will avoid constraining exchanges into a particular reporting framework or set of indicators. Rather, it will offer a resource tool to assist exchanges to make the best use of existing reporting frameworks.

6. IMPACT ON THE PENSION FUND

At a time when companies are facing challenging markets, good corporate governance is key in protecting the Fund's investments.

7. BACKGROUND PAPERS

PIRC Quarterly Voting Report Appendix 1
LAPFF Research & Engagement Appendix 2
LAPFF Collaborate Initiatives Appendix 3

8. REPORT AUTHOR DETAILS

Caroline Mann
Pensions Officer
camann@nespf.org.uk
01224 264168

PIRC

North East Scotland Pension Fund

PROXY VOTING REVIEW

PERIOD 1st January 2015 TO 31st March 2015

Contents

1 Resolution Analysis

- Number of resolutions voted: 359 (note that it MAY include non-voting items).
- Number of resolutions opposed by client: 80

1.1 Number of meetings voted by geographical location

Location	Number of Meetings Voted
UK & BRITISH OVERSEAS	6
EUROPE & GLOBAL EU	9
USA & CANADA	1
ASIA	1
JAPAN	2
SOUTH AMERICA	2
TOTAL	21

1.2 Number of Resolutions by Vote Categories

Vote Categories	Number of Resolutions
For	212
Abstain	25
Oppose	71
Non-Voting	17
Not Supported	0
Withhold	0
US Frequency Vote on Pay	0
Withdrawn	1
TOTAL	326

1.3 List of meetings not voted and reasons why

Company	Meeting Date	Type	Comment
BRADESCO BANCO	10-03-2015	AGM	Non-voting shares

1.4 Number of Votes by Region

	For	Abstain	Oppose	Non-Voting	Not Supported	Withhold	Withdrawn	US Frequency Vote on Pay	Total
UK & BRITISH OVERSEAS	37	2	4	0	0	0	1	0	44
EUROPE & GLOBAL EU	137	21	56	15	0	0	0	0	229
USA & CANADA	4	0	0	0	0	0	0	0	4
ASIA	6	0	0	0	0	0	0	0	6
JAPAN	26	0	4	0	0	0	0	0	30
SOUTH AMERICA	2	2	7	2	0	0	0	0	13
TOTAL	212	25	71	17	0	0	1	0	326

1.5 Votes Made in the UK Per Resolution Category

	UK						
	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	0	0	0	0	0	0	0
Annual Reports	2	1	2	0	0	0	0
Articles of Association	1	0	0	0	0	0	0
Auditors	3	0	1	0	0	0	0
Corporate Actions	1	0	0	0	0	0	1
Corporate Donations	1	0	0	0	0	0	0
Debt & Loans	0	0	0	0	0	0	0
Directors	14	1	0	0	0	0	0
Dividend	1	0	0	0	0	0	0
Executive Pay Schemes	0	0	1	0	0	0	0
Miscellaneous	2	0	0	0	0	0	0
NED Fees	0	0	0	0	0	0	0
Non-Voting	0	0	0	0	0	0	0
Say on Pay	0	0	0	0	0	0	0
Share Capital Restructuring	1	0	0	0	0	0	0
Share Issue/Re-purchase	11	0	0	0	0	0	0
Shareholder Resolution	0	0	0	0	0	0	0

1.6 Votes Made in the US Per Resolution Category

	US/Global US & Canada						
	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	0	0	0	0	0	0	0
Annual Reports	0	0	0	0	0	0	0
Articles of Association	0	0	0	0	0	0	0
Auditors	0	0	0	0	0	0	0
Corporate Actions	0	0	0	0	0	0	0
Corporate Donations	0	0	0	0	0	0	0
Debt & Loans	0	0	0	0	0	0	0
Directors	0	0	0	0	0	0	0
Dividend	0	0	0	0	0	0	0
Executive Pay Schemes	0	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0
NED Fees	0	0	0	0	0	0	0
Non-Voting	0	0	0	0	0	0	0
Say on Pay	0	0	0	0	0	0	0
Share Capital Restructuring	1	0	0	0	0	0	0
Share Issue/Re-purchase	3	0	0	0	0	0	0
Shareholder Resolution	0	0	0	0	0	0	0

1.7 Votes Made in the EU Per Resolution Category

	EU & Global EU						
	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	0	0	0	0	0	0	0
Annual Reports	8	2	13	0	0	0	0
Articles of Association	30	0	0	0	0	0	0
Auditors	6	1	4	0	0	0	0
Corporate Actions	0	0	0	0	0	0	0
Corporate Donations	0	0	0	0	0	0	0
Debt & Loans	1	0	0	0	0	0	0
Directors	34	9	27	0	0	0	0
Dividend	12	0	0	0	0	0	0
Executive Pay Schemes	0	0	1	0	0	0	0
Miscellaneous	10	0	2	0	0	0	0
NED Fees	6	0	1	0	0	0	0
Non-Voting	32	4	14	15	0	0	0
Say on Pay	0	0	0	0	0	0	0
Share Capital Restructuring	5	0	0	0	0	0	0
Share Issue/Re-purchase	6	0	1	0	0	0	0
Shareholder Resolution	3	7	0	0	0	0	0

SZ			
Meetings	All For	AGM	EGM
0	0	0	0
AS			
Meetings	All For	AGM	EGM
1	1	1	0
UK			
Meetings	All For	AGM	EGM
6	4	0	4
EU			
Meetings	All For	AGM	EGM
9	0	0	0
SA			
Meetings	All For	AGM	EGM
2	0	0	0
GL			
Meetings	All For	AGM	EGM
0	0	0	0
JP			
Meetings	All For	AGM	EGM
2	0	0	0
US			
Meetings	All For	AGM	EGM
1	1	0	1

1.8 List of all meetings voted

Company	Meeting Date	Type	Resolutions	For	Abstain	Oppose
NOVARTIS AG	27-02-2015	AGM	26	20	2	4
DUNELM GROUP PLC	02-03-2015	EGM	1	1	0	0
ROCHE HOLDING AG	03-03-2015	AGM	50	32	4	14
SSP GROUP PLC	03-03-2015	AGM	19	14	1	3
THE SAGE GROUP PLC	03-03-2015	AGM	18	16	1	1
BRADESCO BANCO	10-03-2015	AGM	5	0	0	3
BANCO BILBAO VIZCAYA ARGENTARIA SA (BBVA)	12-03-2015	AGM	22	16	0	6
MAPFRE	13-03-2015	AGM	40	35	0	5
SAMSUNG ELECTRONICS CO LTD	13-03-2015	AGM	6	6	0	0
NOVO NORDISK A/S	19-03-2015	AGM	18	11	4	2
PERSIMMON PLC	19-03-2015	EGM	1	1	0	0
FOMENTO ECONOMICO MEXICANO	19-03-2015	AGM	8	2	2	4
GIVAUDAN SA	19-03-2015	AGM	24	7	2	15
NORDEA BANK AB	19-03-2015	AGM	25	10	3	6
SCHINDLER HOLDING AG	20-03-2015	AGM	23	13	2	8
JAPAN TOBACCO INC	20-03-2015	AGM	16	12	0	4
SVENSKA HANDELSBANKEN	25-03-2015	AGM	26	9	6	3
HISCOX LTD	25-03-2015	EGM	4	4	0	0
IP GROUP PLC	26-03-2015	EGM	3	3	0	0
AVIVA PLC	26-03-2015	EGM	2	2	0	0
CANON INC	27-03-2015	AGM	22	20	0	2

2 Notable Oppose Vote Results With Analysis

Note: Here a notable vote is one where the Oppose result is at least 10%.

BANCO BILBAO VIZCAYA ARGENTARIA SA (BBVA) AGM - 12-03-2015

5.1. *Amend Articles: Article 20, 24, 29 and 30*
The Board seeks approval to amend Articles 20, 24, 29 and 30 of the Company Bylaws pursuant compliance with Law 31/2014 of 3 December 2014. The amended articles regulate the function of the the announcement, the representation to the meeting, shareholders rights to information and the definition of powers of the General Meeting. It is regrettable the the Company bundled these Bylaws amendments. However, they are pursuing compliance with applicable law, which introduces positive changes into corporate governance in Spain. On this basis, support is recommended.

Vote Recommendation: *For* Results: For: 83.2, Abstain: 0.2, Oppose/Withhold: 16.6,

6. *Amend Articles: Article 3, 4, 6 and 9*
It is proposed to amend articles 3, 4, 6 and 9 of the Bylaws pursuant compliance with Law 31/2014 of 3 December 2014. The amended articles regulate the powers of the General Meeting, the regulation of the Notice of the Meeting, the regulation of the publication of the Notice of the Meeting, the supplement of the Notice of the Meeting and new resolution proposals and the regulation regarding shareholders rights to information prior to the General Meeting. It is regrettable the the Company bundled these Bylaws amendments. However, they are pursuing compliance with applicable law, which introduces positive changes into corporate governance in Spain. On this basis, support is recommended.

Vote Recommendation: *For* Results: For: 83.2, Abstain: 0.2, Oppose/Withhold: 16.6,

MAPFRE AGM - 13-03-2015

36. *Approve the Remuneration Report*
It is proposed to approve the remuneration report with an advisory vote.
There is lack of disclosure with respect of targets and measurable criteria for variable remuneration, which prevents shareholders from making an informed assessment. Only the CEO's annual variable remuneration during the year under review is disclosed which corresponded to approximately 100% of his fixed salary and it may be overpaying for underperformance, in absence of quantified targets. The Company has in place a 10-year share plan which will start vesting in 2016. Severance payments are capped at 24 months of salary. There are no claw back clauses in place which is against best practice.
Based on the lack of disclosure and the excessive severance payments opposition is advised.

Vote Recommendation: *Oppose* Results: For: 89.0, Abstain: 0.4, Oppose/Withhold: 10.6,

3 Oppose/Abstain Votes With Analysis

NOVARTIS AG AGM - 27-02-2015

6.2. *Approve total compensation for members of the Executive Committee*
The Company has proposed a prospective remuneration proposal, which means that the proposed amount will not be the actual amount to be paid, but only the total remuneration cap. The voting outcome of this resolution will be binding for the Company.
It is proposed to fix the remuneration of members of the Executive Committee until next AGM at CHF 84 million (CHF 69 million were paid for the year under review). This proposal includes fixed and variable remuneration components.
There are concerns that the variable remuneration component may produce excessive payout, up to 450% of the fixed salary at target, in lack of quantifiable targets. On this basis, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 93.7, Abstain: 0.3, Oppose/Withhold: 6.0,

6.3. *Approve the 2014 compensation report*
It is proposed to approve the remuneration report of the Company for 2014 with an advisory vote. Submitting a separate advisory resolution on the Company's remuneration structure is not provided for by the Ordinance Against Excessive Payments but it is recommended by the local Corporate Governance Code.
The Company does not disclose quantified targets for either component of the variable remuneration, which prevents shareholders from making an informed assessment of variable remuneration . The CEO's total variable remuneration during the year under review exceeded four times his fixed salary, which is deemed excessive. It is noted that the remuneration structure at the Company provides for the variable remuneration component to correspond to 450% of the fixed salary at target, which is deemed excessive. Severance payments are capped at 12 months of salary. The board cannot award discretionary payments to executives, which is welcomed. There are claw back clauses in place which is welcomed.
Despite some positive features of the compensation structure (such as malus and claw back applicable on any incentive compensation paid to members of the Executive Committee), there are concerns that the variable remuneration component is excessive. In addition, the Company does not disclose quantified performance criteria, which is against best practice. On this ground, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 90.9, Abstain: 0.9, Oppose/Withhold: 8.1,

7.1. *Re-elect Joerg Reinhardt*
Non-Executive Chairman. Not considered to be independent as he has been Chief Operating Officer of the company previously before moving with Bayer HealthCare AG. There is sufficient independent representation on the Board. However, due to his previous executive responsibilities, abstention is recommended.

Vote Recommendation: *Abstain* Results: For: 99.3, Abstain: 0.3, Oppose/Withhold: 0.4,

7.6. *Re-elect Pierre Landolt*
Non-Executive Director. Not considered to be independent as Mr. Landolt is Chairman of Emasan AG, a shareholder of the Company with 3.3% of the total share capital. In addition he served on the Board for more than nine years and there are concerns over his potential aggregate time commitments. There is sufficient independent representation on the Board. However, given the concerns over potential time commitments, abstention is recommended.

Vote Recommendation: *Abstain* Results: For: 97.7, Abstain: 0.3, Oppose/Withhold: 2.0,

8.1. *Re-elect Srikant Datar to be a member of the Compensation Committee*
In terms of good corporate governance, it is considered to be best practice that the compensation committee consists exclusively of independent members. Support is granted to independent directors, while opposition will be recommended for non-independent directors.
This director is not considered to be independent. Opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 97.7, Abstain: 0.3, Oppose/Withhold: 2.0,

B. *Transact any other business*
Shareholders should receive sufficient notice of proposals brought forward by either management or other shareholders. As such, any other proposition brought forward in the meeting would provide insufficient time for an informed assessment. Opposition is recommended.

Vote Recommendation: *Oppose*

ROCHE HOLDING AG AGM - 03-03-2015

2.1. *Approve bonus for Corporate Executive Committee members*
It is proposed to approve, with a binding vote, the total amount of the bonus for members of the Executive Committee. The bonus is proposed to be CHF 10.4 million (for the CEO it will consist of shares blocked for 10 years). The Company has not submitted the compensation structure to advisory vote. However, analysis of this resolution will take into account also the general remuneration structure at the Company. There are concerns with this respect: excessiveness and risk of discretionary payments, given the presence of the Chairman (who receives variable remuneration) on the Remuneration Committee. In addition, the Company has not disclosed the achievement of the targets on which the bonuses were based. On this basis, opposition would be recommended.

Vote Recommendation: *Oppose* Results: For: 99.1, Abstain: 0.6, Oppose/Withhold: 0.2,

2.2. *Approve bonus to Chairman of the Board of Directors*
The Chairman of the Board of Directors is non-executive, yet it is proposed to award him a bonus to be paid in shares. Awarding variable short-term remuneration to non-executive directors is against best practice. The bonus corresponds to shares blocked for 10 years and amounts to CHF 558,000 for the incoming Chairman (Mr. Franz), approximately 17% of his total remuneration. The former Chairman Mr. Huber receive approximately EUR 3 million in bonuses. Besides and beyond excessiveness concerns, variable bonuses per se are not considered to be an appropriate way of compensating non-executive directors.

Vote Recommendation: *Oppose* Results: For: 99.6, Abstain: 0.1, Oppose/Withhold: 0.3,

3. *Discharge the Board*
Standard proposal. The membership of board committees raises concerns, regarding the excessive alignment with the interest of the shareholder agreement which controls the share capital. Members of the shareholder agreement sit on the remuneration and nomination committee. This may lead to a decision-making process that takes overly into account the interests of the controlling shareholder agreement. Abstention would be recommended.

Vote Recommendation: *Abstain* Results: For: 99.8, Abstain: 0.1, Oppose/Withhold: 0.0,

5.1. *Re-elect Dr Christoph Franz as Chairman*
Independent Non-Executive Chairman. There are concerns with respect to his remuneration structure, which lead to an abstain recommendation.

Vote Recommendation: *Abstain* Results: For: 99.9, Abstain: 0.0, Oppose/Withhold: 0.0,

5.2. *Re-elect Dr Christoph Franz as a member of the Remuneration Committee*
As part of the Remuneration Committee, the Chairman would be able to have a direct impact on his own remuneration. Opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 99.8, Abstain: 0.1, Oppose/Withhold: 0.1,

5.3. *Re-elect Mr André Hoffmann*
Non-Executive Vice Chairman. Not considered to be independent as Mr. Hoffman is a representative of the founding family, which holds 45.01% of the Company's issued share capital through a shareholder pool, also Mr. Hoffmann has served on the Board for more than nine years. There are also concerns over his aggregate time commitment. In addition, he sits also on the Remuneration and Nomination committees, which raises concerns over the overlap of interests of the controlling shareholder with remuneration practices, as well as the appointment of directors on the Board. Opposition is thus recommended

Vote Recommendation: *Oppose* Results: For: 100.0, Abstain: 0.0, Oppose/Withhold: 0.0,

5.4. *Re-elect Mr André Hoffmann as a member of the Remuneration Committee*
It is considered that the Remuneration Committee should include exclusively independent members. This director is not considered to be independent. Opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 99.8, Abstain: 0.1, Oppose/Withhold: 0.1,

7. *Approval of the total amount of future remuneration for the Corporate Executive Committee*
The Company has proposed a prospective remuneration proposal, which means that the proposed amount will not be the actual amount to be paid, but only the total remuneration cap. The voting outcome of this resolution will be binding for the Company.
It is proposed to fix the remuneration of members of the Executive Committee until next AGM at CHF 37 million (CHF 20 million were paid for the year under review).
The Company has not submitted its remuneration structure to an advisory vote, which is recommended by the local Corporate Governance Code. This proposal includes fixed and variable remuneration components. There are concerns with respect to the remuneration structure for Executives at the Company: the total variable remuneration at target exceeds 200% of the fixed salary and is based on undisclosed performance criteria and targets. This raises concerns over the actual link of pay with performance. On this basis, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 99.7, Abstain: 0.1, Oppose/Withhold: 0.3,

9. *Appoint the auditors*
KPMG AG proposed. Non-audit fees were approximately 9.27% of audit fees during the year under review. Non-audit fees over a three year basis were approximately 7.77% of audit fees. The level of non-audit fees does not raise concerns. However, the auditors' term exceeds 10 years, which may create potential for conflict of interest on the part of the independent auditor. Opposition is thus recommended.

Vote Recommendation: *Oppose* Results: For: 98.7, Abstain: 1.3, Oppose/Withhold: 0.0,

SSP GROUP PLC AGM - 03-03-2015

2. *Approve Remuneration Policy*
Total award for the CEO under all incentive schemes is considered highly excessive at 400% of her salary.
Long term performance measures are not linked to non-financial KPIs and the three year performance period is not considered long enough. Also, there is no additional holding period in use.
The recruitment policy raises concerns to the maximum variable pay opportunity in respect of recruitment. There are also concerns in regards to the Committee's level of discretion over the performance period of the PSP, the treatment of departing executives and the discretion to disapply pro-rata vesting. This level of discretion is not in the interest of shareholders. Adequate clawback and malus mechanisms soon to be in place, which is welcomed.
Rating: BDC

Vote Recommendation: *Oppose* Results: For: 92.0, Abstain: 0.4, Oppose/Withhold: 7.6,

3. *Approve the Remuneration Report*
Following the IPO, the total amount paid to the CEO under the annual bonus and the long term incentive scheme is considered excessive at 351% of her salary. In addition, it is noted that the CEO also received £3,807,000 admission awards in cash and shares. Such discretionary award is considered highly excessive as it represents 507% of her proposed annual salary. Disclosure of the various elements of total remuneration are clearly disclosed and tabulated. However, certain individuals of the Board received additional awards in recognition of their contribution to the Admission of the Company onto the London Stock Exchange. These payments are not explained enough since no performance conditions for the bonus are described and it is unclear how the quantum of bonus was determined. The ratio of the CEO's cash awards compared to average employee is highly excessive at 278:1.
The Company uses two performance criteria for the Performance Share Plan (PSP), absolute EPS and relative TSR. The two conditions do not operate interdependently and, in addition, the vesting scales are not deemed sufficiently broad, vesting scales should be at least 6 EPS percentage points pa (or equivalent) or 3 TSR deciles. Based on these concerns, an oppose vote is recommended.
Rating: D

Vote Recommendation: *Oppose* Results: For: 95.7, Abstain: 2.4, Oppose/Withhold: 1.9,

5. *Elect John Barton*
Newly appointed, Senior Independent Director. Considered independent. Potential time commitments.

Vote Recommendation: *Abstain* Results: For: 98.3, Abstain: 1.3, Oppose/Withhold: 0.4,

11. *Appoint the auditors: KPMG LLP*
The total unacceptable non-audit fees exceed the audit and audit related fees at approximately 262.5% of fees during the year under review, and the three year average is 146.67%. There are concerns that this level of non-audit fees creates a potential for conflict of interest on the part of the independent auditor. Therefore, an oppose vote on the resolution is recommended.

Vote Recommendation: *Oppose* Results: For: 95.9, Abstain: 0.1, Oppose/Withhold: 4.1,

THE SAGE GROUP PLC AGM - 03-03-2015

13. *Approve the Remuneration Report*
Significant changes in policy are fully explained, and most elements of each directors cash remuneration, as well as pension entitlements, are fully disclosed. However, remuneration paid in 2013 for the outgoing CFO (Paul Harrison) has not been disclosed in the 2014 Remuneration Report. The new CFO was appointed on a base salary of £480,000 which has since increased. This was a significant increase on appointment to the previous CFO's salary which has not been disclosed or explained. There is no clear ratio of total direct CEO pay to average employee pay disclosed by the Company. From the figures provided by the Company, this ratio has been estimated as being approximately 36:1, which is considered excessive. However, there is an acceptable balance between CEO pay and financial performance compared to the previous five years. An abstain vote is recommended. Rating: C

Vote Recommendation: *Abstain* Results: For: 88.9, Abstain: 7.0, Oppose/Withhold: 4.2,

18. *Approve new long term incentive plan*
The purpose of the 2015 PSP will be to reward, incentivise and retain the employees who are selected to receive 2015 PSP awards.
The 2015 PSP introduces malus and clawback provisions which is welcomed.
Performance conditions may (and in the case of executives will) be measured over a period of at least three years (or such other period as the Board may determine). This minimum three year performance period for executives is considered insufficient. A five year performance period would better support long-term viability.
For the purposes of the 2015 PSP, the maximum value of shares which may normally be put under award to a participant in respect of any financial year is 300% of a participant's annual salary. In the event that the participant is granted a second award within 12 months of becoming an employee of the Group, the 300% limit will apply separately in respect of that second award. This is considered excessive.
This scheme also introduces Committee discretion to apply holding periods to awards. This provision can help with securing long-term employee commitment. However, the Committee does not intend to apply a holding period to PSP awards granted in 2015 but to keep the application of this provision under review for future grants.
In addition, the anticipated participation rate of this scheme is not clear, and the Company should consider the introduction of a plan that is open to all employees, on an equal basis, which allows all employees to share in the success of the company at no cost to themselves.
In light of these concerns, an oppose vote is recommended. Rating: DB

Vote Recommendation: *Oppose* Results: For: 93.8, Abstain: 0.0, Oppose/Withhold: 6.1,

BRADESCO BANCO AGM - 10-03-2015

3. *Election of Board of directors*
It is common practice for Board members in Brazil to be elected to the Board using a slate system. Slate elections are evaluated taking into consideration the balance of independent representation on the Board. An oppose vote is recommened where an insufficient number of independent directors are included.
It is proposed to set the size of the Board at 10 members. It is proposed to re-elect the current Board and elect Aurélio Conrado Boni. There is insufficient independent representation on the Board. Opposition is thus recommended.

Vote Recommendation: *Oppose*

4. *To elect the Fiscal Council's members and to establish their respective compensation*
It is proposed to re-elect the members of the Fiscal Council: João Carlos de Oliveira, Domingos Aparecido Maia and José Maria Soares Nunes as primary members and Renaud Roberto Teixeira, Jorge Tadeu Pinto de Figueiredo and Nilson Pinhal as secondary members. In terms of good governance, it is considered that all of the candidates to the Fiscal Board should be independent. It is regrettable that the Company has bundled their election instead of seeking support for individual candidates. All of the candidates proposed have been or are employees of the Company. On this basis, opposition is recommended.

Vote Recommendation: *Oppose*

5. *Board of Directors' proposals for the Management compensation and the amount to support the Management and Employee Pension Plans.*
It is proposed to approve compensation for the Management (BRL 250 million in aggregate, including fixed and variable components) and the Fiscal Council (BRL 12,000 per month per member). It is regrettable that the Company bundled two compensations so different in nature.
The Fiscal Council only receives fixed fees, while salary for Management represents only 26% of total annual remuneration. It is noted that 45% of the total annual remuneration of Executives at the Company consists of Post Employment Benefits; that is, pension contributions. Pensions of this weight are considered to be an excessive supplementary compensation unrelated to performance and as such they raise serious concerns over the Company's remuneration structure. On this basis, opposition is recommended on this bundled resolution.

Vote Recommendation: *Oppose*

BANCO BILBAO VIZCAYA ARGENTARIA SA (BBVA) AGM - 12-03-2015

2.1. *Re-elect José Antonio Fernández Rivero*
Non-Executive Director. Not considered to be independent as has served as a executive manager of BBVA until 2003. In addition he has been on the Board for longer than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 97.7, Abstain: 0.4, Oppose/Withhold: 1.9,

2.3. *Re-elect José Maldonado Ramos*
Non-Executive Director. Not considered to be independent as he served on the Executive Board as Director and Secretary General until December 2009. He was also a Company Secretary for ARGENTARIA, S.A. until it merged with BBVA. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 96.0, Abstain: 0.4, Oppose/Withhold: 3.7,

7. *Approve Board Remuneration Policy*
It is proposed to approve the remuneration of the Board on an advisory basis. The Remuneration Policy covers both executives and non-executives and is valid for three years in compliance with Law 31/2014.
Non-Executive Directors receive an annual fixed fee, attendance fees plus 20% of their fixed salary in shares. The fees remain unchanged from last year. However, the

Company did not disclose individual attendance records, which makes impossible an accurate evaluation of attendance fees. In addition, any year directors receive 20% of the average fees received during the previous year, which will vest after they leave the Board. This is considered to be an inadequate severance agreement for non-executive directors.
As for Executives, the Company fails to disclose targets and measurable criteria for variable remuneration in the Remuneration Policy, which prevents shareholders from making an informed assessment. Total variable remuneration is capped at 200% in principle, although the CEO's total variable remuneration during the year under review exceeded 200% of his fixed salary which is deemed excessive, and may mean that the policy's application lacks consistency.
Given the lack of disclosure and the excessive total variable remuneration it is recommended to oppose.

Vote Recommendation: *Oppose* Results: For: 95.4, Abstain: 0.4, Oppose/Withhold: 4.2,

8. *Fix Maximum Variable Compensation Ratio*
The Board seeks approval of an increase in the number of employees to which the maximum limit of variable remuneration of up to 200% of the fixed component is applicable. The Company discloses the criteria to include employees whose activities in the Company have a significant impact on the Group's risk (the key risk takers). However there is a lack of disclosure of sufficiently challenging targets. As this could potentially lead to discretionary bonuses, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 97.9, Abstain: 0.2, Oppose/Withhold: 1.8,

9. *Appoint the auditors*
Deloitte proposed. Non-audit fees on the year under review were approximately 11.88% of fixed fees. On a three year aggregate basis non-audit fees were approximately 16.8% of audit fees. However, the auditors' term exceeds 10 years, which may create potential for conflict of interest on the part of the independent auditor. Opposition is thus recommended.

Vote Recommendation: *Oppose* Results: For: 99.1, Abstain: 0.2, Oppose/Withhold: 0.7,

11. *Approve the Remuneration Report*
It is proposed to approve the remuneration report with an advisory vote for a period of three years.
The Board proposes that Non-Executives shall receive fixed fees of EUR 129,000 plus attendance fees. It is further proposed that total Non-executive remuneration shall be of EUR 6 million.
There is lack of good disclosure with respect of targets and measurable criteria for variable remuneration, which prevents shareholders from making an informed assessment. The CEO's total variable remuneration during the year under review exceeded 200% of his fixed salary which is deemed excessive. Severance payments are capped at less than 12 months total remuneration. The Board can award discretionary payments to executives, which raises concerns. There are no claw back clauses in place which is against best practice. Based on the lack of disclosure and the CEO's excessive total remuneration, opposition is advised.

Vote Recommendation: *Oppose* Results: For: 96.9, Abstain: 0.4, Oppose/Withhold: 2.7,

MAPFRE AGM - 13-03-2015

5. *Elect Luis Hernando de Larramendi Martinez as Director*
Non-Executive Director. Not considered to be independent as he was elected in representation of Cartera Mapfre, the parent of Fundacion Mapfre, the controlling

shareholder which holds 67.8% of the issued share capital. In addition, he has served on the board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 97.4, Abstain: 0.1, Oppose/Withhold: 2.5,

6. *Elect Alberto Manzano Martos as Director*
Non-Executive Director. Not considered to be independent as he is a non-executive representative of Cartera Mapfre S.L., which holds 67.8% of the Company's issued share capital. In addition, he was an executive serving as Vice Chairman until 5 March 2011. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.6, Abstain: 0.1, Oppose/Withhold: 1.3,

7. *Elect Antonio Miguel Romero de Olano as Director*
Non-Executive Director. Not considered to be independent as he represents Cartera Mapfre, the parent of Fundacion Mapfre, the controlling shareholder which holds 67.8% of the issued share capital. In addition, he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 97.5, Abstain: 0.1, Oppose/Withhold: 2.4,

8. *Elect Alfonso Rebuelta Badias as Director*
Non-Executive Director. Not considered to be independent as he has been in the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.3, Abstain: 0.1, Oppose/Withhold: 1.6,

36. *Approve the Remuneration Report*
It is proposed to approve the remuneration report with an advisory vote.
There is lack of disclosure with respect of targets and measurable criteria for variable remuneration, which prevents shareholders from making an informed assessment. Only the CEO's annual variable remuneration during the year under review is disclosed which corresponded to approximately 100% of his fixed salary and it may be overpaying for underperformance, in absence of quantified targets. The Company has in place a 10-year share plan which will start vesting in 2016. Severance payments are capped at 24 months of salary. There are no claw back clauses in place which is against best practice.
Based on the lack of disclosure and the excessive severance payments opposition is advised.

Vote Recommendation: *Oppose* Results: For: 89.0, Abstain: 0.4, Oppose/Withhold: 10.6,

NOVO NORDISK A/S AGM - 19-03-2015

5.1. *Election of Ando Goran as Chairman.*
Non-Executive Chairman. Not considered to be independent as he is a member of the board of directors of Novo A/S which holds 26.37% of the Company's issued share capital and 74% of the Company's voting rights. In addition he has served on the board for more than nine years. There is sufficient independent representation on the Board. However, there are concerns over his aggregate time commitments.

Vote Recommendation: *Abstain* Results: For: 99.5, Abstain: 0.4, Oppose/Withhold: 0.1,

6. *Appoint the auditors*
PricewaterhouseCoopers proposed. Non-audit fees were approximately 79.17% of audit fees during the year under review. Non-audit fees over a three year basis were approximately 72.6% of audit fees. There are concerns that this level of non-audit fees creates a potential for conflict of interest on the part of the independent auditor. In addition, the tenure of the auditor is more than 10 years (since 1982), which is considered excessive. On these grounds, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 99.4, Abstain: 0.4, Oppose/Withhold: 0.2,

7.4. *Adoption of revised Remuneration Principles*
It is proposed to approve the revised remuneration principles, which include remuneration for Chairman and Member of the new Remuneration Committee. While there are no serious concerns with respect such changes, this proposal will also be the occasion to analyze the Company's remuneration structure as a whole.
There is lack of disclosure with respect of targets and measurable criteria for variable remuneration, which prevents shareholders from making an informed assessment. Variable remuneration is capped at 200% of the fixed salary. However, 25%-30% of an executive's annual remuneration consists of pension contributions. Pensions of this weight function as an important remuneration component that is however not related to performance. Severance payments are capped at 24 months of salary and pension. There is a malus policy in place: long term incentives may be mitigated if targets are not achieved. Based on excessive pension contributions and severance, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 99.4, Abstain: 0.2, Oppose/Withhold: 0.4,

5.2. *Election of of Jeppe Christiansen as Vice Chairman.*
Non-Executive Vice Chairman. Not considered to be independent as he is a member of the board of directors of Novo A/S which holds 26.37% of the Company's issued share capital and 74% of the Company's voting rights. There is sufficient independent representation on the Board. However, there are concerns over his aggregate time commitments.

Vote Recommendation: *Abstain* Results: For: 100.0, Abstain: 0.0, Oppose/Withhold: 0.0,

5.3 d). *Re-elect Thomas Paul Koestler*
Independent Non-Executive Director. There are concerns over his potential aggregate time commitments.

Vote Recommendation: *Abstain* Results: For: 99.9, Abstain: 0.1, Oppose/Withhold: 0.0,

5.3 f). *Elect Mary Szela*
Independent Non-Executive Director candidate. There are concerns over her aggregate time commitments.

Vote Recommendation: *Abstain* Results: For: 99.9, Abstain: 0.1, Oppose/Withhold: 0.0,

FOMENTO ECONOMICO MEXICANO AGM - 19-03-2015

I. *Receive the Directors Report for 2014*
The report was not made available to shareholders sufficiently before the meeting. This is considered to be a frustration of shareholder accountability and abstention is recommended to signal this concern.

Vote Recommendation: *Abstain*

II. *Receive the Directors Report on compliance with tax duties*
The report was not made available to shareholders sufficiently before the meeting. This is considered to be a frustration of shareholder accountability and abstention is recommended to signal this concern.

Vote Recommendation: *Abstain*

III. *Allocation of income*
The Board has not disclosed audited financial information, which prevents shareholders to asses potential negative impacts on their rights. As the company has not made a proposal regarding the distribution of earnings for the fiscal year 2014 an oppose vote is recommended.

Vote Recommendation: *Oppose*

IV. *Establish the maximum fund to use for share repurchase*
It is proposed to establish a maximum award to repurchase company shares without pre-emptive rights. As the limit has not been disclosed, it is impossible to asses the impact on shareholders rights. Given the lack of disclosure, opposition is recommended.

Vote Recommendation: *Oppose*

V. *Elect the Board of Directors*
It is proposed to elect the Board of Directors. The list of candidates has not been disclosed. This prevents shareholders from assessing the composition of the Board. Given the lack of disclosure regarding current and future Board, it is recommended to oppose.

Vote Recommendation: *Oppose*

VI. *Elect members of board committees*
It is proposed to elect members of the Board Committees. Candidates were not available at this time. This prevents shareholders from assessing independence and competence of the candidates. Given the lack of disclosure it is recommended to oppose.

Vote Recommendation: *Oppose*

GIVAUDAN SA AGM - 19-03-2015

2. *Consultative vote on the compensation report 2014*
It is proposed to approve the remuneration structure of the Company with an advisory vote. Submitting a separate advisory resolution on the Company's remuneration structure is not provided for by the Ordinance Against Excessive Payments but it is recommended by the local Corporate Governance Code.
The Company discloses measurable performance criteria for variable remuneration, including targets and achievements. The CEO's total variable remuneration during the year under review corresponded to 247% which is considered to be excessive, despite the good level of disclosure of the remuneration report. Severance payments are capped at 6 months of salary. The board cannot award discretionary payments to executives, which is welcomed. There are no claw back clauses in place which is against best practice and the spirit of the Ordinance Against Excessive Compensation.
Despite good disclosure and measurable performance criteria, opposition is recommended based on excessive remuneration and absence of claw back.

Vote Recommendation: *Oppose* Results: For: 91.7, Abstain: 0.7, Oppose/Withhold: 7.6,

6.1.1. *Re-elect Dr Jurg Witmer*
Non-Executive Chairman. Not considered to be independent as Dr. Witmer was CEO of Givaudan until April 2005. In addition he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 94.9, Abstain: 1.0, Oppose/Withhold: 4.2,

6.1.2. *Re-elect Mr Andre Hoffmann*
Non-Executive Vice Chairman. Not considered to be independent he has served on the Board for more than nine years. In addition Mr. Hoffmann is Vice Chairman and shareholder at Roche Holding from which the company was spun off in 1991. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 97.4, Abstain: 0.9, Oppose/Withhold: 1.7,

6.1.3. *Re-elect Ms Lilian Biner*
Non-Executive Director. Not considered to be independent as she owns Restricted Stock Units which are based on share price evolution and negatively impact her independence. There is a risk that directors act in their own interest rather than in the interest of the shareholders, which is their fiduciary duty. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.7, Abstain: 0.8, Oppose/Withhold: 0.5,

6.1.4. *Re-elect Mr Peter Kappeler*
Non-Executive Director. Not considered to be independent as he has been on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.5, Abstain: 0.8, Oppose/Withhold: 0.7,

6.1.5. *Re-elect Thomas Rufer*
Non-Executive Director. Not considered to be independent as he owns Restricted Stock Units which are based on share price evolution and negatively impact his

independence. There is a risk that directors act in their own interest rather than in the interest of the shareholders, which is their fiduciary duty. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.6, Abstain: 0.8, Oppose/Withhold: 0.6,

6.1.6. *Re-elect Prof. Dr Werner Bauer*
Non-Executive Director. Not considered to be independent as he owns Restricted Stock Units which are based on share price evolution and negatively impact his independence. There is a risk that directors act in their own interest rather than in the interest of the shareholders, which is their fiduciary duty. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.7, Abstain: 0.8, Oppose/Withhold: 0.5,

6.1.7. *Re-elect Mr Calvin Grieder*
Non-Executive Director. Not considered to be independent as he owns Restricted Stock Units which are based on share price evolution and negatively impact his independence. There is a risk that directors act in their own interest rather than in the interest of the shareholders, which is their fiduciary duty. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.4, Abstain: 0.8, Oppose/Withhold: 0.8,

6.2.1. *Elect Mr Michael Carlos*
Non-Executive Director candidate. Not considered to be independent as he has worked for the Company for 30 years, most recently as Global Head of Consumer Products, until his retirement in 2014. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.6, Abstain: 0.8, Oppose/Withhold: 0.6,

6.3. *Re-elect Dr Jurg Witmer as Chairman*
It is proposed to re-elect Mr. Witmer as Chairman of the Board. In terms of good governance, it is considered that the Chairman should be considered to be independent or there should be sufficient independent representation on the Board. Since neither of these applies, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 95.2, Abstain: 0.9, Oppose/Withhold: 3.9,

6.4.1. *Elect Mr Andre Hoffman to the Remuneration Committee*
Not considered to be independent. Opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 97.0, Abstain: 0.8, Oppose/Withhold: 2.1,

6.4.2. *Elect Mr Peter Kappeler to the Remuneration Committtee*
This director is not considered to be independent. Opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 98.8, Abstain: 0.8, Oppose/Withhold: 0.4,

6.4.3. *Elect Prof. Dr Werner Bauer to the Remuneration Committee*
This director is not considered to be independent. Opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 98.2, Abstain: 0.8, Oppose/Withhold: 1.0,

6.6. *Appoint Deloitte SA as auditors*
Deloitte SA proposed. Non-audit fees were approximately 2.78% of audit fees during the year under review. Non-audit fees over a three year basis were approximately 3.92% of audit fees. The level of non-audit fees does not raise concerns. However, the auditors' term is six years, which exceeds best practice. Abstention is thus recommended.

Vote Recommendation: *Abstain* Results: For: 99.0, Abstain: 0.9, Oppose/Withhold: 0.1,

7.1. *Binding vote on compensation for the Board of Directors*
The Company has proposed a prospective remuneration proposal, which means that the proposed amount will not be the actual amount to be paid, but only the total remuneration cap. The voting outcome of this resolution will be binding for the Company.
It is proposed to fix the Board's remuneration until next AGM at CHF 3.3 million, which includes Restricted Stock Units, a form of variable payment. The increase on annual basis is nearly 11%, which is deemed excessive. In addition, Non-Executive Directors will receive a variable component on top of their fees, which is against best practice for this market and against the spirit of the Ordinance Against Excessive Compensation. On this basis, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 96.1, Abstain: 1.0, Oppose/Withhold: 2.8,

7.2.1. *Binding vote on Annual compensation for members of the Executive Committee (2014 Annual Incentive Plan)*
It is proposed to approve the annual incentive for executives, in compliance with the Ordinance. The Annual Bonus corresponds to 20% of the total annual remuneration for the CEO (fixed salary is 25%) and 16% for other executives (29%) at target and it is capped at 200% of the target. The Company gives good disclosure of quantified targets and achievements.
Performance criteria are Sales growth targets in local currency and EBITDA margin, which is expressed as a percentage of Sales Growth (80% for the CEO). Each of the criteria have a weight of 50% on the total incentive. For the year under review, the Company discloses that participants achieved 100.7% of the target.
The Company provides a good disclosure and links the two criteria, which is welcomed. However, it is regrettable that the pivotal criterion (Sales Growth) is undisclosed, which makes an accurate assessment impossible. On this basis, abstention is recommended.

Vote Recommendation: *Abstain* Results: For: 97.6, Abstain: 1.0, Oppose/Withhold: 1.3,

7.2.2. *Binding vote on compensation of members of Executive Committee (fixed salary and 2015 Performance share Plan)*
It is proposed to approve fixed remuneration and long term incentives for executives with a binding resolution. Long term incentives correspond to 55% of the total annual remuneration at target for the CEO as well as for other executives. However, they are capped at 200% of target. Fixed remuneration corresponds to 25% of the fixed salary for the CEO and 29% for other executives, meaning that long term incentives would exceed 200% of fixed salary already at target, which is deemed excessive.
The level of disclosure of the Company is above average for this market. There are however concerns that relying on sales and cash flow will link too much long term incentives with financial-only performance and will not take into account other factors, including environmental factors. Long term incentives are already considered

excessive at target. In addition, they may immediately vest upon termination of contract, which is against best practice. Based on these concerns, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 92.6, Abstain: 0.7, Oppose/Withhold: 6.7,

NORDEA BANK AB AGM - 19-03-2015

7. *Adoption of the income statement and the consolidated income statement, and the balance sheet and the consolidated balance sheet*
Disclosure is acceptable and the report was made available sufficiently before the meeting. However,the following serious corporate governance concern has been identified. Nordea's CEO is currently being investigated for improper use of property of its client SCA. The investigations by the Swedish Financial Supervisory Authority look into the use of corporate jets of SCA and visits to SCA's hunting lodge. Therefore, opposition is recommended.

Vote Recommendation: *Oppose*

9. *Discharge the Board and CEO*
Standard proposal. In accordance with the Swedish Companies Act ch. 7 para. 11 Swedish companies offer the Board of Directors and President a discharge from liability for the financial year. However, the following serious corporate governance concern has been identified. Nordea's CEO is currently being investigated for improper use of property of its client SCA. The investigations by the Swedish Financial Supervisory Authority look into the use of corporate jets of SCA and visits to SCA's hunting lodge. Opposition is therefore recommended.

Vote Recommendation: *Oppose*

13. *Election of Board members and Chairman of the Board*
It is common practice for Board members in Sweden to be elected using a slate system. Slate elections are evaluated taking into consideration the balance of independent representation on the Board. An oppose vote is recommended where an insufficient number of independent Directors are included.
The Nomination Committee proposes the re-election of Bjorn Wahlroos as chairman of the Board. The following Non-Executive Directors have been proposed for re-election. Marie Ehrling, Tom Knutzen, Robin Lawther, Lars G Nordstrom, Sarah Russell and Kari Stadigh. The Nomination Committee proposes the election of Silvija Seres and Birger Steen as new members of the Board. There is insufficient independent representation on the Board. Opposition is recommended.

Vote Recommendation: *Oppose*

15. *Approval on establishing a Nomination Committee*
The Swedish Code of Corporate Governance recommends that a company should elect an external Nomination Committee consisting of at least three members. At least one member of the Nomination Committee is to be independent of the company's largest shareholder. The company proposes that the Nomination Committee shall consist of representatives of the four major shareholders and the Chairman of the Board. As the Chairman Bjorn Wahlroos, is related to Sampo plc, which holds 21.4% of the Company's issued share capital, the composition of the committee does not meet best practice guidelines. Therefore, opposition is recommended.

Vote Recommendation: *Oppose*

18. *Authorise Share Repurchase according to chapter 7 section 6 of the Swedish Securities Market Act*
Authority allow the Board to repurchase shares within legal boundaries. The repurchase is limited to 10% of share capital and will be in force until next AGM. However according to resolution 17.a the Company already proposed a share repurchase of 9.99% of the Company's issued share capital. This additional share repurchase exceeds guidelines. Opposition is recommended.

Vote Recommendation: *Oppose*

19. *Approve the guidelines for remuneration to the executive officers*
It is proposed to approve the remuneration structure.
There is lack of disclosure with respect of targets and measurable criteria for variable remuneration, which prevents shareholders from making an informed assessment. The CEO's total variable remuneration during the year under review corresponded to 82.5% of his fixed salary and it may be overpaying for underperformance, in absence of quantified targets. Severance payments are capped at 12 months of salary. The board can award discretionary payments to executives, which raises concerns. There are no claw back clauses in place which is against best practice. Based on the lack of disclosure on performance criteria and targets, opposition is advised.

Vote Recommendation: *Oppose*

20.c. *Shareholder Resolution: Assign the board of directors to write to the Swedish Government and propose that it shall promptly set up a committee with the instruction to promptly make a proposal for a change of the Swedish Companies Act meaning that the possibility to have shares with different voting rights shall be abolished.*
It is proposed to assign the Board to advocate for the abolishment of shares with different voting rights among the Swedish Government. The Board does not support this proposal. It is considered best practice to follow the one-share one-vote principle. However, writing to the government is lobbying practice and there is a risk of potential governance issues. Abstention is recommended.

Vote Recommendation: *Abstain*

20.d. *Shareholder Resolution: Assign the board of directors to take necessary measures to enable, if possible, the establishment of a shareholders association in Nordea.*
It is proposed to enable the creation of shareholders association. The Board does not support this proposal. The establishment of an association would enhance shareholder rights for minority investors. However there is a lack of disclosure regarding the goals of the association. Abstention is recommended.

Vote Recommendation: *Abstain*

24.e. *Shareholder Resolution: Special examination regarding Nordea's values and the legal-ethical rules. The special examination shall refer to both the practicality of and the adherence to these rules and, whenever applicable, lead to proposals for changes.*
It is proposed to examine the Company's values and legal-ethical rules. The Board does not support this proposal. There is a lack of disclosure regarding the reasons for this examination and there are no concrete changes proposed. Abstention is recommended.

Vote Recommendation: *Abstain*

SCHINDLER HOLDING AG AGM - 20-03-2015

4.3. *Approve the variable compensation of the Board of Directors.*
It is proposed to approve the retrospective variable remuneration for the Board of Directors. The voting outcome of this resolution will be binding for the Company.
It is proposed to approve the aggregate remuneration for the Board for last year, which amounts to CHF 6.5 million. Total variable remuneration (only for Executive Directors) amounts to CHF 6.496 million which corresponds to 118% of the aggregate fixed salary excluding pensions. The Company has not disclosed the targets for variable remuneration, which raises concerns over discretionary payments during next year. The Company discloses individual allocated remuneration for the Executive Chairman and other executives, which is welcomed. As per the Company's Bylaws, should this resolution be rejected, the remuneration allocated during the previous year will be subject to claw back.
The proposed amount is within the amount approved at the last AGM. However, the Company has not submitted an advisory vote on the 2014 Remuneration Base (as recommended by the local Corporate Governance Code) and does not state in the Bylaws what is the process in case this proposal were rejected by shareholders. On these grounds, and based on the lack of target disclosure and excessive variable remuneration it is recommended to oppose.

Vote Recommendation: *Oppose* Results: For: 89.9, Abstain: 2.5, Oppose/Withhold: 7.6,

4.4. *Approve the variable compensation of the members of the Group Executive Committee.*
It is proposed to approve the retrospective variable remuneration for the Executive Committee. The voting outcome of this resolution will be binding for the Company.
It is proposed to approve the aggregate remuneration for the Board for last year, which amounts to CHF 11.53 million. Total variable remuneration amounts to CHF 10.35 million which corresponds to 219% of the aggregate fixed salary excluding pension contributions which is deemed excessive. In addition, there are concerns over the level of pension contributions, which reached 50% in the case of the CEO and are reported under fixed salary. The Company has not disclosed the targets for variable remuneration, which raises concerns over discretionary payments during next year. The Company discloses individual remuneration for the CEO which is welcomed. As per the Company's Bylaws, should this resolution be rejected, the remuneration allocated during the previous year will be subject to claw back.
The proposed amount is within the amount approved at the last AGM. However, the Company has not submitted an advisory vote on the 2014 Remuneration Base (as recommended by the local Corporate Governance Code) and does not state in the Bylaws what is the process in case this proposal were rejected by shareholders. On these grounds, and based on the lack of target disclosure and excessive variable remuneration it is recommended to oppose.

Vote Recommendation: *Oppose* Results: For: 91.1, Abstain: 1.5, Oppose/Withhold: 7.4,

5.2. *Re-elect Alfred N. Schindler*
Executive Chairman. He has holdings for 69.9% of the Company's share capital under a shareholders' agreement along with Luc Bonnard and Carole Vischer. There should be a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision. Combining supervisory and executive roles in one person, along with major shareholding voting power, represents a concentration of power that is potentially detrimental to Board balance, effective debate, and Board appraisal. Opposition is thus recommended.

Vote Recommendation: *Oppose* Results: For: 99.1, Abstain: 0.5, Oppose/Withhold: 0.4,

5.3.1. *Re-elect Prof. Dr. Pius Baschera as member of the Board of Directors and as member of the Compensation Committee.*
Non-Executive Director. Not considered to be independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.5, Abstain: 0.5, Oppose/Withhold: 1.0,

5.3.2. *Re-elect Dr. Rudolf W. Fischer as member of the Board of Directors and as member of the Compensation Committee*
Executive Director. Electing executive directors to the Compensation Committee is against the spirit of the Ordinance and would allow this candidate to have an impact on determining his own total remuneration. Opposition is thus recommended.

Vote Recommendation: *Oppose* Results: For: 90.7, Abstain: 0.5, Oppose/Withhold: 8.8,

5.3.3. *Re-elect Rolf Schweiger as member of the Board of Directors and as member of the Compensation Committee*
Independent Non-Executive Director. There are concerns over his potential aggregate time commitments.

Vote Recommendation: *Abstain* Results: For: 98.4, Abstain: 0.6, Oppose/Withhold: 1.0,

5.4.2. *Re-elect Carole Vischer*
Non-Executive Director. Not considered to be independent as she is a family member of the shareholder agreement which holds 69.9% of the Company's issued share capital. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.7, Abstain: 0.8, Oppose/Withhold: 0.5,

5.4.3. *Re-elect Luc Bonnard*
Non-Executive Vice-Chairman. Not considered to be independent as he belongs to the Bonnard family. The company's major shareholders are Schindler and Bonnard families who hold 69.9% of the Company's issued share capital. He has also held several positions in the company since 1972. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 99.0, Abstain: 0.5, Oppose/Withhold: 0.5,

5.4.5. *Re-elect Anthony Nightingale*
Independent Non-Executive Director. There are concerns over his potential aggregate time commitments.

Vote Recommendation: *Abstain* Results: For: 98.3, Abstain: 1.2, Oppose/Withhold: 0.5,

5.6. *Appoint the auditors*
Ernst & Young Ltd. proposed. Non-audit fees were approximately 15.5% of audit fees during the year under review. Non-audit fees over a three year aggregate basis were approximately 25.4% of audit fees. There are concerns that this level of non-audit fees creates a potential for conflict of interest on the part of the independent auditor. In addition, the auditors' term exceeds 10 years, which raises further concerns for potential conflicts of interest. Opposition is thus recommended.

Vote Recommendation: *Oppose* Results: For: 98.9, Abstain: 0.5, Oppose/Withhold: 0.5,

JAPAN TOBACCO INC AGM - 20-03-2015

2.1. *Elect Nakamura Futoshi*
The traditional governance structure for Japanese companies (Kansayaku) involves the appointment of corporate auditors. Large Japanese companies are required to form a board of corporate auditors with powers to examine board activities and oversee financial reports. Such companies are required by law to appoint at least three statutory auditors to the corporate audit board. At least half the corporate auditors must qualify as 'outsiders'. The definition of 'outsider' prohibits appointment of a corporate auditor whom the company has employed at any time in any capacity. PIRC's own definition of independence may go beyond the regulatory minimum. Japan's Companies Act of 2005 requires that the majority of a board of corporate auditors must be outsiders. Beyond this legal minimum, it is considered to be best practice that boards of corporate auditors should be composed wholly of outsiders. New appointments are therefore considered in the context of their affect on the balance of independence where disclosure allows.
This proposal: It is considered that two of the four candidates are independent. The corporate auditor board will be 50% independent in our view following the Annual Meeting. Inside Corporate Auditor. Not considered to be independent. Opposition is recommended.

Vote Recommendation: *Oppose*

2.2. *Elect Kojima Tomotaka*
Outside Corporate Auditor. Not considered to be independent.

Vote Recommendation: *Oppose*

SVENSKA HANDELSBANKEN AGM - 25-03-2015

8. *Receive the Annual Report*
Disclosure is acceptable and the report was made available sufficiently before the meeting. However, the Company has been involved in alleged improper use of corporate resources; namely SCA's corporate jet. Handelsbanken is one of SCA's major shareholders. Said involvement led the Chairman of Handelsbanken Mr. Nyren to resign and was replaced by the CEO, Mr. Boman, who is candidate as Chairman at this AGM. It is considered that the Company should have discussed publicly appropriate use of corporate resources or acceptance of excessive gifts, which is however covered by their ethical guidelines. There seem to be insufficient checks and balances that could prevent such alleged improper use of resources from happening again.

Vote Recommendation: *Abstain*

10. *Discharge the Board and the Group Chief Executive*
In accordance with the Swedish Companies Act ch. 7 para. 11 Swedish companies offer the Board of Directors and President a discharge from liability for the financial year. However, the Company has been involved in alleged improper use of corporate resources; namely SCA's corporate jet. Handelsbanken is one of SCA's major shareholders. Said involvement led the Chairman of Handelsbanken Mr. Nyren to resign and was replaced by the CEO, Mr. Boman, who is candidate as Chairman at this AGM. It is considered that the Company should have discussed appropriate use of corporate resources or acceptance of excessive gifts, which is however covered by their ethical guidelines. There seem to be insufficient checks and balances that could prevent such alleged improper use of resources from happening again.

Vote Recommendation: *Abstain*

17. *Re-elect the Board of Directors*
It is common practice for Board members in Sweden to be elected using a slate system. Slate elections are evaluated taking into consideration the balance of independent representation on the Board. An oppose vote is recommended where an insufficient number of independent Directors are included.
All of the Board members are proposed for re-election with the exception of Mr Sverker Martin-Lof and Mr Jan Johansson. As they will not stand for re-election, the nomination committee proposes the election of Ms Lise Kaae and Mr Frank Vang-Jensen as new members of the Board. Mr. Vang-Jensen is also the appointed CEO. The Nomination Committee also proposes the election of Par Boman as Chairman of the Board.
There is insufficient independent representation on the Board. In addition, it is not considered that this re-election offers a concrete solution to the improper practice that led to the so called corporate jet scandal. Opposition is recommended on this ground.

Vote Recommendation: *Oppose*

18. *Appoint the auditors*
KPMG and Ernst&Young proposed. Non-audit fees were approximately 6.25% of audit fees in aggregate during the year under review. Non-audit fees over a three year basis were approximately 2.58% of audit fees in aggregate. The level of non-audit fees does not raise concerns. However, the auditors' terms exceed 10 years, which may create potential for conflict of interest on the part of the independent auditors. Opposition is thus recommended.

Vote Recommendation: *Oppose*

19. *Approve Remuneration Policy*
It is proposed to approve the remuneration policy with a binding vote.
There is lack of disclosure with respect to the components of individual remuneration for Executives, which prevents shareholders from making an informed assessment. Although officially there is no variable compensation (only a profit-sharing scheme), the Board can decide to award special bonuses upon discretion, which raises concerns over the transparency of the remuneration structure. In addition, the Company reports pension contributions together with fixed salary, while they may be considered bonuses unrelated to performance, depending on the weight versus salary, as noted by the European Banking Authority among others. There are no severance agreements in place, however notice can reach 24 months' salary, which is deemed excessive. Based on excessive notice and Board discretion, opposition is advised.

Vote Recommendation: *Oppose*

22. *Shareholder proposal: An investigation assignment for the Board*
Proposed by Thorwald Arvidsson. Section 12 of the Bylaws provides for a voting rights limitation of 10 per cent. It is proposed to give mandate to the Board to investigate the matter and propose additions to the Bylaws with this respect. Although sound in principle, this mandate is unclear as of the intended outcome. Abstention is recommended.

Vote Recommendation: *Abstain*

23. *Shareholder proposal: Assign the Board to contact the government*
Resolution proposed by Thorwald Arvidsson. It is proposed to delegate the Board to write the Swedish government and ask to investigate the abolishment of different

voting powers within the Swedish Company's Act. Adherence to the one-share, one-vote principle is considered best practice and should be encouraged. However, writing to the Swedish government may be seen as lobbying and may involve governance concerns. On this basis, abstention is recommended.

