

Public Document Pack



To: **Pension Committee Members** - Councillor Crockett, Convener; Councillor Reynolds, Vice Convener; and Councillors Donnelly, Kiddie, MacGregor, Malik, Malone, Noble and Young

Pension Board Members – Councillor Howatson, Chairperson; Mr J Mulholland, Vice Chairperson; Councillors Cowe, and Ironside; and Mr D Briggs, Mr K Masson and Mr A Walker

Town House,
ABERDEEN, 16 June 2016

PENSION COMMITTEE AND PENSION BOARD

The Members of the **PENSION COMMITTEE AND PENSION BOARD** are requested to meet in Committee Room 5 - Town House on **FRIDAY, 24 JUNE 2016 at 10.30am.**

Please note the change of venue to Committee Room 5

FRASER BELL
HEAD OF LEGAL AND DEMOCRATIC SERVICES

B U S I N E S S

DETERMINATION OF EXEMPT BUSINESS

- 1 Members are requested to determine that the exempt business be considered with the press and public excluded

MINUTES AND MOTIONS LIST

- 2 Minute of Previous Meeting of 11 March 2016 (Pages 3 - 10)
- 3 Minute of Pension Board of 13 May 2016 - for information (Pages 11 - 14)
- 4 Matters Arising

- 5 Motions List (Pages 15 - 16)

GOVERNANCE

- 6 Pensions Investment Strategy - report by Internal Audit (Pages 17 - 32)
- 7 Internal Audit Plan for 2016/17 - report by Internal Audit (Pages 33 - 36)
- 8 Progress update on the 2015/16 Audit - report by External Audit (Pages 37 - 46)
- 9 Strategy (Pages 47 - 72)
- 10 Request for Admitted Body Status (Pages 73 - 84)

ADMINISTRATION

- 11 Training (Pages 85 - 108)

ACCOUNTING

- 12 Budget/Forecast and Actual Spend 2015-16 and Budget/Forecast 2016-17 (Pages 109 - 116)
- 13 NESPF Annual Report and Annual Accounts 2015-16 (Pages 117 - 236)

NOT FOR PUBLICATION

INVESTMENT

- 14 Asset & Investment Manager Performance Report (Pages 237 - 260)
- 15 Investment Strategy Update (Pages 261 - 268)

Website Address: www.aberdeencity.gov.uk

Should you require any further information about this agenda, please contact Stephanie Dunsmuir, tel 522503 or email sdunsmuir@aberdeencity.gov.uk

PENSIONS COMMITTEE AND PENSIONS BOARD

ABERDEEN, 11 March 2016. Minute of Meeting of the PENSIONS COMMITTEE AND PENSIONS BOARD. Present:- (Pensions Committee):- Councillor Crockett, Convener; Councillor Reynolds, Vice-Convener; and Councillors MacGregor, Malik, Malone and Noble. (Pensions Board):- Mr J Mulholland, Chairperson; Councillor Cowe, Mr K Masson and Mr A Walker.

The agenda and reports associated with this minute can be found at:-
<http://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=506&MIId=3813&Ver=4>

Please note that if any changes are made to this minute at the point of approval, these will be outlined in the subsequent minute and this document will not be retrospectively altered.

DETERMINATION OF EXEMPT BUSINESS

1. The Committee was requested to determine that the following items of business, which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973, be taken in private – items 11 (Investment Strategy Update), 12 (Investment Strategy Review) and 13 (Asset and Investment Manager Performance Report).

The Committee resolved:-

in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of items 11, 12 and 13, so as to avoid disclosure of exempt information of the class described in paragraph 6.

The Board resolved:-

to note the decision of the Committee.

MINUTE OF PREVIOUS MEETING OF THE PENSIONS COMMITTEE AND PENSIONS BOARD

2. The Committee and Board had before them the minute of the Pensions Committee and Board meeting of 17 December 2015.

The Committee and Board resolved:-

to approve the minute as a correct record.

MINUTE OF ADDITIONAL MEETING OF PENSIONS COMMITTEE AND PENSIONS BOARD

3. The Committee and Board had before them the minute of the additional Pensions Committee and Board meeting of 18 January 2016.

PENSIONS COMMITTEE AND PENSIONS BOARD

11 March 2016

The Committee and Board resolved:-

to approve the minute as a correct record.

MOTIONS LIST

4. The Committee had before it a motions list prepared by the Head of Legal and Democratic Services. In relation to the motion from Councillor Kiddie requesting a report on ethical investments in respect of the Pension Fund, it was noted that the report from KPMG (article 10 of the minute of 17 December 2015 refers) would not solely satisfy the terms of the motion, and so as Councillor Kiddie was not in attendance at the meeting, the item would remain on the motions list.

The Committee resolved:-

to note the motions list.

The Board resolved:-

to note the decision of the Pensions Committee.

2015/16 ANNUAL AUDIT PLAN

5. The Committee had before it a report by the External Auditor which set out the annual audit plan 2015/16 for the North East Scotland Pension Funds. The Committee heard that it was the final year of Audit Scotland's five year audit appointment and that the Assistant Auditor General was currently concluding a procurement process for the appointment of public sector auditors for the next five year cycle. It was expected that this appointment would be confirmed within the next couple of months.

The report set out the summary of planned audit activity and the key audit issues and risks. The report also set out the proposed audit fee for 2015/16 which had been agreed with the Head of Finance. Members heard that although it was difficult to predict if there would be a change in fees as a result of the change to the auditor, any alteration would still be framed within the context set by Audit Scotland.

The Committee resolved:-

to note the report and the audit plan for 2015/16.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSIONS BOARD

11 March 2016

STRATEGY

6. The Committee had before it a report by the Pensions Manager which provided an update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

With reference to article 1 of the minute of the meeting of the Pensions Committee and Board of 18 January 2016, the report requested that members agree a date in June 2016 to undertake a visit to London to receive presentations from Fund Managers. It was proposed that the visit take place on 30 June / 1 July 2016. Following some discussion of the proposed dates, the Clerk undertook to contact members outwith the meeting to ascertain their availability. Separately, it was noted that the EU Referendum date of 23 June could potentially affect attendance at the Pensions Committee and Board meeting of 24 June, and the Clerk advised that she would contact members to confirm their attendance to ensure that the meeting would be quorate.

Appended to the report was the Pensions Administration Strategy December 2015; as well as an update on the Annual Review of Scheme Documentation. The report noted that as a result of the annual review, there had been revisions to the following policies:-

- Governance Policy
- Governance Compliance Statement
- Training Policy (Pension Committee)
- Communication Policy
- Statement of Investment Principles

Finally, the report included an updated signatory list for the North East Scotland Pension Fund, as it was noted that there had been a number of recent staffing changes.

The report recommended:-

that the Committee –

- (a) approve contract continuation for the Benefits Administration Software provider (as set out in section 5.4.1 of the report);
- (b) agree a two day date in June for Fund Manager presentations;
- (c) review and approve policy document changes as noted in Appendix 2 of the report;
- (d) approve the Pension Fund signatory list as noted in Appendix 3 of the report, for implementation as at 1 April 2016; and
- (e) note the remainder of the report.

The Committee resolved:-

- (i) to approve the recommendations contained in the report;

PENSIONS COMMITTEE AND PENSIONS BOARD

11 March 2016

- (ii) to note that the Clerk would contact members about the proposed dates of 30 June and 1 July for the visit to London to meet with Fund Managers; and
- (iii) to note that the Clerk would also contact members to confirm attendance at the Pensions Committee and Board meeting of 24 June 2016.

The Board resolved:-

to note the decision of the Committee.

REQUEST FOR ADMITTED BODY STATUS

7. The Committee had before it a report by the Head of Finance which set out a request from Xerox (UK) Ltd for admitted body status within the Local Government Pension Scheme administered by Aberdeen City Council. The Committee heard that 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 complied with the regulation as detailed in Appendix 1.

The report recommended:-

that the Committee agree to allow the employees transferring from Aberdeenshire Council to Xerox (UK) Ltd to participate in the Local Government Pension Scheme administered by Aberdeen City Council.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

BUDGET FORECAST AND PROJECTED SPEND 2015-16

8. The Committee had before it a report by the Head of Finance which set out the management expenses budget/forecast and projected spend for the North East Scotland Pension Fund (NESPF) for 2015/16.

The report recommended:-

that the Committee note the update on the current NESPF management expenses budget/forecast and projected spend for 2015/16.

The Committee resolved:-

to approve the recommendation.

PENSIONS COMMITTEE AND PENSIONS BOARD

11 March 2016

The Board resolved:-

to note the decision of the Committee.

STATEMENT OF ACCOUNTS 2015-16 ACTION PLAN

9. The Committee had before it a report by the Head of Finance which provided members with information and key dates in respect of the 2015/16 Statement of Accounts, including linkages to the plans and timetable of External Audit.

The report advised that the Pensions Committee would receive the Draft Statement of Accounts 2015/16, including the Annual Report, for scrutiny at its meeting on 24 June 2016.

The report recommended:-

that the Committee note the contents of the report.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

In accordance with the decision recorded under article 1 of this minute, the following items were considered with the press and public excluded.

INVESTMENT STRATEGY UPDATE

10. With reference to article 10 of the minute of its previous meeting, the Committee had before it a report by the Head of Finance which provided an update on the Fund investment strategy and set out proposed actions to secure compliance and adherence to the funds benchmark allocation.

The report recommended:-

that the Committee –

- (a) approve the Global Custodian appointment as set out in section 5.3 of the report; and
- (b) note the remainder of the report.

The Committee resolved:-

to approve the recommendations.

PENSIONS COMMITTEE AND PENSIONS BOARD

11 March 2016

The Board resolved:-

to note the decision of the Committee.

INVESTMENT STRATEGY REVIEW

11. The Committee had before it a report by the Head of Finance which detailed the outcome of the investment strategy and structure review which had been prepared by officers following the completion of the 2014 Actuarial Valuation. The report set out the details of the Fund's current investment strategy and made a number of recommendations to take the strategy forward over the next 5 to 10 years.

The report recommended:-

that the Committee approve –

- (a) that the risk-based framework be adopted to deliver a more diversified investment strategy;
- (b) the Statement of Investment Principles revisions as set out in Appendix 1 of the report.
- (c) the implementation of stage 1 of the risk-based framework with the transfer of £200m from existing equities to diversified growth funds;
- (d) that proposals be brought forward to the Pensions Committee on the implication of stage 2 medium to long term objectives;
- (e) that the Fund incorporate a 5% allocation to infrastructure relevant to local economic growth; and
- (f) that the Fund formally approach Aberdeen City Council, Aberdeenshire Council and Moray Council with regard to opportunities to meet its allocation to relevant infrastructure.

There followed a lengthy discussion about the opportunities for joint projects.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT

12. With reference to article 9 of the minute of its previous meeting, the Committee had before it a report by the Head of Finance which provided a review of the investment activity of both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 31 December 2015. The report was

PENSIONS COMMITTEE AND PENSIONS BOARD

11 March 2016

supported by the BNY Mellon Fund Analysis and Performance Report and the quarterly investment reports from Fund Managers.

The Committee received a verbal update from the Pensions Manager on the situation with the Transport Fund.

The report recommended:-

that Committee note the report.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

UPDATE ON LEGAL MATTER

13. With reference to article 11 of the minute of its previous meeting, the Committee heard from the Pensions Manager with an update from colleagues in Legal Services in respect of the ongoing legal matter.

Members heard that the matter was unlikely to be resolved until June / July 2016 as a number of options were currently being considered, and this had taken more time than anticipated.

Following lengthy discussion of the matter, the Convener requested that officers report to Committee at the meeting of 24 June with an update on the situation, to include recommendations for the Committee if the matter was not resolved.

The Committee resolved:-

to note the update and to request that officers provide a report to the next meeting, setting out the current position and any necessary recommendations for Committee to consider.

The Board resolved:-

to note the decision of the Committee.

- **COUNCILLOR BARNEY CROCKETT, Convener**

This page is intentionally left blank

PENSIONS COMMITTEE AND PENSIONS BOARD

ABERDEEN, 13 May 2016. Minute of Meeting of the PENSION BOARD.
Present:- Councillor W Howatson; Mr J Mulholland and Mr A Walker.

PENSION BOARD - ANNUAL REPORT

1. The Pension Board had before it the annual report prepared by the Head of Finance which set out a review of the Board activity for the year 2015/16.

The report covered the membership of the Board for the year; meetings and attendance; meeting content; training and expenditure. Appended to the report were the Pension Board Constitution and the Pension Board Training Policy for approval. The Board then heard from Mr Gary Gray, Principal Pensions Officer, in respect of the report.

The report recommended:-

that the Board –

- (a) appoint a Chair;
- (b) appoint a Vice Chair;
- (c) approve the Constitution
- (d) approve the Training Policy appended to the report; and
- (e) note the remainder of the report.

(A) Appointment of Chair

In compliance with the Local Government Pensions Scheme (Governance) (Scotland) Regulations 2015, the Chair of the Pension Board was rotated each year between the Union representatives and the employer representatives. Mr Mulholland had been appointed as Chair for 2015/16, and so a member from the employer representative was required to be appointed as Chair for the 2016/17 period.

It was therefore proposed that Councillor Howatson be appointed to the role of Chair, and this was unanimously agreed by those present. Councillor Howatson noted however that since there were no other members of the employer representative present, he would be happy to step down at a future meeting if another member had a strong wish to Chair.

The clerk advised that she had received an email from Mr Briggs, advising that he was unable to attend the meeting, but was content for the Chair to be appointed in his absence, while noting that he would be unable to take up the role of Chair himself.

The Board resolved:-

to appoint Councillor Howatson to the role of Chair to the Pension Board.

(B) Appointment of Vice Chair

Councillor Howatson then took the Chair, and advised members that the next task for the Board was to appoint a Vice Chair, this time from the Union representatives. It was

PENSIONS COMMITTEE AND PENSIONS BOARD

13 May 2016

proposed that Mr Mulholland be appointed as Chair, and this was unanimously agreed by the members present.

The Board resolved:-

to appoint Mr Mulholland to the role of Vice Chair to the Pension Board.

(C) Constitution and Training Policy

The Board then considered the constitution and training policy, noting that there had been no change to either document in the last year. There was some discussion on the role of the Board as a result of the section of the constitution which stated that 'Pension Board representatives must not participate in or act as members of the Pension Committee'. It was clarified that the role of the Board was to have a 'watching brief' over the Committee in order to secure compliance with regulations. It was acceptable for Board members to contribute to the discussion at the Pension Committee but not to take part in any decision-making.

The Board members discussed the training policy and Mr Mulholland advised that there was a minimum level of training which Board members were required to attain by the Pensions Regulator, and further training was available through the Regulator website. He suggested that this link could be circulated to members.

The Chair noted that it would be helpful to receive a report on the training process, setting out the training that was required by the Pension scheme; the various levels of training that members had achieved; and highlighting where further training was still required. He also asked that the report highlight what the potential issues were if members did not attend training, for example, whether they could still sit on the Board or Committee.

It was noted that there was still an outstanding issue in respect of UCATT membership of the Board and attempts were being made to resolve this.

Mr Walker advised that the Union representatives were required to appoint a secretary, and confirmed that this would be Mr Mulholland, unless Mr Masson wished to take on the position. They would discuss this with Mr Masson outwith the meeting.

Finally, the Board confirmed that there had been no issues reported to the Pensions Regulator during the year 2015/16.

The Board resolved:-

- (i) to approve the Constitution and Training Policy;
- (ii) to note the remainder of the report;
- (iii) to request that officers prepare a report for the June Pension Committee which set out (a) the training that was required by the Pension scheme; (b) the various

PENSIONS COMMITTEE AND PENSIONS BOARD

13 May 2016

- levels of training that members had achieved; (c) where further training was still required; and (d) the implications if members did not attend training and how this could affect membership of the Board and Committee; and
- (iv) to confirm that no issues had been reported to the Pensions Regulator during the year 2015/16.
- **COUNCILLOR WILLIAM HOWATSON, Chair**

This page is intentionally left blank

**PENSIONS COMMITTEE
MOTIONS LIST – 15 JUNE 2016**

<u>No.</u>	<u>Motion</u>	<u>Date of Council/ Committee Meeting</u>	<u>Committee Motion referred to / date/ decision of Committee</u>	<u>Action taken / Proposed Future Action</u>	<u>Responsible Head(s) of Service</u>	<u>Due Date</u>	<u>Is authority sought to remove motion from list?</u>
1.	Motion by Councillor Kiddie “Council agrees to instruct the Head of Finance to provide a report on ethical investments in respect of the Pension Fund and the impact of such a strategy and reports back to Council within a 6 month period on such a strategy.”	19.08.15 (Council)	The Council resolved: to refer the motion to the Pensions Committee.	At its meeting in December 2015, the Committee had before it a report from KPMG which contained information on ethical investments. The Convener advised that Councillor Kiddie was not in attendance at the meeting, but that it was likely that he would be looking for a more detailed report to come before the Committee for consideration to satisfy the terms of his motion.	Head of Finance	11/03/16	

This page is intentionally left blank



Internal Audit Report

North East Scotland Pension Fund

Investment Strategy & Investment Performance Management

Issued to:

Richard Ellis, Director of Corporate Governance
Steven Whyte, Head of Finance
Laura Colliss, Pensions Manager
Anne MacDonald, Audit Scotland

EXECUTIVE SUMMARY

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

The ACCTF which has a market value of around £90 million closed to new members in 1994, and has only 78 active (or paying) members, pension liabilities for around 650 others and is subject to a De-Risking Strategy. This aims to strengthen the Transport Fund's funding position without increasing expense for the employer(s) and to keep the costs of investment and risk as low as possible.

The main local government fund is valued at over £3.1 billion and provides pension arrangements for around 50 employers including Local Authorities, the Scottish Fire and Police Services, Further Education establishments and various charities and other bodies. It has around 24,000 active members, almost 18,000 deferred members (who don't currently pay into the scheme) and pays benefits to almost 18,000 pensioners and dependents each month.

The administering authority has delegated powers from the Council to the Pensions Committee and to senior Council officers, and the Fund is regulated by the Pensions Regulator. The NESPF Pensions Manager reports to Aberdeen City Council's Head of Finance and is currently responsible for 30 Pensions' staff. A restructure is currently underway, which will see staffing increase to 35 and the service operating in six distinct sections: Benefits, Accounting, Investment, Governance, Employer Relations and Information Technology. This structure was agreed in 2015.

Two audits of the Pension Fund were due to be undertaken in the 2015-16 Audit Plan: the first to review compliance with the Fund's Investment Strategy and the second to examine controls over the performance of Investment Fund Managers. After ascertaining the systems in place and discussion with the Service, Internal Audit concluded that due to the interrelationships between these areas both should be examined simultaneously and a single audit report produced.

In general, compliance with the Investment Strategy and controls over the performance of Fund Managers are adequate. Recommendations to improve how compliance and controls can be better evidenced have been made and actions agreed with the Service as follows:

The Service has agreed to improve consistency in how Fund Managers contracts, and fee structures are recorded, and has developed written procedures for checking and approving management and custodian fees. The Service has accepted the need to clarify how assurance will be obtained over Fund Managers governance arrangements before they are selected, as decisions have historically been made on an ad-hoc basis, and will seek Committee approval of an acceptable level of variance in asset valuations, on which fees are based.

Improvements have been recommended and agreed to the Service's quarterly performance monitoring reports to more clearly show management interpretation of the results and planned action, and include details of movements and fees in addition to opening and closing valuations.

Although a contracts register is held by the Service it is not being used to proactively manage tendering and contract review exercises in line with public procurement rules. The Service has stated that due to the nature and complexity of the Pension Fund, the Fund seeks to establish strategic partnerships with its advisors to ensure it delivers

an efficient and compliant Scheme, which in turn may conclude to longer term relationships, and it will provide an update to Committee in 2016.

The Council's Treasury Section carried out a number of transactional and investment activities on behalf of the Fund, and it is intended to expand this role in the future, however it is not currently documented in a Service Level Agreement. The Service will develop this.

The Council's Orders of Reference in respect of the Pensions Committee need to be updated to reflect changes to the governance structure in 2015. Revisions have been put forward by the Service for review by the Council.

Training for staff and councillors is not always consistently evidenced. The Service has agreed to implement processes to ensure this is captured and any gaps addressed.

1. INTRODUCTION

- 1.1 The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council in accordance with Local Government Pension Scheme regulations.
- 1.2 The ACCTF which has a market value of around £90 million closed to new members in 1994, and has only 78 active (or paying) members, pension liabilities for around 650 others and is subject to a De-Risking Strategy. This aims to strengthen the Transport Fund's funding position without increasing expense for the employer(s) and to keep the costs of investment and risk as low as possible.
- 1.3 The main local government fund is valued at over £3.1 billion and provides pension arrangements for around 50 employers including Local Authorities, the Scottish Fire and Police Services, Further Education establishments and various charities and other bodies. It has around 24,000 active members, almost 18,000 deferred members (who don't currently pay into the scheme) and pays benefits to almost 18,000 pensioners and dependents each month.
- 1.4 The administering authority has delegated powers from the Council to the Pensions Committee and to senior Council officers, and the Fund is regulated by the Pensions Regulator. The NESPF Pensions Manager reports to Aberdeen City Council's Head of Finance and is currently responsible for 30 Pensions' staff. A restructure is currently underway, which will see staffing increase to 35 and the service operating in six distinct sections: Benefits, Accounting, Investment, Governance, Employer Relations and Information Technology. This structure was agreed in 2015.
- 1.5 Two audits of the Pension Fund were due to be undertaken in the 2015-16 Audit Plan: the first to review compliance with the Fund's Investment Strategy and the second to examine controls over the performance of Investment Fund Managers. After ascertaining the systems in place and discussion with the Service, Internal Audit concluded that due to the interrelationships between these areas both should be examined simultaneously and a single audit report produced.
- 1.6 The governance of both Funds is similar, therefore recommendations made in this report are applicable to the governance of both funds (hereafter referred to as 'the Fund'). Figures referred to in this report however, relate to the main Fund unless otherwise stated.
- 1.7 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Steven Whyte, Head of Finance, and Laura Colliss, Pensions Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Governance

- 2.1.1 Aberdeen City Council's Head of Finance is responsible for oversight of the North East of Scotland Pension Fund and reports to the Pensions Committee and the Pensions Board. These replaced the Joint Investment Advisory Committee and the Pensions Panel in 2015. Committee and Board members include representatives from Employers, Trade Unions and Councillors. The Committee has responsibility for monitoring operational and strategic performance and decisions, while the Board is in place to enhance governance and ensure that the Committee is aware of and complies with Pensions Legislation. The two bodies meet concurrently on a quarterly basis and attendance records show adequate representation.
- 2.1.2 The Council has Orders of Reference in place for the Pensions Committee, however these have not been updated to reflect governance structure changes fully, in that they still make reference to the Joint Investment Advisory Committee which was decommissioned. For avoidance of ambiguity over the Fund's governance structure, these Orders of Reference should be revised.

Recommendation

The Administering Authority should ensure that the Pensions Committee's Orders of Reference reflect its current remit.

Service Response / Action

Agreed. Revised Orders of Reference have been drafted and provided to Legal for review (5 April 2016).

Implementation Date

June 2016

Responsible Officer

Pensions Manager

Grading

Important within audited area

- 2.1.3 References to the former governance structure were also noted in the Investment Policy and Strategy documents, however these were set in advance of the Committee changes taking place. The Service advises that these will be revised when the 2016 strategy document is published.
- 2.1.4 The Pensions Act 2004 requires trustees to have knowledge and understanding of the law relating to pensions and trusts, and the principles relating to the funding of occupational schemes and the investment of scheme assets. Trustees are also required to be conversant with the scheme's policy documents.
- 2.1.5 The Pensions Manager arranges training for Pensions staff and for Committee and Board Members in order to ensure they are adequately equipped to administer the fund. In addition to its compliance role, the Pensions Regulator provides guidance for pension fund trustees and to those who manage the fund. It has an e-learning training 'toolkit' which can be used to train individuals and record learning progress.
- 2.1.6 Although there are no apparent training issues, the level of knowledge and understanding amongst staff and trustees in terms of fund management and investment is not currently evidenced. There may therefore be unidentified gaps in understanding and knowledge which could impact on fund governance and investment decisions.
- 2.1.7 The Service has stated that revising the staffing structure has provided opportunity to revise staff training policies so that they tie in to the Performance Review and Development process. This will enable training and development needs to be identified

and addressed, and recorded on Aberdeen City Council's HR System, thus increasing assurance over the competency of staff. A recommendation has been made to track progress being made in developing and improving this area.

Recommendation

The Administering Authority should ensure that staff training, development and competency is adequately evidenced.

Service Response / Action

Agreed. Staff training is an ongoing process and will be evidenced through individuals Performance Review and Development program and through the Pensions Fund internal training program that is currently being developed.

Implementation Date

March 2017

Responsible Officer

Pensions Manager

Grading

Important within audited area

- 2.1.8 Trustees are required by law to have an adequate level of understanding of pension scheme matters in order to ensure the proper running of the scheme and to fulfil their fiduciary duties. At present there is a lack of clear evidence to demonstrate that Trustees have the understanding and knowledge they require.

Recommendation

The Administering Authority should ensure that it can demonstrate that all trustees have the understanding and knowledge they require to ensure proper Fund investment and management.

Service Response / Action

Agreed. A continuous training program is provided to committee and board members providing them internal and external opportunities, including encouragement to take The Pensions Regulator 'toolkit'. A training report is taken to committee on a regular basis detailing opportunities and evidencing attendance. A full day's training was provided in March 2016 and further opportunities are being made available during 2016. An update will be provided to the Committee in June 2016.

Implementation Date

June 2016

Responsible Officer

Pensions Manager

Grading

Significant within audited area

- 2.1.9 The Fund's risk register was last reviewed in June 2015 and identifies the likelihood and impact of various risks including those which relate to funding and investment. The Register also provides an assessment of the risk control measures in place to mitigate these risks.

- 2.1.10 No significant control issues have been raised by the external auditor in the 2014/15 year-end report. Operating within the clear arrangements which are in place for delegated powers, authorisation and monitoring, governance over the Fund appears adequate.

2.2 Investment Strategy

- 2.2.1 The Fund's Investment Policy comprises two key strategies:

- The Funding Strategy ensures that the Fund is maintained so that future pension liabilities can be met, whilst keeping employer contribution rates constant, as far as possible, as required by regulations.

- The Statement of Investment Principles demonstrates the Pensions Committee's stance on investment diversity and risk and details the proportions of investment types which should be held to manage the trade-off between market risk exposure and investment return.

- 2.2.2 The impact of the strategies on the Fund is monitored on a quarterly basis and amended where it is deemed appropriate in light of the strength of employer covenants (employers' ability to pay their contributions), the performance of the Fund, and the triennial actuarial valuations.
- 2.2.3 The majority of Fund investment is undertaken by Investment Fund Management Companies (IFM's) who invest in markets and assets on behalf of NESPF in accordance with investment mandates which are set for them. Investment practice is governed by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. Market performance and IFM performance carry the two main risks to the Fund and both are therefore monitored in detail and reported on to the Committee on a quarterly basis.
- 2.2.4 The Service has various internal and external sources of both legal and investment advice which assist in setting the strategies and the investment mandates. The objective of the investment strategy is to maximise returns to the Pension Fund whilst reducing overall risk. The Fund is invested in a range of asset classes, including equities, bonds and property, in different countries, sectors and companies in order to spread the risk. The strategy detail should be clear, but it was noted that the investment spread published on the NESPF website (published November 2014) differs slightly from that which is currently being monitored and reported against:

Asset Class	Benchmark per Annual Report 2013/14	Benchmark per Annual Report 2014/15	Benchmark per Monitoring Sept. 2015	Benchmark per Website as at Feb. 2016
Equities	70% (+/- 5%)	70% (+/- 5%)	70% (+/- 5%)	70%
Bonds	10% (+/- 2%)	10% (+/- 2%)	10% (+/- 2%)	8%
Property	10% (+/- 2%)	10% (+/- 2%)	10% (+/- 2%)	10%
Alternative Asset (inc. Private Equities)	10%	10%	10%	12%
Cash	0%	0%	0%	0%

Recommendation

The Service should ensure that Investment Strategy documents always reflect current Pension Fund governance and investment arrangements and correspond to the Asset Class monitoring benchmarks within the quarterly monitoring.

