

ABERDEEN CITY COUNCIL

COMMITTEE: Council

DATE: 13 June 2012

DIRECTOR: Stewart Carruth

TITLE OF REPORT: Draft Pension Fund Financial Statements 2011/12

REPORT NUMBER: CG/12/077

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide to elected members a copy of the Pension Fund's draft 2011/12 Statement of Accounts, (Appendix A).
- 1.2 Following the introduction of new statutory requirements in 2011, the Pension Fund is now required annually to present a set of draft Pension Fund accounts to Audit Scotland by 30 June separate from the accounts prepared by the City Council.
- 1.3 It has been agreed with external audit that work with regard to the Pension Fund accounts will be carried out during the month of June ahead of the submission of the draft accounts to Audit Scotland at the end of June. This report provides an overview of the year-end financial position and the assets of the Pension Fund and Transport Fund as at 31 March 2012.

2. RECOMMENDATION(S)

- 2.1 It is recommended that the Council:
 - a) note the Draft Statement of Accounts, and financial performance of the North East Scotland Pension Fund and Transport Fund contained therein, which will be submitted to Audit Scotland by 30 June 2012;
 - b) note that the audited Financial Statements will be presented to the Pensions Panel, by external audit in the Autumn.

3. FINANCIAL IMPLICATIONS

- 3.1 The financial implications of the Draft Financial Statements are detailed throughout the body of the report.

4. OTHER IMPLICATIONS

- 4.1 Every organisation has to manage the risks inherent in the operation of services on the scale of the Pension Funds. These risks are minimised by the regular review of financial information by the Head of Finance and corporately by the Pensions Panel. This report forms part of the end of year reporting cycle and seeks to clarify the overall operating conditions and outcomes that have resulted in the past year.

5. REPORT

- 5.1.1 There is a statutory requirement that an abstract of the accounts for each financial year be submitted to the Controller of Audit not later than 30 June in the next financial year.
- 5.1.2 In effect this means that Financial Statements for 2011/12, which are prepared in accordance with the relevant Accounting Codes of Practice, require to be submitted by 30 June 2012 to Audit Scotland.
- 5.1.3 For ease of reference the report is broken down into the following sections:

- 5.2. Accounting Requirements
- 5.3. Accounts
- 5.4. Annual Report Requirements
- 5.5. Inspection and Audit of Accounts

5.2. Accounting Requirements

The Pension Funds financial statements should be prepared in accordance with proper accounting practices set out in the *Code of practice on local authority accounting in the UK* (the Code).

The Code requires authorities to account for pension funds in accordance with *IAS26 Retirement benefit plans*. IAS26 provides guidance on the form and content of the financial statements prepared by pension funds. It compliments *IAS19 Employee Benefits* which deals with the determination of the costs of retirement benefits in the financial statements of employers.

5.3. Accounts

- 5.3.1 Members are requested to draw their attention to the Explanatory Foreword in the Statement of Accounts which summarises;
- the statutory framework of the North East Scotland Pension Fund and Transport Fund,
 - the scheme membership,
 - its accounting policy with regard to the Fund's investments

5.3.2 The purpose of the Funds is to provide a sustainable and affordable final-salary pension to its members, both present and future.

5.3.3 The aim of Aberdeen City Council as the administering authority is to:

- Maintain employer contributions as near constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies, having regard to the benefits being paid and those due to be paid at a future date;
- to manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding;
- to encourage membership;
- to ensure that sufficient resources are available to meet all liabilities as they fall due;
- to maximise the returns from investments within reasonable risk parameters;
- to achieve excellent customer care;
- to continually improve service delivery

5.3.4 The financial statement reflects the income and expenditure of the Fund's and the value of the Funds investment assets. The key items of note are detailed at Appendix B.