Vote Recommendation: *Abstain*

24. *Shareholder proposal: Assign the Board the task of taking to form a shareholders' association for the Bank.*
Resolution proposed by Thorwald Arvidsson. It is proposed to delegate the Board to create a Shareholder's association within the Company. It is not clear what would be the functions and the role of this association. The Company has already a Nomination Committee where major and minority shareholders are represented. Abstention is recommended.

Vote Recommendation: *Abstain*

25. *Shareholder proposal: A special examination pursuant to Chapter 10, Section 21 of the Swedish Companies Act*
Resolution proposed by Thorwald Arvidsson. It is proposed to appoint a special examiner for executive remuneration at the Company. It is unclear what would be the boundaries for the action of the examiner. Abstention is recommended.

Vote Recommendation: *Abstain*

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CANON INC AGM - 27-03-2015

3.1. *Elect Mitarai Fujio*
The Company operates under the Kansayaku-setchi-kaisha structure, with a board of directors and a board of corporate auditors. Sufficient data is available on which to base a judgement of the independence of all candidates. This proposal: Elect 17 directors of whom 16 are incumbent. When there are insufficient outside directors on the Board it is recommended to vote against the most senior director standing for election. President, Representative Director. It is considered the responsibility of the most senior Board member to ensure that there is appropriate outside oversight of Board decisions. However, as there are less than three outside directors, it is considered that there is inadequate outside presence on the Board, and opposition for the senior director is recommended.

Vote Recommendation: *Oppose*

4.1. *Elect Oono Kazuto*
The traditional governance structure for Japanese companies (Kansayaku) involves the appointment of corporate auditors. Large Japanese companies are required to form a board of corporate auditors with powers to examine board activities and oversee financial reports. Such companies are required by law to appoint at least three statutory auditors to the corporate audit board. At least half the corporate auditors must qualify as 'outsiders'. The definition of 'outsider' prohibits appointment of a corporate auditor whom the company has employed at any time in any capacity. The definition of independence may go beyond the regulatory minimum. Japan's Companies Act of 2005 requires that the majority of a board of corporate auditors must be outsiders. Beyond this legal minimum, it is considered to be best practice that boards of corporate auditors should be composed wholly of outsiders. New appointments are therefore considered in the context of their affect on the balance of independence where disclosure allows. It is considered that [the candidate is three of the five candidates are independent. The corporate auditor board will be 60% independent in our view following the Annual Meeting. Newly nominated Inside Corporate Auditor. Not considered to be independent. Opposition is recommended.

Vote Recommendation: *Oppose*

4 Appendix

The regions are categorised as follows:

ASIA	China; Hong Kong; Indonesia; India; South Korea; Laos; Macao; Malaysia; Philippines; Singapore; Thailand; Taiwan; Papua New Guinea; Vietnam
SANZA	Australia; New Zealand; South Africa
EUROPE/GLOBAL EU	Albania; Austria; Belgium; Bosnia; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; France; Finland; Germany; Greece; Hungary; Ireland; Italy; Latvia; Liechtenstein; Lithuania; Luxembourg; Moldova; Monaco; Montenegro; Netherlands; Norway; Poland; Portugal; Spain; Sweden; Switzerland
JAPAN	Japan
USA/CANADA	USA; Canada; Bermuda
UK/BRIT OVERSEAS	UK; Cayman Islands; Gibraltar; Guernsey; Jersey
SOUTH AMERICA	Argentina; Bolivia; Brazil; Chile; Colombia; Costa Rica; Cuba; Ecuador; El Salvador; Guatemala; Honduras; Mexico; Nicaragua; Panama; Paraguary; Peru; Uruguay; Venezuela
REST OF WORLD	Any Country not listed above

The following is a list of commonly used acronyms and definitions.

Acronym	Description
AGM	Annual General Meeting
CEO	Chief Executive Officer
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
EGM	Extraordinary General Meeting
EPS	Earnings Per Share
FY	Financial Year
KPI	Key Performance Indicators - financial or other measures of a company's performance
LTIP	Long Term Incentive Plan - Equity based remuneration scheme which provids stock awards to recipients
NED	Non-Executive Director
NEO	Named Executive Officer - Used in the US to refer to the five highest paid executives
PLC	Publicly Listed Company
PSP	Performance Share Plan
ROCE	Return on Capital Employed
SID	Senior Independent Director
SOP	Stock Option Plan - Scheme which grants stock options to recipients
TSR	Total Shareholder Return - Stock price appreciation plus dividends

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Pensions & Investment Research Consultants Limited
6th Floor
9 Prescot Street
London E1 8AZ

Tel: 020 7247 2323
Fax: 020 7247 2457
http://www.pirc.co.uk

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QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2015

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, LAPFF brings together a diverse range of local authority pension funds in the UK with combined assets of over £165 billion, www.lapfforum.org.

ACHIEVEMENTS

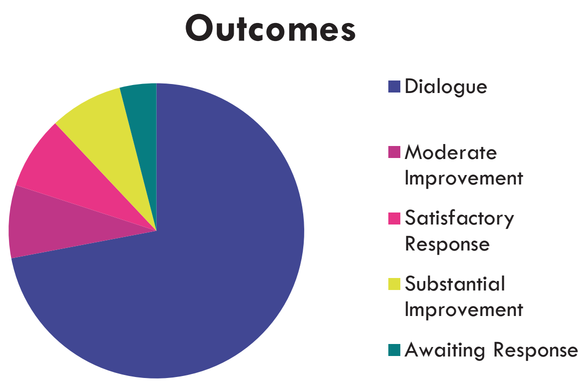
- The boards of **Shell** and **BP** recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the Aiming for A investor coalition of which LAPFF is part. The resolutions address 'strategic resilience to 2035 and beyond' focussing on carbon management, strategy and disclosure. For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition.
- **Societe Generale** announced in late 2014 the separation of the roles of Chairman and Chief Executive. LAPFF has met with the company since 2010 to discuss this concern.
- This issue was also raised at a meeting with **Total,** in the context of succession planning. Discussion further explored how carbon management considerations influence business strategy, particularly on capex plans for marginal oil reserves.
- Addressed concerns over the lack of investor rights at the **Roche** AGM and opened engagement with the board of **Sage** on remuneration, at the company's annual meeting.
- Subsequent to collaborative engagement in 2014, **Wilmar** revealed a full mapping of its palm oil supply chain, allowing investors a better understanding of the implementation of its supply chain sustainability practices. Other collaborative engagement outcomes include palm oil trader **Kuala Lumpur Kepong's** announcement that it will begin to use the preferred industry standard definition of High Carbon Stock (HCS) forests and **IOI**, publicly committing to applying its sustainable palm oil policy to its subsidiaries and trading partners.
- The Forum is already planning its fringe meeting programme for the 2015 party conference season on the following dates: *Lib Dems* in Bournemouth, on Sunday 20th September at 6.00pm in the evening fringe; *Labour* in Brighton on Monday 28th September at 1.00pm at the lunch fringe; and *Conservative* in Manchester on Monday 5th October.
- LAPFF is also actively considering the establishment of an All-Party Parliamentary Group on the Local Government Pension Scheme, following the 2015 General Election. This will provide the Forum with a leading voice amongst the new House of Commons and the Lords.
- A meeting with the Forum's third largest European holding, **Novartis**, explored board independence and executive remuneration in the context of new Swiss governance regulation.

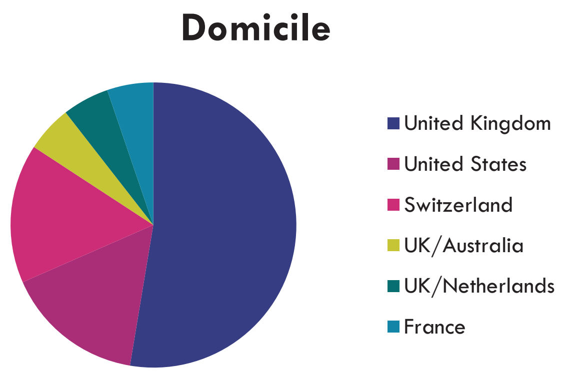
- LAPFF welcomed its newest members, **Suffolk County Council Pension Fund**, **Powys County Council Pension Fund** and **Strathclyde Pension Fund**, taking LAPFF membership to 64 funds.

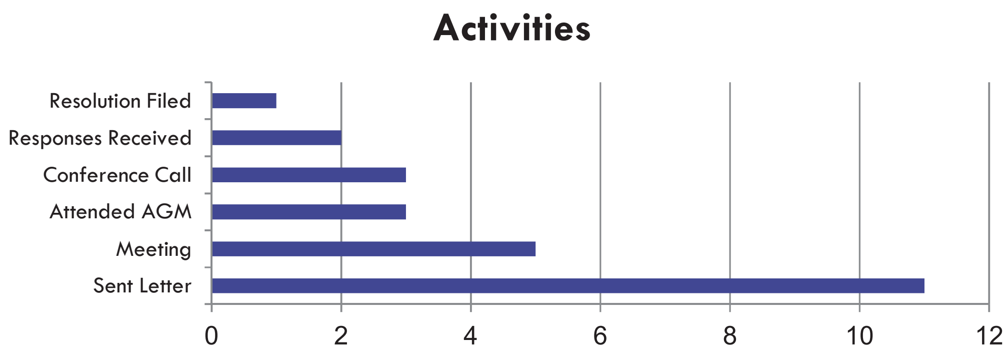
ENGAGEMENT SUMMARY

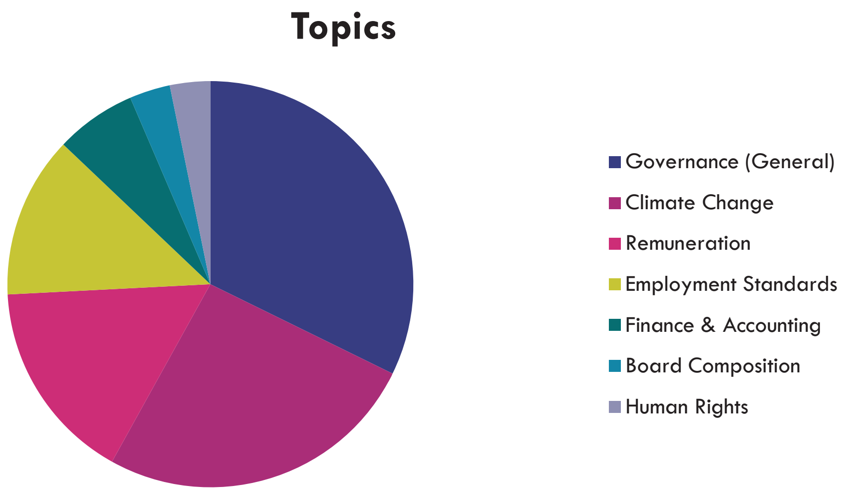
JANUARY TO MARCH 2015

The Forum engaged with **19 companies** over the period









COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

LAPFF co-signed an international investor statement in a letter sent to the Italian government, to express concerns about a proposal that double voting rights be granted to shareholders who have owned their shares for over two years. Although the measure was intended to prevent short-termism, concerns were raised that certain shareholders would benefit at the expense of others as has been the case in France where this approach has been in place for a number of years. Here predominantly controlling shareholders have benefitted, often at the expense of minority shareholders.

Italy has had best practice in this area thanks to the Draghi Law of 1998, which requires a two-thirds majority of votes of special meeting resolutions to allow loyalty shares. The proposed changes called for a simple majority to approve double voting rights. The letter asked the Italian government to allow a sunset clause to set in so that the simple majority rule did not take effect. In early February, the Italian government capitulated to investor pressure and decided to invoke the sunset clause thus scrapping the proposal on double voting rights.

Cllr Toby Simon raised the issue of voting rights at the **Roche** AGM in Switzerland in February. Because of the company structure, being controlled predominantly by family members and Novartis, only one-sixth of Roche shares are in free float and most of the shares are non-voting shares. Cllr Simon pointed out that most institutional investors are excluded from the rights of ownership and influence that should attach to these shares. He requested that the board engage with its controlling shareholders to see if a corporate structure that more closely represents the needs of 21st-century investors could be evolved.

PROMOTING GOOD GOVERNANCE

Executive Pay

LAPFF Chairman Cllr Kieran Quinn called for Sir John Sunderland, the Chairman of Barclays' Remuneration Committee, to step down from the board "immediately". The company had made a clearstatement ahead of the 2014 AGM that he would be stepping down. However, 11 months later, he was still presiding over remuneration decisions. Cllr Quinn stated in a 9 March LAPFF news release that "[w]e would not expect not to see Sir John as a director for the AGM next month."

Cllr Cameron Rose attended the **Sage** AGM and asked about the company's long-term performance share plan and annual incentive. The company does not currently have malus or clawback provisions linked to its share plan but assured Cllr Rose that it was working toward best practice in relation to executive remuneration.

LAPFF has also written to Tesco linking the issue of executive remuneration to good governance. It has come to light that the company does not appear to employ 'malus' provisions, which has been especially problematic given the departure of staff with apparent roles in the company's accounting scandal. The Forum also contacted Hays and **Centrica** to seek feedback on its 'Expectations on Executive Pay' document.

A subsequent round-table meeting with Centrica's chairman and a number of board committee chairs was informative on a number of topics in addition to executive pay and included succession planning and carbon management.

Executive remuneration is currently a hot topic in Switzerland, with the final provisions of the new corporate governance law set to be implemented during 2015. As a result, both **Novartis** and **Nestlé** were keen to share with investors their respective approaches to implementing the new law. The 'Ordinance Against Excessive Pay', also known as the Minder Initiative, covers board election processes and remuneration. During 2014, provisions came into force to require the election of each board member individually, the direct election of the Chairman and individual members of the compensation committee. As of this year, Swiss companies will have to submit a binding resolution on board and executive remuneration.

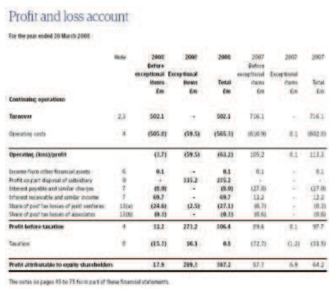
A roundtable meeting of shareholders including LAPFF with the chairman of Nestlé explored the implications of the company's application of these new requirements and cited new areas in which the law could develop. Likewise, representatives from Novartis set out their intended implementation and actions. LAPFF had approached both companies as they are two of the most widely held companies amongst LAPFF portfolios in continental Europe. The meeting with Novartis thus offered the opportunity to explore other areas such as mergers and acquisitions, pay structures, the role of significant shareholders and the approach to drug patents in the developing world.

Holdings Based Engagement

AstraZeneca is another company held by most LAPFF members. The Forum issued a voting alert for the company's AGM in 2013 over payments to the incoming chief executive but had not previously met directly with the company. The meeting provided an opportunity to explore aspects of remuneration with the company, its approach to mergers as well as other governance and corporate responsibility issues.

Reliable Accounts

In the wake of revelations that **Tesco** had misrepresented its accounts, LAPFF requested a discussion with the company about a way forward from the company's accounting deficiencies. This request is part of LAPFF's broader strategy to push for improved



Profit and loss account

For the year ended 30 March 2008

	Note	2008 Before exceptional items £m	2008 Exceptional items £m	2008 Total £m	2007 Before exceptional items £m	2007 Exceptional items £m	2007 Total £m
Continuing operations							
Turnover	2,3	502.1	-	502.1	716.1	-	716.1
Operating costs	4	(505.8)	(59.5)	(565.3)	(610.9)	8.1	(602.8)
Operating (loss)/profit		(3.7)	(59.5)	(63.2)	105.2	8.1	113.3
Income from other financial assets	6	0.1	-	0.1	0.1	-	0.1
Profit on part disposal of subsidiary	9	-	335.2	335.2	-	-	-
Interest payable and similar charges	7	(8.0)	-	(8.0)	(27.0)	-	(27.0)
Interest receivable and similar income	7	69.7	-	69.7	12.2	-	12.2
Share of post tax losses of joint ventures	13(a)	(24.6)	(2.5)	(27.1)	(0.3)	-	(0.3)
Share of post tax losses of associates	13(b)	(0.3)	-	(0.3)	(0.6)	-	(0.6)
Profit before taxation	4	33.2	273.2	306.4	89.6	8.1	97.7
Taxation	8	(15.3)	16.1	0.8	(32.3)	(1.2)	(33.5)
Profit attributable to equity shareholders		17.9	289.3	307.2	57.3	6.9	64.2

The notes on pages 45 to 75 form part of these financial statements.

accounting standards.

In February 2015, LAPFF Chairman, Kieran Quinn, signed a joint letter to the Financial Times calling on the UK to favour a position of 'prudence' rather than one of 'neutrality' as the overriding principle in its accounting standards.

MANAGING ENVIRONMENTAL RISK

Energy and Environmental Risk

In the first two months of 2015, both **Shell** and **BP** announced their advice to shareholders to support 'strategic resilience' resolutions filed by LAPFF members as part of the Aiming for A coalition. Co-filers also included other pension funds with assets greater than $15bn, namely three Swedish AP Funds, Connecticut and Ilmarinen from Finland.

Recommendations of support from company boards for resolutions filed by shareholders are unprecedented in the UK and extremely rare in other markets. The resolutions call for disclosures on ongoing operational emissions management, asset portfolio resilience to the International Energy Agency's scenarios, low carbon energy research and development and investment strategies, relevant strategic key performance indicators and executive incentives and public policy positions relating to climate change.

By the end of March, 25 LAPFF funds had publicly declared their voting intentions to support the resolution, bolstered by a significant number of global asset owners and fund managers also making voting declarations. These included CalPERs and the University of California in the US, AXA Investment Managers and Natixis AM from France, PKA Denmark, Robeco from the Netherlands. UK investor support included RMPI Railpen in addition to UK asset managers such as Royal London Asset Management, Jupiter Asset Management, Royal London Asset Management, Aviva Investors, F&C Investments and Schroders.

Such support for active engagement by shareholders on essential disclosure on the strategic approach to carbon management has the potential to set an industry standard. It also highlights investors' interest in the longer-term strategic options for the oil and gas majors.

Similar issues covered in the BP/Shell resolutions were discussed by Cllr Rose with members of the sustainability and legal teams of **Total** as well as transitional fuels and how the company viewed fracking in its business strategy. Discussions on board succession planning and the separation of powers were prompted by the sad loss of the company's Chairman and CEO in a plane crash in late October 2014.

LAPFF also met with representatives of **BHP Billiton** as part of its Aiming for A investor engagement. BHP Billiton had improved from a 'C' to a 'B' rating on the CDP Climate Leadership Index during 2014.

During 2014, LAPFF was part of a coalition encouraging palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land. One company contacted was **Wilmar**, which revealed in early 2015 that it has fully mapped its supply chain making public all its suppliers in Indonesia and Malaysia.

Promotion of the Sustainable Palm Oil Manifesto to companies, of which LAPFF was part, led to Malaysian palm oil trader, **Kuala Lumpur Kepong**'s announcement in January that it will begin to use the best practice definition of High Carbon Stock (HCS) forests. This commitment should help to further a moratorium on clearing HCS areas and towards a No Deforestation approach. Building on this development, **IOI**, which controls an estimated 10.5% of the global palm oil trade, has publicly committed to applying its sustainable palm oil policy to its subsidiaries and trading partners, as well as its direct operations.

TARGETING SOCIAL ISSUES

Employment Standards and Practices

LAPFF's Cllr Richard Greening attended the **Lonmin** AGM, where he asked the Board about the implementation of the recommendations from the South African Human Rights Commission's report from October 2014 to improve labour and community relations in the wake of the company's Marikana mine disaster in 2012. Lonmin endured a debilitating five month strike during 2014, but proposed solutions to the company's labour concerns have been linked more broadly to its community engagement approach.

Lonmin CEO Ben Megara outlined how the company had engaged with the South African Human Rights Commission to work on a solution, part of which is a Five Point Plan to resolve social investment issues, such as the company's role in promoting education and providing housing for the community in which it operates. In addition to formally recognising the Association of Mineworkers and Construction Union (AMCU) and employing the relatives of Marikana victims, the Bapo ba Mogale community now owns 2.4% of Lonmin's share capital after the company made a royalty payment to the community and allocation to the Bapo trust in line with its commitment to meet South Africa's Black Economic Empowerment requirement.

THE FORUM IN THE NEWS

LAPFF Press Releases on the Shell and BP resolutions
http://www.lapfforum.org/

BP and Shell shareholder resolutions
Guardian, Independent, Financial Times, Courier, Investment Week, Professional Pensions, Blue and Green Tomorrow, Fund Web, Forbes, Local Government Chronicle, Investment & Pensions Europe

LAPFF G20 tax transparency
Responsible Investor

IFRS and Reliable Accounts
Financial Times

NETWORKS AND EVENTS

The LAPFF Chairman, Cllr Quinn travelled to Scotland to meet with new LAPFF executive committee member Barney Crockett of North East Scotland Pension Fund, as well as visiting Cllr Paul Rooney chair of Strathclyde Pension Fund, who subsequently joined the Forum.

Novethic Conference: Cllr Greening addressed a conference on investors, climate and low carbon finance in Paris, setting out LAPFF's position on corporate carbon management. LAPFF also fielded a speaker at the UKSIF 'ownership' day to talk about BP and Shell's support of the Strategic Resilience shareholder resolutions and to encourage further voting declarations.

LAPFF representatives also attended a number of other events including a **30% Club Investor** Group meeting focussed on board refreshment; a Pensions Infrastructure Platform seminar reviewing the platform one year on and talks on Embedding Global Markets relating to the governance role of investors on Human Rights and on environmental protection legal developments relating to Rio Tinto's role in the unrest in Bougainville, Papua New Guinea.

COMPANY PROGRESS REPORT (companies not previously engaged with on an individual basis noted in bold)

Company	Topics	Activity/Outcome	Domicile
Total	Carbon management	Meeting/Moderate Improvement	France
BP	Carbon management	Resolution/Substantial Improvement	United Kingdom
Associated British Foods	Board Composition	Letter/Satisfactory Response	United Kingdom
Lonmin	Employment Standards	Attended AGM/Dialogue	United Kingdom
Shell	Carbon management	Resolution/Substantial Improvement	UK/Netherlands
Microsoft	General Governance	Letter/Dialogue	United States
Tesco	Remuneration/Accounts	Letter/Dialogue	United Kingdom
Novartis	General Governance	Meeting/Dialogue	Switzerland
Centrica	Executive Pay	Letter/Dialogue	United
Amazon	Governance/Employment Standards	Letter/Dialogue	United States
Hays	Remuneration	Letter/Dialogue	United
AstraZeneca	Mergers & Acquisitions	Letter/Dialogue	United States
Nestlé	General Governance/ Remuneration	Meeting/Dialogue	Switzerland
Barclays	Remuneration	Letter/Dialogue	United Kingdom
BP	Carbon management	Resolution/Substantial improvement	United Kingdom
BHP Billiton	Carbon management	Meeting/Dialogue	UK/Australia
Morrison	Accounts	Letter/Dialogue	United Kingdom
Roche	Governance	AGM Attendance/Dialogue	Switzerland
Sage Group	Remuneration	AGM Attendance/Dialogue	United Kingdom
Trinity Mirror Group	Governance	Letter/Dialogue	United Kingdom

Local Authority Pension Fund Forum Members

Aberdeen City Council
Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cardiff and Vale of Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
East Sussex Pension Fund
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Haringey LB
Harrow LB
Hounslow LB
Islington LB
Lancashire County Pension Fund
Lambeth LB
Lewisham LB

Lincolnshire CC
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Newham LB
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire CC Pension Fund
Northamptonshire CC
NILGOSC
Nottinghamshire CC
Powys County Council Pension Fund
Rhondda Cynon Taf
Shropshire Council
Somerset CC
Sheffield City Region Combined Authority
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk County Council Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

Report prepared by PIRC Ltd. for the Local Authority Pension Fund Forum

<u>LAPFF Collaborative Initiatives 2015</u>

Collaborative initiatives led by LAPFF

- **<u>IFRS Investor Coalition (founder and lead member); for over three years.</u>**
  On going engagement with the Financial Reporting Council regarding the faulty accounting framework, which contributed to market instability and economic hardship in recent years, has not been properly addressed. The engagement askes the FRC to revise its "True and Fair" paper and the European Commission to confirm the meaning of the True and Fair view with regard to the vital goal of capital maintenance as defined in EU Company Law.

- **<u>Corporate Tax Transparency Initiative- FTSE100 campaign</u>**
  LAPFF has launched the Corporate Tax Transparency Initiative (CTTI), writing to every FTSE 100 company in late March seeking technical information via ten detailed taxation questions around tax related governance and accounting practices, taxation risk management and minimisation strategies.
  The LAPFF CTTI Initiative in quizzing the FTSE100 is part of wider efforts by the pension fund group to lift corporate transparency around global tax practices as institutional investor scrutiny and pension fund turns towards international tax reform issues.

- **<u>OECD/G20 2014 Investor Statement - Global Tax Transparency and Reform</u>**
  In a global first, a group of institutional asset owners and managers are jointly calling for comprehensive transparency and disclosure to be adopted as core principles in reform of the international taxation system to be put before the G20 Leader Summit in Brisbane.

Collaborative initiatives LAPFF co-leads

- **<u>Carbon Risk Management: 'Aiming for A' since 2012, BP and Shell shareholder resolutions in year under review.</u>**
  The Aiming for A coalition believes that supportive but stretching shareholder resolutions could play a high profile positive stewardship role.
  Specifically ten major UK listed extractives and utilities companies are being asked to demonstrate good management of the strategic carbon challenge they face by aiming for continuous inclusion in Carbon Disclosure Projects (CDP) Climate Performance Leaders Index. This requires a CDP "A" performance band.

<u>Collaborative initiatives LAPFF is an active member of:</u>

- **<u>Palm Oil Investor Working Group since 2011, coordinated by the PRI clearing house</u>**

The Sustainable Palm Oil Investor Working Group (IWG) is made up of 25 investment organizations, representing assets under management of over $2 trillion, which are members of the United Nations-supported Principles for Responsible Investment (PRI). The group is currently engaging with 20 companies to seek improvements in policies and processes that support the development of a sustainable palm oil industry through the work of the Roundtable on Sustainable Palm Oil (RSPO). The industry continues to face significant difficulties – including allegations of forest clearing and social injustice by plantation companies, and the low uptake of Certified Sustainable Palm Oil by palm oil purchasers. These challenges pose reputational and business risks for palm oil producers and purchasers.

- **Collaboration on palm oil with Green Century Capital Management**
  LAPFF again co-signed letters with Green Century Capital Management to raise concerns with companies and to seek, an immediate moratorium on deforestation and requested the adoption of a time-bound plan for fully traceable palm oil.

- **INCR collaborative 'carbon asset risk' initiative.**
  The Investor Network on Climate Risk (INCR) is a network of more than 110 institutional investors representing more than $13 trillion in assets committed to addressing the risks and seizing the opportunities resulting from climate change and other sustainability challenges

- **Investor group of 30 Percent Club- Board Diversity**
  The 30% Club is a group of business leaders committed to achieving better gender balance at all levels of organisations, because this will make businesses and boards more effective. We are taking voluntary steps towards the goal of 30% women on boards by 2015 and believe strongly that business-led change is the right way forward.

Examples of 'one-off' collaborations included:

- Collaborative letter to the International Organisation of Securities Commissions (IOSCO) encouraging support for mandatory rules on ESG reporting and for IOSCO to convene regulators, exchanges, and others to develop global standards for such reporting

- Correspondence to the Italian government outlining concerns over enhanced voting rights and the move away from one share one vote principle.

- Vedanta PRI engagement group

Some ESG and governance organisations LAPFF is a member or associated with:

- Investor Network on Climate Risk

- Principles for Responsible Investment.

- Extractive Industry Transparency Initiative
- Carbon Disclosure Project
- Special Interest Group of the Local Government Association (LGA)

Other Engagement the Fund participated in outwith LAPFF

- In April 2013 the Rana Plaza building in Bangladesh collapsed killing 1,128 garment workers and injuring over 2,000. In May 2013 & 2014 the Fund has added its name to a Bangladesh Investor Statement urging companies to respond to the disaster by joining the Bangladesh Fire and Safety Accord.
  All retailers that sign up to the Accord agreed to independent safety inspections at factories and public reporting of the results of these inspections.
  The Accord has now been signed by over 200 apparel brands, retailers and importers from over 20 countries in Europe, North America, Asia and Australia; two global trade unions; and eight Bangladesh trade unions and four NGO witnesses.

  Progress
- Factory inspections have been carried out in over 1,500 factories, Labour inspectors are being hired and trained, 127 new unions have been registered since the beginning of 2013
- The creation of the National Tripartite Plan of Action on Fire 7 safety and structural Integrity – between Bangladesh Government, the Bangladesh Garment Manufacturers Export Association and Trade Unions.
- The Donors Trust Fund after a slow start is now close to its goal of raising $30 million

  While progress is being made towards creating a safer, more sustainable industry, it is essential that we continue to shine a light on what remains to be done.

Carbon Disclosure Project

In March 2015 – The Fund signed up to the CDP Investor Initiative.

CDP requests standardised climate change, water and forest information from some of the worlds largest listed companies through annual questionnaires sent on behalf of institutional investors that endorse them as CDP signatories.

These shareholders requests for information encourage companies to account for and be transparent about environmental risk. Transparency of this data throughout the global market place ensures the financial community has access to the best available corporate environmental information to help drive investment flows towards a low carbon and more sustainable economy.

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Agenda Item 9

ABERDEEN CITY COUNCIL

COMMITTEE:	PENSION COMMITTEE
DATE:	15 JUNE 2015
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT	BUSINESS PLAN 2015 - 2017
REPORT NUMBER:	PC/JUN15/BUSP

1. PURPOSE OF REPORT

To present to Committee a Business Plan for 2015 - 2017 for the North East Scotland Pension Funds and the Pension Section. The Business Plan sets out the way in which the Pension Section will deliver modern, efficient, effective and accessible services to all Pension Fund stakeholders. It also identifies the way in which the performance of the service will be monitored.

2. RECOMMENDATION(S)

It is recommended that the Committee approve the report

3. FINANCIAL IMPLICATIONS

The business plan supports the Fund's objective to deliver an efficient and cost effective service to its stakeholders.

Increased costs will arise in a number of areas over the next three years as a consequence of the roll out of the new scheme and development of new governance structures. The objective of the Fund is to ensure that delivery of these changes is managed in a cost effective and efficient manner.

4. OTHER IMPLICATIONS

None

5. BUSINESS PLAN

5.1 **Background**

The business plan provides the focus for the delivery of the pension fund investment and benefits administration services in an efficient and cost effective manner.

The Plan is reported annually to the Pension Committee and forms part of the monthly monitoring of the Pension Fund Section by the Head of Finance.

5.2 **Fund Profile**

5.2.1 Role and Responsibilities

Aberdeen City Council has statutory responsibility for the administration of the Local Government Pension Scheme ("LGPS") in the North East of Scotland, both on its own behalf and in respect of the other 3 local authorities and over 50 other large and small employers.

The main functions are:

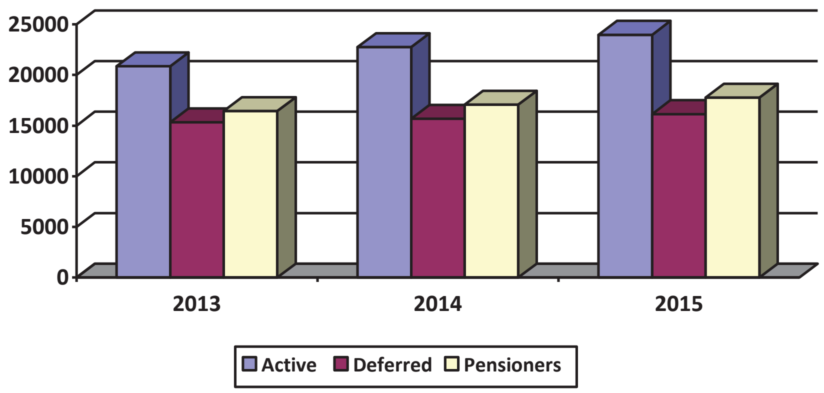
- management and investment of scheme funds; and
- administration of scheme benefits

These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972 and Public Sector Pensions Act 2013.

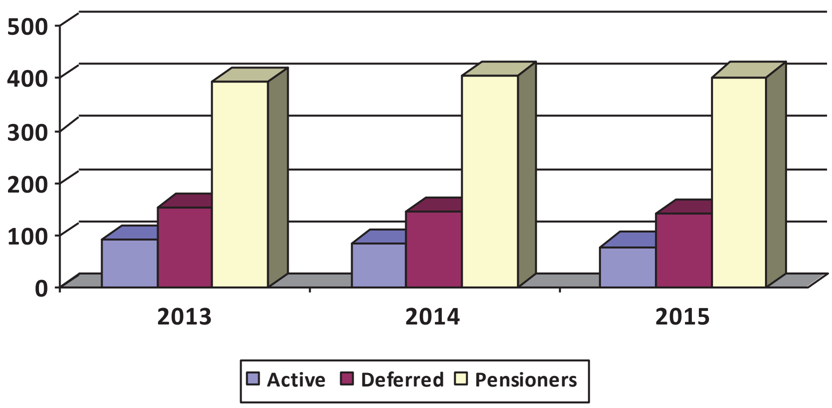
Aberdeen City Council carries out its role as Administering Authority via:

- the City Council Pension Committee;
- the Pension Fund Section within the Council's Finance Department

5.2.2 Membership of the North East Scotland Pension Fund



Membership of the Transport Fund



5.2.3 NESPF Assets & Liabilities

As at 31 March 2015 the Fund had total investment assets of approximately £3,163 billion (2014: £2,830bn).

Estimated value of liabilities was £3,420 billion (£2,218bn) giving an estimated funding position of 83% (88%).

5.2.4 NESPF Revenue and Expenditure

Revenue figures for 2014/2015 include total contributions and other income of around £118m (£111m).

Total pensions and other payments for 2014/2015 of £116m (£107m) and investment income of £49m (£55m).

5.2.5 Resources

Staffing

Total staff in post at 31 March 2015 was 33 (FTE 28.4) providing, a range of services:

- Member Benefit Administration (FTE 17.7)
- Communication (FTE 2)
- IT Management (FTE 2)
- Investment Management and Accountancy services (FTE 4)
- Employer Relationship (FTE 1.7)
- Staff training (FTE 1)

Training and Development

The Pension Fund has made a demonstrable commitment to training and development.

As at 31 March 2015, 1 member of staff had gained the IPP Diploma in Pensions Management, 9 members of staff had attained the IPP Foundation Degree in Pensions Administration and Management and a further 2 staff were studying for the Foundation Degree.

Pension Fund staff also participate fully in, and benefit from the various elements of Aberdeen City Council's training plans.

5.3 Systems

The North East Scotland Pension Fund is an established user of *Altair* – a bespoke Local Government Pension Scheme benefit administration and payroll system.

The system ensures continuity of service throughout the pension's life-cycle, from new start, through employment history to payment of pension on retirement.

Within *Altair*, the Fund has implemented *Task Management Workflow* and *Performance Measurement* modules. These now form the core of process planning, management and monitoring. *Altair* is aligned with a Document Image Processing

System (DIPS) to achieve straight-through electronic processing.

Altair also provides internet based Member self-service and Employer self-service functionality.

For other finance functions, the Fund uses the Council's E-financial accounting system. The Investments Team has secure, on-line access to detailed investment portfolio data via the *Workbench* system of the Fund's global custodian, Bank of New York Mellon, which forms the primary accounting record for the Fund's investments.

5.3 Business Plan Outcome Review of 2014/2015

5.3.1 Outcome

The 2014/2017 business plan identified a number of major new projects to be undertaken by the Pension Fund Section. Several of which have now been successfully completed. The remainder are on-going in response to the constantly changing environment in which the Pension Section functions.

5.3.2 Completed Projects

Introduction of the New LGPS Scotland 2015 - The major project undertaken by the Pension Fund Section in 2014/2015 was the delivering the new LGPS Scotland 2015. Every member of staff was involved from project planning, IT testing and implementation, engagement, training and communication with both scheme employers and scheme members. A separate report has been prepared for Committee regarding the successful completion of this project.

2014 Actuarial Valuation - 2014 also saw the competition of the triennial actuarial valuation exercise. The valuation exercise continues to be challenging for scheme employers with a number seeing increases in employer contribution rates. A separate report has been prepared for Committee regarding the successful completion of this project.

Transport Fund De-Risking Strategy - After initial work in early 2013 to determine the future funding requirements of the Transport Fund, a tendering exercise began in December 2013 to appoint a single provider to manage the long term investment strategy of the Transport Fund.

Aberdeen Asset Managers were awarded the contract in summer 2014, with the new investment strategy implemented from 1 April 2015. Reporting to Committee on the new investment strategy will commence from September 2015.

Investment Consultancy Tender – A tender exercise was undertaken in early 2015 through a national framework agreement, to provide investment consultancy support to both the Pension Committee and Officers in setting future investment strategy. KPMG were successfully appointed with effect from 1 June 2015.

Member Communication – As part of an Fund's continued programme to improve employer and members communication, the Fund hosted a successful, second Pensioner open day in April 2015.

5.3.3 Ongoing and New Projects 2015 – 2017

Service Level Agreement - Ongoing service changes and developments within Aberdeen City Council have seen delay in the drafting of the Service Level Agreement between the Pension Fund and the City Council. Work has now recommenced and a draft document should be completed by Autumn 2015.

Governance – The new governance requirements introduced as part of the new LGPS 2015, will see a review of reporting for both the Pension Committee and Pension Board, focusing on key factors such as:

- Performance measures in respect of service delivery to scheme employers and scheme members
- Risk management
- Investment Performance
- Monitoring of business priorities as set out at 5.4.1 below

Document Register - The Pensions Fund has historically maintained documents in various systems. A single document register is currently being drafted bringing together all policies and procedures, fund contracts and published documents. The introduction of the LGPS Scotland Scheme 2015 has seen the introduction of new documentation requirements and these will be incorporated in the document register by Autumn 2015.

Risk Management - Work continues throughout 2014 aligning the Fund's Risk Review of 2012 with guidance issued from the Pensions Regulator. A report on the requirements set out for administration of the Fund by the Pensions Regulator will be presented to a future meeting of the Pension Committee.

Investment Strategy Review – Work commenced during 2014 to implement the Pension Committee decision to increase diversification within the Fund and thereby reduce overall investment risk. Officers will now take forward work regarding overall investment risk management and strategy with a report and recommendations presented to a future meeting of the Pension Committee.

Local Engagement – As part of the Fund's review of investment strategy an assessment will be made of the opportunities available to Fund to seek investment returns from local investment within the North East of Scotland.

Global Custody Tender – The Pension Fund will be undertaking a tender exercise in 2015 to review the Funds Global Custody arrangements. The Global Custody provides:

- Safekeeping of scheme assets
- Trade settlement
- Income collection (i.e. dividend and cash interest)
- Accounting & Performance Measurement
- Proxy Voting
- Tax reclaims

Employer Engagement and Covenant Review - A programme of employer engagement and assessment of employer covenants has taken place over recent years. Following the outcome of the 2014 actuarial valuation officers will be engaging with scheme employers on number of issues, including employer covenant reviews, membership, administration training.

Communication Review - The Fund recognises the key role of communication, both within the Pension Fund section and external across all stakeholders. The Pension Fund senior communications officer is currently undertaking a major review of all the Fund's communication with scheme employers and scheme members, covering:

- face to face engagement
- "hard copy" correspondence
- web structure and content

Benefit Administration - GMP reconciliation with HMRC which is now underway – we have registered and received our data and received a license variation to use the Heywood programs designed for this exercise which will take a couple of years.

Technical Revisions – Ongoing participation in the national Testing Working Party for 2 further CARE/Pension Reform software releases, 2015.0.2 currently in Test and 2015.1 around August/September.

Staffing - Review of staffing requirements – A review of staffing requirements has been completed and will be taken forward. The review has identified the need for additional resources in the areas of employer engagement, fund management and management of the Fund's governance arrangement and communication

5.3.4 Performance Measures

The Fund has in place a range of performance measures covering both benefit administration and investment management.

Customer Service

- The Fund issues a customer survey to all those joining the scheme and carries out a range of ad –hoc surveys targeting both scheme member and scheme employers. Returns are collated and used internally to monitor and improve customer service quality

System and Compliance

- The Fund has in place a range of safeguards to protect member data, financial malpractice, system security and business continuity.

Member Records

- A key function of the Pension Fund section is to accurately maintain and update member records. An annual statement on the quality of the Pension Fund data is given by the scheme actuary and reported to the Pensions Committee

Benefit Processing

- Accuracy is ensured through rigorous system and manual checks.
- Efficiency figures are produced by the performance measurement module of the Altair system and measure average times taken to turnaround tasks on the system, workflow and backlogs

- The Pension Administration Strategy (PAS) sets out the key deliverables in terms of turnaround times in processing New Starts (electronic), Early Leavers notifications, Retirements notifications, Death in Service notifications and Transfer Estimates notifications
- Performance against the above measures are reported annually to the Pensions Committee and detailed in the Pension Fund annual report

Financial

- The single most important function of NESPF is to ensure that the monthly pension's payroll runs on its due date, ensuring that all necessary additions, deletions and amendments have been made before it runs.
- Ensure that all contributions income is received by the due date.

Funding Level

- The scheme actuary provides quarterly updates on the Main Fund and Transport Fund, providing historic information since the last valuation. Reporting on the funding position is quarterly to the Pensions Committee

Fund Investment Performance

- The Fund's global custodian, Bank of New York Mellon, is responsible for independent performance measurement and provides detailed quarterly reports on all aspects of investment performance.
- Performance is measured on a total return basis including investment income and capital gains.
- Each Fund management agreement sets performance benchmarks and targets. Targets are relative rather than absolute.
- Reporting on investment performance is quarterly to the Pension Committee

5.4 Business Plan 2015/2017

5.4.1 Overview

The Three Year Business Plan outlines the actions the Pension Fund will take to ensure the organisation is fully focused on the key priorities for the next three years :

Local Priorities

- Promote the scheme to new members
- Engagement with Scheme Employers
- Promote a transformation agenda in electronic data delivery and processing
- Engage with staff to meet the new challenges in order to promote a more costs effective and efficient workforce
- Enhancing reporting to both the Pension Committee and the Pension Board
- Effective management of scheme costs

National Priorities

- Engagement in the development of the Pension Fund cost cap
- Engagement in the Long term implementations of the 2015 LGPS with regard to creation of the local Pensions Board and central Scheme Advisory Board
- Engagement in the wider review of the LGPS in Scotland

Many of the above priorities will already have been addressed as part of the 2014/2015 business plan however they will remain key over the longer term in maintaining a long term vision to deliver an efficient and effective services all the Funds stakeholder

Changes in the way we manage the Pension Fund will be vital in ensuring we are able to rise to the challenges affecting both out scheme members and our scheme employers.

5.4.2 Key Priorities 2015/2017

The key business and development priorities for 2015/2017 are listed in Appendix I.

They relate principally to:

- tender for new Global Custody
- review of investment strategy
- further development in the areas of employer and member communication
- GMP reconciliation with HMRC records
- ongoing implementation of LGPS 2015 and associated governance arrangements; and
- ongoing improvements to business efficiency and risk management

5.4.3 Pension Section Deliverables

In support of the Key Priorities a number of deliverables have been identified to be addresses by teams within the Pension Fund section covering areas such as:

- Staff training
- Enhancement to internal reporting
- Data management
- Review of workflow management

5.4.4 Risk Register

The risk register is attached at Appendix II and brings together not only a number of ongoing risks inherent in the administration of the Pension Fund but also the key priorities identified in Appendix I. An updated risk registers will be presented quarterly to the Pensions Committee.

6. IMPACT ON THE PENSION FUND

The Local Government Pension Scheme is constantly evolving and changing. The Pension Fund business plan will ensure that the Fund remains focused on the key issues it faces over the coming years and has in place appropriate resources to meet those future challenges.

7. BACKGROUND PAPERS

Draft Pension Fund Accounts 2014/2015

8. REPORT AUTHOR DETAILS

Joanne Hope
Pensions Advisor
jhope@nespf.org.uk
01224 264158

BUSINESS AND DEVELOPMENT PRIORTIES 2015 - 2017

Pensions Section Key Priorities 2015 – 2017				
Item		Description		Timetable
Governance and Communication				
1.	Governance	PSPA 2013	Implement governance arrangements required by the PSP Act 2013 including working with the new Pensions Board and ensuring Pensions Regulator compliance	April 2016
2.	Governance	Service Level Agreement	SLA covering services provided to the Pension Fund by Aberdeen City Council Corporate Governance and IT Services	September 2015
3.	Governance	Employer Engagement	Progress employer engagement and covenant risk review	March 2015
4.	Governance	Staffing	Progress review of the Pension Fund Staffing arrangement to meet future challenges	September 2015
5.	Communication	Promote Communication	Review all communication and update Pension Fund website ahead of New Scheme roll out	December 2015
6.	Communication	Promote Communication	Deferred member statement to be brought forward to June 2015 to meet new governance requirements	June 2015
Accounting and Investment				
7.	Investment	Triennial Review	Undertake review of investment strategy and structure based on asset liability modelling and the 2014 actuarial valuation	December 2015
8.	Investment	Custody Tender	Undertake Custody Tender incorporating transition management	March 2015
9.	Investment	Local Investment	Work with major scheme employers to consider; where appropriate local investment	April 2017
Benefit Administration and Employer Services				
10.	Benefit Administration	New Scheme	Continue to provide support to scheme employer and scheme members regarding implementation of LGPS 2015	April 2016
11.	Benefit Adminstration	Adminstration	GMP Reconciliation with HMRC records	April 2017
12.	Employer Services	Digital Communication	Progress roll out of employer services and I Connect	April 2016
Technical and Training				
13.	Technical	New Scheme	Prepare and test for additional new scheme release and revise scheme documentation	September 2015
14.	Training	New Scheme	All in-house staff are to receive continued training on implementation of new scheme	April 2016

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Pension Fund Risk Register
Risk Assessment June 2015

APPENDIX II

No.	Risk Description *Threat to achievement of business objective*	Scope/potential consequences of risk	Risk Control Measures	Are Controls Operating Effectively?	Assessment of Residual Risk (likelihood x impact) Likelihood	Impact	Risk Score	Status
1	**Operational** - Pension Administration system failure	Staff downtime, loss of service delivery	System is hosted externally with back-up in separate location	Y	1	5	**5**	No change
2	**Operational** -Unable to access workplace	Staff downtime, loss of service delivery	Disaster recovery policy in place which is incorporated within CG overall policy	Y	1	8	**8**	**To be revised in 2015**
3	**Operational** - Overpayment of Pension benefits	Audit criticism, legal challenge, reputational risk	All pension payments signed off by a senior pensions officer - segregation of duties for staff processing lump sums	Y	2	3	**6**	No change
4	**Operational** - Failure to carry out annual check of member records	Incorrect pension payments, incorrect assessment of actuarial liabilities	All employers required to submit annual data, which is checked	Y	1	4	**4**	No change
5	**Operational** - Failure to carry out out effective member tracing	Incorrect pension payments, incorrect assessment of actuarial liabilities	Tracing service in place - requires addiitonal provisions	Y	1	4	**4**	Implemented spring 2015 appointment of TraceSmart
6	**Operational** - Fraud/Negligence	Overpayment, unauthorised payments, system corruption, audit criticism, reputational damage	All pension payments signed off by a senior pensions officer - segregation of duties for staff processing lump sums	Y	2	3	**6**	No change
7	**Operational** - Failure to recruit, retain and develop staff	Reduction in service delivery, poor operation of risk management controls	On-going review fo staffing requirements and training. Benefit officers required to complete specific pensions exams	Partial	3	4	**12**	**Due to be implemented 2015**
8	**Operational** - Poor Record Keeping	Undermines service delivery, incorrect assessment of actuarial liabilties	Annual check of all member records	Y	1	6	**6**	No change
9	**Funding** - Fund's investments fail to deliver returns in line with the anticipated returns required to meet the valuation of the long term liablities	Increase in employer contributions	Quarterly assessment of investment performance of fund, triennial actuarial valuation and quarterly funding udpates reported to Pensions Committee. Triennial investment strategy review	Y	3	3	**9**	No change
10	**Funding** - Fall in bond yields, leading to risk in value placed on liabilities	Increase in employer contributions	Quarterly funding udpates prepared by the Scheme actuary reported to Pensions Committee.	Y	3	4	**12**	No change

Pension Fund Risk Register
Risk Assessment June 2015

APPENDIX II

No.	Risk Description *Threat to achievement of business objective*	Scope/potential consequences of risk	Risk Control Measures	Are Controls Operating Effectively?	Assessment of Residual Risk (likelihood x impact)			
					Likelihood	Impact	Risk Score	Status
11	**Funding** - Pay and price inflation valuation assumptions either higher or lower	Increase in employer contributions	Quarterly funding updates reported to Pensions Committee.	Y	2	2	**4**	No change
12	**Funding** - longevity issues	Increase in employer contributions	Actuarial assesssment every three years undertake scheme specific analysis	Y	2	4	**8**	No change
13	**Funding** - Employers leaving scheme/closing to new members due to cost	Residual liabilities could fall to other scheme employers	Monitor scheme employers - undertake new proposals in risk report	Partial	3	4	**12**	**To be introduced in line with 2014 Actuarial Valuation with effect from Aprill 2015**
14	**Funding** - Failure to recover unfunded payments from employers, cross subsidy by other employers	Residual liabilities could fall to other scheme employers	Accounting officers will escalate failed employer payments to Employer Reationship Team	Y	4	3	**12**	**Record keeeping documentation to be updated in 2015 to reflect escalation process**
15	**Funding** - Employee contributions incorrectly deducted	Increase in employer contributions to meet underfunded position	Annual check of all active member records	Y	2	3	**6**	No change
16	**Funding** - Delay in funding investment managers	Loss of investment return and impact on employer contribution rates	Control of payment timetake of payments made to investment management as detailed in cash manual. Reported quarterly to Pensions Committee	Y	4	2	**8**	No change
17	**Financial** - Failure in world stock markets	Increase in employer contribution rates	Diversification of scheme assets, investment strategy review following outcome of triennial valuation	Y	4	3	**12**	No change

Pension Fund Risk Register
Risk Assessment June 2015

APPENDIX II

No.	**Risk Description** *Threat to achievement of business objective*	**Scope/potential consequences of risk**	**Risk Control Measures**	**Are Controls Operating Effectively?**	**Assessment of Residual Risk (likelihood x impact)** Likelihood	Impact	Risk Score	Status
18	**Financial** - Under performance by active managers	Increase in employer contribution rates	Quarterly assessment of investment performance of fund, triennial actuarial valuation and quarterly funding udpates reported to Pensions Committee. Matching of assets V liability performance to be reviewed in 2015	Y	3	3	**9**	**To be reviewed in 201**
19	**Financial** - Early retirement strategies by scheme employers	Pressure on cash flow	On-going discussions with scheme employers of Funding issues. Documentation in place	Partial	3	3	**9**	**Review and implementation of employer strategy 2015**
20	**Financial** - Negilgence, fraud, default by investment managers	Loss of value of the Fund, reputational damage	Fund management monitoring, SAS 70 reports and appropriate clauses in all scheme documentation	Y	2	3	**6**	No change
21	**Financial** - Failure of Global Custodian	Loss of investments or control of investments	Regular meetings with global custodian, receipt of SAS 70 reports and monitoring through Global Custodian magazines. To be included in annual report to Pensions Committee on service providers	Partial	2	5	**10**	**Implemented 2015 line with Pension Scheme staff restructuring**
22	**Financial** - Non-compliance with regulations	Audit criticism, legal challenge, reputational risk	Six monthly review of compliance with regulations and report to Pensions Committee	N	3	4	**12**	**To be implemented 2015 following April 2015 guidance from Pensions Regulator**
23	**Financial** - VAT Breach	Loss of Council partial exemption	Annual discussion with ACC on exemption	Y	1	3	**3**	No change
24	**Financial** - Failure to monitor investment managers and assets	Audit criticism, legal challenge, reputational risk	Quarterly assessment of investment performance of fund, triennial actuarial valuation and quarterly funding updates reported to Pensions Committee. New meeting reporting requirements to be drawn up for officer manager meetings	Partial	3	3	**9**	**Implemented 2015 post outcome of 2015 investment review**

Pension Fund Risk Register
Risk Assessment June 2015

APPENDIX II

No.	Risk Description *Threat to achievement of business objective*	Scope/potential consequences of risk	Risk Control Measures	Are Controls Operating Effectively?	Assessment of Residual Risk (likelihood x impact)			Status
					Likelihood	Impact	Risk Score	
25	**Financial** - Failure of internal control of fund suppliers	Audit criticism, legal challenge, reputational risk	Sign off by a senior officers for all purchases of goods, monitoring of supplier costs. Introduction of reporting to Pensions Committee	Partial	3	3	**9**	**implemented 2015 six monthly report with break down of significant supplier costs**
26	**Regulatory and Compliance** - Failure to comply with LGPS regulations	Audit criticism, legal challenge, reputational risk	Six monthly review of compliance with regulations and report to Pensions Committee	Partial	3	3	**9**	**implemented 2015 following implimentation of the new scheme 2015**
27	**Regulatory and Compliance** - Failure to comply with Pensions Act disclosure requirements	Audit criticism, legal challenge, reputational risk	Six monthly reivew of compliance with regulations and report to Pensions Committee	Partial	3	3	**9**	**implemented 2015 following implimentation of the new scheme 2015**
28	**Regulatory and Compliance** - Failure to comply with HMRC and other overriding regulations	Audit criticism, legal challenge, reputational risk	Six monthly reivew of compliance with regulations and report to Pensions Committee	Partial	3	3	**9**	**implemented 2015 following implimentation of the new scheme 2015**
29	**Governance** - Potential risks and conflicts of interest between ACC and NESPF	Audit criticism, legal challenge, reputational risk	Regular discussion between Head of Finance and Pensions Managers, areas of risk and conflict reported to Pensions Committee	Y	3	3	**9**	No change
30	**Governance** - Breach of Data Protection - theft or loss of data	Audit criticism, legal challenge, reputational risk	Internal control and procedures for management of data. To be reviewed and reported to Pensions Committee on annual basis.	Partial	2	4	**8**	Implemented 2014
31	**Governance** - Failure to comply with FOI requests	Audit criticism, legal challenge, reputational risk	Pensions Manager responsible for all FOI requests and meeting deadline for information requests	Y	2	2	**4**	No change

APPENDIX II

No.	Risk Description *Threat to achievement of business objective*	Scope/potential consequences of risk	Risk Control Measures	Are Controls Operating Effectively?	Assessment of Residual Risk (likelihood x impact)			Status
					Likelihood	Impact	Risk Score	
32	**Governance** - Failure to meet annual audit deadlines	Audit criticism, legal challenge, reputational risk	Pensions Manager responsible for all internal and external audit reqiurements	Y	2	3	**6**	No change
33	**Governance** - Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputational risk	Annual review of AVC arrangements carreid out by scheme actuary.	Y	2	4	**8**	**Review to be carried out in 2015 by scheme actuary**
34	**Governance** - Failure to monitor and assess advisors	Poor investment decisions leading to reduced investment returns	New reporting and assessment tools to be used to monitor and assess advisors	N	3	4	**12**	**Review and implementation of employer strategy 2015**
35	**Governance** - Failure to monitor employer covenants	Residual liabilities could fall to other scheme employers	On-going discusions with scheme employers of Funding issues	Partial	3	3	**9**	**Review and implementation of employer strategy 2015**
	Key Priorities 2014 - 2015							
36	**Regulatory and Compliance -** PSPA 2013	Audit criticism, legal challenge, reputational risk	Implement governance arrangements required by the PSPA act 2013 including establishing a Pensions Board and ensuring Pensions Regulator compliance	Y	1	4	**4**	Implemented 2014
37	**Regulatory and Compliance -** Insufficient preparation for new LGPS	Failure to ensure that future member benefits are calculated correctly	Project team, board and project reporting to be created	Y	3	2	**6**	Implemented 2014
38	**Regulatory and Compliance -** Completion of the 2014 Actuarial Valuation and Asset Liability Study and associated investment review	Increased cost to scheme employers where data flow is incorrect	Annual programme of work for member record review	Y	3	4	**12**	No change

Pension Fund Risk Register
Risk Assessment June 2015

APPENDIX II

No.	Risk Description *Threat to achievement of business objective*	Scope/potential consequences of risk	Risk Control Measures	Are Controls Operating Effectively?	Assessment of Residual Risk (likelihood x impact)			Status
					Likelihood	Impact	Risk Score	
39	**Goverance -** Improved communication	Audit criticism, legal challenge, reputational risk	Review of all scheme communicaiton	Partial	2	6	**12**	Review ongoing
40	**Governance -** SLA with Aberdeen City Council	Lack of control of management of service and costs to the Pension Fund	Staffing working with ACC departments/services to implement	Y	2	6	**12**	**Work on going**

ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	15 JUNE 2015
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	ADMINSTERING AUTHORITY DISCRETIONS
REPORT NUMBER:	PC/JUN15/DISC

1. PURPOSE OF REPORT

Under the Local Government Pension Scheme (Scotland) Regulations 2014, Aberdeen City Council, as the Administering Authority of the North East Scotland Pension Fund, has the right to exercise a number of discretion in respect of the scheme regulations. In exercising those discretions the Council has considered the prudent management of the Pension Fund in the interest of both scheme employers and scheme members.