Service Response / Action

Agreed. Information held on the Pension Fund Website will be amended.

Implementation Date

May 2016

Responsible Officer

Pensions Manager

Grading

Important within audited area

2.3 Fund Control and Investment

- 2.3.1 In order to ensure that the use of IFM's services does not expose the Fund to unnecessary risk, independent quality assurance reports (ISAE3402 Type II) are obtained by the Fund,

which is a requirement of the external auditor. These provide assurance over the internal controls operated by the IFM. Reports are retained as evidence of this assurance.

- 2.3.2 It was noted that rather than an independent report, one IFM had submitted a self-declaration which included detail of its internal control mechanisms. The Service has stated that given the level of investment (£4 million at September 2015) and the size of the Fund Management company itself, a self-declaration report was considered adequate and avoided additional costs. Whilst this may be reasonable, in order to demonstrate transparency and consistency of such decisions the Fund should set materiality levels or criteria for which independent assurance over IFM internal controls is required.

Recommendation

The Service should ensure justification for the level of independent assurance over IFM internal controls is documented.

Service Response / Action

Agreed. The provision of an internal controls report by an IFM will form part of our formal due diligence process and be included with our recommendations regarding appointment of new providers.

Implementation Date

May 2016

Responsible Officer

Pensions Manager

Grading

Important within audited area

- 2.3.3 Mandates are set for the Fund in order to restrict the investment scope of the IFM. Each mandate is underpinned by general terms and conditions and detail of the IFM's management fees. Market fluctuations will cause the actual value of the holding of each asset class to vary from the strategic benchmark, however the mandate(s) with each IFM require them to set and thereafter maintain the investment spread close to benchmark. Doing so maintains the asset mix and level of risk which has been agreed as appropriate for the Fund.
- 2.3.4 Mandates were reviewed and whilst no issues were found with mandate compliance (e.g. investing outwith the asset classes and markets permitted), many of the mandates are dated and have varied from time to time in respect of the general terms and conditions and the investment restrictions themselves. Some were initiated with IFM's several decades ago, but no listing of subsequent additions or revisions has been maintained.
- 2.3.5 In one instance it was not straightforward to determine whether a rebate from an IFM was at the appropriate rate. In the absence of clear and consistent records showing the changes and current mandates, the Service will have less assurance over the investment agreements and fee schedules in place, and may have difficulty in providing assurance that investments and payments are being made correctly.

Recommendation

The Service should maintain a chronological record of changes made to Investment Fund Manager mandates and general terms and conditions.

Service Response / Action

Agreed. This information will be included on the Pension Fund Contracts Register.

Implementation Date

September 2016

Responsible Officer

Pensions Manager

Grading

Significant within audited area

- 2.3.6 Although quarterly monitoring examines the performance of IFM's and the Fund's overall asset mix, there is no regular review of mandate documents. A regular check to ensure that the terms and conditions and fee structure are up to date and are still appropriate would be a further indicator of the control over investments and the Fund.

Recommendation

The Service should evidence periodic reviews of terms and conditions to provide assurance that Investment Fund Manager terms and conditions are up to date and appropriate.

Service Response / Action

Agreed. Periodic reviews of all mandates are undertaken, going forward they will be evidenced.

Implementation Date

May 2016

Responsible Officer

Pensions Manager

Grading

Important within audited area

- 2.3.7 In order to monitor and control fund manager activity, in addition to quarterly monitoring, the Fund uses the services of a global custodian. Any publicly listed asset for which an IFM is responsible is held by the custodian in a segregated nominee named account to enable them to trade and settle IFM transactions.
- 2.3.8 Direct Property is bought on behalf of the Pension Fund under a Power of Attorney by the Fund Manager in the Pension Fund's name.
- 2.3.9 All other non-listed assets (e.g. Private Equities) are held in the Pension Fund's name via a Limited Partnership Agreement with the Fund Managers.
- 2.3.10 All assets of the Pension Fund are accounted for by the custodian, reflecting the full market Value of the Pension Fund at any given time.
- 2.3.11 Reports of transactions declared by each IFM are received each month and are verified to custodian records.

2.4 Fees and Charges

- 2.4.1 Fund Manager fees are determined by the agreement in place with the Administering Authority. Fees may have several elements to them and be payable at different intervals. A sample of three fee payments was examined. All payments appear to have been made correctly, however the process for checking, processing and accounting for them is fairly complex and is not currently documented. Were key staff to leave, fee payments could be delayed while other staff are trained in the invoice payment process.

Recommendation

The Service should ensure that written guidance is prepared to demonstrate the procedure for checking, authorisation, processing and accounting for management and custodian fees.

Service Response / Action

Agreed. A procedure note has been completed.

Implementation Date

Implemented

Responsible Officer

Pensions Manager

Grading

Important within audited area

- 2.4.2 When the rates charged on invoices were reviewed, it was not possible to confirm all of the fee elements, particularly where rebates were concerned. Fee rates were not always clear in the agreements and are not held or recorded in a format which facilitates fee checking. Having a centralised record of Fund Manager rates would make it easier to demonstrate that fee payments are in line with agreed rates.

Recommendation

The Service should ensure that the rates charged by investment fund managers and the global custodian for all services are clearly and consistently documented.

Service Response / Action

Agreed. This information will be added to the Pension Fund Contracts Register.

Implementation Date

September 2016

Responsible Officer

Pensions Manager

Grading

Significant within audited area

- 2.4.3 Many fee elements are based on the asset valuation at the point of billing. Invoices are therefore supported by the Fund Managers' own report which shows the value of the Fund's assets under its control at the end of the billing period. To corroborate these figures, the custodian reconciles them with its own valuation of the same assets at the end of the billing period. The figures can vary as a result of differing measurement methods, timing differences or where some assets may be included / excluded from the custodian or Fund Managers' valuation.
- 2.4.4 Currently, provided a variance is no more than 10 basis points, the fund manager's valuation is accepted and fees are processed via the custodian's Workbench system. Payment is released only when the Pension Manager's approval is received in the system.
- 2.4.5 Where the figure varies by more than 10 basis points however, further investigation is required to determine the cause(s). Provided that the variance is less than 10 basis points after legitimate causes have been taken into account, the fund manager's valuation can be accepted.
- 2.4.6 The 10 basis points figure has not been officially set and appears to have no clear origin and in one instance a variance above this threshold, in favour of the Fund Manager, was accepted. There were no clear records that management had given consideration to and approval of the excess variance. Without an officially set fees variance tolerance threshold above which management approval is required to proceed with invoice payment, and evidence of compliance, there is less control and an increased risk of payments being made for fees based on inaccurate valuations.

Recommendation

The Service should ensure an appropriate asset valuation variance threshold for fee invoice verification purposes is approved by the Committee.

The Service should ensure that management approval is evidenced where variances exceed the asset valuation threshold.

Service Response / Action

Agreed.

The 10bps (0.10%) tolerance/variance is an industry standard and has been adopted by the Pension Fund over many years. This position will be confirmed to Committee.

Any situations that exceed this position will be reviewed by the Pensions Manager and sign off will be evidenced accordingly.

Implementation Date

June 2016

Responsible Officer

Pensions Manager

Grading

Significant within audited area

2.5 External Services

- 2.5.1 It was noted that the contract with the current custodian, the Bank of New York Mellon, has been in place since 2005. Although following a tender exercise the contract with a new custodian will commence during 2016/17, the same provider was used for over ten years without a competitive tender exercise being undertaken to demonstrate that proper procurement practice has been applied and best value demonstrated. The Service has a number of other contracts including those with the Fund's Legal and Investment Advisors for which competitive tendering exercises are overdue. Going forward, in order to ensure compliance with procurement regulations and the Council's Standing Orders, the Service should put controls in place to ensure contracts are retendered when necessary.

Recommendation

The Service should evidence a rolling procurement plan which ensures contracts are retendered when necessary.

Service Response / Action

Agreed. A report to Committee in March 2013 provides details on the appointment of Advisor and the timing of those appointments and reviews. BNY Mellon was appointed in 2005 and a review was commenced during 2008 however this was put on hold due to the financial crisis. The Pension Fund reviewed its Investment Consultant during 2015 with KPMG being appointed.

Due to the nature and complexity of the Pension Fund, the Fund seeks to establish strategic partnerships with its advisors to ensure we deliver an efficient and compliant Scheme, which in turn may conclude to longer term relationships.

An update of the March 2013 report will be presented to Committee during 2016, including planned dates for future procurement exercises.

Implementation Date

December 2016

Responsible Officer

Pensions Manager

Grading

Significant within audited area

- 2.5.2 While the investment banking of the Pension Fund is performed by the global custodian, operational transactions (e.g. receipt of contributions and payment of benefits) are undertaken by Aberdeen City Council's Treasury function. Given the Fund is a separate entity, it would be appropriate to have the arrangement formally recognised with reference to the work involved and the standards which are expected. At present this has not been done, although the Service anticipates having an agreement in place in 2016.
- 2.5.3 The Treasury Team also invests surplus cash from the Fund's bank accounts, in the Aberdeen City Council Loans Fund. The Service has expressed an intention to develop the Treasury section's involvement in Fund investment further, at which point more detailed protocols will be required.

Recommendation

The Service should ensure that appropriate agreements are in place which govern the banking and investment service provided to the Fund by Aberdeen City Council's Treasury Section.

Service Response / Action

Agreed. The Pension Fund will work with the Treasury Section to draft a Service Level Agreement that will include the current level of service and the additional services the Fund looks to implement.

Implementation Date

September 2016

Responsible Officer

Pensions Manager

Grading

Significant within audited area

2.6 Performance Monitoring

- 2.6.1 Quarterly reports of investment activity and Fund performance are presented to the Pensions Committee at each meeting. The figures within these are based on the global custodian's Fund Analysis and Performance report which provides a valuation of the Fund and an investment transaction report which is checked to the Fund Manager's own quarterly investment reports. In addition, a general overview is given of key markets which influence Fund performance, and a performance commentary is provided for each Investment Fund Manager.
- 2.6.2 The report shows whether investments are in line with the mandates (e.g. asset class mix) and performance benchmarks (e.g. 'outperform the market by 2% over 5 years') set for each IFM and generally present a long term view of investment performance. A long term view gives the IFM time to adjust their investment portfolio where the performance of any assets deteriorates in the interim. This way, market peaks and troughs do not skew the performance figures. Performance data is presented to the Pensions Committee on a Red, Amber, Green basis, enabling them to identify where targets are at risk of not being met.
- 2.6.3 The quarterly report gives an overall view of strategy compliance and fund manager performance, however it does not clearly state the Service's interpretation of the results, required action in response to targets not being met by IFM's (or a note that no action is considered necessary), or the implications of current performance for the Fund. In its current form the report generally leaves Trustees to form their own conclusions.
- 2.6.4 In addition, although the report provides details of the previous and current valuation of assets placed with each IFM this value is a combination of market valuation changes, asset transfers (which are not regularly undertaken), and fees. Without separating out this detail it will be difficult to put the performance of the IFM's in context.

Recommendation

The Service should ensure that quarterly reports provide adequate assurance over the current health of the pension fund, its performance and any action required.

The Service should separate out details of the different categories of fund movements.

Service Response / Action

Agreed.

The Asset and Investment Manager Performance Report is taken to Committee each quarter. Members are taken through the report discussing performance at Fund level

and at individual Fund Manager level. Any concerns are raised and discussed and evidenced through the minutes of the Committee meetings.

The report is an evolving document due to its content and changes within asset allocation and fund manager, and the Pension Fund seeks to incorporate all relevant information.

Additional narrative and split of fund movements will be included as recommended.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
June 2016	Pensions Manager	Significant within audited area

- 2.6.5 Despite a decrease in the Fund's market value from £3.171 billion at the 2014/15 year-end, to £3.003 billion in the September 2015 performance monitoring report, IFM performance has generally been above benchmark. Market performance has been the cause of the Fund's fall in value, with the impact of the fall in the price of crude oil, record low interest rates and inflation across the world, and uncertainties in the Eurozone and elsewhere all being contributors.
- 2.6.6 There is evidence that action is taken where performance is unsatisfactory. In December 2015 following many progress meetings with one IFM, the Pensions Committee was recommended to agree termination of several mandates which over the long term had continually underperformed. Such decisions are not taken lightly due to the costs involved in moving assets from one IFM to another. The report also recognised that the impact of the IFM's underperformance could jeopardise the de-risking of the Aberdeen City Council Transport Fund, and alternative proposals were being considered to avoid this.
- 2.6.7 Where assets have to be moved from an IFM this gives opportunity to rebalance the asset mix, proportions of which can change as markets and asset values fluctuate. This ensures that the Fund's investment is kept in line with the strategy and therefore in accordance with the risk exposure which has been agreed to by the Pensions Committee. The current asset mix and that for the previous financial year end are compared below to the benchmark target being monitored against:

Asset Class	Actual per Annual Report 2014/15	Benchmark Target per Monitoring (Sept. 2015)	Actual Asset Allocation per Monitoring (Sept. 2015)
Equities	82.2%*	70% (+/- 5%)	77.3%
Bonds	7.8%	10% (+/- 2%)	8.1%
Property	6.9%	10% (+/- 2%)	7.1%
Alternative Asset (inc. Private Equities)	*	10%	5.0%
Cash	3.1%	0%	2.5%

- 2.6.8 Asset holdings are broadly in line with the strategy, but more flexibility is being sought in order that the Pensions Manager and Head of Finance can react more quickly to shifts in the markets. Any request for additional flexibility will be put before the Committee for approval.
- 2.6.9 The Fund is 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. Presently the Fund is 'cash positive', in that income from contributions currently exceeds the value of benefits paid.

- 2.6.10 The Service identified however, that IFM's had been keeping increasing amounts of fund assets in the form of cash, on which there is little or no return. The target for cash holdings is 0%, although in practice this is not possible, e.g. cash balances are required in operational bank accounts to fund fees and payment of liabilities as they fall due.
- 2.6.11 Although the global custodian invests cash balances in the money markets overnight, the Service has recently sought to encourage fuller investment by the IFM's by introducing a cash holding restriction of 1.5% of the value of the portfolio they are responsible for. This should reduce cash holdings from the current holding of 2.5% (September 2015).
- 2.6.12 At September 2015, 1.5% of the overall fund equated to around £45 million. Given that this value will vary with the Fund's value, in addition to the percentage restriction, it might be beneficial to determine a financial limit of overall cash holdings, beyond which additional action should be taken, to prevent excessive amounts being held in cash. The Service has however stated that this would be impracticable since cash needs depend significantly on the payment of benefits due and flexibility for investment already committed to, particularly where private equity drawdowns are concerned. Foreign currency variances could also make it difficult to keep within a set monetary value.

2.7 Deficit Recovery Plan

- 2.7.1 The most recent triennial actuarial valuation was undertaken in March 2014 and indicated that the Fund would only meet 94% of its pension liabilities, were it to be wound up immediately. Deficits are not uncommon to pension schemes and NESPF's funding target is 100%. Accordingly, a Deficit Recovery Plan is in place which involves a programme of additional contributions tailored for each employer in the scheme. Advice on this plan and monitoring of its effectiveness is provided by the Fund Actuary, but the Fund will always be subject to market volatility and other risks which may inhibit the achievement and maintenance of the Funding Target.
- 2.7.2 According to the External Auditor's report, by the end of 2014/15 a roll-forward estimate put the funding position at 82%. This reduction was noted to be consistent with other Scottish local government pension schemes. Those responsible for managing and monitoring the Fund continue to take advice from the available sources, monitor performance and adjust strategies and plans as appropriate in order to safeguard the Fund and maintain it as a going concern. However, it has been decided that an interim valuation of the fund will be completed in 2016 in order to monitor the funding position more closely.

AUDITORS: D Hughes
C Harvey
P Smith

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

This page is intentionally left blank

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	24 June 2016
DIRECTOR	N/A
TITLE OF REPORT	Internal Audit Plan 2016/17
REPORT NUMBER	N/A
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

The purpose of this report is to seek approval of the attached Internal Audit plan for 2016/17.

2. RECOMMENDATION

It is recommended that the Committee approve the attached Internal Audit Plan for 2016/17.

3. FINANCIAL IMPLICATIONS

There are no financial implications arising as a result of this report.

4. BACKGROUND/MAIN ISSUES

- 4.1 It is one of the functions of the Audit, Risk and Scrutiny Committee to review the activities of the Internal Audit function, including the approval of the Internal Audit Plan for Aberdeen City Council. However, the remit of that Committee does not extend to Internal Audit issues relating to the Pension Fund. This is reserved to the Pensions Committee.
- 4.2 The Internal Audit plan for Aberdeen City Council for 2015/16, which included a review of the Pension Fund's investment strategy and performance management, was approved by the Audit, Risk and Scrutiny Committee in February 2015. However, in view of the above, the Internal Audit plan relating to the Pension Fund for 2016/17 is attached as appendix A for approval by this Committee.
- 4.3 Audits included in the attached plan, as well as those in previous and future plans, will help familiarise Internal Audit with the Pension Fund's control environment and governance arrangements, allowing assurance to be provided regarding those arrangements. Where opportunities for improvement in controls and their application, or improvements in value for

money, are identified these will be reported along with recommendations for management to consider. Where appropriate, Internal Audit will obtain assurance from other sources, for example external audit, based on their work and reported outcomes.

- 4.4 Internal Audit's work will be undertaken in compliance with Public Sector Internal Audit Standards and Aberdeen City Council's Internal Audit Charter as approved by the Audit, Risk and Scrutiny Committee on 9 March 2016.

5. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01224) 664184

Appendix A

INTERNAL AUDIT PLAN 2016/17

PENSION FUND

SUBJECT	SCOPE	OBJECTIVE
Pension Fund Payroll	Pension Fund Payroll	Consider whether arrangements are adequate to start and terminate payments from pension fund payroll and ensure that payments are accurate.

This page is intentionally left blank

External Audit Progress Update – 2015/16 Audit

Prepared for Aberdeen City Council Pension Committee
June 2016

Purpose of this report

1. This report aims to provide an update of progress with the 2015/16 audit of North East Scotland Pension Funds. Our Annual Audit Plan was considered by the Pension Committee in March 2016. A significant element of our work relates to gathering the assurances required to support our opinion on the pension funds' annual accounts.

Summary of planned audit work for 2015/16

2. Our planned work in 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of North East Scotland Pension Funds as at 31 March 2016 and their income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom
 - a review and assessment of North East Scotland Pension Funds' governance and performance arrangements in a number of key areas including a review of adequacy of internal audit and arrangements to support the annual governance and governance compliance statements.

Progress of 2015/16 audit work

3. As set out in our Annual Audit Plan, key elements of our audit include:
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how North East Scotland Pension Funds will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
4. While we undertake a review of a number of high level key controls, traditionally, a significant element of our audit has focused on the financial statements with assurances largely drawn from substantive procedures at the year end i.e. verification of transactions through reviewing samples for appropriateness and confirmation of balances with the financial ledger and other supporting systems via reconciliations.
5. Two main areas of the accounts where we devote significant time include contributions received (income) and fund management activities (investments held and investment income).

Contributions

- We have seen improvements in this area during the year with the largest scheduled bodies now providing information via I-Connect, a cloud based portal for employers to provide monthly payroll data which identifies changes for automated processing onto the pension administration system. The implementation of I-Connect enables officers to carry out regular checks. Smaller employers have the option to use a similar service to I-Connect or to continue to submit contribution listings on an annual basis. In most cases, smaller employers still submit their data on an annual basis.
- The new checks, involving completion of a checklist, are carried out by the recently formed Employer Relationship Team to confirm if employer contribution details reconcile with the pensions administration system. These checks are part of the reporting requirements to support the funds' Administration Strategy. While checks have been carried out throughout 2015/16, formalisation of the checklist has only been in place since November 2015.
- We have recommended that the Employer Relationship Team and the Accounting Team liaise on the different reconciliations carried out by their respective teams with regard to the different employers in order to streamline activities and strengthen the overall audit trail.

Improved in-year controls should provide greater audit assurance allowing the option for less year end testing. We therefore anticipate that these new checks will provide audit with greater assurance from 2016/17.

Fund management activities

- The majority of the funds' investment activities are outsourced to a range of fund managers. While the senior pensions officer with responsibility for accounting and investments reviews investment transactions including fund manager and custodian reports, reliance is largely placed on the investment accounting provided by the custodian. ISA 620 allows auditors to place reliance on expert opinions.
6. **Orders of Reference** - Internal audit has commented on the need for the Orders of Reference for the Pensions Committee, the investment policy and other strategy documents to be brought up to date to reflect the removal of the Joint Investment Advisory Committee and the implementation of the Pensions Board. We would also suggest that the council's delegated powers in respect of the head of finance are updated to reflect recent changes in responsibility such as the establishment of a Pensions Board, reporting to the Pensions Regulator and auto-enrolment responsibilities.

Next Steps

7. Other than the issues set out above, we have no significant matters to bring to members' attention, from our review of the operation of key controls in 2015/16, which are likely to materially affect our opinion on the accounts. In addition to our consideration of these high level controls, we set out a number of risks in our Annual Audit Plan. In most cases, we will collate our assurances as part of our audit of the accounts (during June to August 2016) and include our final results and conclusions on each risk in our Annual Audit Report in September 2016. Any matters arising which might impact on the funds' annual governance statement will be brought to officers' attention in sufficient time for consideration before the audited accounts are submitted to the Pensions Committee.
8. The appendix provides a reminder of these risks and our planned audit approach in each case.

Anne MacDonald, Senior Audit Manager

June 2016

Progress update - Significant audit risks

Audit Risk	Audit assurance procedure	Progress update
<p>1. Income</p> <p>North East Scotland Pension Funds receive a significant amount of income from employer and employee contributions and investment income. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA 240.</p> <p>There is a risk that fund income per the annual accounts is materially misstated.</p>	<p>Contributions</p> <ul style="list-style-type: none"> • Focused year end testing of contribution reconciliations • Verification that contributions have been properly deducted on employer payrolls and transferred to the funds. <p>Investment Income</p> <ul style="list-style-type: none"> • Review of controls in place • Focused year end substantive testing of investment income. 	<p>Contributions (year end audit activity)</p> <ul style="list-style-type: none"> • Contributions are received from 11 scheduled bodies and around 40 admitted bodies. Historically, our review of the figure in the accounts has depended on the completion of year end reconciliations by the pension fund. While monthly checks have been carried out by officers to ensure that monthly contributions were received and that these appeared reasonable, it was only at the year end, once listings of employee and employer contributions were received that complete reconciliations could be undertaken. • We have seen improvements in this area during the year with the largest scheduled bodies now providing information via I-Connect, a cloud based portal for employers to provide monthly payroll data which identifies changes for automated processing onto the pension administration system. The implementation of I-Connect enables officers to carry out regular checks. Smaller employers have the option to use a similar service to I-Connect or to continue to submit contribution listings on an annual basis. In most cases, smaller employers still submit their data on an annual basis. • The new checks, involving completion of a checklist, are carried out by the recently formed Employer Relationship

Audit Risk	Audit assurance procedure	Progress update
		<p>Team to confirm if employer contribution details reconcile with the pensions administration system. These checks are part of the reporting requirements to support the funds' Administration Strategy. While checks have been carried out throughout 2015/16, formalisation of the checklist has only been in place since November 2015.</p> <ul style="list-style-type: none"> • We have recommended that the Employer Relationship Team and the Accounting Team liaise on the different reconciliations carried out by their respective teams with regard to the different employers in order to streamline activities and strengthen the overall audit trail. Improved in-year controls should provide greater audit assurance allowing the option for less year end testing. We therefore anticipate that these new checks will provide audit with greater assurance from 2016/17. • On a sample basis, we also verify that that contributions deducted from employees through employer payrolls are correct. At present we gather assurance by direct confirmation with a sample of fund employers. <p>Investment Income (year end audit activity)</p> <ul style="list-style-type: none"> • On a sample basis, we confirm monthly cash reconciliations for each fund manager with the financial ledger. We also review samples of investment income and confirm that transactions have been posted to the correct financial year.