5.3.5 As at 31 March 2011 the funding position as assessed by the scheme actuary was 88% funded for the North East Scotland Fund and 95% funded for the Transport Fund. The 2011 triennial valuation set the employer contribution rate for all admitted and scheduled bodies for the period to 2012 to 2015. Throughout the valuation process the actuary sought to maintain stability of employer contribution rates with the average employer combined rate set for the North East Scotland Pension Fund at 19.3% of pensionable payroll for each of the three years 2012 to 2015. The Transport Fund as a closed fund has agreed a specific funding programme with the single scheme employer First Aberdeen.

5.3.6 The Funds saw an increase in asset value over the 12 month period to 31 March 2012 for the North East Scotland Pension Fund of £51 million and £4 million for the Transport Fund. Full details of the investment performance of the funds will be given in the Pension Fund Annual Report.

5.4. Annual Report Requirements

5.4.1 Local authorities responsible for administering a pension fund (administering authorities) forming part of the Local Government Pension Scheme (LGPS) are required by a recent amendment to the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report from 2010/11.

5.4.2 The annual report is a publication separate from the authorities own statutory accounts and contains financials statements in respect of each pension fund maintained by an authority. Authorities are required to publish the annual report by 1 December.

5.4.3 In addition to the financial statements and notes, the report is required to contain;

- A report about the management and financial performance of the funds during the year, a report explaining the authority's investment policy and reviewing the performance during the year of the investments of each fund, and a report of the arrangements made during the year for the administration of the funds
- A statement by the actuary of the level of funding disclosed by their valuation
- The governance compliance statement, funding strategy statement, and statement of investment principles (or details where these can be obtained)
- The extent to which levels of performance set out in the pension fund administration strategy have been achieved
- Any other material which the authority considers appropriate

5.4.4 The Pension Fund Annual report is currently being drafted and will accompany the Final Statement of Accounts, when presented to the Pensions Panel later in the year.

5.5. Inspection and Audit of the Accounts

5.5.1 The audit of the Pension Fund accounts is not subject of a separate audit appointment. The appointed auditor to the City Council (the administering authority) will be required to issue a separate audit opinion on the abstract relating to the Pension Funds.

5.5.2 The deadlines that apply to the Pension Funds financial statements (as an abstract) are the same as those for the main accounts of the City Council i.e. they must be prepared and submitted for audit by 30 June. The audit deadline set by the Accounts Commission of 30 September also applies. As stated above authorities are required to publish the Pension Funds annual report by 1 December.

6. IMPACT

- 6.1 The Pension Funds, administered by Aberdeen City Council, are managed for the benefit of members of the local government pension scheme and investment decisions are taken in line with their investment strategy.

7. REPORT AUTHOR DETAILS

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8. BACKGROUND PAPERS

Draft Financial Statements for Financial Year 2011/12

INCOME

Income from Pension Funds contributions has risen for both funds; this rise comes mainly from the higher employer contributions. Employee contributions are less than last year due to the reduction in number of contributing members.

Investment income has marginally increased for both funds, with higher income from equity holdings as detailed in the notes to the accounts.

EXPENDITURE

Pensions payable have increased for both funds. This is in line with the increase in the number of retired members, as per the membership information stated in the notes to the accounts.

Fund Administration costs for the North East Scotland Pension Fund have risen over the year due to significant costs associated with the 2011 actuarial valuation and work associated with scheme employers.

Investment management expenses have decreased from £8.8 million for 2010/11 to £5.4 million. This decrease is due to the reduction in performance fees paid to asset managers during the year.

NET ASSETS

Net increase in Assets for the North East Scotland Pension Fund for 2011/12, were £51,375,000 and broken down as follows:

Main Fund

Change in Market Value	(£6,354,000)
Realised Gains	(£16,155,000)
Net income from Contributions Receivable and Benefits Payable	£35,229,000
Investment Income	£44,068,000
Investment management expenses of	(£5,431,000)

Transport Fund

Net increase in Assets for the Transport Fund for 2010 / 2011, were £4,445,000 and broken down as follows:

Change in Market Value	(£346,000)
Realised Gains	£3,690,000
Net income from Contributions Receivable and Benefits Payable	(£650,000)
Investment Income	1,762,000
Investment management expenses of	(£11,000)