The Council is required to publish its policy with regard to certain discretions before 1 July 2015 and these are detailed in section 5.2 of the report.

2. RECOMMENDATION(S)

It is recommended that the Pensions Panel:

i.) Approve the discretions detailed in 5.2 below and all other discretions detailed at Appendix 1
ii.) Instruct the Head of Finance to publish via the Pension Fund website the discretions detailed in section 5.2 of the report

3. FINANCIAL IMPLICATIONS

The administering authority discretions have been exercised in order to minimise the financial risk to the Pension Fund.

4. OTHER IMPLICATIONS

The administering authority discretions have been exercised in order to minimise the reputational risk to the Pension Fund.

5. REPORT

5.1 **<u>Background</u>**

5.1.1 As part of the implementation of the new Local Government Pension Scheme (Scotland) Regulations 2014 effective from 1 April 2015, each administering authority and each scheme scheduled employer must agree and where applicable publish a policy regarding its discretions within the regulations prior to 1 July 2015.

5.2 **<u>Discretions</u>**

5.2.1 In deciding its policy regarding the discretions, the Administering Authority has considered the interests of:

- The Pension Fund
- Scheme Employers
- Scheme Members

5.2.2 Appendix I details, the policy in respect of all administering authority discretions. Detailed below are those discretions, for which the administering authority is required to publish its policy.

5.2.3 <u>Regulation R53 (Governance Compliance Statement)</u>

Discretion – *Determine the content of the Governance Compliance Statement.*

(a)whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
(b)if the authority does so—
(i)the terms, structure and operational procedures of the delegation,
(ii)the frequency of any committee or sub-committee meetings,
(iii)whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
(c)the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Scottish Ministers and, to the extent that it does not so comply, the reasons for not complying; and
(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 51(4) (Scheme managers).

An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

An administering authority must publish its statement under this regulation, and any revised statement.

Policy – The Fund has prepared and published a Governance Compliance Statement which is reviewed on an annual basis by the Pensions Committee.

5.2.4 Regulation R 56 (Funding Strategy Statement)

Discretion – *Determine the content of the Funding Strategy Statement which must be published no later than 31st March 2016.*

The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

In preparing, maintaining and reviewing the statement, the administering authority must have regard to—

- *the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension scheme 2012 and*
- *the statement of investment principles published by the administering authority under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.*

Policy – The Fund has prepared and published a Funding Strategy Statement (FSS) having consulted with such persons as it considers appropriate. In preparing the statement the Fund has taken regard of :

- the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012; and
- the statement of investment principles published by the administering authority under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010

The FSS is reviewed triennially in line with the Fund valuation and revised having consulted with such persons as the Fund considered being appropriate.

5.2.5 Regulation R59 (Statement of policy concerning communication with members and scheme employers

Discretion *–Determine the content of the Communication statement concerning communication with:*

- *members;*
- *representatives of members;*
- *prospective members; and*
- *Scheme employers.*

In particular the statement must set out its policy on—

- *the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;*
- *the format, frequency and method of distributing such information or publicity; and*
- *the promotion of the Scheme to prospective members and their employers.*

The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

Policy - The Fund has prepared, maintained and published a written policy concerning communication with members and scheme employers. It is reviewed on an annual basis by the Pensions Committee.

5.2.6 Regulation R29(8) (Waive actuarial reduction in relation to an employer that has ceased to exist)

Discretion - *(i) Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement*

Policy - The Fund has determined not to waiver in whole or in part, actuarial reduction on benefits paid on flexible retirement

Discretion - *(ii) Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age, other than on the grounds of flexible retirement (where member only has post 31/03/15 membership)*

Policy – The Fund will determine each case on its merits as to whether or not to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age, other than on the grounds of flexible retirement (where member only has post 31/03/15 membership)

5.2.7 <u>Regulation TP Sch 2 para 2(1) (Flexible Retirement in relation to an employer that has ceased to exist)</u>

Discretion - *(i) Whether to apply the 85 year rule for a member voluntarily drawing benefits, with consent, on or after age 55 and before age 60 (other than on the grounds of flexible retirement)*

Policy – The Fund has determined not to apply the 85 year rule for a member voluntarily drawing benefits, with consent, on or after age 55 and before age 60 (other than on the grounds of flexible retirement)

Discretion - *(ii) Whether to waive, in whole or in part, any actuarial reduction on pre and post April 2015 benefits which a member voluntarily draws before normal pension age, other than on the grounds of flexible retirement (where the member has both pre and post membership and in subject to the 85 year rule)*

Policy – The Fund has determined not to waive, in whole or in part, any actuarial reduction on pre and post April 2015 benefits which a member voluntarily draws before normal pension age, other than on the grounds of flexible retirement (where the member has both pre and post membership and in subject to the 85 year rule)

Discretion - *(iii) Whether to waive on compassionate grounds any actuarial reduction on pre April 2015 benefits and to waive, in whole or in part, any actuarial reduction post April 2015 benefits which a member voluntarily draws before normal pension age, other than on the grounds of flexible retirement (where the member has both pre and post membership and is not subject to the 85 year rule)*

Policy – the Fund has determined to treat each case on its merits regarding the decision to waive on compassionate grounds any actuarial reduction on pre April 2015 benefits and to waive, in whole or in part, any actuarial reduction post April 2015 benefits which a member voluntarily draws before normal pension age, other than on the grounds of flexible retirement (where the member has both pre and post membership and is not subject to the 85 year rule)

5.2.8 <u>Regulations A64(1), A65(4) T12 (Abatement of pensions under the 2008 LGPS (Scotland) Benefit Admisntration Regulations and the 2008 LGPS (Scotland) Transitional Regulations, in respect of scheme members who ceased active membership on or after 01/04/09 and before 01/04/2015)</u>

Discretion - *Decide policy on abatement of pensions following re-employment*

Policy - The Fund has determined that it will not abate pensions of pensioner members on re-employment. Pension benefits resulting from the award of additional service to a member by an employer under the Local Government (Discretionary Payments and Injury Benefits)(Scotland) Regulations where that member has been retired on efficiency or redundancy grounds are still subject to abatement on re-employment as abatement under these provisions is not discretionary.

5.2.9 RegulationB30(2) (Early payment of deferred benefits under the 2008 LGPS (Scotland) Benefit Admisntration Regulations and the 2008 LGPS (Scotland) Transitional Regulations, in respect of scheme members who ceased active membership on or after 01/04/09 and before 01/04/2015 but whose employer has ceased to exist)

Discretion - *Whether to grant application for early payment of deferred benefits on or after age 50/55 and before age 60*

Policy – The Fund has determined not to grant application for early payment of deferred benefits on or after age 50/55 and before age 60

5.2.10 Regulation B30(5) (Waiver of actuarial reduction benefits under the 2008 LGPS (Scotland) Benefit Admisntration Regulations and the 2008 LGPS (Scotland) Transitional Regulations, in respect of scheme members who ceased active membership on or after 01/04/09 and before 01/04/2015 but whose employer has ceased to exist)

Discretion - *Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early.*

Policy – The Fund has determined to consider each case on its merits in order to decision whether or not to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early.

5.2.11 Regulation 109 & 110(4)(b) Policy on Abatement under the 1998 LGPS (Scotland) Regulations in relation to pre 01/04/09 scheme leavers)

Discretion - *Decide policy on abatement of pensions following re-employment (pre 01/04/09 leavers)*

Policy - The Fund has determined that it will not abate pensions of pensioner members on re-employment

6. REPORT AUTHOR DETAILS

Joanne Hope, Pensions Analyst
jhope@nespf.org.uk

7. BACKGROUND PAPERS

The Local Government Pension Scheme (Scotland) Regulations 1998
The Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008
The Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008
The Local Government Pension Scheme (Scotland) Regulations 2014
The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014

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Policy on Administering Authority's Discretions

North East Scotland Pension Fund June 2015

The following table details the policy of North East Scotland Pension Fund in the exercise of its discretions under the Local Government Pension Scheme. Those discretions highlighted in ***bold*** must be published in a written policy by the administrating authority and as such an extract of this policy will be posted on the Pension Fund website and distributed to scheme employers.

In the table below, regulations prefixed by "R" refer to The Local Government Pension Scheme (Scotland) Regulations 2014 and prefixed by "TP) refer to The Local Government Pension Scheme (Transitional Provisions and Protections) (Scotland) Regulations 2014. The table identifies those additional discretions from 01/04/2015 in relation to post 31/3/2015 active members and post 31/5/2015 leavers.

Regulation	Discretion	Policy
R4(5)(b)	Whether to agree to an admission agreement with a NHS Scheme employing authority	**The Fund will generally allow admitted body status to bodies with the former Grampian Area, provided that such a body meets certain scheme criteria and provides evidence of legal status, good financial covenant, a financial guarantor where required and other related material factors**
R3(5) & RSch2, Part 2, para 1	Whether to agree to an admission agreement with a body applying to be an admission body	**The Fund will generally allow admitted body status to bodies with the former Grampian Area, provided that such a body meets certain scheme criteria and provides evidence of legal status, good financial covenant, a financial guarantor where required and other related material factors**
RSch2, Part 2, para 9(d)	Whether to terminate a transferee admission agreement in the event of - Insolvency, winding up or liquidation of body - Breach by that body of its obligations under the admission agreement - Failure by that body to pay over sums	**The Fund will consider each chase on its merits**

	due to the fund within a reasonable period of being requested to do so	
RSch2, Part 2, para 12(a)	Define what is meant by ‘employed in connection with’	**The Fund determines that only employees of the body who are employed directly with the provision of the service to a scheme employer may be members of the Scheme;**
R16(1)	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (eg where the sum being paid is very small and could be paid as a single payment)	**The Fund has determined that each case will be determined on its merits**
R16(10)	(i) whether to require a satisfactory medical before agreeing to an application to pay an APC/SCAPC (ii) Whether to turn down an application to pay an APC/SCAPC if not satisfied that the member is in reasonably good health	**The Fund has determined that it will consider whether or not a medical is required before agreeing to an application to pay an APC/SCAPC on a case by case basis,**
R17(12)	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	**The decision as to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member has been delegated from the Head of Finance to the Pensions Manager**
R22(3)(c)	Pension account may be kept in such form as is considered appropriate	**The decision as to how Pension account may be kept in such form as is considered appropriate, has been delegated from the Head of Finance to the Pensions Manager**
TP10(9)	Decide, in the absence of an election within 12 months of ceasing a concurrent employment, which ongoing employment benefits those of the concurrent employment should be aggregated to (where there is more than 1 ongoing employment)	**The Fund has determined that concurrent posts will be aggregated to best previous employment**

R66(2)	Whether to require any strain on fund costs to be paid 'up front' by the employing authority following payment of benefits under R29(6) (flexible retirement), 29(7) (redundancy/business efficiency), or waiver (in whole or in part) under R29(8) of any actuarial reduction that would otherwise have been applied to benefits which a member draws voluntarily before normal pension age or to benefits under flexible retirement.	**The Fund has determined that strain on the Fund costs are required to be paid up front**
TPSch2, para 2(3)	- Whether to require any strain on fund costs to be paid 'up front' by the employing authority if the employing authority applies the 85 year rule for a member voluntarily retiring before normal pension age (other than flexible retirement) prior to age 60 or waives an actuarial reduction under TPSch2, Para 2(1) or releases benefits before age 60 under Benefit reg 30 of the 2009 regulations.	**The Fund has determined that strain on the Fund costs are to be paid up front in the event of rule of 85 retirements.**
R31(7)	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	**The Fund will extend the time limit within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.**
R33(1)	Decide whether to commute small pension	**The Fund will commute small pensions on application from the scheme members**
R35(3)	Approve medical advisors used by employers (for ill-health benefits)	**The Fund will require employers to seek Fund approval for medical advisors used for ill-health benefits. The Fund will maintain a list of those medical advisors it has approved**
R36(3)	Decide whether a deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is	**The Head of Finance has delegated to the Pensions Managers the decision as to whether or not a deferred beneficiary meets criteria of being permanently incapable of former job because of ill health**

	unlikely to be capable of undertaking gainful employment before age 65	**and is unlikely to be capable of undertaking gainful employment before age 65**
TP17(5) to (8), R38(2), R41(2) & R44(2)	Decide to whom death grant is paid.	**The Head of Finance has delegated the decision to whom death grant is paid to the Pensions Manager**
R47(1)	Decide, in the absence of an election from the member, which benefit is to be paid when the member would be entitled to a benefit under 2 or more regulations in respect of the same period of scheme membership	**The of Head of Finance has delegated the decision, in the absence of an election from the member, which benefit is to be paid when the member would be entitled to a benefit under 2 or more regulations in respect of the same period of scheme membership to the Pensions Manager**
R52(1)	Whether to set up a separate admission agreement fund	**The Pensions Committee on advice from the Head of Finance will determine whether or not to set up a separate admission agreement fund**
R57(1) & (2)	Whether to have a written pensions administration strategy and , if so, the matters it should include	**The Fund has determined to have a written pension's administration strategy (PAS).**
R62(4)	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a scheme employer will become an existing employer	**The Fund has determined to obtain revision of employer's contribution rate if there are circumstances which make it likely a scheme employer will become an exiting employer**
R63	Decide whether to obtain a new rates and adjustments certificate if the Scottish Ministers amend the Regulations as part of the 'cost sharing' under R61 (Aggregate Scheme Costs)	**The Fund has determined to obtain a new rates and adjustments certificate if the Scottish Ministers amend the Regulations as part of the 'cost sharing' under R61 (Aggregate Scheme Costs)**
R67(1)	Decide frequency of payments to be made over to the fund by employers and whether to make an admin charge	**The Fund has determined the frequency of payments to be made over to the fund by employers and whether to make an admin charge as detailed in the Funding Strategy Statement (FSS) schedule of employer rates**

R67(4)	Decide form and frequency of information to accompany payments to the fund	**The Fund has determined the form and frequency of information to accompany payments to the fund as detailed in the PAS**
R68 & TP22(2)	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance.	**The Fund has determined to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance as detailed in the PAS**
R69(1)	Whether to charge interest on payments by employers which are overdue	**The Fund has determined to charge interest on payments by employers which are overdue as detailed in the PAS**
R77(2)	Whether admin authority should appeal against employer decision (or lack of decision) under R70 (first instance decisions)	**The Fund has determined to appeal to Scottish Ministers where an employer fails to reach a decision as required under the regulations.** **Where the Fund disagrees with a decision made by an employer, on grounds that it either conflicts with the regulations, or is against the best interests of the member or the fund, attempts will be made to reach an acceptable compromise. Failure to reach a compromise will result in the matter being referred to the Scottish Ministers**
R78(1)(b) & TP22(1)	Specify information to be supplied by employers to enable admin authority to discharge its functions	**The Fund has/will determined the specify information to be supplied by employers to enable admin authority to discharge its functions**
R80(2)	Whether to pay a death grant due to personal representatives or anyone appearing to be beneficially entitle to the estate without need for grant of probate/letters of administration where payment is less that amount specified in S6 of the Administration of Estates (Small Payments) Act 1965	**The Fund will use it's discretion in accordance with the regulations and will in the first instance consider the member's expression of wish form where a valid nomination exists.** **In the absence of a nomination form a will may be considered as a nomination form provided it does not conflict with the provisions of the administration regulations. The ultimate decision in the exercise of this discretion rests with the City Council Head of Finance. Day to day administration is delegated to Pensions Manager.**

R81	Whether, where a person is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to a person having the care of the person entitled, or other such person as the authority may determine, to be applied for the benefit of the person entitled.	**The Fund has determined that it will require a trustee arrangement to be put in place in the event that a person is incapable of managing their affairs. The Fund retains the right to vary this decision in respect of special circumstance.**
R87(5)	Date to which benefits shown on annual benefit statements are calculated	**The Fund has determined the date to which benefits shown on annual benefit statements are calculated**
R96(1)(b)	Agree to bulk transfer	**The Fund has determined to agree to bulk transfers**
R98(6)	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining LGPS	**The Fund has determined not to extend normal time limit for acceptance of a transfer value beyond 12 months from joining LGPS**
R98(7)	Allow transfer of pension rights into the fund	**The Fund has determined to only allow 'CLUB TRANSFERS' into the Fund**
TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) & A43(10)	Make election on behalf of deceased member with a certificate of protection of pension benefits i.e determine best pay figure to be used in the benefit calculations (pay cuts/restrictions occurring pre 01/04/15)	**The Fund has determined to make election on behalf of deceased member with a certificate of protection of pension benefits i.e determine best pay figure to be used in the benefit calculations (pay cuts/restrictions occurring pre 01/04/15)**
RSch 1 & TP17(9)(a)	Decide to treat child as being in continuous full time education or vocational training despite a break	**The Fund has determined to treat child as being in continuous full time education or vocational training despite a break**
RSch 1 & TP17(9)(b)	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member	**The Fund has determined the evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member The Fund will publish a list of evidence required to determine financial dependence. The list will be reviewed on an**

		annual basis
TP3(11)	Decide policy on abatement of pre 01/04/15 elements of pensions in payment following re-employment	**The Fund has determined that it will not abate pensions of pensioner members on re-employment. Pension benefits resulting from the award of additional service to a member by an employer under the Local Government (Discretionary Payments and Injury Benefits)(Scotland) Regulations where that member has been retired on efficiency or redundancy grounds are still subject to abatement on re-employment as abatement under these provisions is not discretionary.**
TP15(1)(c)	Extend time period for capitalisation of added years contract	**The Fund has determined not to extend the time period for capitalisation of added years contracts**

In the table below, regulations prefixed by “A” refer to The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008, prefixed by “B” refer to the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) regulations 2008 and prefixed by “T” refer to the Local Government (Transitional Provisions) (Scotland) Regulations 2008. In relation to scheme members who ceased active membership on or after 01/04/2009 and before 01/14/2015

Regulation	**Discretion**	**Policy**
A25(2)	Whether to charge the member for provision of an estimate of additional pension that would be provided by the scheme in return for a transfer in of in house AVC / SCAVC funds.	**The Fund will not charge members for estimates of additional pension that would be provided by transferring in AVC funds to the LGPS**
T Schedule 1	Extend time period for capitalisation of added years contracts	**The Fund will not extend the time period for capitalisation of added years contracts**
A40(3)	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	**Outstanding employee and employer contributions due to the fund will be invoiced to the employer as an outstanding debt to the fund.**

A43(10)	Make an election on behalf of a deceased member with a certificate of protection(i.e. determine best pay figure to use in benefit calculations)	**The Fund will make an election on behalf of a deceased member with a certificate of protection to determine the best pay figure to use in benefit calculations.**
A46(7) & (8)	Allow extension of period within which a scheme member must submit election for benefits or alter the date from which he / she elects to have the pension paid.	**Members may make an election for payment of benefits from a specific date up to twelve months prior to their intended date of retirement in accordance with Regulation 7**
A48(2)	Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate/letters of administration	**The Fund will use it's discretion in accordance with the regulations and will in the first instance consider the member's expression of wish form where a valid nomination exists. In the absence of a nomination form a will may be considered as a nomination form provided it does not conflict with the provisions of Regulation 48 of the administration regulations. The ultimate decision in the exercise of this discretion rests with the City Head of Finance. Day to day administration is delegated to Pensions Manager.**
A52(2)	Approve medical advisors used by employers to certify ill health retirement	**The Fund shall approve medical advisors and maintain a list of those medical advisors it has approved for use by employers to certify ill health retirement.**
A59(2)	Whether admin authority should appeal against employer decision or lack of decision.	**The Fund will appeal to the Scottish Ministers where an employer fails to reach a decision as required under the regulations. Where the NESPF disagrees with a decision made by an employer, on grounds that it either conflicts with the regulations, or is against the best interests of the member or the fund, attempts will be made to reach an acceptable compromise. Failure to reach a compromise will result in the matter being referred to the Scottish Ministers.**

A60(1)(b)	Specify information to be supplied by employers to enable the admin authority to discharge its functions.	**Details of information required on an ongoing basis from Employers is contained in the PAS. The PAS is reviewed on an annual basis or following change statutory regulation.** **Information in respect of year end or actuarial provision is supplied to employers on an annual and triennial basis.** **Ad hoc requests to employers may be made by the administering authority will a full explanation of the request if required to enable the administering authority to discharge its function**
B31	Decide whether deferred beneficiary meets permanent ill health criteria	**The Head of Finance has delegated to the Pensions Managers the decision as to whether or not a deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before age 65**
B23(2) & B32(2) & B35(2)& A95(4)	Decide to whom a death grant is paid	**The decision on the exercise of this discretion rests with the Head of Finance. Day to day administration of the discretion will be delegated Pensions Manager subject to agreed guidelines**
B25	Decide evidence required to determine financial dependence of nominated co-habitee on scheme member or financial interdependence of nominated co-habitee and scheme member	***The Fund has determined the evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member The Fund will publish a list of evidence required to determine financial dependence. The list will be reviewed on an annual basis***

B39 & A98	Decide whether to commute small pensions	***The Fund will commute small pensions on application from the scheme members***
B40 & A99	Decide whether to commute pension on grounds of serious ill health	**Each case will be considered individually in consultation with the scheme employer and must be supported by a certificate from a fully registered person within the meaning of the Medical act 1983 to the effect that the member's life expectancy is less than one year.**
B43(1)(c)	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under two or more regulations in respect of the same period of scheme membership.	**In the absence of an election from the member in these circumstances a decision will be made to award the benefit that maximises the member's financial return from the scheme.**
A86(5)	Decide valuation day for pension sharing order	**The valuation day for pension sharing orders shall be date of separation**
A89(1) & (2)	Decide how to discharge Pension Credit liability	**The Fund will discharge pension credit liabilities by either conferring appropriate rights under the scheme on the ex-spouse or ex-civil partner. Alternatively , the ex-spouse or ex-civil partner may request a transfer of those rights to a suitable qualifying arrangement (occupational pension scheme, personal pension scheme, appropriate annuity contract or suitable overseas arrangement)**
A101	Decide charges to be levied in Pension Sharing cases.	**Charges to be levied in Pension Sharing cases will be set according to guidance issued by the national Association of Pension Funds and will be uprated in line with Pensions Increases awarded each April.**

The following table details the policy of Aberdeen the City Council Pension Fund in the exercise of it's discretions under the Local Government Scotland Regulations 1998 (as amended) in relation to pre 1.4.09 scheme leavers.

Regulation	Discretion	Policy
37(1) & 150(4)	Decide to whom death grant is paid in respect of post 31/03/98 / pre 01/04/09 leavers	**The Fund will use it's discretion in accordance with the regulations and will in the first instance consider the member's expression of wish form where a valid nomination exists. In the absence of a nomination form a will may be considered as a nomination form provided it does not conflict with the provisions of the administration regulations. The ultimate decision in the exercise of this discretion rests with the City Head of Finance. Day to day administration is delegated to Pensions Manager.**
46(1)	Apportionment of children's pension amongst eligible children (children of post 31/03/98 / pre 01/04/09 leavers)	**Divide pension equally amongst the children**
48 & 153	Agree to commutation of small pensions (pre 01/04/09 leavers or pre 01/04/09 pension credit members)	**The Fund will commute small pensions on application from the scheme members**
49 & 154	Commute benefits due to exceptional ill-health (pre 01/04/09 leavers or pre 01/04/09 pension credit members)	**The Fund will commute benefits only where employees are aware of short life expectancy and in the best interests of member and or dependant.**
79(5)	Whether to require any strain on fund costs to be paid 'up front' by employing authority following early payment of a deferred benefit on health grounds or from age 50 with employer consent (pre 01/04/09 leavers)	**The Fund requires that 'strain on the fund' costs are either paid 'up front' or spread over a five year period.**

79(7)(b)	Agree dates on which instalments under Reg 79(5) are due	**Payments should be made on a monthly basis**
88(3)	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (pre 1/04/09 leavers)	**Outstanding employee and employer contributions due to the fund will be invoiced to the employer as an outstanding debt to the fund.**
90(4)	Timing of pension increase payments by employers to fund (pre 1/04/09 leavers)	**The Fund will charge the employer on a monthly basis**
94	Pay death grant due to personal representatives without need for grant of probate/letters of administration (death of pre 01/04/09 leaver)	**Small payment allows payments of less than £5000 to be paid without confirmation of estate.**
96(10)	Approve medical advisors used by employers (re ill health benefits for pre 01/04/09 preserved benefits payable on health grounds)	**The Fund shall approve medical advisors and maintain a list of those medical advisors it has approved for use by employers to certify ill health retirement.**
98	Decide procedure to follow by admin authority when exercising its IDRP functions and decide the manner in which those functions are to be exercised (pre 01/04/09 leavers)	**First reference is to the Pensions Manager, followed by the Appointed Person who must respond within two months. Then the Scottish ministers who again must respond within two months. The final recourse is the Pensions Ombudsman who will have expected the member to first approach the Occupational Advisory Service.**
104(1)	Appeal against employer decision, or lack of a decision (pre 01/04/09 leavers)	**The Fund will appeal to the Scottish Ministers where an employer fails to reach a decision as required under the regulations.** **Where the Fund disagrees with a decision made by an employer, on grounds that it either conflicts with the regulations, or is against the best interests of the member or**

		the fund, attempts will be made to reach an acceptable compromise. Failure to reach a compromise will result in the matter being referred
105A(5)	Date to which benefits shown on annual deferred benefit statement are calculated	**Benefit statements will show benefits calculated as at 31st March.**
115(4)	Recovery of half payment in lieu from refund of contribution (Under Part 111of NI act 1965)	**The Fund has determined not to pay half payment in lieu from refund of contribution (Under Part 111of NI act 1965)**
118	Retention of CEP where member transfers out (pre 01/04/09 leavers)	**The Fund will retain CEP in the event member transfers benefits to a contracted in scheme**
144	Discharge pension credit liability (pre 01/04/09 pension sharing orders)	**The Fund will discharge pension credit liabilities by either conferring appropriate rights under the scheme on the ex-spouse or ex-civil partner. Alternatively , the ex-spouse or ex-civil partner may request a transfer of those rights to a suitable qualifying arrangement (occupational pension scheme, personal pension scheme, appropriate annuity contract or suitable overseas arrangement)**

The following table details the policy of Aberdeen the City Council Pension Fund in the exercise of it's discretions under the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 1998 (as amended)

Regulation	Discretion	Policy
17(3)	Extending time limit for repayment of a previous refund (16.5.74 to 5.4.78)	**The Fund set a normal limit of six months. Information is issued to all new starts in a booklet along with statutory notification. Period will only be extended when booklet is not issued with 6 month time scale**

Note: the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 1998 have been revoked by regulation 2 and Schedule 1 of the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008 [SSI 2008/229] but notwithstanding their revocation, they continue to apply to:

a.) pre 1 April 2009 deferred or pensioner members
b.) any person who may become entitled to a benefit in respect of such a person, and
c.) any other person whose entitlement to the payment of any pension or other benefit has arisen before 1 April 2009

It is not clear whether the right to repay a refund would fall within (c) above. The Secretariat is seeking clarification from SPPA.

The following table details the policy of Aberdeen the City Council Pension Fund in the exercise of it's discretions under the Local Government Superannuation (Scotland) Regulations 1987 (as amended) in relation to pr 1.4.98 scheme leavers

Regulation	Discretion	Policy
E11ZA	Decide to whom death grant is paid in respect of pre 1.4.98. leavers	**The Fund will use it's discretion in accordance with the regulations and will in the first instance consider the member's expression of wish form where a valid nomination exists. In the absence of a nomination form a will may be considered as a nomination form provided it does not conflict with the provisions of the administration regulations. The ultimate decision in the exercise of this discretion rests with the City Head of Finance. Day to day administration is delegated to Pensions Manager.**
Definition of child in Schedule 1	Treat child as being in continuous education or training despite a break (children of pre 1.4.98. leavers)	**To disregard break in continuous education and training only when a child is returning to complete a course, not where change of course is undertaken**
E9(7)	Apportionment of children's pension amongst eligible children (children of pre 1.4.98. leavers)	**Divide pension equally amongst the children**
E9(7)	Pay child's pension to another person for the benefit of the child (children of pre 1.4.98. leavers)	**Payment will be made direct t the child, unless in receipt of legal documentation**

The following table details the policy of Aberdeen the City Council Pension Fund in the exercise of it's discretions under the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 (as amended)

Regulation	Discretion	Policy
31(2)	Agree to pay annual compensation on behalf of employer an recharge payments to employer	The Fund will pay compensation on behalf of an employer and recharge payments to the employer/ Payments must be made within 30 days

ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	15 JUNE 2015
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	GOVERNANCE REPORT
REPORT NUMBER:	PC/JUN15/GOV

1. PURPOSE OF REPORT

To update members of the Pensions Panel, on the Fund's compliance with the Pension Fund's Governance Policies.

2. RECOMMENDATION(S)

- 5.2.5 Approve the Pensions Administration System tender, using the Northumberland County Council Framework.
- And to note the report.

3. FINANCIAL IMPLICATIONS

All costs will be met by the Pension Fund and identified in the annual and six monthly budget reviews made to the panel.

4. OTHER IMPLICATIONS

None

5. BACKGROUND/MAIN ISSUES

5.1 <u>Background</u>

5.1.1 Good Governance is a crucial element of effective public services. It leads to good management, good performance and good stewardship of public money.

5.1.2 The commitment of the Pension Fund to good governance promotes accountability and gives reassurance to the stakeholders in the Pension Fund.

5.1.3 At the September 2012 meeting of the Pensions Panel it was agreed that reporting to the Panel be broken down into three reports, covering Administration and Technical & Communications, Governance and Investment and Accounting

This Governance report provides a quarterly updates on:

- Governance
- Funding Update
- Risk Management
- Recommendations from the JIAC
- Training
- Conferences

5.2 Governance

5.2.1 Employers

As a result of the valuation process **HomeStart Aberdeen** (Employer 00067) have confirmed that their admission agreement is closed to new entrants

Middlefield Community Project (00042) and **Aberlour Childcare Trust** (00010) have confirmed that their admission agreements remain open following discussions with the Employer Relationship Team.

Sport Aberdeen (00091) have requested that an addendum be made to their admission agreement to open them to new entrants from 1 April 2015. The addendum has been prepared and awaits signature from both parties.

The admission agreement for the new body **Citymoves Dance Agency** is currently being prepared by our solicitor. Delays have been experienced due to the introduction of the new scheme requirements from 2015.

Aberdeen Greenspace (00076) currently have no active members within the scheme. A termination valuation has been put on hold until they have completed their recruitment process and determined if there will be any new scheme entrants.

Visit Scotland (00056) have admitted a new member to the scheme to avoid termination. Clarification is currently being sought from the scheme actuary, the SPPA and other authorities to determine how a Scheduled body is to be treated upon termination from the Fund.

Northern Community Justice Authority (00106) have advised that they will cease to exist with effect from 2017. Illustrative termination values have been provided to the Justice Authority allow them to prepare for termination and possibly pre-fund.

Robert Gordon University (00015) have successfully gone 'live' on our automated system I-connect. Testing is also underway for both **Aberdeenshire Council** (00101) and **Moray Council** (00102) with a view to having all four of largest employers providing monthly submissions of information by June 2015. The result of this will be to ease the administrative burden within the pensions department and provide access to more up-to-date and accurate information.

The Fund continue to receive a lot of queries regarding potential TUPE transfers which may or may not result in requests for admission body status.

Following the completion of the 2014 valuation the Fund will now instruct Mercer to carry out a bond review for all those Admitted Bodies for whom we hold a bond or indemnity. This will ensure that the bonds in place are still reflective of the potential liabilities and offer full protection for the Fund.

Individual funding levels have been provided for each employer within the fund following the 2014 valuation. This will allow the Employer Relationship Team to fully implement the Employer Covenant Assessment Policy over the next two years prior to the 2017 valuation. The policy allows us to monitor the risk to the Fund posed by employers that may be unable to meet the liabilities held for them within the Fund.

5.2.2 Funding Update

Approximate post valuation update, as at 31 March 2015.

	NESPF	ACCTF
Assets		
Liabilities		
Deficit		
Funding Level		

Actuarial Valuation, 31 March 2014

Please see separate report.

5.2.3 Annual Review of Scheme Documentation

The Fund undertakes an annual review of all major scheme policies and statements. Revisions as at 1 June 2015 have been made to the following policies.

- Governance Policy
- Governance Compliance Statement
- Risk Register
- Training Policy (Pension Committee)
- Communication Policy
- Investment Policy
- Corporate Governance Policy & Stewardship Code
- Employer Engagement Statement

A detail for the revisions to each policy is provided at appendix I. All of the above revised reports are available to view via the Pension Fund website at www.nespf.org.uk

5.2.4 Training

Further to the training that was delivered during February and April to both the Pensions Committee and Pensions Board, a further full day of training will be arranged during September 2015, agenda to be confirmed in due course.

A days training had been arranged by the Investment Governance Group that all eleven Scottish Pensions Fund attend, unfortunately due to the potential rail strike and short notice members from the Committee and Board were unable to attend. Presentations from the day are now available and will be made available on the secure area of the Funds website.

5.2.5 Tender

Further to the retention of the Pension Administration system provider (Heywoods Ltd) following an EJOU tender during 2011, the contract was for five years and is due to come to an end in 2016.

Heywoods not only provide the main Altair Administration system for the Fund they also provide Payroll, Employer Services, iConnect and My Pension. The annual cost of these systems £250,000.00

With the continued pressure on Local Government Pension Scheme to reduce cost and work collaboratively with others the Fund in line with recent tenders wish to make use of the current Framework that is available to tender for such services.

Northumberland County Council has created a framework that all UK LGPS Funds can call upon at no additional charge.

The Pension Fund seek approval to go out to tender for the services of a Pensions Administration System, utilising the Northumberland County Council Framework.

6. IMPACT ON THE FUND

Good governance of the Fund at scheme level and governance of the underlying companies in which we investment is key to the long term performance of the Fund. Future governance reports will also focus on risk management as a tool of good governance.

7. BACKGROUND PAPERS

Risk Register (Appendix I)

8. REPORT AUTHOR DETAILS

Laura Goodchild
Pensions Manager
lgoodchild@nespf.org.uk
01224 264158

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To be added to Governance Report

Annual Review of Scheme Documentation

The Fund undertakes an annual review of all major scheme policies and statements. Revisions as at 1 June 2015 have been made to the following policies.

- Governance Policy
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- Training Policy (Pension Committee)
- Communication Policy
- Investment Policy
- Corporate Governance Policy & Stewardship Code
- Employer Engagement Statement

A detail for the revisions to each policy is provided at appendix xxx. All of the above revised reports are available to view via the Pension Fund website at www.nespf.org.uk

APPENDIX XXX

Document Name		Revisions
1.	**Governance Policy**	• To reflect creation of new Governance Arrangements resulting from the new LGPS 2015 • To reflect committee decision to terminate the Joint Investment Advisory Committee • To reflect the revised contract terms and conditions for the appointment of (i) Actuarial and Benefit Consultants, (ii) Investment Consultants under the Norfolk LGPS Framework agreement
2.	**Governance Compliance Statement**	• To reflect creation of new Governance Arrangements resulting from the new LGPS 2015 and the Pension Committee decision to terminate the Joint Investment Advisory Committee
3.	**Risk Register**	• To reflect ongoing work and key priorities in the 2015 - 2017 Business Plan
4.	**Training Policy (Pension Committee)**	• Reflects the termination of the Joint Investment Advisory Committee and the training requirements of the Pension Board
5.	**Communication Policy**	• To reflect work already undertaken by the Pension Fund communication team in reviewing communication • To reflect the requirement of the New LGPS 2015
6.	**Investment Policy**	• To reflect change of name from Pension Panel to Pension Committee
7.	**Corporate Governance Policy & Stewardship Code**	• To reflect change of name from Pension Panel to Pension Committee • To reflect developments in engagement since the documentation was last reviewed
8.	**Employer Engagement Statement**	• To reflect continued work by the Employer Engagement Team • The change in employer engagement with a focused financial forum to be held annual for employer senior officers/directors and an administration forum focused on administration and payroll staff

All of the above revised reports are available to view via the Pension Fund website at www.nespf.org.uk

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ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	15 JUNE 2015
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT	NEW LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND) 2015
REPORT NUMBER:	PC/JUN15/LGPS

1. PURPOSE OF REPORT

A report was presented to the November 2013 meeting of the Pension Panel/Committee setting out the key features of the New Local Government Pension Scheme (Scotland) 2015 and outlining the work to be undertaken by the Pension Fund Section in creating a project plan to meet the implementation deadline date of 1 April 2015. This report provides a final update to the Pension Committee on the implementation of the new scheme from 1 April 2015.

2. RECOMMENDATION(S)

It is recommended that the Committee note this report.

3. FINANCIAL IMPLICATIONS

All costs related to the introduction of the new scheme were met either by the Pension Fund or, employers within the Fund, if they were required by legislation to do so.

An analysis of the internal costs associated with introduction of the New Scheme will be undertaken by the Pension Committee as part of the overall review of the implementation of the New Scheme.

4. OTHER IMPLICATIONS

None

5. NEW LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND) 2015

5.1 Background

The reform of the Local Government Pension Scheme (LGPS) in Scotland, as with all the main public sector pension schemes, followed Lord Hutton of Furness' report of March 2011 and the resulting Public Service Pensions Act 2013.

The Scottish Local Government Pensions Advisory Group (SLOGPAG) was appointed to deliver on the content and operation of a new Local Government Pension Scheme (LGPS) 2015 for Scotland.

The primary aim of SLOGPAG was to facilitate the delivery of a scheme that took a balanced consideration of the unique Scottish position, which continued to provide valued benefits for scheme members, and was affordable, sustainable and fair to employers, scheme members and tax payers.

Consequently, the high level objectives for the reform of the LGPS were set as follows:

- To ensure the sustainability of the scheme, the design of the new scheme should be such that existing members remain in the scheme and non-members are encouraged to join
- Set a level of contribution rates which ensure protection of the lowest paid within the workforce
- Provide quality benefits to scheme members.

The new LGPS (Scotland) was to take effect from 1 April 2015 replacing the existing scheme from that date.

From 1 April 2015 all existing scheme members and new entrants will become members of the new LGPS (Scotland).

The scheme design provides for a reformed scheme, which meets the legislative requirements of the Public Service Pensions Act 2013 (the Act), and delivered a scheme which is fair and valued by all scheme members – full time and part time workers; managers, administrators and manual workers; and long and short serving employees alike. The new scheme represents a fair deal for Local Government workers, employers and for the taxpayer, ensuring that the scheme remains both affordable and sustainable.

5.2 Heads of Agreement

5.2.1 The Heads of Agreement on the LGPS (Scotland) 2015 were signed and published on 12th December 2013, with the final regulations laid before the Scottish Parliament on 9th June 2014.

5.2.2 Headline Features of the new scheme include:

- Change to Career Average Revaluation - this change reflects a requirement within the PSP Act. This type of scheme is particularly beneficial for lower paid members, individuals for whom promotion opportunities are limited or those where their earnings may reduce towards the end of their career.

- Change in the accrual rate from 1/60th to 1/49th

- Retention of the 5 point tiered employee contribution rate, which is 'banded'. This provides for fairer contribution rates for scheme members at the lower end of the pay scale. As contributions benefit from tax relief, a tiered arrangement of contributions, where scheme members pay a proportion of earnings up to each limit and then higher contributions on earnings above each limit, also improves the perceived fairness of contributions at different salary levels.

- Lump sum death in service benefit remaining at three times pay

- Pensions for partners who cohabit and civil partners equal to those benefits afforded to married couples.

- Retention of the ill-health pension provisions through a two-tier benefit scheme, with a third tier provided by a discretionary employer lump sum payment to operate alongside the scheme.

- The 50:50 Option – this is a new scheme design feature which allows employees eligible for LGPS membership or scheme members to elect to pay 50% of normal contributions, and in return accrue only 50% of their pension during that time. Benefits such as death in service lump sum would still be retained. This feature is not designed to replace long term membership of the full scheme.

- The scheme has been designed to help ensure it is both fair and affordable into the future. The Act also requires that costs are managed through a cost control mechanism which requires the scheme to set a cap, the 'employer cost cap'. This cap is used when measuring changes in the cost of the scheme as assessed at valuations and will ensure that action is taken if the cost of the scheme increases or decreases outside of the margins set around the 'employer cost cap'.

Information on the changes to the scheme from 1 April 2015 is available on the Pension Fund website www.nespf.org.uk with further information available at http://scotlgps2015.org/.

5.3 New Scheme Implementation Project

Implementation of the new scheme was a major project undertaking for the Pension Fund section and as such work commenced on the project planning to meet the delivery deadline of 1 April 2015 in late 2013.

The project initiation document and project plan were approved and implemented by the Pensions Section with regular reporting to the Head of Finance and the Pension Panel/Committee.

The key objectives of the project plan were:

- To ensure the effective implementation of the new LGPS on 1 April 2015
- Identify our key stakeholders and work with them to ensure that their individual needs were met for the delivery of the new scheme
- Identify and communicate the key features of the new LGPS
- Develop a training programme that supported both internal and external needs
- Have the technical capability in place to deliver the new scheme through partnership with our software provider Heywood's
- Ensure that all key documentation was revised and issued to our stakeholders
- Fully liaise with SLOGPAG to ensure full engagement in the consultation and follow- through in implementing the new scheme
- Fully liaise with our Scottish counterparts through the Scottish Pensions Liaison Group and Scottish Pensions and Governance Group to ensure a consistent approach to implementation
- Take advantage of any lessons learned through liaison with our English and Welsh counterparts as their new scheme was effective from April 2014
- Report regularly to the Pension Panel/Committee

5.4 Final Project Plan Update

Completed Project Work:-

5.4.1 Employers

Final employer briefings were held in March 2015 by the Employer Relationship Team. In total 18 employer briefing sessions were held at 15 different employers between January and March. A follow up bulletin was issued to employers in April 2015.

The Pension Fund plans to hold an administration forum for employers around June 2015 to target HR and Payroll staff. This forum will focus on any areas of administering the new scheme post implementation that employers need further guidance on e.g. discretions, strain on the fund etc.

5.4.2 Scheme members

Final member presentations were held in April 2015. These sessions were designed to provide members with details on the new scheme and provide an opportunity to discuss any queries with senior Pension Fund staff members. From the feedback they were positively received by staff. In total 43 presentations were held between December and April.

A booklet on the changes to the Pension Scheme was prepared and issued to all active members in early May 2015. Annual benefit statements will be issued to active members by end of August 2015.

Benefit statements for deferred members will be issued by the end of June 2015. By issuing the benefit statements for active and deferred members earlier this year we will ensure the Pension Fund meets its disclosure requirements under the 2015 scheme.

5.4.3 Staff Training

Fortnightly In-house staff training sessions was held from February by the Senior Pensions Officer – Training & Development. Pensions Officers found these very beneficial in preparing for day-to-day administration of the new scheme. Regular staff meetings will continue from April to allow Pensions Officers the opportunity to discuss any issues post implementation.

5.4.4 Website/Documentation

The NESPF website (www.nespf.org.uk) was updated from 1 April 2015, including new 2015 scheme guides and revised forms for use by employers and employees. A guide on the amendments was issued to employers on 13th April 2015 with copies of the new forms.

A review of the documentation available on Altair (IT system) was carried out and the majority of the documentation has now been updated. Work is ongoing to complete the remaining documentation.

5.4.5 Altair System (calculated member benefits)

Following a period of very thorough testing by Pension Fund staff, the Altair IT system received the CARE update into the live system on 6th March 2015.

Due to the late sign off of GAD factors i.e. early retirement, trivial commutation, AVC annuity, pension credit and debits, there was a slight delay in updating these factors on the Altair IT system. Heywood's was able to provide these in a suitable format for upload on 17th April 2015 and calculations are now using up to date factors.

Amendments to the late retirement factors will be included in the 2015.0.2 release due around May 2015.

5.4.6 Administering Authority and Employer Discretions

Under the Local Government Pension Scheme (Scotland) Regulations 2014, both the Administering Authority of the North East Scotland Pension Fund and Scheme employers has the right to exercise a number of discretions in respect of the scheme regulations.

Scheme employers have been advised of their obligation under the regulations (No 58) to prepare and publish their policy on discretions by 1 July 2015. Support is being provided to scheme employers in drafting their policy statements by the Employer Relationship Team.

A separate report will be presented to the 15 June 2015 meeting of the Pension Committee regarding the determination of Administering Authority discretions.

5.5 Governance Arrangements

The Public Services Pension Act 2013 set out new governance requirements for pension funds across the UK, implementing the Hutton recommendations.
The proposals recommended the introduction of:

- A Scheme Advisory Board

- Pension Boards for each Fund
- A role for the Pensions Regulator

The consultation period on the draft LGPS Governance Regulations ended on 11th November 2014 and the final Governance Regulations were laid before the Scottish Parliament on 19th February 2015.

5.5.1 Heads of Agreement

A copy of the Heads of Agreement on the new Governance arrangement was previously issued to the Pension Committee. The key points are set out below.

- Scheme Advisory Board – the Act requires the new Scheme regulations to provide for the establishment of a board with responsibility for providing advice to Scottish Ministers, at their request, on the desirability of changes to the Scheme. In addition for locally administered schemes, like the Local Government Pension Scheme in Scotland, where there is more than one scheme manager, the board can also provide advice (on request or otherwise) to the Scheme managers or the Scheme's pension boards, in relation to the effective and efficient administration and management of the Scheme or any pension fund of the Scheme.

- Pension Board - the Act requires Scheme regulations to provide for the establishment of a board with responsibility for assisting the scheme manager, or each scheme manager, in:-
    - securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected with it;
    - securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator, and
    - such other matters as the scheme regulations may specify

The Heads of Agreement provide further details on the Pension Board in relation to:

- Membership of the boards
- Management of conflict of interest
- Role in supporting the Scheme Employer
- Requirement to publish a separate annual statement of their work

5.5.2 Status of the Pension Board

- The Pension Board is not a decision making Body
- The Pension Board is not a scrutiny function
- The Pension Board will be collectively and individually accountable to the Pensions Committee.

5.5.3 Pension Board Remit

The Pension Board will determine the areas they wish to consider including amongst others:-

- reports produced for the Pension Committee
- requisition reports from the scheme managers on any aspect of the fund
- monitor investments and the investment principles/strategy/ guidance
- the fund annual report
- external voting and engagement provisions
- fund administrative performance
- actuarial reports and valuations
- funding policy
- any other matters that the Pension Board deem appropriate

5.5.4 Model Constitution & Pension Board

Scottish Ministers issued a Model Constitution for the Pensions Board which set out a recommendation for the minimum of 4 union representatives (from UNISON, UNITE, GMB AND UCATT) and 4 employer representatives.

An elected member representative was nominated from each of the three Councils, Aberdeen City Council, Aberdeenshire Council and The Moray Council. The remaining scheme employers nominated and voted on a member for the final employer representative position on the Board.

UNISION, UNITE and GMB each nominated a member for the Board. However to date no nomination has been received from UCATT.

The Pensions Board for the North East Scotland Pension Fund will be made up as follows:

- Councillor John Cowe (The Moray Council)
- Councillor William Howatson (Aberdeenshire Council)
- Councillor Len Ironside CBE (Aberdeen City Council)
- David Briggs (The Robert Gordon University)

- Alan Walker (UNITE)
- James Mulholland (UNISON)
- Robert Henderson (GMB)

Initial training for Pension Board and Pension Committee members was carried out 20th February 2015 at the AECC.

5.5.5 Pensions Board Meeting 23 April 2015

The first meeting of the Pension Board was held on 23 April 2015. The meeting agenda included:

- Election of Board Chairman – James Mulholland (Unison)
- Adoption of the Pension Board constitution (copy attached)
- Appointment of Head of Finance of Aberdeen City Council as advisor to the Board
- Approval of the Pension Board Training Plan

5.5.6 Joint Meeting of the Pension Committee and Pension Board

The first joint meeting of the Pension Committee and Pension Board will be held on 15 June 2015.

5.5.7 Pensions Regulator

The Pensions Regulator will going forward take a role in the oversight of the Local Government Pension Scheme. It's role will be to ensure Fund compliance in the following areas:

- Reporting duties
- Internal controls and managing risks
- Record keeping
- Communication to members
- Publishing scheme information
- Maintaining contributions
- Pension board conflicts of interest and representation
- Resolving internal disputes
- Reporting breaches of the law

The Pension Fund section has commenced a review of its compliance with the Regulator requirements and a report on compliance will be brought forward to a future meeting of the Pension Committee.

5.6 Post 1 April 2015

The Pension Fund section will continue to work with, and support scheme employers of the coming months to ensure the effective implementation of the new scheme for both them and scheme members.

Internal staff training will continue within the Pension Fund section to ensure that all staff have the tools and knowledge to continue to provide the highest quality service to stakeholders within the Fund.

6. IMPACT

6.1 The introduction of the new scheme from 1 April 2015 is only the starting point of ongoing change for the Pension Fund. Not only the nature of benefit administration is changing from a ‘final salary scheme to a career average scheme but also the closer monitoring of scheme costs through the cost cap and the revisions to scheme governance. The Pension Fund welcomes these changes and will participate actively in the transformation process.

7. BACKGROUND PAPERS

Heads of Agreement, New Local Government Pension Scheme (Scotland) – Summary
The Local Government Pension Scheme (Scotland) Regulations 2014
The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
The Local Government Pension Scheme (Scotland) Amendment Regulations 2015
The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015
Pension Board Constitution (Appendix I)

8. REPORT AUTHOR DETAILS

Laura Goodchild
Pensions Manager
LGoodchild@nespf.org.uk
01224 264158

NORTH EAST SCOTLAND PENSION FUND
PENSION BOARD CONSTITUTION

1. Introduction

1.1 Each Local Government Pension Scheme Manager in Scotland is required to establish a Pension Board separate from the Pensions Committee that acts as the Scheme Manager.

1.2 The North East Scotland Pension Fund Pension Board is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

2. Objectives

2.1 The Pension Board as detailed in regulations is the body responsible **for assisting the Scheme Manager** in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.

5.—(1) There is established to each scheme manager a board with responsibility for assisting the scheme manager in relation to the following matters.
(2) Those matters are—
(a) securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
(b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator

2.2 The Pension Board will determine the areas they wish to consider including, amongst others:

- Reports produced for the Pensions Committee
- Monitor investments and the investment principles/strategy/guidance
- The fund annual report
- External voting and engagement provisions
- Fund performance and administration
- Actuarial reports and valuations
- Funding policy
- Any other matters/reports that the pensions board deem appropriate

3. Membership

3.1 Membership of the Pension Board will consist of equal numbers of employer representatives and relevant trade unions, drawn from councils and scheduled or admitted bodies in membership of the fund. Pension Board representatives must not also participate in or act as members of the Pension Committee. Local

Authority employer representatives will normally be Elected Members serving as part of the Council.

3.2 There will be 4 trade union representatives appointed by the trade unions as follows:

GMB: 1
UCATT: 1
UNISON: 1
Unite: 1

3.3 There will be 4 employer representatives appointed by the respective employer organisations as follows:

Councils: 3
Scheduled bodies/Admitted bodies: 1

3.4 Pension Board representatives will serve for a period of four years and may be reappointed to serve further terms. Timescales for organisations to notify the Pension Board of their representatives shall be locally determined. Employer bodies and organisations retain the right to withdraw representatives and identify replacements on occasion.

3.5 Appointing bodies can appoint a named substitute for their representative. Such substitutes must undertake the same training as set out in (6) below.

3.6 Advisors may attend meetings of the Pension Board in a non-voting capacity.

3.7 No person may be appointed to, or continue to be, a member of the Pension Board that has a significant conflict of interest. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established. The Pension Board will adopt policies and protocols for handling any conflicts that were unanticipated and might arise during membership.

3.8 The scheme manager will annually satisfy themselves that none of the members of the Pension Board has a conflict of interest.

4. Meetings

4.1 The Chair of the Pension Board will be rotated on an annual basis between the trade union and employer sides of the Pension Board.

4.2 The Pension Board is to have two Joint Secretaries, one of whom is to be appointed by the scheme employers and the other by relevant trade unions.

4.3 Pension Board meetings will be administered by Aberdeen City Council as the administering authority as agreed with the Joint Secretaries appointed by the trade union and employers sides of the Pension Board. All reasonable administration costs shall be met by the fund.

4.4 While the statutory roles and function of the Pension Committee and Pensions Board are separate, regulations state that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pension Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

4.5 The Pension Board may meet separately from the Pension Committee with the agreement of the Pension Committee.

4.5 Persons other than the members of a Pension Board may attend meetings of the Board (at the discretion of the Chair as to numbers).

4.6 The Pensions Board may establish sub-committees.

5. Dispute resolution

5.1 In the case of disagreement on a matter relating to the establishment of a constitution, the Pension Board is to apply to the Scheme Advisory Board for advice on resolving the disagreement.

5.2 If the Pension Committee and Pension Board cannot reach joint agreement on any matter (excluding 5.1 above) the process for resolving any differences between the two bodies will be as follows. Whilst this process is undertaken the decision of the Pension Committee is still competent.

5.3 In the first instance, if at least half of the members agree, then the Pension Board can refer back in writing a decision of the Pension Committee for further consideration if any of the following grounds are met:

- there is evidence or data on which the Pension Committee relied when making their decision which is considered to be unreliable or there is new evidence or data which the Pension Committee did not access or was not aware of at the point of making the decision which is considered material to the decision taken;
- the decision of the Pension Committee is arguably beyond the powers of the 2014 Regulations or otherwise unlawful;
- the decision of the Pension Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or
- the decision is not in the interest of the continued financial viability of the Scheme or the relevant fund or is against the principles of proper and responsible administration of the Scheme or relevant fund

5.3 If there is no agreement after the matter has been referred back to the Pension Committee, then the difference in view between the Pension Board and the Pension Committee will be published in the form of a joint secretarial report on the fund website and included in the Fund annual report.

5.4 The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the pension board in relation to the matter

6. Training

6.1 All members (and named substitutes) of the Pensions Board must undertake a training programme in accordance with any guidance issued by the Pensions Regulator and complying with best practice training requirements of the Pensions Committee.

6.2 The Pension Board shall agree policies and arrangements for the acquisition and retention of knowledge and understanding for Pension Board members

6.3 The Scheme Manager will keep an updated list of the documents with which they consider Pension Board members need to be conversant to effectively carry out their role and make sure that both the list and the documents are accessible.

7. Access to Information

7.1 The Scheme Manager and Pension Board will together ensure that information is published about the activities of the Board including:

- the full terms of reference for the Pension Board, including details of how they will operate
- the Pension Board appointment process
- who each individual Pension Board member represents and
- any specific roles and responsibilities of individual Pension Board members.

7.2 The minutes of the Pension Board will be published on the fund website. The Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	15 JUNE 2015
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT	2014 ACTUARIAL VALUATION AND FUNDING STRATEGY STATEMENT
REPORT NUMBER:	PEN/JUN15/AV

1. PURPOSE OF REPORT

This report provides elected members with details of the final outcome of the 2014 Actuarial Valuation, the 2014 Funding Strategy Statement and the outcome of the consultation exercise on the valuation carried out with all participating employers within the Fund.

2. RECOMMENDATION(S)

It is recommended that the Committee note the report.

3. FINANCIAL IMPLICATIONS

The financial implications are detailed in the report.

4. OTHER IMPLICATIONS

None

5. VALUATION OUTCOME AND FUNDING STRATEGY STATEMENT

5.1 <u>2014 ACTURIAL VALUATION</u>

In accordance with the regulations governing the Local Government Pension Scheme, the actuary carries out a full actuarial valuation every three years. Based on this he provides the funding ratio at that point in time and sets the employer contribution rates for the next three years.

The scheme actuary has calculated that the overall funding position for the North East Scotland Pension Fund as at 31 March 2014 was 94%. This translates to a shortfall of £191m when comparing the assets held by the Fund against the liabilities or 'funding target' calculated by the actuary using the assumptions set out in the Funding Strategy Statement.