Audit Risk	Audit assurance procedure	Progress update
<p>2. Management override of controls</p> <p>As stated in ISA 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business. 	<p>Year end audit activity – Our work in this area traditionally involves a review of samples of Journals, accounting estimates and significant/unusual transactions to ensure that there are valid reasons and authority for the transactions posted.</p>
<p>3. Private Equity</p> <p>Private equity investments are included in the net assets statement on the basis of the best estimate (i.e. valuations at 31 December).</p> <p>There is a risk that investments per the accounts are materially misstated.</p>	<ul style="list-style-type: none"> • Review of client working papers • Reliance on an expert in accordance with ISA 620 – review of investment approach. 	<p>Year end audit activity - Unlike equities, private equity investments are not listed and therefore we rely on the expertise of the fund managers who prepare the valuations.</p> <p>ISA 620 enables auditors to place reliance on experts.</p>
<p>4. Fund management costs</p> <p>CIPFA have issued best practice guidance on <i>Accounting for local government pension scheme management costs</i>. Guidance has been given for further analysis of costs and it also covers areas where historically, difficulty has been experienced in identifying all the management costs.</p> <p>There is a risk the fund does not comply with best practice.</p>	<ul style="list-style-type: none"> • Review of management action to identify costs • Focused year end substantive testing of management costs • Comparison of disclosures with other local government pension funds. 	<p>Year end audit activity -Significant work was undertaken in 2014/15 to ensure that fund management costs were disclosed in in accordance with the new CIPFA guidance. While we will undertake some comparative work against other pension funds in 2015/16, we would anticipate that a similar approach to last year's audited position should be sufficient for us to confirm that the figures in the accounts are not materially misstated.</p> <p>Updated guidance from CIPFA has just been issued but is not effective until 2016/17.</p>

Audit Risk	Audit assurance procedure	Progress update
<p>5. Provision for non-collection</p> <p>A significant debt in respect of a termination agreement due from an admitted body has been the centre of dispute for some time.</p> <p>There is a risk that debt collection is not being effectively managed.</p>	<ul style="list-style-type: none"> Review of management action. 	<p>Work-in-progress - We have maintained a 'watching brief' on action to collect this outstanding debt. The delay has been due to the time required to secure members' agreement to purchase annuities to fund pension enhancements. This agreement has now been obtained and arrangements are being made to conclude the necessary documentation. Once this is completed, the trustees of the former admitted body will be able to make final payment to the pension fund.</p>
<p>6. Local Government Pension Scheme (Scotland) (2015)</p> <p>A new local government pension scheme was implemented from 1 April 2015. This has resulted in a number of changes for members including pensions being based on care average revalued earnings, as opposed to final salary and the rate at which pension accrues reducing from 1/60 to 1/49.</p> <p>There is a risk pensions or contributions may be calculated incorrectly.</p>	<ul style="list-style-type: none"> Project Plan for implementing the new scheme and progress reports to committee Website updates Separate training and briefings provided for employers and staff Testing of pension administration system prior to implementation of the new scheme Management controls in place. 	<p>Work-in-progress - Based on our general awareness of the funds' preparations, we considered the arrangements to be well planned and resourced. This exercise is intended to verify that initial view having considered the project outcomes against the project plan.</p>

Audit Risk	Audit assurance procedure	Progress update
<p>7. Changes in Fund Experts</p> <p>In December 2015, the agreements with the fund manager for the Main Fund Global Ex and Frontier Fund and the Transport Fund were terminated.</p> <p>There is a risk that that the funds cannot mitigate further significant losses during the period until the transfers are concluded.</p>	<ul style="list-style-type: none"> • Instructions provided to the existing fund manager in respect of 'care taking' responsibilities and arrangements for transfer • Appointment of new fund manager and arrangements for handover • Ongoing monitoring by custodian • Reports to Pensions Committee. 	<p>Year end audit activity - The decisions to change the fund manager for the Main Fund Global Ex and Frontier Fund and the Transport Fund; and the custodian were made in 2015/16 but will not be in operation until 2016/17. However, the notes to the 2015/16 accounts will require to disclose the changes. The audit will therefore consider the controls in place to ensure that the value of the relevant funds is safeguarded during the transition process.</p>
<p>8. Funding Position</p> <p>The funding position for the Main Fund has fallen from 94% at the time of the 2014 actuarial valuation to 79% at September 2015, while there has been a similar drop for the Transport Fund from 93% to 85%.</p> <p>There is a risk the funds' assets will not meet long term liabilities.</p>	<ul style="list-style-type: none"> • Interim actuarial valuations to be undertaken by the funds as at March 2016. 	<p>Year end audit activity – Interim actuarial valuations will be reviewed and we will comment on the latest position in our Annual Audit Report.</p>
<p>9. Local Authority Accounts (Scotland) Regulations 2014</p> <p>Schedule 7 of the Local Authority Accounts (Scotland) Regulations 2014 require that the pension committee should consider an annual internal audit plan and that arrangements should be put in place for a regular external review of the effectiveness of internal audit.</p> <p>There is a risk the funds are not fully complying with the 2014 regulations.</p>	<ul style="list-style-type: none"> • Discussions with officers including internal audit. 	<p>Internal audit coverage of pension fund activities was included in the overall 2015/16 internal audit plan for Aberdeen City Council. The internal audit arrangements for 2016/17 and beyond in respect of the pension funds will need to be separately planned and reported to the Pension Committee as the body charged with governance.</p>

Audit Risk	Audit assurance procedure	Progress update
<p>10. Scrutiny</p> <p>The Local Government Pension Scheme (Governance) Scotland Regulations 2015 required the Pension Fund to establish a Pension Board to assist it in complying with the scheme regulations and requirements of the pensions' regulator. It will take time for these new arrangements to bed in and become effective, and training and support will be necessary for board members to enable them to effectively fulfil their role</p> <p>The pensions committee has recently reviewed the frequency and content of reports it receives with a view to ensuring wider coverage of service performance across all fund activities.</p> <p>There is a risk that, as a result of the level of change, scrutiny and challenge processes are less effective.</p>	<ul style="list-style-type: none"> • Training and support provided to the Pensions Board and Pensions Committee • Reports provided to the Pension Committee/Pensions Board. 	<p>In previous years we commented on the adequacy of scrutiny around pension fund performance. There was a significant change in the arrangements in 2014/15 with the termination of the Joint Investment Advisory Committee and from 1 April 2015, the introduction of the Pension Board. Our Annual Audit Report (in September 2016) will comment on:</p> <ul style="list-style-type: none"> • Operation of the Pension Board against the requirements set out in the 2015 Regulations • Adequacy of training and support provided to committee and board members • Adequacy of performance information and other governance assurances considered by the Pension Committee/Pension Board.

Audit Risk	Audit assurance procedure	Progress update
<p>11. Pensions Regulator</p> <p>The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. Funds are therefore required to comply with the Regulator's <i>Code of Practice no. 14: Governance and Administration of Pension Schemes</i> and develop a formal policy on reporting significant failures of pension fund administration / breaches of the law.</p> <p>While the funds have undertaken work in this area, there remains a risk that adequate processes are not in place for identifying breaches and that they are not reported to the Pension Regulator.</p>	<ul style="list-style-type: none"> Assessment of compliance with the Pensions Regulator Code of Practice (reported to Pensions Committee in September 2015) Fund administration strategy and policy on reporting breaches. 	<p>Our Annual Audit Report (in September 2016) will comment on:</p> <ul style="list-style-type: none"> the funds' performance reporting against the requirements of the Fund Administration Strategy progress in developing a policy for reporting of breaches.
<p>12. Cyber Security</p> <p>Over the past year several Scottish public organisations have been victims of cyber-attacks. All public sector bodies should be aware of a cyber-attack and take actions to reduce the risk of a successful attack.</p>	<ul style="list-style-type: none"> Overall IT environment operated by Aberdeen City Council as administering authority Discussions with officers about security around pension specific systems. 	<p>Work-in-progress - A self-assessment questionnaire is currently being concluded in respect of Aberdeen City Council (including the pension fund) covering the work undertaken by the authority to minimise the risk of cyber-attacks, the resources identified to manage this risk and the adequacy of the response plan in place.</p>

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	24 th JUNE 2016
REPORT BY	CORPORATE GOVERNANCE
TITLE OF REPORT	STRATEGY
REPORT NUMBER	PC/JUN16/STRATEGY

1. PURPOSE OF REPORT

To inform the Committee and provide recommendations to any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

2. RECOMMENDATION(S)

- i. To note the report

3. FINANCIAL IMPLICATIONS

The performance of the Fund over the long term can impact on the Fund's funding level and therefore the ability to meet its long term liabilities.

4. OTHER IMPLICATIONS

None

5. BACKGROUND/MAIN ISSUES

In line with the structural review of the Pension Fund, six specific areas have been identified which fully address the strategic management of the Fund;

- Investment
- Accounting
- Administration
- Technical
- Governance
- Employer Relations.

The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.

The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and recommendations. To support this report information bulletins covering the six strategic areas will also be available via the secure website and email.

Also available on the Pension Fund Website are all the Policy documents that govern the Pension Fund including its various strategies.

5.1 **INVESTMENT**

5.1.1 *Asset & Investment Manager Performance Report Investment Strategy Update Report*

Separate Reports, provided.

5.2 **ACCOUNTING**

5.2.1 *Aberdeen City Council Pension Fund (Known as North East Scotland Pension Fund) Annual Report & Accounts. Budget / Forecast Report*

Separate Reports, provided.

5.3 **ADMINISTRATION**

N/A

5.4 **TECHNICAL**

5.4.1 Appendix I Pensions Administration Strategy December 2015 Report.

5.5 **GOVERNANCE**

5.5.1 **Pension Fund Staff Restructure**

The restructure has now been completed (1 April), with all existing staff having been job matched and the recruitment process has commenced for the vacant posts.

Appendix II, Organizational Chart.

5.5.2 **External Auditors, New**

Verbal update to be provided

5.5.3 **Internal Audit**

Internal Audit, Investment Strategy & Investment Performance Management Report

Separate report, provided.

5.5.4 **Pensions Board**

Pensions Board Annual Report, Appendix III

5.5.5 **Scheme Advisory Board**

Appendix IV, SAB Bulletin March 2016

5.5.6 **Risk Register**

Appendix V, Updated Risk Register

5.6 **EMPLOYER RELATIONSHIP**

5.6.1 **Funding Update**

The Fund's next Actuarial Valuation is at March 2017 however due to market volatility, low gilt yields and concerns over the funding level including potential increased costs to employers the Fund is undertaking an interim valuation during 2016 following the year end reconciliation process.

This will position the Fund to deliver early engagement with all stakeholders leading into the March 2017 Valuation.

The results of this interim valuations and plans for stakeholder engagement will be provided at the next Committee meeting.

5.6.2 ***Request for Admitted Body Status.***

Separate Report, provided.

6. IMPACT

The Pension Committee has a fiduciary duty to monitor the Pension Fund Strategies across all areas and timelines to deliver a timely, accurate and compliant service to all stakeholders.

7. MANAGEMENT OF RISK

The Pension Fund regularly updates its Risk Register in line with change and is reported quarterly to the Pensions Committee.

8. BACKGROUND PAPERS

None

9. REPORT AUTHOR DETAILS

Laura Colliss
Pensions Manager
lcolliss@nespf.org.uk
01224 264158

Performance Reporting as at 31 March 2016

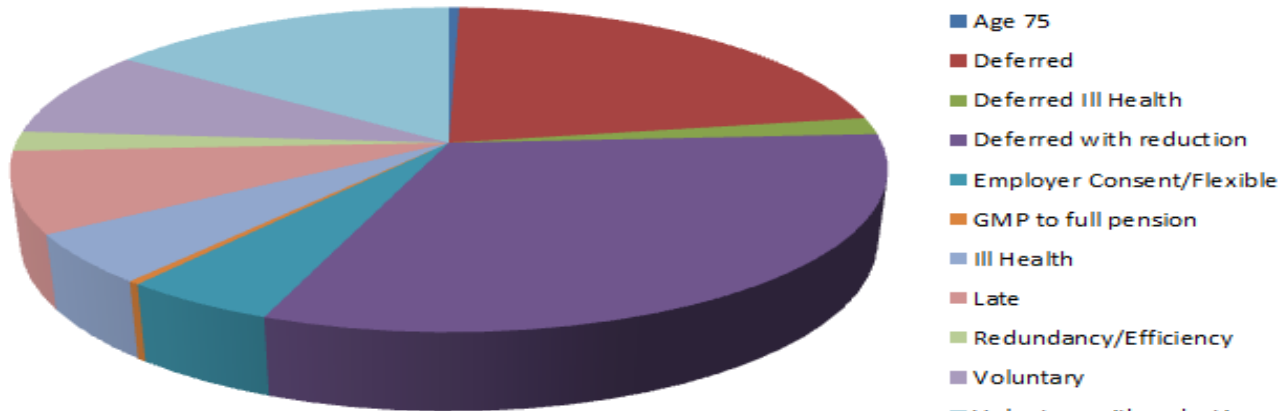
A Pension Administration Strategy was developed in accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008 and published in July 2013 following consultation with employers which specifies levels of service and performance measures for participating employers and the North East Scotland Pension Fund (NESPF). This report covers the period **1 April 2015 to 31 March 2016** and focuses on NESPF key performance measurements and the quantity and quality of electronic data received from employers and their new scheme requirements in respect of CARE pay and policy on discretions.

NESPF performance measurement	Target	Amount	Achieved	Percentage
Notification of death in service	5 days	37	29	78%
Notification of retirement estimate	10 days	1036	961	93%
Notification of retirement benefits	10 days	1279	1217	95%
Notification of deferred benefits	10 days	1381	1318	95%
Notification of refund	10 days	1044	1018	98%
Notification of transfer in value	10 days	120	105	88%
Notification of transfer out value	10 days	385	350	91%



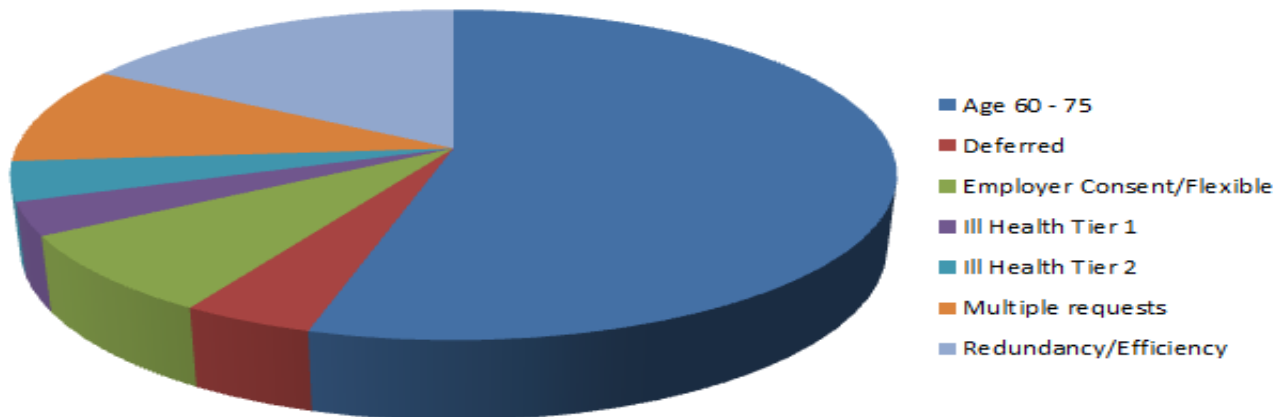
“NESPF performance shows five of the seven key measurements above 90% for 2015/16”

Retirement notifications



“New workflows developed by staff were introduced from the start of 2015/16”

Retirement estimates



“The new workflows allow us to monitor workload in the office and provide accurate reporting”

Electronic Data Quantity

NESPF provide 2 methods of communication for employers to securely submit electronic data as detailed in the Pensions Administration Strategy:

- Employer Services is available to all employers for starter, amendment and leaver interfacing
- I-Connect is available to large employers for event processing including starters, amendments, leavers, contributions, salaries and CARE pay

Employer Services interface updates during 2015/16

Starters	Amendments	Leavers
174	49	121

I-Connect event processing during 2015/16

Starters	Amendments	Leavers	Contributions	Salaries	CARE Pay
4355	33464	3416	260665	148677	231866

“Monthly file submissions from I-Connect improves the accuracy of member data held on the pensions administration system”

Total amount of electronic starter, amendments, leavers, contributions, salaries and CARE pay system updates processed during 2015/16

682,787

For more information on electronic data submission please contact Employer Relationship Team at employer@nespf.org.uk.

Electronic Data Quality

NESPF monitor the quality as well as the quantity of data provided by employers using Employer Services and I-Connect. Data is classed as being of high, medium or low quality depending on amount of events/interface updates successfully processed.

Employer	Submission	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Aberdeen City Council	I-Connect	M	H	H	H	H	H	H	H	H	H	H	L
Aberdeenshire Council	I-Connect				M	M	M	H	M	M	M	H	M
Bon Accord Care	I-Connect	H	H	M	H	H	H	H	H	H	H	H	L
Bon Accord Support	I-Connect	H	H	M	H	H	H	H	H	H	H	H	L
Grampian Valuation Joint Board	I-Connect	M	H	M	H	M	H	H	H	H	H	H	M
Greenspace	I-Connect	H											
Northern Commuity Justice Association	I-Connect				H	H	H	H	H	H	H	H	M
NESTRANS	I-Connect				H	H	H	H	H	H	H	H	M
Police Scotland	I-Connect	H	H	H	H	H	H	H	H	H	H	H	L
The Moray Council	I-Connect	H	H	H	H	H	H	H	H	H	H	H	M
The Robert Gordon University	I-Connect	H	H	H	H	H	H	H	H	H	H	H	H
Aberdeen Cyrenians	Emp Services	H		H			H	H	H	H	H	H	
Aberdeenshire Housing Partnership	Emp Services		H		H				H				H
Aberlour	Emp Services	H	H	H		H							H
Cairngorm Outdoor Access Trust	Emp Services	H						H			H		H
First Aberdeen	Emp Services	H			H								
Moray College	Emp Services	H	H	H	H	H	H	M	H		H	H	
North East Sensory Services	Emp Services						H	H			H		
North East Scotland College	Emp Services		M	H	H	H	M	H	H	H			H
Peterhead Port Authority	Emp Services												H
Scottish Water	Emp Services	H	H	H	H	H	H	H	H	H	H	H	H

“The majority of electronic data received throughout the year was of high quality although there were issues at year end which have been promptly resolved by employers providing additional submissions.”

New Scheme Requirement – CARE Pay

A significant new scheme requirement is for employers to provide NESPF with cumulative CARE pay. For those employers not using I-Connect the ALCARE spreadsheet can be used to provide cumulative CARE pay monthly or at year end - **NESPF preference is monthly so that any data issues can be identified and resolved well in advance of March 2016.**

Provision of CARE Pay monthly using ALCARE

Aberdeen International Youth Festival	Aberdeen Cyrenians	Aberlour Childcare Trust
Archway	Forth and Oban	Fraserburgh Harbour Commissioners
Gordon Rural Action	Inspire	Moray College
North East Sensory Services	Peterhead Port Authority	Robertsons Facilities Aberdeen City
Robertson Facilities Aberdeenshire	Sanctuary Housing	Scottish Water
Sport Aberdeen	Tenants First	

Provision of CARE Pay monthly using I-Connect

Aberdeen City Council	Aberdeenshire Council	Bon Accord Care
Bon Accord Support	Grampian Valuation Joint Board	NESTRANS
Northern Community Justice Association	Police Scotland	The Moray Council
The Robert Gordon University		

**Percentage of membership for whom we receive CARE pay monthly
through I-Connect and ALCARE as at 31 March 2016**

97%

“Receiving monthly CARE pay will be essential for delivering member benefit statements by 31 August 2016”

For more information on CARE pay provision please contact Employer Relationship Team at employer@nespf.org.uk.

New Scheme Requirement – Discretions Policy

A significant new scheme requirement is for employers to provide NESPF with a discretions policy.

Policy on Discretions received

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

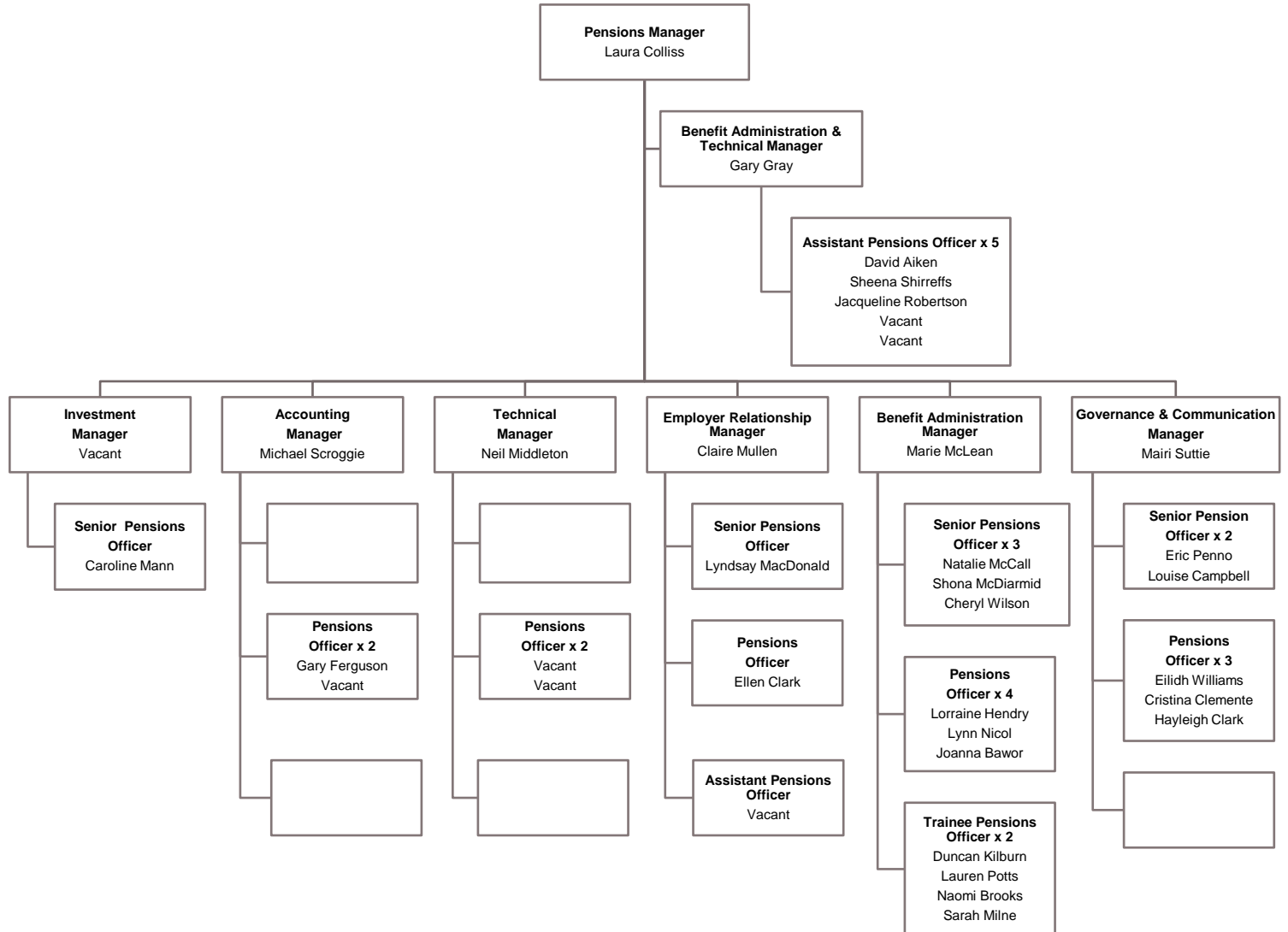
**Percentage of employers who have provided a policy on
discretions as at 31 March 2016**

80%

“Employers are required by law to provide NESPF with a policy on discretions”

For more information on discretions policy please contact Employer Relationship Team at employer@nespf.org.uk.

North East Scotland Pension Fund Structure 2016



This page is intentionally left blank

ABERDEEN CITY COUNCIL

COMMITTEE: PENSION BOARD
DATE: 13th MAY 2016
REPORT BY: HEAD OF FINANCE
TITLE OF REPORT: PENSION BOARD ANNUAL REPORT
REPORT NUMBER: PC/MAY16/PBAR

1. PURPOSE OF REPORT

In compliance with The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 this report will provide the Pension Board with an annual review of the Boards activity for the year 2015/16.

2. RECOMMENDATION(S)

It is recommended that the committee:

- i.) 5.2, Appoint Chair and Vice Chair
- ii.) 5.8, Approve the Constitution
- iii.) 5.9, Approve the Training Policy
- iv.) Note the remainder of the report.

3. FINANCIAL IMPLICATIONS

The financial implications are detailed in the report.

4. OTHER IMPLICATIONS

None

5. Pension Board Annual Report

5.1 Membership

The Pension Board was implemented as at 1 April 2015, with the following membership for 2015/16;

Mr. J Mulholland
Mr. R Henderson (left, October 2015)
Mr. A Walker
Mr. K Masson (Joined, February 2016)
Mr. D Briggs
Cllr J Cowe
Cllr W Howatson
Cllr L Ironside

5.2 Chairman

In compliance with The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 the chair of the Pension Board is rotated each year. Following the appointment of Mr. J Mulholland as the Union representative a member from the employer representative is required to be appointed as Chair of the Board for the year 2016/17.

5.3 Meetings and Attendance

2015/16	23 rd April	15 th June	4 th September	17 th December	11 March
Mr. J Mulholland	√	√	√	√	√
Mr. R Henderson (Oct 2015)	√	√			
Mr. A Walker	√	√	√	√	√
Mr. K Masson (Feb 2016)					√
Mr. D Briggs	√	√		√	
Cllr J Cowe	√	√		√	√
Cllr W Howatson			√		
Cllr L Ironside CBE	√	√	√		
Cllr Stuart (Sub)				√	

An additional meeting of the Pension Committee and Pension Board was held on the 18th January, with Mr. J Mulholland in attendance.

5.4 Meeting content

The Pension Board received the Pension Committee reporting pack for each meeting that included the following reports covering all areas of the Pension Fund, Investment, Accounting, Governance, Employer Relationship, Administration and Technical.

Asset & Investment Manager Performance
Budget & Projected spend
Investment Strategy Update
Strategy

Training
Statement of Accounting Plan
Risk Management
Staff Restructure
Corporate Governance
Discretions
Business Plan
New Admitted Body
Internal Audit
External Audit
Annual Report & Accounts
Actuarial Valuation

5.5 Training

The following training events took place during the period;

2015/16	20 th February	9 th October	10 th March
Mr. J Mulholland	√	√	√
Mr. R Henderson (Oct 2015)	√		
Mr. A Walker	√	√	
Mr. K Masson (Feb 2016)			√
Mr. D Briggs	√	√	
Cllr J Cowe	√		
Cllr W Howatson	√		√
Cllr L Ironside CBE	√		
Cllr Stuart (Sub)	√		
Ms. M Lawrence (Sub)	√	√	√

Training is an ongoing requirement and following the above further dates/opportunities will be identified including Fund Manager Presentations in September and Baillie Gifford training and investment seminar in October.

5.6 Expenditure

During the period 2015/16 the cost of administering the Pension Board was £954.59. This amount consists of travel expenditure and meeting costs.

5.7 The Pensions Regulator

The Pension Board confirms that no issues were reported to The Pensions Regulator during the year 2015/16.

5.8 Constitution

A copy of the Pension Board Constitution is provided in Appendix I, there have been no amendment to the constitution during the year.

5.9 Training Policy

A copy of the Pension Board Training Policy is provided in Appendix II, there have been no amendments to the Training Policy during the year.

6. IMPACT ON THE PENSION FUND

None

7. BACKGROUND PAPERS

None

8. REPORT AUTHOR DETAILS

Laura Colliss, Pensions Manager

lcolliss@nespf.org.uk

01224 264158

March 2016

BULLETIN

The Pensions Regulator

The Board received a presentation from staff of The Pensions Regulator at the February meeting. They set out the role of the regulator and the range of resources available for pension board members and others. They also outlined the findings of the regulator's recent survey of progress on governance and administration. Further information is available on their [website](#).

SAB Work Plan

The Deputy First Minister has approved the SAB work plan.

The first data collection exercise has been completed and a summary will be published in the Annual Report later this year. In the morning awareness session, the Board received a presentation from Dr Chris Sier on pension data, with a focus on transparency of investment costs. There are UK wide developments on this issue that the Board will follow with interest. The data will also feed into the Board's review of the structure of SLGPS funds.

The Board also noted developments in England and Wales on pooling of investments and the [recommendations](#) of the Scottish Parliament Local Government and Regeneration Committee inquiry on pension fund investments. While the committee was less attracted to the formal pooling arrangements in England and Wales, they did recommend that funds work collaboratively to identify infrastructure investment.

A related issue also highlighted by the Local Government Committee is fiduciary duty. The Board noted a legal opinion on this issue it had commissioned from Pinsent Masons. The Board will consider guidance to funds at its next meeting.

Cessation Valuations

The SPPA has conducted a data collection exercise in relation to existing and potential cessation valuations. This gives a broad indication of the extent of the risks. The Board agreed that there was enough information to proceed with guidance to funds and that will be drafted for consideration at the next meeting.

Review of Regulations

The Board welcomed the very speedy amendment to the regulations that will allow funds to increase investment in infrastructure. This is an interim solution and the Board remains committed to a more substantial review of the investment regulations that gives funds greater investment flexibility.

There will be further discussions through the Joint secretaries on early retirement and pensionable pay regulation proposals.

SAB Website

It was agreed that the Board will develop a website to improve communications with stakeholders.

This page is intentionally left blank

Pension Fund Risk Register Key Priorities 2016 -2017

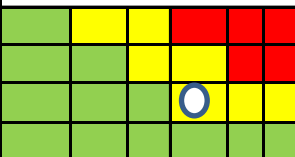
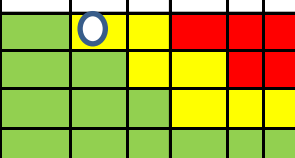
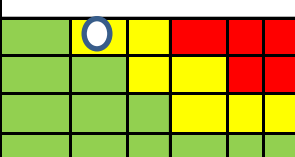
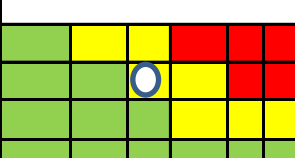
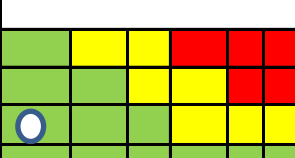
No	Category	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Matrix		Risk Score	Status/Work to be undertaken
1	Corproate	Lack of effective Risk Management	Failure to identify and respond to risks with the potential to impact on our ability to achieve our objectives	Pension Fund risk register reviewed and updated quarterly	Consequences		8	Ongoing
2	Corporate	Poor Governance	Failure to ensure the Fund has in place a sound organisational frameworks, identifies responsibilities, manages its systems and processes and support the Council's, culture and values	Fund has in place an annual review of its governance statement and supporting document ensuring they comply with both regulation and Council objectives	Consequences		6	New Governance Manager in place with effect from 1 April 2016
3	Corproate	Lack of Performance Measures	Failure to measure how successful we are at delivering the Pension Fund Business Plan priorities and achieving improved outcomes for our scheme members	Fund has in place both statutory and local PI's	Consequences		8	2016 -2017 To be reviewed and compared against other Funds to assess performance
4	Funding	Actuarial Valuation - impact of market volatility	Increase in employer contributions to meet unfunded position	Interim actuarial valuation to be undertaken	Consequences		6	Work to be undertaken ahead of formal 2017 valuation to ensure all records are compliant
5	Regulatory and Compliance	Full Implimentation of LGPS 2015	Failure to meet statutory deadline, Audit criticism, , reputational risk	Complete first year of CARE Scheme, with specific focus on issuing of member benefit statements	Consequences		8	Ongoing

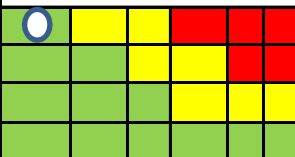
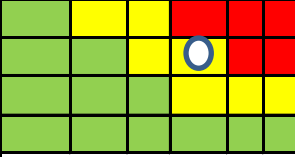
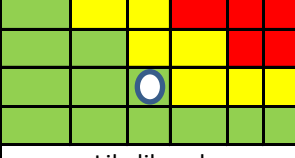
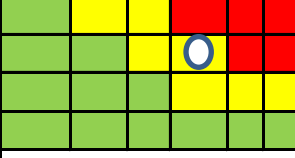
6	Regulatory and Compliance	Requirement to complete GMP Equalisation	Failure to ensure that future member benefits are calculated correctly. Audit criticism and financial loss to the Fund	Staff appointed to carry out calculations	Consequences	 Likelihood	6	Ongoing
7	Governance	Lack of change management to new Pension Fund structure	Failure to ensure that all staff receive, appropriate training. Financial loss through incorrect benefit calcs. Audit criticism. Failure to ensure right first time, every time	Training plans drawn up for all staff to be overseen by Governance Manager	Consequences	 Likelihood	6	To be implemented in line with new Pension Fund staff structure 2016
8	Governance	First Year review of workings of Pension Board and Pension Committee	Failure to ensure effective joint working of the Pension Board and Pension Committee, not compliant with Scheme Regs and Pension Regulator requirements	Review of Pension Committee and Board Agenda and meeting structure	Consequences	 Likelihood	6	Report to Committee by end Dec 2016
9	Investment	Implementation of 2015/16 investment strategy review	Failure to effectively management assets of the Fund. Potential increase in employer contributions. Audit criticism	New Investment Manager post created within Pension Section with responsibility for all Investment Matters	Consequences	 Likelihood	6	Post to be advertised summer 2016
10	Investment	New Global Custody Services	Failure to manage transition between old and new custodial arrangements. Financial loss through delay in service or errors in data	Project Plan and risk registered drafted. Regulator reporting to Pension Committee	Consequences	 Likelihood	8	Plan to be managed from 1 April 2016 to 31 March 2017

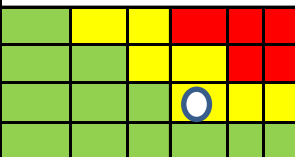
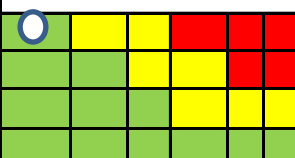
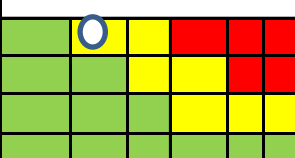
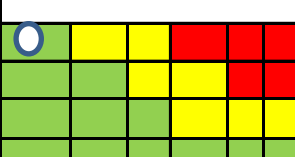
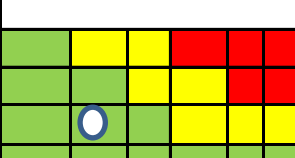
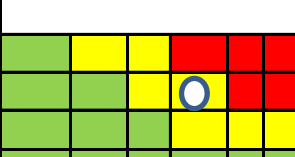
Pension Fund ongoing risk assessment in accordance with Pension Regulator Requirements

No	Category	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Matrix		Risk Score	Status/Work to be undertaken
1	Operational	Pension Administration system failure	Staff downtime, loss of service delivery	System is hosted externally with back-up in separate location	Consequences	 Likelihood	6	Annual confirmation to Pension Manager from Technical Manager of external service
2	Operational	Unable to access workplace	Staff downtime, loss of service delivery	Disaster recovery policy in place which is incorporated within CG overall policy	Consequences	 Likelihood	8	New Pension Fund Management team to be made fully aware fo disaster recovery plan
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	Consequences	 Likelihood	4	On going
4	Operational	Failure to maintain member records and comply with regulations	Incorrect pension payments, incorrect assessment of actuarial liabilities	All employers required to submit monthly data, which is checked	Consequences	 Likelihood	4	Monitoring of quality of data to be reported quarterly to the Pensions Managers
5	Operational	Failure to carry out effective member tracing	Incorrect pension payments, incorrect assessment of actuarial liabilities	Tracing service in place –	Consequences	 Likelihood	6	Review of tracing service to be undertaken
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	Consequences	 Likelihood	6	Spot checks of work undertaken to be completed by the Member of Managerment Team

						Likelihood		quarterly
7	Operational	Failure to recruit and develop staff	Reduction in service delivery, poor operation of risk management controls	On-going review of staffing requirements and training. Benefit officers required to complete specific pensions exams	Consequences		12	Posts to be advertised summer 2016
						Likelihood		
8	Funding	Fund's investments fail to deliver returns in line with anticipated returns required to meet the valuation of the long term liabilities	Increase in employer contributions	Quarterly assessment of investment performance of fund, triennial actuarial valuation and quarterly funding updates reported to pensions committee. Triennial investment strategy review.	Consequences		12	New reporting to be introduced by the Governance Manager for Pensions Manager and Head of Finance
						Likelihood		
0	Funding	Fall in bond yields, leading to risk in value placed on liabilities	Increase in employer contributions	Quarterly funding updates prepared by the Scheme actuary reported to Pensions Committee	Consequences		12	Compliance reporting on bonds to be introduced as part of new custody package
						Likelihood		
10	Funding-	Pay and price inflation valuation assumptions either higher or lower	Increase in employer contributions	Quarterly funding updates reported to Pensions Committee	Consequences		6	Information to be provided under new custody package
						Likelihood		
11	Funding	Longevity issues	Increase in employer contributions	Actuarial assessment every three years undertake scheme specific analysis	Consequences		6	Strategy review to consider matching liabilities
						Likelihood		
12	Funding	Employers leaving scheme/closing to new members due to cost	Residual liabilities could fall to other scheme employers	Monitor scheme employer – seek guarantors for smaller employers	Consequences		12	On going
						Likelihood		

13	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 Relationship Team	Consequences  Likelihood	8	On going
14	Funding	Delay in funding investment managers	Loss of investment return and impact on employer contribution rates	Control of payment timetable of payments made to investment managers as detailed in cash manual. Reported quarterly to Pensions Committee	Consequences  Likelihood	8	New Investment Manager appointment with effect from summer 2016
15	Financial	Failure of world stock markets	Increase in employer contribution rates	Diversification of scheme assets, investment strategy review following outcome of triennial valuation	Consequences  Likelihood	8	Implimentation of 2016 strategy review
16	Financial	Early retirement strategies by scheme employers	Pressure on cash flow	On-going discussions with scheme employers of Funding issues. Documentation in place	Consequences  Likelihood	9	On going
17	Financial	Negligence, 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	Consequences  Likelihood	2	New Investment Manager appointment with effect from summer 2016

18	Financial	Failure of Global Custodian	Loss of investments or control of investment	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	Consequences	 Likelihood	4	New Investment Manager appointment with effect from summer 2016
20	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	Consequences	 Likelihood	12	New Investment Manager appointment with effect from summer 2016
21	Financial	Failure of internal control of fund suppliers	Audit criticism, legal challenge, reputational risk	Sign off by a senior officer for all purchases of goods, monitoring of supplier costs. Introduction of reporting to Pensions Committee	Consequences	 Likelihood	6	New Governance Manager to review fund suppliers
22	Regulatory and Compliance	Failure to comply with LGPS Regulations, Pensions Act, HMRC and other overriding regulations	Audit criticism, legal challenge, reputational risk, financial loss/financial penalties	Six monthly review of compliance with regulations and report to Pensions Committee	Consequences	 Likelihood	12	New Governance Manager to ensure compliance reporting

23	Governance	Potential risks and conflicts of interest between ACC and NESPF	Audit criticism, legal challenge, reputational risk	Regular discussions between Head of Finance and Pensions Managers, areas of risk and conflict reported to Pensions Committee	Consequences  Likelihood	8	On going
24	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.	Consequences  Likelihood	4	On going
25	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	Consequences  Likelihood	8	New governance manager to oversee FOI
26	Governance	Failure to meet annual audit deadlines	Audit criticism, legal challenge, reputational risk	Pensions Manager responsible for all internal and external audit requirements	Consequences  Likelihood	4	New governance manager to oversee annual account delivery
27	Governance	Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputational risk	Annual review of AVC arrangement carried out by scheme actuary	Consequences  Likelihood	4	New Investment Manager appointment with effect from summer 2016
28	Governance	Failure to monitor employer covenants	Residual liabilities could fall to other scheme employers	On-going discussions with scheme employer of funding issues	Consequences  Likelihood	12	Employer Relationship Manager to put in place review mechanism

This page is intentionally left blank

ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	24 th JUNE 2016
HEAD OF FINANCE:	STEVEN WHYTE
TITLE OF REPORT:	REQUEST FOR ADMITTED BODY STATUS
REPORT NUMBER:	PEN/JUN16/ADB

1. PURPOSE OF REPORT

To consider an application from Visit Aberdeenshire 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 Visit Aberdeenshire to participate in the Local Government Pension Scheme administered by Aberdeen City Council to enable them to meet the requirements of the TUPE transfer of one member of staff from Aberdeenshire Council.

3. FINANCIAL IMPLICATIONS

There is no financial impact for the Pension Fund with regard to granting admitted body status to Visit Aberdeenshire. Aberdeenshire Council has agreed to meet all costs of admission.

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 Visit Aberdeenshire request for admission

- 6.2.1 From the 1st July 2016 Aberdeenshire Council will transfer one member of staff to Visit Aberdeenshire under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE).

The regulations require that Visit Aberdeenshire provide pension benefits of an equal or greater value for the transferring member. They have requested to become an admission body within the NESPF to allow them to achieve this.

A copy of the letter from Visit Aberdeenshire seeking admission to the fund with effect from 1st July 2016 is attached at Appendix III.

- 6.2.2 Admission to the scheme by Visit Aberdeenshire will be on a closed basis allowing admission to only the employee protected under TUPE.
- 6.2.3 Aberdeenshire 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. This is in accordance with Local Government Pension Scheme (Scotland) Regulations 2015, Regulation 62(3) – Appendix II.
- 6.2.4 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 the employee transferring have been supplied to the scheme actuary who will calculate the employer contribution rate requirement for the new admission.
- 6.3.2 The employer contribution rate will be subject to review at the 2017 actuarial valuation.
- 6.3.3 Brodie's LLP have been requested to draft the admission agreement.

7. AUTHORISED SIGNATURE

Steven Whyte, Head of Finance
SWhyte@aberdeencity.gov.uk
01224 523566

8. REPORT AUTHOR DETAILS

Claire Mullen, Employer Relationship Team, NESPF
cmullen@nespf.org.uk
01224 264166

9. BACKGROUND PAPERS

LGPS (Scotland) Regulations, Schedule 2, Part 2 (Appendix I)
LGPS (Scotland) Regulations, Regulation 62 (Appendix II)
Letter from Visit Aberdeenshire (Appendix III)

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 existing employer” for the purposes of this regulation and is liable to pay an exit payment.

(2) When a person becomes an existing 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 existing 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 existing 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 existing 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).

This page is intentionally left blank



Visit**Aberdeenshire**

North East Scotland Pension Fund
Corporate Governance
Business Hub 16
3rd Floor West
Marischal College
Broad Street
Aberdeen
AB10 1AB
FAO Claire Mullen

Re: Admission to the North East Scotland Pension Fund

Dear Claire,

Please accept this letter as a formal request for admission to the North East Scotland Pension Fund effective 1st of July 2016.

Kind regards

Steve Harris

This page is intentionally left blank

ABERDEEN CITY COUNCIL

COMMITTEE: PENSIONS COMMITTEE

DATE: 24th JUNE 2016

REPORT BY: HEAD OF FINANCE

TITLE OF REPORT: TRAINING

REPORT NUMBER: PC/JUN16/TRA

1. PURPOSE OF REPORT

To provide details of the training plan (2016/17) for the Pensions Committee and Pensions Board of the North East Scotland Pension Fund.

2. RECOMMENDATION(S)

It is recommended that the committee:

i.) To Note the Report

3. FINANCIAL IMPLICATIONS

The financial implications are detailed in the report.

4. OTHER IMPLICATIONS

None

5. Training

As stated within the Training Policy (Appendix I and II) there is a requirement under The Pensions Regulator and CIPFA/Myners Guidance that there is a certain level of knowledge and understanding that if required to sit on Local Government Pension Scheme committees and boards.

The degree of knowledge and understanding required is that appropriate for the purpose, of enabling the individual to properly exercise the functions of a member of the pension Committee and Pensions Board.

The Pensions Regulator Tool Kit,
<http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx>

5.1 Delivery and Content

5.1.1 Officers propose to deliver training over two set periods during 2016/17, together with any Industry externally delivered training when available.

1st/2nd September 2016 will include presentations from the Fund's Fund Managers which currently include, State Street Global Advisors, Baillie Gifford, Blackrock, Baring, Invesco and Aberdeen Property Investors. The Pension Fund Manager will provide an overview of the Fund's Alternative investment program.

The manager presentations will discuss their investing process, how they manage money for their clients, looking forward and how they are going to continue to deliver the Pension Fund's Strategy while providing an update on their business and any industry and economic insight.

The second period of training will be provided to co-inside with the March 2017 committee, agenda to be discussed and confirmed nearer the time.

5.1.2 External Training Opportunities

Further to the above there are also the following external training opportunities available which some members have already taken up.

Scottish Funds Investment Governance Group

Edinburgh, date and agenda TBA (September)

Baillie Gifford Local Authority Conference

Edinburgh, 5th/6th October

LGC Investment Seminar Scotland

Edinburgh, 27th/28th October

5.1.3 **Pension Committee and Training attendance**

2015/16	15 th June	4 th September	17 th December	18 th January	11 th March
Cllr Crockett (Convener)	√	√	√	√	√
Cllr Reynolds (V Convener)		√	√	√	√
Cllr Noble	√	√	√		√
Cllr Malone		√	√		√
Cllr Donnelly	√	√	√	√	
Cllr Kiddie	√	√			
Cllr Laing			N/A	N/A	N/A

Cllr Malik	N/A	N/A		√	√
Cllr Young	√	√	√	√	
Cllr MacGregor	√	√	√	√	√

Training

2015/16	9 th October	10 th March
Cllr Crockett (Convener)		√
Cllr Reynolds (V Convener)		
Cllr Noble	√	√
Cllr Malone		√
Cllr Donnelly		
Cllr Kiddie		
Cllr Laing		
Cllr Malik		√ (AM)
Cllr Young		
Cllr MacGregor	√	√

Cllr Laing left the committee in October 2015, with Cllr Malik joining during the same period.

6. IMPACT ON THE PENSION FUND

Not providing sufficient training the Pension Fund would be in breach of The Pension Regulator guidance on Training.

7. BACKGROUND PAPERS

Training Policy, Appendix I & II

8. REPORT AUTHOR DETAILS

Laura Colliss, Pension Fund Manager

lcolliss@nespf.org.uk

01224 264158

This page is intentionally left blank

TRAINING POLICY

1. Introduction

- 1.1 This policy statement details the training agenda for members of the Pensions Committee has been drawn up to meet their needs in relation to training.
- 1.2 In addition to the Training Policy both the Convener and the Vice Convener of the Pensions Committee have been provided with description of their roles and provides further details of training requirements. Appendix I provides a description of both roles.

2. Training Programme

- 2.1 Training is provided to members of the Pensions Committee in respect of the following:

2.1.1 Scheme Governance

- LGPS - Status and Legal Framework
- Role of Elected Members
- Advisors and their Role
- Actuarial Valuation and Funding Strategy Statement
- Statement of Investment Principles
- Myners Principles

2.1.2 Investment Strategy

- Asset Classes
- Risk
- Investment Structure
- Investment Management and Performance Monitoring

2.1.3 Support Services

- Custody Services
- Service Organisation
- Role of the Head of Finance
- Role of the Pensions Manager and Pensions Section

3. Scheme Documentation

- 3.1 On joining the Pensions Committee, a new member will received the following documentation:
 - Copy of the guide to the Local Government Pension Scheme (LGPS)
 - Actuarial Valuation and Funding Strategy Statement

- Copy of the Governance Statement
- Copy of the LGPS Scheme Regulations
- Copy of the Fund's compliance with the Myners Principles
- Copy of the Statement of Investment Principles

4. Training Agenda

4.1 Training is ongoing for elected members, however it would normally consist of the following:

- it is expected that each Committee member receives at least 2 days of training each year
- all members are invited to attend training courses suitable for their needs
- members are invited to attend employer and scheme member events hosted by the Pension Fund
- members will be given the opportunity to attend Seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and NAPF conferences, these provide a general appreciation of the pension industry
- on-line training
- members will be given the opportunity to attend seminars and training events offered by the Fund's investment managers and advisors
- in addition fund officers are available to answer any queries from Committee members.
- use of the member secure area of the Pension Fund website www.nespf.org.uk

4.2 In line with the CIPFA guidance 'Trustee Knowledge and Skills Framework', Appendix II outlines a framework for the degree of knowledge and skill expected of the member. A copy of the full CIPFA guide can be found on the member secure area of the Pension Fund website at www.nespf.org.uk

5. Review arrangements

5.1 A report will be presented to the Committee on an annual basis detailing:

- training provided in the previous year
- those elected members who attended the various training sessions
- seminars and conferences held in the previous year
- which seminars and conferences were attended by elected members and by which members

6. Reimbursement of Expenses

6.1 All training costs are met directly by the Pension Fund.

Convener of the Pensions Committee

Strategy and operations of the Pension Fund; the proper administration of the Pension Scheme by the administering authority; the performance of the Fund, its advisors and agents; and the proper governance of the Committee and the Fund.

PRINCIPAL RESPONSIBILITIES

1. Convener of the Pension Committee to determine, after taking the advice of the Head of Finance and other advisors:
 - a) The investment strategy of the Fund or Funds for which the Pension Committee is responsible
 - b) The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
 - c) The appointment of investment and actuarial advisors and other third party services
 - d) The Governance Framework
 - e) The communication strategy of the Fund or Funds
2. And to monitor:
 - a) The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
 - b) The costs of running the Pension Fund and Scheme
 - c) Comments and feedback from stakeholders
3. And to approve:
 - the annual report and accounts of the Fund(s)
 - Audit reports on the performance of the Pension Fund Service
 - Statements on Investment Principles, Governance, Administration and Communication
 - The Risk Register and an annual risk analysis
 - The medium term business plan and annual updates
 - Training and development plans and updates
 - Discretions given by statute and regulation to the Pension Committee in relation to benefits under the LGPS
4. Work with the Head of Finance and other officers and advisors to plan an effective work programme for the Pension Committee
5. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms

6. Receive regular briefings from the Head of Finance and other advisors in order to understand the context and import of forthcoming issues

PERSONAL SPECIFICATION

Requirement	Essential	Desirable
1. Educational	Appropriate financial experience and training. Knowledge of pension funds and schemes.	Demonstrable evidence of knowledge kept up to date.
2. Work Experience	Political awareness in numerous political environments. Chairing high level partnership meetings achieving effective outcomes. Operated for 5 years at a senior level. Experience of risk and performance frameworks.	Previously chaired a pension committee or similar.
3. Abilities, Intelligence & Special Aptitudes	Chairing skills. Influencing and consensus building. Listening skills. Able to assimilate complex information.	Mathematical/statistical literacy. Knowledge of public sector and local government finance.
4. Adjustment & Social Skills	Ability to establish good working relationships with councillors, officers and advisors. Able to direct discussions in politically sensitive environments. Able to command respect and demonstrate strong leadership.	Diplomacy and tact.

Requirement	Essential	Desirable
	<p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have different levels of experience and understanding.</p>	
5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the Pension Scheme and Fund(s).</p>	
6. Equal Opportunities	<p>Understanding and commitment to promoting equality of opportunity with an understanding of the pension context.</p>	

The vice convener of the Pension Committee will also receive a copy of this guidance

Compliance with the Job Description

1. Pensions Legislative and Governance context

1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.

1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS Governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework Delivering Good Governance in Local Government).

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the dedicated 'trustee' area of the Pension Fund website. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Conveners must commit to attending a minimum of two UK wide pension conferences per annum. Recommended is the NAPF Local Authority Conference held annual in May which covers all aspects of the LGPS and the Local Authority Investment Seminar held in the autumn giving a focus on investment management. Other events may arise during the year that would be of value to the Convener/Vice Convener of the Pension Committee will be brought to the attention of members by officers.

The Convener/Vice Convener should as a minimum receive a monthly update from officers covering:

- ***Scheme Valuation***
- ***Administration Matters which are ongoing***
- ***Investment Matters ongoing***
- ***Pensions Market issues***
- ***Communication with employers and scheme members***

Where appropriate this report should be accompanied by a meeting with Fund officers.

2. Pensions accounting and auditing standards

2.1 The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime at all levels within the finance structure in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.

Officers report annually to the Pension Committee on the scheme annual accounts. From 2011 the scheme accounts and audit have been separated out from the administering authority Financial Statement. The scheme auditor reports directly to the Pension Committee on the scheme accounts.

3. Investment performance and risk management

3.1 In the Local Government Pension Scheme and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which Funds can test their current skills and competencies.

All investment performance and risk management is reported by the Fund custodian. Regular training sessions are given to all Committee members on understanding investment performance and risk reporting. Understanding investment performance and risk are key functions of the Convener and Vice Convener of the Pension Committee,

4. Financial markets and product knowledge

4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the fund (The investment activities of LGPS funds for example can be split into two groups - those funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers).

The time given during the quarterly meetings of the Pension Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Conveners, but all 'trustees' through attendance at least one investment conference per annum. There is a wide selection of national conferences such as the NAPF or the Local Authority Pension Fund Seminar held annually at Celtic Manor, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that make impact on the companies in which we invest. A list of forthcoming conferences is reported quarterly meeting to the Pension Committee.

5. Actuarial methods, standards and practices

5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the work of the actuary and the way

in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

The triennial valuation and funding strategy statement are two key documents in the governance of the scheme. A copy of both documents can be found on the secure 'trustee' area of the Pension Fund website. Through regular meetings with the scheme actuary (at least twice a year) the Convener/Vice Convener, will build up an understanding of the actuarial process and role and influence that key stakeholders such as the Convener and Vice Conveners have in the process. Discussions held with other LGPS 'trustees' on an ongoing basis will enhance this process.

Knowledge and Skills Framework

This framework identifies the level of knowledge required by members to ensure that they can carry out effective decision making in respect of the Fund.

Level of knowledge required

1 – In depth, 2 – Understanding, 3 – Conversant

CIPFA Knowledge and Skills	Knowledge Requirement	
	Pension Committee	Pension Board
Pension legislative and governance context <ul style="list-style-type: none"> • General and Scheme Pension Legislation • Scheme Governance • Pension regulators and advisors • Legislative framework • Risk 	2	2
Pension accounting and auditing standards <ul style="list-style-type: none"> • Audit and accounting regulations and requirement 	2	2
Financial services procurement and relationship management <ul style="list-style-type: none"> • Understanding public procurement • Supplier risk management 	2	3
Investment Governance <ul style="list-style-type: none"> • Investment Strategy • Financial Markets 	2	2
Investment performance and risk management <ul style="list-style-type: none"> • Fund performance • Performance of advisors • Performance of the committee • Performance of support services and advisors 	2	3
Actuarial methods, standards and practices <ul style="list-style-type: none"> • Valuations • Outsourcing 	2	3

This page is intentionally left blank

PENSIONS BOARD TRAINING POLICY	
1.	Introduction
1.1	This policy statement details the training agenda for members of the Pensions Board and has been drawn up to meet their needs in relation to training.
1.2	In addition to the Training Policy for Board members, Board members will have access to all training provided to members of the Pensions Panel and the JIAC.
2.	Knowledge and understanding required by pension board members
2.1	<p>A member of the pension board of a public service pension scheme must be conversant with:</p> <ul style="list-style-type: none"> a. the rules of the scheme, and b. any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme. <p>A member of a pension board must have knowledge and understanding of:</p> <ul style="list-style-type: none"> a. the law relating to pensions, and b. any other matters which are prescribed in regulations. <p><i>The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the pension board.</i></p>
3.	Training Programme
3.1	Training is provided to both members of the Pensions Board in respect of the following:
3.1.1	<p>Scheme Governance</p> <ul style="list-style-type: none"> • LGPS - Status and Legal Framework • LGPS Regulations • Roles of Pensions Board, Pensions Committee, JIAC and Scheme Manager • Advisors and their Role • Actuarial Valuation and Funding Strategy Statement • Statement of Investment Principles • Myners Principles • Risk Management

3.1.2	Investment Strategy <ul style="list-style-type: none"> • Asset Classes • Risk • Investment Structure • Investment Management and Performance Monitoring
3.1.3	Support Services <ul style="list-style-type: none"> • Custody Services • Service Providers • Role of the Head of Finance • Role of the Pensions Manager and Pensions Section
4.	Scheme Documentation
4.1	<p>On joining the Pensions Board, a new member will received the following documentation:</p> <ul style="list-style-type: none"> • Copy of the guide to the Local Government Pension Scheme (LGPS) • Copy of the most recent Annual Report • Copy of the most recent Actuarial Valuation and Funding Strategy Statement • Copy of the Governance Statement • Copy of the Fund's compliance with the Myners Principles • Copy of the Statement of Investment Principles <p>All remaining scheme documentation will be available to Board members via the Pensions Fund website at www.nespf.org.uk</p>
5.	Training Agenda
5.1	<p>Training is ongoing for members, however it would normally consist of some/all of following:</p> <ul style="list-style-type: none"> • it is expected that each Board member receives at least 2 days full training each year • all members are invited to attend training courses suitable for their needs • members are invited to attend employer and scheme member events hosted by the Pension Fund • members will be given the opportunity to attend Seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and NAPF conferences, these provide a general appreciation of the pension industry • on-line training provided by the Pensions Regulator • members will be given the opportunity to attend seminars and training events offered by the Fund's investment managers and advisors

	<ul style="list-style-type: none"> • in addition fund officers are available to answer any queries from Board members • use of the member secure area of the Pension Fund website www.nespf.org.uk
6.	Review arrangements
6.1	<p>A report will be presented to the Pensions Board on an annual basis detailing:</p> <ul style="list-style-type: none"> • training provided in the previous year • those members who attended the various training sessions • seminars and conferences held in the previous year • which seminars and conferences were attended by members and by which members
6.2	Board Members will carry out a personal training needs analysis on an annual basis to assess their overall level of 'Knowledge and Understanding;
6.3	The Pension Board will review the Training policy annually.
7.	Reimbursement of Expenses
7.1	All training costs are met directly by the Pension Fund.