The funding level and shortfall have a significant improved since the 2011 valuation which is mainly due to investment performance, the impact of employer contributions and lower than expected pay awards to active members. The changes to underlying current financial conditions have had a huge negative impact on the assessment of the liabilities however, the shortfall has still decreased from £294m in 2011 (88% funded.)

It should be noted that since March 2014 there has been a significant deterioration of the funding position due to market conditions. This has been taken into account in both determining the deficit recovery plan and assessment of the employer contribution rates.

5.2 COMMON CONTRIBUTION RATE

The scheme actuary has assessed the cost of Future Service over the 'whole fund' as 14.9% of Pensionable payroll; this is an increase of 0.7% from the previous valuation. The increase has been driven by the change in financial assumptions adopted as a result in the poor performance of guilt yields but has been largely offset by the reduction in costs expected by the introduction of the LGPS 2015.

The Common Contribution Rate is individually adjusted for each employer or group taking into account their membership profile and the deficit contributions payable. The majority of non-council employers saw an increase in contribution requirements for the valuation period with the remainder maintaining the same rate as was set during *t*he previous valuation.

5.3 DEFICIT RECOVERY

The maximum deficit recovery period has been set in the Funding Strategy Statement as 19 years for the 2014 valuation. This is increased from the previous valuation when the shortfall was set to be recovered over 16 years. The increase has been adopted largely due to affordability.

Due to the changes in the market position that has occurred post valuation the deficit has increased considerably. The scheme actuary therefore advised that employer contribution rates be set to a minimum of the contribution rate set following the valuation in 2011.

5.4 LGPS 2015

The changes to the Local Government Pension Scheme (Scotland) which came into effect from 01 April 2015 have been taken into consideration as part of the 2014 valuation. Although the changes effect benefits after the valuation has taken place and therefore have not impacted on the funding level or the shortfall they have been considered in the calculation of the Common Contribution Rate for the cost of providing future benefits within the Fund.

5.5 EMPLOYER CONSULTATION

As per the regulation requirements a letter was issued to all participating employers the week beginning the 12th of January 2015 consulting them the proposed employer contribution rates (Copy attached at Appendix I). In particular the Fund was seeking comments on the following:

- Do you have any comments on the funding principles and actuarial assumptions adopted within the valuation as set out in the FSS?
- Do you wish to offer any information and supporting evidence regarding affordability which you would like the Administering Authority to consider before finalising the contribution rates?
- For those employers that have seen a significant increase in their contribution rate (increase of 1% or more), do you wish your increase to be phased in over the 3 year valuation period?
- Do you agree the proposed deficit recovery period (19 years) and the intention of the Fund to move to £'s recovery of the deficit instead of a percentage of payroll with effect from 2017/18?
- Do you wish to receive further information from the Scheme Actuary with regards to pre-payment of your deficit contributions?

The outcome of the consultation exercise is detailed at 5.6 below.

5.6 CONSULTATION OUTCOME

As a result of the increased contribution requirements for the 'other employers' group and for the majority of employers with individual employer rates the response to the consultation was very high. Many employers took the opportunity to engage with the Employer Relationship Team and the Pensions Manger regarding affordability and possible pre-payment of deficit contributions.

On the whole the responses were constructive and allowed the Fund to discuss individual issues or concerns that employers had. The main responses were:

- To individually request that increased contribution be phased in over the three year valuation period
- To request further clarification on both the Termination Policy and Covenant Assessment Policy which are imbedded within the 2014 Funding Strategy Statement
- To request confirmation of the group members and obtain further information on the cross subsidy within those groups
- To request further information on stand-alone rates (grouped employers)

In addition, the vast majority of the responding employers advised that they were not in favour of the intention to move from the collection of deficit contributions from a percentage of payroll to a £'s amount.

In accordance with the Funding Strategy Statement all requests for phasing of increased were granted. Discussions with the Fund also led to allowances for short term pay restraint, the opening up of admission agreements and the adjustment of deficit recovery periods for some employers on the grounds of affordability.

Following the completion of the consultation period all employers were advised that the Fund no longer intended to collect deficit contributions as a £'s amount due to the responses received.

5.7 GROUPS

Employer groups were established as part of the 2011 valuation in order to reduce the amount of 'cross subsidy' within the Fund. The groups were created based on both their characteristics and their date of admission to the fund. The groups were made up as follows:

- Closed employer group

- Council group
- Colleges group
- Other employers group (admission bodies admitted prior to 2008)

All employers admitted to the fund after 2008 were given an individual rate.

Since the 2011 valuation there have been many factors affecting employers which has resulted in changes to the groups which has affected the employer contribution rates applied.

Closed Group

This group consisted of three employers, two of which opened their admission agreement during the inter-valuation period. This has resulted in the disaggregation of the group and individual rates have been applied to each employer from March 2015 onwards.

Councils Group

This group consists of the three Councils and Grampian Valuation Joint Board. There has been no change to this group.

Colleges Group

One member of the Colleges Group elected to withdraw from the group and have a stand-alone rate applied for future contributions. This left only two employers remaining in the group. In order to prevent one employer subsidising the other the group was disaggregated and individual rates have now been applied for all Colleges within the Fund.

Other Employers Group

There have been several changes to the make-up of this group. Three employers have ‘closed’ their admissions therefore necessitating their removal them from the group, two employers terminated within the Fund and two were removed from the group following a review of their employer covenant.

Over the inter valuation period before March 2017 the Fund will continue to monitor and assess the appropriateness of the groupings for the next valuation.

5.8 CONSULTATION ON THE FUNDING STRATEGY STATEMENT

In accordance with the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 a revised Funding Strategy Statement was drafted during the 2014 valuation process. The draft Funding Strategy Statement was issued as part of the employer consultation in the week beginning 12 January 2015.

The Funding Strategy Statement sets out the NESPF Funding Principals and in particular details the actuarial assumptions used when calculating the liabilities held within the Fund.

The North East Scotland Pension Fund continues to take a prudent long term approach to funding the liabilities. When assessing the liabilities the scheme actuary has made allowances for asset out performance of 1.4% based on the investment strategy as set out in the Statement of Investment Principals:

Equities 65%
Property 10%
Bonds 10%
Alternative assets (including private equity) 15%

5.9 OUTCOME OF THE CONSULTATION

Feedback in respect of the Funding Strategy Statement was positive from all groups, accepting the funding principals outlined in the FSS and the assumptions adopted for the purpose of the valuation.

6. PENSION FUND IMPLICATIONS

Officers will use the scheme valuation and the discussions held during the employer consultation as a starting point in order to fully implement the Funds policy on Employer Engagement – Risk and Assessments of Employer Covenant. This will ensure that the risk to the fund and its participating employers, in relation to the ability of employers to meet the scheme liabilities, is managed and minimised.

The Fund, with the help of the scheme actuary will continue to monitor the impact of the LGPS 2015 on the assessment of the scheme liabilities.

Investment strategy will continue to be a key consideration to ensure that the investment returns meet the requirements of the Fund to achieve the funding target.

7. BACKGROUND PAPERS

- Consultation Letter (Appendix I)
- 2014 Actuarial Valuation Report
- North East Scotland Pension Fund Funding Strategy Statement
- Aberdeen City Council Transport Fund Funding Strategy Statement

8. REPORT AUTHOR DETAILS

Claire Mullen, Senior Pensions Officer – Employer Relationship Team
cmullen@nespf.org.uk
01224 264166

Ref: PEN/ERT/CM
Contact: Claire Mullen
Direct Dial: 01224 264157
E-Mail: employer@nespf.org.uk
Date: 12 January 2015

Appendix I

Dear

NORTH EAST SCOTLAND PENSION FUND (NESPF)

<u>Employer Consultation on the 2014 Actuarial Valuation and Proposed Contribution Rates</u>

The enclosed schedule outlines your individual or group funding level and proposed contribution requirements following the valuation carried out by the scheme actuaries as at 31 March 2014.

The Funding Strategy Statement (FSS) is a statutory document which has to be consulted upon with all of the participating employers within the NESPF and approved by the Administering Authority before the actuarial valuation can be completed. The draft FSS has been updated as a result of the valuation and is enclosed for your information.

The Pension Fund is seeking your comments by Friday the 6th of February 2015. In particular we welcome responses to the following questions:

- Do you have any comments on the funding principles and actuarial assumptions adopted within the valuation as set out in the FSS?

- Do you wish to offer any information and supporting evidence regarding affordability which you would like the Administering Authority to consider before finalising the contribution rates?

- For those employers that have seen a significant increase in their contribution rate (increase of 1% or more), do you wish your increase to be phased in over the 3 year valuation period?

- Do you agree the proposed deficit recovery period (19 years) and the intention of the Fund to move to £'s recovery of the deficit instead of a percentage of payroll with effect from 2017/18?

- Do you wish to receive further information from the Scheme Actuary with regards to pre-payment of your deficit contributions?
- Are there any other post-valuation events that may affect your membership profile that the Administering Authority should be made aware of before setting the final contribution rates?

- Do you agree with the current grouping structure for contribution setting purposes?

Affordability

The priority of the Administering Authority is to maintain the financial health of the Fund and try to ensure that rates remain as stable as possible in line with the scheme regulations. However, we are aware that the increasing cost of the scheme does put pressure on employers and their budgets. As part of the consultation process we can carry out individual discussions regarding affordability and in particular consider how the following would affect your contribution rate for the period:

Short Term Pay Restraint

The current assumption used for pay growth within the valuation is CPI inflation plus 1.5% (4.1%). For those employers that can provide evidence that pay awards are to be restricted to 1%p.a for the 3years following the valuation this assumption could be altered to reflect the reality. This would result in reduced contribution requirements. However, it should be noted that if pay growth was in fact higher over the 3 year period this could result in even higher contribution requirements in the next valuation.

Phasing

Any employer that sees an increase in contributions of 1% or above will be permitted upon request to phase that increase over a three year period in accordance with the Funding Strategy statement.

Deficit Contributions

Historically both future service costs and deficit contributions have been collected by the Fund as a percentage of payroll. The scheme actuary has suggested that in future any deficit contributions should be collected as a £'s amount. This is to ensure that the amount paid towards the deficit does not fluctuate with your membership profile. The Fund proposes that this change be implemented following the 2017 valuation to allow for employers to fully consider the effects of the change. However, if there is a significant drop in membership profile within this valuation period this may result in increased contribution requirements for the next valuation period.

There is also the option for any employer to pre–pay deficit contributions as a lump sum either on an annual basis or for the full three years. If an employer does this then the

Fund Actuary can allow for this early payment by discounting the total expected payments resulting in a saving over the period.

Termination Policy and Risk Assessment of Employer Covenant

Embedded within the Funding Strategy Statement are the NESPF policies on the termination of participating employers (Appendix 3) and the assessment of employer covenants (Appendix 4). These policies have been implemented following the 2011 valuation process and form part of the risk management of the Fund.

Groupings

The funding levels and contribution rates have been determined using the groupings as set out in the 2011 actuarial valuation. The ‘closed’ group has been discontinued as only one participating employer remains eligible for the group.

Stand Alone Rate

A single opportunity is provided at this valuation for an employer to be removed from their group and be treated as a stand-alone employer. Should an employer move out of a group this may impact not only on their individual rate but also on that of the group.

Individual funding positions for those employers that are members of a group can be made available upon request to the Employer Relationship Team.

Funding Position from March to December 2014

There has been significant deterioration in the funding position for all employers since 31 March 2014. The actuary therefore proposes that the final rates are set at the minimum of each employer’s current contribution rate.

Response to Consultation by 6 February 2015

Please email your comments to employer@nespf.org.uk by the above date. The actual rates will be decided by the Administering Authority and will be advised before 31 March 2015.

I look forward to receiving your feedback.

Yours sincerely

Laura Colliss
Pensions Manager

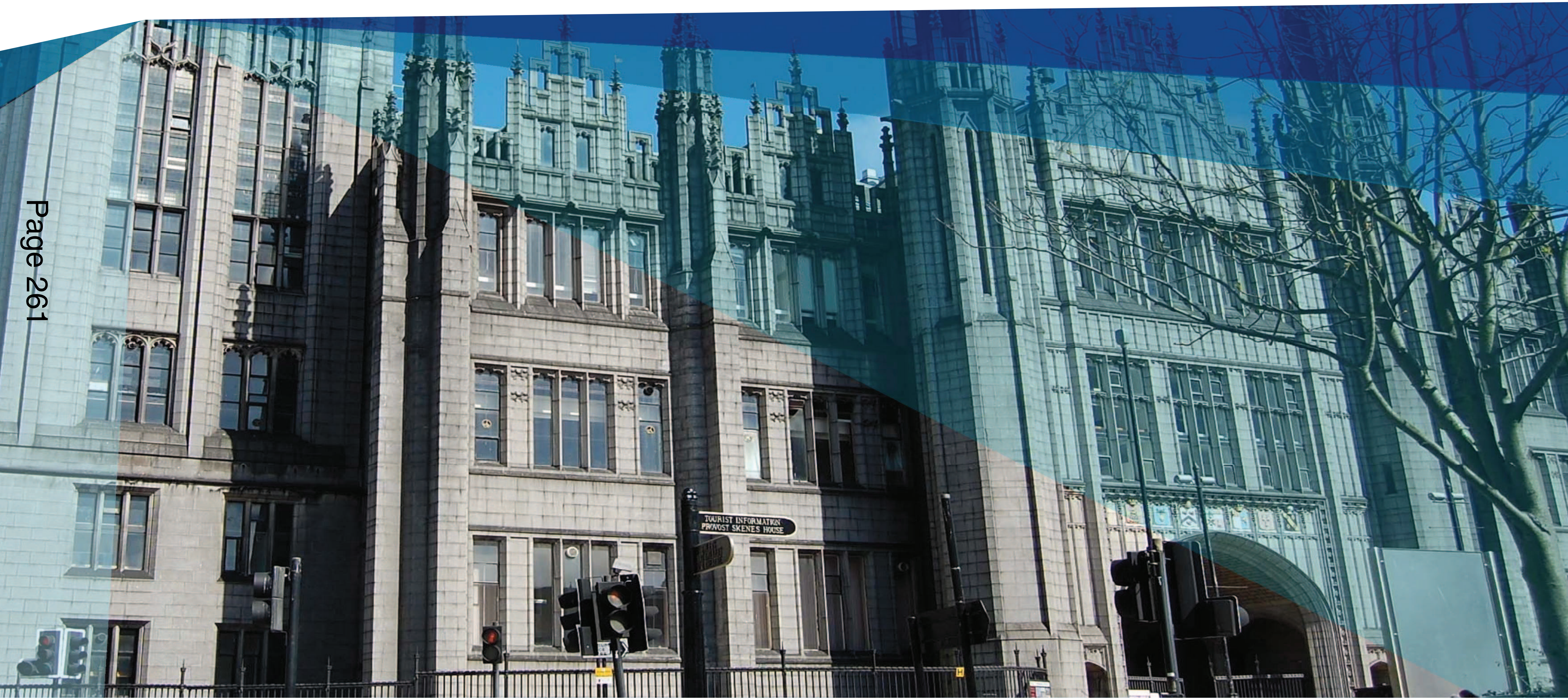
MERCER

North East Scotland
PENSION FUND

FUNDING REPORT OF THE ACTUARIAL VALUATION AS AT 31 MARCH 2014

NORTH EAST SCOTLAND PENSION FUND

MARCH 2015



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MARSH & McLENNAN COMPANIES

North East Scotland PENSION FUND

CONTENTS

North East Scotland PENSION FUND

1

Introduction

This report is addressed to Aberdeen City Council as the Administering Authority of the North East Scotland Pension Fund (“the Administering Authority”) and is provided to meet the requirements of Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended). It describes the factors considered when carrying out the actuarial valuation as at 31 March 2014 and the decisions reached as a result.

The purpose of the actuarial valuation is for the Administering Authority to determine:

- The expected cost of providing the benefits built up by members at the valuation date (the “liabilities”), and compare this against the funds held by the Fund (the “assets”).
- An appropriate plan for making up the shortfall if there are less assets than liabilities.
- The contributions needed to cover the cost of the benefits that active members will build up in the future and other costs incurred in running the Fund.

Signature:		**Date of signing:**	31 March 2015
Name:	Paul Middleman Fund Actuary	**Qualification:**	Fellow of the Institute and Faculty of Actuaries
Signature:		**Date of signing:**	31 March 2015
Name:	Laura Evans	**Qualification:**	Fellow of the Institute and Faculty of Actuaries

This report has been prepared in accordance with the version of the *Pensions Technical Actuarial Standard* current at the date this report is signed. It also complies with the relevant requirements of *Technical Actuarial Standards R: Reporting Actuarial Information*, *D: Data* and *M: Modelling*, where they apply to this report. These Standards are all issued by the Financial Reporting Council. The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Fund and determining contribution rates for the future for participating employers. Mercer does not accept liability to any third party in respect of this report; nor do we accept liability to the Administering Authority if the information provided in this report is used for any purpose other than that stated. The report may be disclosed to members and others who have a statutory right to see it. It may also be disclosed to any participating employer and, if the Administering Authority and Mercer consent, it may be disclosed to other third parties.

2

Key results of the funding assessment

2.1. Past service funding position

The table on the right compares the assets and liabilities of the Fund at 31 March 2014. Figures are also shown for the last valuation as at 31 March 2011 for comparison.

The table shows that at 31 March 2014 there was a shortfall of £191m. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 94% of its liabilities – this percentage is known as the funding level of the Fund.

At the previous valuation at 31 March 2011 the shortfall was £294m, equivalent to a funding level of 88%. The key reasons for the changes between the two valuations are considered in 3.2.

	£m	
	31 March 2014	**31 March 2011**
Total assets	2,834	2,218
Liabilities:		
Active members	1,282	1,183
Deferred pensioners	512	357
Pensioners	1,231	972
Total liabilities	3,025	2,512
Past service surplus / (shortfall)	(191)	(294)
Funding level	94%	88%

The liability value at 31 March 2014 shown in the table is known as the Fund's "funding target". The funding target is calculated using assumptions that the Administering Authority has determined are appropriate, having consulted with the actuary, and are also set out in the Administering Authority's Funding Strategy Statement (FSS).

Further details of the way in which the funding target has been calculated are set out in Appendix A.

The above liabilities allow for the fact that pension increases will continue to be recharged £ for £ to the Fund in respect of pensionable service in the Aberdeen City Council Transport Fund accrued prior to 26 October 1986 in relation to First Aberdeen Limited.

2.2. Normal contribution rate

The valuation looks at the normal employer contribution rate required to cover the cost of the benefits (including death benefits and expenses) that will be built up over the year after the valuation date (the “Common Contribution Rate”). A summary of the assumptions used is provided in Appendix A.

The table on the right gives a breakdown of the Common Contribution Rate at 31 March 2014 and also shows the corresponding rate at 31 March 2011 for comparison. In calculating the average Common Contribution rate we have made no allowance for existing and future members to opt for the 50:50 scheme.

	% of Pensionable Pay	
	31 March 2014	**31 March 2011**
Normal contribution rate for retirement and death benefits	20.6	20.1
Allowance for administrative expenses	0.4	0.4
Total normal contribution rate	21.0	20.5
Average member contribution rate	6.1	6.3
Common Contribution rate	14.9	14.2

The benefits earned under the LGPS change with effect from 1 April 2015, and the Common Contribution Rate at 31 March 2014 allows for these changes. The impact of these benefit changes on the Common Contribution Rate is given in section 3.3.

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the governing Regulations (see Appendix D).

2.3. Allowance for post valuation market changes

Since 31 March 2014 there have been significant changes in the financial market position. In particular there has been a fall in gilt yields, which underpin the assessment of the past service liability values and therefore the long term funding target, which has led to a worsening of the funding position and an increase in the shortfall. As the new contribution rates are effective from 1 April 2015, the Administering Authority (following consultation with the Actuary and employers) has agreed that average contributions will be kept, as far as possible, at current levels.

In practice, each employer's position is assessed separately. The Schedule to the Rates and Adjustments Certificate (attached as Appendix H) sets out the contributions for each employer over the three year period to 31 March 2018. The individual rates take into account the differing circumstances of each employer or employer group and the funding plan, as laid down in the FSS. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report. As a general rule employers will not be allowed to reduce contributions from current levels.

2.4. Correcting the shortfall

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

Given the deterioration in funding position noted above, if we maintained the average employer contribution payable at the previous valuation of 19.3% of Pensionable Pay, this would imply a deficit recovery contribution of 4.4% of projected Pensionable Pay at the valuation date. Under the same method and assumptions as used for calculating the funding target, the deficit of £191 million could be eliminated over a period of around 11 years. However, the deterioration in the funding position has increased the deficit and therefore the implied recovery period will also have increased.

3

Experience since last valuation

3.1. Summary of key inter-valuation experience

The last actuarial valuation was carried out with an effective date of 31 March 2011. Since the last valuation the Government announced that the benefit structure under the LGPS will change with effect from 1 April 2015. The changes do not affect benefits earned prior to 1 April 2015, and so do not directly affect the funding level or shortfall of the Fund as detailed in section 2.1, but do affect the Common Contribution Rate for the Fund as quoted in section 2.2 (the impact of the changes is given below). Details of the benefits are given in Appendix D.

The average salary increase (weighted by liability) for the Fund members who were in service for the whole of the inter-valuation period was 1.9% per annum.

Pensions in payment (in excess of Guaranteed Minimum Pensions (GMPs)) were increased as guaranteed under the Fund as follows:

- April 2012 5.2%
- April 2013 2.2%
- April 2014 2.7%

During the inter-valuation period, the gross investment return on the Fund's assets has averaged 7.9% per annum.

3.2. Reasons for the change in funding position since the last actuarial valuation

As noted in 2.1, the shortfall at 31 March 2011 was £294m. The table below sets out the main reasons for the change in the shortfall between 31 March 2011 and 31 March 2014.

Analysis of changes in funding position	**£m**
Shortfall at 31 March 2011	(294)
Unwinding of interest on 2011 shortfall	*(55)*
Investment returns versus expectations	*156*
Deficit contributions paid	*76*
Salary increases versus expectations	*108*
Change in demographic assumptions	*46*
Change in financial assumptions	(200)
Member movements and other factors	*(28)*
Shortfall at 31 March 2014	(191)

The above analysis highlights the key factors affecting the Fund since the previous valuation:

- Experience over the inter-valuation period has been largely positive, with improvements in the position due to positive investment performance, the impact of contributions paid by employers and lower than expected pay increases for active members.
- The shortfall increased significantly due to changes in underlying financial conditions, principally reductions in real gilt yields.
- Certain changes made to the underlying assumptions to reflect the current economic climate and the current state of public sector finances have also had a positive impact on the shortfall. These changes are discussed in detail in Appendix A.
- As discussed in section 2.3, the financial conditions have worsened since 31 March 2014 increasing the value of the Fund's past service liabilities and shortfall and this has been taken into account when determining the recovery plan.

3.3. Reasons for the change in Common Contribution Rate since the last actuarial valuation

The table below sets out the main reasons for the change in the Common Contribution Rate between 31 March 2011 and 31 March 2014.

Analysis of changes in Common Contribution Rate	**%**
Common Contribution Rate at 31 March 2011	14.2
Change in membership profile	*0.2*
Change in demographic assumptions	*0.3*
Change in financial assumptions	*2.6*
Impact of LGPS changes from 1 April 2015	*(2.4)*
Common Contribution Rate at 31 March 2014	14.9

- The change in the long-term assumptions adopted has caused a significant increase in the employer contribution requirement. This has been driven in large part by the significant fall in gilt yields over the inter-valuation period (the assumptions used to calculate the contribution rate, and their derivation, are discussed in Appendix A).
- This effect has been offset to some degree by the upcoming changes to the LGPS, which produce a significant reduction in employer costs at a Whole Fund level. At an individual employer level, the impact varies depending on profile and in some cases can result in an increased cost. Employers have been notified separately of the impact.

4

Variability and risk

The contributions for participating employers set out in the Schedule to the Rates and Adjustments Certificate (Appendix H) have been determined as described in Appendix A of this report and in line with the parameters as set out in the Funding Strategy Statement.

The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

It is likely, especially in the short-term, that the assumptions will not be borne out in practice. It is therefore important to consider the potential impact on the employer contribution rates of actual experience differing from what has been assumed. The details in this section do this, based on the valuation results for the Fund as a whole as at 31 March 2014. As noted in section 2.4 the funding position has deteriorated since the valuation date.

It should be borne in mind that the valuation results set out in Section 2 of this report, and the assumptions on which they are based, represent only one outcome, and measures which are set for funding purposes might well not be appropriate in other circumstances.

4.1. Projected funding position at next actuarial valuation

As part of this valuation, the Fund has agreed with the Employers to put in place a recovery plan to pay off the shortfall. The next actuarial valuation will take place with an effective date of 31 March 2017. If, on average, experience up to that date from 31 March 2014 is in line with the assumptions made for this current actuarial valuation and the illustrative average contributions are paid, the expected funding level would be 96% at 31 March 2017.

4.2. Least risk basis

In assessing the value of the Fund's liabilities (the funding target), allowance has been made for asset out-performance and an Inflation Risk Premium as described in Appendix A, taking into account the investment strategy adopted by the Fund, as set out in the Fund's Statement of Investment Principles (SIP).

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist mainly of a mixture of long-term index-linked and fixed interest gilts. Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments or an Inflation Risk Premium. On this basis of assessment, the assessed value of the Fund's liabilities at the 2014 valuation would have been significantly higher, by 37% and the declared funding level would be correspondingly reduced to 69% and an equivalent deficit of approximately £1,296 million at 31 March 2014.

4.3. Material risks faced by the Fund

This section provides a broad overview of the risks faced by the Fund and their potential mitigation. However, this issue is covered in greater detail in the Funding Strategy Statement.

The Fund is subject to some potentially material risks that are, to an extent, outside the Administering Authority's control, but could affect the funding level. Any material worsening of the funding level will mean more contributions are needed (either at an increased rate or at the same rate over a longer period) to be able to provide the benefits built up in the Fund – unless experience acts in other ways to improve the funding level.

Examples of such risks, and how the Administering Authority manages them, are:

- If any employer becomes unable to pay contributions or to make good deficits in the future, the Fund's assets will be lower than expected and the funding level will be worse than expected. If the reason for the employer not paying the agreed contributions is one of financial difficulties, then the Administering Authority's focus would switch to the need to secure as far as possible that any debt from the employer on it exiting the Fund can be recovered. This risk can be mitigated by regular employer covenant reviews, strengthening of covenant as appropriate, and monitoring of changes in employer covenant. In the ultimate default of an employer any shortfall would then become the responsibility of any guarantor or all other employers in the Fund. If an employer terminates participation and becomes an Exiting Employer under the Regulations then the shortfall will be determined in line with the termination policy set out in the FSS.

- If market levels and / or gilt yields change such that the liability values increase by more (or decrease by less) than the assets, the funding position would be worse than expected. An increase in employer contributions would be expected as a result. The same comments would apply if general population mortality studies and analysis of the Fund show that pensioners are living longer, or if improvements in mortality are found to be at a faster rate than allowed for. The analysis shown below illustrates the quantitative impact of such changes.

- If future investment returns on assets are lower than assumed in the valuation, the Fund's assets will be lower, and the funding level worse, than expected. The Administering Authority has a process in place to monitor investment performance, and they review the Fund's investment strategy alongside each actuarial valuation to ensure it is consistent with the funding strategy adopted.

- If members make decisions around their options such that those decisions increase the Fund's liabilities (e.g. by not commuting pensions for cash to the extent assumed), the funding position would be worse than expected. As a result, future employer contributions might then need to be increased.

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4.4. Sensitivity of funding position to changes in key assumptions

The value placed on the Fund's liabilities is critically dependent on the assumptions used to carry out the calculations. If future experience differs from the assumptions used, then the projected future funding level will be different from the level described above in 4.1.

To illustrate how sensitive the funding level is to experience being different from the assumptions, the table below shows how the valuation results at 31 March 2014 would have differed given small changes in the key assumptions.

	Increase in shortfall at 31 March 2014 (£m)	Increase in the average future service contribution rate at 31 March 2014 (% of Pensionable Pay)
Discount rate reduces by 0.25%	+133	+1.2
Long-term inflation is 0.25% higher than assumed	+127	+1.2
Pensionable Salary growth is 0.5% higher than assumed	+65	Nil
Members live one year longer than assumed	+69	+0.3
Growth assets fall by 25%	+652	Nil

The same changes in the opposite direction would reduce the shortfall and the average future service contribution rate.

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APPENDIX A

Assumptions

A.1. How the benefits are valued

In order to calculate the liabilities, there is a need to make assumptions about various factors that affect the cost of the benefits provided by the Fund – for example, how long members will live, or the future level of inflation. The table below explains the key assumptions being made in the valuation.

Assumption	Why it is important and how it impacts on the liabilities
Discount rate	The majority of benefits in a pension scheme are paid many years in the future. In the period before the benefits are paid, the Administering Authority invests the funds held by the scheme with the aim of achieving a return on those funds. When calculating how much money is needed now to make these benefit payments, it is appropriate to make allowance for the investment return that is expected to be earned on these funds. This is known as "discounting". The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculation reflects this by placing a lower value on the liabilities if the discount rate is higher. The discount rate adopted so set the Funding Target is derived by mapping projected cashflows arising from accrued benefits to a yield curve (which is based on market returns on UK Government gilt stocks and other instruments of varying durations), in order to derive a market consistent gilt yield for the profile and duration of the Scheme's accrued liabilities. To this an Asset Out-performance Assumption ("AOA") of 1.4% per annum is added to reflect the Fund's actual investment strategy. Details of the discount rate used to calculate the cost of future service are detailed in section A.3.

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Assumption	Why it is important and how it impacts on the liabilities
Inflation	Pensions in payment increase in line with price inflation. Salary growth is also normally linked to price inflation in the long term. A higher inflation assumption will, all other things being equal, lead to a higher value being placed on the liabilities. The inflation assumption will be taken to be the investment market's expectation for RPI inflation based on the difference between yields derived from conventional and index-linked UK Government gilts as at 31 March 2014, reflecting the profile and duration of the Scheme's accrued liabilities but subject to the following two adjustments. • An allowance for supply/demand distortions in the bond market and • An adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index. The overall reduction to market implied RPI inflation at the valuation date is 1.0% per annum, compared to 0.8% per annum in 2011. The increase in this assumption reflects a general increase in expectations of the long term difference between RPI and CPI, of this 1% per annum reduction, 0.3% per annum relates to the "Inflation Risk Premium" i.e. representing the allowance for supply/demand distortions in the bond market.
Pensionable Salary growth	Benefits earned prior to 1 April 2015 for active members are based on their salaries immediately before retirement, so it is necessary to make an assumption about future Pensionable Salary growth. The higher this assumption, the higher the value placed on the liabilities for active members. The assumption for real salary increases in the long term is 1.5% p.a. over the CPI inflation assumption described above. This includes allowance for promotional increases. This has been modified from the assumption at the previous valuation (of 1.75% p.a. above CPI) to reflect reduced future expectations, averaged over the long-term, for real salary increases in the public sector. However, in the short term, salary increases are assumed to be lower to reflect expectations of further restraint on public sector pay. For the purpose of the whole Fund results shown in this report, we have assumed that salary increases for the first three years following the actuarial valuation will be 1.0% over 3 years for the Councils group. The allowance for other individual employers / employer groups depends on information provided and this is set out in the FSS.

Assumption	Why it is important and how it impacts on the liabilities
Pension increases	Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. The pension increase assumption is modified appropriately to reflect any benefits which are not fully indexed in line with inflation.
Life expectancy	Pensions are paid while the member (and potentially their spouse or partner) is alive. The longer people live, the greater is the cost of providing a pension. Allowing for longer life expectancy therefore increases the liabilities. The mortality assumptions will be based on information in relation to self-administered pension schemes published by the Continuous Mortality Investigation CMI, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are adjusted to reflect the Fund's membership profile and recent mortality experience, and are set out in the summary section below. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in an allowance for longevity 'improvement' year on year in the future in line with the 2013 CMI projections subject to a long-term improvement trend of 1.5% per annum. Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older for current pensioners, and 4 years older for future pensioners.
Commutation	It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take a 3/80ths cash sum (the standard for pre April 2009 service). The members have the option to commute part of their pension at retirement in return for a lump sum at a rate of £12 cash for each £1 per annum of pension given up.

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Assumption	Why it is important and how it impacts on the liabilities
Early retirements (non-ill health)	Some members are entitled to receive their benefits (or part of their benefits) unreduced from an age prior to the Fund's normal pension age under the "Rule of 85" provisions of the Regulations. This age will be at some point between ages 60 and 65, depending on the length of a member's pensionable service. The calculations in respect of the relevant service to which these terms apply (basically pre April 2008 service but with transitional protections for certain members) allow for members to retire at this age. For post April 2008 service (other than protected service) the situation is different since the "Rule of 85" has been removed (and for post December 2006 service for new entrants to the Scheme from that date). For this service we have assumed the earliest age at which unreduced benefits become an entitlement is 65, except for those members who have protected status under the transitional provisions. For the common contribution rate calculations, early retirement factors are applied where the retirement age described above is below the member's eligible retirement age for unreduced benefits for post April 2015 service. Factors are in line with the standard scheme factors reduced by the Government Actuary's Department. No allowance has been made for non-ill health early retirements prior to the ages specified above. Additional capital contributions will be paid by employers in respect of the cost of these retirements.
Early retirements (ill-health)	Members can retire before their normal retirement age due to ill-health in certain circumstances. There are three levels of ill-health retirement, with each giving rise to different levels of benefit. Tier 3 retirements are funded separately outside the Scheme. A small proportion of the active membership is assumed to retire due to ill-health, as set out in the table in the next section. In addition the proportion assumed to fall into each ill health tier is also shown.
Proportions with dependants on death	The Fund pays benefits to qualifying dependants (spouse/civil partner/dependent child) on the death of a member. Therefore, the proportion of members with a qualifying dependant impacts on the total cost of benefit provision, with a higher proportion of dependants meaning a higher cost. The valuation calculations assume a proportion of the active membership to retire in normal health prior to age 65, as set out in the table in A.2.

Assumption	Why it is important and how it impacts on the liabilities
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. Expenses of administration are allowed for by adding 0.4% of Pensionable Pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
Discretionary benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.
50:50 option	From 1 April 2015 there is a 50:50 option available to members, whereby they can opt to receive 50% of the standard Fund benefits in return for paying 50% of the standard employee contributions. When calculating the average Common Contribution Rate we have assumed no existing or future members will select this option. This assumption will be reviewed at the next valuation.

The liabilities of the Fund are calculated by projecting forward all of the future benefit cash flows and discounting them back to the effective date of the valuation, using these assumptions. For example, the liability for a single pensioner is calculated by estimating the amount of each pension payment they will receive in the future, multiplying by the probability that the member will be still be alive by the date of each payment, and then discounting each payment back to the effective date of the valuation; and then summing up all of these discounted amounts. The liabilities for the whole Fund are calculated by summing the liabilities for each of the individual members.

A.2. Assumptions used to calculate the funding target

The tables below summarise the key assumptions used in the calculation of the Funding Target and those used for the 31 March 2011 actuarial valuation.

Financial assumptions	31 March 2014	31 March 2011
Discount rate:	4.9 % p.a.	5.9 % p.a.
Assumed long term CPI inflation	2.6 % p.a.	3.0 % p.a.
Salary increases – Long term	4.1 % p.a.	4.75% p.a.
– Short term (3 years)	1.0 % p.a.	N/A
Pension increases in payment	2.6 % p.a.	3.0 % p.a.

Demographic assumptions	31 March 2014	31 March 2011
Pre-retirement mortality – base table	AC00 tables with adjustments of 73% (male) and 60% (female) to reflect the Fund's membership profile	PA92 year of birth tables adjusted by 1 year (females only) to reflect the Fund's membership profile. Future improvements in line with medium cohort projections
Post retirement mortality – base table	CMI Self-Administered Pension Schemes (SAPS) tables with scheme and member category specific adjustments (see further detail below)	CMI Self-Administered Pension Schemes (SAPS) tables with scheme and member category specific adjustments (see further detail in 2011 valuation report)
Post retirement mortality – future improvements:		
Males	CMI_2013_M [1.5%]	CMI_2009_M [1.5%]
Females	CMI_2013_F [1.5%]	CMI_2009_F [1.5%]

Demographic assumptions	31 March 2014	31 March 2011
Ill health retirement	(see further detail below)	(see 2011 valuation report)
Withdrawal	(see further detail below)	(see 2011 valuation report)
Proportions married	(see further detail below)	(see 2011 valuation report)

Post retirement mortality

		Base Table	Improvements	Adjustment (M / F)
Current pensioners	Normal health	S1PA	CMI_2013 [1.5%]	106% / 103%
	Ill-health	S1PA	CMI_2013 [1.5%]	Normal health + 3 years
	Dependants	S1PMA / S1DFA	CMI_2013 [1.5%]	175% / 121%
	Future dependants	S1PMA / S1DFA	CMI_2013 [1.5%]	114% / 108%
Current active / deferred	Active normal health	S1PA	CMI_2013 [1.5%]	107% / 97%
	Active ill-health	S1PA	CMI_2013 [1.5%]	Normal health + 4 years
	Deferred	S1PMA	CMI_2013 [1.5%]	133% / 114%
	Future dependants	S1PMA / S1DFA	CMI_2013 [1.5%]	114% / 108%

An **age rating** applied to an actuarial table has the effect of assuming that beneficiaries have a life expectancy equal to those older (or younger) than their actual age.

For example, a “+1 year” rating would mean beneficiaries are assumed to have the mortality of someone one year their senior which has the effect of reducing their life expectancy and hence reducing the assessed value of the corresponding liabilities.

A **weighting** applied to an actuarial table has the effect of increasing or reducing the chance of survival at each age, which increases or reduces the corresponding life expectancy.

For example, a “106%” weighting would mean beneficiaries have mortality rates 6% higher than the unadjusted table which reduces the assessed value of the corresponding liabilities.

The mortality assumptions used for the 31 March 2014 valuation result in the following life expectancies.

	Years
Life expectancy for a male aged 65 now	22.1
Life expectancy at 65 for a male aged 45 now	24.2
Life expectancy for a female aged 65 now	24.6
Life expectancy at 65 for a female aged 45 now	27.4

Ill health retirement

A small proportion of the active membership has been assumed to retire owing to ill health. As an example of the rates assumed, the following is an extract from the decrement table used:

	% retiring per annum	% retiring per annum
Age	Males	Females
35	0.05	0.04
45	0.13	0.13
55	0.60	0.52

The proportion of ill health early retirements falling into each tier category, split by males and females, has been assumed to be as set out below:

	Tier 1	Tier 2	Tier 3
Males	72%	9%	19%
Females	73%	14%	13%

	Conditions	Benefits based on
Tier 1	No reasonable prospect of undertaking gainful employment before age 65.	Accrued membership plus prospective membership to age 65
Tier 2	Reasonable prospect of obtaining gainful employment before age 65.	Accrued membership plus 25% of prospective membership to age 65
Tier 3	Retirements are funded separately outside the Scheme.	

Withdrawal

This assumption relates to those members who leave the scheme with an entitlement to a deferred pension. It has been assumed that active members will leave the Scheme at the following sample rates:

	% leaving per annum	% leaving per annum
Age	Males	Females
25	13.50	14.92
35	3.39	4.18
45	1.69	2.59

Partners and Dependants Proportions

It has been assumed that the proportions of members below will on death give rise to a dependant's pension (spouse's and partner), and that spouses/partners of female (male) members are three years older (younger), on average than the member.

	% spouse/partner	% spouse/partner
Age	Males	Females
25	10	17
35	49	55
45	64	65
55	71	70
65	77	68

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A.3. Assumptions used to calculate future service cost

The cost of future accrual (normal cost) has been calculated using the same actuarial assumptions as used to calculate the funding target and recovery plan as set out above except that the financial assumptions adopted are as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and

- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities so the base yield is currently higher due to the shape of the yield curve.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum. This represents a reduction of 0.50% per annum compared to the 2011 valuation, to reflect the reduction in gilt yields (and so the increase in the expected cost of providing LGPS benefits) over the period. With a long term average assumption for price inflation of 2.6% per annum, this gives rise to an overall discount rate of 5.6% p.a.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

	31 March 2014	31 March 2011
Discount rate	5.6% p.a.	6.5% p.a.
Salary increases	4.1% p.a.	4.75% p.a.
Pension increases in payment	2.6% p.a.	3.0% p.a.

A.4. Assumptions used to calculate the contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

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APPENDIX B

Summary membership data

The membership data is summarised in the table, with figures at the previous valuation shown for comparison.

Data in relation to members of the Fund were supplied by the Administering Authority. The accuracy of the data provided has been relied on. While reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently Mercer does not accept any liability in respect of its advice where it has relied on data that is incomplete or inaccurate.

In addition to the current pensioners and spouses in the table, there were 117 current dependant pensioners as at 31 March 2014 with pensions totalling £174,431 per annum.

	31 March 2014	31 March 2011
Active members		
Number	22,805	21,519
Total Pensionable Salaries (£000s p.a.) [1]	411,803	393,309
Average Pensionable Salary (£ p.a.)	18,058	18,277
Average age [2]	51.0	50.1
Average past service [3]	11.2	11.4
Deferred pensioners [4]		
Number	17,390	16,011
Total deferred pensions revalued to valuation date (£000s p.a.)	29,415	22,817
Average deferred pension (£ p.a.)	1,691	1,425
Average age [2]	48.4	47.6
Current Pensioners and Spouses		
Number	16,826	14,811
Total pensions payable (£000s p.a.)	79,916	65,801
Average Pension	4,750	4,443
Average Age [2]	69.8	69.0

[1] Including actual pay for part time members
[2] Weighted by accrued pension/deferred pension/pension
[3] Weighted by salary
[4] Including frozen refunds

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APPENDIX C

Assets

The market value of the Fund's assets was £2,833,575,000 on the valuation date based on the audited accounts.

The Administering Authority's investment strategy is to proportion the Fund's assets by asset class as shown in the table below. The actual distribution of assets will vary over time due to changes in financial markets. The table also shows the distribution of assets at the valuation date.

The Administering Authority also holds additional voluntary contributions (AVCs), which are separately invested. These assets have been excluded from the market value shown as they exactly match the value of the benefits they cover.

The details of the assets at the valuation date and the financial transactions during the inter-valuation period have been obtained from the audited accounts for the Fund. Details of the investment strategy can be found in the Statement of Investment Principles.

	Actual market value of assets at 31 March 2014	
	£000s	**%**
Fixed Interest	228,391	8.1
Index Linked	3,012	0.1
Equities	1,248,540	44.1
Pooled Vehicle	982,598	34.7
Property	159,247	5.6
Unit Trust	8,531	0.3
Private Equity	136,414	4.8
Cash and current assets / (liabilities)	66,842	2.3
Total	2,833,575	100

APPENDIX D

Scheme Benefits

The benefits valued within our calculations are those in force at the effective date of the valuation. Full details of these can be found in the Local Government Pension Scheme (Scotland) Regulations 2008 (as amended). The principal regulations relating to benefits earned up to 31 March 2014 are:

The Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008

The Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008

The benefits offered under the LGPS will change with effect from 1 April 2015, and the regulations relating to benefits earned after that date are:

The Local Government Pension Scheme Regulations (Scotland) 2014

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) (Scotland) Regulations 2014

We have made no allowance for other changes which may be introduced in the future.

The benefits arising from the award of compensatory added years (CAY) of service on premature retirement have been treated as follows:

The general position is that the CAY benefits (together with associated pension increases) are recharged to the relevant employer. These benefits are therefore excluded from the valuation. However, for any employers who have opted to discharge part or all of their liability in respect of CAY, this has been allowed for when assessing the contribution requirements. Where appropriate, the contributions certified in the Rates and Adjustments Certificate allow for the additional costs.

The contributions certified in the Rates and Adjustments Certificate allow for the additional liabilities in relation to pension increases payable on benefits accrued before 26 October 1986 within the Aberdeen City Council Transport Fund for members of First Aberdeen Limited, which are recharged on a £ for £ basis to the Fund.

The benefits that will emerge from money purchase AVCs paid by members, and SCAVCs paid by employers, and the corresponding invested assets in respect of these AVCs and SCAVCs, have been excluded from the valuation.

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgement) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. There is no consensus or legislative guidance as to what adjustments have to be made to scheme benefits to correct these inequalities for ongoing schemes (i.e. for schemes other than those which are in the Pension Protection Fund). The valuation makes no allowance for removal of these inequalities. It is consequently possible that additional funding will be required for equalisation once the law has been clarified. It is recommended that the Administering Authority seek further professional advice if it is concerned about this issue.

APPENDIX E

Summary of Income and Expenditure

INCOME	Year ending 31 March			
	2012	**2013**	**2014**	**Total**
	£000s	£000s	£000s	£000s
Fund at beginning of year	**2,218,008**	**2,269,116**	**2,570,020**	**2,218,008**
Contributions to Fund:				
Employees	25,263	24,918	26,007	76,188
Employers	111,513	77,585	81,679	270,777
Transfer Values received	4,170	2,962	2,939	10,071
Investment income	44,068	45,969	55,240	145,277
Other income	61	56	56	173
Change in market value of investments	-22,509	260,044	217,074	454,609

EXPENDITURE	Year ending 31 March			
	2012	**2013**	**2014**	**Total**
	£000s	£000s	£000s	£000s
Retirement and Spouses' Benefits	73,748	80,146	83,532	237,426
Retiring allowances and death gratuities	25,667	18,558	20,153	64,378
Refund of conts	1,205	398	618	2,221
Transfer Values paid	3,448	4,069	2,933	10,450
Investment expenses	5,680	5,470	10,592	21,742
Administration expenses	1,710	1,989	1,612	5,311
Fund at end of year	**2,269,116**	**2,570,020**	**2,833,575**	**2,833,575**

APPENDIX F

Analysis of experience of the membership of the Fund for the period 1 April 2011 to 31 March 2014

The analysis below compares the actual experience over the 3 year period with the assumptions used for the 2014 valuation.

	Actual	Expected	%
Ill Health Retirements	194	258	75
Withdrawals	7,617	1,915	398
Pensioner Deaths	1,421	1,227	116

Note that actual withdrawals can include members moving to another LGPS Fund, bulk transfers and also transfers under the special transfer club terms.

APPENDIX G

Rates and Adjustments Certificate issued in accordance with Regulation 32 of the Administration Regulations

Name of Fund	**North East Scotland Pension Fund**

Primary Contribution Requirements

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2014 should be at the rate of 14.9 per cent of Pensionable Pay (including those in respect of members of the LGPS under the 50:50 option).

I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2015, as set out above, should be individually adjusted as set out in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in Appendix H or in a separate agreement with an individual employer, and the contributions in the attached schedule take account of any such agreements.

Further Adjustments

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of zero.

The individual employer contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or parties including where the third party or parties participate in the Fund.

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

Regulation 32(8)

No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature:	P Middleman	**Date of signing:**	31 March 2015
Name:	Paul Middleman Fund Actuary	**Qualification:**	Fellow of the Institute and Faculty of Actuaries
Signature:		**Date of signing:**	31 March 2015
Name:	Laura Evans	**Qualification:**	Fellow of the Institute and Faculty of Actuaries

APPENDIX H

Schedule to the Rates and Adjustment Certificate dated 31 March 2015

Employers	2015/16		2016/17		2017/18	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Councils Group	4.4	19.3	4.4	19.3	4.4	19.3
Other employers group	5.1	20.0	5.9	20.8	6.6	21.5
Standalone employers:						
Aberlour Child Care Trust	5.4	20.3	5.4	20.3	5.4	20.3
The Robert Gordon University	4.4	19.3	4.4	19.3	4.4	19.3
Robert Gordon's College	5.5	20.4	5.5	20.4	5.5	20.4
Alcohol Support Ltd	5.7	20.6	5.7	20.6	5.7	20.6
Archway	9.6	24.5	9.6	24.5	9.6	24.5
Middlefield Community Project	8.5	23.4	12.7	27.6	16.8	31.7
Tenants First Housing Co-op	11.4	26.3	11.4	26.3	11.4	26.3
North East Scotland College (see note 3)	0.8	15.7	0.8	15.7	0.8	15.7
Moray College	5.1	20.0	5.9	20.8	6.6	21.5
Visit Scotland	5.9	20.8	5.9	20.8	5.9	20.8
Home Start Aberdeen	7.8	22.7	11.3	26.2	14.7	29.6
Scotland's Lighthouse Museum	6.2	21.1	6.2	21.1	6.2	21.1
Robertsons Shire	7.6	22.5	7.6	22.5	7.6	22.5
Station House Media Unit	-0.7	14.2	-0.7	14.2	-0.7	14.2
Aberdeen Sports Village	-0.6	14.3	-0.6	14.3	-0.6	14.3

Sport Aberdeen	-2.0	12.9	-2.0	12.9	-2.0	12.9
Robertsons City	7.5	22.4	7.5	22.4	7.5	22.4
Forth and Oban	6.2	21.1	6.2	21.1	6.2	21.1
Drugs Action	2.9	17.8	2.9	17.8	2.9	17.8
Bon Accord Care	2.4	17.3	2.4	17.3	2.4	17.3
Bon Accord Support	0.3	15.2	0.3	15.2	0.3	15.2
Sanctuary Housing	14.8	29.7	14.8	29.7	14.8	29.7
Scottish Water (see note 3)	1.5	16.4	1.5	16.4	1.5	16.4
Northern Community Justice Authority	1.5	16.4	1.5	16.4	1.5	16.4
Scottish Fire and Rescue Service	5.8	20.7	5.8	20.7	5.8	20.7
Scottish Police (Combined)	4.4	19.3	4.4	19.3	4.4	19.3

Councils Group	
100	Aberdeen City Council
101	Aberdeenshire Council
102	The Moray Council
104	Grampian Valuation Joint Board
All other employers	
This group applies to all other employers that are not detailed in the above group or separated out as part of the Schedule to the Rates and Adjustment Certificate dated 31 March 2015.	

Notes:

1. The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS from 1 April 2015.

2. Unless noted separately (by note 3), employers can choose to pay in advance their expected deficit contributions for a given year by 30 April each year as a £ lump sum. Where an employer chooses to make such payments in advance, the Actuary will confirm the amount to be paid. The employer will also need to notify the Fund of its intentions before making any advance payment.

3. The contribution rate payable for these employers is based on the assumption that a lump sum in respect of deficit contributions will be paid in advance. Interest, as per the advice of the Actuary, will be applied for late payment.

4. Separate payments will be made from the North East Scotland Pension Fund to the Aberdeen City Council Transport Fund in respect of pension increases payable to retired members relating to benefits accrued prior to 26 October 1986. These recharge amounts will be calculated by the Fund separately.

5. The total annual contributions payable by each employer will be subject to a minimum of zero.

MERCER

Mercer Limited
Number 4 St Paul's Square
Old Hall Street
Liverpool L3 9SJ
+44 (0)151 236 9771

North East Scotland
PENSION FUND

North East Scotland Pension Fund (NESPF) 2014 Funding Strategy Statement (FSS)

This Statement has been prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the North East Scotland Pension Fund (the NESPF), in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended) ("the Administration Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to :-
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the NESPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010;
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the NESPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2015 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also the introduction of a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the NESPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 (as amended) ("the BMC Regulations") and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme (Scotland) Regulations 2014 ("the 2014 Regulations") and the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 governs the NESPF from 1 April 2015. The required levels of employee contributions from 1 April 2015 are also specified in the 2014 Regulations.

Employer contributions are determined in accordance with the Administration Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the NESPF should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of Common Contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. PURPOSE OF THE FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the NESPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. AIMS AND PURPOSE OF THE NESPF

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses

as defined in the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 (as amended), the 2014 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the NESPF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the NESPF's performance and funding and amend FSS/SIP.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,
- prepare advice and valuations on the termination of admission agreements
- provide advice to the administering authority on bonds or other forms of security against the financial effect fo the fund of employer default
- assist the administering authority in assessing whether employer contributions need to be revised between valuations as required by regulations
- ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Administration Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Contribution Rate.

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. Separate contribution rates have applied for all new employers admitted to the Fund with effect from 1 April 2008. [*As part of the 2014 valuation, following consultation with the employers, separate contribution rates will be assessed for the following defined groups of employers:*

i) Councils and Joint Valuation Board Group
ii) Colleges Group
iii) Other Pre-2008 Employers Group

Details of the employers who fall into these groupings are set out in the actuarial valuation report.

All other employers will pay their own bespoke rate of contribution.

These rates are assessed taking into account the experience and circumstances of each employer / grouping, following a principle of no cross-subsidy between the distinct employers / employer groupings in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole. *The Administering Authority reserves the right to amend this approach for certain employers based on their covenant risk profile and/or appetite for risk.*

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2014 actuarial valuation:

- In the current circumstances, as a general rule, the Fund does not believe it appropriate for deficit contribution reductions to apply compared to the 2011 funding plan where substantial deficits remain.
- In addition, a **maximum** deficit recovery period of 19 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 19 year period (if

surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions will be phased down as appropriate. The Administering Authority reserves to the right to adjust this on a case by case base if circumstances support it.

- The employer contributions will be expressed and certified as a percentage of pensionable payroll (unless agreed otherwise with the Administering Authority).

- Where increases in employer contributions are required from 1 April 2015, following completion of the 2014 actuarial valuation, the increase from the rates of contribution payable in the year 2014/15 may be implemented in steps, over a maximum period of 3 years (subject to the agreement of the Administering Authority).

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. The full termination policy is set out in Appendix 3.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective. The Administering Authority will regularly review employer covenant for employers participating in the Fund in line with the framework detailed in the employer covenant / risk policy set out in Appendix 4.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the security of future income streams

- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority would in specific circumstances be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2015/18. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

The Normal Cost of the Scheme (Future Service Contribution Rate)
In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Appendix 1.

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

The results of the 2014 valuation show the liabilities at 31 March 2014 to be 94% covered by the current assets, with the funding deficit of 6% being covered by future deficit contributions.

In assessing the value of the NESPF's liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the NESPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the NESPF's assets in line with the least risk portfolio would minimise fluctuations in the NESPF's ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

Asset Class (Summary)		**%**
	Equities	65
	Bond	10
	Property	10
	Alternative Assets (incl. Private Equity)	15
	TOTAL	**100**

The funding strategy adopted for the 2014 valuation is based on an assumed asset out-performance of 1.4% per annum.

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the NESPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the NESPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the Risks?

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

The Administering Authority's policy will be to regularly review such aspects to ensure that all the assumptions used are still justified and that the appropriate action is taken where possible to mitigate such risks.

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

The Administering Authority will ensure that the Fund actuary investigates these matters at each valuation and reports on developments. The Administering Authority will agree with the Fund actuary any changes which are necessary to the assumptions.

Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of those items identified above and will consider and monitor the employer related risks as set out in Appendix 4.

8. MONITORING AND REVIEW

In preparing this FSS the administering authority has consulted with such persons as the authority considers appropriate.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy;
- if there have been significant changes to the NESPF membership, or LGPS benefits;
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants;
- whether there have been any significant changes in the employer risk profiles as set out in Appendix 4;and
- if there have been any significant special contributions paid into the NESPF.

Steven Whyte
Head of Finance
Aberdeen City Council as Administering Authority for the North East Scotland Pension Fund

ACTUARIAL VALUATION AS AT 31 MARCH 2014

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.4% per annum .

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. This results in a total salary increase of 1% per annum for 3 years.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting NESPF specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of death before retirement, retirement in normal health and retirement in ill-health have been modified from the last valuation. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2014 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2014 actuarial valuation

Long-term gilt yields	
Fixed interest	3.5% p.a.
Index linked	-0.1% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.9% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	106% / 103%	CMI_2013	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2013	1.5%
	Dependants	S1PMA/S1DFA	175% / 121%	CMI_2013	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PMA	107% / 97%	CMI_2013	1.5%
	Actives ill health	S1PMA	Normal health + 4 years	CMI_2013	1.5%
	Deferreds	S1PMA	133% / 114%	CMI_2013	1.5%
	Future dependants	S1PMA/S1DFA	114% / 108%	CMI_2013	1.5%

Other demographic assumptions are noted below:

Withdrawal	As for 2011 valuation
Proportions Married	As for 2011 valuation
Other demographics	Based on LG scheme specific experience.
50:50 Option	Nil

APPENDIX 2

Assumptions used in calculating contributions payable under the Deficit Recovery Plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target.

Appendix 3

North East Scotland Pension Fund

Policy on Termination Funding for Employers ("Termination Policy")

1. **Introduction**

1.1. This document details the North East Scotland Pension Fund's (NESPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers NESPF's policy on admissions into the Fund and sets out the considerations for current and former *admission bodies*. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

1.2. *Admission bodies* are required to have an "*admission agreement*" with the Fund. In conjunction with the Regulations, the *admission agreement* sets out the conditions of participation of the *admission body* including which employees (or categories of employees) are eligible to be members of the Fund.

1.3. *Scheme Employers* have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (*Part 2 Scheme Employers*) do need to designate eligibility for its staff.

1.4. A list of all current *employing bodies* participating in the NESPF is kept as a live document and will be updated by the *Administering Authority* as bodies are admitted to, or leave the NESPF.

1.5. Please see the glossary for an explanation of the terms used (in italics) throughout this Appendix.

2. **Principles**

Termination of an employer's participation

2.1. When an *employing body* terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

2.2. In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different *Administering Authority*.

2.3. In the event that unfunded liabilities arise that cannot be recovered from the *employing body*, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

2.4. The NESPF's policy is that a termination assessment will be made based on *a least risk funding basis*, **unless** the *employing body* has a guarantor within the Fund or a successor body exists to take over the *employing body's* liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the *employing body's* liabilities will become *orphan liabilities* within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

2.5. If, instead, the *employing body* has a guarantor within the Fund or a successor body exists to take over the *employing body's* liabilities, the NESPF's policy is that the *valuation funding basis* will be used for the termination assessment unless the guarantor informs the NESPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the *employing body* within the Fund. (For *Admission Bodies*, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing *employing body* itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

2.6. It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund. In these cases no termination assessment is required as there will no longer be any *orphan liabilities* in the NESPF. Therefore, a separate assessment of the assets to be transferred will be required.

Funding basis

2.7. An *employing body* may choose to pre-fund for termination i.e. to amend their funding approach to a least risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the least risk basis. If a grouped admission body chooses this approach they will be required to move out of the group and to a bespoke individual contribution rate unless agreed otherwise by the Administering Authority.

2.8. For any *employing bodies* funding on such a *least risk* strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the *employing body's* notional asset share of the Fund will be credited with an investment return in line with the *least risk funding* assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

Administering Authority options relating to Admission Bodies

2.9. Prior to admission to the Fund, an *Admission Body* is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the *Administering Authority*. If the risk assessment and/or bond amount is not to the satisfaction of the *Administering Authority* (as required under the LGPS Regulations) it will consider and determine whether *admission body* must pre-fund for termination with contribution requirements assessed using the least risk methodology and assumptions.

2.10. Some aspects that the *Administering Authority* may consider when deciding whether to apply a least risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the *admission body* relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- If the *admission body* has an expected limited lifespan of participation in the Fund;

- The average age of employees to be admitted and whether the admission is closed to new joiners.

2.11. In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

3. Implementation

New admissions

3.1. The NESPF will apply the above principles to the admission of new bodies into the Fund and to the methodology for assessment of a termination payment on the cessation of such an *admission body's* participation in the NESPF.

Transferee admission bodies (TABs)

3.2. *Transferee admission bodies* are a category of *admission body* that generally will have a guarantor in the Fund. This is due to the Regulations requiring that, in the event of any unfunded liabilities on the termination of the admission, the contribution rate for the relevant *Scheme Employer* should be revised. Accordingly, in general, the least risk approach to funding and termination will not apply for TABs.

3.3. Any risk sharing arrangements agreed between the *Scheme Employer* and the TAB will be documented in the commercial agreement between the two parties and not the admission agreement.

3.4. On termination of a TAB admission, any *orphan liabilities* in the Fund will be subsumed by the relevant *Scheme Employer*.

3.5. The *Admission Body* is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the *Administering Authority*. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the NESPF. As the *Scheme Employer* is effectively the ultimate guarantor for these admissions to the NESPF it must also be satisfied (along with the *Administering Authority*) over the level (if any) of any bond requirement.

3.6. In the absence of any other specific agreement between the parties, deficit recovery periods for TABs will be set in line with the Fund's general policy as set out in the FSS.

3.7. An exception to the above policy applies if the guarantor is not a participating employer within the NESPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the NESPF the *Administering Authority* may in this case treat the *admission body* in accordance with paragraph 2.9.

Community admission bodies (CABs)

3.8. Historically, there was no requirement to carry out an assessment of the level of risk on termination of the admission agreement for a CAB until changes were made to the Regulations via the Miscellaneous (Scotland) Regulations 2012. For bodies admitted under previous legislation, despite no requirement to do so the *Administering Authority* may nevertheless have decided to carry out such a risk assessment where appropriate. As noted in 3.5, all *Admission Bodies* are now required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the *Administering Authority*.

3.9. The NESPF's policy is to consider applications on a case-by-case basis, in line with the principles set out above. In general, no CAB will be permitted to join the NESPF without having a guarantor body. If any risk assessment or determination of a bond amount is not to the satisfaction of the *Administering Authority*, or if a guarantor (of sufficient standing acceptable to the *Administering Authority*) is not forthcoming, the *admission body* will either not be approved or be required to pre-fund for termination with contribution requirements assessed using a least risk methodology and assumptions as set out in 2.9. Where bond agreements are to the satisfaction of the *Administering Authority*, the level of the bond amount will be subject to review on a regular basis.

3.10. On termination of a CAB, any unfunded liability that cannot be reclaimed from the outgoing body or bond will be underwritten by the relevant guarantor body

3.11. Following termination, any orphan liabilities in the Fund will be subsumed by the relevant guarantor body.

3.12. Deficit recovery periods will be determined consistent with the policy set out in the FSS. Alternatively, the *Administering Authority* may determine an employer specific deficit recovery period will apply.

Future Terminations

3.13. In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the *Administering Authority* becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the *employing body* is neither materially more nor materially less than its anticipated liabilities at the date it appears to the *Administering Authority* that it will cease to be a participating employer. In this case, *employing bodies* are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund reserves the right to modify the *employing body's* approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

Grouped Employers

3.14. The NESPF currently groups some employers for funding / contribution rate setting purposes.

3.15. The NESPF policy is that, on the termination of an employer within a group the termination assessment is based on a simplified share of deficit approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the body and the group as a whole, and then adjusting to date of exit. The adjustment to date of exit will allow for key factors that affect funding position i.e. actual investment returns and changes in market yields since the last actuarial valuation.

3.16. As for stand-alone employers, the NESPF's policy is that a termination assessment will be made based on *a least risk funding basis*, **unless** the *employing body* has a guarantor within the Fund or a successor body exists to take over the *employing body's* liabilities (including those for former employees).

Least Risk Termination basis

3.17. The least risk financial assumptions that applied at the actuarial valuation date (31 March 2014) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant *employing body's* cessation date.

Least risk assumptions	31 March 2014
Discount Rate	3.5% p.a.
CPI price inflation	2.9% p.a.
Pension increases/indexation of CARE benefits	2.9% p.a.

All demographic assumptions will be the same as those adopted for the 2014 actuarial valuation, unless agreed otherwise on a case by case basis.

Glossary

Admission bodies: A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Community admission bodies: A subset of, and the traditional type of *admission bodies* – bodies who operate in and/or are connected to local government. They also include *admission bodies* that are not associated to local government, as follows:

- Bodies which provide a public service in the UK otherwise than for the purposes of gain and which have sufficient links with a *Scheme Employer* to be regarded as having a community of interest.

- Bodies which provide a public service in the UK otherwise than for the purposes of gain and which are approved by Scottish Ministers to be admitted to the LGPS. Approval may be subject to such conditions as the Scottish Ministers think fit and they may withdraw approval at any time if such conditions are not met.

- Bodies to which any *Scheme Employer* provides funding. Where at the date that the admission agreement is made with such a body the total contribution from any one or more *Scheme Employers* to its contribution income equals 50% or less of the funding contributed by third parties it must be a term of the admission agreement that the *Scheme Employer* who provides funding (and, if more than one, all of them) guarantees the liability of the *admission body* to pay all amounts due from it under the LGPS Regulations.

Employing bodies: any organisation that participates in the LGPS, including *admission bodies* and *scheme employers*.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

Least risk funding basis: more cautious funding basis than the existing valuation basis. The relevant discount rate used for valuing the present value of liabilities is consistent with that used under the most recent valuation but removing the allowance for asset out-performance.

Orphan liabilities: liabilities in the NESPF for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Part 2 Scheme Employers: employers that have the statutory right to participate in the LGPS, although these bodies (set out in Part 2 of Schedule 2 of the Administration Regulations) would need to designate an employee, or a class of employees to which he/she belonged, as being eligible for membership of the LGPS.

Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the Administration Regulations) would not need to designate eligibility, unlike the Part 2 *Scheme Employers*.

Administering Authority: Aberdeen City Council, as the lead authority of the NESPF, responsible for all aspects of its management and operation.

Transferee admission bodies: A subset of *admission bodies* and participates in the Fund for employees involved with delivery of a specific function or service for a *Scheme Employer*. An example is where a local authority outsources a specific service (e.g. waste management) to a private sector employer. In these cases the relevant *Scheme Employer* would be a party to the admission agreement, as well as the *admission body* itself and the *administering authority*.

APPENDIX 4

EMPLOYER ENGAGEMENT – RISK AND ASSESSMENT OF EMPLOYER COVENANT

Introduction

This policy sets out the Fund's approach to Employer risk management and in particular in respect of those bodies in the Fund defined as 'admission bodies'. This policy supports the Fund's Employer Engagement Strategy and Funding Strategy Statement

1.1 Admission bodies

Under the Local Government Pension Scheme (LGPS) (Scotland) Regulations, certain employers are allowed to participate in the North East Scotland Pension Fund (the Fund) if they satisfy the relevant criteria. These are known as admission bodies. An admission body is required to have an 'admission agreement' with the Fund. In conjunction with the regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

There are two types of the admission bodies:

Transferee admission bodies: these bodies generally will have a guarantor in the Fund since the regulations require that, in the event of any unfunded liabilities on termination of the admission, the contribution rate for the relevant Scheme employer should be revised.

Community admission bodies: In some cases these bodies (in particular historical cases) have no guarantor in the Fund so any unfunded liabilities on termination would be the responsibility of the whole Fund and therefore all employers.

From 1 February 2013 (The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 -as amended by SSI 2012/347) **all** new admission bodies are required to carry out, to the satisfaction of the administering authority, an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the admission body.

The admission body is required to enter into a bond to cover this risk but, where it is not possible for the community admission body to enter into a bond then a guarantee can be obtained from another entity provided certain conditions are met.

For transferee admission bodies it is acceptable for the original transferring employer to instruct in writing to the Administering Authority that they should waive the requirement for a bond/indemnity and/or other guarantee on the basis of the guarantee provided by the original scheme employer under the Regulations. The Administering Authority will consider if this is acceptable depending on the covenant of the original scheme employer.

1.2 Employer covenant

An employer's covenant underpins its legal obligation and ability to fund the Scheme now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Scheme is exposed, including underfunding, longevity, investment and market forces.

An Assessment of employer covenant focuses on determining the following:

- Type of body and its origins.
- Nature and enforceability of legal agreements.
- Whether there is a bond in place and the level of the bond.
- Whether a more accelerated recovery plan should be enforced.
- Whether there is an option to call in contingent assets.
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

2. RISK

2.1 Definition of Risk

Risk can be defined as the combination of the probability of an event and its consequences. In this instance, the probability centres around participation in the Fund coming to an end or being prematurely terminated and if employees are not transferred to another employer, pension rights will be retained within the Fund in respect of the outgoing employer These pension rights, deferred benefits, immediate retirement benefits or existing pensions in payment form the employer's liabilities. In the event that liabilities arise that cannot be recovered from the admission body, these will normally fall to be met by the original Scheme employer in the case of transferee admission bodies or the Fund as a whole in the case of community admission bodies unless there is a separate guarantor in the Fund. Therefore, the consequence is that the Fund is exposed to risk where employers are unable to meet their liabilities and there is no cover provided by a guarantor.

Risk management includes identifying and assessing risks (the 'inherent risks') and responding to them.

Response to risk, which is initiated within the organisation, is through management of risk and may involve one or more of the following:

- Tolerating risk.
- Treating risk in an appropriate way to constrain the risk to an acceptable level.
- Transferring the risk.
- Terminating the activity giving rise to the risk.

The level of risk remaining after a review is that which has been accepted (the 'residual risk") and is the exposure in respect of that risk, and should be acceptable and justifiable.

2.2 Identifying risk

The North East Scotland Pension Fund (the Fund) is exposed to a number of risks associated with admission bodies and other employers. In order to mitigate these risks, it is necessary to identify them and prescribe them certain levels so as to ascertain which are deemed tolerable and those that need to be addressed.

Broadly speaking the key risks specific to the Fund are as follows:

Financial - Market fluctuations, investment returns and pay/price inflation.

Demographic - Increased longevity and the cost of early retirements/death-in-service.

Regulatory - Changes to regulations and changes to national pension requirements and/or HMRC rules.

Governance - Administering authority unaware of structural changes in employer's membership, administering authority not advised of an employer closing to new entrants, and an employer ceasing to exist with insufficient funding or adequacy of a bond. In addition lack of quality data from the employer can impact of the risk profile.

Employers - Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy.

Clearly some of the risks identified are beyond the control of the Fund and, therefore, it is important to target those where it does have influence when mitigating risk. With this in mind, the focus of this document will be in the areas of governance and employers' activities or actions, but consideration should also be given to the cost of early retirements (including in ill health) and death in service and the potential for the transfer of such risk through appropriate insurance whether externally or internally within the Fund.

2.3 Levels of risk

The levels of risk facing the Fund can be generally classified as lower, medium and higher risk as illustrated below:

Participating Employers

Lower Risk	Medium Risk	Higher Risk
Local Authorities	Bodies which are part of a group or pooled bodies which share unfunded costs on default	Admission bodies with no guarantors and a significant deficit
Bodies with local authority guarantor	Admission bodies with small deficit or surplus of assets over liabilities	Bodies with potentially limited life span and in deficit
Bodies with long-term funding from local or central government		No active members or is closed with a significant deficit
		Relies on voluntary or charitable source of income with significant deficit

A key aspect of the risk categorisation will be the level of deficit in the Fund. This will be monitored as noted below.

The Fund will consider whether further banding of risk is required for employers and in certain cases it may be full assessment of potential risk is needed on a bespoke basis.

In addition in the context of those employers providing a guarantee to the Fund for certain employer liabilities (typically Local Authorities) the risk would be re-categorised ignoring the guarantee. This will be to show the guarantors the level of exposure in terms of their existing guarantees.

2.4 Nature of risk

The principal risk facing the North East Scotland Pension Fund is the inability of an employer to be able to meet its regular pension contributions and/or its liabilities upon termination. A deficit upon termination of an admission agreement might arise in the following scenarios:

a) Non-payment of contributions to the Fund by an employer prior to closure

b) Premature termination of a contract where market values are depressed relative to the liabilities in respect of an admission body, assessed on consistent assumptions to those adopted in the previous actuarial valuation.

c) The reality is less favourable than the assumptions used in setting contribution rates for that employer – for instance, lower than expected investment returns, higher than expected rates of early retirement or excessive pay increases.

d) Additional liabilities created as a result of the body closing, in particular the possible payment of immediate retirement benefits to all those eligible at that time.

e) A pre-existing deficit in the Fund (shortfall of attributable assets versus past service liability).

f) A change from open to closed status meaning the likelihood of automatic termination of participation when the final active member leaves the Fund.

3. ASSESSMENT OF RISK

3.1 Risk criteria

The Pensions Regulator has set out prescribed guidelines detailing the assessment criteria upon which an employer should be reviewed:

- Nature and prospects of the employer's industry.
- Employer's competitive position and relative size.
- Management ability and track record.
- Financial policy of the employer.
- Profitability, capital structure, cashflow and financial flexibility.
- Employer's credit rating.
- Position of the economy as a whole.

CIPFA also include information on how covenant and risk should be considered in their guidance *Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012*

Not all of the above would be applicable to assessing employer risk within the North East Scotland Pension Fund rather a balanced approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow.
- The relative priority placed on the pension scheme compared to corporate finances.
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

3.2 Risk Parameters

For the North East Scotland Pension Fund, the risk a particular employer represents will be quantified using a five pronged approach, governed by the assessment criteria or triggers outlined below. Where one or more of these triggers is engaged, such employers will be subject to a more detailed review by the Fund. These criteria, when analysed in conjunction with the strength of the employer covenant (Section 5), will provide the basis for the framework upon which risk will be continually assessed and employer stability monitored.

1. **Employer with less than five active members**

2. **Employer where significant member movements are imminent**

3. **Employer with a known participation length of 18 months or less**

4. **Employer with a known deficit of a significant level, relative to size of its financial metrics**

5. **Employer with a funding level identified at the last review of less than 80% or a deficit greater than £0.5m**

4. MONITORING/SCREENING OF THE EMPLOYER COVENANT

4.1 Assessing the employer covenant

The employer covenant should be assessed objectively and the ability of employers or guarantors to meet their obligations should be viewed in the context of the Fund's exposure to risk and volatility, while preserving the interests of other employers within the Fund. The monitoring of covenant strength by itself does not strengthen the Fund's security; however, it does enable the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach with a view to reminding employers of their obligations and managing their expectations. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, the proposal is for a number of fundamental financial metrics to be appraised to develop an overview of the employer's stability. These financial metrics center around the following:

- Does the employer have a guarantor within the Fund or corporate structure?
- The employer's funding source and length (if known).
- The employer's cashflow forecast, ideally over the next three to five years.
- If the employer has any contingent assets which can be used by the Fund to provide security.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted sensitively to gather as much information as possible. Focus will be placed on the continual monitoring of employers with a proactive rather than reactive view to mitigating risk.

An overview of the framework upon which an employer's covenant will be monitored is detailed in the diagram on page 8 (4.4). It is considered that this will provide the basis for actions to be taken and ultimately the management of risk, covered in the next section.

4.2 Frequency of monitoring

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. There will be instances where known 'events' or individual employer circumstances are to be taken into consideration, and they will be incorporated into the monitoring framework.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus. In such cases a more in depth analysis will be carried out taking into consideration all of the financial metrics and extenuating circumstances.

Separately the funding position will be monitored in conjunction with the Actuary to consider the potential exposure of the Fund in light of the covenant strength.

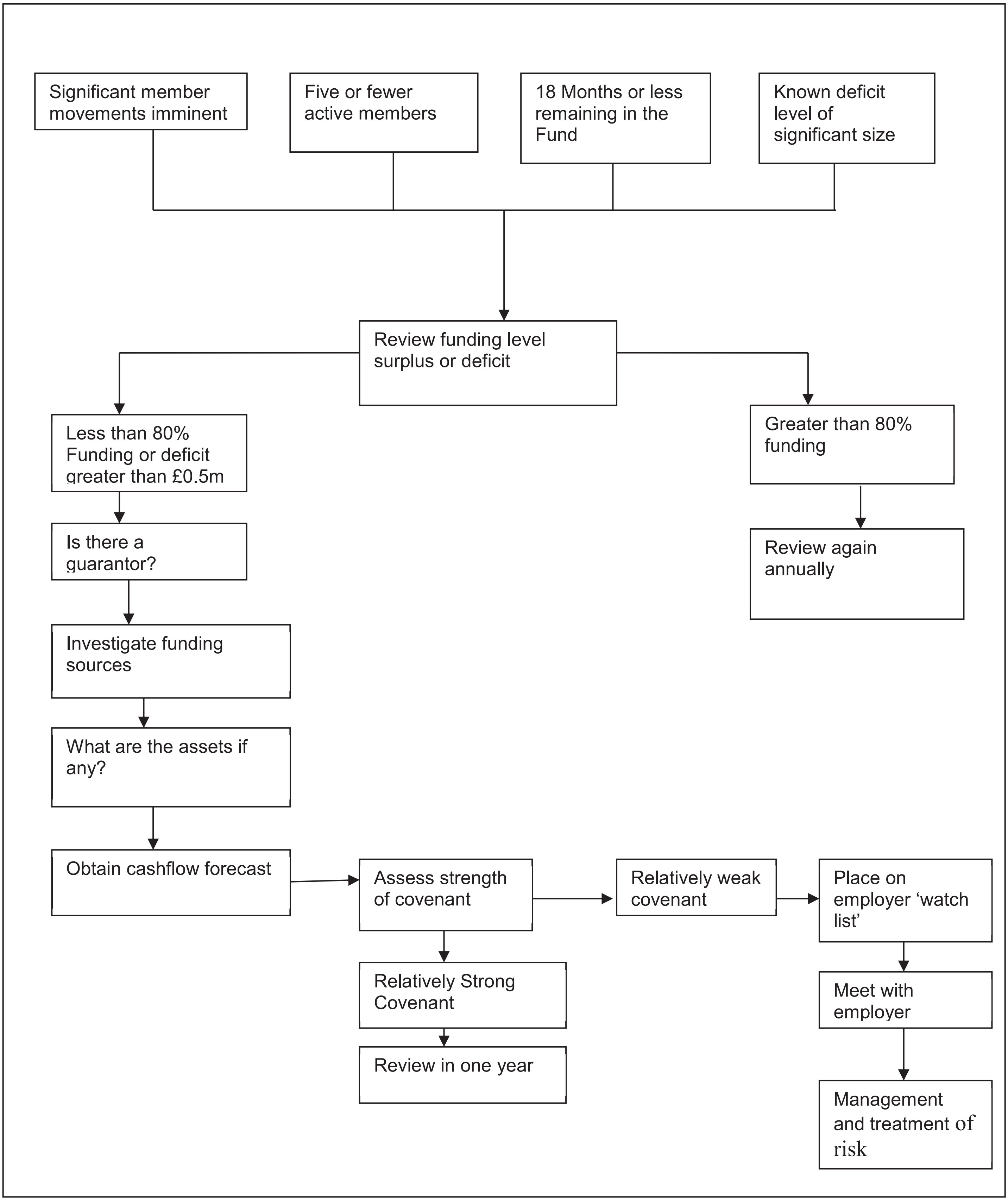
4.3 Employer meetings

As a basis for the monitoring of employers within the Fund, meetings are to be scheduled with those organisations where there is a particular concern over strength of their covenant, accrual of liabilities and future funding levels. Priority will be given to those employers requiring a more detailed review and the aim would be for meetings to be scheduled every six months for such organisations. In addition, it will also be necessary to arrange meetings with employers where there is a need to gain an understanding of their financial position with a view to assisting the monitoring process.

It is recognised that meetings will be tailored to each employer's needs, in conjunction with the Fund's assessment of that organisation; however, it is anticipated that the payment of pension liabilities on termination will feature heavily in these discussions.

There may also be a requirement for such organisations to draft a payment proposal for the Fund's consideration, along with a projection of future cash flows and income/expenditure.

4.4 Guide towards monitoring of the employer covenant



MANAGEMENT OF RISK

5.1 Management of risk

The focus of the Fund's risk management is the identification and treatment of the risks. It will be a continuous and evolving process which runs throughout the Fund's strategy. This management of risk is not a linear process; rather it is the balancing of
a number of interwoven elements which interact with each other and which have to be in balance with each other if the management is to be effective.

5.2 Initial Steps

For new bodies seeking admission to the Fund once the nature of that admission has been identified i.e. Transferee or Community Admission Body, the Pension Fund will conduct an audit to review the financial strength of the organisation, based on their accounts and other key criteria (scored out of 100).

- Regulation requires that relevant admission agreements must contain a provision requiring **all bodies** to undertake an assessment of the level of risk posed to the Fund in the event that the service contract terminates prematurely as a result of the organisation's insolvency, winding up or liquidation. Such assessments must take into account actuarial advice and must be carried out to the satisfaction of the relevant administering authority.

- In respect of outsourcing bodies, the North East Scotland Pension Fund (the Fund) will send out a risk assessment form to be completed by the outsourcing body at their expense. In order for a risk assessment to be conducted by the Fund actuary, the Scheme employer will need to provide a standard data file of the transferring staff to include names, national insurance numbers and details of current salary.

- For transferee admission bodies, upon receipt of the results of the risk assessment, which will include a calculation of the employer contribution rate, details of the contracted arrangement between the Scheme employer and organisation will be clarified. The Scheme employer will be required to confirm the responsibility for pension costs and any other contractual arrangements which may affect the participation and also whether a bond or separate guarantee is required. If there is a limit on the amount that should be reclaimed directly from the outgoing employer due to contractual arrangements then the Scheme employer must notify the Fund in writing that this needs to be taken into account. Any residual deficit (or surplus) will revert to the Scheme employer.

- On termination of the admission agreement, any contributions due will first be reclaimed from the organisation. If the organisation defaults on any payments then the bond (if a bond is in place) would be called on. Any outstanding monies would then fall back on the Scheme employer/guarantor.

The Fund will require confirmation of a suitable guarantor or indemnity for any transferee or community of interest admission body applications (see comments in 5.3 below).

5.3 Bond/Guarantee

In the event that an organisation becomes insolvent, it is unlikely to be able to meet its funding obligations to the Fund. Allowing organisations to become an admission body, therefore, creates an element of risk for the Fund, for other employers participating in the Fund and, in particular, for any outsourcing employing body.

If a risk assessment identifies a material level of risk, for an admission body, the administering authority will require the organisation to provide an indemnity or bond to protect against the identified risk or alternatively a separate guarantee.

Outsourcing employing bodies should regularly review the level of risk relating to an admission agreement, and require the admission body to put in place a revised bond or indemnity as appropriate.

The bond is the third party legal instrument required in respect of a organisation's admission to the LGPS (together with the service contract and the admission agreement). Organisations should consider employer rate and/or cost of bonds when making tender. Therefore, it is ideal these increased costs are considered early in contract/tender discussions.

Where a bond has been requested by the parent body or administering authority there will be a defined amount and timescale set. It is, therefore, important for the Fund to document the expiry date of such bonds and to monitor these closely. Bond information will be reviewed annually or when an expiry date is approaching. The aim would be to inform parent bodies where an expiry date is imminent to allow them to consider whether a revised bond is required. In cases where a revised bond is not required or cannot be obtained, it will be emphasised to the parent body that the potential for liability exists as ultimate guarantor.

As an alternative to a bond, the Fund will allow the organisation in question to set up an alternative guarantee or contingent assets e.g. an escrow account to which the Fund has direct claim upon in the event of insolvency or default, for the equivalent of the bond amount calculated by the Fund actuary. The Fund will require satisfactory evidence of such an alternative particularly on the understanding that it can only be closed or terminated via mutual consent. More detail is set out in 5.5 below.

5.4 Shortened recovery period.

The Fund actuary, in line with the Fund's Funding Strategy Statement (FSS), assumes a deficit recovery period based on the specifics of each employer group or individual employer. The Fund reserves the right to adjust this recovery period, where appropriate, dependent on the strength of an individual employer's covenant, its financial stability and future prospects.

In doing so, the Fund makes provision for any potential liability to be recouped over a shorter timescale, particularly where there is a risk the body in question may cease to exist. The shortening of the recovery period will of course increase the rates at which the employer must contribute and this needs to be weighed up in terms of its reasonable affordability vs impact on longer term covenant.

This involves a fine balancing act as it is not in the Fund's or guarantor's interest to impose an employer rate which is unaffordable and ultimately results in the premature cessation of that employer.

5.5 Contingent assets.

Contingent assets are assets which exist upon the occurrence of one or more specified future events, at the behest of the Fund – for instance, the failure to achieve a specified funding level. They are not typically included as Scheme assets, for the purpose of assessing whether a scheme meets its funding objective, until they are transferred to the scheme. Examples of contingent assets include:

- a known guarantor, which agrees to cover all liabilities, or a proportion of those liabilities, arising upon termination (the contingent event). This can take place through the absorption of those liabilities by the guarantor to form part of its own liabilities or through the payment of a specified amount.

- security over other assets – for instance, property or securities, such that the asset is transferred to the Fund if the contingent event occurs.

- a letter of credit or a bond (see 5.3).

- sterling cash put aside in a bank account whereby some or all of the cash would be released to the Fund on the occurrence of the contingent event – for example, an escrow account.

The above list is not exhaustive and the Fund will consider alternatives as appropriate to each individual circumstance.

5.6 Phased implementation of employer contribution rate

For certain bodies, the decision may be taken for the Fund's actuary to certify an employer rate lower than the target rate calculated for that particular body. This will usually involve the certified rate being set at the same level as that from the previous actuarial valuation and is with a view to providing that employer with a period of stability to alleviate short term cash funding issues. In such cases, the Fund will look for employers to increase their contributions on a phased basis, culminating in their reaching the Fund actuary's target rate at the end of an agreed period - typically a 3 year implementation period. The underpayment would be expected to be paid as soon as practical.

In order to calculate the annual increments applicable, the methodology will be based on the Fund actuary's target contributions, over the current contributions payable by the employer.

It will be stressed to employers that such rates still remain subject to change at the next triennial actuarial valuation and the approach will be taken on a case by case basis, including the treatment of the underpayment.

5.7 Inflated employer contribution rate (Risk premium)

Consistent with the Funding Strategy Statement (FSS), the funding objective for triennial actuarial valuations is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay, on the appropriate assumptions applicable to that employer.

In practice, each new employer's position is assessed separately and their individual rates take into account the differing circumstances of each employer and the funding plan covered in the FSS.

It is an avenue open to the Fund that contributions for an admitted body, where there is a weak employer covenant and an associated concern, could be set relative to the funding target in excess of 100% of the liabilities. This higher target represents a "risk premium" against potential additional liabilities on failure of that admitted body. For example, the employer contributions could be based upon a funding target of 110% of projected accrued liabilities or set dependent upon the Fund's view towards each employer's risk.

6. TRANSFER OF RISK FOR OUTSOURCED BODIES

6.1 Transfer of risk

In order to preclude cross subsidy within the Fund between certain admitted bodies and other employers, the costs and financial effects of employers' participation in the Fund are separately identified ('separation basis'). One result of this approach is that the risks associated with a defined-benefit scheme promise in respect of the transferring staff, are transferred to the new employer. The costs relating to salary increases and early retirements also become the responsibility of the new employer. This allocation of risk to the new employer is very important to protect the position of other employers in the Fund, particularly the letting authority. There are ways in which risks can be shared with the original employer and new employer such as via the separate contractual arrangement. This can include fixing or limiting the contribution requirements on an ongoing or termination basis within certain parameters. Whilst not a direct party in these arrangements the Administering Authority would need to be notified of any such arrangements if these are to be taken into account at the termination of participation.

7. TREATMENT OF MATERIALISED RISK

7.1 Treatment of materialised risk

The Fund recognises that there will be instances where, despite the monitoring of employer covenant and steps taken to both manage and transfer risk (where practical), this risk will nevertheless materialise. As identified previously, the principal risk facing the North East Scotland Pension Fund is the inability of an employer to be able to meet its liabilities upon termination or otherwise. Therefore, a prescribed set of measures need to be agreed to respond to this eventuality, in order to minimise the impact on the Fund.

7.2 Termination of an admission agreement

In the event of termination of an admission agreement, for any one of the reasons covered in section 2.4, it will be necessary for the Fund actuary to calculate the associated deficit on a least-risk or gilts basis (unless the liabilities are to be transferred to another employer in the Fund e.g. in relation to a Transferee Admission Body where typically the assumptions would be on an ongoing actuarial valuation basis). The organisation in question will be responsible for paying the actuary's fee for this work, and the Administering Authority reserves the right to include it in the termination assessment and final contribution due from the employer or recharge it directly from the employer. The Fund will emphasise to employers their responsibility for remittance of the total deficit upon termination; however, in certain circumstances it may not be possible for an organisation to pay the total termination liabilities in one lump-sum. In this scenario, the Fund would request the organisation provides a payment plan for review and, if this is not satisfactory, consideration will be given to an independent financial and governance review (see 7.6).

Under the proposed Regulations effective 1 April 2015 employers would automatically be deemed to terminate participation when the last active member leaves service.

7.3 Closed Admission Agreement where no active members remain in the Fund.

A closed admission agreement relates only to a fixed population of employees. In the case of a transferee admission body, only those employees who transferred to the organisation from the outsourcing employing body can remain members of the LGPS through the admission agreement. Therefore, upon cessation of the last active member of a closed agreement, no further active members can be admitted and the approach for such cases would be the same as with *'Termination of an admission agreement'* detailed in section 7.2.

7.4 Open admission agreement where no active members remain in the Fund.

An open admission agreement for an admission body potentially allows further employees of the organisation to become a member of the LGPS. In some cases however the employer may not propose employees do join.

As such, upon exit of the last active member from the Fund under an open agreement, it is entirely possible that a new active member might be admitted in the future. However, as a consequence of no active members remaining in the Fund, there will be no payroll upon which to base contributions. Therefore, it will be necessary for the Fund actuary to calculate an annual lump-sum amount equivalent to that organisation's target employer contribution rate, in order to address the associated liabilities. In order to protect the Fund's interests in such cases, the suggested approach would be for this calculation to be aligned to the strength of employer covenant, whereby the recovery period and consequently the size of such lump-sum payments would be tailored with this in consideration.

Under the proposed Regulations effective 1 April 2015 employers would automatically be deemed to terminate participation when the last active member leaves service. Such cases would be dealt with as per section 7.2.

All cases will be considered on their own merits and the Fund reserves the right to request full payment of the deficit assessed by the Fund Actuary. Set out below is a rule of thumb guide to the parameters that would be considered for a target covenant based recovery period, where compliant with the parameters set out in the Funding Strategy Statement (FSS):

Weak employer covenant	A short recovery period (one or two valuation cycles i.e. 3-6 years) is preferable subject to contributions being reasonably affordable to the extent they do not impair the covenant.
Moderate employer covenant	As above but with perhaps 6-9 years being acceptable.
Strong employer covenant	As above but with perhaps 9-13 years being acceptable.

These are subject to any maximums in the FSS and are longer term "targets" to provide the balance between security for the Fund and affordability. The current maximum recovery period is [19] years other than in exceptional circumstances.

The covenant of the employer will be monitored on an ongoing basis as per section 4 above.

As with termination of an admission agreement, the costs of the Fund actuary's calculations will be the responsibility of the body in question. Agreement to the annual lump-sum payments will be required from the admitted body, in the same way that it would be sought in relation to ongoing employer rate contributions, calculated as part of the triennial actuarial valuation.

7.5 Winding-up, insolvency, or cessation of an employer

In the event an employer ceases to exist, the Fund would act as a creditor engaging with the administrator to recovery monies.

As part of the covenant assessment the Fund will consider the legal responsibility the employer has on termination in light of other legislation and priority order of other creditors.

7.6 Independent financial and governance standing review by third party auditor

In addition to the Fund taking preventative steps towards risk and responding in the appropriate fashion to address materialising risk, it may be necessary for the Fund to appoint a third party agent to conduct an independent review.

This review would be centered upon the financial measures and wider robustness of the governance of the organisation, particularly with a view to instances of substandard management or negligent practice. The appraisal also provides the Fund with an external audit of the monitoring and risk aversion process employed, which is aimed at preserving the interests of all other participating employers and/or guarantor. The key objectives of this review will be to evaluate the financial standing and underlying governance arrangements, specifically:

- an assessment of the strength of the balance sheet and, based on this, drawing conclusions on the affordability of proposed termination payments. This element of the review will include, for example, structure/liquidity ratios; and
- a high-level evaluation of the body's overall governance structures and the adequacy of management's medium-term planning arrangements in addressing weaknesses and risks; and
- to develop an assessment methodology that can be applied to bodies in assessing their capability and capacity to manage and meet pension liabilities.

The above is not an exhaustive list of criteria that will be applied and each case will be considered on its own merits by the third party agent.

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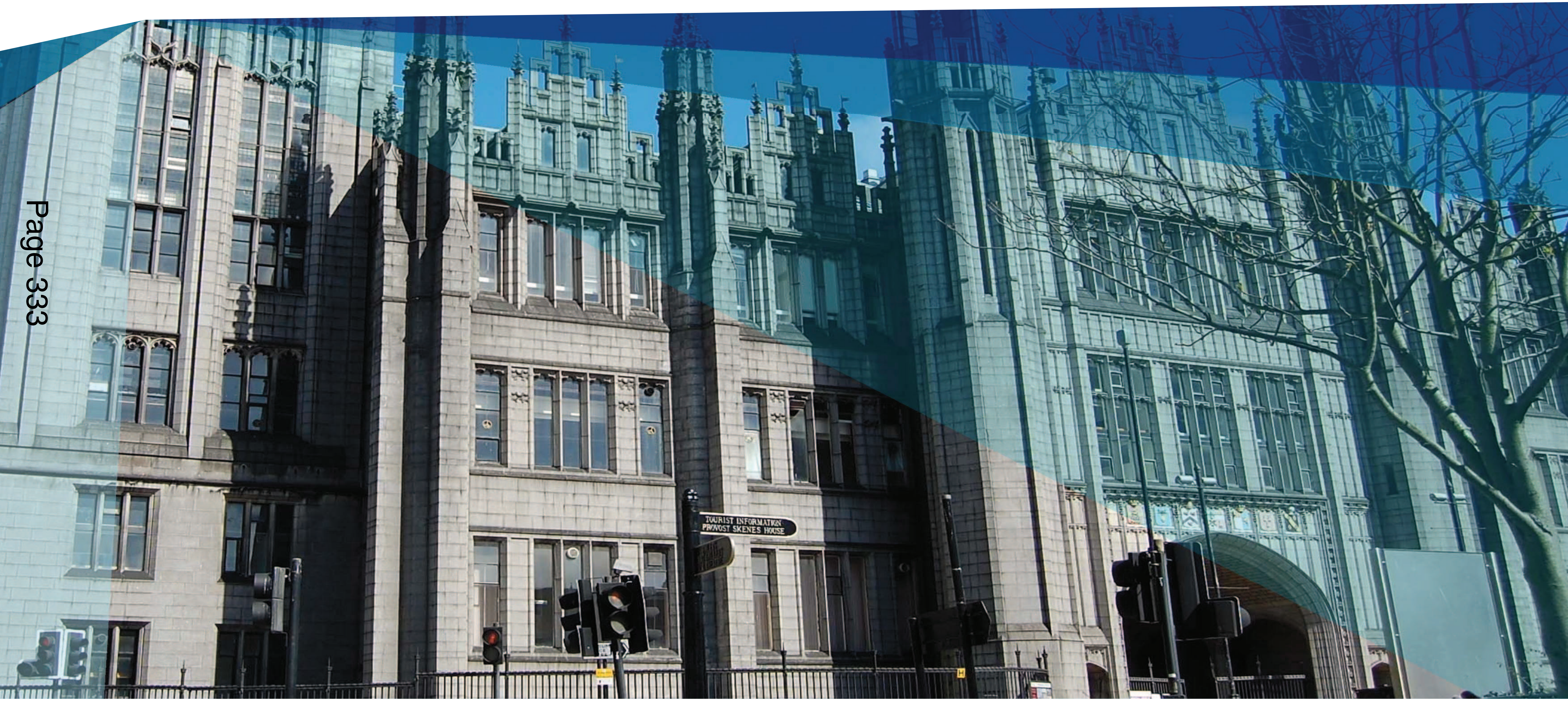
MERCER

FUNDING REPORT OF THE ACTUARIAL VALUATION AS AT 31 MARCH 2014

ABERDEEN CITY COUNCIL TRANSPORT FUND

MARCH 2015



TALENT • HEALTH • RETIREMENT • INVESTMENTS

MARSH & McLENNAN COMPANIES

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1

Introduction

This report is addressed to Aberdeen City Council as the Administering Authority of the Aberdeen City Council Transport Fund ("the Administering Authority") and is provided to meet the requirements of Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended). It describes the factors considered when carrying out the actuarial valuation as at 31 March 2014 and the decisions reached as a result.

The purpose of the actuarial valuation is for the Administering Authority to determine:

- The expected cost of providing the benefits built up by members at the valuation date (the "liabilities"), and compare this against the funds held by the Fund (the "assets").
- An appropriate plan for making up the shortfall if there are less assets than liabilities.
- The contributions needed to cover the cost of the benefits that active members will build up in the future and other costs incurred in running the Fund.

Signature:	P Middleman	**Date of signing:**	31 March 2015
Name:	Paul Middleman	**Qualification:**	Fellow of the Institute and Faculty of Actuaries

This report has been prepared in accordance with the version of the *Pensions Technical Actuarial Standard* current at the date this report is signed. It also complies with the relevant requirements of *Technical Actuarial Standards R: Reporting Actuarial Information*, *D: Data* and *M: Modelling*, where they apply to this report. These Standards are all issued by the Financial Reporting Council. The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Fund and determining contribution rates for the future for First Aberdeen. Mercer does not accept liability to any third party in respect of this report; nor do we accept liability to the Administering Authority if the information provided in this report is used for any purpose other than that stated. The report may be disclosed to members and others who have a statutory right to see it. It may also be disclosed to First Aberdeen and, if the Administering Authority and Mercer consent, it may be disclosed to other third parties.

2

Key results of the funding assessment

2.1. Past service funding position

The table on the right compares the assets and liabilities of the Fund at 31 March 2014. Figures are also shown for the last valuation as at 31 March 2011 for comparison.

	£m	
	31 March 2014	**31 March 2011**
Total assets	79.8	67.9
Liabilities:		
Active members	24.2	23.1
Deferred pensioners	12.9	11.4
Pensioners	49.1	37.0
Total liabilities	86.2	71.5
Past service surplus / (shortfall)	(6.4)	(3.6)
Funding level	93%	95%

The table shows that at 31 March 2014 there was a shortfall of £6.4m. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 93% of its liabilities – this percentage is known as the funding level of the Fund.

At the previous valuation at 31 March 2011 the shortfall was £3.6m, equivalent to a funding level of 95%. The key reasons for the changes between the two valuations are considered in 3.2.

The liability value at 31 March 2014 shown in the table is known as the Fund's "funding target". The funding target is calculated using assumptions that the Administering Authority has determined are appropriate, having consulted with the actuary, and are also set out in the Administering Authority's Funding Strategy Statement (FSS).

Further details of the way in which the funding target has been calculated are set out in Appendix A.

The above liabilities allow for the fact that pension increases will continue to be recharged £ for £ to the North East Scotland Pension Fund in respect of pensionable service accrued prior to 26 October 1986.

2.2. Normal contribution rate

The valuation looks at the normal employer contribution rate required to cover the cost of the benefits (including death benefits and expenses) that will be built up over the three years from this valuation date to the next valuation date (the "Common Contribution Rate"). A summary of the assumptions used is provided in Appendix A.

The table on the right gives a breakdown of the Common Contribution Rate at 31 March 2014 and also shows the corresponding rate at 31 March 2011 for comparison. In calculating the average Common Contribution rate we have made no allowance for members to opt for the 50:50 scheme.

	% of Pensionable Pay	
	31 March 2014	**31 March 2011**
Normal contribution rate including expenses	50.9	36.8
Average member contribution rate	6.0	6.0
Common Contribution rate	44.9	30.8

The benefits earned under the LGPS change with effect from 1 April 2015, and the Common Contribution Rate at 31 March 2014 allows for these changes. The impact of these benefit changes on the Common Contribution Rate is given in section 3.3.

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the governing Regulations (see Appendix D).

2.3. Allowance for post valuation market changes

Since 31 March 2014 there have been significant changes in the financial market position. In particular there has been a fall in gilt yields, which underpin the assessment of the past service liability values and therefore the long term funding target, which has led to a worsening of the funding position and an increase in the shortfall. The Administering Authority and the employer have agreed that the contributions will initially be maintained at the 2014/15 levels with the option to review deficit contributions annually on an upward only basis.

The Schedule to the Rates and Adjustments Certificate (attached as Appendix H) sets out the contributions for the three year period to 31 March 2018. The contributions take into account the funding plan, as laid down in the FSS. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

2.4. Correcting the shortfall

The funding objective as set out in the FSS is to achieve and maintain a funding level of 100% of liabilities (the Funding Target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

Under the same method and assumptions as used for calculating the funding target, by maintaining contributions at the 2014/15 levels (33% of pensionable pay plus £1.5m p.a.), the deficit of £6.4 million could be eliminated in approximately 6-7 years.

3

Experience since last valuation

3.1. Summary of key inter-valuation experience

The last actuarial valuation was carried out with an effective date of 31 March 2011. Since the last valuation the Government announced that the benefit structure under the LGPS will change with effect from 1 April 2015. The changes do not affect benefits earned prior to 1 April 2015, and so do not directly affect the funding level or shortfall of the Fund as detailed in section 2.1, but do affect the Common Contribution Rate for the Fund as quoted in section 2.2 (the impact of the changes is given in section 3.2). Details of the benefits are given in Appendix D.

The average salary increase (weighted by liability) for the Fund members who were in service for the whole of the inter-valuation period was 2.5% per annum.

Pensions in payment (in excess of Guaranteed Minimum Pensions (GMPs)) were increased as guaranteed under the Fund as follows:

- April 2012 5.2%
- April 2013 2.2%
- April 2014 2.7%

During the inter-valuation period, the gross investment return on the Fund’s assets has averaged 6.9% per annum.

3.2. Reasons for the change in funding position since the last actuarial valuation

As noted in 2.1, the shortfall at 31 March 2011 was £3.6m. The table below sets out the main reasons for the change in the shortfall between 31 March 2011 and 31 March 2014.

Analysis of changes in funding position	**£m**
Shortfall at 31 March 2011	(3.6)
Unwinding of interest on 2011 shortfall	*(0.5)*
Investment returns versus expectations	*4.7*
Deficit contributions paid	*5.6*
Salary increases versus expectations	*1.6*
Change in demographic assumptions	*(2.5)*
Change in financial assumptions	(10.5)
Member movements and other factors	*(1.2)*
Shortfall at 31 March 2014	(6.4)

The above analysis highlights the key factors affecting the Fund since the previous valuation:

- A deterioration in the position due to changes in underlying financial conditions, principally reductions in real gilt yields, which increases the liabilities.
- Certain changes made to the underlying demographic assumptions to reflect the Fund and LGPS wide experience have also had a negative impact on the shortfall. These changes are discussed in detail in Appendix A.
- These have been offset by positive investment performance, the impact of contributions paid by First Aberdeen and lower than expected pay increases for active members.
- As discussed in section 2.3, the financial conditions have worsened since 31 March 2014 increasing the value of the Fund's past service liabilities and shortfall and this has been taken into account when determining the recovery plan.

3.3. Reasons for the change in Common Contribution Rate since the last actuarial valuation

The table below sets out the main reasons for the change in the Common Contribution Rate between 31 March 2011 and 31 March 2014.

Analysis of changes in Common Contribution Rate	**%**
Common Contribution Rate at 31 March 2011	30.8
Change in profile	*+2.1*
Change in demographic assumptions	*+1.5*
Change in financial assumptions	*+8.3*
Impact of LGPS changes from 1 April 2015	*+2.2*
Common Contribution Rate at 31 March 2014	44.9

- The change in the financial assumptions has caused a significant increase in the employer contribution requirement. This has been driven in large part by the significant fall in real yields over the inter-valuation period (the assumptions used to calculate the contribution rate, and their derivation, are discussed in Appendix A).
- The upcoming changes to the LGPS, which produce an increase in employer costs given the profile of the Fund membership versus a typical LGPS Fund. This is principally due to the transitional protections that apply to eligible members in the Fund.

4

Variability and risk

The contributions for the Employer set out in the Schedule to the Rates and Adjustments Certificate (Appendix H) have been determined as described in Appendix A of this report and in line with the parameters as set out in the Funding Strategy Statement.

The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

It is likely, especially in the short-term, that the assumptions will not be borne out in practice. It is therefore important to consider the potential impact on the employer contribution rates of actual experience differing from what has been assumed. The details in this section do this, based on the valuation results for the Fund as a whole as at 31 March 2014. As noted in section 2.4 the funding position has deteriorated since the valuation date.

It should be borne in mind that the valuation results set out in Section 2 of this report, and the assumptions on which they are based, represent only one outcome, and measures which are set for funding purposes might well not be appropriate in other circumstances.

4.1. Projected funding position at next actuarial valuation

As part of this valuation, the Fund has agreed with the Employer to put in place a recovery plan to pay off the shortfall. The next actuarial valuation will take place with an effective date of 31 March 2017. If, on average, experience up to that date from 31 March 2014 is in line with the assumptions made for this current actuarial valuation and the illustrative contributions are paid, the expected funding level would be 99% at 31 March 2017.

4.2. Least risk basis

In assessing the value of the Fund's liabilities (the funding target), allowance has been made for asset out-performance and an Inflation Risk Premium as described in Appendix A, taking into account the investment strategy adopted by the Fund, as set out in the Fund's Statement of Investment Principles (SIP).

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist mainly of a mixture of long-term index-linked and fixed interest gilts. Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2014 valuation would have been higher, and the declared funding level would be correspondingly reduced to 89% and an equivalent deficit of approximately £9.9 million at 31 March 2014.

4.3. Material risks faced by the Fund

This section provides a broad overview of the risks faced by the Fund and their potential mitigation. However, this issue is covered in greater detail in the Funding Strategy Statement.

The Fund is subject to some potentially material risks that are, to an extent, outside the Administering Authority's control, but could affect the funding level. Any material worsening of the funding level will mean more contributions are needed (either at an increased rate or at the same rate over a longer period) to be able to provide the benefits built up in the Fund – unless experience acts in other ways to improve the funding level.

Examples of such risks, and how the Administering Authority manages them, are:

- If the employer becomes unable to pay contributions or to make good deficits in the future, the Fund's assets will be lower than expected and the funding level will be worse than expected. If the reason for the employer not paying the agreed contributions is one of financial difficulties, then the Administering Authority's focus would switch to the need to secure as far as possible that any debt from the employer on it exiting the Fund can be recovered. This risk will be mitigated by regular employer covenant reviews, strengthening of covenant as appropriate, and monitoring of changes in employer covenant. The Administering Authority has put in place a monitoring process in relation to employer covenant.

- If market levels and / or gilt yields change such that the liability values increase by more (or decrease by less) than the assets, the funding position would be worse than expected. An increase in employer contributions would be expected as a result. The same comments would apply if general population mortality studies and analysis of the Fund show that pensioners are living longer, or if improvements in mortality are found to be at a faster rate than allowed for. The analysis shown below illustrates the quantitative impact of such changes.

- If future investment returns on assets are lower than assumed in the valuation, the Fund's assets will be lower, and the funding level worse, than expected. The Administering Authority has a process in place to monitor investment performance, and they review the Fund's investment strategy alongside each actuarial valuation to ensure it is consistent with the funding strategy adopted.

- If members make decisions around their options such that those decisions increase the Fund's liabilities (e.g. by not commuting pensions for cash to the extent assumed), the funding position would be worse than expected. As a result, future employer contributions might then need to be increased.

- The Administering Authority, in conjunction the Employer, is implementing a Risk Management Framework to control certain financial risks. This will be considered as part of the 2017 Valuation.

4.4. Sensitivity of funding position to changes in key assumptions

The value placed on the Fund's liabilities is critically dependent on the assumptions used to carry out the calculations. If future experience differs from the assumptions used, then the projected future funding level will be different from the level described above in 4.1.

To illustrate how sensitive the funding level is to experience being different from the assumptions, the table below shows how the valuation results at 31 March 2014 would have differed given small changes in the key assumptions.

	Increase in shortfall at 31 March 2014 (£m)	**Increase in the average future service contribution rate at 31 March 2014 (% of Pensionable Pay)**
Discount rate reduces by 0.25%	+3.5	+2.2
Long-term inflation is 0.25% higher than assumed	+2.8	+2.1
Pensionable Salary growth is 0.5% higher than assumed	+0.6	Nil
Members live one year longer than assumed	+2.7	+1.0
Growth assets fall by 25%	+12.7	Nil

The same changes in the opposite direction would reduce the shortfall and the average future service contribution rate.

APPENDIX A

Assumptions

A.1. How the benefits are valued

In order to calculate the liabilities, there is a need to make assumptions about various factors that affect the cost of the benefits provided by the Fund – for example, how long members will live, or the future level of inflation. The table below explains the key assumptions being made in the valuation.

Assumption	Why it is important and how it impacts on the liabilities
Discount rate	The majority of benefits in a pension scheme are paid many years in the future. In the period before the benefits are paid, the Administering Authority invests the funds held by the scheme with the aim of achieving a return on those funds. When calculating how much money is needed now to make these benefit payments, it is appropriate to make allowance for the investment return that is expected to be earned on these funds. This is known as “discounting”. The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculation reflects this by placing a lower value on the liabilities if the discount rate is higher. The discount rate adopted so set the Funding Target is derived by mapping projected cashflows arising from accrued benefits to a yield curve (which is based on market returns on UK Government gilt stocks and other instruments of varying durations), in order to derive a market consistent gilt yield for the profile and duration of the Scheme’s accrued liabilities. To this an Asset Out-performance Assumption (“AOA”) of 0.25% per annum is added to reflect the Fund’s actual investment strategy. This AOA of 0.25% p.a. has been assessed as the equivalent to a differential AOA of 1.5% p.a. pre-retirement and 0.0% p.a. post-retirement as at 31 March 2014, which was the approach used at the 2011 valuation.

Assumption	Why it is important and how it impacts on the liabilities
Inflation	Pensions in payment increase in line with price inflation. Salary growth is also normally linked to price inflation in the long term. A higher inflation assumption will, all other things being equal, lead to a higher value being placed on the liabilities. The inflation assumption will be taken to be the investment market's expectation for RPI inflation based on the difference between yields derived from conventional and index-linked UK Government gilts as at 31 March 2014, reflecting the profile and duration of the Scheme's accrued liabilities but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index. The reduction to market implied RPI inflation at the valuation date is 0.5% per annum, as per 2011.
Pensionable Salary growth	Benefits earned prior to 1 April 2015 for active members are based on their salaries immediately before retirement, so it is necessary to make an assumption about future Pensionable Salary growth. The higher this assumption, the higher the value placed on the liabilities for active members. The assumption for real salary increases in the long term is 2.0% p.a. over the CPI inflation assumption described above. This includes allowance for promotional increases. This is consistent with the assumption at the previous valuation. However, in the short term, salary increases are assumed to be lower to reflect the employer's budgeted salary growth expectations. For the purpose of the results shown in this report, we have assumed that salary increases for the first four years following the actuarial valuation will be based on CPI.
Pension increases	Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. The pension increase assumption is modified appropriately to reflect any benefits which are not fully indexed in line with inflation.

Assumption	Why it is important and how it impacts on the liabilities
Life expectancy	Pensions are paid while the member (and potentially their spouse or partner) is alive. The longer people live, the greater is the cost of providing a pension. Allowing for longer life expectancy therefore increases the liabilities. The mortality assumptions will be based on information in relation to self-administered pension schemes published by the Continuous Mortality Investigation CMI, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are adjusted to reflect the Fund's membership profile and recent mortality experience, and are set out in the summary section below. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in an allowance for longevity 'improvement' year on year in the future in line with the 2013 CMI projections subject to a long-term improvement trend of 1.5% per annum. Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older for current pensioners, and 4 years older for future pensioners.
Commutation	It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take a 3/80ths cash sum (the standard for pre April 2009 service). The members have the option to commute part of their pension at retirement in return for a lump sum at a rate of £12 cash for each £1 per annum of pension given up.

Assumption	Why it is important and how it impacts on the liabilities
Early retirements (non-ill health)	Some members are entitled to receive their benefits (or part of their benefits) unreduced from an age prior to the Fund’s normal pension age under the “Rule of 85” provisions of the Regulations. This age will be at some point between ages 60 and 65, depending on the length of a member’s pensionable service. The calculations in respect of the relevant service to which these terms apply (basically pre April 2008 service but with transitional protections for certain members) allow for members to retire at this age. For post April 2008 service (other than protected service) the situation is different since the “Rule of 85” has been removed. For this service we have assumed the earliest age at which unreduced benefits become an entitlement is 65, except for those members who have protected status under the transitional provisions. For the common contribution rate calculations, early retirement factors are applied where the retirement age described above is below the member’s eligible retirement age for unreduced benefits for post April 2015 service. Factors are in line with the standard scheme factors reduced by the Government Actuary’s Department. No allowance has been made for non-ill health early retirements prior to the ages specified above. Additional capital contributions will be paid by employers in respect of the cost of these retirements.
Early retirements (ill-health)	Members can retire before their normal retirement age due to ill-health in certain circumstances. There are three levels of ill-health retirement, with each giving rise to different levels of benefit. Tier 3 retirements are funded separately outside the Scheme. A small proportion of the active membership is assumed to retire due to ill-health, as set out in the table in the next section. In addition the proportion assumed to fall into each ill health tier is also shown.
Proportions with dependants on death	The Fund pays benefits to qualifying dependants (spouse/civil partner/dependent child) on the death of a member. Therefore, the proportion of members with a qualifying dependant impacts on the total cost of benefit provision, with a higher proportion of dependants meaning a higher cost. The valuation calculations assume a proportion of the active membership to retire in normal health prior to age 65, as set out in the table in A.2.

Assumption	Why it is important and how it impacts on the liabilities
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. Expenses of administration are allowed for by adding a % of Pensionable Pay to the future service rate. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
Discretionary benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.
50:50 option	From 1 April 2015 there is a 50:50 option available to members, whereby they can opt to receive 50% of the standard Fund benefits in return for paying 50% of the standard employee contributions. When calculating the average Common Contribution Rate we have assumed no members will select this option. This assumption will be reviewed at the next valuation.

The liabilities of the Fund are calculated by projecting forward all of the future benefit cash flows and discounting them back to the effective date of the valuation, using these assumptions. For example, the liability for a single pensioner is calculated by estimating the amount of each pension payment they will receive in the future, multiplying by the probability that the member will be still be alive by the date of each payment, and then discounting each payment back to the effective date of the valuation; and then summing up all of these discounted amounts. The liabilities for the whole Fund are calculated by summing the liabilities for each of the individual members.

A.2. Assumptions used to calculate the funding target

The tables below summarise the key assumptions used in the calculation of the Funding Target and those used for the 31 March 2011 actuarial valuation.

Financial assumptions	31 March 2014	31 March 2011
Discount rate:		
- pre-retirement	3.65 % p.a.	5.9 % p.a.
- post-retirement	3.65 % p.a.	4.4 % p.a.
Assumed long term CPI inflation	3.1 % p.a.	3.2 % p.a.
Salary increases - Long term	5.1 % p.a.	5.2% p.a.
- Short term (4 years)	3.1% p.a.	N/A
Pension increases in payment	3.1 % p.a.	3.2 % p.a.

Demographic assumptions	31 March 2014	31 March 2011
Pre-retirement mortality – base table	AC00 tables with adjustments of 73% (male) and 60% (female) to reflect the Fund's membership profile	PA92 year of birth tables adjusted by 1 year (females only) to reflect the Fund's membership profile. Future improvements in line with medium cohort projections
Post retirement mortality – base table	CMI Self-Administered Pension Schemes (SAPS) tables with scheme and member category specific adjustments (see further detail below)	CMI Self-Administered Pension Schemes (SAPS) tables with scheme and member category specific adjustments (see further detail in 2011 valuation report)

Demographic assumptions	31 March 2014	31 March 2011
Post retirement mortality – future improvements:		
Males	CMI_2013_M [1.5%]	CMI_2009_M [1.0%]
Females	CMI_2013_F [1.5%]	CMI_2009_F [1.0%]
Ill health retirement	(see further detail below)	(see 2011 valuation report)
Withdrawal	(see further detail below)	(see 2011 valuation report)
Proportions married	(see further detail below)	(see 2011 valuation report)

Post retirement mortality

		Base Table	Improvements	Adjustment (M / F)
Current pensioners	Normal health	S1PA	CMI_2013 [1.5%]	103% / 107%
	Ill-health	S1PA	CMI_2013 [1.5%]	Normal health + 3 years
	Dependants	S1PMA / S1DFA	CMI_2013 [1.5%]	228% / 120%
	Future dependants	S1PMA / S1DFA	CMI_2013 [1.5%]	100% / 105%
Current active / deferred	Active normal health	S1PA	CMI_2013 [1.5%]	106% / 103%
	Active ill-health	S1PA	CMI_2013 [1.5%]	Normal health + 4 years
	Deferred	S1PMA	CMI_2013 [1.5%]	127% / 91%
	Future dependants	S1PMA / S1DFA	CMI_2013 [1.5%]	100% / 105%

An **age rating** applied to an actuarial table has the effect of assuming that beneficiaries have a life expectancy equal to those older (or younger) than their actual age.

For example, a “+1 year” rating would mean beneficiaries are assumed to have the mortality of someone one year their senior which has the effect of reducing their life expectancy and hence reducing the assessed value of the corresponding liabilities.

A **weighting** applied to an actuarial table has the effect of increasing or reducing the chance of survival at each age, which increases or reduces the corresponding life expectancy.

For example, a “103%” weighting would mean beneficiaries have mortality rates 3% higher than the unadjusted table which reduces the assessed value of the corresponding liabilities.

The mortality assumptions used for the 31 March 2014 valuation result in the following life expectancies.

	Years
Life expectancy for a male aged 65 now	22.3
Life expectancy at 65 for a male aged 45 now	24.3
Life expectancy for a female aged 65 now	24.3
Life expectancy at 65 for a female aged 45 now	26.9

Ill health retirement

A small proportion of the active membership has been assumed to retire owing to ill health. As an example of the rates assumed, the following is an extract from the decrement table used:

	% retiring per annum	**% retiring per annum**
Age	Males	Females
35	0.09	0.08
45	0.26	0.24
55	1.14	1.00

The proportion of ill health early retirements falling into each tier category, split by males and females, has been assumed to be as set out below:

	Tier 1	**Tier 2**	**Tier 3**
Males	72%	9%	19%
Females	73%	14%	13%

	Conditions	**Benefits based on**
Tier 1	No reasonable prospect of undertaking gainful employment before age 65.	Accrued membership plus prospective membership to age 65
Tier 2	Reasonable prospect of obtaining gainful employment before age 65.	Accrued membership plus 25% of prospective membership to age 65
Tier 3	Retirements are funded separately outside the Scheme.	

Withdrawal

This assumption relates to those members who leave the scheme with an entitlement to a deferred pension. It has been assumed that active members will leave the Scheme at the following sample rates:

	% leaving per annum	% leaving per annum
Age	Males	Females
25	13.50	14.92
35	3.39	4.18
45	1.69	2.59

Partners and Dependants Proportions

It has been assumed that the proportions of members below will on death give rise to a dependant's pension (spouse's and partner), and that spouses/partners of female (male) members are three years older (younger), on average than the member.

	% spouse/partner	% spouse/partner
Age	Males	Females
25	34	56
35	81	84
45	92	93
55	95	95
65	90	90

A.3. Assumptions used to calculate future service cost

The cost of future accrual (normal cost) has been calculated using the same actuarial assumptions as used to calculate the funding target as set out above.

A.4. Assumptions used to calculate the contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

APPENDIX B

Summary membership data

The membership data is summarised in the table, with figures at the previous valuation shown for comparison.

Data in relation to members of the Fund were supplied by the Administering Authority. The accuracy of the data provided has been relied on. While reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently Mercer does not accept any liability in respect of its advice where it has relied on data that is incomplete or inaccurate.

In addition to the current pensioners and spouses in the table, there were 3 current dependant pensioners as at 31 March 2014 with pensions totalling £3,213 per annum.

	31 March 2014	31 March 2011
Active members		
Number	84	118
Total Pensionable Salaries (£000s p.a.) [1]	2,208	2,795
Average Pensionable Salary (£ p.a.)	26,284	23,689
Average age[2]	54.6	53.5
Average past service[3]	29.5	27.3
Deferred pensioners[4]		
Number	156	179
Total deferred pensions revalued to valuation date (£000s p.a.)	496	573
Average deferred pension (£ p.a.)	3,178	3,199
Average age[2]	52.8	52.4
Current Pensioners and Spouses		
Number	400	365
Total pensions payable (£000s p.a.)	2,888	2,444
Average Pension	7,220	6,696
Average Age[2]	69.4	67.9

[1] Including actual pay for part time members
[2] Weighted by accrued pension/deferred pension/pension
[3] Weighted by salary
[4] Including frozen refunds

APPENDIX C

Assets

The market value of the Fund's assets was £79,838,000 on the valuation date based on the audited accounts.

The Administering Authority's investment strategy is to proportion the Fund's assets by asset class as shown in the table below. The actual distribution of assets will vary over time due to changes in financial markets. The table also shows the distribution of assets at the valuation date.

	Actual market value of assets at 31 March 2014	
	£000s	**%**
Fixed Interest	16,588	20.8
Index Linked	7,163	9.0
Equities	29,721	37.2
Pooled Vehicle	20,875	26.1
Cash and current assets / (liabilities)	5,491	6.9
Total	79,838	100

The Administering Authority also holds additional voluntary contributions (AVCs), which are separately invested. These assets have been excluded from the market value shown as they exactly match the value of the benefits they cover.

The details of the assets at the valuation date and the financial transactions during the inter-valuation period have been obtained from the audited accounts for the Fund. Details of the investment strategy can be found in the Statement of Investment Principles.

APPENDIX D

Scheme Benefits

The benefits valued within our calculations are those in force at the effective date of the valuation. Full details of these can be found in the Local Government Pension Scheme (Scotland) Regulations 2008 (as amended). The principal regulations relating to benefits earned up to 31 March 2014 are:

The Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008

The Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008

The benefits offered under the LGPS will change with effect from 1 April 2015, and the regulations relating to benefits earned after that date are:

The Local Government Pension Scheme Regulations (Scotland) 2014

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) (Scotland) Regulations 2014

We have made no allowance for other changes which may be introduced in the future.

The benefits arising from the award of compensatory added years (CAY) of service on premature retirement have been treated as follows:

The general position is that the CAY benefits (together with associated pension increases) are recharged to the relevant employer. These benefits are therefore excluded from the valuation. However, for any employers who have opted to discharge part or all of their liability in respect of CAY, this has been allowed for when assessing the contribution requirements. Where appropriate, the contributions certified in the Rates and Adjustments Certificate allow for the additional costs.

The contributions certified in the Rates and Adjustments Certificate allow for the liabilities in relation to pension increases payable on benefits accrued before 26 October 1986 within the Fund which are recharged on a £ for £ basis to the North east Scotland Pension Fund.

The benefits that will emerge from money purchase AVCs paid by members, and SCAVCs paid by employers, and the corresponding invested assets in respect of these AVCs and SCAVCs, have been excluded from the valuation.

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgement) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. There is no consensus or legislative guidance as to what adjustments have to be made to scheme benefits to correct these inequalities for ongoing schemes (i.e. for schemes other than those which are in the Pension Protection Fund). The valuation makes no allowance for removal of these inequalities. It is consequently possible that additional funding will be required for equalisation once the law has been clarified. It is recommended that the Administering Authority seek further professional advice if it is concerned about this issue.

APPENDIX E

Summary of Income and Expenditure

INCOME	Year ending 31 March			
	2012	**2013**	**2014**	**Total**
	£000s	£000s	£000s	£000s
Fund at beginning of year	**67,896**	**72,341**	**80,734**	**67,896**
Contributions to Fund:				
Employees	170	152	144	466
Employers	3,434	1,900	2,032	7,366
Investment income	1,762	1,517	1,655	4,934
Other income	257	308	309	874
Change in market value of investments	3,344	8,050	-1,563	9,831

EXPENDITURE	Year ending 31 March			
	2012	**2013**	**2014**	**Total**
	£000s	£000s	£000s	£000s
Retirement and Spouses' Benefits	2,580	2,763	2,821	8,164
Retiring allowances and death gratuities	1,872	694	574	3,140
Refund of conts	0	2	0	2
Transfer Values paid	0	26	22	48
Investment expenses	11	-16	-1	-6
Administration expenses	59	65	57	181
Fund at end of year	**72,341**	**80,734**	**79,838**	**79,838**

APPENDIX F

Analysis of experience of the membership of the Fund for the period 1 April 2011 to 31 March 2014

The analysis below compares the actual experience over the 3 year period with the assumptions used for the 2014 valuation.

	Actual	Expected	%
Ill Health Retirements	1	4	27
Withdrawals	6	2	252
Pensioner Deaths	29	26	112

Note that actual withdrawals can include members moving to another LGPS Fund, bulk transfers and also transfers under the special transfer club terms.

APPENDIX G

Rates and Adjustments Certificate issued in accordance with Regulation 32 of the Administration Regulations

Name of Fund	**Aberdeen City Council Transport Fund**

Primary Contribution Requirements

I hereby certify that, in my opinion, the common rate of employer's contributions payable in each year of the period of three years beginning 1 April 2014 should be at the rate of 44.9 per cent of Pensionable Pay (including those in respect of members of the LGPS under the 50:50 option).

I hereby certify that, in my opinion, the amount of the employer's contributions payable in each year of the period of three years beginning with 1 April 2015, as set out above, should be individually adjusted as set out in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in Appendix H or in a separate agreement with the employer, and the contributions in the attached schedule take account of any such agreements.

Further Adjustments

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by the employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by the employer will be subject to a minimum of zero.

The employer contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or parties.

In addition the Administering Authority will monitor the covenant of First Aberdeen Ltd on an annual basis and reserves the right to adjust the required contributions if there is any significant change in employer covenant to the Fund.

Regulation 32(8)
No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature: P Middleman   **Date of signing:** 31 March 2015

Name: Paul Middleman   **Qualification:** Fellow of the Institute and Faculty of Actuaries

APPENDIX H

Schedule to the Rates and Adjustment Certificate dated 31 March 2015

	2015/16		2016/17		2017/18	
Employers	**Individual Adjustment**	**Total Contribution Rate**	**Individual Adjustment**	**Total Contribution Rate**	**Individual Adjustment**	**Total Contribution Rate**
First Aberdeen Ltd	-11.9% plus £1,500,000	33.0% plus £1,500,000	-11.9% plus £1,500,000	33.0% plus £1,500,000	-11.9% plus £1,500,000	33.0% plus £1,500,000

Notes:

1. The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS from 1 April 2015.

2. The employer can choose to pay in advance their £ lump sum contributions for a given year by 30 April each year. Where the employer chooses to make such payments in advance, the certified lump sum should be multiplied by a factor of 0.982 to arrive at the required figure. The employer will also need to notify the Fund of its intentions before making any advance payment.

3. Separate payments will be made from the North East Scotland Pension Fund to the Aberdeen City Council Transport Fund in respect of pension increases payable to retired members relating to benefits accrued prior to 26 October 1986. These recharge amounts will be calculated by the Fund separately.

4. Total annual contributions are subject to a minimum of zero.

MERCER

Mercer Limited
Number 4 St Paul's Square
Old Hall Street
Liverpool L3 9SJ
+44 (0)151 236 9771

Aberdeen City Council Transport Fund (ACCTF)
2014 Funding Strategy Statement (FSS)

This Statement has been prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the Aberdeen City Council Transport Fund (the ACCTF), in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended) ("the Administration Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy.

- In preparing the FSS, the Administering Authority must have regard to :-

    - the guidance issued by CIPFA for this purpose; and

    - the Statement of Investment Principles (SIP) for the ACCTF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010;

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the ACCTF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2015 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also the introduction of a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the ACCTF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 (as amended) ("the BMC Regulations") and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme (Scotland) Regulations 2014 ("the 2014 Regulations") and the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 governs the ACCTF from 1 April 2015. The required levels of employee contributions from 1 April 2015 are also specified in the 2014 Regulations.

Employer contributions are determined in accordance with the Administration Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the ACCTF should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of Common Contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. PURPOSE OF THE FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how the Scheme employer's pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

3. AIMS AND PURPOSE OF THE ACCTF

The aims of the Fund are to:

- enable the employer common contribution rate to be kept as nearly constant as possible and at reasonable cost to the employer
- manage the employer's liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses

as defined in the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 (as amended), the 2014 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due

- manage the valuation process in consultation with the ACCTF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the ACCTF's performance and funding and amend FSS/SIP.

The Scheme employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the investment strategyprepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,
- prepare advice and valuations on the termination of admission agreements
- provide advice to the administering authority on bonds or other forms of security against the financial effect for the fund of employer default
- assist the administering authority in assessing whether employer contributions need to be revised between valuations as required by regulations
- ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Ongoing Funding Objective

To meet the requirements of the Administration Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**ongoing funding target**") assessed on an ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Contribution Rate.

De-risking Funding Objective

The Administering Authority and the Employer have agreed a de-risking or "flightpath" strategy for the Fund. This includes reducing interest and inflation risk exposure. The aim of the flightpath is to "lock in" improvements in funding by switching from growth to defensive or matching *assets. The de-risking plan is to be reviewed annually and is structured to keep contributions as stable as possible, i.e. as the asset allocation is only changed following an improvement in funding, the Employer contributions (and hence recovery plan) are unaffected.*

The de-risking strategy has not yet been implemented and will be allowed for as part of the 2017 actuarial valuation and/or at an earlier review of this statement.

Determination of the Ongoing Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following three tenets:

- that the Scheme is expected to continue for the foreseeable future over the run off of the liabilities for the current and former members; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.
- The contributions reflect The Scheme employer's financial strength

The Administering Authority, following consultation with The Scheme employer, has adopted the following objectives for setting the employer contribution rates arising from the 2014 actuarial valuation:

- In the current circumstances, as a general rule, the Fund does not believe it appropriate for deficit contribution reductions to apply compared to the 2011 funding plan where substantial deficits remain.
- The employer contributions will be expressed and certified as two separate elements:
  - a percentage of pensionable payroll in respect of the future accrual of benefit
  - a schedule of lump sum amounts over 2015/18 in respect of the past service deficit subject to review annually (on an upward only basis) based on affordability and from April 2018 based on the results of the 2017 actuarial valuation.

In determining the above objectives the Administering Authority has had regard to:

- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose
- the termination funding objective, and
- the Administering Authority's views on the strength of The Scheme employer's covenant in achieving the objective.

Deficit Recovery Plan

If the assets of the scheme are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of The Scheme employer
- the assessment of the financial covenant of The Scheme employer; and the security of future income streams
- any contingent security available to the Fund or offered by The Scheme employer such as parent company guarantee, charge over assets, etc.
- the closed nature of the Fund and the expected average future working lifetime of the active membership.
- Any flexibility in light of reductions in the risk profile and funding position over the recovery period.

The assumptions used for assessing the deficit recovery contributions are also set out in Appendix 1.

The Normal Cost of the Scheme (Future Service Contribution Rate)
In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Appendix 1.

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES (See Appendix 2)

The results of the 2014 valuation show the liabilities at 31 March 2014 to be 93% covered by the current assets, with the funding deficit of 7% being covered by future deficit contributions.

In assessing the value of the ACCTF's liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the ACCTF, as set out in the SIP, and the future de-risking plans for the Fund.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the ACCTF's assets in line with the least risk portfolio would minimise fluctuations in the ACCTF's ongoing funding level between successive actuarial valuations. This least risk target will form part of the development of the de-risking flightpath implemented.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

Asset Class (Summary)		%
	Equities	60
	Bonds	40
	TOTAL	**100**

The funding strategy adopted for the 2014 valuation is based on an assumed asset out-performance of 0.25% per annum pre and post-retirement to reflect the longer term termination objectives.

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the ACCTF is based on both financial and demographic assumptions. These assumptions are specified in the Appendix and the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the ACCTF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the Risks?

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery
- A material reduction in Employer Covenant

In the context of managing various aspects of the Fund's risks, the Administering Authority has embarked on a "Flightpath" risk management investment strategy.

The principle aim of this risk management strategy is to effectively control and limit interest and inflation risks being run by the Fund (as these factors can lead to significant changes to liability values). The overall funding flightpath strategy is to consider and structure the investment strategy to determine a balance between return-seeking and risk-hedging assets. This approach will continue to be developed over the coming months and further details will be included in the Fund's Statement of Investment Principles (SIP).

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- The last active ceases membership triggering a termination event.

Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in The Scheme employer's membership (e.g. large fall in employee numbers, large number of retirements) including the last active member leaving and the triggering of a termination event.
- A deterioration in the Employer's covenant.
- Inadequate inappropriate or incomplete investment and actuarial advice is taken and acted upon

8. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with The Scheme employer.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Employer's covenant will be reviewed at least triennially with an annual high level review of key trading information.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy including the breach of any triggers
- if there have been significant changes to the ACCTF membership, or LGPS benefits
- If the employer covenant deteriorates to an unacceptable level
- if there have been changes to the circumstances of The Scheme employer to such an extent that they impact on or warrant a change in the funding strategy including the reduction in active membership which will be monitored at least quarterly
- if there have been any significant special contributions paid into the ACCTF

Steven Whyte
Head of Finance
Aberdeen City Council as Administering Authority for the Aberdeen City Council Transport Fund

APPENDIX 1

ACTUARIAL VALUATION AS AT 31 MARCH 2014

Method and assumptions used in calculating the funding target, the cost of future accrual and calculating contributions payable under the recovery plan

Method

The actuarial method to be used in the calculation of the funding target is the Attained Age method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 0.25% per annum pre and post-retirement.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index. The reduction to market implied RPI inflation at the valuation date is 0.5% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) over the long term will be determined by an allowance of 2.0% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In the short term, allowance has been made for expected pay restraint as factored in to The Scheme employer's financial plan. This results in a salary increase assumption equal to CPI inflation for 4 years from the valuation date, reverting to the long term assumption after this period.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting ACCTF specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in ill health and death before retirement have been modified from the last valuation. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 2.7% of pensionable pay to the contributions as required from The Scheme employer. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2014 actuarial valuation

Long-term gilt yields	
Fixed interest	3.5% p.a.
Index linked	-0.1% p.a.
Past service Funding Target and Future service accrual financial assumptions	
Investment return/Discount Rate	3.65% p.a.
CPI price inflation	3.1% p.a.
Long Term Salary increases	5.1% p.a.
Short Term Salary increases (4 years)	3.1% p.a.
Pension increases/indexation of CARE benefits	3.1% p.a.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	103% / 107%	CMI_2013	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2013	1.5%
	Dependants	S1PMA/S1DFA	228% / 120%	CMI_2013	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PMA	106% / 103%	CMI_2013	1.5%
	Actives ill health	S1PMA	Normal health + 4 years	CMI_2013	1.5%
	Deferreds	S1PMA	127% / 91%	CMI_2013	1.5%
	Future dependants	S1PMA/S1DFA	100% / 105%	CMI_2013	1.5%

Other demographic assumptions are noted below:

Retirement in normal health	As for 2011 valuation
Withdrawal	As for 2011 valuation
Proportions married	As for 2011 valuation
Other demographics	Based on LG scheme specific experience.
50:50 Option	Nil take-up

ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	15 JUNE 2015
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	REQUEST FOR ADMITTED BODY STATUS
REPORT NUMBER:	PEN/JUN15/ADB(1)

1. PURPOSE OF REPORT

To consider an application from ISS Facility Services Ltd for admitted body status, within the Local Government Pension Scheme administered by Aberdeen City Council.

2. RECOMMENDATION(S)

It is recommended that the Panel agree to allow the employees of the above organisation to participate in the Local Government Pension Scheme administered by Aberdeen City Council.

3. FINANCIAL IMPLICATIONS

There is no financial impact for the Pension Fund with regard to granting admitted body status to ISS all costs of admission will be met by ISS as the new participating employer.

4. SERVICE & COMMUNITY IMPACT

None

5. OTHER IMPLICATIONS

None

6. REPORT

6.1 Background

6.1.1 As the administering authority for the Pension Fund, Aberdeen City Council is responsible for the prudent governance and management of the Pension Fund in the interest of all scheduled and admitted bodies.

6.1.2 As administering authority the council must admit a body to the pension fund as 'an admitted body' under the Local Government Pension Scheme (Scotland) Regulations 2014, Schedule 2, Part 2, 1(d) (i), providing that the body complies with the regulation as detailed in Appendix I.

6.2 ISS request for admission

6.2.1 From the 3rd November 2014 Moray Council entered into a contract with ISS Facility Services Ltd to provide landscaping services. Three ground staff were transferred to ISS Facility Services Ltd under TUPE arrangements.

A copy of the letter from ISS seeking admission to the fund with effect from 3rd November is attached at Appendix III.

6.2.2 Admission to the scheme by ISS Facility Services Ltd will be on a closed basis allowing admission to only those employees protected under TUPE.

6.2.3 ISS have agreed that a Bond will be put in place for the amount of £31,000 to ensure that the Fund is protected against any future liabilities.

6.2.4 Moray Council, as the originating employer, will act as guarantor for the admission in the event that any exit payment due cannot be collected from either the exiting employer or by calling upon the bond. This is in accordance with Local Government Pension Scheme (Scotland) Regulations 2015, Regulation 62(3) – Appendix II.

6.2.5 The transfer will be carried out on a fully funded basis meaning no deficit for past service will be transferred to the new employer.

6.3 Actuarial Evaluation and Admission Agreement

6.3.1 Details of those employees transferring have been supplied to the scheme actuary who has calculated that the employer contribution rate for the new admission will be 18.6%.

6.3.2 The employer contribution rate will be subject to review at the 2017 actuarial valuation.

6.3.3 Brodie's LLP will be requested to draft the admission agreement.

7. BACKGROUND PAPERS

LGPS(Scotland) Regulations, Schedule 2, Part 2 (Appendix I)
LGPS(Scotland) Regulations, Regulation 62 (Appendix II)
Letter from ISS Facility Services Ltd (Appendix III)

8. REPORT AUTHOR DETAILS

Claire Mullen, Employer Relationship Team, NESPF
cmullen@nespf.org.uk
01224 2642166

Appendix I

SCHEDULE 2

Scheme employers

PART 2

1. The following bodies are admission bodies with whom an administering authority may make an admission agreement—

(a)a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);

(b)a body, to the funds of which a Scheme employer contributes;

(c)a body representative of—

(i)any Scheme employers, or

(ii)local authorities or officers of local authorities;

(d)a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

(i)the transfer of the service or assets by means of a contract or other arrangement, or

(ii)any provision in any enactment

(e)a body which provides a public service in the United Kingdom and is approved in writing by the Scottish Ministers for the purpose of admission to the Scheme.

2. An approval under paragraph 1(e) may be subject to such conditions as the Scottish Ministers think fit and the Scottish Ministers may withdraw an approval at any time if such conditions are not met.

3. The Scheme employer, if it is not also the administering authority, must be a party to the admission agreement with a body falling within the description in paragraph 1(d).

4. In the case of an admission body falling within the description in paragraph 1(b), where at the date of the admission agreement the contributions paid to the body by one or more Scheme employers equal in total 50% or less of the total amount it receives from all sources, the Scheme employer paying contributions (or, if more than one pays contributions, all of them) must guarantee the liability of the body to pay all amounts due from it under these Regulations.

5. If the admission body is exercising the functions of the Scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

6. An admission agreement must require the admission body to carry out, to the satisfaction of the administering authority, and to the satisfaction of the Scheme employer in the case of a body falling within paragraph 1(d)(i), an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body.

7. Notwithstanding paragraph 6, and subject to paragraph 8, the admission agreement must further provide that where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond in a form approved by the administering authority with—

(a)a person who has permission under Part 4 of the Financial Services and Markets Act 2000(**12**) to accept deposits or to effect and carry out contracts of general insurance;

(b)a firm in an EEA state of the kind mentioned in paragraph 5(b) and (d) of Schedule 3 to that Act(**13**), which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule(**14**)) to accept deposits or to effect and carry out contracts of general insurance; or

(c)a person who does not require permission under that Act to accept deposits, by way of business, in the United Kingdom.

8. Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a)a person who funds the admission body in whole or in part;

(b)in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(c)a person who—

(i)owns, or

(ii)controls the exercise of the functions of,

the admission body; or

(d)the Scottish Ministers in the case of an admission body—

(i)which is established by or under any enactment, and

(ii)where that enactment enables the Scottish Ministers to make financial provision for that admission body.

9. An admission agreement must include—

(a)provision for it to terminate if the admission body ceases to be such a body;

(b)a requirement that the admission body notify the administering authority of any matter which may affect its participation in the Scheme;

(c)a requirement that the admission body notify the administering authority of any actual or proposed change in its status, including a take-over, reconstruction or amalgamation, insolvency, winding up, receivership or liquidation and a material change to the body's business or constitution;

(d)a right for the administering authority to terminate the agreement in the event of—

(i)the insolvency, winding up or liquidation of the admission body,

(ii)a material breach by the admission body of any of its obligations under the admission agreement or these Regulations which has not been remedied within a reasonable time,

(iii)a failure by the admission body to pay any sums due to the fund within a reasonable period after receipt of a notice from the administering authority requiring it to do so.

10. An admission agreement must include a requirement that the admission body will not do anything to prejudice the status of the Scheme as a registered scheme.

11. When an administering authority makes an admission agreement it must make a copy of the agreement available for public inspection at its offices and must promptly inform the Scottish Ministers of—

(a)the date the agreement takes effect;

(b)the admission body's name; and

(c)the name of any Scheme employer that is party to the agreement.

12. Where an admission body is such a body by virtue of paragraph 1(d), an admission agreement must include—

(a)a requirement that only employees of the body who are employed in connection with the provision of the service or assets referred to in that sub-paragraph may be members of the Scheme;

(b)details of the contract, other arrangement or statutory provision by which the body met the requirements of that sub-paragraph;

(c)a provision whereby the Scheme employer referred to in that sub-paragraph may set off against any payments due to the body, an amount equal to any overdue employer and employee contributions and other payments (including interest) due from the body under these Regulations;

(d)a provision requiring the admission body to keep under assessment, to the satisfaction of the bodies mentioned in paragraph 6, the level of risk arising as a result of the matters mentioned in that paragraph;

(e)a provision requiring copies of notifications due to the administering authority under paragraph 9(b) or (c) to be given to the Scheme employer referred to in that sub-paragraph; and

(f)a provision requiring the Scheme employer referred to in that sub-paragraph to make a copy of the admission agreement available for public inspection at its offices.

13. Where an admission body of the description in paragraph 1(d) undertakes to meet the requirements of these Regulations, the appropriate administering authority must admit to the Scheme the eligible employees of that body.

Special circumstances where revised actuarial valuations and certificates must be obtained

62.—(1) If a person—

(a)ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or

(b)was a Scheme employer, but no longer has an active member contributing to a fund,

that person becomes "an exiting employer" for the purposes of this regulation and is liable to pay an exit payment.

(2) When a person becomes an exiting employer, the appropriate administering authority must obtain—

(a)an actuarial valuation as at the exit date of the liabilities of the fund in respect of benefits in respect of the exiting employer's current and former employees; and

(b)a revised rates and adjustments certificate showing the exit payment due from the exiting employer in respect of those benefits.

(3) Where for any reason it is not possible to obtain all or part of the exit payment due from the exiting employer, or from an insurer, or any person providing an indemnity, bond or guarantee on behalf of the exiting employer, the administering authority must obtain a further revision of any rates and adjustments certificate for the fund showing—

(a)in the case where a body is an admission body falling within paragraph 1(d) of Part 2 of Schedule 2 to these Regulations (Scheme employers: bodies providing services as a result of transfer of a service), the revised contribution due from the body which is the related employer in relation to that admission body; and

(b)in any other case, the revised contributions due from each Scheme employer which contributes to the fund,

with a view to providing that assets equivalent to the exit payment due from the exiting employer are provided to the fund over such period of time as the administering authority considers reasonable.

(4) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—

(a)the contribution at the primary rate should be adjusted; or

(b)any prior secondary rate adjustment should be increased or reduced,

with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable.

(5) When an exiting employer has paid an exit payment into the appropriate fund, no further payments are due from that employer in respect of any liabilities relating to the benefits in respect of any current or former employees of that employer as a result of these Regulations.

(6) Paragraph (7) applies where—

(a)a Scheme employer agrees to pay increased contributions to meet the cost of an award of additional pension under regulation 30 (award of additional pension); or

(b)it appears likely to an administering authority that the amount of the liabilities arising or likely to arise in respect of members in employment with a Scheme employer exceeds the amount specified, or likely as a result of the assumptions stated, for that authority, in a rates and adjustments certificate by virtue of regulation 60(8) (actuarial valuations of pension funds: assumptions).

(7) The administering authority must obtain a revision of the rates and adjustments certificate concerned, showing the resulting changes as respects that Scheme employer.

(8) For the purposes of this regulation—

“exiting employer” means an employer of any of the descriptions specified in paragraph (1);

“exit payment” means the assets required to be paid by the exiting employer over such period of time as the administering authority considers reasonable, to meet the liabilities specified in paragraph (2);

“exit date” means the date on which the employer becomes an exiting employer; and

“related employer” means any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority).

ISS FACILITY SERVICES
LANDSCAPING

PRIVATE & CONFIDENTIAL

Claire Mullen
Senior Pensions Officer
North East Sacotland Pension Fund
Corporate Governance
Business Hub 16, 3rd Floor West
Marischal College, Broad Street
Aberdeen, AB10 1AB

2 February 2015

Dear Mrs Mullen

Re: ISS Facility Services Limited – Landscaping Request for admission to the North East Scotland Pension Fund as a Transferee Admission Body

Please accept this letter as a formal request for ISS Facility Services Limited - Landscaping to be admitted to the North East Scotland Pension Fund as a transferee Admission Body.

This request is made following the transfer of employment of three individuals, (already advised to NESPF), from Moray Council to ISS Facility Services Limited, under TUPE.

Please could I ask that you confirm if you require anything further from ISS at this stage in order to progress this request.

Yours Sincerely,

Rachael Koster
Finance Director – ISS Facility Services Landscaping

ISS Facility Services Limited

Landscaping
ISS House
Genesis Business Park
Albert Drive
Woking
Surrey GU21 5RW

Telephone: 0845 057 6200
Fax: 0871 429 6200
www.issworld.co.uk

A division of ISS Facility Services Limited
Registered Office:
ISS House
Genesis Business Park
Albert Drive
Woking
Surrey GU21 5RW
Registered in England
No: 896885

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ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	15 JUNE 2015
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	REQUEST FOR ADMITTED BODY STATUS
REPORT NUMBER:	PEN/JUN15/ADB(2)

1. PURPOSE OF REPORT

To consider an application from The Landscaping Group (TLG) for admitted body status, within the Local Government Pension Scheme administered by Aberdeen City Council.

2. RECOMMENDATION(S)

It is recommended that the Committee agree to allow the employees of the above organisation to participate in the Local Government Pension Scheme administered by Aberdeen City Council.

3. FINANCIAL IMPLICATIONS

There is no financial impact for the Pension Fund with regard to granting admitted body status to The Landscaping Group all costs of admission will be met by them as the new participating employer.

4. SERVICE & COMMUNITY IMPACT

None

5. OTHER IMPLICATIONS

None

6. REPORT

6.1 Background

6.1.1 As the administering authority for the Pension Fund, Aberdeen City Council is responsible for the prudent governance and management of the Pension Fund in the interest of all scheduled and admitted bodies.

6.1.2 As administering authority the council must admit a body to the pension fund as ‘an admitted body’ under the Local Government Pension Scheme (Scotland) Regulations 2014, Schedule 2, Part 2, 1(d) (i), providing that the body complies with the regulation as detailed in Appendix I.

6.2 The Landscaping Group request for admission

6.2.1 From the 1st April 2015 Sport Aberdeen entered into a contract with TLG to provide landscaping services (a contract previously undertaken by ISS Facility Services Ltd). Fourteen ground staff were transferred under TUPE arrangements from ISS Facilities Ltd to TLG.

A copy of the application form admission completed by TLG seeking admission to the fund with effect from 1st April 2015 is attached at Appendix III.

6.2.2 Admission to the scheme by TLG will be on a closed basis allowing admission to only those employees protected under TUPE.

6.2.3 TLG have agreed that a bond will be put in place to ensure that the Fund is protected against any future liabilities. Due to the fact that there will be no liabilities at the outset of the contract a bond review will be carried out in 12 months to establish the level of bond required once the members transferred in any previous pension benefits.

6.2.4 Sport Aberdeen, as the originating employer, will act as guarantor for the admission in the event that any exit payment due cannot be collected from either the exiting employer or by calling upon the bond. This is in accordance with Local Government Pension Scheme (Scotland) Regulations 2015, Regulation 62(3) – Appendix II.

6.3 Actuarial Evaluation and Admission Agreement

6.3.1 Details of those employees transferring have been supplied to the scheme actuary who has calculated that the employer contribution rate for the new admission will be 19.7%.

6.3.2 The employer contribution rate will be subject to review at the 2017 actuarial valuation.

6.3.3 Brodie's LLP will be requested to draft the admission agreement.

7. BACKGROUND PAPERS

LGPS(Scotland) Regulations, Schedule 2, Part 2 (Appendix I)
LGPS(Scotland) Regulations, Regulation 62 (Appendix II)
Letter from ISS Facility Services Ltd (Appendix III)

8. REPORT AUTHOR DETAILS

Claire Mullen, Employer Relationship Team, NESPF
cmullen@nespf.org.uk
01224 2642166

SCHEDULE 2

Scheme employers

PART 2

1. The following bodies are admission bodies with whom an administering authority may make an admission agreement—

(a)a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);

(b)a body, to the funds of which a Scheme employer contributes;

(c)a body representative of—

(i)any Scheme employers, or

(ii)local authorities or officers of local authorities;

(d)a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

(i)the transfer of the service or assets by means of a contract or other arrangement, or

(ii)any provision in any enactment

(e)a body which provides a public service in the United Kingdom and is approved in writing by the Scottish Ministers for the purpose of admission to the Scheme.

2. An approval under paragraph 1(e) may be subject to such conditions as the Scottish Ministers think fit and the Scottish Ministers may withdraw an approval at any time if such conditions are not met.

3. The Scheme employer, if it is not also the administering authority, must be a party to the admission agreement with a body falling within the description in paragraph 1(d).

4. In the case of an admission body falling within the description in paragraph 1(b), where at the date of the admission agreement the contributions paid to the body by one or more Scheme employers equal in total 50% or less of the total amount it receives from all sources, the Scheme employer paying contributions (or, if more than one pays contributions, all of them) must guarantee the liability of the body to pay all amounts due from it under these Regulations.

5. If the admission body is exercising the functions of the Scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

6. An admission agreement must require the admission body to carry out, to the satisfaction of the administering authority, and to the satisfaction of the Scheme employer in the case of a body falling within paragraph 1(d)(i), an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body.

7. Notwithstanding paragraph 6, and subject to paragraph 8, the admission agreement must further provide that where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond in a form approved by the administering authority with—

(a)a person who has permission under Part 4 of the Financial Services and Markets Act 2000(**12**) to accept deposits or to effect and carry out contracts of general insurance;

(b)a firm in an EEA state of the kind mentioned in paragraph 5(b) and (d) of Schedule 3 to that Act(**13**), which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule(**14**)) to accept deposits or to effect and carry out contracts of general insurance; or

(c)a person who does not require permission under that Act to accept deposits, by way of business, in the United Kingdom.

8. Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a)a person who funds the admission body in whole or in part;

(b)in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(c)a person who—

(i)owns, or

(ii)controls the exercise of the functions of,

the admission body; or

(d)the Scottish Ministers in the case of an admission body—

(i)which is established by or under any enactment, and

(ii)where that enactment enables the Scottish Ministers to make financial provision for that admission body.

9. An admission agreement must include—

(a)provision for it to terminate if the admission body ceases to be such a body;

(b)a requirement that the admission body notify the administering authority of any matter which may affect its participation in the Scheme;

(c)a requirement that the admission body notify the administering authority of any actual or proposed change in its status, including a take-over, reconstruction or amalgamation, insolvency, winding up, receivership or liquidation and a material change to the body's business or constitution;

(d)a right for the administering authority to terminate the agreement in the event of—

(i)the insolvency, winding up or liquidation of the admission body,

(ii)a material breach by the admission body of any of its obligations under the admission agreement or these Regulations which has not been remedied within a reasonable time,

(iii)a failure by the admission body to pay any sums due to the fund within a reasonable period after receipt of a notice from the administering authority requiring it to do so.

10. An admission agreement must include a requirement that the admission body will not do anything to prejudice the status of the Scheme as a registered scheme.

11. When an administering authority makes an admission agreement it must make a copy of the agreement available for public inspection at its offices and must promptly inform the Scottish Ministers of—

(a)the date the agreement takes effect;

(b)the admission body's name; and

(c)the name of any Scheme employer that is party to the agreement.

12. Where an admission body is such a body by virtue of paragraph 1(d), an admission agreement must include—

(a)a requirement that only employees of the body who are employed in connection with the provision of the service or assets referred to in that sub-paragraph may be members of the Scheme;

(b)details of the contract, other arrangement or statutory provision by which the body met the requirements of that sub-paragraph;

(c)a provision whereby the Scheme employer referred to in that sub-paragraph may set off against any payments due to the body, an amount equal to any overdue employer and employee contributions and other payments (including interest) due from the body under these Regulations;

(d)a provision requiring the admission body to keep under assessment, to the satisfaction of the bodies mentioned in paragraph 6, the level of risk arising as a result of the matters mentioned in that paragraph;

(e)a provision requiring copies of notifications due to the administering authority under paragraph 9(b) or (c) to be given to the Scheme employer referred to in that sub-paragraph; and

(f)a provision requiring the Scheme employer referred to in that sub-paragraph to make a copy of the admission agreement available for public inspection at its offices.

13. Where an admission body of the description in paragraph 1(d) undertakes to meet the requirements of these Regulations, the appropriate administering authority must admit to the Scheme the eligible employees of that body.

Special circumstances where revised actuarial valuations and certificates must be obtained

62.—(1) If a person—

(a)ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or

(b)was a Scheme employer, but no longer has an active member contributing to a fund,

that person becomes "an exiting employer" for the purposes of this regulation and is liable to pay an exit payment.

(2) When a person becomes an exiting employer, the appropriate administering authority must obtain—

(a)an actuarial valuation as at the exit date of the liabilities of the fund in respect of benefits in respect of the exiting employer's current and former employees; and

(b)a revised rates and adjustments certificate showing the exit payment due from the exiting employer in respect of those benefits.

(3) Where for any reason it is not possible to obtain all or part of the exit payment due from the exiting employer, or from an insurer, or any person providing an indemnity, bond or guarantee on behalf of the exiting employer, the administering authority must obtain a further revision of any rates and adjustments certificate for the fund showing—

(a)in the case where a body is an admission body falling within paragraph 1(d) of Part 2 of Schedule 2 to these Regulations (Scheme employers: bodies providing services as a result of transfer of a service), the revised contribution due from the body which is the related employer in relation to that admission body; and

(b)in any other case, the revised contributions due from each Scheme employer which contributes to the fund,

with a view to providing that assets equivalent to the exit payment due from the exiting employer are provided to the fund over such period of time as the administering authority considers reasonable.

(4) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—

(a)the contribution at the primary rate should be adjusted; or

(b)any prior secondary rate adjustment should be increased or reduced,

with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable.

(5) When an exiting employer has paid an exit payment into the appropriate fund, no further payments are due from that employer in respect of any liabilities relating to the benefits in respect of any current or former employees of that employer as a result of these Regulations.

(6) Paragraph (7) applies where—

(a)a Scheme employer agrees to pay increased contributions to meet the cost of an award of additional pension under regulation 30 (award of additional pension); or

(b)it appears likely to an administering authority that the amount of the liabilities arising or likely to arise in respect of members in employment with a Scheme employer exceeds the amount specified, or likely as a result of the assumptions stated, for that authority, in a rates and adjustments certificate by virtue of regulation 60(8) (actuarial valuations of pension funds: assumptions).

(7) The administering authority must obtain a revision of the rates and adjustments certificate concerned, showing the resulting changes as respects that Scheme employer.

(8) For the purposes of this regulation—

“exiting employer” means an employer of any of the descriptions specified in paragraph (1);

“exit payment” means the assets required to be paid by the exiting employer over such period of time as the administering authority considers reasonable, to meet the liabilities specified in paragraph (2);

“exit date” means the date on which the employer becomes an exiting employer; and

“related employer” means any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority).

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	15 JUNE 2015
REPORTED BY	HEAD OF FINANCE
TITLE OF REPORT	FINANCIAL FORECAST PLUS OUTTURN 14/15
REPORT NUMBER	PC/JUN15/FORE

1. PURPOSE OF REPORT

1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Forecast for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATIONS

2.1 It is recommended that the Pensions Committee:

- Notes the update on the current NESPF Management Expenses Forecast for 2014/15.

3. FINANCIAL IMPLICATIONS

3.1 All Pension Fund costs are paid for by the Fund.

4. OTHER IMPLICATIONS

4.1 None.

5. REPORT

5.1 2014/15 ACTUAL SPEND AND FORECAST 2014/15 & 2015/16

5.1.2 The Actual Spend and Forecast for NESPF Management Expenses (including Salaries and Support Costs) are shown below.

	Forecast 2014/15	**Actual Spend as at 31/03/15**	**Indicative Forecast 2015/16**
	£'000	**£'000**	**£'000**
Administrative Staff Costs	842	857	1,026
Support Services	747	553	749
Printing & Publications	41	41	41
Administration Expenses Total	**1,630**	**1,451**	**1,816**
Investment Staff Costs	115	112	160
Pension Fund Committee	4	35	10
Pension Board	0	1	0
External Audit Fees	39	38	39
Internal Audit Fees	30	30	30
Actuarial Fees	246	221	100
Oversight & Governance Expenses Total	**434**	**437**	**339**
Investment Management	7,430	9,361	7,500
Performance Fee	0	5,249	0
Custody Fees	140	140	145
Investment Management Expenses	**7,570**	**14,750**	**7,645**
Grand Total	**9,634**	**16,638**	**9,800**

5.1.3 Due to the level of estimation with in the above and the level of unknown due to investment management fees being based on market value which can vary, the above is very much a forecast of costs rather than a traditional budget. This terminology has been adopted following discussions with the CIPFA Pensions Network Group.

5.1.4 Administrative Expenses – all staff costs of the pension administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

5.1.5 Oversight and Governance Expenses – all staff costs associated with governance and oversight are charged direct to the fund. Associated management costs are apportioned to this activity and charged as expenses to the Fund.

5.1.6 Investment Management Expenses – 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 decrease as the market value of these investments change. In addition, the fund has negotiated performance related fees with a number of its investment managers and no estimate is reasonably possible to forecast.

These fees are significantly higher than originally forecast due to the change in accounting code of practice that have moved the limited partnerships fee from being included within the Net Asset Value of the assets to being included within the Investment Management Expenses heading.

5.1.7 The indicative forecast 2015-16 reflects an estimated increase on Administration and Oversight & Governance Expenses, taking into account the proposed, staff restructure.

5.2 GOVERNANCE

5.2.1 The Pension Fund forecast costs for salaries and direct costs are included in monthly monitoring reports to the Service and Corporate Management Teams. The Head of Finance reports to the Pensions Committee on a quarterly monthly basis.

6. IMPACT

6.1 The Pension Fund Forecast promotes accountability and gives reassurance to the stakeholders in the Pension Fund. This report ensures transparency in costs from the administrator of the fund.

7. BACKGROUND PAPERS

North East Scotland Pension Fund Annual Report & Accounts (2014/15) and Fund Governance Policy Statement.

8. REPORT AUTHOR DETAILS

Michael Scroggie
Senior Pensions Officer (Accounting & Investments)
mscroggie@nespf.org.uk
01224 264178

Laura Colliss
Pensions Manager
lgoodchild@nespf.org.uk
01224 264158

Internal Audit Report – Final

2014/2015 for Aberdeen City Council

May 2015

Aberdeen City Council

Pension Fund Financial Controls and Pension Payroll

Internal Audit KPI Targets	Target dates	Actual dates	Red/Amber/ Green	Commentary where applicable
Terms or reference agreed 4 weeks prior to fieldwork			**Green**	
Planned fieldwork start date	16 December 2014	16 December 2014	**Green**	
Fieldwork completion date	16 January 2015	3 April 2015	**Red**	Significant delays in completing CAATs testing
Issuing draft reports for management comments	17 April 2015	17 April 2015	**Green**	
Receiving management comments	1 May 2015	3 May 2015	**Green**	
Issuing finalised reports	8 May 2015	8 May 2015	**Green**	
Final reports presented to the Pensions Committee	15 June 2015	15 June 2015	**Green**	

Contents

Internal audit work will be performed in accordance with Public Sector Internal Audit Standards (PSIAS). As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. Executive Summary

Report classification	Total number of findings	Critical	High	Medium	Low	Advisory
			← Section 3 →			
Medium	Control design	-	-	-	-	-
	Operating effectiveness	-	-	2	2	-
	Total	-	-	2	2	-

Summary of findings

1.01 The scope of our review was to consider the design and operating effectiveness of the key controls in relation to the pension payroll, as well as the operating effectiveness of the key financial controls in relation to the pension fund, at the North East of Scotland Pension Fund and Transport Fund. Our testing covered each of the key sub-processes, and involved an assessment of the design and operating effectiveness of the key controls that help achieve the control objectives as set out in the agreed terms of reference.

1.02 In general our review identified a sound system of control; however, there were areas for improvement identified in how some key controls operated, particularly around ensuring evidence of proper authorisation and review by senior pension officers. From our review of the controls implemented by the North East of Scotland Pension Fund and Transport Fund we have identified the following two medium risk findings:

- In one instance, from a sample of 45 tested, no evidence was retained of a senior pension officer authorisation for payment of the balance of pension for a deceased member. We also found that in two out of four months tested, no evidence was retained to verify that a senior pension officer had reviewed the payment checklist and completed the payment reconciliations. In all cases a senior pension officer should be authorising and reviewing payments to mitigate against the risk of fraud or error; and
- From a sample of 45 tested, we identified one case where no evidence had been retained to verify a request for a change in a member's bank details. We also found one instance where a member's change of address had not been properly evidenced. Ensuring proper control over changes in member's details is important to preventing fraud or error.

Management comment

Policies and Procedure will continued to be reviewed throughout 2015 to ensure proper controls are in place.

2. Background and scope

Background

2.01 The North East of Scotland Pension Fund (NESPF) and the Transport Fund are administered by Aberdeen City Council within the Local Government Pension Scheme regulations. There are 13 Scheduled bodies including Aberdeen City Council, Scottish Water, Aberdeenshire Council and The Moray Council and 41 admitted bodies.

2.02 Aberdeen City Council has delegated responsibility for the administration of the Pension Funds to the Pensions Committee, which is responsible for benefits administration and investment management. The Committee consists of nine City Council elected members. All members have equal voting rights. There is also a Joint Investment Advisory Committee (JIAC), which has responsibility for monitoring the investment management of the Pension Fund and making recommendations to the Pensions Committee on the appointment, retention and termination of investment management contracts.

Compliance with Regulations

2.03 We assessed the key procedures in place at the NESPF for ensuring compliance with the terms of all relevant regulations, including The Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations. Our review identified the key controls operated by NESPF including: quarterly compliance monitoring; and that compliance with all relevant laws and regulations is required to be reported as part of the pension fund's annual report. The pension manager is required to report to the JIAC and Pension Committee on any compliance failures that are identified in these quarterly reviews.

2.04 The NESPF has an investment strategy and this strategy has been approved by the JIAC and Pensions Committee. The funds invested in by the NESPF are also approved by the JIAC and Pensions Committee. The pensions manager is responsible for collating reports from the fund managers to monitor their adherence to the investment strategy. On a quarterly basis the pensions manager reports to the JIAC and Pensions Committee on the current status of each fund manager, and how they are performing against the investment strategy.

Amendments to Standing Data

2.05 We reviewed the design of the key controls in place for amending standing data: this included the controls for new starts, leavers, retirees, death of members or pensioners, and changing bank and address details.

2.06 New members of the pension scheme are notified to the NESPF by their employer through submission of the relevant form; white sheets or PEN1 forms are received from the employer for all new members other than employers using iConnect or Employer Services. No new member can be enrolled in the pension scheme without the NESPF having received this form or PEN1 enrolment form except when an employer uses iConnect/ES in which new members are uploaded online.

2.07 When a member leaves the pension scheme the employer will submit a cessation notice to the NESPF. No member is removed from the scheme without receipt of this notification. Any calculations required to determine the extent of any refunds due to the leaver or to determine the leavers deferred pension benefits must be approved by two separate pensions or senior pension officers.

2.08 The pension system is configured to identify when a member has reached retirement age. No pension payments are made until the NESPF has received a PEN6 cessation notice from the employer confirming that the employee has retired and is eligible to receive their pension. When a member is eligible for early retirement further information must be gathered before making any pension payments; this can depend on the nature of the reason for early retirement. For example, if the early retirement is for ill health a doctor's letter must be obtained.

2.09 When notice is received that a pensioner has passed away they are automatically 'closed' in the system to prevent any further pension payments through the pension payroll. On receipt of notification of a pensioner's death the NESPF will look to obtain a death certificate to verify the death.

2.10 Changes and amendments to bank details and addresses are only made by the NESPF through a signed letter that includes their pension reference number/NI number, or online through MyPension, which notifies the Pension Department via email of the change, or via a report from the Bank informing of the change made by a member. Once any changes are made the NESPF will send a letter to the member confirming the change to verify that the details have been changed correctly.

2.11 Requests for a change to an address for both pensioners, widowers and non-pensioners must be made by either a signed letter, email or call quoting a pension reference number, National Insurance number, or previous address if sent by member, or when an employer changes address details via Employer Services or iConnect. No changes should be made where the member or employer does not provide some form of evidence.

2.12 New members must opt to transfer in their existing pension to the NESPF within 12 months of joining. The exception to this rule is members who are transferring in from another NESPF administered scheme, for example a member who moved employment from Aberdeenshire Council to Aberdeen City Council. Only members who were previously a member of another Public Sector Transfer Club pension scheme may transfer in their pension to the NESPF.

2.13 When a member opts to transfer out of the NESPF scheme to a new pension scheme they must provide a signed transfer out request detailing the new scheme they wish to join. The pension officers will perform a check of the new scheme and confirm that it is HMRC registered but there is no obligation on the NESPF to prevent members joining non-HMRC registered schemes, although they will as a courtesy notify members if they have concerns regarding the validity of the new scheme.

Annual Benefits Notices and Calculations

2.14 With the use of Computer Assisted Audit Techniques we re-performed the monthly pension calculations and lump sums which are automatically calculated by the pension system. Using this method we were able to test the full population of 21,597 calculations since 1 October 2013. The results of this test are shown overleaf:

	Count	Percentage
Calculations agreed as accurate through use of CAATs	20,236	93.7%
Items not following standard calculation due to additional instructions for sharing arrangements or overpayments	23	0.1%
Items where the person has an early redemption date against their pension and so does not follow the standard calculation	1,338	6.2%
Total	**21,597**	**100%**

2.15 As can be seen from the table above we were able to agree the accuracy of 99.9% of pension calculations through the use of CAATs. We sample tested calculations from the remaining 0.1% and found no exceptions.

Pension Payments

2.16 NESPF has had to develop new processes and controls in the context of the available staffing resources. There are no dedicated pension payroll staff and the processing of pension payroll has been brought within the scope of the senior pension officers. Management are aware of the risk this creates around a lack of segregation of duties, and therefore controls have been developed in order to mitigate this risk, with the requirement for double review and sign-off of pension payroll processing and payment.

2.17 Immediate Payments (IMM) is now used for all other payments related to pensions not covered by the monthly payroll run, which includes transfers out, lump sums, balance of pensions and refunds. Senior Pensions Officers run a report from the system which generates all payments needing to be paid for the specified period, these reports are run bi-weekly. Segregation of duties exists between the senior pensions officer generating the report and the senior pensions officer authorising the payment.

2.18 The NESPF policy, in line with pension regulations, is for contributions to be received from members by the 19th of the month. We reviewed documentation to ensure that processes were in place to monitor the receipt of contributions and to follow-up when contributions are consistently not received in line with policy and regulations.

2.19 Monthly analytical checks are performed by the pension accounting team that involves comparing data on the pension contributions and pension payroll. The pension accounting team will analyse the contributions received from each employer on a monthly basis. Where variances are identified between the actual amount received and the amount expected to be received, these are logged and assessed for reasonableness and if material investigated by the pension accounting team with the relevant employer.

Use of Third Parties

2.20 The NESPF utilises third parties for managing the assets of the pension fund. These third parties are required to provide annual SAS 70 or ISAE 3402 reports to provide assurance concerning the effectiveness of their control environment. The pensions manager will receive and review these reports and will communicate any findings to the JIAC at the appropriate quarterly meeting. In the event that a serious issue is ever identified the pensions manager can call for an emergency meeting of the JIAC to present the findings.

Scope and limitations of scope

2.21 The detailed scope of this review is set out in the Terms of Reference (within Appendix 2).

3. Detailed findings and recommendations

3.01 Payment and reconciliations – Control operation

Finding

For Cessation Notices, any calculations required for deferred leavers or refunds are made by the system and checked by a senior pension officer. As per the Pension Administration Strategy 2013, the target to process, refund and issue payment is 10 days. However, in one instance from a sample of 45 tested, we identified a refund calculation and authorisation of payment that had not been processed and was still outstanding, with the cessation notice being received from the member over three months prior to the date of our testing.

Our review further identified one case, from a sample of 45 tested, where authorisation by a senior pension officer for payment of the balance of pension for a deceased member could not be evidenced. All such payments should be authorised by a senior pension officer prior to payment. We also identified missing documentation for two months out of four selected for testing where reconciliations between the BACS payment, the amount per the payroll report and the amount per the system, could not be evidenced as the documents had not been scanned on to the system. As a result we could not find evidence that a senior pension officer authorisation and check had been performed for those months.

Risks

There is a risk that payments could be incorrect or that fraud or error may occur in the process without proper checks due.

Action plan

Finding rating	Agreed action	Responsible person / title
Medium	• Management will reiterate to senior pension officers the importance of following procedure and ensuring that appropriate checks have been performed for all payments. Management will also ensure that reconciliations are performed and that the monthly pension checklists are completed. • Management will aim to process refunds in line with PAS2013 performance targets and communicate targets to employees. • Management will ensure better control is held around the provision of documentation.	Pensions Manager **Target date:** Immediate implementation of actions agreed while all policies and procedures will continue to be reviewed.

3.02 Changes in member details – Control operation

Finding

In one instance, from a sample of 45 tested, we found no evidence of any correspondence received from either the employer, or member, notifying of a need for a change in bank details. Changes to bank details must be made by a member either through a signed letter or email that includes their pension reference number or National Insurance number, online through MyPension, or following a report from the bank informing of the change made by the member. No changes should be made other than through the processes above.

We also identified one instance, from a sample of 45 tested, where a member's request for a change of address was made through a telephone call. Changes to address should follow a similar process to a change in bank details; however, in this instance there was no further evidence to support the member's request other than a log of the date and time of the call.

Risks

Improper procedures around changes in member details, such as bank details and addresses, increase the risk of members becoming the victims of fraud.

Action plan

Finding rating	Agreed action	Responsible person / title
Medium	• Management will ensure better control around holding sufficient documentation for evidence will be carried out, especially around areas of the system containing sensitive information such as bank details. • Management agreed when a member sends a request to change their address via a telephone call, that the member will be required to provide further evidence to verify the veracity of their request.	Pensions Manager **Target date:** Immediate implementation of actions agreed while all policies and procedures will continue to be reviewed.

3.03 Statutory notices for new members – control operation

Finding

White sheets or PEN1 forms are received from the employer for all new members other than employers using iConnect or Employer Services. From a sample of 45 tested we found four cases where there was no evidence of a statutory notice being sent to members. Regardless of the method chosen to enrol members into the pension scheme, a statutory notice should be automatically generated and sent to the member.

Risks

There is a risk that member data may be incomplete or inaccurate, and that proper policies and procedures may not have been followed.

Action plan

Finding rating	Agreed action	Responsible person / title
Low	Management will ensure evidence of statutory notices being sent to all members is retained for each member and adequate documentation is held for audit purposes.	Pensions Manager
		Target date:
		Immediate implementation of actions agreed while all policies and procedures will continue to be reviewed.

3.04 Third party controls report review - control operation

Finding

On an annual basis the Pensions Manager is required to review the controls reports issued by third party fund managers and custodians of the pension fund. The Pensions Manager must then report to the Pensions Committee on any issues identified in those reports. In our review, for the 10 reports received in 2014, we found one instance where the controls report received from the third party had not been reviewed and reported on to the Pensions Committee.

Risks

There is a risk that any issues identified in the third party reports would not be identified on a timely basis. Control failures at third parties (i.e. fund managers or pension custodians) could result in losses of data or financial loss for the pension fund in turn resulting in regulatory non-compliance issues.

Action plan

Finding rating	Agreed action	Responsible person / title
Low	The Pensions Manager will ensure that review and sign off of all third party reports is performed annually and any issues reported to the Pensions Committee on a timely basis.	Pensions Manager
		Target date:
		Immediate implementation of actions agreed while all policies and procedures will continue to be reviewed.

Appendix 1 – Basis of our classifications

Individual finding ratings

Finding rating	Assessment rationale
Critical	A finding that could have a: • ***Critical*** impact on operational performance; or • ***Critical*** monetary or financial statement impact; or • ***Critical*** breach in laws and regulations that could result in material fines or consequences***;*** *or* • ***Critical*** impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • ***Significant*** impact on operational performance; or • ***Significant*** monetary or financial statement impact ; or • ***Significant*** breach in laws and regulations resulting in significant fines and consequences ***;*** *or* • ***Significant*** impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • ***Moderate*** impact on operational performance; or • ***Moderate*** monetary or financial statement impact; or • ***Moderate*** breach in laws and regulations resulting in fines and consequences; or • ***Moderate*** impact on the reputation or brand of the organisation.
Low	A finding that could have a: • ***Minor*** impact on the organisation's operational performance; or • ***Minor*** monetary or financial statement impact; or • ***Minor*** breach in laws and regulations with limited consequences; or • ***Minor*** impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
Low risk	6 points or less
Medium risk	7– 15 points
High risk	16– 39 points
Critical risk	40 points and over

Appendix 2 – Terms of reference

Aberdeen City Council

Terms of Reference – Pension Fund Financial Controls and Pension Payroll

This review is being undertaken as part of the 2014/2015 internal audit plan approved by the Audit & Risk Committee approved in April 2014.

Background

The North East of Scotland Pension Fund and the Transport Fund are administered by Aberdeen City Council within the Local Government Pension Scheme regulations. There are 13 scheduled bodies including ACC, Scottish Water, Aberdeenshire Council and The Moray Council.

Aberdeen City Council has delegated strategic responsibility for the administration of the Pension Funds to the Pensions Committee, who are responsible for benefits administration and investment management. The Committee consists of 9 City Council elected members, including at least one from each of the major political parties. All members have equal voting rights. There is also a Joint Investment Advisory Committee (JIAC). The JIAC have responsibility for monitoring the investment management of the Pension Fund and making recommendations to the Pensions Committee on the appointment, retention and termination of investment management contracts.

Scope

The overall scope of this review will be to consider the design and operating effectiveness of the key controls in relation to the pension payroll as well as the operating effectiveness of the key controls in relation to the pension fund. The sub-processes and related control objectives included in this review are:

Compliance with Regulations	• Procedures are in place for complying with the terms of all relevant regulations, including The Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations. • An investment strategy exists at a fund level and only assets in line with this strategy are invested in.
Amendments to Standing Data	• Appropriate procedures are implemented in order that amendments to standing data, such as new starts, leavers, retirees and death of pensioners are recorded timeously and accurately. This includes leaver notifications, death certificates and pension enrolment forms. • All transfers in have a valid transfer pack to ensure all relevant information has been obtained. • Procedures exist to ensure transfers out are to valid schemes. • Appropriate procedures are implemented in order that amendments such as bank details and addresses are appropriately authorised as complete and accurate.
Annual Benefit Notices and Calculations	• Monthly pension calculations and lump sums are calculated accurately (this will be tested through the use of Computer Assisted Audit Techniques). • Annual benefit notices are accurate and are distributed to existing active members on a timely basis.
Pension Payments	• Pension payments are only made to those members of the pension scheme entitled to receive such benefits and that payments made at point of retirement. • Appropriate controls are in place so that pension payments are complete and accurate. • Appropriate checks are in place to ensure contributions are paid to the scheme by 19th of the following calendar month in line with pension regulations. • Monthly analytical checks are performed to identify any unusual trends and these are acted upon.
Use of third parties	• The Council has assurance over the control environment operating at third parties such as pension custodians through obtaining and reviewing SAS 70 and ISAE 3402 controls reports.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the key controls in place through discussions with key personnel, and review of supporting governance documentation
- Identify the key risks of the pension fund financial controls and payroll
- Evaluate the design of the controls in place to address the key risks
- Test the operating effectiveness of the key controls on a sample basis
- Use computer assisted audit techniques (CAATs) to test the accuracy of pension calculations.

Limitations of scope

The scope of our work is outlined above. Our review will be conducted on a sample basis. We will not assess the governance arrangements in place around the pension funds.

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Appendix 3 – Limitations and responsibilities

Limitations inherent to the internal auditor’s work

We have undertaken a review of the Pension Fund Financial Controls and Pension Payroll.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to the Pension Fund Financial Controls and Pension Payroll is at April 2015. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

North East Scotland PENSION FUND

DRAFT ANNUAL REPORT
& FINANCIAL STATEMENTS

FOR THE PERIOD

1 APRIL 2014 TO 31 MARCH 2015

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

ABERDEEN
CITY COUNCIL

Contents

Management Commentary

Following the introduction of The Local Authority Accounts (Scotland) Regulations 2014 which came into force on the 10th October 2014 The Local Government Pension Scheme administered by Aberdeen City Council is required to provide a management commentary, taking the same approach as the central government Financial Reporting Manual. This requires the management commentary to reflect those matters companies are required to disclose under the Companies Act 2006, interpreted for local authorities.

These regulations are in addition to the existing reporting requirements under The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

Management Commentary is to include details of the Fund's business, risk and uncertainties facing the Fund, performance and financial position including key performance indicators and environmental and social issues within a strategic report.

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

Report

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

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.

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

Financial Statements

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 2014/15 to £26.7 million from £26 million. Total overall income in respect of members has increased to £118.3 million from £110.7 million in 2013/14, with member expenditure increasing to £117.5 million from £108.8 million over the same period in 2013/14.

Investment income has decreased from £55.2 million in 2013/14 to £49.4 million in 2014/15.

Also included within the Financial Statements is the Aberdeen City Council Transport Fund which shows that members' contributions decreased from £144,000 in 2013/14 to £134,000 in 2014/15. Total overall income in respect of members has increased to £2.7 million from £2.5 million in 2013/14, with member expenditure down to £3.4 million from £3.5 million in 2013/14.

Investment income has remained the same as 2013/13 at £1.7 million.

With most major investment markets delivering strong returns over the financial year to 31 March 2015, the Fund's investment gains have increased in value by £292.5 million with the Transport Fund experiencing an increase in asset value of £8.8 million. This was due to a number of factors including increasing investor confidence and overall good performance from the Fund's Investment Managers.

Fund Administration

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Joint Investment Advisory Committee
Head of Finance	Steven Whyte
Actuary	Mercer
Global Custodian	Bank of New York Mellon
Performance Measurement	Bank of New York Mellon
Bank	Clydesdale Bank
AVC Providers	Prudential, Standard Life Assurance Company
External Auditors	Audit Scotland
Internal Auditors	PricewaterhouseCoopers LLP
Employers	For full details see pages 41 and 42

Pension Fund Committees

Pension Fund Committee

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

At a meeting held on 20 August 2014, the council agreed to increase the membership of the Pensions Committee from 5 to 9 members. It was at that meeting the council also agreed that the Pensions Panel would be renamed as the Pensions Committee. This change took effect on 8 October 2014 and the first meeting of the Pensions Committee was held on 24 November 2014.

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

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

Membership during 2014/15

Councillor Barney Crockett (Convener)
Councillor John Reynolds (Vice Convener)
Councillor Jim Noble
Councillor Aileen Malone
Councillor Alan Donnelly
Councillor James Kiddie – Joined 20 August 2014
Councillor Jenny Laing – Joined 20 August 2014
Councillor Willie Young – Joined 20 August 2014
Councillor Andrew May – Joined 20 August 2014 and left 12 January 2015
Councillor Neil MacGregor – Joined 12 January 2015

Joint Investment Advisory Committee (JIAC)

The JIAC consists of 19 members, 9 elected members from Aberdeen City Council (members of the Pensions Committee), 4 elected members from Aberdeenshire Council, 2 elected members from The Moray Council, 1 member represents the Colleges and Admitted Bodies, 1 member represents Scottish Water and there are 2 Trade Union representatives.

Membership during 2014/15

The JIAC have responsibility for monitoring the investment management of the Pension Funds and making recommendations to the Pensions Committee 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 John Reynolds	Aberdeen City Council	
Councillor Jim Noble	Aberdeen City Council	
Councillor Aileen Malone	Aberdeen City Council	
Councillor Alan Donnelly	Aberdeen City Council	
Councillor James Kiddie	Aberdeen City Council	Joined August 2014
Councillor Jenny Laing	Aberdeen City Council	Joined August 2014
Councillor Willie Young	Aberdeen City Council	Joined August 2014
Councillor Andrew May	Aberdeen City Council	Joined August 2014, Left January 2015
Councillor Neil MacGregor	Aberdeen City Council	Joined January 2015
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	

Fund Achievements

Following on from the achievements made in the development of systems in 2013/14, 2014/15 saw the Fund continue to focus on streamlining processes and utilising advanced technical programmes to provide an integrated, informative service to both members and employers. This was achieved by the implementation of I-Connect and the continued rollout of Employer Services – both software solutions that allow employers to provide data electronically.

One of the only LGPS funds to utilise 2 systems to reflect the needs and capacities of employers, the introduction of these facilities has resulted in numerous benefits including cost savings, reduced processing times, improved data accuracy and performance monitoring.

Supporting the technical changes, the dedicated Employer Relationship Team has played a prominent role during 2014/15. Executing a number of regular events for employers including training sessions and forums, the team also assisted the introduction of the employer covenant agreement.

The Fund continued to operate in a changing environment with preparations for the new LGPS scheme being a priority in 2014/15. Recognising the need to maintain communication with all members, the Fund has sustained an active presence on its website and social media whilst also offering pension surgeries and providing physical communication materials addressing Fund updates. Ensuring members have an awareness of the LGPS 2015 has been a main concern for the Fund and as such a range of dedicated materials have focused primarily on this area.

Further details of the above can be found in the Technical and Communications Report.

Going forward, in response to increasing governance arrangements, the Fund has been developing a Governance team to help deliver new arrangements as well as successfully establishing the Pensions Board. Further information regarding the new arrangement will be available throughout 2015/16.

With 31 March 2014 being the Funds' Actuarial Valuation year, considerable resources were dedicated to facilitating this process. Once all data was verified and presented to the scheme actuary, consultation commenced during the period November 2014 through to February 2015 with scheme employers. Following consultation, a funding level of 94% has been certified by the scheme actuary with contributions remaining stable and at previous levels for many of the schemes employers, while the Fund continues to reduce its deficit recovery period.

Investment & Accounting

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, transfers, costs, charges and expenses; and
- To account for the Funds' assets and all monies received and paid from the Fund.

During 2014/15 the North East Scotland Pension Fund continued to implement the Fund's investment strategy following the review that took place during 2012. These included continued diversification and the rebalance of exiting mandates.

Additional commitments to SL Capital together with an allocation to Diversified Growth Funds, which will conclude during 2015 the Fund continues to fund its commitments across its alternative portfolio.

The accounting team provides support across the Fund and continues to work with the team to ensure accurate and timely data. The team has also worked closely with third party providers including Fund Managers, the Global Custodian and Consultants providing and sharing data and ensuring consistency.

Investment Strategy

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

Equity benchmarks are designed to encourage diversification of 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 expenditure to be paid out in pensions. The investment strategy has been 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 Committee and the Joint Investment Advisory Committee.

Asset Structure 2014/15

Asset Class	**Distribution as at 31 Mach 2014**		**Distribution as at 31 March 2015**	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities **(including Alternative Assets)**	83.7	80.0	82.2	80.0
Bonds	7.8	10.0	7.8	10.0
Property	5.6	10.0	6.9	10.0
Cash	2.9	0.0	3.1	0.0
Total	100.0	100.0	100.0	100.0

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

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

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

Investment Performance

During the past twelve months, investment markets have delivered positive results with equity indices in the US and the UK reaching record highs. This was helped in part by an increase in investor confidence, and improved economic and corporate fundamentals in the US. However, other countries which have seen weaker fundamentals have also seen strong returns, thanks in part to the continuation of loose monetary policy in many developed countries.

Geopolitical concerns, a sharp fall in the oil price and the resulting weakness in both oil-exporting countries and oil-related companies led to an increase in market volatility in the second half of 2014. Oil exporters, such as Russia, were hurt by the falling oil price, as they rely on their oil exports in order to run a balanced budget. However, the weaker oil price was beneficial for some countries - particularly net oil importers such as Japan, China and India - and consumers more generally.

US:
In the US, despite occasional setbacks, confidence in the economic recovery continued to grow. Unemployment fell from over 6% at the start of the period to around 5.5% at the end of March. This more favourable backdrop prompted the Federal Reserve to reduce and then halt its quantitative easing bond-buying programme. Good corporate results and the return of considerable amounts of cash to shareholders through share buyback programmes and dividend payments, has helped US stock market returns over the last year.

UK:
Economic data in the UK also suggested an improving environment, with the revised GDP figure for 2014 above forecast. As an oil-importing nation, the UK consumer has benefitted marginally from a lower oil price. However, the UK index has a large weighting in oil-related industries, and poor performance in this sector served to dampen overall index returns. Despite this setback, the last twelve months have seen strong financial results from companies, which have been benefitting from the low interest rate environment, as well as sustained consumer spending levels. However, there are still some concerns that very low levels of inflation (reaching zero in early 2015) may be inhibiting companies from investing their growing cash balances in expansion projects, which could have negative implications for future growth prospects.

Europe:
Economic recovery has remained weak in Europe, and deflation continues to plague even the largest Eurozone members. However, support grew for European markets as the European Central Bank announced plans to increase its programme of quantitative easing. This program has served to weaken the Euro and bring down bond yields. The longer term intent is to stave off further deflation and boost investor confidence.

While the win for the leftist Syriza Party in the Greek election caused some concern about financial stability in Europe, the new government secured agreement with Eurozone partners to extend Greece’s bailout deadline in early March. The

European index finished the period with record highs, although a weakened Euro has diminished the return to sterling investors.

Japan:
In Japan, the government moved to implement the third of prime minister Abe's 'three arrows', aimed at structural reform and creating a basis for the fragile economic recovery to gather pace. However, change was slower than many had hoped and Abe called a snap election in a bid to secure a stronger mandate to enact his policies. He was returned to power with a substantial majority, giving him the authority to resume his economic plan at his chosen pace. As the world's third largest economy, Japan's success or failure in implementing structural reform could prove key in the revitalisation of the global economy.

Japan continues to support loose monetary policy. The Bank of Japan surprised markets towards the end of last year when they expanded their already massive stimulus program, injecting a further 80 trillion yen into the economy through a spate of asset-buying activity by the government. This program has been successful at extracting Japan from their long period of deflation, although two quarters of economic contraction in the year have undermined the 'growth' element of Abe's grand economic plan.

Emerging Markets:
The last year has seen Emerging Market countries diverge in terms of economic performance. Asian economies continue to lead the way in terms of economic growth, with both domestic consumption and international demand continuing to drive growth in China, India, the Philippines and Indonesia. Meanwhile, behemoths Russia and Brazil have had a poor year, both in terms of economic growth and index returns.

With oil and gas revenues typically contributing up to 50% of its federal budget, Russia was hit particularly hard by the falling oil price. A lower oil price for exporting countries means much lower tax revenues to pay off debt and run public services. This was the case last year for Russia, which saw a significant fall in the value of their currency, and an increase in its cost of debt. This contributed to a year of low growth, low investor confidence, and negative real equity returns.

Brazil, another oil-exporting nation, continues to be hampered by high inflation, weak demand for commodities, low levels of investment and persistent infrastructure bottlenecks. This accumulation of problems has led to low consumer confidence and political discord. As such, it is unsurprising to see Brazil as one of Emerging Market's underperformers.

Equities
Against this backdrop, the US equity market reached record highs, resulting in a 25% return for sterling investors. Supportive monetary policy in the Eurozone led to a 19% rise in the index, although the devaluation of the Euro translated this to 7% in sterling. The UK equity market returned a reasonable 6.6%; despite positive consumer confidence and supportive monetary policies, the index has a heavy exposure to resources which weighed on performance last year. Emerging Markets

gained 16%, with the majority of value from Asia, and the Japanese market gained 27%.

Bonds
The sharp fall in the oil price pushed down inflation and caused government bond yields, which move inversely to bond prices, to touch record lows. Towards the end of the period, the European Central Bank began a programme of quantitative easing, driving German bunds and peripheral European bond yields lower. The decision of central banks to maintain interest rates at very low levels proved supportive for government bonds, which performed extremely well throughout the period, recording a rise of 14% over the year as a whole. Against this backdrop and with default rates at low levels, UK corporate bonds also performed strongly, recording returns in excess of 13% over the period.

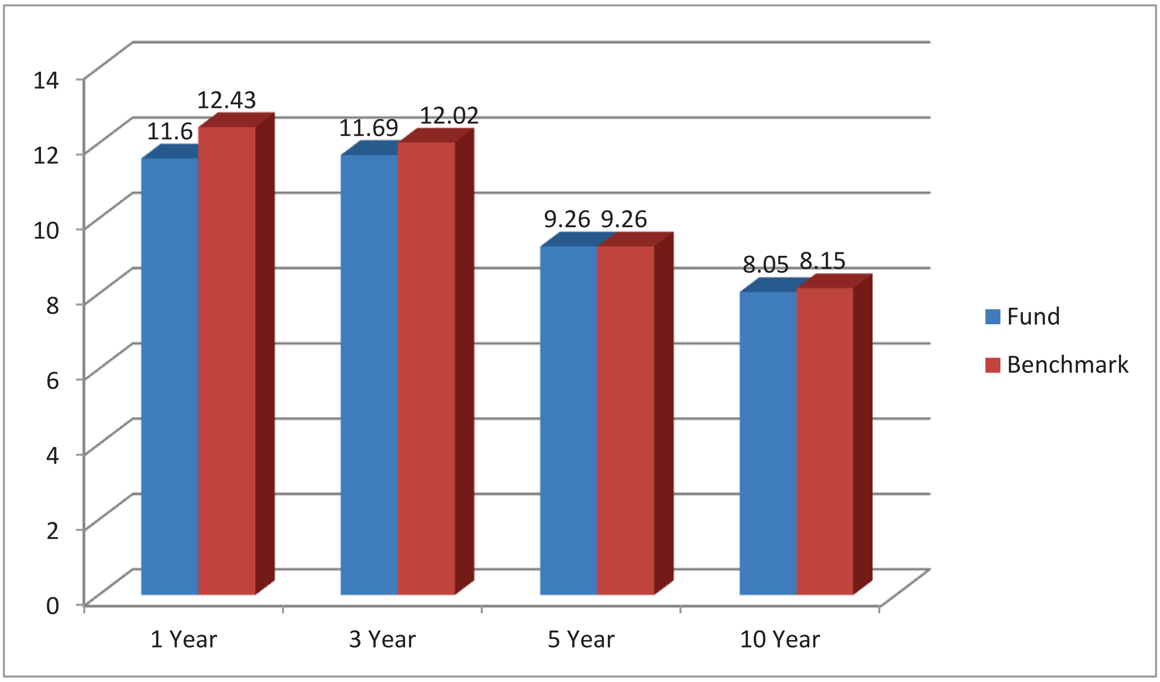
Property
Property markets were strong over the period, generating a return of 18.3% across all UK property types. Office and Industrial property generated the highest returns at over 20%, with Retail property providing returns of 13%.

Market Returns	**1 Year (%)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**
Equities:- FTSE All Share Index	6.57	10.63	8.34
FTSE ALL World Index	19.17	14.20	10.02
FTSE All World ex UK	20.25	14.58	10.22
FTSE North American Index	25.14	18.08	14.03
FTSE Europe (ex UK) Index	7.48	14.14	7.21
FTSE Japan Index	27.14	12.68	6.75
FTSE Developed Asia Ex Japan Index	10.56	7.40	6.07
FTSE Emerging Markets Index	16.34	3.68	2.67
Bonds:- FTA Government Securities All Stocks	13.91	5.32	7.05
ML UK Corporate Bonds	13.27	8.83	8.17
FTA Index Linked All Stocks	18.55	7.92	9.60
(Note: Values above are total returns in Sterling)			

North East Scotland Pension Fund

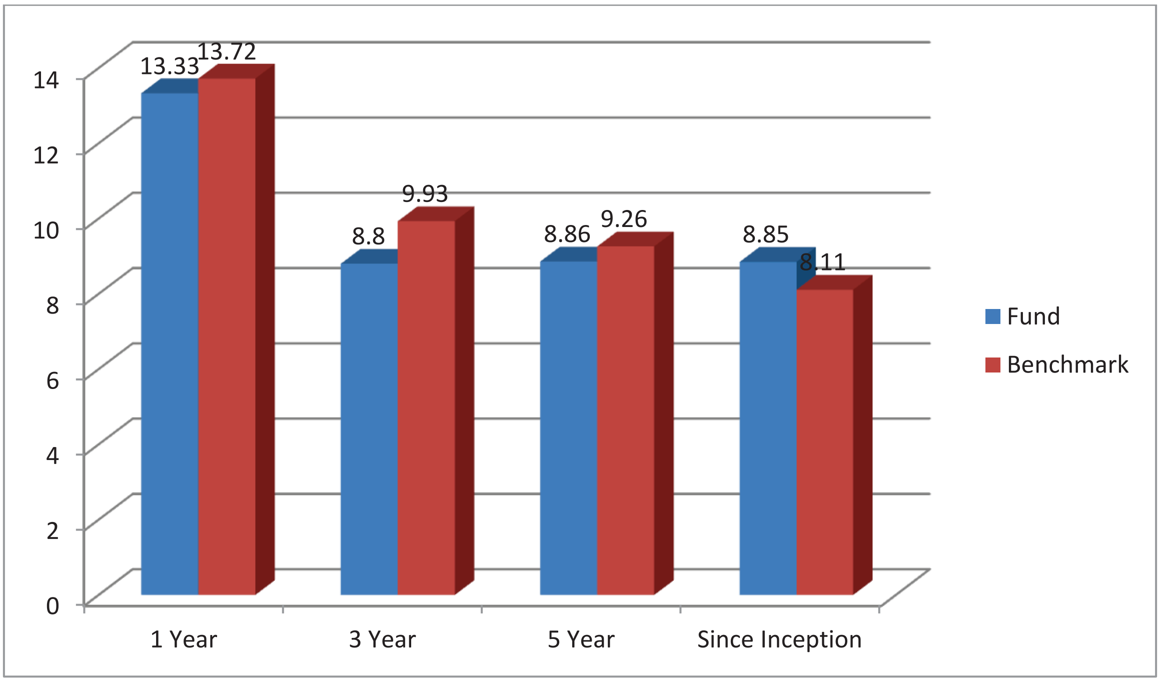
In 2005 a long term investment strategy for the NESPF was agreed with a customised benchmark with the aim to deliver a return of 1% over the benchmark over a rolling three year period.

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	2012/13 %	2013/14 %	2014/15	3 Year Annualised %	5 Year Annualised %
CPI	2.2	2.7	1.2	2.0	2.9
Average Earning	1.8	0.9	1.5	1.4	1.7
NESPF Return	12.9	10.4	11.6	11.7	9.3

Investment Management Structure

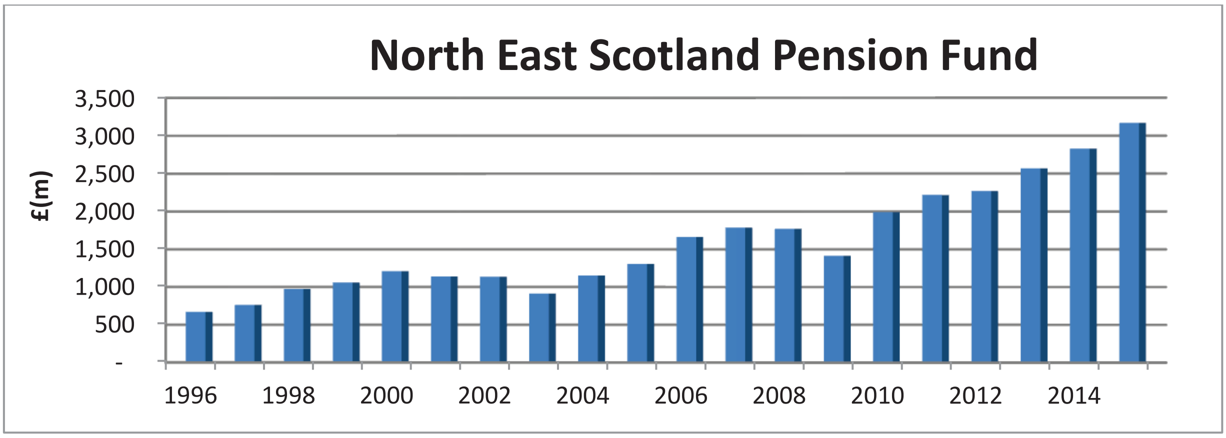
Manager	31 March 2014 £M	31 March 2014 %	31 March 2015 £M	31 March 2015 %
SSGA	934	33.0	1,043	33.0
Baillie Gifford	631	22.3	732	23.1
Blackrock	391	13.8	397	12.5
Barings	244	8.6	268	8.5
AAM Global	251	8.8	278	8.8
AAM Property	162	5.7	217	6.9
Harbour Vest	71	2.5	86	2.7
SL Capital Partners	48	1.7	41	1.3
Partners Group	13	0.4	15	0.5
AAM Frontier Fund	36	1.3	38	1.2
Maven Capital	2	0.1	3	0.1
NESPF	3	0.1	0	0.0

Financial Performance

North East Scotland Pension Fund Financial Summary

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Contributions Less benefits and expenses paid **Net additions**	**26,897**	**35,229**	**361**	**1,833**	**841**
Net investment income Change in Market Value **Net return on Investment**	**199,197**	**15,879**	**300,543**	**275,465**	**341,898**
Net increase in Fund	**226,094**	**51,108**	**300,904**	**263,555**	**327,989**
Fund Balance as at 31 March (Market Value)	**2,218,008**	**2,269,116**	**2,570,020**	**2,833,575**	**3,161,564**

Fund balance as at 31 March 2015 (£m)



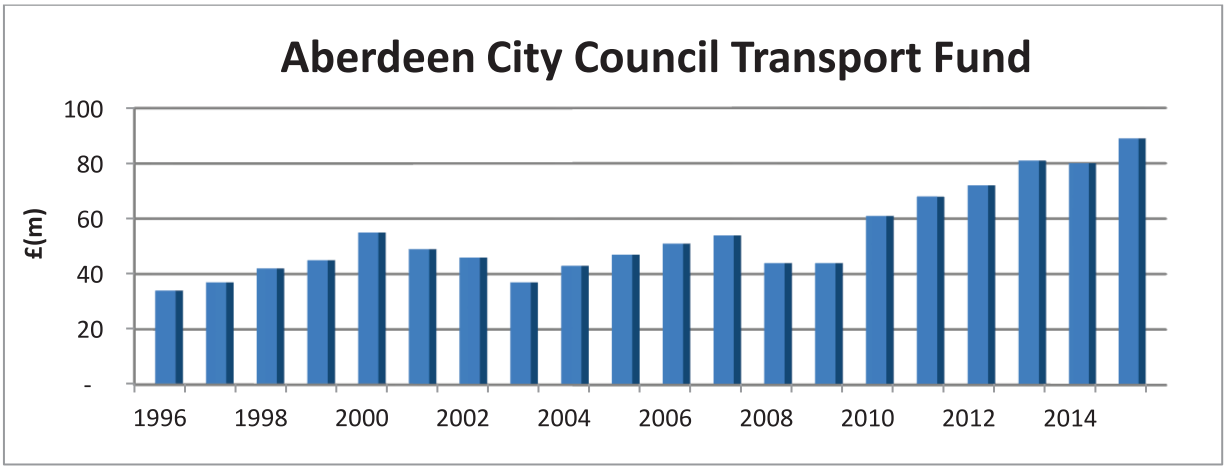
Membership Statistics

	2010/11	2011/12	2012/13	2013/14	2014/15
Active	21,268	20,361	20,869	22,880	24,089
Pensioners	14,861	15,768	16,472	17,106	17,726
Deferred	16,125	16,425	16,876	17,267	17,759

Aberdeen City Council Transport Fund Financial Summary

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Contributions Less benefits and expenses paid **Net additions**	**742**	**(650)**	**(1,190)**	**(989)**	**(749)**
Net investment income Change in Market Value **Net return on Investment**	**6,418**	**5,095**	**9,583**	**92**	**10,548**
Net increase in Fund	**7,160**	**4,445**	**8,393**	**(896)**	**9,802**
Fund Balance as at 31 March (Market Value)	**67,896**	**72,341**	**80,734**	**79,838**	**89,640**

Fund balance as at 31 March 2015 (£m)



Membership Statistics

Transport Fund	2010/11	2011/12	2012/13	2013/14	2014/15
Active	120	105	92	85	78
Pensioners	367	381	393	405	403
Deferred	168	163	166	155	150

Benefit Administration

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 the agreed timescales.

The benefits team saw an increased workload in 2014/15 however the expansion of electronic data exchange through I-Connect and Employer Services has greatly benefited scheme administration, resulting in improved processing times, cost savings and more accurate data. As these services continue to be rolled out the Fund will also benefit from a reduced administrative burden at year end. More information on data performance and electronic data exchange can be found in the Technical and Communication Report.

We continued to assist employers with auto enrolment with detailed guidance available on our website and in the coming year will look to aid those employers going through the re-enrolment process.

Reform of LGPS Scotland

Delivery of the new LGPS Scotland was the primary project undertaken by the Pension Fund in 2014/15. As part of the implementation plan, staff participated in a comprehensive training programme which included 2 external training workshops as well as a series of internal training sessions delivered by the Fund's Training and Development Officer.

In addition to developing staff knowledge, Pension Officers delivered over 50 LGPS 2015 presentations, helping to inform approximately 1500 members about the new scheme.

As part of the national Testing Working Party, staff extensively tested the Fund's pension administration system to ensure the system could administer new scheme provisions. In conjunction administration procedures and documentation were reviewed and amended in accordance with new legislation.

Transfer for Police and Fire Scheme Administration to SPPA

Following initial meetings in 2013/14, the Fund engaged with the SPPA to discuss the transfer of Police and Fire administration. In line with the agreed timescale, affected members were notified of the changes via their annual benefit statements in November with the successful transfer of over 2000 police and fire member records in December 2014.

Statements

Year-end processing of LGPS member records which included data checks for approximately 22,000 members was completed by 31 August 2014. Annual Benefit Statements for over 36,000 active and deferred members were issued by November 2014.

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 £40,000 annual allowance limit.

Workflow and Performance Management

Over the past 12 months work has been underway to utilise the management workflow module of the Fund's pension administration system. This function is designed to help staff process their daily work and allows tasks on the system to be automatically allocated based on a number of factors such as skill level and weighting. Workflow will provide quarterly performance reporting on NESPF key administration tasks as well as more accurate and meaningful management information. Considerable testing has taken place and new workflow procedures were made available to staff in March 2015.

Customer Service

In addition to maintaining member records, the benefits team also provide frontline services to our members and are committed to providing this to the highest standard. With increasing membership levels the benefits team have dealt exceptionally well with the rising number of queries; the team answered nearly 16,000 calls and responded to over 4,200 emails in 2014/15. The Fund's move to a more central location in Aberdeen has also resulted in increased drop-in meetings with members. The benefits team also offer a range of member presentations at the request of employers and in the 12 months to 31 March 2015 delivered 6 pre-retirement surgeries and 4 induction courses.

Technical & Communication

This year's report focuses on Testing Working Party participation, employer and NESPF performance during 2014/15 and what is being done to ensure accurate and up to date data is held on the pension administration system.

Testing Working Party (TWP)

NESPF joined forces with Highland, Northern Ireland Local Government Officers Superannuation (NILCOS), Shetland and Strathclyde Pension Fund in a regional TWP organised by the Computerised Local Authority Superannuation System (CLASS) group for the benefit calculation software release required for the new CARE scheme in Scotland commencing on 1 April 2015.

A coordinated approach was adopted and regional testing groups were created and allocated specific areas to test by the national TWP which was chaired by Oxfordshire County Council. NESPF were to focus on commutation and additional pension as well as carrying out regression testing to ensure CARE developments did not affect existing calculation routines.

The 2015 software was delivered at the end of December and a period of intensive testing involving 7 members of staff commenced in January. Conference calls were held on 6, 13, 16 and 20 January to discuss progress and issues discovered amongst the group. NESPF tested 69 scenarios and discovered 8 errors which were raised via the TWP with the CLASS group software provider.

The CARE software release was signed off by the chairperson on 9 February once all the errors discovered had been fixed or scheduled for the 2015.1 release later in the year. The final version of the 2015 software was delivered into our Test service on 19 February followed by a Live service delivery on the 6 March in plenty of time for the new scheme.

Feedback on our testing experience was provided to the national chairperson who then reported back to the CLASS Group Management Team attended by NESPF on 12 March.

Pension Administration Strategy (PAS)

A PAS was created 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.

NESPF Performance Measurement

NESPF service standard	Target	2013/14	Amount	Achieved	2014/15
Letter notifying death in service	5 days	77%	29	18	62%
Letter notifying retirement estimate	10 days	100%	796	745	94%
Letter notifying actual retirement benefits	10 days	82%	1,004	880	88%
Letter notifying deferred benefits	10 days	95%	1,230	1,133	92%
Letter notifying amount of refund	10 days	95%	829	810	98%
Letter detailing transfer in quotes	10 days	99%	172	163	95%
Letter detailing transfer out quotes	10 days	88%	176	150	85%
		91%	4,236	3,899	92%

NESPF overall performance for 2014/15 was consistent with the previous year's performance and remains above 90%.

Employer Performance Measurement

Employer service standard	Target	2013/14	Amount	Achieved	2014/15
Electronic starters within 4 weeks of first pay date*	28 days	92%	1495	1401	94%
Death in service notification	5 days	71%	29	17	59%
Year-end queries	10 days	67%	379	303	80%
Early retirement notification 4 weeks before date left	28 days	49%	243	125	51%
		70%	2146	1846	86%

*I-Connect starters from June
Employer overall performance saw a significant increase in 2014/15 rising by 16%.

Electronic Data Provision

The PAS provides two solutions that employers can use to efficiently manage the collation and transfer of electronic data.

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

Data type received from Employer Services	Interface updates for 2014/15
Starters	450
Amendments	152
Leavers	297
Total	**899**

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

Data type received from I-Connect	Events processed for 2014/15
Starters	1,816
Address	2,245
Contributions (employee and employer)	85,389
Salary	82,362
NI contributions	85,390
Change of details	2,170
Service	3,212
Opt in	2
Opt out	110
Leaver	706
Work addresses	122
Member additional contributions	3,326
Total	**266,850**

Aberdeen City Council went live on April 2014 providing monthly data for their local government pension scheme members as well as members from Bon Accord Care/Support, Greenspace and Police Scotland. The Robert Gordon University went live from January 2015 and work is ongoing with Aberdeenshire Council and The Moray Council to implement I-Connect during 2015.

I-Connect deliver's benefits to everyone involved with the local government pension scheme:

- It takes data from an employer's payroll system and then automatically identifies and processes starters and leavers monthly;
- It identifies and automatically submits essential data items monthly including changes to personal information, salary and contributions;
- It allows data to be reconciled monthly rather than annually which provides more accurate and up to date member records;
- It reduces the amount of time and resources required at year end for employers and the NESPF;

- It allows members to watch their CARE pension grow throughout the year in member self service;
- It is compliant with Pension Reform and The Pensions Regulator's codes of practice on governance, administration and record keeping.

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

Employer	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Aberdeen City Council	H	M	H	H	H	H	H	H	H	H	H	H
Aberdeen Cyrenians	H	H	H	H	H		H	H	H	H	H	H
Aberdeen Greenspace	H	H	H	H	H	H	H	H	H	H	H	H
Aberdeen Housing Partnership			M			H	H	H		H	H	M
Aberdeen Performing Arts		M										
Aberdeen Sports Village						M						
Aberlour Child Care Trust					H		H			H	H	H
Bon Accord Care	H	H	H	H	H	H	H	H	H	H	H	H
Bon Accord Support	H	H	H	H	H	H	H	H	H	H	H	H
Cairngorm Outdoor Access Trust						H						
Drugs Action	H											
First Bus			H	M				H			H	
Gordon Rural Action			H									
Mental Health Aberdeen		H										H
Moray College	H	H	H	H	H	H		H	H	H	H	H
North East Scotland College				H	M	H	H	H	H			H
North East Sensory Services	H	M	H	H	H		M					H
Police Scotland	H	H	H	H	H	H	H	H	H	H	H	H
Robert Gordon College	H	M	H			H			H			
Robert Gordon University	H	H	H	H	H	H	H	H	H	H	H	H
SCARF						M		M				
Scottish Water	H	H	H	H	H	H		H	H	H	H	H

During 2014/15 92% of data received contained high quality data, 8% contained medium quality and no low quality data was received. Quality data is essential for effective administration of pension benefits.

Data quality for processing is defined as follows:

H = High quality data
- For I-Connect > 90% of events processed
- For Employer Services no formatting amendments required

M = Medium quality data
- For I-Connect 75% - 90% of events processed
- For Employer Services minor formatting amendments required

L = Low quality data

- For I-Connect < 75% of events processed
- For Employer Services major formatting amendments required

Record Keeping

In 2010 The Pensions Regulator (TPR) issued guidance on proposed framework for data checking to be implemented by December 2012. For the past 3 years NESPF have published an annual report to comply with TPR requirements that contains:

- Numerical data with commentary
- Conditional data tests
- Common data measured against benchmarks set by TPR
- Risk assessment and action plan for failed tests

This year's common data results against TPR benchmarks of 95% for pre June 2010 data and 100% for post June 2010 data were as follows:

Data item	Pre (95%)	Result	Post (100%)	Result
NI Number	99.93%	Pass	99.91%	Fail
Surname	100%	Pass	100%	Pass
Forenames or initials	100%	Pass	100%	Pass
Sex	100%	Pass	100%	Pass
Date of birth	100%	Pass	100%	Pass
Date started	100%	Pass	100%	Pass
Expected retirement (system derived)	100%	Pass	100%	Pass
Membership status	100%	Pass	100%	Pass
Last status event	99.99%	Pass	100%	Pass
Address	95.62%	Pass	99.84%	Fail
Postcode	99.92%	Pass	99.98%	Fail

Also reported is additional improvements made throughout the year which included a recently completed exercise with an external provider to electronically trace members with a "gone away" address. The trace provided 2077 new addresses and an exercise is underway to establish contact with these members.

The full report for 2014 as well as previous year's reports is available on the NESPF website.

Communications

Highlights of the year include the production of new-look materials for our members. Benefit Statements were redesigned to deliver a more engaging, clearer and easy to read statement while our new start pack was revised to include new flyers that provided concise but clear information about the scheme.

In 2014/15 engaging with all stakeholders to prepare for the new scheme was of particular importance. A dedicated LGPS 2015 area was developed on the Fund's website to provide information, factsheets and bulletins for members. The Fund also delivered over 50 member presentations on the LGPS 2015 in addition to 10 member fairs and pension surgeries. For employers, a day-long seminar was held in October 2014 to provide training and additional training sessions were delivered to 18 employers by the Employer Relationship Team. Further to this the communications team participated in the national LGPS 2015 communications group to help develop the LGPS 2015 member website and materials.

The Fund continued to promote e-communication such as member self-service and maintained an active social media presence via Twitter providing information on the scheme, local news and general pension matters.

This year the Fund made three award submissions and was shortlisted for Fund of the Year (Above £2billion) at the LGC Investment Awards and Defined Benefit Scheme of the Year at the Pension Age Awards.

Throughout 2014/15 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 2,546 questions were answered with the following scores awarded:

Score	**1**	**2**	**3**	**4**	**5**
Answers	23	46	310	1165	1102
Percentage 2014/15	1%	2%	12%	46%	39%
Percentage 2013/14	1%	2%	18%	46%	33%

An employer's communication survey was also conducted in 2014 which indicated 68% of employers felt informed about what was happening in the Fund and 65% wanted more training opportunities. Over the coming year the Fund will look to address the issues raised.

Risk

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

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

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

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

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.

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 Committee and Joint Investment Advisory Committee and led to the strategic benchmark.

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

Corporate, Environmental and Social Governance

What is Corporate Governance – It's the framework companies use to outline the specific operations and guidelines for their employees. Corporate Governance is often a unique framework built around the organisations missions and values.

Why is Corporate Governance Important – Corporate Governance controls the internal and external actions of managers, employees and outside business stakeholders. This framework also outlines the duties, privileges and roles of board members or directors to ensure they act in the best interest of the company. A lack of corporate governance can lead to profit loss, corruption, drop in share price and a tarnished image.

What the North East Scotland Pension Fund & Aberdeen City Council Transport Fund does to ensure the companies the Fund invests in are properly governed.

Voting

Voting is an integral part of good governance, it gives the Fund a direct route to influence the company's management and over the last year the Fund has voted at 220 Annual General Meetings/Special meetings on 3,481 resolutions. The Fund's voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum

During the year to 31 March 2015 the most contentious areas were

Directors

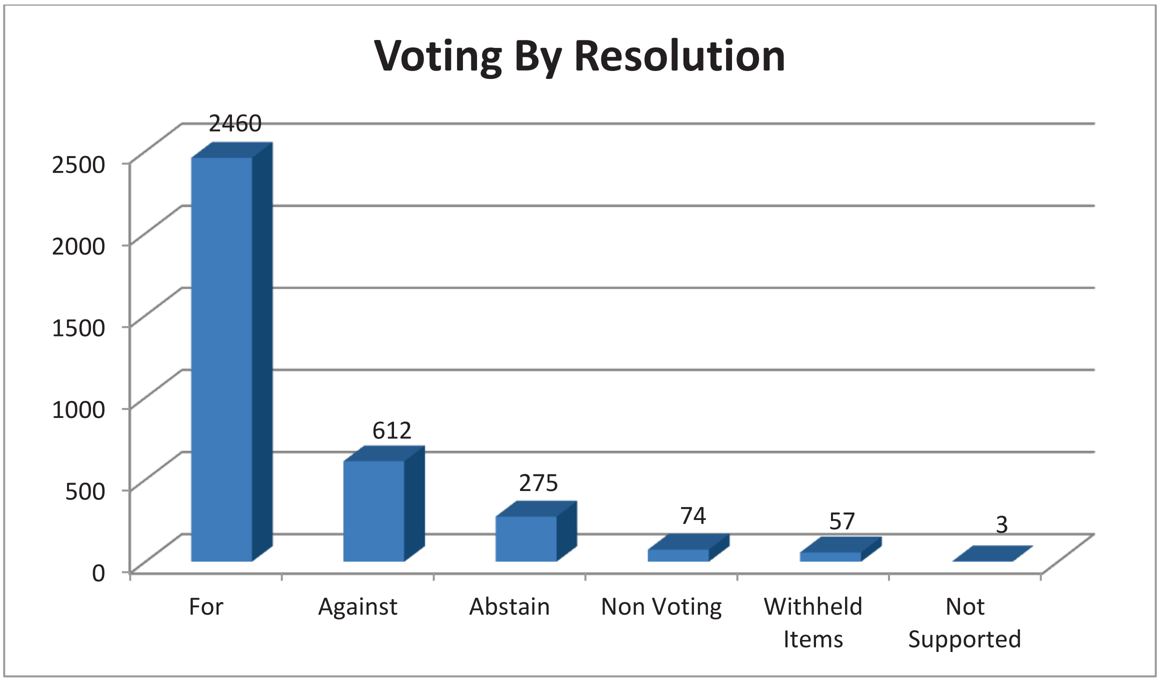
- Insufficient independence at board level.
- Independent Directors who have spent over 9 years on the board.
- Against the chair of the Nomination Committee, for not adhering to the Davies recommendation of setting a target for female Board representation by 2015.

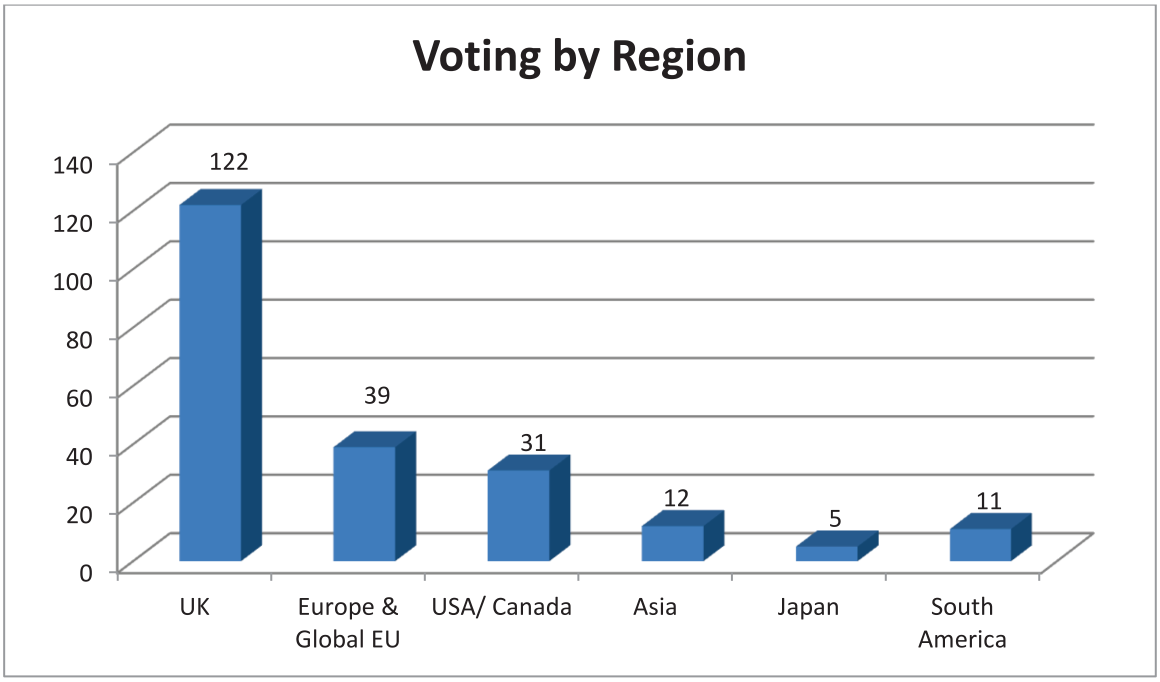
Executive Pay Schemes

- Potential Awards available considered excessive.
- Vesting period not considered sufficiently long term.

Auditors Appointment

- Concerns about high levels of non-audit fees creating the potential for conflicts of interest.


Voting By Resolution
2500
2000
1500
1000
500
0
2460
612
275
74
57
3
For
Against
Abstain
Non Voting
Withheld Items
Not Supported


Voting by Region
140
120
100
80
60
40
20
0
122
39
31
12
5
11
UK
Europe & Global EU
USA/ Canada
Asia
Japan
South America

Engagement

Local Authority Pension Fund Forum

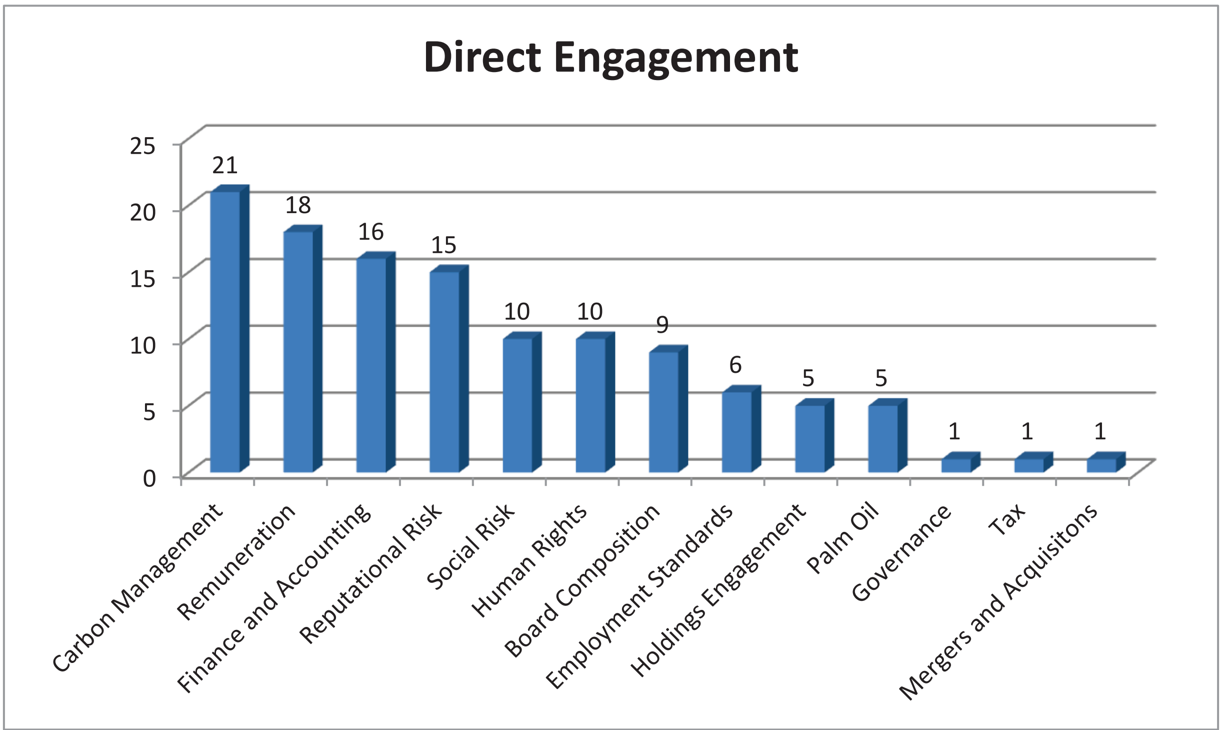
Engagement is a vital part of good corporate and social governance to be effective in the area. It is vital that Local Authority Pension Funds work together to achieve the best results which is why the Fund is a member of the Local Authority Pension Fund Forum **(**LAPFF**).** These engagements enable the Fund to be a responsible long term investor.

LAPFF is the UK's leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together 64 local authority pension funds from across the country with combined assets of over £160 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues.

In January 2015 the convener of the North East Scotland Pension Fund was elected onto the Executive Board of LAPFF.

This will enable the Fund to have a much greater input in LAPFF's engagements be that the Governance of companies, or Environmental & Social issues.

LAPFF has engaged directly with 118 companies on a range of environmental, social, and governance concerns that pose a risk to shareholder value.



Increasingly, LAPFF is engaging at the most senior level of companies. In 2014 nearly 58% of company engagements were with the company chairman and another 17% were with other board members.

Over the course of 2014 LAPFF attended 19 AGMs the result of this has been an increase in access to board directors that have not previously responded, examples of the AGM attended are:-

- British Land – the focus was on the extent to which the company has considered future climate impacts in land purchase and developments.
- Rio Tinto, Shell and BP – carbon asset risk.
- Lonmin – Marikana mine protests resulted in engagement over employee relations and the company's position on living wages.
- Barclays, Burberry and GlaxoSmithKline – challenging boards directly on concerns over remuneration packages.
- Betfair – questions over accounting practices.

Further information on LAPFF can be found on their website http://www.lapfforum.org

United Nations Principles for Responsible Investment

To enable the Fund to be more global in its engagement in August 2010 the Fund signed up to the United Nations Principles for Responsible Investment (UNPRI). This is a worldwide initiative with a set of aspirational and voluntary guidelines for investment entities wishing to address environmental, social, and corporate governance (ESG) issues. Over 1300 companies representing over US$45 trillion assets under management have signed up to the Principles.

The UNPRI Initiative has quickly become the leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues.

During the year the Fund has participated in the undernoted UNPRI activities:

- Sustainable Stock Exchanges – The Fund is on a working group whose aim is to get Stock Exchanges to improve the quality of disclosure by companies on their environmental, social and corporate governance performance.
- Webinar – Integrated Governance – A new model of governance for sustainability.
- Webinar – Investor Education Information on Bangladesh.

In March 2015 – The Fund signed up to the Carbon Disclosure Project (CDP) Investor Initiative.

CDP requests standardised climate change, water and forest information from some of the world's largest listed companies through annual questionnaires sent on behalf of institutional investors that endorse them as CDP signatories.

These shareholder requests for information encourage companies to account for and be transparent about environmental risk. Transparency of this data throughout the global market place ensures the financial community has access to the best available corporate environmental information to help drive investment flows towards a low carbon and more sustainable economy.

Future

Following on from 2014/15 which was again a very busy and challenging year within the Local Government Pension Scheme, the Fund now looks to the new financial year and the implementation of the New Scheme and new governance arrangements being introduced by The Pensions Regulator.

During the first quarter of 2015 the administering authority established a Pensions Board which have met twice already this year for training and will attend their first Committee meeting in June 2015.

Further to the above the Fund having completed its actuarial valuation as at 31 March 2014 the Fund will continue throughout 2015/16 to review it investment strategy and implement any changes that may arise.

The Fund continues to engage with all stakeholders in line with the Fund's governance and communication policy which can be found on the Funds website along with the Funds Business Plan for the next three years.

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 2014/15 Financial Statements.

Angela Scott Chief Executive	Steven Whyte, CPFA Head of Finance	Councillor Barney Crockett Convener

On behalf of Aberdeen City Council

Xx June 2015

NORTH EAST SCOTLAND PENSION FUND AND ABERDEEN CITY COUNCIL TRANSPORT FUND

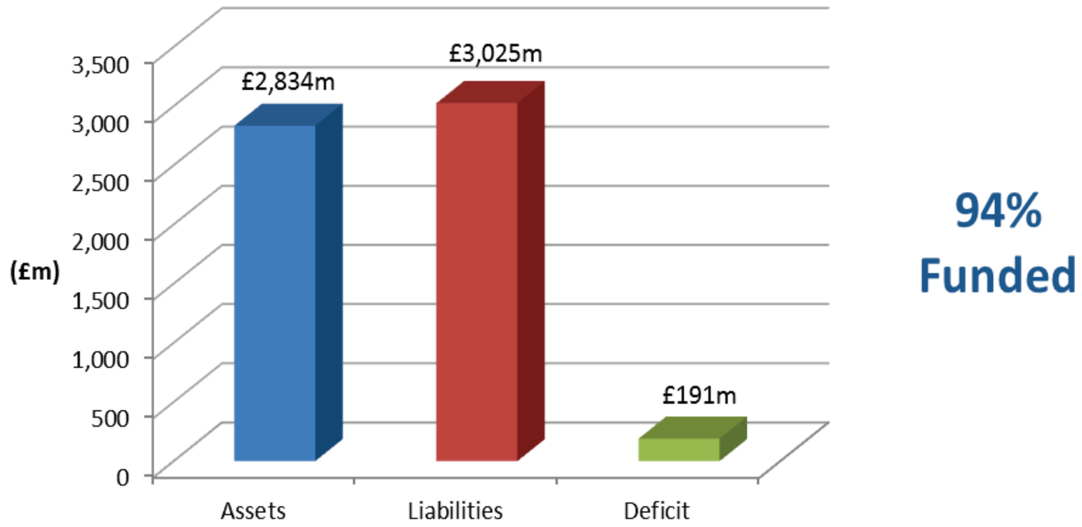
Accounts for the year ended 31 March 2015 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 55 (1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2014.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

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



The valuation also showed that a common rate of contribution of 14.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2015.

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

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

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

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

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

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

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	4.15% per annum	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term pay restraint.

The demographic assumptions are the same as those used for funding purposes (but with the rate of increase in life expectancy updated as appropriate). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2015.

We have also used 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 decreased, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). The impact of this was offset to some extent by the fall in assumed inflation (2.0% p.a. versus 2.4% p.a.). In addition, there has also been a reduction in the long-term real pay increase assumption (i.e. over and above inflation) from 1.75% p.a. to 1.5% p.a. at the year-end and allowance for short term pay restraint for some employers, as detailed in the actuarial valuation report.

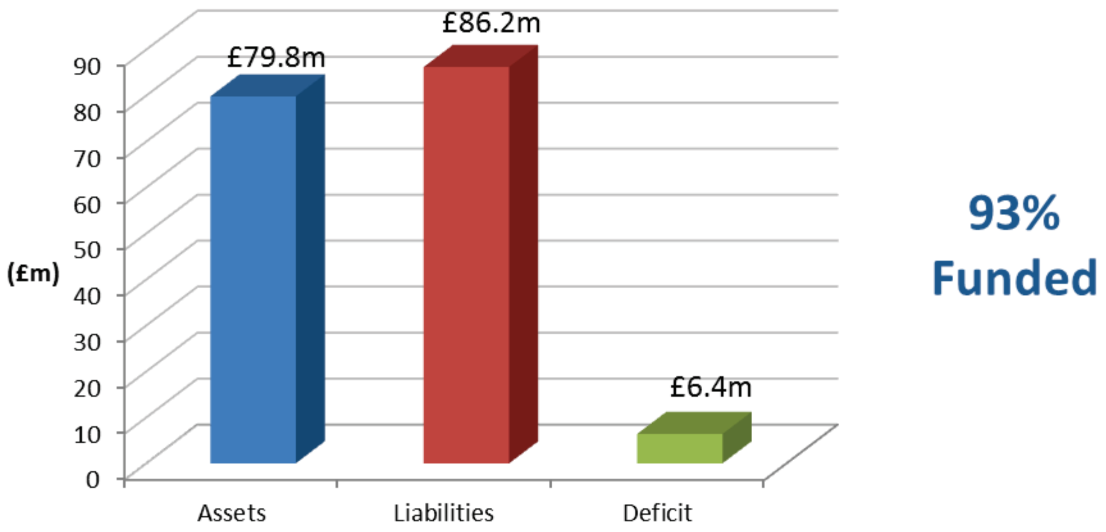
The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2014 was estimated as £3,423 million. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by *c.*£389 million. Adding interest over the year increases the liabilities by a further *c.*£154 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another *c.*£19 million. Finally, allowing for actual vs expected membership experience, which emerged at the 2014 valuation, gives a reduction in liabilities of c.£111 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 2015 is therefore £3,874 million.

Aberdeen City Council Transport Fund

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

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



The valuation also showed that a common rate of contribution of 44.9% of pensionable pay per annum was required. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

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

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

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

The assets were assessed at market value.

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

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

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

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

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.2% per annum
Rate of pay increases	4.4% per annum	4.0% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term pay restraint at the rate of CPI inflation

The demographic assumptions are the same as those used for funding purposes (but with the rate of increase in life expectancy updated as appropriate). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2015.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year

(3.2% p.a. versus 4.5% p.a.). The impact of this was offset to some extent by the fall in assumed inflation (2.0% p.a. versus 2.4% p.a.). The pay increase assumption at the year-end has also changed to allow for a short-term pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £71.3 million. The effect of the changes in financial and demographic assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by *c.*£8.4 million. Adding interest over the year increases the liabilities by a further *c.*£3.2 million, and allowing for net benefits accrued/paid over the period reduces the liabilities by *c.*£2.4 million. Finally, allowing for actual vs expected membership experience, which emerged at the 2014 valuation, gives a reduction in liabilities of c.£1.7 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 2015 is therefore £78.8 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2015

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	Robertson 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	Robertson Facilities Management (City)	Transferee
21	Forth & Oban	Transferee
22	Drugs Action	Transferee
23	Aberdeen Endowments Trust	Admitted
24	North East Sensory Services	Admitted
25	Aberlour Child Care	Admitted
26	Fraserburgh Harbour Commissioners	Admitted
27	Peterhead Port Authority	Admitted
28	Robert Gordon’s University	Admitted
29	Robert Gordon’s College	Admitted
30	Aberdeen Cyrenians	Admitted
31	Mental Health Aberdeen	Admitted
32	Alcohol Support Ltd	Admitted
33	Fersands & Fountain Community Project	Admitted
34	SCARF	Admitted
35	Inspire	Admitted
36	Manor Project	Admitted
37	Archway	Admitted
38	Middlefield Community Project	Admitted
39	Gordon Rural Action	Admitted
40	Moray Anchor Project	Admitted
41	St Machar Parent Support Project	Admitted
42	Printfield Community Project	Admitted
43	HomeStart Aberdeen	Admitted
44	Aberdeen Foyer	Admitted

45	HomeStart (NEA) Fraserburgh	Admitted
46	Aberdeen Greenspace	Admitted
47	Pathways	Admitted
48	Cairngorms Outdoor Access Trust	Admitted
49	Aberdeenshire Housing Partnership	Admitted
50	Aberdeen Performing Arts	Admitted
51	Aberdeen International Youth Festival	Admitted
52	Sanctuary Housing	Admitted
53	Tenants First Housing Co-op	Admitted
54	Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1	First Aberdeen	Scheduled

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 it's the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Funds, that officer is the Head of Finance of Aberdeen City Council.

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

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

- Approve the Annual Accounts for Signature

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 15th June 2015

Signed on behalf of Aberdeen City Council

Councillor Barney Crocket
Convener

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 required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code).

In preparing the 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 legislation
- complied with the local authority Accounting Code (in so far as it is compatible with legislation)

The Head of Finance has also:

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

Financial Position:

I certify that the financial statements give a true and fair view of the financial position of the North East Scotland Pension Funds at the reporting date and the transactions of the Funds for the year ended 31 March 2015.

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

Annual Governance Statement

The Governance framework of the Council and North East Scotland Pension Fund

The Purpose of the Governance Framework

The governance framework comprises the systems and processes and culture and values by which the Council, and therefore the Fund, is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The Audit, Risk and Scrutiny Committee has a key role in this and an annual report of its activities will be approved by the committee and referred to Council for its consideration, while the Pension's Committee receives a specific report on the internal controls of the Fund itself. This demonstrates the Council's governance arrangements through improved transparency, understanding and challenge of the activity and outcomes from the Audit, Risk & Scrutiny Committee and Pensions Committee.

A governance framework has been in place at Aberdeen City Council for the year ended 31 March 2015 and up to the date of approval of the Annual Accounts.

The Governance Framework

The Council has an approved Local Code of Corporate Governance, a copy of which can be read on our website at www.aberdeencity.gov.uk[1]. The Local Code incorporates the six principles recommended in the CIPFA / SOLACE Framework, and was last updated in 2012/13. Against each principle is a set of key documents, policies, arrangements and areas of activity within the Council which address the theme. The principles are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;

[1] A copy of the Local Code can be obtained at: http://committees.aberdeencity.gov.uk/ecSDDisplay.aspx?NAME=SD636&ID=636&RPID=0&sch=doc&cat=13096&path=13083%2c13096

3. Promoting values for the authority and demonstrating the value of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective;
6. Engaging with local people and other stakeholders to ensure robust public accountability.

The Funds place reliance upon the internal financial controls within the Council's financial systems and the monitoring in place to ensure the effectiveness of those controls. Within the overall control arrangements, the system of internal control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period. The key elements of the Council's governance framework include financial regulations, financial monitoring, financial and administrative procedures (including segregation of duties, management supervision, and a system of delegation and accountability).

The systems include:

- Budgeting systems;
- Review of financial and performance reports against forecasts, benchmarks and targets set;
- The preparation of regular financial reports which indicate actual expenditure against forecasts; and
- Consideration of external and internal audit reports by the Audit, Risk and Scrutiny Committee and by the Pensions Committee.

These arrangements also include:

- Identifying the Council's objectives
- Identifying the objectives of the Funds in the Funding Strategy Statement, Statement of Investment Principles and Business Plan;
- Monitoring of the achievement of objectives by the Council, Pensions Committee and senior officers;
- A systematic approach to monitoring service performance by Pensions Committee, senior officers and stakeholders;
- Describing the role of the Council and committees term of reference and delegated functions, procedural standing orders and the scheme of delegation;
- Financial Rules and Regulations that specify the controls over budgeting, income, expenditure and financial performance;
- The Council's Monitoring Officer reports on any non-compliance with laws and regulations of which they are made aware to the Audit, Risk and Scrutiny Committee, and the Pensions Committee in respect of the Funds;
- Comprehensive budget and expenditure monitoring systems;

- Targets against which financial and operational performance can be assessed;
- Formal project management disciplines;
- A Code of Conduct for staff and Standards Commission Code for elected members and Member/Officer Protocol;
- A structured programme to ensure that Committee members have the required standard of knowledge and understanding of Local Government Pension Scheme;
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statement of Investment Principles;
- Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme and the Myners Principles on investment;
- With the exception of managed funds, unlisted investments and property, all investments are held under custody by a global custodian. The Funds benefit from the custodian's extensive internal control framework;
- Benchmarking of services in terms of quality and cost against other Local Government Pension Scheme funds; and
- Monitoring of appointed Fund managers and third party providers ensuring compliance within their management agreements.

Review of Effectiveness

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

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

Management Assurance:

Each head of service has reviewed the arrangements in his / her portfolio and certified their effectiveness to the Head of Finance. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. Any significant control weaknesses will be incorporated into the 'Significant Governance Issues' section where it's determined necessary.

In reviewing this it has been assessed that the Council's financial management arrangements conform to the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer (CFO) in Local Government (2010). Furthermore in relation to the statutory postholders, the effectiveness of the Council's arrangements can be evidenced through the relationship that they have had throughout the year with the Council and its officers, being full members of the Corporate Management Team. In addition the CFO and Monitoring Officer are in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee, Finance, Policy and Resources Committee and the Pensions Committee.

The Council Committee structure follows and supports the organisational and management structure, incorporating a culture of accountability that has been developed throughout the Council. The Audit, Risk and Scrutiny Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering reports prepared by the external auditor.

Further to the above the Pensions Committee is responsible for the Internal and external Audit functions for the Pension Fund, through the administering authority delegated powers.

Assurance from Internal Audit:

The Internal Audit function was under contract to PricewaterhouseCoopers LLP during the financial year.

At the end of the year the Head of Internal Audit provided the Pension Fund with a written report on the Pension Fund's Financial Controls and Pensions Payroll, Report being issued during May 2015 and presented to the Pensions Committee in June 2015.

External Audit and Other External Scrutiny:

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

Audit, Risk and Scrutiny Committee Self-Evaluation:

The Audit, Risk and Scrutiny Committee recognised the benefits of self-evaluation, using tools such as CIPFA's "A toolkit for Local Authority Audit Committees" and agreed at its meeting in February 2014 to do an annual self-evaluation. The results for 2014/15 were reported in May 2015 and a number of recommended actions were agreed that will develop the Committee and the Council.

In summary the Council has undertaken a self-evaluation of its Local Code of Corporate Governance and determined that there is strong compliance with the Code and that governance processes, procedures, performance reporting and engagement material are well managed by the organisation. The Fund has a clear approach to the decision-making process and seeks to engage with its members, employers and staff.

Significant Governance Issues

There are no significant governance issues that require to be raised in relation to the Funds.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Aberdeen City Council and the Fund's governance and that the annual review demonstrates sufficient evidence that the Code of Corporate Governance operates effectively.

Angela Scott	**Steven Whyte, CPFA**	**Councillor Barney Crockett**
Chief Executive	**Head of Finance**	**Convener**

On behalf of Aberdeen City Council

Xx June 2015

Governance Compliance Statement

Principle	**Compliance**
1. Structure	
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	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.	
2. Committee Membership and Representation	
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Fully compliant as per the Scheme Governance 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.	
3. Voting	
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant as per the Scheme Governance Statement

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

Compliance with the Myners Principles

Requirement	North East Scotland Pension Fund Arrangements	Assess Status
Principle 1: Effective Decision Making		
Administering authorities should ensure that: Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation; and Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	The Pension Fund Training Policy statement details the training agenda for elected members of the Pensions Committee 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. The Head of Finance is responsible for the provision of the training plan for the Pensions Committee 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 Committee. Conflicts of interest are governed by the City Council standing orders.	**Compliant** Subject to ongoing review and training
Principle 2: Clear Objectives		
Overall investment objectives should be set out for the Fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.	The Statement of Investment Principles and the Funding Strategy Statement define the Funds' primary funding objectives. 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. 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.	**Compliant**

	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 Committee. Quarterly reporting of the Pensions Commitee identifies issues which arise relating to the covenant of both schedule and admitted bodies. The Pension Committee 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 Committee 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. Investment Performance is reviewed quarterly by the Pensions Committee and the JIAC The Pensions Committee and the JIAC assess their own performance and that of their advisers on an annual basis. Training and attendance of members of the Pensions Committee and JIAC are monitored and reported on an annual basis.	**Compliant**
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. 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; and ii.) A summary of the Funds' approach to responsible investment.	**Compliant**

	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 Committee. The Councils standing orders govern the actions of the Committee and its Officers. The Pension Committee and the Joint Investment Advisory Committee which supports the Pensions Committee 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 As a standing committee of the Council the Pensions Committee 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 Committee 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 Committee 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.	**Compliant**

North East Scotland
PENSION FUND

Draft Financial Statements

FOR THE PERIOD

1 APRIL 2014 TO 31 MARCH 2015

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

ABERDEEN
CITY COUNCIL

Contents

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 2015.

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 sets 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 £328m, while the Aberdeen City Council Transport Fund increased in value by £10m. 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 out with 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	NESTRANS
North East Scotland College	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, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB and is also contained within this Annual 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 2014/15.

Band	Range	Contribution Rate
1	On earnings up to and including £20,335	5.50%
2	On earnings above £20,335 and up to £24,853	7.25%
3	On earnings above £24,853 and up to £34,096	8.50%
4	On earnings above £34,096 and up to £45,393	9.50%
5	On earnings above £45,393	12.00%

Membership

North East Scotland Pension Fund	31 March 2014	31 March 2015
Number of Employers with Active Members	58	54
Number of Employees in the Scheme	22,880	24,089
Number of Pensioners	17,106	17,726
Deferred Pensioners	17,267	17,759

Aberdeen City Council Transport Fund	31 March 2014	31 March 2015
Number of Employers with Active Members	1	1
Number of Employees in the Scheme	85	78
Number of Pensioners	405	403
Deferred Pensioners	155	150

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 2015 with the gain/loss on revaluation being attributed to the Funds.

Due to the maturity of the Aberdeen City Council Transport Fund and taking into account that the Fund is closed the Administering Authority has implemented a De Risking Strategy in consultation with the employer and the Schemes Actuary. The transition commenced on the 25th March 2015 which will reflect through the financial statements and notes due to the change in assets being held by the Fund.

Actuarial Valuation

Detailed in the notes to the accounts, is the outcome of the 2014 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 2014/15 Financial Statements.

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

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 2014/2015 financial year and its position at year end as at 31 March 2015.

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.

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 £5,249,133 in 2014/15 (2013/14 £5,641,996).

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 2015 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 is assessed on a quarterly basis by the Scheme Actuary, and in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement, (Note 1) together with the full Statement by the Consulting Actuary found on page 35 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 2015 was £127,588,136 (31 March 2014 £123,090,379).

Actuarial Present Value of Promised Retirement Benefits

Each fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS 19) assumptions and comply with requirements of IAS 26. However, the results are subject to significant variances based on changes to the underlying assumptions.

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

Events after the Reporting Period

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material 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 2015

Contributions Receivable	**Notes**	**2013/14**	**2014/15**
		£'000	**£'000**
Employees' Contributions	2	26,007	26,726
Employers' Contributions	2	81,679	86,572
Transfer Values	3	2,939	4,958
Other Income		56	38
		110,681	**118,294**
Benefits Payable			
Retirement Pensions	4	83,532	87,772
Retirement Allowances	4	16,668	19,881
Death Gratuities	4	3,485	3,180
Contributions Refunded	5	618	741
Transfer Values	5	2,933	3,991
		107,236	**115,565**
Management Expenses*	6	**15,355**	**16,638**
Return on Investment			
Investment Income	7	55,240	49,390
Change in Market Value of Investments*	15	220,225	292,508
Net Return on Investments		**275,465**	**341,898**
Net Increase in the Fund during the year		**263,555**	**327,989**
Opening Net Assets of the Fund		**2,570,020**	**2,833,575**
Net Assets of the Fund at the end of the year		**2,833,575**	**3,161,564**

*2013-14 Adjusted to provide comparative figures for Private Equity Management Expenses of £3,151k.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2015

	Notes	2013/14	2014/15
Investment Assets		**£'000**	**£'000**
Fixed Interest, Public Sector		57,649	80,070
Fixed Interest, Corporate		15,894	13,069
Fixed Interest, Overseas		154,848	164,384
Index Linked		3,012	0
Equities UK		638,325	640,326
Equities, Overseas		610,215	723,697
Pooled Vehicle		982,598	1,093,867
Property, Unit Trust		7	0
Property, Direct		159,240	211,960
Unit Trust, Other		8,531	3,136
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		1	0
Other, Private Equity		136,414	145,560
Funds held by Investment Managers		49,053	60,457
ACC Loan Fund Deposit	21	14,390	27,560
Investment Assets		**2,830,177**	**3,164,086**
Investment Liabilities			
Derivative Contracts (including, Futures		(386)	(1,032)
Options, Forward Foreign Exchange			
Contracts and Swaps)			
Net Investment Asset		**2,829,791**	**3,163,054**
Long Term Asset	19	**99**	**233**
Current Assets	19	19,320	19,335
Current Liabilities	19	(15,635)	(21,058)
Net Current Assets		**3,685**	**(1,723)**
Net Assets of the Fund at the end of the year		**2,833,575**	**3,161,564**

Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Xx June 2015

The Unaudited Accounts were issued on 15 June 2015.

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2015

Contributions Receivable	**Notes**	**2013/14**	**2014/15**
		£'000	**£'000**
Employees' Contributions	2	144	134
Employer's Contributions	2	2,032	2,219
Other Income		309	311
		2,485	**2,664**
Benefits Payable			
Retirement Pensions	3	2,821	2,921
Retirement Allowances	3	567	325
Death Gratuities	3	7	85
Contributions Refunded	4	0	1
Transfer Values	4	22	0
		3,417	**3,332**
Management Expenses	5	**56**	**78**
Return on Investment			
Investment Income	6	1,655	1,698
Change in Market Value of Investments	12	(1,563)	8,850
Net Return on Investments		**92**	**10,548**
Net Increase in the Fund during the year		**(896)**	**9,802**
Opening Net Assets of the Fund		**80,734**	**79,838**
Net Assets of the Fund at the end of the year		**79,838**	**89,640**

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2015

	Notes	2013/14	2014/15
Investment Assets		**£'000**	**£'000**
Fixed Interest, Public Sector		13,807	2,484
Fixed Interest, Overseas		2,781	0
Equities UK		23,283	24
Equities, Overseas		6,438	0
Pooled Vehicle		20,874	52,129
Property, Unit Trust		1	0
Index Linked Securities		7,163	34,623
Funds held by Investment Managers		4,452	(733)
ACC Loan Fund Deposit	18	306	544
Net Investment Assets		**79,105**	**89,071**
Long Term Asset	16	**431**	**404**
Current Assets	16	521	425
Current Liabilities	16	(219)	(260)
Net Current Assets		**302**	**165**
Net Assets of the Fund at the end of the year		**79,838**	**89,640**

Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Xx June 2015

The Unaudited Accounts were issued on 15 June.

NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2014.

Information from the 2014 Actuarial Valuation is detailed below:

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

Funding Level

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

Correcting the Shortfall

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

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

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

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

Schedule to the Rates and Adjustments Certificate

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

Assumptions used to Calculate Funding Target

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

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

The full Actuarial Report and the Funding Strategy statement are available from the office of the Head of Finance, Aberdeen City Council, 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 (IAS 19) assumptions, is estimated to be £3,874m (2014 £3,423m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

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

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

Note 2: Contributions Receivable

	2013/14	2014/15
	£'000	£'000
Employees' Normal Contributions	**26,007**	**26,726**
Employers' Normal Contributions	79,218	81,197
Employers' Deficit Recovery Contributions	2,461	5,375
Employers' Augmentation Contributions	0	0
Total Employers' Contributions	**81,679**	**86,572**
Total	**107,686**	**113,298**

	2013/14	2014/15
	£'000	£'000
Scheduled Bodies	96,095	100,322
Admitted Bodies	8,947	8,980
Transferee Admission Bodies	2,644	3,996
Total	**107,686**	**113,298**

Note 3: Transfers in from other Pension Funds

	2013/14	2014/15
	£'000	£'000
Individual Transfers	2,939	4,958
Total	**2,939**	**4,958**

Note 4: Benefits Payable

	2013/14	2014/15
	£'000	£'000
Pensions	83,532	87,772
Commutation and Lump Sum Retirement Benefits	16,668	19,881
Lump Sum Death Benefits	3,485	3,180
Total	**103,685**	**110,833**

	2013/14	2014/15
	£'000	**£'000**
Scheduled Bodies	95,050	101,575
Admitted Bodies	8,066	8,480
Transferee Admission Bodies	569	778
Total	**103,685**	**110,833**

Note 5: Payment to and on Account of Leavers

	2013/14	2014/15
	£'000	**£'000**
Refunds to Members Leaving Service	433	513
Payments for Members Joining State Scheme	185	228
Individual Transfers	2,933	3,991
Total	**3,551**	**4,732**

Note 6: Management Expenses

	2013/14	2014/15
	£'000	**£'000**
Pension Fund Staffing Costs – Administration	782	857
Support Services including IT	464	553
Printing and Publications	27	41
Administration Expenses Total	**1,273**	**1,451**
Pension Fund Staffing Costs – Investment	108	112
Pension Fund Committee	37	35
Pension Board	0	1
External Audit Fees	37	38
Internal Audit Fees	5	30
Actuarial Fees	152	221
Oversight and Governance Expenses Total	**339**	**437**
Investment Management	7,963	9,361
Performance Fees	5,642	5,249
Custody Fee	138	140
Investment Management Expenses Total	**13,743**	**14,750**
Management Expenses Grand Total	**15,355**	**16,638**

Note – 2013/14 Adjusted to reflect new CIPFA Guidance

Note 7: Investment Income

	2013/14	2014/15
	£'000	**£'000**
Fixed Interest Securities	7,952	7,576
Equity Dividends	32,620	29,718
Pooled Property Investments	0	1
Property -		
Rental Income	12,077	11,235
Direct Operating Expenses	(1,059)	(1,461)
Net Property Income	11,018	9,774
Interest on Cash Deposit	132	253
Other (including P/L from		
Currency and Derivatives)	5,991	4,434
Total	**57,713**	**51,756**
Tax -		
Withholding Tax – Fixed Interest Securities	39	0
Withholding Tax - Equities	(2,512)	(2,365)
Withholding Tax - Pooled	0	(1)
Total Tax	**(2,473)**	**(2,366)**
Net Total	**55,240**	**49,390**

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value	Purchases	Sales	Change in Market	Market Value
	31 March			**Value**	**31 March**
	2014				**2015**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Fixed Interest	231,403	143,356	(133,375)	16,139	257,523
UK Equities	638,325	205,920	(214,690)	10,771	640,326
Overseas Equities	610,215	150,207	(156,141)	119,416	723,697
Pooled Investments	991,136	6,680	(13,629)	112,816	1,097,003
Property	159,240	43,519	(4,747)	13,948	211,960
Private Equity	136,414	37,830	(48,421)	19,737	145,560
	2,766,733	**587,512**	**(571,003)**	**292,827**	**3,076,069**
Derivative Contracts					
FX Contracts	(385)	15,784	(16,112)	(319)	(1,032)
	2,766,348	**603,296**	**(587,115)**	**292,508**	**3,075,037**
Other					
Cash	63,443				88,017
Net Investment Assets	**2,829,791**				**3,163,054**

	Restated Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March				**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	(22,946)	16,573	136,414
	2,531,926	**1,312,708**	**(1,284,889)**	**206,988**	**2,766,733**
Derivative Contracts					
FX Contracts	(5,822)	11,366	(19,166)	13,237	(385)
	2,526,104	**1,324,074**	**(1,304,055)**	**220,225**	**2,766,348**
Other					
Cash	39,963				63,443
Net Investment Assets	**2,566,067**				**2,829,791**

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

	2013/14	2014/15
Fixed Interest Securities	**£'000**	**£'000**
UK		
Public Sector Quoted	57,649	80,070
Corporate Quoted	15,894	13,069
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	115,886	117,201
Corporate Quoted	38,962	47,183
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	**228,391**	**257,523**
Subtotal Index Linked Securities	**3,012**	**0**
Equities		
UK		
Quoted	638,325	640,326
Unquoted	0	0
Overseas		
Quoted	610,215	723,697
Unquoted	0	0
Subtotal Equities	**1,248,540**	**1,364,023**
Pooled Funds – Additional Analysis		
UK		
Fixed Income	0	0
Unit Trusts	471,751	496,853
Pooled Property Investment	7	0
Overseas		
Fixed Income	7,237	7,022
Unit Trusts	512,141	593,128
Subtotal Pooled Funds	**991,136**	**1,097,003**
Private Equity	136,414	145,560
Property, Direct	159,240	211,960
Grand Total	**2,766,733**	**3,076,069**

Note 10: Analysis of Derivatives

Futures

Outstanding exchange traded future contracts are as follows:

Type	**Expires**	**Economic Exposure**	**Market Value**	**Economic Exposure**	**Market Value**
			31 March 2014		**31 March 2015**
		£'000	**£'000**	**£'000**	**£'000**
Assets					
Overseas Fixed Interest	Less than one year	(7,408)	40	0	0
Liabilities					
UK Fixed Interest	Less than one year	(13,691)	(51)	(10,264)	(127)
Euro - Other	Less than one year	0	0	(9,189)	(127)
Net Futures			**(11)**		**(254)**

Forward Foreign Currency

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

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

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Asset Value	Liability Value £'000
Up to 3 Months	GBP	14,039	AUD	14,178	0	139
Up to 3 Months	GBP	2,905	CAD	2,951	0	46
Up to 3 Months	GBP	59,963	EUR	58,100	1,863	0
Up to 3 Months	GBP	2,159	EUR	2,100	59	0
Up to 3 Months	GBP	20,501	YEN	20,687	0	186
Up to 3 Months	GBP	3,179	PLN	3,230	0	51
Up to 3 Months	AUD	1,988	GBP	2,046	0	58
Up to 3 Months	EUR	3,185	GBP	3,204	0	19
Up to 3 Months	EUR	3,091	GBP	3,146	0	55
Up to 3 Months	EUR	6,950	GBP	6,975	0	25
Up to 3 Months	YEN	6,746	GBP	6,575	171	0
Up to 3 Months	GBP	540	ZAR	525	15	0
Up to 3 Months	GBP	61,426	USD	63,404	0	1,978
Up to 3 Months	GBP	3,282	USD	3,369	0	87
Up to 3 Months	GBP	6,515	USD	6,738	0	223
Up to 3 Months	GBP	10,268	USD	10,309	0	41
Up to 3 Months	GBP	5,412	USD	5,390	22	0

Net Forward Currency Contracts at 31 March 2015		**(778)**
Prior Year Comparative		
Open Forward Currency Contracts at 31 March 2014	294	(668)
Net Forward Currency Contacts at 31 March 2014		**(374)**

Note 11: Investments Analysed by Fund Manager

	31 March 2014	%	31 March 2015	%
	£'000		£'000	
Investment Assets				
State Street Global Advisors	934,417	33.0	1,043,466	33.0
Baillie Gifford	631,450	22.3	732,509	23.1
Blackrock Asset Management	390,686	13.8	397,049	12.5
Baring Asset Managers	244,425	8.6	268,200	8.5
AAM Global Ex UK	250,712	8.8	278,334	8.8
Aberdeen Frontier	35,825	1.3	38,370	1.2
Aberdeen Property Investors	161,682	5.7	216,810	6.9
HarbourVest	71,029	2.5	85,799	2.7
Standard Life	47,954	1.7	41,400	1.3
ACC Loan Fund Deposit	14,390	0.5	27,560	0.9
Global Custodian	29,736	1.1	15,180	0.5
Partners Group	12,662	0.4	15,109	0.5
NESPF	2,883	0.1	359	0.0
RREEF	7	0.0	0	0.0
Maven Capital	1,933	0.1	2,909	0.1
	2,829,791	**99.9**	**3,163,054**	**100.0**
Net Long and Short Term Assets				
Bank Account	126	0.0	5	0.0
Long and Short Term Debtors Less Creditors	3,658	0.1	(1,495)	0.0
Net Assets	**2,833,575**	**100.0**	**3,161,564**	**100.0**

Note 12: Stock Lending

	2013/14 £'000	Collateral Percentage	2014/15 £'000	Collateral Percentage
Stock on Loan				
Equities	150,023		154,862	
Fixed Interest	42,869		64,434	
Total Exposure	**192,892**		**219,296**	
Total Collateral	**215,225**	**111.58**	**242,961**	**110.79**

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 13: Property Holdings

	2013/14 £'000	2014/15 £'000
Opening Balance	140,365	159,240
Additions:	629	2,640
Purchases	9,590	40,879
Construction	7,481	0
Subsequent Expenditure		
Disposals	(13,000)	(4,747)
Net Increase in Market Value	14,175	13,948
Other Changes in Fair Value	0	0
Closing Balance	**159,240**	**211,960**

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

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

	2013/14		2014/15
	£'000		£'000
Within One Year	10,130		12,273
Between One Year and Five Years	38,543		48,161
Later than Five Years	71,161		87,798
Total	**119,834**		**148,232**

Note 14: 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	Loans and	Financial Liabilities		Designated as Fair Value	Loans and	Financial Liabilities
through Profit & Loss	Receivables	at Amortised Cost		through Profit & Loss	Receivables	at Amortised Cost
31 March 2014				31 March 2015		
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
231,403			Fixed Interest	257,523		
1,248,540			Equities	1,364,023		
991,129			Pooled	1,097,003		
7			Pooled Property	0		
136,414			Private Equity	145,560		
159,240			Property	211,960		
1			Derivative contracts	0		
	63,443		Cash		88,017	
	0		Other		0	
	19,419		Debtors		19,568	
2,766,734	**82,862**		**Subtotal**	**3,076,069**	**107,585**	
			Financial Liabilities			
(386)			Derivative contracts	(1,032)		
			Other			
		(15,635)	Creditors			(21,058)
			Borrowings			
(386)		**(15,635)**		**(1,032)**		**(21,058)**
2,766,348	**82,862**	**(15,635)**		**3,075,037**	**107,585**	**(21,058)**
		2,833,575	**Total**			**3,161,564**

Note 15: Net Gains and Losses on Financial Instruments

31 March 2014		31 March 2015
£'000	**Financial Assets**	**£'000**
206,995	Fair Value through Profit and Loss	292,821
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	Financial Liabilities	
13,230	Fair Value through Profit and Loss	(313)
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
220,225	**Total**	**292,508**

Note 16: Fair Value of Financial Instruments and Liabilities

Carrying Value	Fair Value		Carrying Value	Fair Value
31 March 2014			**31 March 2015**	
£'000	**£'000**	**Financial Assets**	**£'000**	**£'000**
2,034,142	2,766,734	Fair Value through Profit and Loss	2,119,168	3,076,069
82,862	82,862	Loans and Receivables	107,585	107,585
2,117,004	**2,849,596**	**Total Financial Assets**	**2,226,753**	**3,183,654**
		Financial Liabilities		
(386)	(386)	Fair Value through Profit and Loss	(1,032)	(1,032)
(15,635)	(15,635)	Financial Liabilities at Amortised Cost	(21,058)	(21,058)
(16,021)	**(16,021)**	**Total Financial Liabilities**	**(22,090)**	**(22,090)**
2,100,983	**2,833,575**		**2,204,663**	**3,161,564**

Note 17: 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 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	2,736,521	211,960	127,588	3,076,069
Loans and Receivables	107,585			107,585
Total Financial Assets	**2,844,106**	**211,960**	**127,588**	**3,183,654**
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	(1,032)	0	(1,032)
Financial Liabilities at Amortised Cost	(21,058)	0	0	(21,058)
Total Financial Liabilities	**(21,058)**	**(1,032)**	**0**	**(22,090)**
Net Financial Assets	**2,823,048**	**210,928**	**127,588**	**3,161,564**

	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**
Financial Assets				
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
Total Financial Assets	**2,567,265**	**159,241**	**123,090**	**2,849,596**
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	(386)	0	(386)
Financial Liabilities at Amortised Cost	(15,635)	0	0	(15,635)
Total Financial Liabilities	**(15,635)**	**(386)**	**0**	**(16,021)**
Net Financial Assets	**2,551,630**	**158,855**	**123,090**	**2,833,575**

Note 18: 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 Committee. Risk management policies are established to identify and analyse the risks faced by the Fund. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, 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 2014/15 reporting period.

Asset Type	**Potential Market Movements (+/-)**
Global Bonds	7.0%
UK Equities	17.1%
Overseas Equities	17.4%
Private Equity	24.2%
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):

Asset Type	**Value as at 31 March 2015**	**Percentage Change**	**Value on Increase**	**Value on Decrease**
	£'000	**%**	**£'000**	**£'000**
Cash and Cash Equivalents	86,985	1.8	88,551	85,419
Investment Portfolio Assets				
Global Bonds	264,545	7.0	283,063	246,027
UK Equities	1,137,179	17.1	1,331,637	942,721
Overseas Equities	1,316,825	17.4	1,545,953	1,087,697
Private Equity	145,560	24.2	180,786	110,334
Property	211,960	15.1	243,966	179,954
Total Assets Available to Pay Benefits	**3,163,054**		**3,673,956**	**2,652,152**

Asset Type	**Value as at 31 March 2014**	**Percentage Change**	**Value on Increase**	**Value on Decrease**
	£'000	**%**	**£'000**	**£'000**
Cash and Cash Equivalents	63,058	1.8	64,193	61,923
Investment Portfolio Assets				
Global Bonds	238,640	8.1	257,970	219,310
UK Equities*	1,110,083	17.0	1,298,797	921,369
Overseas Equities*	1,122,356	17.3	1,316,524	928,188
Private Equity	136,414	25.4	171,063	101,765
Property	159,240	15.1	183,285	135,195
Total Assets Available to Pay Benefits	**2,829,791**		**3,291,832**	**2,367,750**

* This note for 2013-14 has been amended by £35,824k for the Reclassification of Frontier Funds' Pooled Investment from UK to Overseas.

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 2015 and 31 March 2014 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 2014**	**As at 31 March 2015**
	£'000	**£'000**
Cash and Cash Equivalents	63,443	88,017
Cash Balances	126	5
Fixed Interest Securities	238,640	264,545
Total	**302,209**	**352,567**

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:

Asset Type	**Carrying Amount as at 31 March 2015**	**Change in Year in the Net Assets available to Pay Benefits**	
		+ 100 BPS	**- 100 BPS**
	£'000	**£'000**	**£'000**
Cash and Cash Equivalents	88,017	88,897	87,137
Cash Balances	5	6	4
Fixed Interest Securities	264,545	267,190	261,900
Total Change in Assets Available	**352,567**	**356,093**	**349,041**

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	£'000
Cash and Cash Equivalents	63,443	64,078	62,808
Cash Balances	126	127	125
Fixed Interest Securities	238,640	241,026	236,254
Total Change in Assets Available	**302,209**	**305,231**	**299,187**

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 2015 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2014	Asset Value as at 31 March 2015
	£'000	£'000
Overseas Quoted Securities	623,343	741,326
Overseas Unquoted Securities	119,178	124,679
Overseas Unit Trusts	519,378	600,150
Overseas Public Sector Bonds (Quoted)	115,886	117,201
Overseas Corporate Bonds (Quoted)	38,962	47,183
Total Overseas Assets	**1,416,747**	**1,630,539**

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:

Currency Exposure – Asset Type	Asset Value as at 31 March 2015	Change to Net Assets	Change to Net Assets
		+10%	-10%
	£'000	£'000	£'000
Overseas Quoted Securities	741,326	815,459	667,193
Overseas Unquoted Securities	124,679	137,147	112,211
Overseas Unit Trust	600,150	660,165	540,135
Overseas Public Sector Bonds (Quoted)	117,201	128,921	105,481
Overseas Corporate Bonds (Quoted)	47,183	51,901	42,465
Total Change in Assets Available	**1,630,539**	**1,793,593**	**1,467,485**

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	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
Total Change in Assets Available	**1,416,747**	**1,558,421**	**1,275,073**

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 2015 was £88,022,000 (31 March 2014 £63,569,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2014	Balance as at 31 March 2015
		£'000	£'000
Money Market Funds			
Deutsche Managed GBP	AAAm	36,351	37,676
Deutsche Euro	AAAm	3,908	5,581
BNY Mellon LIQ USD	AAAm	0	1,041
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	14,390	27,560
BNY Mellon	AAAm	7,083	11,474
Natwest, (API)	A	1,711	4,685
Total		**63,443**	**88,017**
Bank Current Accounts			
Clydesdale Bank	BBB+	126	5
Total		**63,569**	**88,022**

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 2015 the value of illiquid assets was £339,548,136, which represented 10.7% of the total fund assets (31 March 2014 £282,330,379 which represented 9.8% of the total fund assets).

Note 19: Breakdown of Long & Short Term Assets and Liabilities

	31 March 2014	31 March 2015
	£'000	£'000
Long Term Assets	**99**	**233**
Short Term Assets		
Employees' Contributions	2,150	2,208
Employers' Contributions	5,655	5,801
Transfers	0	0
Sundry Debtors	11,389	11,321
	19,194	**19,330**
Bank	126	5
Total Short Term Assets	**19,320**	**19,335**
Total Long & Short Term Assets	**19,419**	**19,568**

Analysis of Assets	**31 March 2014**	**31 March 2015**
	£'000	£'000
Long Term Assets		
Other Entities and Individuals	**99**	**233**
Central Government Bodies	524	148
Other Local Authorities	7,252	7,650
Other Entities and Individuals	11,418	11,532
Total Short Term Assets	**19,194**	**19,330**
Total Long & Short Term Assets	**19,293**	**19,563**

	31 March 2014	31 March 2015
Short Term Liabilities	£'000	£'000
Sundry Creditors	10,452	14,170
Benefits Payable	5,183	6,888
Total	**15,635**	**21,058**

Analysis of Liabilities	31 March 2014	31 March 2015
	£'000	£'000
Central Government Bodies	1,686	1,503
Other Local Authorities	624	572
Other Entities and Individuals	13,325	18,983
Total	**15,635**	**21,058**

Note 20: Fund Manager Transaction Costs

	31 March 2014	31 March 2015
	£'000	£'000
Fee/Tax	1,284	881
Commission	551	510
Total	**1,835**	**1,391**

Note 21: Related Party Transactions

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

The costs of these services for the North East Scotland Pension Fund amounted to £1,084,325 (2014 - £990,664).

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 £27,560,000 (2014 - £14,390,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £126,686 (2014 - £49,466) for the North East Scotland Pension Fund.

Note 22: Key Management Personnel

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

		Accrued Pension 2013/14	Accrued Pension 2014/ 2015
		£'000	£'000
Barry Jenkins	Head of Finance till Aug'13	30	0
Steven Whyte	Head of Finance from Jan'14	19	22
Laura Goodchild		1	0

Governance

Aberdeen City Council agreed on 20 August 2014 to rename the Pensions Panel to the Pensions Committee and increase its membership from 5 to 9. This change took effect on 8 October 2014.

As at 31 March 2015, 8 members of the Pensions Committee were active members of the North East Scotland Pension Fund.

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

In 2014/15, Elected Members' declared an admitted body interest in Oakbank School Trust.

Note 23: Contractual Commitments as at 31 March 2015

As at 31 March 2015 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

	Contractual Commitments	**Undrawn Commitments**
	£'000	**£'000**
HarbourVest	111,149	36,628
Standard Life	108,169	41,172
Partners Group	26,045	12,283
NESPF	0	0
Maven (SLF)	10,000	6,541
Total	**255,363**	**96,624**

Note 24: 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 2014 to 5 April 2015

	£
Opening Net Asset Value	**2,132,978**
Total Income	63,888
Total Expenditure	272,188
Closing Net Asset Value	**2,103,397**

Prudential – Financial Statement for the period 1 April 2014 to 31 March 2015

	£
Opening Net Asset Value	**22,366,585**
Total Income	1,797,494
Total Expenditure	3,071,015
Closing Net Asset Value	**22,765,446**

Note 25: 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.

Orphan liabilities

Orphan liabilities are managed under the Fund's termination policy, as set out by the Scheme's Actuary. The Fund has no potential Orphaned liabilities.

Note 26: Impairment Losses

During 2014/15 the Fund has recognised an impairment loss of £2,649,444 (2013/2014 £2,872,444) 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 27: Investment Principles

A Summary of the Statement of Investment Principles is available on the Pension Funds Website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Head of Finance, Aberdeen City Council, 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 28: 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 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if Actual Results Differ from Assumption**
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the scheme actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the scheme actuary every 3 months. Further information can be found in note 1.
Private Equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Financial Statements is £146 million. There is a risk that this investment may be under or overstated in the accounts.

Note 29: Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Head of Finance on 15 June 2015. Events taking place after this date are not reflected in the Financial Statements or notes.

Note 30: Agency Arrangements for Administering Compensatory 'Added' Years

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

The cash flows and associated payroll cost for those compensatory 'added' years payments are:

	2013/14 £'000	2014/15 £'000
Cost Incurred	5,938	6,025
Cost Recovered	5,938	6,025
Associated Payroll Cost	5	5

NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Note 1: Actuarial Valuation Report

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

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

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was;	93%

Addressing the Shortfall

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

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

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

Total Contribution Rate	**2015/16**	**2016/17**	**2017/18**
(as percentage of payroll)	33% plus £1,500,000	33% plus £1,500,000	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 2018.

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

Assumptions Used to Calculate Funding Target

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

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

The full Actuarial Report and the Funding Strategy Statement for the Fund is available from the office of the Head of Finance, Aberdeen City Council, 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 (IAS 19) assumptions, is estimated to be £78.8m (2014 £71.3m). The figure is used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

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

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

Note 2: Contributions Receivable

	2013/14	2014/15
	£'000	£'000
Employees' Normal Contributions	**144**	**134**
Employer's Normal Contributions	704	725
Employer's Deficit Recovery Contributions	1,328	1,494
Employer's Augmentation Contributions	0	0
Employer Total	**2,032**	**2,219**
Total	**2,176**	**2,353**

	2013/14	2014/15
	£'000	£'000
Scheduled Body	2,176	2,353
Total	**2,176**	**2,353**

Note 3: Benefits Payable

	2013/14	2014/15
	£'000	£'000
Pensions	2,821	2,921
Commutation and Lump Sum Retirement Benefits	567	325
Lump Sum Death Benefits	7	85
Total	**3,395**	**3,331**

	2013/14	2014/15
	£'000	£'000
Scheduled Body	3,395	3,331
Total	**3,395**	**3,331**

Note 4: Payment to and on Account of Leavers

	2013/14	2014/15
	£'000	£'000
Contributions Refunded	0	1
Individual Transfers	22	0
Total	**22**	**1**

Note 5: Management Expenses

	2013/14	2014/15
	£'000	**£'000**
Pension Fund Staffing Costs – Administration	24	26
Support Services including IT	13	16
Printing and Publications	1	1
Administration Expenses Total	**39**	**43**
Pension Fund Staffing Costs – Investment	3	3
Pension Fund Committee	1	1
External Audit Fees	1	1
Internal Audit Fees	0	1
Actuarial Fees	13	31
Oversight and Governance Expenses Total	**18**	**37**
Investment Management	(12)	(13)
Custody Fee	11	11
Investment Management Expenses	**(1)**	**(2)**
Management Expenses Grand Total	**56**	**78**

Note - 2013/14 Adjusted to reflect new CIPFA guidance

Note 6: Investment Income

	2013/14	2014/15
	£'000	**£'000**
Fixed Interest Securities	796	705
Equity Dividends	880	887
Pooled Investments	0	1
Interest on Cash Deposit	23	21
Other (including P/L from	39	160
Currency and Derivatives)		
Total	**1,738**	**1,774**
Tax -		
Withholding Tax – Fixed Interest Securities	1	0
Withholding Tax – Equities*	(84)	(75)
Withholding Tax – Pooled*	0	(1)
Total Tax	**(83)**	**(76)**
Net Total	**1,655**	**1,698**

* Typing Error 2013-14 Accounts Corrected

Note 7: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March 2014				31 March 2015
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	23,751	42,579	(32,999)	3,776	37,107
UK Equities	23,283	2,213	(26,202)	730	24
Overseas Equities	6,438	2,505	(9,386)	443	0
Pooled Investments	20,875	62,472	(35,119)	3,901	52,129
	74,347	**109,769**	**(103,706)**	**8,850**	**89,260**
Cash	4,758				(189)
Net Investment Assets	**79,105**				**89,071**

	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
	74,771	**29,958**	**(28,819)**	**(1,563)**	**74,347**
Cash	5,248				4,758
Net Investment Assets	**80,019**				**79,105**

Note 8: Analysis of Investments (excluding Derivatives Contracts and Cash)

	2013/14	2014/15
Fixed Interest Securities	**£'000**	**£'000**
UK		
Public Sector Quoted	20,970	37,107
Corporate Quoted	0	0
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	2,781	0
Corporate Quoted	0	0
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	**23,751**	**37,107**
Equities		
UK		
Quoted	23,283	24
Unquoted	0	0
Overseas		
Quoted	6,438	0
Unquoted	0	0
Subtotal Equities	**29,721**	**24**
Pooled Funds – Additional Analysis		
UK		
Fixed Income	0	0
Unit Trusts	418	8,309
Pooled Property Investments	1	0
Overseas		
Fixed Income	0	0
Unit Trusts	20,456	43,820
Subtotal Pooled Funds	**20,875**	**52,129**
Private Equity	0	0
Property	0	0
Grand Total	**74,347**	**89,260**

Note 9: Investments Analysed by Fund Manager

Investment Assets	31 March 2014	%	31 March 2015	%
	£'000		£'000	
Aberdeen Asset Managers	78,799	99.6	88,527	99.4
ACC Loan Fund Deposit	306	0.4	544	0.6
	79,105	**100.0**	**89,071**	**100.0**

Note 10: Stock Lending

	2013/14	Collateral	2014/15	Collateral
	£'000	Percentage	£'000	Percentage
Stock on Loan				
Equities	2,110		4	
Fixed Interest	1,604		1	
Total Exposure	**3,714**		**5**	
Total Collateral	**4,114**	**110.77**	**6**	**120.00**

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

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

Note 11: 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 2014				31 March 2015		
Designated as Fair Value Through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Designated as Fair Value Through Profit & loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
23,751			Fixed Interest	37,107		
29,721			Equities	24		
20,874			Pooled	52,129		
1			Pooled Property	0		
	4,758		Cash			
	952		Debtors		829	
74,347	**5,710**	**0**		**89,260**	**829**	**0**
			Financial Liabilities			
			Cash		(189)	
		(219)	Creditors			(260)
74,347	**5,710**	**(219)**		**89,260**	**640**	**(260)**
		79,838				**89,640**

Note 12: Net Gains and Losses on Financial Instruments

31 March 2014		31 March 2015
£'000	**Financial Assets**	**£'000**
(1,563)	Fair Value through Profit and Loss	8,850
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
(1,563)	**Total**	**8,850**

Note 13: Fair Value of Financial Instruments and Liabilities

Carrying Value	Fair Value		Carrying Value	Fair Value
31 March 2014			**31 March 2015**	
£'000	**£'000**		**£'000**	**£'000**
		Financial Assets		
59,755	74,347	Fair Value through Profit and Loss	88,739	89,260
5,710	5,710	Loans and Receivables	829	829
65,465	**80,057**	**Total Financial Assets**	**89,568**	**90,089**
		Financial Liabilities		
		Fair Value through Profit and Loss		
		Loans and Receivables	(189)	(189)
(219)	(219)	Financial Liabilities at Amortised Cost	(260)	(260)
(219)	**(219)**	**Total Financial Liabilities**	**(449)**	**(449)**
65,246	**79,838**		**89,119**	**89,640**

Note 14: 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.

	Quoted	Using	With Significant	
	Market Price	Observable Inputs	Unobservable Inputs	
Values at 31 March 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	89,260	0	0	89,260
Loans and Receivables	829	0	0	829
Total Financial Assets	**90,089**	**0**	**0**	**90,089**
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss				
Loans and Receivables	(189)	0	0	(189)
Financial Liabilities at Amortised Cost	(260)	0	0	(260)
Total Financial Liabilities	**(449)**	**0**	**0**	**(449)**
Net Financial Assets	**89,640**	**0**	**0**	**89,640**

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

Note 15: 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 Committee. Risk management policies are established to identify and analyse the risks faced by the Fund. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, 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 2014/15 reporting period.

Asset Type	**Potential Market Movements (+/-)**
Global Bonds	7.0%
UK Equities	17.1%
Overseas Equities	17.4%
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):

Asset Type	Value as at 31 March 2015	Percentage Change	Value on Increase	Value on Decrease
	£’000	**%**	**£’000**	**£’000**
Cash and Cash Equivalents	(189)	1.8%	(192)	(186)
Investment Portfolio Assets				
Global Bonds	37,107	7.0%	39,704	34,510
UK Equities	8,333	17.1%	9,758	6,908
Overseas Equities	43,820	17.4%	51,445	36,195
Total Assets available to Pay Benefits	**89,071**		**100,715**	**77,427**

Asset Type	Value as at 31 March 2014	Percentage Change	Value on Increase	Value on Decrease
	£’000	**%**	**£’000**	**£’000**
Cash and Cash Equivalents	4,758	1.8%	4,844	4,672
Investment Portfolio Assets				
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
Total Assets available to Pay Benefits	**79,105**		**89,797**	**68,413**

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 2015 and 31 March 2014 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 2014**	**As at 31 March 2015**
	£'000	**£'000**
Cash and Cash Equivalents	4,758	(189)
Cash Balances	1	1
Fixed Interest Securities	23,751	37,107
Total	**28,510**	**36,919**

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 2015**	**Change in Year in the Net Assets Available to Pay Benefits**	
		+ 100 BPS	**- 100 BPS**
	£'000	**£'000**	**£'000**
Cash and Cash Equivalents	(189)	(191)	(187)
Cash Balances	1	1	1
Fixed Interest Securities	37,107	37,478	36,736
Total Change in Assets Available	**36,919**	**37,288**	**36,550**

Asset Type	Carrying Amount as at 31 March 2014	Changes in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS	- 100 BPS
	£'000	£'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
Total Change in Assets Available	**28,510**	**28,795**	**28,225**

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 2015 and as at the previous period end:

Currency Exposure – Asset Type	Asset value as at 31 March 2014	Asset value as at 31 March 2015
	£'000	£'000
Overseas Quoted Securities	6,438	0
Overseas Unit Trusts	20,456	43,820
Overseas Public Sector Bonds (Quoted)	2,781	0
Total Overseas Assets	**29,675**	**43,820**

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 2015	Change to Net Assets	Change to Net Assets
		+10%	-10%
	£'000	£'000	£'000
Overseas Quoted Securities	0	0	0
Overseas Unit Trust	43,820	48,202	39,438
Overseas Public Sector Bonds (Quoted)	0	0	0
Total Change in Assets Available	**43,820**	**48,202**	**39,438**

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
Total Change in Assets Available	**29,675**	**32,643**	**26,707**

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 2015 was £(188,000) and at 31 March 2014 £4,759,000. This was held with the following institutions:

Summary	**Rating**	**Balance as at 31 March 2014**	**Balance as at 31 March 2015**
		£'000	**£'000**
Money Market Funds			
Deutsche Managed GBP	AAAm	4,481	9,473
Deutsche Euro	AAAm	1	13
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	306	544
BNY Mellon	AAAm	(30)	(10,219)
Bank Current Accounts			
Clydesdale Bank	BBB+	1	1
Total		**4,759**	**(188)**

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 2015 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2014 £0 which represented 0% of the total fund assets).

Note 16: Breakdown of Long & Short Term Assets and Liabilities

	31 March 2014	31 March 2015
	£'000	£'000
Long Term Assets	**431**	**404**
Employees' Contributions	4	4
Employer's Contributions	23	24
Sundry Debtors	493	396
Sub Total	**520**	**424**
Bank	1	1
Total Short Term Assets	**521**	**425**
Grand Total Long & Short Term Assets	**952**	**829**

Analysis of Long & Short Term Assets	**31 March 2014**	**31 March 2015**
	£'000	£'000
Central Government Bodies	431	404
Other Entities and Individuals	0	0
Total Long Term Assets	**431**	**404**
Central Government Bodies	27	27
Other Local Authorities	13	0
Other Entities and Individuals	480	397
Total Short Term Assets	**520**	**424**
Grand Total Long & Short Term Assets	**951**	**828**

	31 March 2014	31 March 2015
Short Term Liabilities	**£'000**	**£'000**
Sundry Creditors	63	107
Benefits Payable	156	153
Total	**219**	**260**

Analysis of Liabilities	**31 March 2014**	**31 March 2015**
	£'000	£'000
Other Local Authorities	13	0
Other Entities and Individuals	206	260
Total	**219**	**260**

Note 17: Fund Manager Transaction Costs

	31 March 2014	31 March 2015
	£'000	**£'000**
Fee/Tax	36	6
Commission	9	10
Total	**45**	**16**

Note 18: 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 £33,536 (2014 - £30,639).

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 £544,000 (2014 - £306,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £2,213 (2014 - £1,714) for the Aberdeen City Council Transport Fund.

Note 19: Key Management Personnel

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

Note 20: Investment Principles

A Summary of the Statement of Investment Principles is available on the Pension Fund's website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from 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 Committee and in the light of any change to the investment strategy of the Pension Funds.

Note 21: Critical Judgements in applying Accounting Policies

Assumptions made about the future and other major sources of estimation uncertainty. The items in the net asset statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

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