Convener of the Pensions Panel and Joint Investment Advisory Committee (JIAC)

PURPOSE OF ROLE

Strategy and operations of the Pension Fund; the proper administration of the Pension Scheme by the administering authority; the performance of the Fund, its advisors and agents; and the proper governance of the Committee and the Fund.

PRINCIPAL RESPONSIBILITIES

1. Convener of the Pensions Panel/JIAC to determine, after taking the advice of the Head of Finance and other advisor:
 - a) The investment strategy of the Fund or Funds for which the Panel is responsible
 - b) The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
 - c) The appointment of investment and actuarial advisors and other third party services
 - d) The Governance Framework
 - e) The communication strategy of the Fund or Funds
2. And to monitor:
 - a) The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Panel itself
 - b) The costs of running the Pension Fund and Scheme
 - c) Comments and feedback from stakeholders
3. And to approve:
 - the annual report and accounts of the Fund(s)
 - Audit reports on the performance of the Pension Fund Service
 - Statements on Investment Principles, Governance, Administration and Communication
 - The Risk Register and an annual risk analysis
 - The medium term business plan and annual updates
 - Training and development plans and updates
 - Discretions given by statute and regulation to the Panel in relation to benefits under the LGPS
4. Work with the Head of Finance and other officers and advisors to plan an effective work programme for the Panel/JIAC

6. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms
7. Receive regular briefings from the Head of Finance and other advisors in order to understand the context and import of forthcoming issues
8. Chair the JIAC, with the responsibility of considering the major investment issues in order to plan future Committee agendas, and monitoring investments between Committee meetings

PERSONAL SPECIFICATION

Requirement	Essential	Desirable
1. Educational	Appropriate financial experience and training. Knowledge of pension funds and schemes.	Demonstrable evidence of knowledge kept up to date.
2. Work Experience	Political awareness in numerous political environments. Chairing high level partnership meetings achieving effective outcomes. Operated for 5 years at a senior level. Experience of risk and performance frameworks.	Previously chaired a pension committee or similar.
3. Abilities, Intelligence & Special Aptitudes	Chairing skills. Influencing and consensus building. Listening skills. Able to assimilate complex information.	Mathematical/statistical literacy. Knowledge of public sector and local government finance.
4. Adjustment & Social Skills	Ability to establish good working relationships with councillors, officers and advisors.	Diplomacy and tact.

Requirement	Essential	Desirable
	<p>Able to direct discussions in politically sensitive environments.</p> <p>Able to command respect and demonstrate strong leadership.</p> <p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have different levels of experience and understanding.</p>	
5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the Pension Scheme and Fund(s).</p>	
6. Equal Opportunities	<p>Understanding and commitment to promoting equality of opportunity with an understanding of the pension context.</p>	

The vice – convener of the Pensions Panel and Joint Investment Advisory Committee to also receive copies of this guidance.

Compliance with the Job Description

1. Pensions Legislative and Governance context

1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.

1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS Governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework Delivering Good Governance in Local Government).

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the dedicated 'trustee' area of the Pension Fund website. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Conveners must commit to attending a minimum of two UK wide pension conferences per annum. Recommended is the NAPF Local Authority Conference held annual in May which covers all aspects of the LGPS and the Local Authority Investment Seminar held in the autumn giving a focus on investment management. Other events may arise during the year that would be of value to the Convener/Vice Convener of the Pensions Panel and JIAC and will be brought to the attention of members by officers.

The Convener/Vice Conveners should as a minimum receive a monthly update from officers covering:

- ***Scheme Valuation***
- ***Administration Matters which are ongoing***
- ***Investment Matters ongoing***
- ***Pensions Market issues***
- ***Communication with employers and scheme members***

Where appropriate this report should be accompanied by a meeting with Fund officers.

2. Pensions accounting and auditing standards

2.1 The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime at all levels within the finance structure in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.

Officers report annually to the Pensions Panel and the JIAC on the scheme annual accounts. From 2011 the scheme accounts and audit have been separated out from the administering authority Financial Statement. The scheme auditor reports directly to the Pensions Panel on the scheme accounts. A report on the scope of the annual audit will be sent to members of the JIAC and Vice Convener of the JIAC for information.

3. Investment performance and risk management

3.1 In the Local Government Pension Scheme and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which Funds can test their current skills and competencies.

All investment performance and risk management is reported by the Fund custodian. Regular training sessions are given to all 'trustees' of the JIAC on understanding investment performance and risk reporting.. Understanding investment performance and risk are key functions of the Convener and Vice Convener 's of the Pension Panel and JIAC,

4. Financial markets and product knowledge

4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the fund (The investment activities of LGPS funds for example can be split into two groups - those funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers).

The time given during the quarterly meetings of the Pensions Panel and JIAC to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Conveners, but all 'trustees' through attendance at least one investment conference per annum. There is a wide selection of national conferences such as the NAPF or the Local Authority Pension Fund Seminar held annually at Celtic Manor, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that make impact on the companies in which we invest. A list of forthcoming conferences is reported quarterly meeting to the Pensions Panel.

5. Actuarial methods, standards and practices

5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be

able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

The triennial valuation and funding strategy statement are two key documents in the governance of the scheme. A copy of both documents can be found on the secure 'trustee' area of the Pension Fund website. Through regular meetings with the scheme actuary (at least twice a year) the Convener/Vice Convener, will build up an understanding of the actuarial process and role and influence that key stakeholders such as the Convener and Vice Conveners have in the process. Discussions held with other LGPS 'trustees' on an ongoing basis will enhance this process.

Knowledge and Skills Framework

This framework identifies the level of knowledge required by members to ensure that they can carry out effective decision making in respect of the Fund.

Level of knowledge required

1 – In depth, 2 – Understanding, 3 – Awareness

CIPFA Knowledge and Skills	Knowledge Requirement	
	Pensions Panel	JIAC
Pensions legislative and governance context <ul style="list-style-type: none"> • General and Scheme Pensions Legislation • Scheme Governance • Pension regulators and advisors • Legislative framework • Risk 	2	3
Pensions accounting and auditing standards <ul style="list-style-type: none"> • Audit and accounting regulations and requirement 	2	3
Financial services procurement and relationship management <ul style="list-style-type: none"> • Understanding public procurement • Supplier risk management 	2	3
Investment Governance <ul style="list-style-type: none"> • Investment Strategy • Financial Markets 	2	2
Investment performance and risk management <ul style="list-style-type: none"> • Fund performance • Performance of advisors • Performance of the committee • Performance of support services and advisors 	2	2
Actuarial methods, standards and practices <ul style="list-style-type: none"> • Valuations • Outsourcing 	2	2

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	24 th JUNE 2016
REPORTED BY	HEAD OF FINANCE
TITLE OF REPORT	BUDGET / FORECAST & ACTUAL SPEND 2015/16 BUDGET / FORECAST 2016/17
REPORT NUMBER	PC/JUN16/BUD

1. **PURPOSE OF REPORT**

- 1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget or Forecast and Actual Spend 2015/16 for the North East Scotland Pension Fund (NESPF) and a proposed Budget or Forecast for 2016/17.

2. **RECOMMENDATIONS**

- 2.1 It is recommended that the Pensions Committee:
- Notes the update on the NESPF Management Expenses Budget / Forecast and Actual Spend for 2015/16;
 - Approves the indicative NESPF Management Expenses Budget / Forecast 2016/17.

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 BUDGET / FORECAST AND ACTUAL SPEND 2015/16 BUDGET / FORECAST 2016/17 (APPENDIX I)

- 5.1.1 Administrative Expenses – all staff costs of the pension administration team are charged direct to the fund quarterly. Associated management, accommodation and other overheads are apportioned to this activity and charged annually as expenses to the Fund.
- 5.1.2 Oversight and Governance Expenses – all staff costs associated with governance and oversight are charged direct to the fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.
- 5.1.3 An overspend of Staff Costs (Administrative and Investments) arose during 2015-16. Some of these costs were as a result of increments, the delayed implementation of the staff restructure, e.g. increased costs for higher graded duties. In addition, to prepare for the new staffing structure, a redundancy cost was paid.
- 5.1.4 The new staffing structure was implemented from 1 April 2016.
- 5.1.5 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. Fund Managers charge their fees quarterly in arrears. In addition, the fund has negotiated performance related fees with a number of its investment managers and the forecast is based upon last year's actuals. If applicable, performance fees are charged annually at the year end. The unpredictability of market forces for these elements makes forecasting extremely difficult with any degree of accuracy.

The fees are high due to the change in the accounting code of practice that 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. Transaction costs, other investment expenses (e.g. Investment litigation) and direct property expenditure are now included within the Investment Management Expenses heading.

- 5.1.6 The Budget or Forecast is based upon last year actual spend plus 1%.

5.2 GOVERNANCE

- 5.2.1 The Pension Fund projected 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 Budget or 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
Accounting Manager
mscroggie@nespf.org.uk
01224 264178

This page is intentionally left blank

**Appendix I - BUDGET / FORECAST AND ACTUAL SPEND 2015/16
BUDGET / FORECAST 2016/17**

The Budget and Actual Spend 2015/16 and Budget 2016/17 for NESPF Administration Expenses are shown below:

	Notes	Full Year Budget 2015/16	Actual Spend 2015/16	Over or (Under) 2015/16	Budget 2016/17
		£'000	£'000	£'000	£'000
Administrative Staff Costs	1	865	965	100	975
Support Services Inc IT	2	555	545	(10)	550
Printing & Publications	3	41	32	(9)	32
Administration Expenses Total		1,461	1,542	81	1,557

Note:

1. Overspend mainly arising from Redundancy, Increments and Acting Up Allowances (delayed re-structure)
2. Actual Spend £545k is broadly neutral when compared to last year actual £523k, i.e. 4% Variance
3. Greater use of in-house scanning facilities helped reduce costs.

Appendix A - BUDGET / FORECAST AND ACTUAL SPEND 2015/16
BUDGET / FORECAST 2016/17 (continued)

The Budget and Actual Spend 2015/16 and Budget 2016/17 for NESPF Oversight & Governance Expenses are shown below:

	Notes	Full Year Budget 2015/16	Actual Spend 2015/16	Over or (Under) 2015/16	Budget 2016/17
		£'000	£'000	£'000	£'000
Investment Staff Costs	1	113	101	(12)	102
Pension Fund Committee	2	18	4	(14)	4
Pension Board	3	18	1	(17)	1
External Audit Fee	4	39	45	6	45
Internal Audit Fee	5	30	8	(22)	8
Actuarial Fees	6	100	103	3	104
General Expenses	7	0	86	86	87
Oversight & Governance Expenses Total		318	348	30	351

Note:

1. Underspend – Reduced Hours Pension Analyst
2. Underspend – Reduced Travel Activity and Committee Clerk time
3. Actual spend is broadly neutral when compared to last year actual. Although, Pension Board only formed late 2014/15
4. Increase in fees – See Audit Scotland's 'Audit Plan 2015/16'
5. Reduction in fees due to change of provider – PWC to Aberdeenshire Council
6. 2015/16 Actuarial fees £103k is less than when compared to last year actual £221k due to Valuation undertaken 2014/15
7. Investment litigation, investment subscriptions and tendering expenses not previously separated.

**Appendix A – BUDGET / FORECAST AND ACTUAL SPEND 2015/16
BUDGET / FORECAST 2016/17 (continued)**

The Forecast and Actual Spend 2015/16 and Forecast 2016/17 for NESPF Investment Management Expenses are shown below:

	Notes	Full Year Forecast 2015/16 £'000	Actual Spend 2015/16 £'000	Over or (Under) 2015/16 £'000	Forecast 2016/17 £'000
Investment Management	1	9,706	11,185	1,479	11,297
Performance Fees	2	5,300	6,056	756	6,117
Direct Property Expenses	3	1,500	127	(1,373)	128
Transaction Costs	4	1,500	1,066	(434)	1,077
Custody Fees	5	142	149	7	150
Investment Management Expenses Total		18,148	18,583	435	18,769

Note:

1. Overspend – Mainly arising from increased fees Partners Group Real Estate and new Private Equity Managers fees
2. Overspend – Mainly arising from increased performance fees from Baillie Gifford and Blackrock, which was offset against reduced performance fees from HarbourVest and SL Capital
3. Actual Direct Property Operating Expenses £127k is less than when compared to last year actual £1,461k due to drop in void costs, letting and rent review fees.
4. Drop in transaction activity reducing Transaction Costs
5. Non material increase in Actual Spend when compared to last year actual

The above is a forecast of costs rather than a traditional budget. This is due to the level of estimation involved and the extent of the unknown, especially given that Investment Management and Performance Fees are based upon an unpredictable Market Value. This terminology has been adopted following discussions with the CIPFA Pensions Network.

The Forecast 2016-17 is based upon last year actual spend plus 1%.

As a result of the new staffing structure being implemented from 1 April 2016, the 2016-17 Budget for Pension Fund Staffing Costs (Administrative and Investment) will be refined and reported to the next committee.



**UNAUDITED ANNUAL REPORT
& ACCOUNTS**

FOR THE PERIOD

1 APRIL 2015 TO 31 MARCH 2016

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



Contents

Management Commentary	4
1. About the North East Scotland Pension Fund	4
2. Fund Administration 2015/16	5
3. Pension Fund Committees	6
4. Fund Achievements	8
5. Investment & Accounting	9
6. Investment Strategy	10
7. Investment Performance	11
8. Financial Performance	15
9. Pension Fund Administration and Performance	19
10. Risk	28
11. Funding Strategy Statement	30
12. Statement of Investment Principles	31
13. Corporate, Environmental and Social Governance	32
14. Future	37
15. Acknowledgement	37
Statement of Responsibilities	38
Annual Governance Statement	40
Governance Compliance Statement	44
Unaudited Annual Accounts	46
Accounting Policies	47
North East Scotland Pension Fund Accounts	53
Aberdeen City Council Transport Fund Accounts	55
Notes to the North East Scotland Pension Fund Accounts	57
Note 1: Actuarial Valuation Report	57
Note 2: Contributions Receivable	59
Note 3: Transfers in from other Pension Funds	59
Note 4: Benefits Payable	59
Note 5: Payment to and on Account of Leavers	60
Note 6: Management Expenses	61
Note 7: Investment Income	62
Note 8: Investment Assets	63
Note 9: Analysis of Investments	65
Note 10: Analysis of Derivatives	66
Note 11: Investments Analysed by Fund Manager	68
Note 12: Stock Lending	69
Note 13: Property Holdings	69
Note 14: Financial and Non-Financial Instruments	70
Note 15: Net Gains and Losses on Financial and Non-Financial Instruments	72
Note 16: Valuation of Financial and Non-Financial Instruments carried at Fair Value	72
Note 17: Risk arising from Financial and Non-Financial Instruments	75
Note 18: Breakdown of Long Term and Current Assets and Liabilities	84
Note 19: Related Party Transactions	85

Note 20: Key Management Personnel	85
Note 21: Contractual Commitments as at 31 March 2016.....	85
Note 22: Additional Voluntary Contributions (AVC)	86
Note 23: Contingent Assets/Liabilities	87
Note 24: Impairment Losses	87
Note 25: Investment Principles.....	87
Note 26: Critical Judgements in applying Accounting Policies	88
Note 27: Events after the Balance Sheet Date.....	88
Note 28: Agency Arrangements for Administering Compensatory 'Added' Years	89
Notes to the Aberdeen City Council Transport Fund Accounts	90
Note 1: Actuarial Valuation Report.....	90
Note 2: Contributions Receivable	92
Note 3: Benefits Payable.....	92
Note 4: Payment to and on Account of Leavers	92
Note 5: Management Expenses	93
Note 6: Investment Income	94
Note 7: Investment Assets	95
Note 8: Analysis of Investments	96
Note 9: Investments Analysed by Fund Manager.....	97
Note 10: Stock Lending.....	97
Note 11: Financial and Non-Financial Instruments.....	98
Note 12: Net Gains and Losses on Financial and Non-Financial Instruments	99
Note 13: Valuation of Financial and Non-Financial Instruments carried at Fair Value. 99	
Note 14: Risk arising from Financial and Non-Financial Instruments	102
Note 15: Breakdown of Long Term and Current Assets and Liabilities	111
Note 16: Related Party Transactions	112
Note 17: Key Management Personnel	112
Note 18: Investment Principles.....	112
Note 19: Critical Judgements in applying Accounting Policies	113
Appendix 1- Statement by the Consulting Actuary	114
Appendix 2 – Schedule of Employers	119

Management Commentary

The Management Commentary as required by The Local Authority Accounts (Scotland) Regulations 2014 includes details of the Fund's business, risk and the 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.

1. About the North East Scotland Pension Fund

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 contracted out of the Second State Pension. The Scheme is open to all employees of the 11 scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire, Teachers). Employees of admitted bodies can join the Scheme subject to the admitted bodies' individual admission criteria, which are out with the control of Aberdeen City Council.

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

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

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

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

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

With effect from 1 April 2009, employee contributions are based on tiered rates. Below are the tiered rates for 2015/16:

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

2. Fund Administration 2015/16

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Pensions Board
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	Aberdeenshire Council
Investment Consultant	KPMG
Employers	For full details see Appendix 2

3. Pension Fund Committees

Pensions Committee

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

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

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

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

Membership during 2015/16

Councillor Barney Crockett (Convener)
Councillor John Reynolds (Vice Convener)
Councillor Jim Noble
Councillor Aileen Malone
Councillor Alan Donnelly
Councillor James Kiddie
Councillor Jenny Laing – Left 8 October 2015
Councillor M. Tauqueer Malik - Joined 8 October 2015
Councillor Willie Young
Councillor Neil MacGregor

Pensions Board

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

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

Membership during 2015/16:

Mr. J Mulholland, Chairperson	Unison	
Mr. R Henderson	GMB	Left, October 2015
Mr. K Masson	GMB	Joined, February 2016
Mr. A Walker	Unite	
Mr. D Briggs	Robert Gordon University	
Councillor J Cowe	The Moray Council	
Councillor W Howatson	Aberdeenshire Council	
Councillor L Ironside	Aberdeen City Council	

In line with the training policy, Board members undertook 2 training sessions within 2015/16 with further dates/opportunities identified including Fund Manager Presentations and investment seminars in 2016/17.

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

In assisting with compliance the Board can report the Fund to the Pensions Regulator for non-compliance with guidance or regulations. In 2015/16 no issues were reported by the Board to the Pensions Regulator.

The full Pensions Board Annual Report can be viewed on the Fund's website at www.nespf.org.uk

4. Fund Achievements

Building upon the achievements made in the development of administration facilities in 2014/15, 2015/16 saw the Fund focus on streamlining processes and utilising advanced technical programmes to provide an integrated service.

This was achieved by the continued implementation and promotion of I-Connect and Employer Services, online solutions which enable employers to provide data electronically. In addition, the Fund introduced ALCARE, which enabled those employers not on I-Connect to submit monthly pay data. The mobilisation of these three facilities has improved data efficiency and accuracy, resulting in several benefits including:

- Monthly updates for 97% of active members.
- A reduction in the cost of processing member updates from £1.04 to £0.15
- Reduced year end processing by 108 days
- 682,787 system updates automatically processed; reducing processing times and the potential for keying errors.

With the advancements in data collection, the Fund has been able to increase its performance monitoring of employers and the Fund to ensure both meet the performance levels required by the Pensions Regulator and the Fund's Pension Administration Strategy.

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

The Fund has continued to adhere to a dedicated communications strategy designed to keep members engaged and aware of pensions information. A key highlight of the 2015/16 communications plan was the introduction of a customer satisfaction survey to gauge opinions and satisfaction levels as well as identify areas of improvement. The feedback offered in the surveys has been essential towards shaping and forming future communications. The Fund also delivered a number of pension surgeries including an Annual and Lifetime Allowance seminar and Pensioners Open Day. In line with long term e-communication strategy, the Fund began the process of updating Member Self Service, to make the facility more user friendly and to improve functionality.

Despite market volatility, the Fund has continued to implement and focus on a long term investment strategy which includes the diversification of assets and therefore risk. This has helped the Fund maintain and increase its overall value by £10million.

5. Investment & Accounting

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

- Delivery of an investment strategy having due regard to risk and return within the objectives and liability requirements;
- To receive monies in respect of contributions, transfer values and investment income;
- To carry out 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 2015/16 the North East Scotland Pension Fund continued to implement the Funds' investment strategy following the review that took place during 2012. A further review took place in the first quarter of 2016 which detailed the Funds' current investment strategy and made a number of changes to take the strategy forward over the next 5 to 10 years. This will include a calculated move over that time period from Growth assets to Income/Protection assets.

The Fund continues to expand its Alternative program, appointing Capital Dynamics, Unigestion and RCP within the Private Equity asset class while funding two Diversified Growth Funds in early April 2016.

The Accounting Team provides support across the Fund and continues to ensure accurate and timely data. The team has also worked closely with third party providers including Fund Managers, the Global Custodian and Consultants to ensure data consistency. In addition the Accounting Team participated in a Council run work experience scheme, allowing a local school pupil the opportunity to gain valuable experience.

Looking forward to 2016/17, the Accounting Team will seek to raise cost awareness within the Pension Fund's new Management Team with a view to improve budgetary control. The Team aims to simplify the coding structure to improve data accuracy.

6. Investment Strategy

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

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

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

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

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

Asset Structure 2015/16

Asset Class	Distribution as at 31 Mach 2015		Distribution as at 31 March 2016	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including Alternative Assets)	82.2	80.0	78.7	80.0
Bonds	7.8	10.0	12.9	10.0
Property	6.9	10.0	7.3	10.0
Cash	3.1	0.0	1.1	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.

The Fund continues to rebalance assets in line with its investment strategy, reducing its exposure to equities and increasing alternatives and bonds in line with the 2016 investment strategy review. Property continues to be behind benchmark due to the challenging market conditions while the Fund has made adjustments to a number of asset mandates to reduce the level of cash it holds.

7. Investment Performance

Economic and Market Background – 12 Months to 31 March 2016

Major equity markets generally performed positively in the early part of the period, encouraged by a broadly supportive environment of solid corporate profits. Signs of a general improvement in the US economic backdrop and continued low interest rates in many developed countries were also helpful. However, fears over a sharper than anticipated slowdown in Chinese growth, concerns about the timing of US interest rate rises, and falling commodity prices contributed to the subsequent volatility. North American equities delivered positive returns to sterling investors for the 12 months as a whole, but other regions recorded negative returns. Overall, fixed interest markets benefited from the uncertainty and posted positive performance for the period.

US:

In the US, the improving economic tone, combined with other factors such as the return of considerable amounts of cash to shareholders, drove the US stock market to all-time highs in June before it surrendered some of the gains. Regardless, the economic environment continued to strengthen and in December the Federal Reserve announced a 0.25% rise in interest rates, the first increase since 2006.

UK:

In the UK, the stock market reached record levels in April 2015, however, subsequently lost momentum. Caught up in broader concerns about global economic growth, the UK market ended the period in negative territory.

Europe:

Economic recovery remained muted across the Eurozone during the period. Despite the announcement in early 2016 that the European Central Bank would further reduce interest rates, while increasing quantitative easing to €80 billion per month, market weakness persisted and European stock markets posted a decline overall.

Japan:

In Japan, company results during the period suggested that profitability was improving, and companies increased pay-outs to shareholders. However, growth in the Japanese economy remained lacklustre. In a surprise move, the Bank of Japan introduced negative interest rates in early 2016 in an attempt to stimulate the economy. Japanese markets ended the period at lower levels.

Emerging Markets:

Slowing growth, collapsing commodity prices and currency weakness affected sentiment within Emerging Markets. Weaker economic growth in China was a particular concern given its links to the wider Asian region, and beyond.

Bonds:

As the year progressed, the investment environment became more challenging as concerns increased over China and emerging markets, falling commodity prices and uncertainty around the pace of future interest rate rises in the US. Both the European Central Bank and Bank of Japan have increased monetary stimulus with growth and

inflation remaining elusive and, in the last quarter, corporate bonds were included in the European Central Bank's expanded asset purchase programme. In December, buoyed by an improving US economy, the Federal Reserve announced a widely-anticipated interest rate rise for the first time in ten years. Against this backdrop, UK Government bonds provided positive returns with yields moving lower over the year. Investment grade corporate bonds delivered a modest positive return, benefiting from the supportive interest rate environment.

Property:

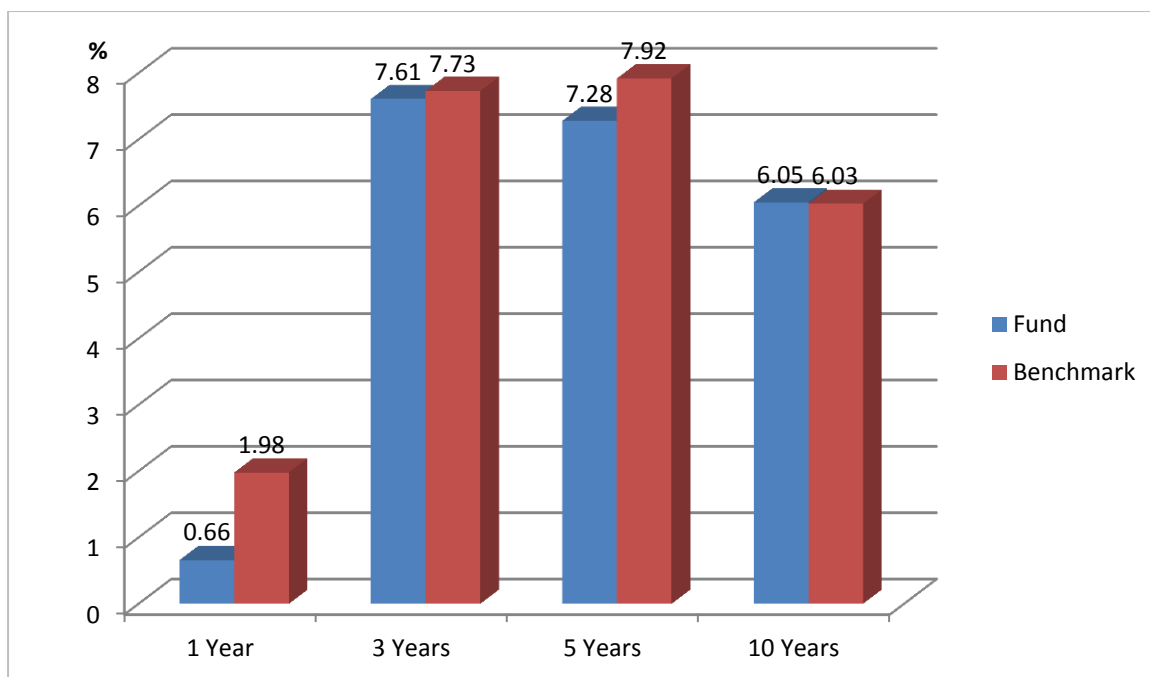
UK property markets were strong over the period, generating a return of over 10% across all property types. Office and Industrial property generated the highest returns at around 15%, with Retail property providing a return of 7.5%. Property returns are from the IPD UK Monthly Property Index

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
<u>Equities:-</u>			
FTSE All Share Index	-3.9	3.7	5.7
FTSE All World Index	-0.5	8.2	8.1
FTSE All World ex UK	-0.2	8.6	8.4
FTSE North American Index	3.6	12.7	12.7
FTSE Europe (ex UK) Index	-4.2	6.5	4.8
FTSE Japan Index	-3.2	6.6	6.9
FTSE Developed Asia Ex Japan Index	-5.4	-0.8	2.2
FTSE Emerging Markets Index	-8.9	-1.8	-1.5
<u>Bonds:-</u>			
FTA Government Securities All Stocks	3.2	4.7	6.7
ML UK Corporate Bonds	0.4	5.0	7.1
FTA Index Linked All Stocks	1.7	5.1	8.6
(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 that aimed to deliver a return of 1% above the benchmark over a rolling three year period.

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



Aberdeen City Council Transport Fund

De-Risking

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

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

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

For the period 1 April 2015 to 31 March 2016, the Funding level position moved from 86.5% to 85.3%. The move in funding level resulted from a combination of interest rate concerns in the first quarter of 2016 and underperformance within the growth portfolio of assets.

Long Term Fund Performance

Whilst employee contribution rates and benefits payable are set by statute, the long-term liabilities of the Fund are linked either to wage inflation or to price inflation. It is the 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	2013/14 %	2014/15 %	2015/16 %	3 Year Annualised %	5 Year Annualised %
CPI	2.7	1.2	0.5	0.7	1.7
Average Earning	0.9	1.5	1.9	2.5	1.6
NESPF Return	10.4	11.6	0.66	7.61	7.28

Investment Management Structure

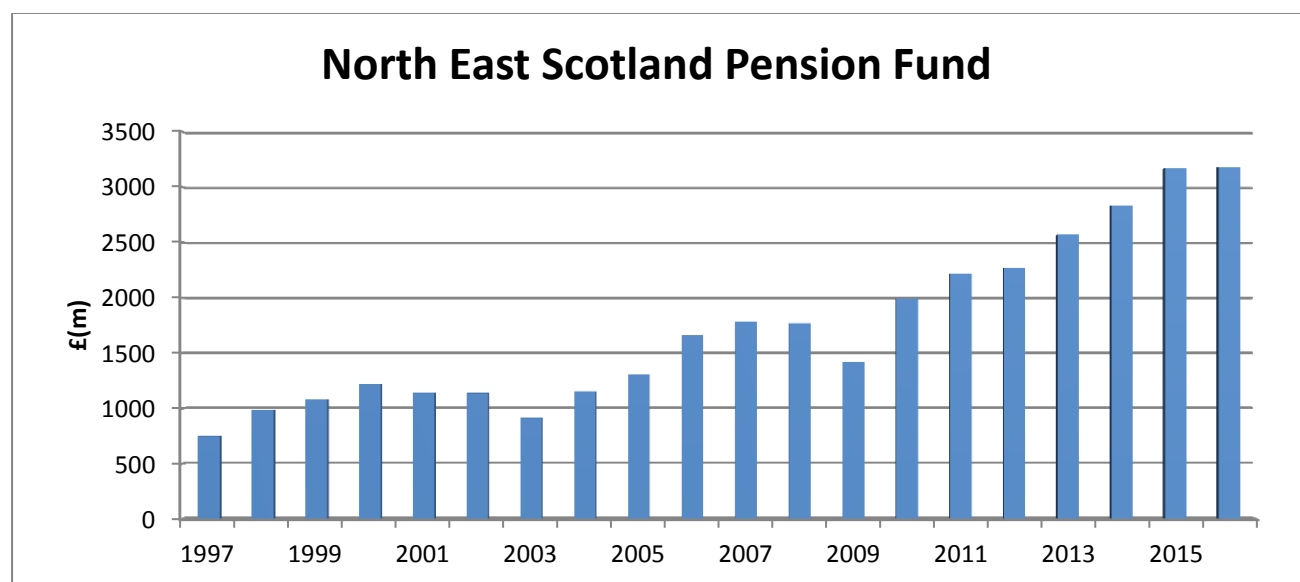
Manager	31 March 2015 £M	31 March 2015 %	31 March 2016 £M	31 March 2016 %
SSGA	1,043	33.0	1,049	33.0
Baillie Gifford	733	23.1	750	23.6
BlackRock	397	12.5	376	11.8
Barings	268	8.4	273	8.6
AAM Global	278	8.8	262	8.2
AAM Property	217	6.8	237	7.5
Harbour Vest	90	2.8	94	3.0
SL Capital Partners	45	1.4	45	1.4
Partners Group	17	0.5	35	1.1
AAM Frontier Fund	38	1.2	36	1.1
Maven Capital	3	0.1	3	0.1
Capital Dynamics	0	0.0	1	0.0
RCP Advisors	0	0.0	1	0.0
Unigestion	0	0.0	4	0.1
NESPF	0	0.0	0	0.0

8. Financial Performance

North East Scotland Pension Fund Financial Summary

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Contributions Less benefits and expenses paid Net additions/ (deductions)	35,229	361	(14,958)	(17,178)	(17,441)
Net investment income Change in Market Value Net return on Investment	15,879	300,543	278,513	354,952	27,908
Net increase in Fund	51,108	300,904	263,555	337,774	10,467
Fund Balance as at 31 March (Market Value)	2,269,116	2,570,020	2,833,575	3,171,349	3,181,816

Fund balance as at 31 March 2016 (£m)



Achievements this year include:

For 2015/16, the North East Scotland Pension Fund show that members' contributions have increased slightly to £27.5 million from £26.7 million. Total overall income in respect of members has increased to £122 million from £118.3 million in 2014/15, with

expenditure increasing to £139.5 million from £135.5 million over the same period in 2014/15.

Investment income has increased from £50.9 million in 2014/15 to £52.4 million in 2015/16.

The Aberdeen City Council Transport Fund shows that members' contributions decreased from £134,000 in 2014/15 to £127,000 in 2015/16. Total overall income in respect of members has decreased to £2.6 million from £2.7 million in 2014/15, with expenditure rising to £4.0 million from £3.4 million in 2014/15.

Investment income has decreased from £1.7 million in 2014/15 to £0.5 million in 2015/16.

With most major investment markets delivering poor returns over the financial year to 31 March 2016, the Fund's assets have decreased in value by £24.4 million with the Transport Fund experiencing a decrease in asset value of £2.6 million. This was due to a number of factors including increased market volatility and low investor confidence.

The North East Scotland Pension Fund saw an overall rise in value over the period of £10m, while the Aberdeen City Council Transport Fund decreased in value by £3m. Full investment returns can be found in the Annual Report.

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

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

The Funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and quoted investments of the Funds have been re-valued to market value at 31 March 2016 with the gain/loss on revaluation being attributed to the Funds.

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

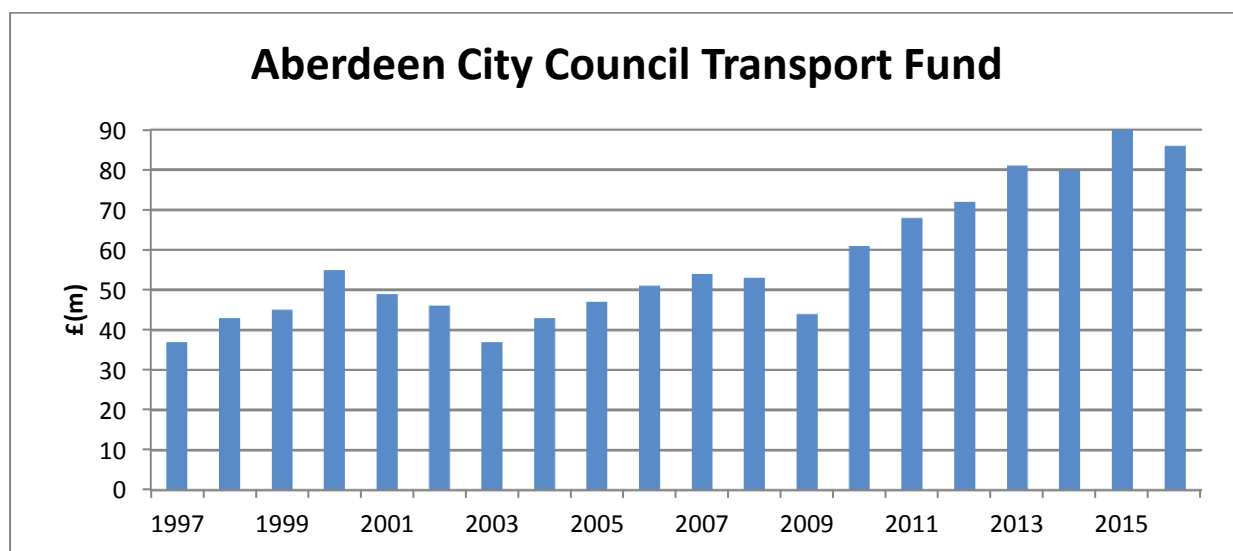
Membership Statistics

NESPF	2011/12	2012/13	2013/14	2014/15	2015/16
Active	20,361	20,869	22,880	24,089	24,546
Pensioners	15,768	16,472	17,106	17,726	18,328
Deferred	16,425	16,876	17,267	17,759	18,455

Aberdeen City Council Transport Fund Financial Summary

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Contributions Less benefits and expenses paid Net additions/ (deductions)	(650)	(1,190)	(1,033)	(762)	(1,347)
Net investment income Change in Market Value Net return on Investment	5,095	9,583	137	10,564	(2,050)
Net increase in Fund	4,445	8,393	(896)	9,802	(3,397)
Fund Balance as at 31 March (Market Value)	72,341	80,734	79,838	89,640	86,243

Fund balance as at 31 March 2016 (£m)



Membership Statistics

Transport Fund	2011/12	2012/13	2013/14	2014/15	2015/16
Active	105	92	85	78	71
Pensioners	381	393	405	403	411
Deferred	163	166	155	150	142

Remuneration Report

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

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

9. Pension Fund Administration and Performance

2015/16 was always going to be a challenging year with the introduction of a new Local Government Pension Scheme (LGPS) which changed from Final Salary to Career Average Revalued Earnings (CARE), a new code of practice from The Pensions Regulator (TPR) for the governance and administration of public sector pension schemes and the ongoing reconciliation of guaranteed minimum pensions with HM Revenue and Customs (HMRC). There was also a few surprises to contend with for transfers and annual allowance.

This year's report focuses on how the North East Scotland Pension Fund (NESPF) and employers have performed and worked together to deliver the new CARE scheme requirements.

NESPF performance

NESPF key performance measurements	Target	2014/15	Amount	Achieved	2015/16
Letter notifying death in service to dependent	5 days	62%	37	29	78%
Letter notifying retirement estimate	10 days	94%	1,036	961	93%
Letter notifying actual retirement benefits	10 days	88%	1,279	1,217	95%
Letter notifying deferred benefits	10 days	92%	1,381	1,318	95%
Letter notifying amount of refund	10 days	98%	1,044	1,018	98%
Letter detailing transfer in quotes	10 days	95%	120	105	88%
Letter detailing transfer out quotes	10 days	88%	385	350	91%
Overall performance		92%	5282	4998	95%

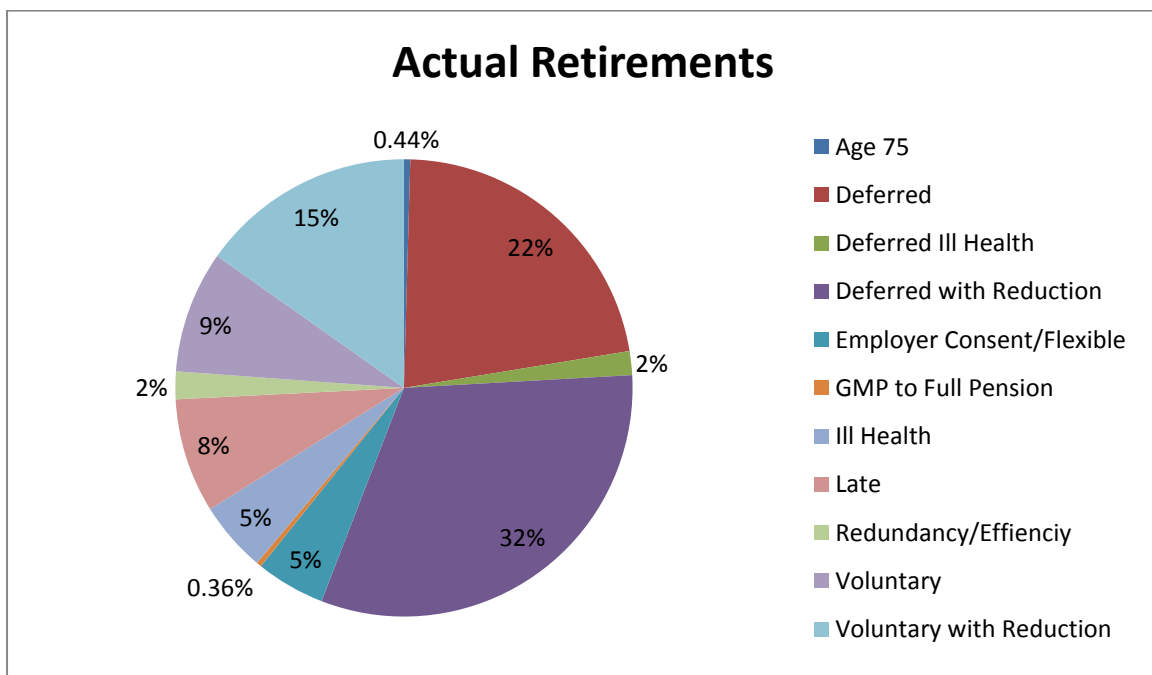
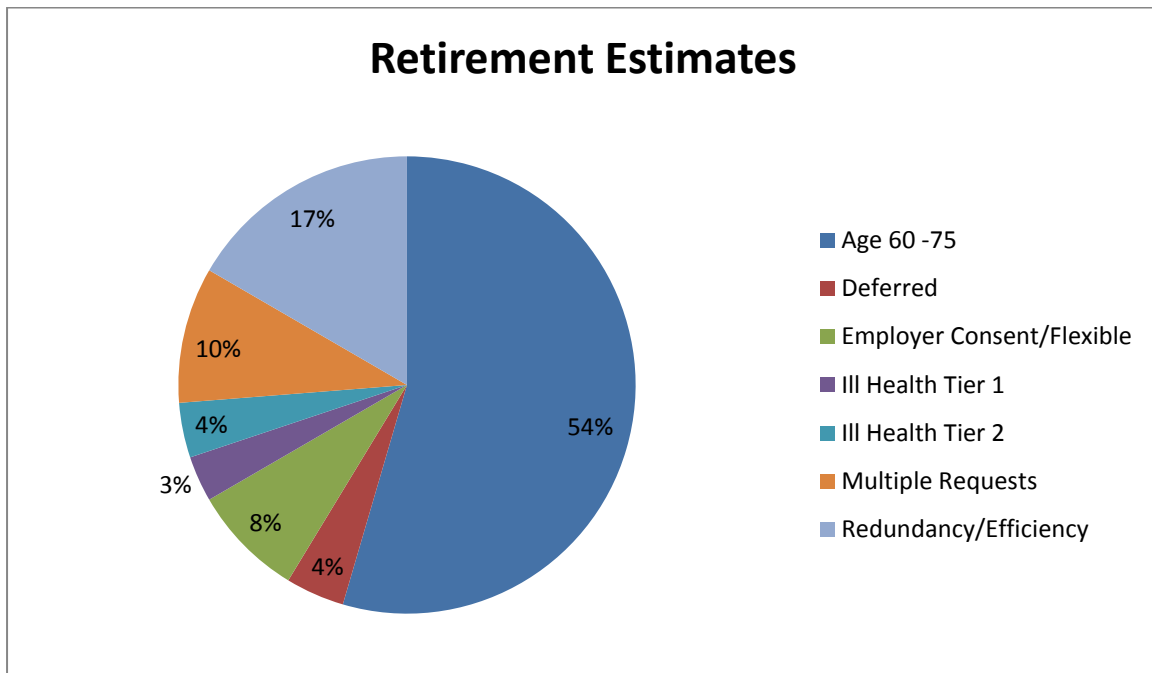
NESPF performance measurements are reported as part of the Pension Administration Strategy (PAS) introduced in July 2013 in accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008¹.

Despite the introduction of a new scheme this year's overall performance increased by 3% from the previous year and is the highest ever published. This is particularly pleasing given some manual processing was required through the first part of the year and there was a significant increase in estimate provision, refund, deferred and retirement benefit processing.

New workflow cases were introduced from April 2015 which helped staff with new scheme processing as well as providing more accurate management information.

¹ Amended to Regulation 57B of the LGPS (Administration) (Scotland) Regulations 2014

During 2015/16 the type of estimate and retirement benefit processed can easily be reported:



Statements

Annual benefit statements were issued to more than 36,500 deferred and active members by August 2015. For 2016 it will be a legal requirement to issue statements to active members by 31 August.

Pension saving statements were issued in September 2015 to members close to, or exceeding, the £40,000 annual allowance.

GMP reconciliation

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

NESPF requested and received a file from HMRC that contained 11888 exact matches. As at March 2016 NESPF have raised 1725 queries with HMRC who have confirmed that 496 have been resolved.

Testing Working Party

NESPF participated in testing working parties (TWP) organised by the Computerised Local Authority Superannuation System (CLASS) group which consists of all 11 Scottish administering authorities and the majority of English and Welsh authorities who work together with a single software provider to ensure that pension administration software delivers LGPS requirements. Two of the main developments in 2015/16 were for transfers and annual allowance.

The Government Actuaries Department (GAD) published transfer guidance on 2 April 2015 that required a change in calculation methodology for Scotland in respect of club transfers in. The late notification meant that there was no time to include this change in the software developed for the new CARE scheme. NESPF helped test the new transfer calculations which were made available in November as part of the 2015.1 release.

The budget delivered on 8 July 2015 announced changes to both annual allowance (maximum amount of pension savings you can make in any one tax year that benefits from tax relief) and lifetime allowance (maximum overall value of pension benefits you can receive over your working life before a tax penalty applies) from 6 April 2016. To prepare for the changes the pension input period (the period over which the amount of pension savings are measured for the purposes of comparing them against the annual allowance) had to be brought into line with the tax year so for 2015/16 the LGPS has two pension input periods:

- 1 April to 8 July 2015
- 9 July to 5 April 2016.

NESPF helped test calculations to realign pension input periods which were made available in February as part of the 2016.0 release.

Working together

Throughout the year NESPF staff were involved locally and nationally to help deliver new LGPS requirements participating in:

- Scottish Pension Liaison Group (SPLG) with other Scottish authorities, the Scottish Public Pensions Agency and the Local Government Association to discuss new scheme experience, administration issues and Regulations
- CLASS TWP
- CLASS user group meetings with other Scottish authorities and the software provider to discuss system performance and requirements going forward
- Workshops organised by the CLASS group to discuss product development for workflow and an employer management tool
- Webinar organised by CLASS group with English and Welsh authorities who shared their first CARE year end experience in 2014/15
- Site visit from another Scottish administering authority about monthly automated processing using I-Connect
- Conference call with English authorities about monthly automated processing using I-Connect
- Site visits to employers to assist with electronic data provision.

Electronic data provision

NESPF believes that to deliver new scheme requirements there has to be a move away from traditional year-end returns to more regular updates.

Two software solutions are available as part of the PAS for employers to efficiently manage the collation and transfer of electronic data regularly to the NESPF; Employer Services and I-Connect.

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.

Interface processing from Employer Services	2014/15	2015/16
Starters	450	174
Amendments	152	49
Leavers	297	121
Total	899	344

The reduction in interface processing is due to The Robert Gordon University moving from Employer Services to I-Connect to provide electronic data monthly from January 2015.

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.

Event processing from I-Connect	2014/15	2015/16
Starters	1,818	4,355
Amendments	2,245	33,464
Leavers	816	3,416
Contributions (employee, employer and additional)	85,389	260,665
Salary	82,362	148,677
CARE pay	N/A	231,866
Total	172,630	682,787

The huge increase in event processing is a result of The Moray Council (01/04/2015) followed by Aberdeenshire Council (01/07/2015) joining Aberdeen City Council (01/04/2014) and The Robert Gordon University (01/01/2015) in providing monthly data through I-Connect. As at March 2016 ten employers currently use the I-Connect solution to provide electronic data monthly to NESPF:

Aberdeen City Council	Aberdeenshire Council	Bon Accord Care
Bon Accord Support	Grampian Valuation Joint Board	NESTRANS
Northern Community Justice Authority	Police Scotland	The Moray Council
The Robert Gordon University		

I-Connect deliver's benefits to everyone involved with the LGPS:

- 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, contributions and CARE pay
- 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 code 14.

In June 2015 *Heywood* published a case study about automation efficiencies being achieved by NESPF which can be viewed at www.heywood.co.uk/news/case-studies.html.

In October 2015 an article published on *Pensions Expert* website highlighted time saved at year end by receiving monthly data which can be viewed at www.pensions-expert.com/DB-Derisking/NESPF-saves-108-days-with-new-payroll-software.

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

Employer	I-Connect or Employer Services	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Aberdeen City Council	IC	M	H	H	H	H	H	H	H	H	H	H	L
Aberdeenshire Council	IC				M	M	M	H	M	M	M	H	M
Bon Accord Care	IC	H	H	M	H	H	H	H	H	H	H	H	L
Bon Accord Support	IC	H	H	M	H	H	H	H	H	H	H	H	L
Grampian Valuation Joint Board	IC	M	H	M	H	M	H	H	H	H	H	H	M
Greenspace	IC	H											
Northern Community Justice Authority	IC				H	H	H	H	H	H	H	H	M
NESTRANS	IC				H	H	H	H	H	H	H	H	M
Police Scotland	IC	H	H	H	H	H	H	H	H	H	H	H	L
The Moray Council	IC	H	H	H	H	H	H	H	H	H	H	H	M
The Robert Gordon University	IC	H	H	H	H	H	H	H	H	H	H	H	H
Aberdeen Cyrenians	ES	H		H			H	H	H	H	H	H	
Aberdeenshire Housing Partnership	ES		H		H				H				H
Aberlour	ES	H	H	H		H							H
Cairngorm Outdoor Access Trust	ES	H						H			H		H
First Aberdeen	ES	H			H								
Moray College	ES	H	H	H	H	H	H	M	H		H	H	
North East Sensory Services	ES						H	H			H		
North East Scotland College	ES		M	H	H	H	M	H	H	H			H
Peterhead Port Authority	ES												H
Scottish Water	ES	H	H	H	H	H	H	H	H	H	H	H	H

Given the volume of electronic data received NESPF run a number of checks after each file submission to validate the accuracy of the data. Once the checks are completed the quality of the data is categorised as:

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% of events processed
- For Employer Services minor formatting amendments required

L = Low quality data

- For I-Connect missing and/or incorrect data that may require another file submission

- For Employer Services missing and/or incorrect data that may require another file submission

Low quality data submissions received in March 2016 were promptly identified and resolved by employers who re-submitted high quality data within 2 working days.

CARE Pay provision

A significant new scheme requirement for employers was to provide NESPF with CARE pay.

The CARE year end experience in 2014/15 for English and Welsh authorities showed that for those who waited until year end to receive CARE pay many received low quality returns that resulted in them failing to meet the benefit statement deadline and having to report a breach of law to TPR.

To avoid a similar situation NESPF made a spreadsheet called ALCARE available for employers not using I-Connect to provide CARE pay well in advance of year end.

As at March 2016 the following employers had provided CARE pay monthly using ALCARE:

Aberdeen International Youth Festival	Aberdeen Cyrenians	Aberlour Childcare Trust
Archway	Cairngorm Outdoor Access Trust	Forth and Oban
Fraserburgh Harbour Commissioners	Gordon Rural Action	Inspire
Moray College	North East Sensory Services	Peterhead Port Authority
Robertson Facilities Management (Aberdeen City)	Robertson Facilities Management (Aberdeenshire)	Sanctuary Housing
Scottish Water	Sport Aberdeen	Tenants First

As a result, NESPF received CARE pay monthly for 97% of active members through I-Connect and ALCARE prior to year-end.

Since March a further 10 employers are now providing ALCARE monthly.

Discretions Policy

A further new scheme requirement for employers was to provide NESPF with a policy on discretions under Regulation 58 of the LGPS (Administration) (Scotland) Regulations 2014.

As at March 2016 80% of employers had provided a policy*.

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

*Aberdeenshire Council provided a policy in April 2016 and all but one of the other employers still to provide a policy have kept NESPF updated on their progress.

Communications

Following the introduction of the new scheme in April 2015, the Fund continued to focus on member communication, reviewing documentation and guides to ensure content was clear and easy to understand. In 2015/16, 11 member presentations were delivered in addition to a Pensioners Open day and Annual and Lifetime Allowance seminar. The latter was a targeted event for those members who were most likely to be affected by the changes to tax and pensions.

The Fund conducted its first ever Customer Satisfaction Survey. The survey was issued to a random sample of active and deferred members along with their benefit statements and was also made available on the Fund's website. The survey revealed 81% of respondents were satisfied or very satisfied with the overall service provided, while 77% were satisfied or very satisfied with Fund communication. A similar survey was issued for Pensioners in April 2016.

The new start survey which is issued to recently joined members was also redeveloped to improve response rates and ensure more useful information could be collated. Both surveys will enable the Fund to identify areas of improvement and will help shape future communication materials and strategy.

Towards the end of 2015/16 the Fund began upgrading the online Member Self Service facility as part of the Fund's long term move to e-communications. This follows the increasing promotion of Member Self Service and the bulk mailing of activation keys to Active members in September 2015. The upgrade will enable the facility to be more user friendly, engaging and improve overall functionality.

The Fund continued to maintain an active social media presence via its Twitter account, using infographics to break down complex issues and providing information on the scheme, local news and general pension matters.

A particular highlight of the year was the Fund's four award nominations including Best Use of IT and Technology, DB Scheme of the Year and Public Sector Scheme of the Year. These national awards celebrate excellence within UK workplace pension schemes and reflect the Fund's achievements in 2015/16.

10. Risk

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

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

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

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

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

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

Risk Management Review

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

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

Identified below are key risks impacting the Pension 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

11. Funding Strategy Statement

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

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

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

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

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

12. Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund and Aberdeen City Council Transport Fund 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.

13. Corporate, Environmental and Social Governance

The North East Scotland Pension Fund supports the view that the willingness and ability of a company to adopt the highest standards of corporate responsibility is increasingly important to its long-term growth.

Good corporate governance and good social and environmental practice can have a favourable effect on financial performance and improve investment returns to shareholders as well as society at large.

Conversely, companies that fail to adequately manage good governance and social and environmental risks may become vulnerable to higher operating costs (including fines, lawsuits, damage to reputation) and subsequent loss of confidence to the detriment of all shareholders.

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 210 Annual General Meetings/Special meetings on 3300 resolutions. The Fund's voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd) with additional advice is received from the Local Authority Pension Fund Forum.

During the year to 31 March 2016 the most contentious areas were:

Directors

- Insufficient independence at board level
- Independent Directors who have spent over 9 years on the board
- Poor attendance

Executive Pay Schemes

- Potential awards available considered excessive
- Performance conditions and targets not being disclosed
- Vesting period not considered sufficiently long term

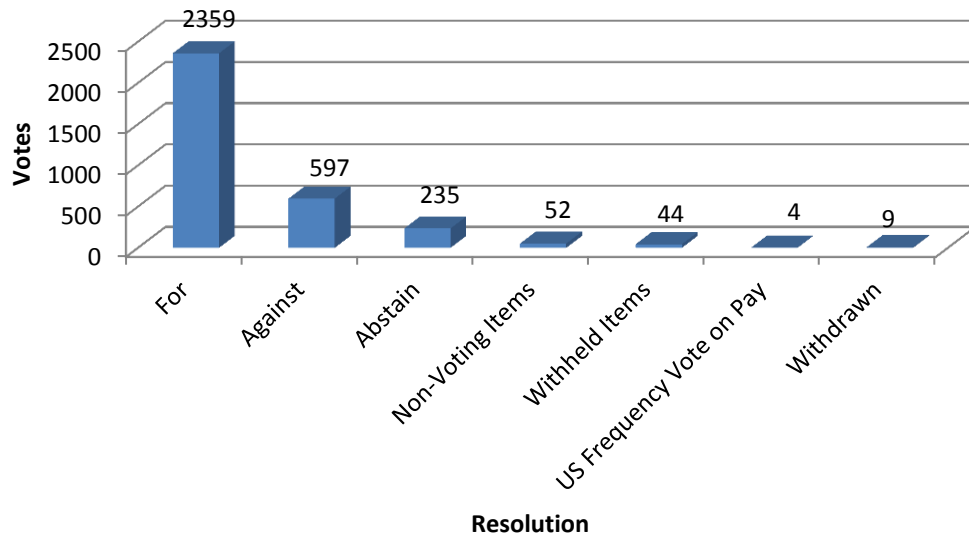
Auditors Appointment

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

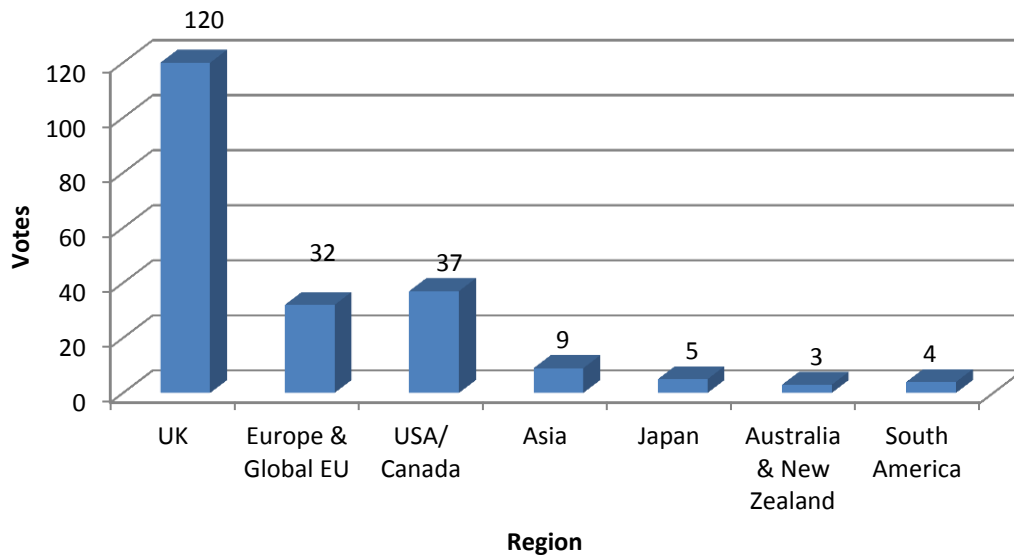
Annual Reports

- Vote on dividend or dividend policy not put to shareholders.

Voting By Resolution



Voting by Region



Engagement

Local Authority Pension Fund Forum

Engagement is a fundamental part of good corporate and social governance. To be effective in this 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 70 local authority pension funds from across the country with combined assets of over £175 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues. Our Pensions Committee convener Councillor Crockett was re-elected to the LAPFF executive committee in January 2016.

Some examples of the engagement work undertaken by the Fund through LAPFF are noted below.

Employment Practices

LAPFF first began work on overseas supply chain concerns in relation to child labour in 1998, since then there have been various initiatives.

Most recently LAPFF has engaged with companies regarding labour conditions in Qatar, attending the Carillion AGM to ask how as an international infrastructure company based in the UK is taking steps to address poor labour conditions at some Qatari building sites under construction for the 2022 World Cup.

From a UK perspective, some UK companies faced accusations of blacklisting trade union workers. LAPFF met with these companies to ensure that they had eradicated blacklisting from their own operations, as well as ensuring that their suppliers do not engage in this practice.

Inappropriate use of zero hour contracts has also been a concern of the Forum, and LAPFF attended an investor briefing with other investor groups held by the Trade Union Share Owners Group to understand how better to address this issue.

Climate Change

Environmental issues continue to generate significant concern for investors, particularly considering the significant impact these issues have on corporate reputations and on companies' ability to operate effectively among more stringent environmental regulations.

From its inception, LAPFF has encouraged companies to adopt and implement effective environmental management policies.

Collaboration is frequently the key to leveraging change with companies and this has been particularly evident with the Forums participation in the 'Aiming for A' investor coalition.

From 2012 the coalition initiated by CCLA focused on long-term engagement to encourage companies to move towards a low carbon economy.

The engagement process led to the filing of shareholder resolutions on strategic resilience and LAPFF members combined in large numbers to co-file and publicly declare support for resolutions to Shell and also BP.

The primary request of the resolutions was for an assessment of the company's asset portfolio resilience against a range of International Energy Agency scenarios, which includes remaining within two degree temperature increase limits. Votes of over 98% in support of both resolutions were achieved.

The impact of climate change for companies and investors remain high on LAPFF's agenda and this issue is frequently raised with company boards at AGMs.

Tax Transparency

Investor concerns in this area are regarding the number of multinational companies that are accused of adopting tax avoidance schemes.

Though arguably not illegal, a number of parties have deemed this practice unfair and have asked that companies pay their fair share of tax in places where they operate.

LAPFF have appointed a tax expert to draft a questionnaire which will be sent to the FTSE 100 companies to complete regarding their approach to tax reporting as part of a LAPFF Corporate Tax Transparency Initiative (CCTI).

The questions focused on a range of tax-related topics, from disclosure of tax policies to the role of auditors in tax practices, to country-by-country reporting. This style of reporting is promoted by the OECD/G20 BEPS (Base Erosion and Profit Sharing) project, which began in 2013 and led to a 15 point action plan to address the issue.

BEPS aims to address the issue of companies operating in one country but channelling money through countries so that they avoid substantial tax liability.

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

United Nations Principles of Responsible Investment. (UNPRI)

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 1500 companies representing over US\$60 trillion assets under management have signed up to the Principles.

Our main focus this year has been on the issue of:-

Sustainable Stock Exchanges (SSE) – we are members of a group of 42 PRI signatories representing US\$ 7.6 trillion in assets under management (AUM) which is engaging with stock exchanges globally to ask that they enhance the sustainability performance of their listed companies, with particular emphasis on ESG disclosure.

Sep 2015 – Release of the SSE Model Guidance which functions as a globally consistent resource that Exchanges can customise to create their own guidance for companies on reporting ESG information to investors.

Oct 2015 – Letter campaign, led by Allianz Global Investors was in line with the SSE Model Guidance and over 100 asset managers and asset owners representing US \$10 trillion in AUM signed the letter requesting 77 stock exchanges to put in place a voluntary guidance for issuers on reporting ESG information by the end of 2016.

Updates - by April 2016 the outreach led to 23 exchanges committing to put an ESG guidance in place by the end of 2016.

14. Future

Following on from 2015/16 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 interim valuation of both the North East Scotland Pension Fund and Aberdeen City Council Transport Fund.

The Fund's Actuarial Valuation will take place as of March 2017 however the Fund will undertake an interim valuation during 2016. This is due to the increase in market volatility, where the Fund and the Administering Authority believe to be an appropriate course of action that will inform and position the Fund to deliver early engagement with all stakeholders leading into the 2017 Actuarial Valuation.

As stated earlier in the Annual Report an investment strategy review took place during the first quarter of 2016, the revised strategy will be implemented over the coming year and the interim valuation will also assist in the implementation and provide evidence that the strategy will deliver the required asset return profile.

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. This engagement will be enhanced with the introduction of the Pension Fund Staff Restructure that was finalised during April 2016. Six very specific areas have been identified through the restructure process, Administration, Technical, Governance, Employer Relationship, Accounting and Investment. These teams will deliver the service in a continued efficient and accountable manor.

15. Acknowledgement

The production of the Annual Report and Accounts is very much a team effort involving many staff as well as information supplied from our advisors. I would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2015/16 Annual Report and Accounts.

Angela Scott
Chief Executive

Steven Whyte, CPFA
Head of Finance

Councillor Barney Crockett
Pensions Committee Convener

On behalf of Aberdeen City Council

24 June 2016

Statement of Responsibilities

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

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Funds, that officer is the Head of Finance of Aberdeen City Council.
- Manage 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 24 June 2016.

Signed on behalf of Aberdeen City Council

Councillor Barney Crockett
Pensions Committee Convener

The Head of Finance's responsibilities:

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

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

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

The Head of Finance has also:

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

Financial Position:

I certify that the Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Funds at the reporting date and the transactions of the Funds for the year ended 31 March 2016.

Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Date: 24 June 2016

Annual Governance Statement

Scope of Responsibility

Aberdeen City Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the North East of Scotland, both on its own behalf and in respect of the other 2 local authorities in the area and some 50 other employers.

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

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

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

Purpose of the Governance Framework for North East Scotland Pension Fund

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

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

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

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Fund for the year ended 31 March 2015 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

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

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

The systems include:

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

These arrangements also include:

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

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

Review of Effectiveness

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

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

Management Assurance:

As the administration of the Pension Fund is directly within the remit of the Head of Finance, assurance has been sought from him in relation to the effectiveness of internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2015/16, no significant areas of weakness were highlighted.

In reviewing this, it has been assessed that the Council's financial management arrangements conform to the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010). Furthermore in relation to statutory postholders, the effectiveness of the Council's arrangements can be evidenced through the relationship that they have had throughout the year with the Council and its officers, being full members of the Corporate Management Team. In addition the Head of Finance (CFO) and the Monitoring Officer are generally in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee, Finance, Policy and Resources Committee and the Pensions Committee.

The Audit, Risk and Scrutiny Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering reports prepared by the external auditor. Further to this, the Pensions Committee is responsible for the internal and external audit functions in respect of the Pension Fund.

Assurance from Internal Audit:

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

The internal audit work programme has been completed and in respect of the Pension Fund, a written report on the Pension Fund's Financial Controls and Pensions Payroll was presented to the Pensions Committee in June 2015. Controls work was also undertaken across the Council's financial systems and was largely found to be satisfactory.

External Audit and Other External Scrutiny:

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

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their governance compliance statement. There are no significant issues to highlight on the Governance Compliance Statement (pages 44-45)

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Fund and that the annual review demonstrates sufficient evidence that the governance and internal control environment operated effectively during the 2015/16 financial year.

Angela Scott
Chief Executive

Steven Whyte, CPFA
Head of Finance

Councillor Barney Crockett
Pensions Committee Convener

On behalf of Aberdeen City Council

24 June 2016

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, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	
3. Voting	
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant as per the Scheme Governance Statement

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



UNAUDITED
Annual Accounts

FOR THE PERIOD

1 APRIL 2015 TO 31 MARCH 2016

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



Accounting Policies

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

The Annual Accounts summarise the Funds' transactions for the 2015/2016 financial year and its position at year end as at 31 March 2016.

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

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

Contribution Income

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

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

Transfers to and from other Schemes

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

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

Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accrual basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

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

Management Expenses

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

a.) Administrative Expenses and Oversight and Governance Costs

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

b.) Investment Management Expenses

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

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

In addition the Fund has negotiated performance related fees with a number of its investment managers. Performance related fees were £6,055,931 in 2015/16 (2014/15 £5,442,890).

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 2016 and are determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

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

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

Derivatives

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

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

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

Cash

Cash comprises cash in hand and demand deposits.

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

Financial Liabilities

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

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of each of the Funds is assessed on a quarterly basis by the Scheme Actuary, and in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement,

(Note 1) together with the full Statement by the Consulting Actuary found on Appendix 1.

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

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

Additional Voluntary Contributions

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

Critical Judgments in applying Accounting Policies

Unquoted Private Equity Investments

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

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

The value of unquoted private equities at 31 March 2016 was £162,706,225 (31 March 2015 £137,031,608).

Actuarial Present Value of Promised Retirement Benefits

Each fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS 19) assumptions and comply with requirements of IAS 26. However, the results are subject to significant variances based on changes to the underlying assumptions.

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

Events after the Reporting Period

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

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

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

Changes in Accounting Policies

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

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2016

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

	Notes	2014/15 £'000	2015/16 £'000
Contributions Receivable			
Employees' Contributions	2	26,726	27,477
Employers' Contributions	2	86,572	92,708
Transfer Values	3	4,958	1,837
Other Income		38	3
		118,294	122,025
Benefits Payable			
Retirement Pensions	4	87,772	91,490
Retirement Allowances	4	19,881	18,225
Death Gratuities	4	3,180	4,452
Contributions Refunded	5	741	848
Transfer Values	5	3,991	3,978
		115,565	118,993
Management Expenses	6	19,907	20,473
Return on Investment			
Investment Income	7	50,851	52,357
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	304,101	(24,449)
Net Return on Investments		354,952	27,908
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		337,774	10,467
Opening Net Assets of the Fund		2,833,575	3,171,349
Net Assets of the Fund at the end of the year		3,171,349	3,181,816

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2016

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

	Notes	2014/15	2015/16
Investment Assets		£'000	£'000
Fixed Interest, Public Sector		80,070	76,680
Fixed Interest, Corporate		13,069	14,159
Fixed Interest, Overseas		164,384	187,481
Index Linked		0	2,901
Equities UK		640,326	607,732
Equities, Overseas		723,697	749,792
Pooled Vehicle		1,093,867	1,094,234
Property, Unit Trust		0	0
Property, Direct	13	211,960	232,555
Unit Trust, Other		3,136	3,440
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		0	0
Other, Private Equity		155,003	179,890
Funds held by Investment Managers		60,457	31,489
ACC Loan Fund Deposit	20	27,560	14,640
Investment Assets		<u>3,173,529</u>	<u>3,194,993</u>
Investment Liabilities			
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		(1,032)	(8,227)
Net Investment Assets		<u>3,172,497</u>	<u>3,186,766</u>
Long Term Asset	19	233	156
Current Assets	19	19,677	18,422
Current Liabilities	19	(21,058)	(23,528)
Net Current Assets/(Liabilities)		<u>(1,381)</u>	<u>(5,106)</u>
Net Assets of the Fund at the end of the year		3,171,349	3,181,816

Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Date: 24 June 2016

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2016

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

	Notes	2014/15 £'000	2015/16 £'000
Contributions Receivable			
Employees' Contributions	2	134	127
Employer's Contributions	2	2,219	2,176
Other Income		311	322
		2,664	2,625
Benefits Payable			
Retirement Pensions	3	2,921	2,998
Retirement Allowances	3	325	743
Death Gratuities	3	85	3
Contributions Refunded	4	1	0
Transfer Values	4	0	0
		3,332	3,744
Management Expenses*	5	94	228
Return on Investment			
Investment Income	6	1,698	510
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments*	7	8,866	(2,560)
		10,564	(2,050)
Net Increase/ (Decrease) in the Net Assets available for Benefits during the year		9,802	(3,397)
Opening Net Assets of the Fund		79,838	89,640
Net Assets of the Fund at the end of the year		89,640	86,243

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2016

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

	Notes	2014/15	2015/16
Investment Assets		£'000	£'000
Fixed Interest, Public Sector		2,484	2,686
Fixed Interest, Overseas		0	0
Equities UK		24	0
Equities, Overseas		0	0
Pooled Vehicle		52,129	48,304
Property, Unit Trust		0	0
Index Linked Securities		34,623	34,449
Funds held by Investment Managers		(733)	46
ACC Loan Fund Deposit	17	544	339
Net Investment Assets		<u>89,071</u>	<u>85,824</u>
Long Term Asset	16	404	378
Current Assets	16	425	286
Current Liabilities	16	(260)	(245)
Net Current Assets/ (Liabilities)		165	41
Net Assets of the Fund at the end of the year		<u>89,640</u>	<u>86,243</u>

Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Date: 24 June 2016

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 of 19 years. Maintaining the previous average contribution rate of 19.3% of Pensionable Pay, this would imply a deficit recovery contribution of 4.4% of projected Pensionable Pay.

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

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

Schedule to the Rates and Adjustments Certificate

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

Assumptions used to Calculate Funding Target

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

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

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

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS 19) assumptions, is estimated to be £3,803m (2015 £3,874m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

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

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

Note 2: Contributions Receivable

	2014/15	2015/16
	£'000	£'000
Employees' Normal Contributions	26,726	27,477
Employers' Normal Contributions	80,169	89,119
Employers' Deficit Recovery Contributions	6,403	3,589
Employers' Augmentation Contributions	0	0
Total Employers' Contributions	86,572	92,708
Total	113,298	120,185

	2014/15	2015/16
	£'000	£'000
Administering Authority	33,127	34,835
Scheduled Bodies	67,195	72,338
Admitted Bodies	8,980	8,916
Transferee Admission Bodies	3,996	4,096
Total	113,298	120,185

Note 3: Transfers in from other Pension Funds

	2014/15	2015/16
	£'000	£'000
Individual Transfers	4,958	1,837
Total	4,958	1,837

Note 4: Benefits Payable

	2014/15	2015/16
	£'000	£'000
Pensions	87,772	91,490
Commutation and Lump Sum Retirement Benefits	19,881	18,225
Lump Sum Death Benefits	3,180	4,452
Total	110,833	114,167

	2014/15	2015/16
	£'000	£'000
Administering Authority*	28,567	29,822
Scheduled Bodies	73,018	74,813
Admitted Bodies	8,473	8,523
Transferee Admission Bodies	775	1,009
Total	110,833	114,167

*2014-15 Restated to allow for the correct allocation resulting from the new heading 'Administering Authority'

Note 5: Payment to and on Account of Leavers

	2014/15	2015/16
	£'000	£'000
Refunds to Members Leaving Service	513	678
Payments for Members Joining State Scheme	228	170
Group Transfers	0	40
Individual Transfers	3,991	3,938
Total	4,732	4,826

Note 6: Management Expenses

	2014/15	2015/16
	£'000	£'000
Pension Fund Staffing Costs – Administration	857	965
Support Services including IT	523	545
Printing and Publications	41	32
Administration Expenses Total	1,421	1,542
Pension Fund Staffing Costs – Investment	112	101
Pension Fund Committee	35	4
Pension Board	1	1
External Audit Fee	38	45
Internal Audit Fee	30	8
Actuarial Fees	186	103
General Expenses *	65	86
Oversight and Governance Expenses Total	467	348
Investment Management	9,584	11,185
Performance Fees	5,443	6,056
Direct Operating Property Expenses	1,461	127
Transaction Costs †	1,391	1,066
Custody Fees	140	149
Investment Management Expenses Total	18,019	18,583
Management Expenses Grand Total	19,907	20,473

* Restated 2014-15 for the reallocation between the headings 'Support Services inc IT' £30K and 'Actuarial Fees' £35K to 'General Expenses' £65K in accordance with CIPFA Guidance on Management Costs.

† A breakdown of Transaction Costs is shown below:

	31 March 2015	31 March 2016
	£'000	£'000
Fee/Tax	881	691
Commission	510	375
Total Transaction Costs	1,391	1,066

Note 7: Investment Income

	2014/15	2015/16
	£'000	£'000
Fixed Interest Securities	7,576	7,412
Equity Dividends	29,718	30,411
Pooled Property Investments	1	6
Property Rental Income	11,235	11,905
Interest on Cash Deposit	253	271
Other (including P/L from Currency and Derivatives)	4,434	4,810
Total	53,217	54,815
Tax -		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax - Equities	(2,365)	(2,452)
Withholding Tax - Pooled	(1)	(6)
Total Tax	(2,366)	(2,458)
Net Total	50,851	52,357

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March				31 March
	2015				2016
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	257,523	163,704	(147,846)	7,840	281,221
UK Equities	640,326	177,827	(179,761)	(30,660)	607,732
Overseas Equities	723,697	161,306	(138,758)	3,547	749,792
Pooled Investments	1,097,003	244,431	(222,184)	(21,576)	1,097,674
Property	211,960	26,058	(8,814)	3,351	232,555
Private Equity	155,003	46,650	(44,708)	22,945	179,890
	3,085,512	819,976	(742,071)	(14,553)	3,148,864
Derivative Contracts					
FX Contracts	(1,032)	18,130	(15,429)	(9,896)	(8,227)
	3,084,480	838,106	(757,500)	(24,449)	3,140,637
Other					
Cash	88,017				46,129
Net Investment Assets	3,172,497				3,186,766

	Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March				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	204,817	(214,979)	12,163	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	(49,179)	29,938	155,003
	2,766,733	586,409	(572,050)	304,420	3,085,512
Derivative Contracts					
FX Contracts	(385)	15,784	(16,112)	(319)	(1,032)
	2,766,348	602,193	(588,162)	304,101	3,084,480
Other					
Cash	63,443				88,017
Net Investment Assets	2,829,791				3,172,497

Note 9: Analysis of Investments

	2014/15	2015/16
Fixed Interest Securities	£'000	£'000
UK		
Public Sector Quoted	80,070	76,680
Corporate Quoted	13,069	14,159
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	117,201	135,283
Corporate Quoted	47,183	52,198
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	257,523	278,320
Subtotal Index Linked Securities	0	2,901
Equities		
UK		
Quoted	640,326	607,732
Unquoted	0	0
Overseas		
Quoted	723,697	749,792
Unquoted	0	0
Subtotal Equities	1,364,023	1,357,524
Pooled Funds – Additional Analysis		
UK		
Fixed Income	0	0
Unit Trusts	496,853	465,686
Pooled Property Investment	0	0
Overseas		
Fixed Income	7,022	6,896
Unit Trusts	593,128	501,344
Pooled Indexed Linked	0	123,748
Subtotal Pooled Funds	1,097,003	1,097,674
Private Equity	155,003	179,890
Property, Direct	211,960	232,555
Funds held by Investment Managers	60,457	31,489
ACC Loans Fund Deposit	27,560	14,640
Investment Assets Total	3,173,529	3,194,993
Investment Liabilities		
Forward Ex	(778)	(8,156)
Derivatives	(254)	(71)
Investment Liabilities Total	(1,032)	(8,227)
Net Investment Assets	3,172,497	3,186,766

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 2015		31 March 2016
		£'000	£'000	£'000	£'000
Assets					
Overseas Fixed Interest	Less than one year	0	0	0	0
Liabilities					
UK Fixed Interest	Less than one year	(10,264)	(127)	0	0
Euro - Other	Less than one year	(9,189)	(127)	(11,913)	(43)
Overseas - Other	Less than one year	0	0	(24,040)	(28)
Net Futures			(254)		(71)

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	9,654	AUD	10,703		1,049
Up to 3 Months	GBP	2,703	CAD	2,986		283
Up to 3 Months	GBP	3,244	CAD	3,577		333
Up to 3 Months	GBP	3,512	CAD	3,873		361
Up to 3 Months	GBP	36,831	EUR	39,644		2,813
Up to 3 Months	GBP	4,028	EUR	4,163		135
Up to 3 Months	GBP	4,036	EUR	4,123		87
Up to 3 Months	GBP	6,382	EUR	6,502		120
Up to 3 Months	GBP	1,820	EUR	1,863		43
Up to 3 Months	GBP	12,349	EUR	12,607		258
Up to 3 Months	GBP	3,750	EUR	3,806		56
Up to 3 Months	GBP	14,724	YEN	15,786		1,062
Up to 3 Months	GBP	4,518	YEN	4,742		224
Up to 3 Months	GBP	810	YEN	805	5	
Up to 3 Months	GBP	6,633	MXN	6,900		267
Up to 3 Months	GBP	2,015	MXN	2,151		136
Up to 3 Months	GBP	6,862	MXN	7,598		736
Up to 3 Months	AUD	3,478	GBP	3,165	313	
Up to 3 Months	AUD	7,225	GBP	7,134	91	
Up to 3 Months	CAD	3,012	GBP	2,768	244	
Up to 3 Months	CAD	3,550	GBP	3,480	70	
Up to 3 Months	EUR	2,498	GBP	2,412	86	
Up to 3 Months	EUR	2,379	GBP	2,341	38	
Up to 3 Months	EUR	3,885	GBP	3,851	34	
Up to 3 Months	EUR	1,506	GBP	1,505	1	
Up to 3 Months	PLN	4,066	GBP	3,971	95	
Up to 3 Months	SEK	4,206	GBP	4,009	197	
Up to 3 Months	SEK	4,291	GBP	4,110	181	
Up to 3 Months	USD	3,235	MXN	3,225	10	
Up to 3 Months	USD	1,670	GBP	1,697		27
Up to 3 Months	USD	4,453	GBP	4,405	48	
Up to 3 Months	USD	2,331	GBP	2,348		17
Up to 3 Months	USD	14,263	GBP	14,268		5
Up to 3 Months	USD	3,235	GBP	3,216	19	
Up to 3 Months	USD	404	GBP	449		45
Up to 3 Months	GBP	4,256	SEK	4,291		35
Up to 3 Months	GBP	91,019	USD	92,534		1,515
Up to 3 Months	GBP	2,439	USD	2,401	38	
Up to 3 Months	GBP	3,694	USD	3,687	7	
Up to 3 Months	GBP	5,552	USD	5,566		14
Up to 3 Months	GBP	4,949	USD	5,009		60
Up to 3 Months	GBP	2,766	USD	2,713	53	
Up to 3 Months	GBP	3,955	USD	3,966		11
Up to 3 Months	GBP	354	USD	348	6	
Open forward Currency Contracts as at 31 March 2016					1,536	(9,692)
Net Forward Currency Contracts at 31 March 2016						(8,156)
Prior Year Comparative						
Open Forward Currency Contracts at 31 March 2015					2,130	(2,908)
Net Forward Currency Contacts at 31 March 2015						(778)

Note 11: Investments Analysed by Fund Manager

	31 March 2015	%	31 March 2016	%
	£'000		£'000	
Investment Assets				
State Street Global Advisors	1,043,466	33.0	1,049,141	33.0
Baillie Gifford	732,509	23.1	750,177	23.6
BlackRock Asset Management	397,049	12.5	375,860	11.8
Baring Asset Managers	268,200	8.4	273,442	8.6
AAM Global Ex UK	278,334	8.8	261,873	8.2
Aberdeen Frontier	38,370	1.2	35,510	1.1
Aberdeen Property Investors	216,810	6.8	237,035	7.5
HarbourVest	90,465	2.8	94,007	3.0
Standard Life	44,923	1.4	45,054	1.4
ACC Loan Fund Deposit	27,560	0.9	14,640	0.5
Global Custodian	15,180	0.5	5,980	0.2
Partners Group	16,595	0.5	34,743	1.1
NESPF	359	0.0	199	0.0
RREEF	0	0.0	0	0.0
Maven Capital	2,677	0.1	3,412	0.1
Capital Dynamics	0	0.0	1,100	0.0
RCP Advisors	0	0.0	522	0.0
Unigestion	0	0.0	4,071	0.1
	3,172,497	100.0	3,186,766	100.2
Net Long and Current Assets				
Bank Account	5	0.0	(36)	0.0
Long Term and Current Debtors Less Creditors	(1,153)	0.0	(4,914)	(0.2)
Net Assets	3,171,349	100.0	3,181,816	100.0

There were no individual investments that represented more than 5% of the Net Assets of the Fund.

Note 12: Stock Lending

	2014/15	Collateral	2015/16	Collateral
	£'000	Percentage	£'000	Percentage
Stock on Loan				
Equities	154,862		184,676	
Fixed Interest	64,434		42,736	
Total Exposure	219,296		227,412	
Total Collateral	242,961	110.79	253,776	111.59

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

	2014/15	2015/16
	£'000	£'000
Opening Balance	159,240	211,960
Additions:	2,640	76
Purchases	40,879	25,824
Construction	0	158
Subsequent Expenditure		
Disposals	(4,747)	(8,814)
Net Increase in Market Value	13,948	3,351
Other Changes in Fair Value	0	0
Closing Balance	211,960	232,555

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:

	2014/15	2015/16
	£'000	£'000
Within One Year	12,273	12,492
Between One Year and Five Years	46,161	45,840
Later than Five Years	87,798	84,679
Total	146,232	143,011

Note 14: Financial and Non-Financial Instruments

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

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

31 March 2015				31 March 2016		
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
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
257,523			Fixed Interest	281,221		
1,364,023			Equities	1,357,524		
1,097,003			Pooled	1,097,674		
0			Pooled Property	0		
155,003			Private Equity	179,890		
0			Derivative Contracts	0		
	88,017		Cash		46,129	
	0		Other		0	
	19,910		Debtors		18,578	
2,873,552	107,927		Subtotal	2,916,309	64,707	
			Financial Liabilities			
(1,032)			Derivative Contracts	(8,227)		
			Other			
		(21,058)	Creditors			(23,528)
			Borrowings			
(1,032)		(21,058)		(8,227)		(23,528)
2,872,520	107,927	(21,058)	Financial Instruments Total	2,908,082	64,707	(23,528)
			Non- Financial Instruments			
211,960			Property	232,555		
3,084,480	107,927	(21,058)		3,140,637	64,707	(23,528)
		3,171,349	Net Assets of the Fund			3,181,816

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

31 March 2015		31 March 2016
£'000	Financial Assets	£'000
290,466	Fair Value through Profit and Loss	(17,921)
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	Financial Liabilities	
(313)	Fair Value through Profit and Loss	(9,879)
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
290,153	Net Gains and Losses on Financial Instruments	(27,800)
	Non-Financial Instruments	
13,948	Fair Value through Profit and Loss	3,351
304,101	Net Gains and Losses of the Fund	(24,449)

Note 16: Valuation of Financial and Non-Financial Instruments carried at Fair Value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

	Quoted	Using	With Significant	
	Market Price	Observable Inputs	Unobservable Inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	2,753,603	0	162,706	2,916,309
Loans and Receivables	64,707			64,707
Total Financial Assets	2,818,310	0	162,706	2,981,016
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	(8,227)	0	(8,227)
Financial Liabilities at Amortised Cost	(23,528)	0	0	(23,528)
Total Financial Liabilities	(23,528)	(8,227)	0	(31,755)
Total Financial Instruments	2,794,782	(8,227)	162,706	2,949,261
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss		232,555		232,555
Net Assets of the Fund	2,794,782	224,328	162,706	3,181,816

	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	0	137,031	2,873,552
Loans and Receivables	107,927			107,927
Total Financial Assets	2,844,448	0	137,031	2,981,479
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)
Total Financial Instruments	2,823,390	(1,032)	137,031	2,959,389
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss		211,960		211,960
Net Assets of the Fund	2,823,390	210,928	137,031	3,171,349

Note 17: Risk arising from Financial and Non-Financial Instruments

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Scheme Actuary, the Fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

Asset Type	Potential Market Movements (+/-)
Global Bonds	6.0%
UK Equities	20.0%
Overseas Equities	20.9%
Private Equity	27.0%
Property	13.0%
Cash	1.2%

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).

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

Asset Type	Value as at 31 March 2016	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash and Cash Equivalents	37,902	1.2	38,357	37,447
Investment Portfolio Assets				
Global Bonds	411,865	6.0	436,577	387,153
UK Equities	1,073,418	20.0	1,288,102	858,734
Overseas Equities	1,251,136	20.9	1,512,623	989,649
Private Equity	179,890	27.0	228,460	131,320
Total Financial Instruments	2,954,211		3,504,119	2,404,303
Non-Financial Instruments				
Property	232,555	13.0	262,787	202,323
Total Assets Available to Pay Benefits	3,186,766		3,766,906	2,606,626

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	155,003	24.2	192,514	117,492
Total Financial Instruments	2,960,537		3,441,718	2,479,356
Non-Financial Instruments				
Property	211,960	15.1	243,966	179,954
Total Assets Available to Pay Benefits	3,172,497		3,685,684	2,659,310

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 2016 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 2015	As at 31 March 2016
	£'000	£'000
Cash and Cash Equivalents	88,017	46,129
Cash Balances	5	(36)
Fixed Interest Securities	264,545	411,865
Total	352,567	457,958

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

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	5	5
Fixed Interest Securities	264,545	267,190	261,900
Total Change in Assets Available	352,567	356,092	349,042

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 2016 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2015	Asset Value as at 31 March 2016
	£'000	£'000
Overseas Quoted Securities	741,326	766,777
Overseas Unquoted Securities	134,354	158,195
Overseas Unit Trusts	600,150	508,240
Overseas Public Sector Bonds (Quoted)	117,201	135,283
Overseas Corporate Bonds (Quoted)	47,183	52,198
Total Overseas Assets	1,640,214	1,620,693

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 2016	Change to Net Assets	Change to Net Assets
		+10%	-10%
	£'000	£'000	£'000
Overseas Quoted Securities	766,777	843,455	690,099
Overseas Unquoted Securities	158,195	174,015	142,375
Overseas Unit Trust	508,240	559,064	457,416
Overseas Public Sector Bonds (Quoted)	135,283	148,811	121,755
Overseas Corporate Bonds (Quoted)	52,198	57,418	46,978
Total Change in Assets Available	1,620,693	1,782,763	1,458,623

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	134,354	147,789	120,919
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	1,640,214	1,804,235	1,476,193

Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

Deposits made to the Aberdeen City Council (ACC) loans fund are administered within the City Council treasury policy.

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2016 was £46,093,000 (31 March 2015 £88,022,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2015	Balance as at 31 March 2016
		£'000	£'000
Money Market Funds			
Deutsche Managed GBP	AAAm	37,676	22,746
Deutsche Euro	AAAm	5,581	200
BNY Mellon LIQ USD	AAAm	1,041	3,888
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	27,560	14,640
BNY Mellon	AAAm	11,474	713
Natwest, (API)	BBB+	4,685	3,942
Subtotal		88,017	46,129
Bank Current Accounts			
Clydesdale Bank	BBB+	5	(36)
Total		88,022	46,093

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2016 the value of illiquid assets was £395,261,225, which represented 12.4% of the total fund assets (31 March 2015 £348,991,608 which represented 11.0% of the total fund assets).

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

	31 March 2015	31 March 2016
	£'000	£'000
Long Term Assets	233	156
Current Assets		
Employees' Contributions due	2,208	2,288
Employers' Contributions due	5,801	6,823
Sundry Debtors	11,663	9,347
	19,672	18,458
Bank	5	(36)
Total Current Assets	19,677	18,422
Total Long Term and Current Assets	19,910	18,578

Analysis of Assets	31 March 2015	31 March 2016
	£'000	£'000
Long Term Assets		
Other Entities and Individuals	233	156
Central Government Bodies	148	0
Other Local Authorities	7,650	8,059
Other Entities and Individuals	11,874	10,399
Total Current Assets	19,672	18,458
Total Long Term and Current Assets	19,905	18,614

	31 March 2015	31 March 2016
Current Liabilities	£'000	£'000
Sundry Creditors	14,170	21,941
Benefits Payable	6,888	1,587
Total Current Liabilities	21,058	23,528

Analysis of Liabilities	31 March 2015	31 March 2016
	£'000	£'000
Central Government Bodies	1,503	1,909
Other Local Authorities	572	417
Other Entities and Individuals	18,983	21,202
Total Current Liabilities	21,058	23,528

Note 19: Related Party Transactions

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

The costs of these services for the North East Scotland Pension Fund amounted to £1,146,402 (2015 - £1,084,325).

Prior to the remittance of excess cash to the Investment Fund Managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £14,640,000 (2015 - £27,560,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £82,828 (2015 - £126,686) for the North East Scotland Pension Fund.

Note 20: Key Management Personnel

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

		Accrued Pension 2014/15	Accrued Pension 2015/2016
		£'000	£'000
Steven Whyte	Head of Finance	22	24

Governance

As at 31 March 2016, 6 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 2015/16, Elected Members' declared an admitted body interest in Oakbank School Trust.

Note 21: Contractual Commitments as at 31 March 2016

As at 31 March 2016 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	114,799	25,899
Standard Life	117,054	34,812
Partners Group	80,077	48,542
NESPF	0	0
Maven (SLF)	10,000	4,245
Capital Dynamics	20,000	18,900
RCP Advisors	17,394	16,872
Unigestion	27,749	23,679
Total	387,073	172,949

Note 22: 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 2015 to 5 April 2016

	£
Opening Net Asset Value	2,103,397
Total Income	75,133
Total Expenditure	243,520
Closing Net Asset Value	1,994,288

Prudential – Financial Statement for the period 1 April 2015 to 31 March 2016

	£
Opening Net Asset Value	22,765,446
Total Income	2,006,340
Total Expenditure	1,907,884
Closing Net Asset Value	23,347,664

Note 23: Contingent Assets/Liabilities

The North East Scotland Pension Fund holds three insurance bonds and one cash bond, 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 identified one potential Orphaned liability, which has yet to be quantified by the Scheme Actuary. Therefore, it has not been accrued within the accounts and is not considered to be material.

Note 24: Impairment Losses

During 2015/16 the Fund has recognised an impairment loss of £2,649,444 (2014/2015 £2,649,444) for possible non-recovery of pensioner death overpayments and potential non-payment of cessation values where the employer is not backed by a guarantee.

Note 25: Investment Principles

A summary of the Statement of Investment Principles is available on the Pension Fund's Website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Head of Finance, Aberdeen City Council, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

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

Note 26: Critical Judgements in applying Accounting Policies

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

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

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.
Private Equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Annual Accounts is £180 million. There is a risk that this investment may be under or overstated in the accounts.

Note 27: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Head of Finance on 24 June 2016. Events taking place after this date are not reflected in the Annual Accounts or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

Note 28: Agency 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:

	2014/15	2015/16
	£’000	£’000
Cost Incurred	6,025	6,019
Cost Recovered	6,025	6,019
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 (as percentage of payroll)	2015/16	2016/17	2017/18
	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, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS 19) assumptions, is estimated to be £75.3m (2015 £78.8m). The figure is used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

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

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

Note 2: Contributions Receivable

	2014/15	2015/16
	£'000	£'000
Employees' Normal Contributions	134	127
Employer's Normal Contributions	725	668
Employer's Deficit Recovery Contributions	1,494	1,508
Employer's Augmentation Contributions	0	0
Total Employers' Contributions	2,219	2,176
Total	2,353	2,303

	2014/15	2015/16
	£'000	£'000
Scheduled Body	2,353	2,303
Total	2,353	2,303

Note 3: Benefits Payable

	2014/15	2015/16
	£'000	£'000
Pensions	2,921	2,998
Commutation and Lump Sum Retirement Benefits	325	743
Lump Sum Death Benefits	85	3
Total	3,331	3,744

	2014/15	2015/16
	£'000	£'000
Scheduled Body	3,331	3,744
Total	3,331	3,744

Note 4: Payment to and on Account of Leavers

	2014/15	2015/16
	£'000	£'000
Contributions Refunded	1	0
Individual Transfers	0	0
Total	1	0

Note 5: Management Expenses

	2014/15	2015/16
	£'000	£'000
Pension Fund Staffing Costs – Administration	26	29
Support Services including IT*	15	16
Printing and Publications	1	1
Administration Expenses Total	42	46
Pension Fund Staffing Costs – Investment	3	3
Pension Fund Committee	1	0
External Audit Fee	1	1
Internal Audit Fee	1	0
Actuarial Fees	31	9
General Expenses*	1	3
Oversight and Governance Expenses Total	38	16
Investment Management	(13)	157
Custody Fees	11	9
Transaction Costs †	16	0
Investment Management Expenses Total	14	166
Management Expenses Grand Total	94	228

* Restated 2014-15 between the headings 'Support Services inc IT' £1K to 'General Expenses' £1K in accordance with CIPFA Guidance on Management Costs.

† A breakdown of Transaction Costs is shown below:

	31 March 2015	31 March 2016
	£'000	£'000
Fee/Tax	6	0
Commission	10	0
Total Transaction Costs	16	0

Note 6: Investment Income

	2014/15	2015/16
	£'000	£'000
Fixed Interest Securities	705	192
Equity Dividends	887	(66)
Pooled Investments	1	(1)
Interest on Cash Deposit	21	6
Other (including P/L from Currency and Derivatives)	160	373
Total	1,774	504
Tax -		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax – Equities	(75)	5
Withholding Tax – Pooled	(1)	1
Total Tax	(76)	6
Net Total	1,698	510

Note 7: Investment Assets

Reconciliation of Movements in Investments and Derivatives

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

	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	2,205	(26,210)	746	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	109,761	(103,714)	8,866	89,260
Cash	4,758				(189)
Net Investment Assets	79,105				89,071

Note 8: Analysis of Investments

	2014/15	2015/16
	£'000	£'000
Fixed Interest Securities		
UK		
Public Sector Quoted	37,107	37,135
Corporate Quoted	0	0
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	0	0
Corporate Quoted	0	0
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	37,107	37,135
Equities		
UK		
Quoted	24	0
Unquoted	0	0
Overseas		
Quoted	0	0
Unquoted	0	0
Subtotal Equities	24	0
Pooled Funds – Additional Analysis		
UK		
Fixed Income	0	0
Unit Trusts	8,309	8,229
Pooled Property Investments	0	0
Overseas		
Fixed Income	0	0
Unit Trusts	43,820	40,075
Subtotal Pooled Funds	52,129	48,304
Private Equity	0	0
Property	0	0
Cash Deposits	(189)	385
Investment Assets Total	89,071	85,824
Investment Liabilities		
Forward Ex	0	0
Derivatives	0	0
Investment Liabilities Total	0	0
Net Investment Assets	89,071	85,824

Note 9: Investments Analysed by Fund Manager

Investment Assets	31 March 2015	%	31 March 2016	%
	£'000		£'000	
Aberdeen Asset Managers	88,527	99.4	85,485	99.6
ACC Loan Fund Deposit	544	0.6	339	0.4
Net Investment Assets	89,071	100.0	85,824	100.0

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

Security	Market Value 31 March 2015	% of Total Fund	Market Value 31 March 2016	% of Total Fund
	£'000		£'000	
UK Gilt Inflation Regs 0.125% 22/03/2024	5,160	5.8	4,953	5.8
UK Gilt Inflation Regs 0.125% 22/11/2019	6,410	7.2	6,317	7.4
UK Gilt Inflation Regs 0.250% 22/03/2052	3,921	4.4	4,406	5.1
UK Gilt Inflation Regs 1.125% 22/11/2037	7,875	8.8	7,303	8.5
Aberdeen Life UK Growth FD-A	8,310	9.3	7,289	8.5
Aberdeen GL-Euro Eq Ex UK-D2	0	0.0	5,203	6.1
Aberdeen Life Diversify GW-AA	22,206	24.9	23,170	27.0
Aberdeen Life World EQ-1G	19,817	22.2	9,245	10.8

Note 10: Stock Lending

	2014/15	Collateral	2015/16	Collateral
	£'000	Percentage	£'000	Percentage
Stock on Loan				
Equities	4		0	
Fixed Interest	1		0	
Total Exposure	5		0	
Total Collateral	6	120.00	0	0.00

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

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

Note 11: Financial and Non-Financial Instruments

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

31 March 2015				31 March 2016		
Designated as Fair Value	Loans	Financial Liabilities at		Designated as Fair Value	Loans	Financial Liabilities at
Through Profit & Loss	and Receivables	Amortised Cost		Through Profit & loss	and Receivables	Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
37,107			Fixed Interest	37,135		
24			Equities	0		
52,129			Pooled	48,304		
0			Pooled Property	0		
			Cash		385	
	829		Debtors		664	
89,260	829	0	Subtotal	85,439	1,049	0
			Financial Liabilities			
	(189)		Cash			
		(260)	Creditors			(245)
89,260	640	(260)		85,439	1,049	(245)
		89,640	Financial Instruments Total			86,243
			Non-Financial Instruments			
0			Property	0		
89,260	640	(260)		85,439	1,049	(245)
		89,640	Net Assets of the Fund			86,243

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

31 March 2015		31 March 2016
£'000	Financial Assets	£'000
8,866	Fair Value through Profit and Loss	(2,560)
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
8,866	Net Gains and Losses on Financial Instruments	(2,560)
	Non-Financial Instruments	
0	Fair value through Profit and Loss	0
8,866	Net Gains and Losses of the Fund	(2,560)

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

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

Level 1

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

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

Level 2

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

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

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

	Quoted	Using	With	
	Market Price	Observable	Significant	
		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)
Total Financial Instruments	89,640	0	0	89,640
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss		0		0
Net Assets of the Fund	89,640	0	0	89,640

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

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Scheme Actuary, the Fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

Asset Type	Potential Market Movements (+/-)
Global Bonds	10.6%
UK Equities	20.0%
Overseas Equities	20.5%
Cash	1.2%

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

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

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

Asset Type	Value as at 31 March 2016	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash and Cash Equivalents	385	1.2%	390	380
Investment Portfolio Assets				
Global Bonds	37,135	10.6%	41,071	33,199
UK Equities	8,229	20.0%	9,875	6,583
Overseas Equities	40,075	20.5%	48,290	31,860
Total Financial Instruments	85,824		99,626	72,022
Non-Financial Instruments				
Property	0	N/A	0	0
Total Assets Available to Pay Benefits	85,824		99,626	72,022

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 Financial Instruments	89,071		100,715	77,427
Non-Financial Instruments				
Property	0	N/A	0	0
Total Assets Available to Pay Benefits	89,071		100,715	77,427

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 2016 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 2015	As at 31 March 2016
	£'000	£'000
Cash and Cash Equivalents	(189)	385
Cash Balances	1	1
Fixed Interest Securities	37,107	37,135
Total	36,919	37,521

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

Asset Type	Carrying Amount as at 31 March 2015	Changes 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

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 2016 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2015	Asset Value as at 31 March 2016
	£'000	£'000
Overseas Quoted Securities	0	0
Overseas Unit Trusts	43,820	40,075
Overseas Public Sector Bonds (Quoted)	0	0
Total Overseas Assets	43,820	40,075

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 2016	Change to Net Assets	Change to Net Assets
		+10%	-10%
	£'000	£'000	£'000
Overseas Quoted Securities	0	0	0
Overseas Unit Trust	40,075	44,083	36,067
Overseas Public Sector Bonds (Quoted)	0	0	0
Total Change in Assets Available	40,075	44,083	36,067

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

Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market Fund deposits are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

Deposits made to the Aberdeen City Council (ACC) loans fund are administered within the City Council treasury policy.

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2016 was £386,000 and at 31 March 2015 £(188,000). This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2015	Balance as at 31 March 2016
		£'000	£'000
Money Market Funds			
Deutsche Managed GBP	AAAm	9,473	0
Deutsche Euro	AAAm	13	1
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	544	339
BNY Mellon	AAAm	(10,219)	45
Subtotal		(189)	385
Bank Current Accounts			
Clydesdale Bank	BBB+	1	1
Total		(188)	386

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 2016 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2015 £0 which represented 0% of the total fund assets).

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

	31 March 2015	31 March 2016
	£'000	£'000
Long Term Assets	404	378
Employees' Contributions due	4	3
Employer's Contributions due	24	16
Sundry Debtors	396	266
	424	285
Bank	1	1
Total Current Assets	425	286
Total Long Term and Current Assets	829	664

Analysis of Total Assets	31 March 2015	31 March 2016
	£'000	£'000
Central Government Bodies	404	378
Other Entities and Individuals	0	0
Total Long Term Assets	404	378
Central Government Bodies	27	43
Other Local Authorities	0	0
Other Entities and Individuals	397	242
Total Current Assets	424	285
Total Long Term and Current Assets	828	663

	31 March 2015	31 March 2016
Current Liabilities	£'000	£'000
Sundry Creditors	107	108
Benefits Payable	153	137
Total Current Liabilities	260	245

Analysis of Liabilities	31 March 2015	31 March 2016
	£'000	£'000
Other Local Authorities	0	0
Other Entities and Individuals	260	245
Total Current Liabilities	260	245

Note 16: Related Party Transactions

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

The cost of these services for the Aberdeen City Council Transport Fund was £35,456 (2015 - £33,536).

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 £339, 000 (2015 - £544,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £1,698 (2015 - £2,213) for the Aberdeen City Council Transport Fund.

Note 17: Key Management Personnel

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

Note 18: Investment Principles

A summary of the Statement of Investment Principles is available on the Pension Fund's website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Head of Finance, Aberdeen City Council, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

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

Note 19: Critical Judgements in applying Accounting Policies

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

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

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

Appendix 1- Statement by the Consulting Actuary

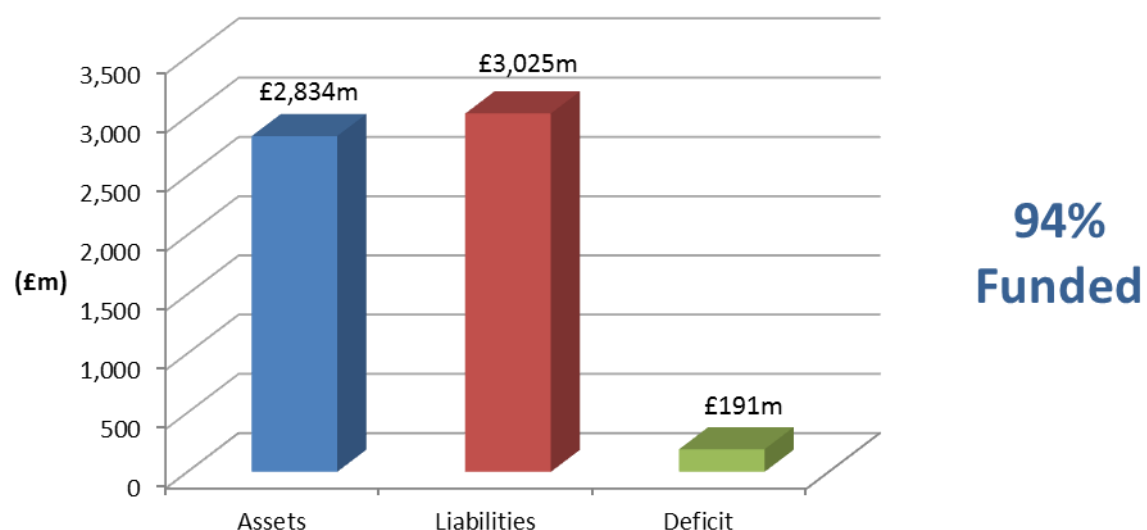
Accounts for the year ended 31 March 2016 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 55 (1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2014.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

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



The valuation also showed that a common rate of contribution of 14.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2015.

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

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

The funding plan adopted in assessing the contributions for each individual employer (or employer group) is in accordance with the Funding Strategy Statement (FSS).

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

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

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

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

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.3% per annum	3.6% per annum
Rate of pay increases	3.5% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% 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. 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 increased, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the extended long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end as at the beginning of the year (2.0% p.a.).

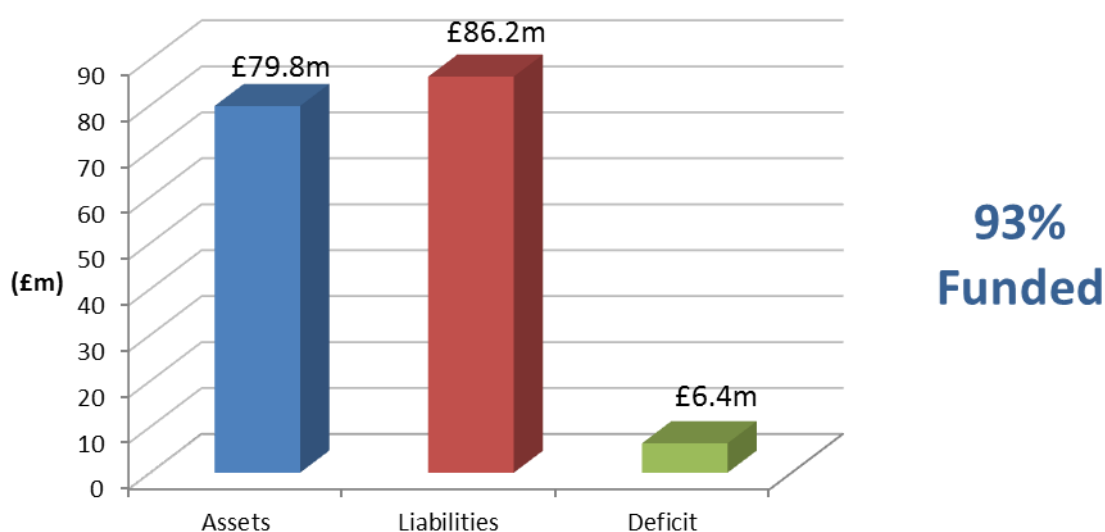
The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2015 was estimated as £3,874 million. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by c£226 million. Adding interest over the year increases the liabilities by c£128 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further c£27 million including any increase in liabilities arising as a result of early retirements / augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £3,803 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 2015	31 March 2016
Rate of return on investments (discount rate)	3.2% per annum	3.5% per annum
Rate of pay increases	4.0% per annum*	4.0% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% 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. 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 increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.5% p.a. versus 3.2% p.a.). There was no change in the extended long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end as at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £78.8 million. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by c£3.4 million. Adding interest over the year increases the liabilities by c£2.5 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£2.6 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 2016 is therefore £75.3 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2016

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

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

48	Pathways	Admitted
49	Cairngorms Outdoor Access Trust	Admitted
50	Aberdeenshire Housing Partnership	Admitted
51	Aberdeen Performing Arts	Admitted
52	Aberdeen International Youth Festival	Admitted
53	Sanctuary Housing	Admitted
54	Tenants First Housing Co-op	Admitted
55	Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1	First Aberdeen	Scheduled
---	----------------	-----------

Exempt information as described in paragraph(s) 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Exempt information as described in paragraph(s) 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank