

North East Scotland  
**PENSION FUND**

**DRAFT ANNUAL REPORT  
& FINANCIAL STATEMENTS**

**FOR THE PERIOD**

**1 APRIL 2014 TO 31 MARCH 2015**

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



# Contents

Management Commentary .....	3
1. Financial Statements.....	4
2. Fund Administration .....	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 .....	16
9. Benefit Administration .....	18
10. Technical & Communication .....	20
11. Risk .....	26
12. Funding Strategy Statement .....	28
13. Statement of Investment Principles.....	29
14. Corporate, Environmental and Social Governance .....	30
15. Future.....	34
16. Accounts for the year ended 31 March 2015 - Statement by the Consulting Actuary .....	35
17. Employers .....	41
Statement of Responsibilities .....	43
Annual Governance Statement.....	45
1. The Governance framework of the Council and North East Scotland Pension Fund .....	45
2. These arrangements also include: .....	46
3. Governance Compliance Statement .....	50
4. Compliance with the Myners Principles.....	52
Draft Financial Statements .....	56

# Management Commentary

Following the introduction of The Local Authority Accounts (Scotland) Regulations 2014 which came into force on the 10<sup>th</sup> October 2014 The Local Government Pension Scheme administered by Aberdeen City Council is required to provide a management commentary, taking the same approach as the central government Financial Reporting Manual. This requires the management commentary to reflect those matters companies are required to disclose under the Companies Act 2006, interpreted for local authorities.

These regulations are in addition to the existing reporting requirements under The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

Management Commentary is to include details of the Fund's business, risk and uncertainties facing the Fund, performance and financial position including key performance indicators and environmental and social issues within a strategic report.

The following report aims to address the above providing strategic and operational commentary on the performance, the management and roles and responsibilities of all those involved with the Pension Fund.

## Report

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

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

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

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

# Financial Statements

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

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

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

The Financial Statements for the North East Scotland Pension Fund show that members' contributions have increased slightly in 2014/15 to £26.7 million from £26 million. Total overall income in respect of members has increased to £118.3 million from £110.7 million in 2013/14, with member expenditure increasing to £117.5 million from £108.8 million over the same period in 2013/14.

Investment income has decreased from £55.2 million in 2013/14 to £49.4 million in 2014/15.

Also included within the Financial Statements is the Aberdeen City Council Transport Fund which shows that members' contributions decreased from £144,000 in 2013/14 to £134,000 in 2014/15. Total overall income in respect of members has increased to £2.7 million from £2.5 million in 2013/14, with member expenditure down to £3.4 million from £3.5 million in 2013/14.

Investment income has remained the same as 2013/13 at £1.7 million.

With most major investment markets delivering strong returns over the financial year to 31 March 2015, the Fund's investment gains have increased in value by £292.5 million with the Transport Fund experiencing an increase in asset value of £8.8 million. This was due to a number of factors including increasing investor confidence and overall good performance from the Fund's Investment Managers.

# Fund Administration

<b>Administering Authority</b>	Aberdeen City Council
<b>Committees</b>	Pensions Committee, Joint Investment Advisory Committee
<b>Head of Finance</b>	Steven Whyte
<b>Actuary</b>	Mercer
<b>Global Custodian</b>	Bank of New York Mellon
<b>Performance Measurement</b>	Bank of New York Mellon
<b>Bank</b>	Clydesdale Bank
<b>AVC Providers</b>	Prudential, Standard Life Assurance Company
<b>External Auditors</b>	Audit Scotland
<b>Internal Auditors</b>	PricewaterhouseCoopers LLP
<b>Employers</b>	For full details see pages 41 and 42

# Pension Fund Committees

## **Pension Fund Committee**

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

At a meeting held on 20 August 2014, the council agreed to increase the membership of the Pensions Committee from 5 to 9 members. It was at that meeting the council also agreed that the Pensions Panel would be renamed as the Pensions Committee. This change took effect on 8 October 2014 and the first meeting of the Pensions Committee was held on 24 November 2014.

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

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

## **Membership during 2014/15**

Councillor Barney Crockett (Convener)  
Councillor John Reynolds (Vice Convener)  
Councillor Jim Noble  
Councillor Aileen Malone  
Councillor Alan Donnelly  
Councillor James Kiddie – Joined 20 August 2014  
Councillor Jenny Laing – Joined 20 August 2014  
Councillor Willie Young – Joined 20 August 2014  
Councillor Andrew May – Joined 20 August 2014 and left 12 January 2015  
Councillor Neil MacGregor – Joined 12 January 2015

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

The JIAC consists of 19 members, 9 elected members from Aberdeen City Council (members of the Pensions Committee), 4 elected members from Aberdeenshire Council, 2 elected members from The Moray Council, 1 member represents the Colleges and Admitted Bodies, 1 member represents Scottish Water and there are 2 Trade Union representatives.

## Membership during 2014/15

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

Councillor Barney Crockett (Convener)	Aberdeen City Council	
Councillor John Reynolds	Aberdeen City Council	
Councillor Jim Noble	Aberdeen City Council	
Councillor Aileen Malone	Aberdeen City Council	
Councillor Alan Donnelly	Aberdeen City Council	
Councillor James Kiddie	Aberdeen City Council	Joined August 2014
Councillor Jenny Laing	Aberdeen City Council	Joined August 2014
Councillor Willie Young	Aberdeen City Council	Joined August 2014
Councillor Andrew May	Aberdeen City Council	Joined August 2014, Left January 2015
Councillor Neil MacGregor	Aberdeen City Council	Joined January 2015
Councillor Alastair Bews	Aberdeenshire Council	
Councillor Richard Cowling (Vice Convener)	Aberdeenshire Council	
Councillor Sheena Lonchay	Aberdeenshire Council	
Councillor Michael Watt	Aberdeenshire Council	
Councillor Graham Leadbitter	The Moray Council	
Councillor Gary Coull	The Moray Council	
Mr Michael McCall	Colleges & Admitted Bodies	
Mr Alun Williams	Trade Union representative	
Mr Michael Middleton	Trade Union representative	
Mr Alan Scott	Scottish Water	

# Fund Achievements

Following on from the achievements made in the development of systems in 2013/14, 2014/15 saw the Fund continue to focus on streamlining processes and utilising advanced technical programmes to provide an integrated, informative service to both members and employers. This was achieved by the implementation of I-Connect and the continued rollout of Employer Services – both software solutions that allow employers to provide data electronically.

One of the only LGPS funds to utilise 2 systems to reflect the needs and capacities of employers, the introduction of these facilities has resulted in numerous benefits including cost savings, reduced processing times, improved data accuracy and performance monitoring.

Supporting the technical changes, the dedicated Employer Relationship Team has played a prominent role during 2014/15. Executing a number of regular events for employers including training sessions and forums, the team also assisted the introduction of the employer covenant agreement.

The Fund continued to operate in a changing environment with preparations for the new LGPS scheme being a priority in 2014/15. Recognising the need to maintain communication with all members, the Fund has sustained an active presence on its website and social media whilst also offering pension surgeries and providing physical communication materials addressing Fund updates. Ensuring members have an awareness of the LGPS 2015 has been a main concern for the Fund and as such a range of dedicated materials have focused primarily on this area.

Further details of the above can be found in the Technical and Communications Report.

Going forward, in response to increasing governance arrangements, the Fund has been developing a Governance team to help deliver new arrangements as well as successfully establishing the Pensions Board. Further information regarding the new arrangement will be available throughout 2015/16.

With 31 March 2014 being the Funds' Actuarial Valuation year, considerable resources were dedicated to facilitating this process. Once all data was verified and presented to the scheme actuary, consultation commenced during the period November 2014 through to February 2015 with scheme employers. Following consultation, a funding level of 94% has been certified by the scheme actuary with contributions remaining stable and at previous levels for many of the schemes employers, while the Fund continues to reduce its deficit recovery period.



# Investment & Accounting

The investment and accounting team are responsible for all aspects of the financial management of the Pension Fund, covering the following:

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

During 2014/15 the North East Scotland Pension Fund continued to implement the Fund's investment strategy following the review that took place during 2012. These included continued diversification and the rebalance of exiting mandates.

Additional commitments to SL Capital together with an allocation to Diversified Growth Funds, which will conclude during 2015 the Fund continues to fund its commitments across its alternative portfolio.

The accounting team provides support across the Fund and continues to work with the team to ensure accurate and timely data. The team has also worked closely with third party providers including Fund Managers, the Global Custodian and Consultants providing and sharing data and ensuring consistency.

# Investment Strategy

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

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

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

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

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

## Asset Structure 2014/15

Asset Class	Distribution as at 31 Mach 2014		Distribution as at 31 March 2015	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
<b>Equities (including Alternative Assets)</b>	83.7	80.0	82.2	80.0
<b>Bonds</b>	7.8	10.0	7.8	10.0
<b>Property</b>	5.6	10.0	6.9	10.0
<b>Cash</b>	2.9	0.0	3.1	0.0
<b>Total</b>	100.0	100.0	100.0	100.0

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

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

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

# Investment Performance

During the past twelve months, investment markets have delivered positive results with equity indices in the US and the UK reaching record highs. This was helped in part by an increase in investor confidence, and improved economic and corporate fundamentals in the US. However, other countries which have seen weaker fundamentals have also seen strong returns, thanks in part to the continuation of loose monetary policy in many developed countries.

Geopolitical concerns, a sharp fall in the oil price and the resulting weakness in both oil-exporting countries and oil-related companies led to an increase in market volatility in the second half of 2014. Oil exporters, such as Russia, were hurt by the falling oil price, as they rely on their oil exports in order to run a balanced budget. However, the weaker oil price was beneficial for some countries - particularly net oil importers such as Japan, China and India - and consumers more generally.

## **US:**

In the US, despite occasional setbacks, confidence in the economic recovery continued to grow. Unemployment fell from over 6% at the start of the period to around 5.5% at the end of March. This more favourable backdrop prompted the Federal Reserve to reduce and then halt its quantitative easing bond-buying programme. Good corporate results and the return of considerable amounts of cash to shareholders through share buyback programmes and dividend payments, has helped US stock market returns over the last year.

## **UK:**

Economic data in the UK also suggested an improving environment, with the revised GDP figure for 2014 above forecast. As an oil-importing nation, the UK consumer has benefitted marginally from a lower oil price. However, the UK index has a large weighting in oil-related industries, and poor performance in this sector served to dampen overall index returns. Despite this setback, the last twelve months have seen strong financial results from companies, which have been benefitting from the low interest rate environment, as well as sustained consumer spending levels. However, there are still some concerns that very low levels of inflation (reaching zero in early 2015) may be inhibiting companies from investing their growing cash balances in expansion projects, which could have negative implications for future growth prospects.

## **Europe:**

Economic recovery has remained weak in Europe, and deflation continues to plague even the largest Eurozone members. However, support grew for European markets as the European Central Bank announced plans to increase its programme of quantitative easing. This program has served to weaken the Euro and bring down bond yields. The longer term intent is to stave off further deflation and boost investor confidence.

While the win for the leftist Syriza Party in the Greek election caused some concern about financial stability in Europe, the new government secured agreement with Eurozone partners to extend Greece's bailout deadline in early March. The

European index finished the period with record highs, although a weakened Euro has diminished the return to sterling investors.

### **Japan:**

In Japan, the government moved to implement the third of prime minister Abe's 'three arrows', aimed at structural reform and creating a basis for the fragile economic recovery to gather pace. However, change was slower than many had hoped and Abe called a snap election in a bid to secure a stronger mandate to enact his policies. He was returned to power with a substantial majority, giving him the authority to resume his economic plan at his chosen pace. As the world's third largest economy, Japan's success or failure in implementing structural reform could prove key in the revitalisation of the global economy.

Japan continues to support loose monetary policy. The Bank of Japan surprised markets towards the end of last year when they expanded their already massive stimulus program, injecting a further 80 trillion yen into the economy through a spate of asset-buying activity by the government. This program has been successful at extracting Japan from their long period of deflation, although two quarters of economic contraction in the year have undermined the 'growth' element of Abe's grand economic plan.

### **Emerging Markets:**

The last year has seen Emerging Market countries diverge in terms of economic performance. Asian economies continue to lead the way in terms of economic growth, with both domestic consumption and international demand continuing to drive growth in China, India, the Philippines and Indonesia. Meanwhile, behemoths Russia and Brazil have had a poor year, both in terms of economic growth and index returns.

With oil and gas revenues typically contributing up to 50% of its federal budget, Russia was hit particularly hard by the falling oil price. A lower oil price for exporting countries means much lower tax revenues to pay off debt and run public services. This was the case last year for Russia, which saw a significant fall in the value of their currency, and an increase in its cost of debt. This contributed to a year of low growth, low investor confidence, and negative real equity returns.

Brazil, another oil-exporting nation, continues to be hampered by high inflation, weak demand for commodities, low levels of investment and persistent infrastructure bottlenecks. This accumulation of problems has led to low consumer confidence and political discord. As such, it is unsurprising to see Brazil as one of Emerging Market's underperformers.

### **Equities**

Against this backdrop, the US equity market reached record highs, resulting in a 25% return for sterling investors. Supportive monetary policy in the Eurozone led to a 19% rise in the index, although the devaluation of the Euro translated this to 7% in sterling. The UK equity market returned a reasonable 6.6%; despite positive consumer confidence and supportive monetary policies, the index has a heavy exposure to resources which weighed on performance last year. Emerging Markets

gained 16%, with the majority of value from Asia, and the Japanese market gained 27%.

### **Bonds**

The sharp fall in the oil price pushed down inflation and caused government bond yields, which move inversely to bond prices, to touch record lows. Towards the end of the period, the European Central Bank began a programme of quantitative easing, driving German bunds and peripheral European bond yields lower. The decision of central banks to maintain interest rates at very low levels proved supportive for government bonds, which performed extremely well throughout the period, recording a rise of 14% over the year as a whole. Against this backdrop and with default rates at low levels, UK corporate bonds also performed strongly, recording returns in excess of 13% over the period.

### **Property**

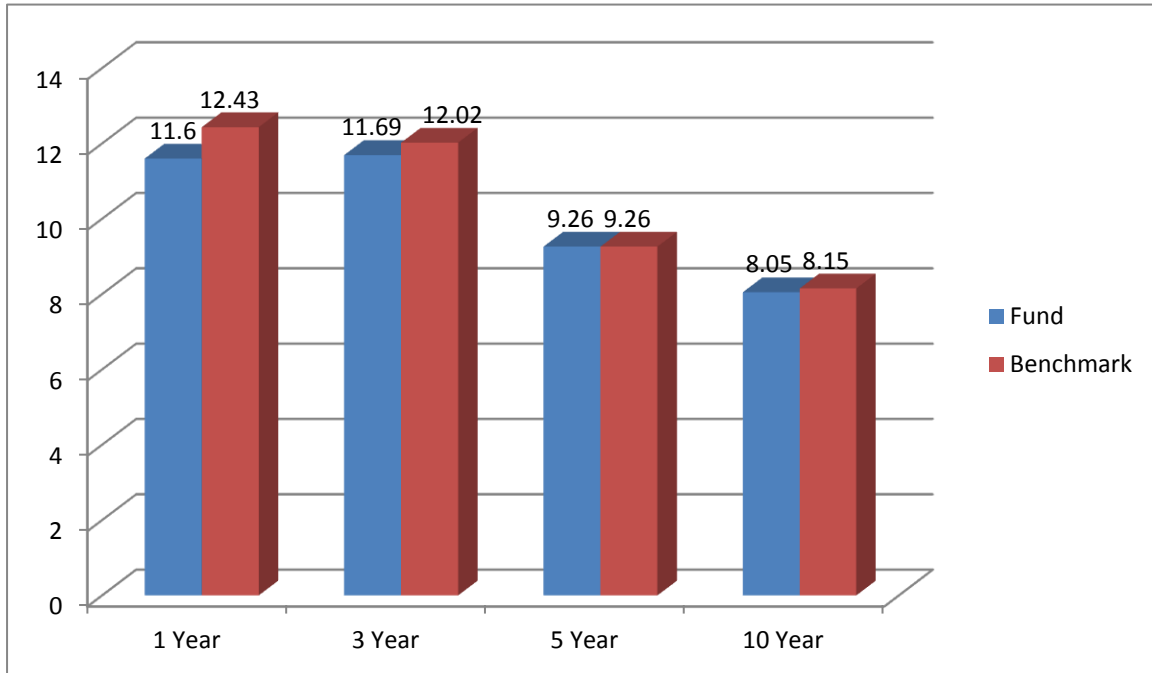
Property markets were strong over the period, generating a return of 18.3% across all UK property types. Office and Industrial property generated the highest returns at over 20%, with Retail property providing returns of 13%.

<b>Market Returns</b>	<b>1 Year (%)</b>	<b>3 Years (% p.a.)</b>	<b>5 Years (% p.a.)</b>
<b>Equities:-</b>			
FTSE All Share Index	6.57	10.63	8.34
FTSE ALL World Index	19.17	14.20	10.02
FTSE All World ex UK	20.25	14.58	10.22
FTSE North American Index	25.14	18.08	14.03
FTSE Europe (ex UK) Index	7.48	14.14	7.21
FTSE Japan Index	27.14	12.68	6.75
FTSE Developed Asia Ex Japan Index	10.56	7.40	6.07
FTSE Emerging Markets Index	16.34	3.68	2.67
<b>Bonds:-</b>			
FTA Government Securities All Stocks	13.91	5.32	7.05
ML UK Corporate Bonds	13.27	8.83	8.17
FTA Index Linked All Stocks	18.55	7.92	9.60
(Note: Values above are total returns in Sterling)			

### North East Scotland Pension Fund

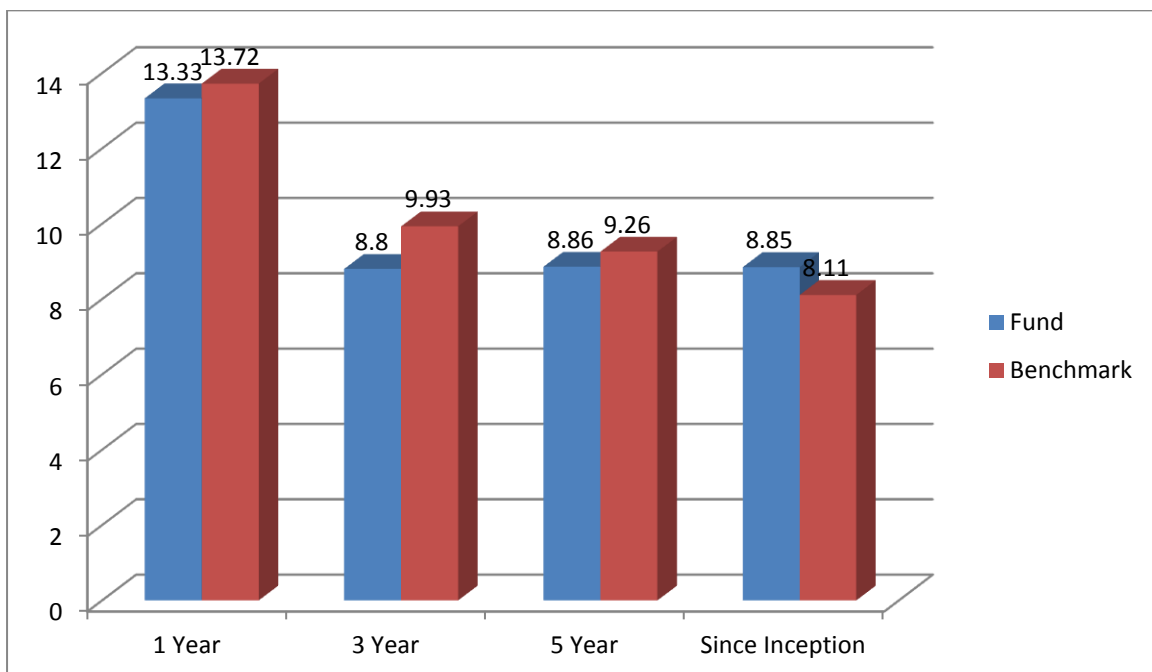
In 2005 a long term investment strategy for the NESPF was agreed with a customised benchmark with the aim to deliver a return of 1% over the benchmark over a rolling three year period.

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



### Aberdeen City Council Transport Fund

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



## Long Term Fund Performance

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

Year Ending	2012/13 %	2013/14 %	2014/15	3 Year Annualised %	5 Year Annualised %
CPI	2.2	2.7	1.2	2.0	2.9
Average Earning	1.8	0.9	1.5	1.4	1.7
NESPF Return	12.9	10.4	11.6	11.7	9.3

## Investment Management Structure

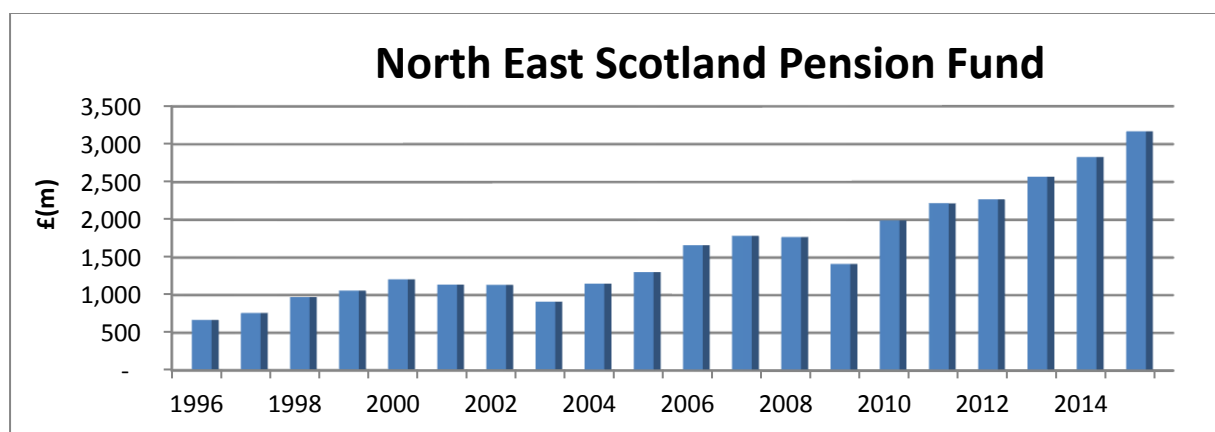
Manager	31 March 2014 £M	31 March 2014 %	31 March 2015 £M	31 March 2015 %
SSGA	934	33.0	1,043	33.0
Baillie Gifford	631	22.3	732	23.1
Blackrock	391	13.8	397	12.5
Barings	244	8.6	268	8.5
AAM Global	251	8.8	278	8.8
AAM Property	162	5.7	217	6.9
Harbour Vest	71	2.5	86	2.7
SL Capital Partners	48	1.7	41	1.3
Partners Group	13	0.4	15	0.5
AAM Frontier Fund	36	1.3	38	1.2
Maven Capital	2	0.1	3	0.1
NESPF	3	0.1	0	0.0

# Financial Performance

## North East Scotland Pension Fund Financial Summary

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Contributions Less benefits and expenses paid <b>Net additions</b>	<b>26,897</b>	<b>35,229</b>	<b>361</b>	<b>1,833</b>	<b>841</b>
Net investment income Change in Market Value <b>Net return on Investment</b>	<b>199,197</b>	<b>15,879</b>	<b>300,543</b>	<b>275,465</b>	<b>341,898</b>
<b>Net increase in Fund</b>	<b>226,094</b>	<b>51,108</b>	<b>300,904</b>	<b>263,555</b>	<b>327,989</b>
<b>Fund Balance as at 31 March (Market Value)</b>	<b>2,218,008</b>	<b>2,269,116</b>	<b>2,570,020</b>	<b>2,833,575</b>	<b>3,161,564</b>

### Fund balance as at 31 March 2015 (£m)



### Membership Statistics

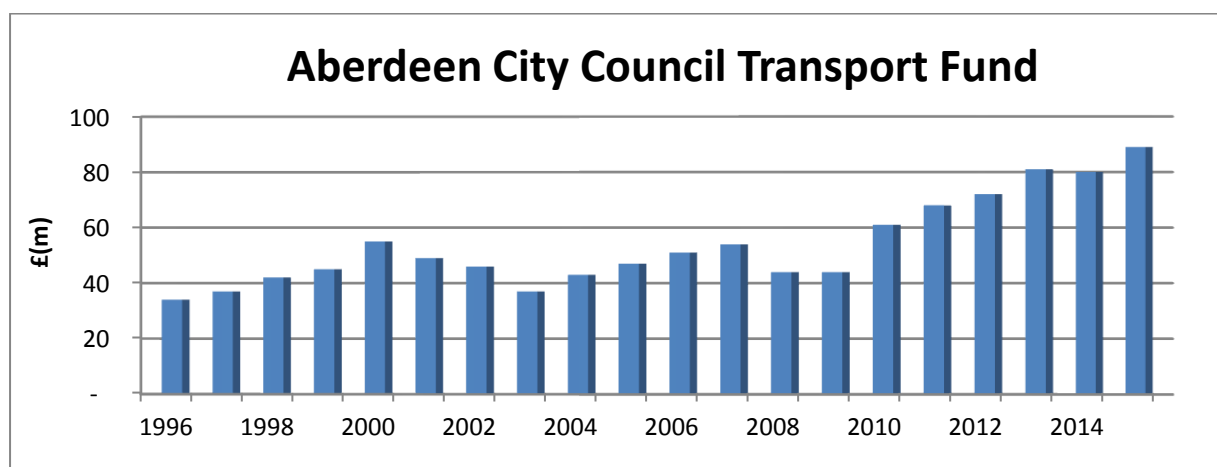
	2010/11	2011/12	2012/13	2013/14	2014/15
Active	21,268	20,361	20,869	22,880	24,089
Pensioners	14,861	15,768	16,472	17,106	17,726
Deferred	16,125	16,425	16,876	17,267	17,759



## Aberdeen City Council Transport Fund Financial Summary

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Contributions Less benefits and expenses paid <b>Net additions</b>	<b>742</b>	<b>(650)</b>	<b>(1,190)</b>	<b>(989)</b>	<b>(749)</b>
Net investment income Change in Market Value <b>Net return on Investment</b>	<b>6,418</b>	<b>5,095</b>	<b>9,583</b>	<b>92</b>	<b>10,548</b>
<b>Net increase in Fund</b>	<b>7,160</b>	<b>4,445</b>	<b>8,393</b>	<b>(896)</b>	<b>9,802</b>
<b>Fund Balance as at 31 March (Market Value)</b>	<b>67,896</b>	<b>72,341</b>	<b>80,734</b>	<b>79,838</b>	<b>89,640</b>

### Fund balance as at 31 March 2015 (£m)



### Membership Statistics

Transport Fund	2010/11	2011/12	2012/13	2013/14	2014/15
Active	120	105	92	85	78
Pensioners	367	381	393	405	403
Deferred	168	163	166	155	150

# Benefit Administration

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

The benefits team saw an increased workload in 2014/15 however the expansion of electronic data exchange through I-Connect and Employer Services has greatly benefited scheme administration, resulting in improved processing times, cost savings and more accurate data. As these services continue to be rolled out the Fund will also benefit from a reduced administrative burden at year end. More information on data performance and electronic data exchange can be found in the Technical and Communication Report.

We continued to assist employers with auto enrolment with detailed guidance available on our website and in the coming year will look to aid those employers going through the re-enrolment process.

## **Reform of LGPS Scotland**

Delivery of the new LGPS Scotland was the primary project undertaken by the Pension Fund in 2014/15. As part of the implementation plan, staff participated in a comprehensive training programme which included 2 external training workshops as well as a series of internal training sessions delivered by the Fund's Training and Development Officer.

In addition to developing staff knowledge, Pension Officers delivered over 50 LGPS 2015 presentations, helping to inform approximately 1500 members about the new scheme.

As part of the national Testing Working Party, staff extensively tested the Fund's pension administration system to ensure the system could administer new scheme provisions. In conjunction administration procedures and documentation were reviewed and amended in accordance with new legislation.

## **Transfer for Police and Fire Scheme Administration to SPPA**

Following initial meetings in 2013/14, the Fund engaged with the SPPA to discuss the transfer of Police and Fire administration. In line with the agreed timescale, affected members were notified of the changes via their annual benefit statements in November with the successful transfer of over 2000 police and fire member records in December 2014.

## **Statements**

Year-end processing of LGPS member records which included data checks for approximately 22,000 members was completed by 31 August 2014. Annual Benefit Statements for over 36,000 active and deferred members were issued by November 2014.

Annual Allowance calculations were run by Altair for all members and resulted in a number of Pension Saving Statements being issued to those close to, or exceeding, the £40,000 annual allowance limit.

### **Workflow and Performance Management**

Over the past 12 months work has been underway to utilise the management workflow module of the Fund's pension administration system. This function is designed to help staff process their daily work and allows tasks on the system to be automatically allocated based on a number of factors such as skill level and weighting. Workflow will provide quarterly performance reporting on NESPF key administration tasks as well as more accurate and meaningful management information. Considerable testing has taken place and new workflow procedures were made available to staff in March 2015.

### **Customer Service**

In addition to maintaining member records, the benefits team also provide frontline services to our members and are committed to providing this to the highest standard. With increasing membership levels the benefits team have dealt exceptionally well with the rising number of queries; the team answered nearly 16,000 calls and responded to over 4,200 emails in 2014/15. The Fund's move to a more central location in Aberdeen has also resulted in increased drop-in meetings with members. The benefits team also offer a range of member presentations at the request of employers and in the 12 months to 31 March 2015 delivered 6 pre-retirement surgeries and 4 induction courses.

# Technical & Communication

This year's report focuses on Testing Working Party participation, employer and NESPF performance during 2014/15 and what is being done to ensure accurate and up to date data is held on the pension administration system.

## Testing Working Party (TWP)

NESPF joined forces with Highland, Northern Ireland Local Government Officers Superannuation (NILCOS), Shetland and Strathclyde Pension Fund in a regional TWP organised by the Computerised Local Authority Superannuation System (CLASS) group for the benefit calculation software release required for the new CARE scheme in Scotland commencing on 1 April 2015.

A coordinated approach was adopted and regional testing groups were created and allocated specific areas to test by the national TWP which was chaired by Oxfordshire County Council. NESPF were to focus on commutation and additional pension as well as carrying out regression testing to ensure CARE developments did not affect existing calculation routines.

The 2015 software was delivered at the end of December and a period of intensive testing involving 7 members of staff commenced in January. Conference calls were held on 6, 13, 16 and 20 January to discuss progress and issues discovered amongst the group. NESPF tested 69 scenarios and discovered 8 errors which were raised via the TWP with the CLASS group software provider.

The CARE software release was signed off by the chairperson on 9 February once all the errors discovered had been fixed or scheduled for the 2015.1 release later in the year. The final version of the 2015 software was delivered into our Test service on 19 February followed by a Live service delivery on the 6 March in plenty of time for the new scheme.

Feedback on our testing experience was provided to the national chairperson who then reported back to the CLASS Group Management Team attended by NESPF on 12 March.

## Pension Administration Strategy (PAS)

A PAS was created in accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008 and published in July 2013 following consultation with employers. The strategy specifies levels of service and performance measures for participating employers and the NESPF.

## NESPF Performance Measurement

NESPF service standard	Target	2013/14	Amount	Achieved	2014/15
Letter notifying death in service	5 days	77%	29	18	62%
Letter notifying retirement estimate	10 days	100%	796	745	94%
Letter notifying actual retirement benefits	10 days	82%	1,004	880	88%
Letter notifying deferred benefits	10 days	95%	1,230	1,133	92%
Letter notifying amount of refund	10 days	95%	829	810	98%
Letter detailing transfer in quotes	10 days	99%	172	163	95%
Letter detailing transfer out quotes	10 days	88%	176	150	85%
		91%	4,236	3,899	92%

NESPF overall performance for 2014/15 was consistent with the previous year's performance and remains above 90%.

## Employer Performance Measurement

Employer service standard	Target	2013/14	Amount	Achieved	2014/15
Electronic starters within 4 weeks of first pay date*	28 days	92%	1495	1401	94%
Death in service notification	5 days	71%	29	17	59%
Year-end queries	10 days	67%	379	303	80%
Early retirement notification 4 weeks before date left	28 days	49%	243	125	51%
		70%	2146	1846	86%

\*I-Connect starters from June

Employer overall performance saw a significant increase in 2014/15 rising by 16%.

## Electronic Data Provision

The PAS provides two solutions that employers can use to efficiently manage the collation and transfer of electronic data.

Employer Services is a secure web portal, accessed through the Pension Fund website, for small employers to provide electronic data by completing online forms that generate interface files for automated processing of starters, amendments and leavers on the pensions administration system.

<b>Data type received from Employer Services</b>	<b>Interface updates for 2014/15</b>
Starters	450
Amendments	152
Leavers	297
<b>Total</b>	<b>899</b>

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.

<b>Data type received from I-Connect</b>	<b>Events processed for 2014/15</b>
Starters	1,816
Address	2,245
Contributions (employee and employer)	85,389
Salary	82,362
NI contributions	85,390
Change of details	2,170
Service	3,212
Opt in	2
Opt out	110
Leaver	706
Work addresses	122
Member additional contributions	3,326
<b>Total</b>	<b>266,850</b>

Aberdeen City Council went live on April 2014 providing monthly data for their local government pension scheme members as well as members from Bon Accord Care/Support, Greenspace and Police Scotland. The Robert Gordon University went live from January 2015 and work is ongoing with Aberdeenshire Council and The Moray Council to implement I-Connect during 2015.

I-Connect deliver's benefits to everyone involved with the local government pension scheme:

- It takes data from an employer's payroll system and then automatically identifies and processes starters and leavers monthly;
- It identifies and automatically submits essential data items monthly including changes to personal information, salary and contributions;
- It allows data to be reconciled monthly rather than annually which provides more accurate and up to date member records;
- It reduces the amount of time and resources required at year end for employers and the NESPF;

- It allows members to watch their CARE pension grow throughout the year in member self service;
- It is compliant with Pension Reform and The Pensions Regulator's codes of practice on governance, administration and record keeping.

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

Employer	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Aberdeen City Council	H	M	H	H	H	H	H	H	H	H	H	H
Aberdeen Cyrenians	H	H	H	H	H		H	H	H	H	H	H
Aberdeen Greenspace	H	H	H	H	H	H	H	H	H	H	H	H
Aberdeen Housing Partnership			M			H	H	H		H	H	M
Aberdeen Performing Arts		M										
Aberdeen Sports Village						M						
Aberlour Child Care Trust					H		H			H	H	H
Bon Accord Care	H	H	H	H	H	H	H	H	H	H	H	H
Bon Accord Support	H	H	H	H	H	H	H	H	H	H	H	H
Cairngorm Outdoor Access Trust						H						
Drugs Action	H											
First Bus			H	M				H			H	
Gordon Rural Action			H									
Mental Health Aberdeen		H										H
Moray College	H	H	H	H	H	H		H	H	H	H	H
North East Scotland College				H	M	H	H	H	H			H
North East Sensory Services	H	M	H	H	H		M					H
Police Scotland	H	H	H	H	H	H	H	H	H	H	H	H
Robert Gordon College	H	M	H			H			H			
Robert Gordon University	H	H	H	H	H	H	H	H	H	H	H	H
SCARF						M		M				
Scottish Water	H	H	H	H	H	H		H	H	H	H	H

During 2014/15 92% of data received contained high quality data, 8% contained medium quality and no low quality data was received. Quality data is essential for effective administration of pension benefits.

Data quality for processing is defined as follows:

H = High quality data

- For I-Connect > 90% of events processed
- For Employer Services no formatting amendments required

M = Medium quality data

- For I-Connect 75% - 90% of events processed
- For Employer Services minor formatting amendments required

L = Low quality data

- For I-Connect < 75% of events processed
- For Employer Services major formatting amendments required

## Record Keeping

In 2010 The Pensions Regulator (TPR) issued guidance on proposed framework for data checking to be implemented by December 2012. For the past 3 years NESPF have published an annual report to comply with TPR requirements that contains:

- Numerical data with commentary
- Conditional data tests
- Common data measured against benchmarks set by TPR
- Risk assessment and action plan for failed tests

This year's common data results against TPR benchmarks of 95% for pre June 2010 data and 100% for post June 2010 data were as follows:

Data item	Pre (95%)	Result	Post (100%)	Result
NI Number	99.93%	Pass	99.91%	Fail
Surname	100%	Pass	100%	Pass
Forenames or initials	100%	Pass	100%	Pass
Sex	100%	Pass	100%	Pass
Date of birth	100%	Pass	100%	Pass
Date started	100%	Pass	100%	Pass
Expected retirement (system derived)	100%	Pass	100%	Pass
Membership status	100%	Pass	100%	Pass
Last status event	99.99%	Pass	100%	Pass
Address	95.62%	Pass	99.84%	Fail
Postcode	99.92%	Pass	99.98%	Fail

Also reported is additional improvements made throughout the year which included a recently completed exercise with an external provider to electronically trace members with a "gone away" address. The trace provided 2077 new addresses and an exercise is underway to establish contact with these members.

The full report for 2014 as well as previous year's reports is available on the NESPF website.

## Communications

Highlights of the year include the production of new-look materials for our members. Benefit Statements were redesigned to deliver a more engaging, clearer and easy to read statement while our new start pack was revised to include new flyers that provided concise but clear information about the scheme.

In 2014/15 engaging with all stakeholders to prepare for the new scheme was of particular importance. A dedicated LGPS 2015 area was developed on the Fund's



website to provide information, factsheets and bulletins for members. The Fund also delivered over 50 member presentations on the LGPS 2015 in addition to 10 member fairs and pension surgeries. For employers, a day-long seminar was held in October 2014 to provide training and additional training sessions were delivered to 18 employers by the Employer Relationship Team. Further to this the communications team participated in the national LGPS 2015 communications group to help develop the LGPS 2015 member website and materials.

The Fund continued to promote e-communication such as member self-service and maintained an active social media presence via Twitter providing information on the scheme, local news and general pension matters.

This year the Fund made three award submissions and was shortlisted for Fund of the Year (Above £2billion) at the LGC Investment Awards and Defined Benefit Scheme of the Year at the Pension Age Awards.

Throughout 2014/15 NESPF issued a survey to all new members of the LGPS. The survey contained 7 questions about the level of service provided by NESPF with a “satisfaction rating” from 1 to 5, where 1 is poor and 5 is excellent. A total of 2,546 questions were answered with the following scores awarded:

<b>Score</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Answers	23	46	310	1165	1102
Percentage 2014/15	1%	2%	12%	46%	39%
Percentage 2013/14	1%	2%	18%	46%	33%

An employer’s communication survey was also conducted in 2014 which indicated 68% of employers felt informed about what was happening in the Fund and 65% wanted more training opportunities. Over the coming year the Fund will look to address the issues raised.

# Risk

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

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

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

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

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

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

## **Risk Management Review**

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

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

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

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

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

# Funding Strategy Statement

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

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

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

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

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

# 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](http://www.nespf.org.uk).

# Corporate, Environmental and Social Governance

**What is Corporate Governance** – It's the framework companies use to outline the specific operations and guidelines for their employees. Corporate Governance is often a unique framework built around the organisations missions and values.

**Why is Corporate Governance Important** – Corporate Governance controls the internal and external actions of managers, employees and outside business stakeholders. This framework also outlines the duties, privileges and roles of board members or directors to ensure they act in the best interest of the company. A lack of corporate governance can lead to profit loss, corruption, drop in share price and a tarnished image.

**What the North East Scotland Pension Fund & Aberdeen City Council Transport Fund does to ensure the companies the Fund invests in are properly governed.**

## Voting

Voting is an integral part of good governance, it gives the Fund a direct route to influence the company's management and over the last year the Fund has voted at 220 Annual General Meetings/Special meetings on 3,481 resolutions. The Fund's voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum

During the year to 31 March 2015 the most contentious areas were

### Directors

- Insufficient independence at board level.
- Independent Directors who have spent over 9 years on the board.
- Against the chair of the Nomination Committee, for not adhering to the Davies recommendation of setting a target for female Board representation by 2015.

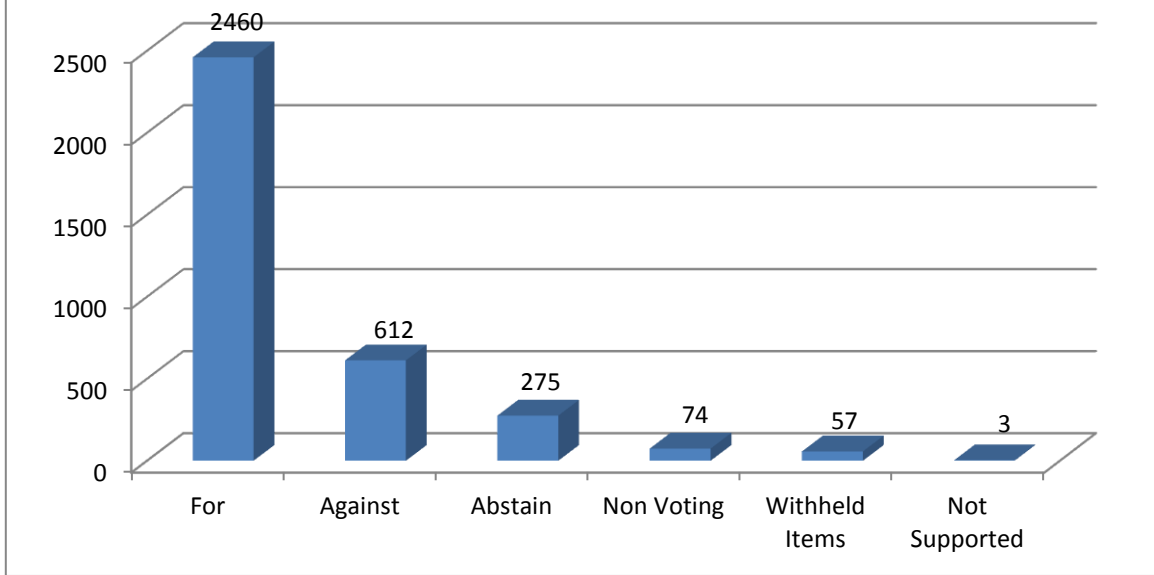
### Executive Pay Schemes

- Potential Awards available considered excessive.
- Vesting period not considered sufficiently long term.

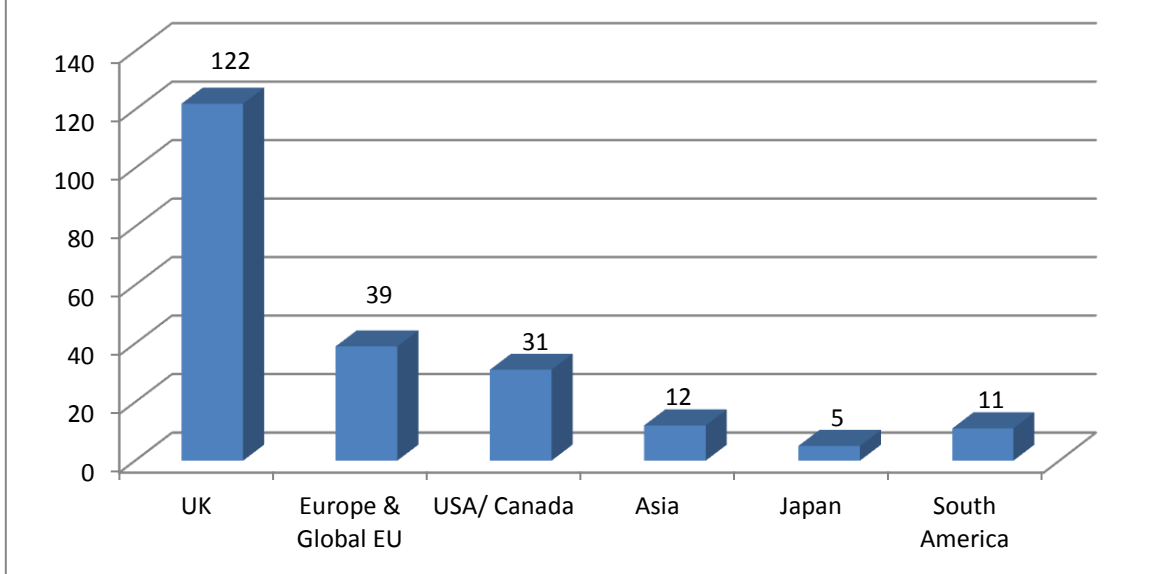
### Auditors Appointment

- Concerns about high levels of non-audit fees creating the potential for conflicts of interest.

### Voting By Resolution



### Voting by Region



## Engagement

### Local Authority Pension Fund Forum

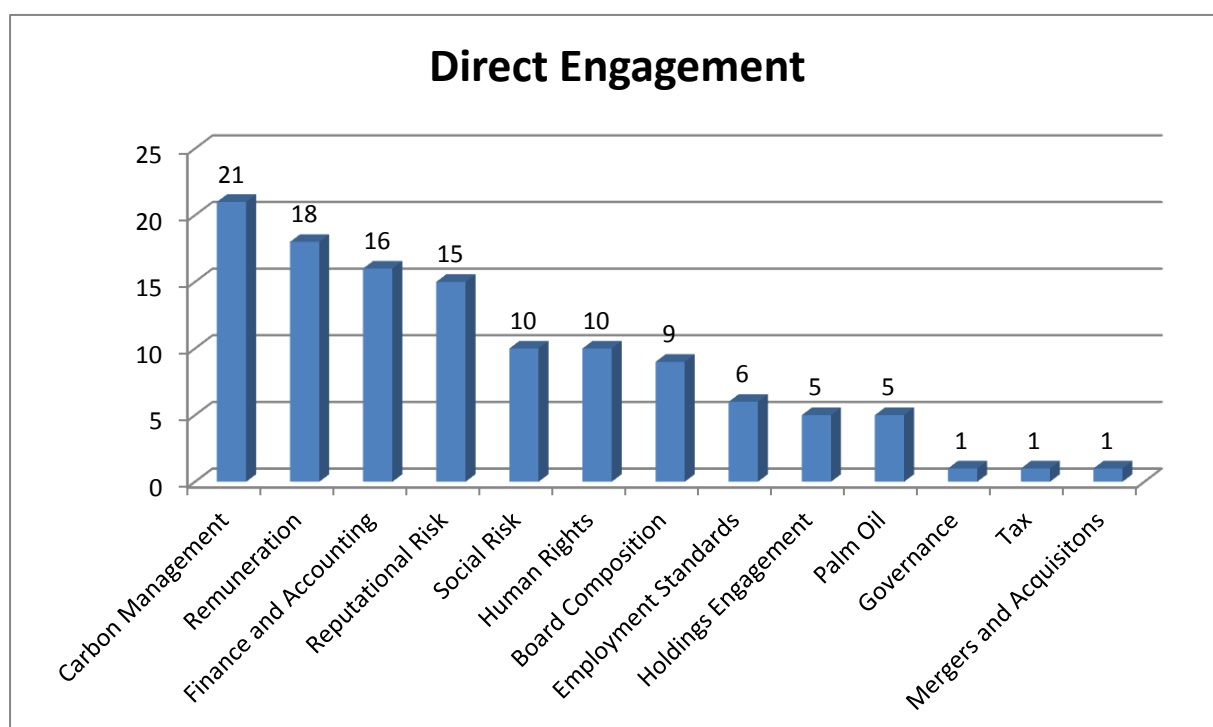
Engagement is a vital part of good corporate and social governance to be effective in the area. It is vital that Local Authority Pension Funds work together to achieve the best results which is why the Fund is a member of the Local Authority Pension Fund Forum (LAPFF). These engagements enable the Fund to be a responsible long term investor.

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

In January 2015 the convener of the North East Scotland Pension Fund was elected onto the Executive Board of LAPFF.

This will enable the Fund to have a much greater input in LAPFF's engagements be that the Governance of companies, or Environmental & Social issues.

LAPFF has engaged directly with 118 companies on a range of environmental, social, and governance concerns that pose a risk to shareholder value.



Increasingly, LAPFF is engaging at the most senior level of companies. In 2014 nearly 58% of company engagements were with the company chairman and another 17% were with other board members.



Over the course of 2014 LAPFF attended 19 AGMs the result of this has been an increase in access to board directors that have not previously responded, examples of the AGM attended are:-

- British Land – the focus was on the extent to which the company has considered future climate impacts in land purchase and developments.
- Rio Tinto, Shell and BP – carbon asset risk.
- Lonmin – Marikana mine protests resulted in engagement over employee relations and the company's position on living wages.
- Barclays, Burberry and GlaxoSmithKline – challenging boards directly on concerns over remuneration packages.
- Betfair – questions over accounting practices.

Further information on LAPFF can be found on their website <http://www.lapfforum.org>

## **United Nations Principles for Responsible Investment**

To enable the Fund to be more global in its engagement in August 2010 the Fund signed up to the United Nations Principles for Responsible Investment (UNPRI). This is a worldwide initiative with a set of aspirational and voluntary guidelines for investment entities wishing to address environmental, social, and corporate governance (ESG) issues. Over 1300 companies representing over US\$45 trillion assets under management have signed up to the Principles.

The UNPRI Initiative has quickly become the leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues.

### **During the year the Fund has participated in the undernoted UNPRI activities:**

- Sustainable Stock Exchanges – The Fund is on a working group whose aim is to get Stock Exchanges to improve the quality of disclosure by companies on their environmental, social and corporate governance performance.
- Webinar – Integrated Governance – A new model of governance for sustainability.
- Webinar – Investor Education Information on Bangladesh.

### **In March 2015 – The Fund signed up to the Carbon Disclosure Project (CDP) Investor Initiative.**

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

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

# Future

Following on from 2014/15 which was again a very busy and challenging year within the Local Government Pension Scheme, the Fund now looks to the new financial year and the implementation of the New Scheme and new governance arrangements being introduced by The Pensions Regulator.

During the first quarter of 2015 the administering authority established a Pensions Board which have met twice already this year for training and will attend their first Committee meeting in June 2015.

Further to the above the Fund having completed its actuarial valuation as at 31 March 2014 the Fund will continue throughout 2015/16 to review its investment strategy and implement any changes that may arise.

The Fund continues to engage with all stakeholders in line with the Fund's governance and communication policy which can be found on the Fund's website along with the Fund's Business Plan for the next three years.

# Acknowledgement

The production of the Financial Statements is very much a team effort involving many staff as well as information supplied from our advisors. I would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2014/15 Financial Statements.

Angela Scott  
Chief Executive

Steven Whyte, CPFA  
Head of Finance

Councillor Barney Crockett  
Convener

On behalf of Aberdeen City Council

Xx June 2015

# NORTH EAST SCOTLAND PENSION FUND AND ABERDEEN CITY COUNCIL TRANSPORT FUND

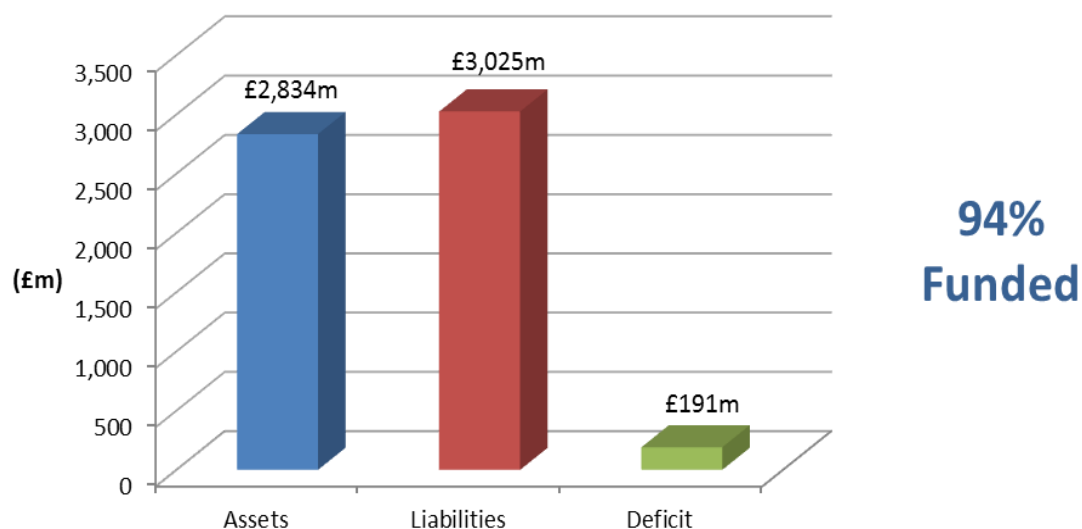
## *Accounts for the year ended 31 March 2015 - Statement by the Consulting Actuary*

This statement has been provided to meet the requirements under Regulation 55 (1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2014.

### North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

On the basis of the assumptions adopted, the Fund's assets of £2,834 million represented 94% of the Fund's past service liabilities of £3,025 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 14.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2015.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2015.

In practice, each individual employer's (or employer group's) position is assessed separately and the contributions required are set out in our report. In addition to the

certified contribution rates, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer (or employer group) is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are determined through the FSS consultation process. Due to investment market changes after the valuation date, it was agreed as part of the consultation that the majority of employers would maintain their current rate of contribution of (19.3% of pensionable pay for the Council group which covers the majority of the Fund). This would be expected to remove the 31 March 2014 deficit over a period of 11 years if all the assumptions are borne out in practice.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.9% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

\* allowance was also made for short-term pay restraint over a 3 year period for some employers within the Fund.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2017. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2018.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	4.15% per annum	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

\* includes a corresponding allowance to that made in the actuarial valuation for short-term pay restraint.

The demographic assumptions are the same as those used for funding purposes (but with the rate of increase in life expectancy updated as appropriate). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2015.

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

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). The impact of this was offset to some extent by the fall in assumed inflation (2.0% p.a. versus 2.4% p.a.). In addition, there has also been a reduction in the long-term real pay increase assumption (i.e. over and above inflation) from 1.75% p.a. to 1.5% p.a. at the year-end and allowance for short term pay restraint for some employers, as detailed in the actuarial valuation report.

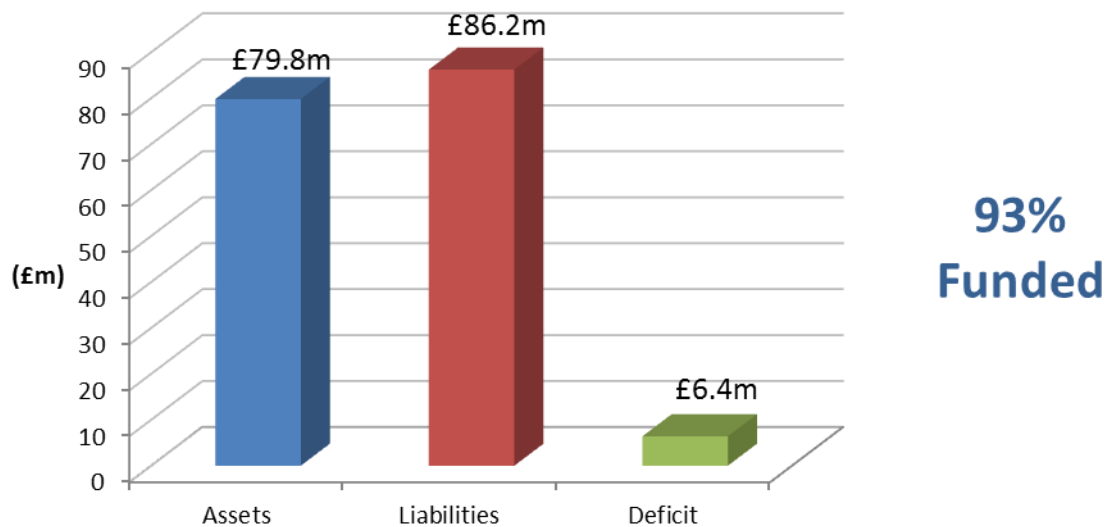
The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2014 was estimated as £3,423 million. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c.£389 million. Adding interest over the year increases the liabilities by a further c.£154 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c.£19 million. Finally, allowing for actual vs expected membership experience, which emerged at the 2014 valuation, gives a reduction in liabilities of c.£111 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £3,874 million.

## Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

On the basis of the assumptions adopted, the Fund's assets of £79.8 million represented 93% of the Fund's past service liabilities of £86.2 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 44.9% of pensionable pay per annum was required. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective is to achieve and maintain a funding level of 100% of the Fund's past service liabilities. As part of the negotiations with the employer it has been agreed that contributions will be maintained at the 2014 level (33.0% of pensionable pay plus £1,500,000 per annum). If all assumptions are borne out in practice this would be expected to remove the 31 March 2014 deficit over a period of 6-7 years. Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2015.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	3.65% per annum	3.65% per annum
Rate of pay increases*	5.1% per annum	5.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.1% per annum	3.1% per annum

\* allowance was also made for short-term pay restraint over the 4 years following the valuation at the rate of CPI inflation

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2017. Based on the results of this valuation, the contribution rates payable will be revised with effect from 1 April 2018.

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

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

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

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.2% per annum
Rate of pay increases	4.4% per annum	4.0% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

\* includes a corresponding allowance to that made in the actuarial valuation for short-term pay restraint at the rate of CPI inflation

The demographic assumptions are the same as those used for funding purposes (but with the rate of increase in life expectancy updated as appropriate). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2015.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year

(3.2% p.a. versus 4.5% p.a.). The impact of this was offset to some extent by the fall in assumed inflation (2.0% p.a. versus 2.4% p.a.). The pay increase assumption at the year-end has also changed to allow for a short-term pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £71.3 million. The effect of the changes in financial and demographic assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c.£8.4 million. Adding interest over the year increases the liabilities by a further c.£3.2 million, and allowing for net benefits accrued/paid over the period reduces the liabilities by c.£2.4 million. Finally, allowing for actual vs expected membership experience, which emerged at the 2014 valuation, gives a reduction in liabilities of c.£1.7 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £78.8 million.

**Paul Middleman**  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
**May 2015**



# Employers

## North East Scotland Pension Fund

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

45	HomeStart (NEA) Fraserburgh	Admitted
46	Aberdeen Greenspace	Admitted
47	Pathways	Admitted
48	Cairngorms Outdoor Access Trust	Admitted
49	Aberdeenshire Housing Partnership	Admitted
50	Aberdeen Performing Arts	Admitted
51	Aberdeen International Youth Festival	Admitted
52	Sanctuary Housing	Admitted
53	Tenants First Housing Co-op	Admitted
54	Scottish Lighthouse Museum	Admitted

**Aberdeen City Council Transport Fund**

1	First Aberdeen	Scheduled
---	----------------	-----------

# Statement of Responsibilities

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

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

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 15<sup>th</sup> June 2015

Signed on behalf of Aberdeen City Council

**Councillor Barney Crocket**  
**Convener**

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

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

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

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

The Head of Finance has also:

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

**Financial Position:**

I certify that the financial statements give a true and fair view of the financial position of the North East Scotland Pension Funds at the reporting date and the transactions of the Funds for the year ended 31 March 2015.

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

# Annual Governance Statement

## The Governance framework of the Council and North East Scotland Pension Fund

### The Purpose of the Governance Framework

The governance framework comprises the systems and processes and culture and values by which the Council, and therefore the Fund, is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The Audit, Risk and Scrutiny Committee has a key role in this and an annual report of its activities will be approved by the committee and referred to Council for its consideration, while the Pension's Committee receives a specific report on the internal controls of the Fund itself. This demonstrates the Council's governance arrangements through improved transparency, understanding and challenge of the activity and outcomes from the Audit, Risk & Scrutiny Committee and Pensions Committee.

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

### The Governance Framework

The Council has an approved Local Code of Corporate Governance, a copy of which can be read on our website at [www.aberdeencity.gov.uk](http://www.aberdeencity.gov.uk)<sup>1</sup>. The Local Code incorporates the six principles recommended in the CIPFA / SOLACE Framework, and was last updated in 2012/13. Against each principle is a set of key documents, policies, arrangements and areas of activity within the Council which address the theme. The principles are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;

---

<sup>1</sup> A copy of the Local Code can be obtained at:

<http://committees.aberdeencity.gov.uk/ecSDDisplay.aspx?NAME=SD636&ID=636&RPID=0&sch=doc&cat=13096&path=13083%2c13096>

3. Promoting values for the authority and demonstrating the value of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective;
6. Engaging with local people and other stakeholders to ensure robust public accountability.

The Funds place reliance upon the internal financial controls within the Council's financial systems and the monitoring in place to ensure the effectiveness of those controls. Within the overall control arrangements, the system of internal control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period. The key elements of the Council's governance framework include financial regulations, financial monitoring, financial and administrative procedures (including segregation of duties, management supervision, and a system of delegation and accountability).

The systems include:

- Budgeting systems;
- Review of financial and performance reports against forecasts, benchmarks and targets set;
- The preparation of regular financial reports which indicate actual expenditure against forecasts; and
- Consideration of external and internal audit reports by the Audit, Risk and Scrutiny Committee and by the Pensions Committee.

These arrangements also include:

- Identifying the Council's objectives
- Identifying the objectives of the Funds in the Funding Strategy Statement, Statement of Investment Principles and Business Plan;
- Monitoring of the achievement of objectives by the Council, Pensions Committee and senior officers;
- A systematic approach to monitoring service performance by Pensions Committee, senior officers and stakeholders;
- Describing the role of the Council and committees term of reference and delegated functions, procedural standing orders and the scheme of delegation;
- Financial Rules and Regulations that specify the controls over budgeting, income, expenditure and financial performance;
- The Council's Monitoring Officer reports on any non-compliance with laws and regulations of which they are made aware to the Audit, Risk and Scrutiny Committee, and the Pensions Committee in respect of the Funds;
- Comprehensive budget and expenditure monitoring systems;

- Targets against which financial and operational performance can be assessed;
- Formal project management disciplines;
- A Code of Conduct for staff and Standards Commission Code for elected members and Member/Officer Protocol;
- A structured programme to ensure that Committee members have the required standard of knowledge and understanding of Local Government Pension Scheme;
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statement of Investment Principles;
- Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme and the Myners Principles on investment;
- With the exception of managed funds, unlisted investments and property, all investments are held under custody by a global custodian. The Funds benefit from the custodian's extensive internal control framework;
- Benchmarking of services in terms of quality and cost against other Local Government Pension Scheme funds; and
- Monitoring of appointed Fund managers and third party providers ensuring compliance within their management agreements.

### **Review of Effectiveness**

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

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

#### *Management Assurance:*

Each head of service has reviewed the arrangements in his / her portfolio and certified their effectiveness to the Head of Finance. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. Any significant control weaknesses will be incorporated into the 'Significant Governance Issues' section where it's determined necessary.

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

The Council Committee structure follows and supports the organisational and management structure, incorporating a culture of accountability that has been developed throughout the Council. The Audit, Risk and Scrutiny Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering reports prepared by the external auditor.

Further to the above the Pensions Committee is responsible for the Internal and external Audit functions for the Pension Fund, through the administering authority delegated powers.

*Assurance from Internal Audit:*

The Internal Audit function was under contract to PricewaterhouseCoopers LLP during the financial year.

At the end of the year the Head of Internal Audit provided the Pension Fund with a written report on the Pension Fund's Financial Controls and Pensions Payroll, Report being issued during May 2015 and presented to the Pensions Committee in June 2015.

*External Audit and Other External Scrutiny:*

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

*Audit, Risk and Scrutiny Committee Self-Evaluation:*

The Audit, Risk and Scrutiny Committee recognised the benefits of self-evaluation, using tools such as CIPFA's "A toolkit for Local Authority Audit Committees" and agreed at its meeting in February 2014 to do an annual self-evaluation. The results for 2014/15 were reported in May 2015 and a number of recommended actions were agreed that will develop the Committee and the Council.

In summary the Council has undertaken a self-evaluation of its Local Code of Corporate Governance and determined that there is strong compliance with the Code and that governance processes, procedures, performance reporting and engagement material are well managed by the organisation. The Fund has a clear approach to the decision-making process and seeks to engage with its members, employers and staff.

**Significant Governance Issues**

There are no significant governance issues that require to be raised in relation to the Funds.



## **Certification**

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Aberdeen City Council and the Fund's governance and that the annual review demonstrates sufficient evidence that the Code of Corporate Governance operates effectively.

**Angela Scott**  
Chief Executive

**Steven Whyte, CPFA**  
Head of Finance

**Councillor Barney Crockett**  
Convener

**On behalf of Aberdeen City Council**

**Xx June 2015**

# Governance Compliance Statement

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

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

# Compliance with the Myners Principles

Requirement	North East Scotland Pension Fund Arrangements	Assess Status
<p><b>Principle 1: Effective Decision Making</b></p>	<p>The Pension Fund Training Policy statement details the training agenda for elected members of the Pensions Committee and Joint Investment Advisory Committee (JIAC) and has been drawn up to meet their needs in relation to providing the Committee members with sufficient knowledge to be able to evaluate and challenge the advice they receive.</p> <p>The Head of Finance is responsible for the provision of the training plan for the Pensions Committee and JIAC to help them to make effective decisions; to ensure that they are fully aware of their statutory and fiduciary responsibilities, and regularly reminded of their stewardship role. The training plan is reviewed on annual basis by the Pensions Committee.</p> <p>Conflicts of interest are governed by the City Council standing orders.</p>	<p><b>Compliant</b></p> <p>Subject to ongoing review and training</p>
<p><b>Principle 2: Clear Objectives</b></p>	<p>The Statement of Investment Principles and the Funding Strategy Statement define the Funds' primary funding objectives.</p> <p>Asset-liability modelling is undertaken with the help of external advisers to aid the setting of investment strategy in order to understand risks. The Funds have scheme-specific investment strategies.</p> <p>The attitude to risk of employers and the administering authority is specifically taken into account in the setting of strategy through the composition of the JIAC.</p>	<p><b>Compliant</b></p>
<p>Administering authorities should ensure that:</p> <p>Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation; and</p> <p>Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</p> <p>Overall investment objectives should be set out for the Fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.</p>		

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

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

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

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

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

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

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

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

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

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

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

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

**Compliant**

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

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

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

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

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

**Compliant**

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

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

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

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

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

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

**Compliant**

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

The Funds' Annual Review includes: i.) Details of the Funds' voting activity; and ii.) A summary of the Funds' approach to responsible investment.

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

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

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

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

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

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

Performance Standards are incorporated in an annual report to stakeholders.

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

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

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

**Compliant**

North East Scotland  
**PENSION FUND**

**Draft Financial Statements**

FOR THE PERIOD

1 APRIL 2014 TO 31 MARCH 2015

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





## Contents

Explanatory Foreword.....	59
Accounting Policies.....	63
North East Scotland Pension Fund Accounts .....	69
Aberdeen City Council Transport Fund Accounts .....	71
Notes to the North East Scotland Pension Fund Accounts.....	73
Note 1: Actuarial Valuation Report.....	73
Note 2: Contributions Receivable .....	75
Note 3: Transfers in from other Pension Funds .....	75
Note 4: Benefits Payable .....	75
Note 5: Payment to and on Account of Leavers .....	76
Note 6: Management Expenses .....	76
Note 7: Investment Income.....	77
Note 8: Investment Assets.....	78
Note 9: Analysis of Investments (excluding Derivatives Contracts and Cash) ..	80
Note 10: Analysis of Derivatives .....	81
Note 11: Investments Analysed by Fund Manager .....	83
Note 12: Stock Lending .....	84
Note 13: Property Holdings.....	84
Note 14: Financial Instruments .....	86
Note 15: Net Gains and Losses on Financial Instruments.....	87
Note 16: Fair Value of Financial Instruments and Liabilities .....	87
Note 17: Valuation of Financial Instruments carried at Fair Value .....	88
Note 18: Risk arising from Financial Instruments .....	90
Note 19: Breakdown of Long & Short Term Assets and Liabilities.....	98
Note 20: Fund Manager Transaction Costs .....	99
Note 21: Related Party Transactions .....	99
Note 22: Key Management Personnel.....	99
Note 23: Contractual Commitments as at 31 March 2015 .....	100
Note 24: Additional Voluntary Contributions (AVC).....	100
Note 25: Contingent Assets/Liabilities .....	101
Note 26: Impairment Losses.....	102
Note 27: Investment Principles .....	102
Note 28: Critical Judgements in applying Accounting Policies.....	102
Note 29: Events after the Balance Sheet Date .....	103
Note 30: Agency Arrangements for Administering Compensatory 'Added' Years .....	103
Notes to the Aberdeen City Council Transport Fund Accounts.....	104
Note 1: Actuarial Valuation Report.....	104
Note 2: Contributions Receivable .....	106
Note 3: Benefits Payable .....	106
Note 4: Payment to and on Account of Leavers .....	106
Note 5: Management Expenses .....	107
Note 6: Investment Income.....	108
Note 7: Investment Assets.....	109
Note 8: Analysis of Investments (excluding Derivatives Contracts and Cash) ..	110
Note 9: Investments Analysed by Fund Manager .....	111
Note 10: Stock Lending .....	111

Note 11: Financial Instruments .....	112
Note 12: Net Gains and Losses on Financial Instruments .....	113
Note 13: Fair Value of Financial Instruments and Liabilities .....	113
Note 14: Valuation of Financial Instruments carried at Fair Value .....	114
Note 15: Risk arising from Financial Instruments .....	116
Note 16: Breakdown of Long & Short Term Assets and Liabilities.....	124
Note 17: Fund Manager Transaction Costs .....	125
Note 18: Related Party Transactions .....	125
Note 19: Key Management Personnel .....	125
Note 20: Investment Principles .....	125
Note 21: Critical Judgements in applying Accounting Policies.....	126

# Explanatory Foreword

## Introduction

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

This foreword provides an explanation of the Pension Funds' Financial Statements, along with a summary of any changes to the Pension Funds over the period to 31 March 2015.

## Fund Accounts

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

## Net Asset Statements

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

## Statement of Responsibilities

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

## Achievements this year include:

The North East Scotland Pension Fund saw a rise in value over the period of £328m, while the Aberdeen City Council Transport Fund increased in value by £10m. Full investment returns can be found in the Annual Report.

## Fund Structure

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

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

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

### There are 12 scheduled bodies:

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

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

A list of the admitted bodies is available from the office of the Head of Finance, Aberdeen City Council, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB and is also contained within this Annual Report.

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

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

With effect from 1 April 2009, employee contributions are based on tiered rates and detailed below are the tiered rates for 2014/15.

<b>Band</b>	<b>Range</b>	<b>Contribution Rate</b>
1	On earnings up to and including £20,335	5.50%
2	On earnings above £20,335 and up to £24,853	7.25%
3	On earnings above £24,853 and up to £34,096	8.50%
4	On earnings above £34,096 and up to £45,393	9.50%
5	On earnings above £45,393	12.00%

## **Membership**

<b>North East Scotland Pension Fund</b>	<b>31 March 2014</b>	<b>31 March 2015</b>
Number of Employers with Active Members	58	54
Number of Employees in the Scheme	22,880	24,089
Number of Pensioners	17,106	17,726
Deferred Pensioners	17,267	17,759

<b>Aberdeen City Council Transport Fund</b>	<b>31 March 2014</b>	<b>31 March 2015</b>
Number of Employers with Active Members	1	1
Number of Employees in the Scheme	85	78
Number of Pensioners	405	403
Deferred Pensioners	155	150

## **Investments**

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

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

The Funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and quoted investments of the Funds have been re-valued to market value at 31 March 2015 with the gain/loss on revaluation being attributed to the Funds.

Due to the maturity of the Aberdeen City Council Transport Fund and taking into account that the Fund is closed the Administering Authority has implemented a De Risking Strategy in consultation with the employer and the Schemes Actuary. The transition commenced on the 25<sup>th</sup> March 2015 which will reflect through the financial statements and notes due to the change in assets being held by the Fund.

## **Actuarial Valuation**

Detailed in the notes to the accounts, is the outcome of the 2014 Actuarial Valuation, reflecting the future employer contribution rates required to meet the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund future liabilities.

## **Acknowledgement**

The production of the Financial Statements is very much a team effort involving many staff as well as information supplied from our advisors. I would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2014/15 Financial Statements.

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

# Accounting Policies

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

The Financial Statements summarise the Funds' transactions for the 2014/2015 financial year and its position at year end as at 31 March 2015.

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

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

## Contribution Income

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

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

## Transfers to and from other Schemes

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

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

## Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accrual basis.

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

## **Fund Account - Expenses**

### **Benefits Payable**

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

### **Taxation**

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

### **Administrative Expenses**

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

### **Investment Management Expenses**

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

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

In addition the Fund has negotiated performance related fees with a number of its investment managers. Performance related fees were £5,249,133 in 2014/15 (2013/14 £5,641,996).

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund account.



## **Financial Assets**

Financial assets are included in the net assets statement on a fair value basis at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

## **Valuation of Investments**

All investments are valued at their market value at 31 March 2015 determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

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

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

## **Derivatives**

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

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

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

## **Cash**

Cash comprises cash in hand and demand deposits.

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

## **Financial Liabilities**

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

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

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

As permitted under IAS 26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement, (Note 1) together with the full Statement by the Consulting Actuary found on page 35 of the Annual Report.

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

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

### **Additional Voluntary Contributions**

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

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

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

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

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

The value of unquoted private equities at 31 March 2015 was £127,588,136 (31 March 2014 £123,090,379).

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

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

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

### **Events after the Reporting Period**

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

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

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

**NORTH EAST SCOTLAND PENSION FUND ACCOUNTS**

**Fund Account for the year ended 31 March 2015**

<b>Contributions Receivable</b>	<b>Notes</b>	<b>2013/14</b>	<b>2014/15</b>
		<b>£'000</b>	<b>£'000</b>
Employees' Contributions	2	26,007	26,726
Employers' Contributions	2	81,679	86,572
Transfer Values	3	2,939	4,958
Other Income		56	38
		<b><u>110,681</u></b>	<b><u>118,294</u></b>
<b>Benefits Payable</b>			
Retirement Pensions	4	83,532	87,772
Retirement Allowances	4	16,668	19,881
Death Gratuities	4	3,485	3,180
Contributions Refunded	5	618	741
Transfer Values	5	2,933	3,991
		<b><u>107,236</u></b>	<b><u>115,565</u></b>
<b>Management Expenses*</b>	6	<b><u>15,355</u></b>	<b><u>16,638</u></b>
<b>Return on Investment</b>			
Investment Income	7	55,240	49,390
Change in Market Value of Investments*	15	220,225	292,508
		<b><u>275,465</u></b>	<b><u>341,898</u></b>
<b>Net Increase in the Fund during the year</b>		<b>263,555</b>	<b>327,989</b>
<b>Opening Net Assets of the Fund</b>		<b>2,570,020</b>	<b>2,833,575</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>2,833,575</u></b>	<b><u>3,161,564</u></b>

\*2013-14 Adjusted to provide comparative figures for Private Equity Management Expenses of £3,151k.

## NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Net Assets Statement as at 31 March 2015

	Notes	2013/14 £'000	2014/15 £'000
<b>Investment Assets</b>			
Fixed Interest, Public Sector		57,649	80,070
Fixed Interest, Corporate		15,894	13,069
Fixed Interest, Overseas		154,848	164,384
Index Linked		3,012	0
Equities UK		638,325	640,326
Equities, Overseas		610,215	723,697
Pooled Vehicle		982,598	1,093,867
Property, Unit Trust		7	0
Property, Direct		159,240	211,960
Unit Trust, Other		8,531	3,136
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		1	0
Other, Private Equity		136,414	145,560
Funds held by Investment Managers		49,053	60,457
ACC Loan Fund Deposit	21	14,390	27,560
<b>Investment Assets</b>		<b><u>2,830,177</u></b>	<b><u>3,164,086</u></b>
<b>Investment Liabilities</b>			
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		(386)	(1,032)
<b>Net Investment Asset</b>		<b><u>2,829,791</u></b>	<b><u>3,163,054</u></b>
<b>Long Term Asset</b>	19	<b>99</b>	<b>233</b>
Current Assets	19	19,320	19,335
Current Liabilities	19	(15,635)	(21,058)
<b>Net Current Assets</b>		<b>3,685</b>	<b>(1,723)</b>
<b>Net Assets of the Fund at the end of the year</b>		<b>2,833,575</b>	<b>3,161,564</b>

Steven Whyte, CPFA  
Aberdeen City Council, Head of Finance  
Xx June 2015

The Unaudited Accounts were issued on 15 June 2015.

## ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Fund Account for the year ended 31 March 2015

<b>Contributions Receivable</b>	<b>Notes</b>	<b>2013/14</b>	<b>2014/15</b>
		<b>£'000</b>	<b>£'000</b>
Employees' Contributions	2	144	134
Employer's Contributions	2	2,032	2,219
Other Income		309	311
		<b><u>2,485</u></b>	<b><u>2,664</u></b>
<b>Benefits Payable</b>			
Retirement Pensions	3	2,821	2,921
Retirement Allowances	3	567	325
Death Gratuities	3	7	85
Contributions Refunded	4	0	1
Transfer Values	4	22	0
		<b><u>3,417</u></b>	<b><u>3,332</u></b>
<b>Management Expenses</b>	5	<b><u>56</u></b>	<b><u>78</u></b>
<b>Return on Investment</b>			
Investment Income	6	1,655	1,698
Change in Market Value of Investments	12	(1,563)	8,850
		<b><u>92</u></b>	<b><u>10,548</u></b>
<b>Net Return on Investments</b>		<b><u>92</u></b>	<b><u>10,548</u></b>
<b>Net Increase in the Fund during the year</b>		<b>(896)</b>	<b>9,802</b>
<b>Opening Net Assets of the Fund</b>		<b>80,734</b>	<b>79,838</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>79,838</u></b>	<b><u>89,640</u></b>

## ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Net Assets Statement as at 31 March 2015

	Notes	2013/14 £'000	2014/15 £'000
<b>Investment Assets</b>			
Fixed Interest, Public Sector		13,807	2,484
Fixed Interest, Overseas		2,781	0
Equities UK		23,283	24
Equities, Overseas		6,438	0
Pooled Vehicle		20,874	52,129
Property, Unit Trust		1	0
Index Linked Securities		7,163	34,623
Funds held by Investment Managers		4,452	(733)
ACC Loan Fund Deposit	18	306	544
<b>Net Investment Assets</b>		<b><u>79,105</u></b>	<b><u>89,071</u></b>
<b>Long Term Asset</b>	16	<b>431</b>	<b>404</b>
Current Assets	16	521	425
Current Liabilities	16	(219)	(260)
<b>Net Current Assets</b>		<b>302</b>	<b>165</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>79,838</u></b>	<b><u>89,640</u></b>

**Steven Whyte, CPFA**  
**Aberdeen City Council, Head of Finance**  
**Xx June 2015**

**The Unaudited Accounts were issued on 15 June.**



## NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Note 1: Actuarial Valuation Report

An Actuarial report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2014.

Information from the 2014 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£2,834,000,000
Liabilities	£3,025,000,000
Deficit	£ 191,000,000

### Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 94%

### Correcting the Shortfall

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

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £191million could be eliminated over a period 19 years. Maintaining the previous average contribution rate of 19.3% of Pensionable Pay, this would imply a deficit recovery contribution of 4.4% of projected Pensionable Pay.

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

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

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

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

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

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

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

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

### **Actuarial Statement**

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS 19) assumptions, is estimated to be £3,874m (2014 £3,423m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

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

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

**Note 2: Contributions Receivable**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
<b>Employees' Normal Contributions</b>	<b>26,007</b>	<b>26,726</b>
Employers' Normal Contributions	79,218	81,197
Employers' Deficit Recovery Contributions	2,461	5,375
Employers' Augmentation Contributions	0	0
<b>Total Employers' Contributions</b>	<b>81,679</b>	<b>86,572</b>
<b>Total</b>	<b>107,686</b>	<b>113,298</b>

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Scheduled Bodies	96,095	100,322
Admitted Bodies	8,947	8,980
Transferee Admission Bodies	2,644	3,996
<b>Total</b>	<b>107,686</b>	<b>113,298</b>

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

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Individual Transfers	2,939	4,958
<b>Total</b>	<b>2,939</b>	<b>4,958</b>

**Note 4: Benefits Payable**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Pensions	83,532	87,772
Commutation and Lump Sum Retirement Benefits	16,668	19,881
Lump Sum Death Benefits	3,485	3,180
<b>Total</b>	<b>103,685</b>	<b>110,833</b>

	2013/14	2014/15
	£'000	£'000
Scheduled Bodies	95,050	101,575
Admitted Bodies	8,066	8,480
Transferee Admission Bodies	569	778
<b>Total</b>	<b>103,685</b>	<b>110,833</b>

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

	2013/14	2014/15
	£'000	£'000
Refunds to Members Leaving Service	433	513
Payments for Members Joining State Scheme	185	228
Individual Transfers	2,933	3,991
<b>Total</b>	<b>3,551</b>	<b>4,732</b>

**Note 6: Management Expenses**

	2013/14	2014/15
	£'000	£'000
Pension Fund Staffing Costs – Administration	782	857
Support Services including IT	464	553
Printing and Publications	27	41
<b>Administration Expenses Total</b>	<b>1,273</b>	<b>1,451</b>
Pension Fund Staffing Costs – Investment	108	112
Pension Fund Committee	37	35
Pension Board	0	1
External Audit Fees	37	38
Internal Audit Fees	5	30
Actuarial Fees	152	221
<b>Oversight and Governance Expenses Total</b>	<b>339</b>	<b>437</b>
Investment Management	7,963	9,361
Performance Fees	5,642	5,249
Custody Fee	138	140
<b>Investment Management Expenses Total</b>	<b>13,743</b>	<b>14,750</b>
<b>Management Expenses Grand Total</b>	<b>15,355</b>	<b>16,638</b>

Note – 2013/14 Adjusted to reflect new CIPFA Guidance

**Note 7: Investment Income**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Fixed Interest Securities	7,952	7,576
Equity Dividends	32,620	29,718
Pooled Property Investments	0	1
Property -		
Rental Income	12,077	11,235
Direct Operating Expenses	<u>(1,059)</u>	<u>(1,461)</u>
Net Property Income	11,018	9,774
Interest on Cash Deposit	132	253
Other (including P/L from Currency and Derivatives)	5,991	4,434
<b>Total</b>	<b>57,713</b>	<b>51,756</b>
Tax -		
Withholding Tax – Fixed Interest Securities	39	0
Withholding Tax - Equities	(2,512)	(2,365)
Withholding Tax - Pooled	0	(1)
<b>Total Tax</b>	<b>(2,473)</b>	<b>(2,366)</b>
<b>Net Total</b>	<b>55,240</b>	<b>49,390</b>

## Note 8: Investment Assets

### Reconciliation of Movements in Investments and Derivatives

	<b>Market Value</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in Market</b>	<b>Market Value</b>
	<b>31 March</b>			<b>Value</b>	<b>31 March</b>
	<b>2014</b>				<b>2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Interest	231,403	143,356	(133,375)	16,139	257,523
UK Equities	638,325	205,920	(214,690)	10,771	640,326
Overseas Equities	610,215	150,207	(156,141)	119,416	723,697
Pooled Investments	991,136	6,680	(13,629)	112,816	1,097,003
Property	159,240	43,519	(4,747)	13,948	211,960
Private Equity	136,414	37,830	(48,421)	19,737	145,560
	<b>2,766,733</b>	<b>587,512</b>	<b>(571,003)</b>	<b>292,827</b>	<b>3,076,069</b>
<b>Derivative Contracts</b>					
FX Contracts	(385)	15,784	(16,112)	(319)	(1,032)
	<b>2,766,348</b>	<b>603,296</b>	<b>(587,115)</b>	<b>292,508</b>	<b>3,075,037</b>
<b>Other</b>					
Cash	63,443				88,017
<b>Net Investment Assets</b>	<b>2,829,791</b>				<b>3,163,054</b>

	<b>Restated Market Value</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in Market Value</b>	<b>Market Value</b>
	<b>31 March</b>				<b>31 March</b>
	<b>2013</b>				<b>2014</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Interest	239,165	177,958	(168,219)	(17,501)	231,403
UK Equities	607,641	949,397	(953,323)	34,610	638,325
Overseas Equities	550,689	126,971	(124,602)	57,157	610,215
Pooled Investments	875,594	16,367	(2,799)	101,974	991,136
Property	140,365	17,700	(13,000)	14,175	159,240
Private Equity	118,472	24,315	(22,946)	16,573	136,414
	<b>2,531,926</b>	<b>1,312,708</b>	<b>(1,284,889)</b>	<b>206,988</b>	<b>2,766,733</b>
<b>Derivative Contracts</b>					
FX Contracts	(5,822)	11,366	(19,166)	13,237	(385)
	<b>2,526,104</b>	<b>1,324,074</b>	<b>(1,304,055)</b>	<b>220,225</b>	<b>2,766,348</b>
<b>Other</b>					
Cash	39,963				63,443
<b>Net Investment Assets</b>	<b>2,566,067</b>				<b>2,829,791</b>

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

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
<b>Fixed Interest Securities</b>		
<b>UK</b>		
Public Sector Quoted	57,649	80,070
Corporate Quoted	15,894	13,069
Corporate Unquoted	0	0
<b>Overseas</b>		
Public Sector Quoted	115,886	117,201
Corporate Quoted	38,962	47,183
Corporate Unquoted	0	0
<b>Subtotal Fixed Interest Securities</b>	<b>228,391</b>	<b>257,523</b>
<b>Subtotal Index Linked Securities</b>	<b>3,012</b>	<b>0</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	638,325	640,326
Unquoted	0	0
<b>Overseas</b>		
Quoted	610,215	723,697
Unquoted	0	0
<b>Subtotal Equities</b>	<b>1,248,540</b>	<b>1,364,023</b>
<b>Pooled Funds – Additional Analysis</b>		
<b>UK</b>		
Fixed Income	0	0
Unit Trusts	471,751	496,853
Pooled Property Investment	7	0
<b>Overseas</b>		
Fixed Income	7,237	7,022
Unit Trusts	512,141	593,128
<b>Subtotal Pooled Funds</b>	<b>991,136</b>	<b>1,097,003</b>
Private Equity	136,414	145,560
Property, Direct	159,240	211,960
<b>Grand Total</b>	<b>2,766,733</b>	<b>3,076,069</b>



## Note 10: Analysis of Derivatives

### Futures

Outstanding exchange traded future contracts are as follows:

Type	Expires	Economic Exposure	Market Value	Economic Exposure	Market Value
			31 March 2014		31 March 2015
		£'000	£'000	£'000	£'000
<b>Assets</b>					
Overseas Fixed Interest	Less than one year	(7,408)	40	0	0
<b>Liabilities</b>					
UK Fixed Interest	Less than one year	(13,691)	(51)	(10,264)	(127)
Euro - Other	Less than one year	0	0	(9,189)	(127)
<b>Net Futures</b>			<b>(11)</b>		<b>(254)</b>

## Forward Foreign Currency

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

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

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Asset Value	Liability Value £'000
Up to 3 Months	GBP	14,039	AUD	14,178	0	139
Up to 3 Months	GBP	2,905	CAD	2,951	0	46
Up to 3 Months	GBP	59,963	EUR	58,100	1,863	0
Up to 3 Months	GBP	2,159	EUR	2,100	59	0
Up to 3 Months	GBP	20,501	YEN	20,687	0	186
Up to 3 Months	GBP	3,179	PLN	3,230	0	51
Up to 3 Months	AUD	1,988	GBP	2,046	0	58
Up to 3 Months	EUR	3,185	GBP	3,204	0	19
Up to 3 Months	EUR	3,091	GBP	3,146	0	55
Up to 3 Months	EUR	6,950	GBP	6,975	0	25
Up to 3 Months	YEN	6,746	GBP	6,575	171	0
Up to 3 Months	GBP	540	ZAR	525	15	0
Up to 3 Months	GBP	61,426	USD	63,404	0	1,978
Up to 3 Months	GBP	3,282	USD	3,369	0	87
Up to 3 Months	GBP	6,515	USD	6,738	0	223
Up to 3 Months	GBP	10,268	USD	10,309	0	41
Up to 3 Months	GBP	5,412	USD	5,390	22	0

<b>Net Forward Currency Contracts at 31 March 2015</b>		<b>(778)</b>
<b>Prior Year Comparative</b>		
Open Forward Currency Contracts at 31 March 2014	294	(668)
<b>Net Forward Currency Contacts at 31 March 2014</b>		<b>(374)</b>

## Note 11: Investments Analysed by Fund Manager

	31 March 2014	%	31 March 2015	%
	£'000		£'000	
<b>Investment Assets</b>				
State Street Global Advisors	934,417	33.0	1,043,466	33.0
Baillie Gifford	631,450	22.3	732,509	23.1
Blackrock Asset Management	390,686	13.8	397,049	12.5
Baring Asset Managers	244,425	8.6	268,200	8.5
AAM Global Ex UK	250,712	8.8	278,334	8.8
Aberdeen Frontier	35,825	1.3	38,370	1.2
Aberdeen Property Investors	161,682	5.7	216,810	6.9
HarbourVest	71,029	2.5	85,799	2.7
Standard Life	47,954	1.7	41,400	1.3
ACC Loan Fund Deposit	14,390	0.5	27,560	0.9
Global Custodian	29,736	1.1	15,180	0.5
Partners Group	12,662	0.4	15,109	0.5
NESPF	2,883	0.1	359	0.0
RREEF	7	0.0	0	0.0
Maven Capital	1,933	0.1	2,909	0.1
	<b>2,829,791</b>	<b>99.9</b>	<b>3,163,054</b>	<b>100.0</b>
<b>Net Long and Short Term Assets</b>				
Bank Account	126	0.0	5	0.0
Long and Short Term Debtors Less Creditors	3,658	0.1	(1,495)	0.0
<b>Net Assets</b>	<b>2,833,575</b>	<b>100.0</b>	<b>3,161,564</b>	<b>100.0</b>

## Note 12: Stock Lending

	2013/14	Collateral	2014/15	Collateral
	£'000	Percentage	£'000	Percentage
<b>Stock on Loan</b>				
Equities	150,023		154,862	
Fixed Interest	42,869		64,434	
<b>Total Exposure</b>	<b>192,892</b>		<b>219,296</b>	
<b>Total Collateral</b>	<b>215,225</b>	<b>111.58</b>	<b>242,961</b>	<b>110.79</b>

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

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

## Note 13: Property Holdings

	2013/14	2014/15
	£'000	£'000
Opening Balance	140,365	159,240
Additions:	629	2,640
Purchases	9,590	40,879
Construction	7,481	0
Subsequent Expenditure		
Disposals	(13,000)	(4,747)
Net Increase in Market Value	14,175	13,948
Other Changes in Fair Value	0	0
<b>Closing Balance</b>	<b>159,240</b>	<b>211,960</b>

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:

	<b>2013/14</b>		<b>2014/15</b>
	<b>£'000</b>		<b>£'000</b>
Within One Year	10,130		12,273
Between One Year and Five Years	38,543		48,161
Later than Five Years	71,161		87,798
<b>Total</b>	<b>119,834</b>		<b>148,232</b>

## Note 14: Financial Instruments

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

Designated as Fair Value through Profit & Loss 31 March 2014 £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Designated as Fair Value through Profit & Loss 31 March 2015 £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
			<b>Financial Assets</b>			
231,403			Fixed Interest	257,523		
1,248,540			Equities	1,364,023		
991,129			Pooled	1,097,003		
7			Pooled Property	0		
136,414			Private Equity	145,560		
159,240			Property	211,960		
1			Derivative contracts	0		
	63,443		Cash		88,017	
	0		Other		0	
	19,419		Debtors		19,568	
<b>2,766,734</b>	<b>82,862</b>		<b>Subtotal</b>	<b>3,076,069</b>	<b>107,585</b>	
			<b>Financial Liabilities</b>			
(386)			Derivative contracts	(1,032)		
			Other			
		(15,635)	Creditors Borrowings			(21,058)
<b>(386)</b>		<b>(15,635)</b>		<b>(1,032)</b>		<b>(21,058)</b>
<b>2,766,348</b>	<b>82,862</b>	<b>(15,635)</b>		<b>3,075,037</b>	<b>107,585</b>	<b>(21,058)</b>
		<b>2,833,575</b>	<b>Total</b>			<b>3,161,564</b>

**Note 15: Net Gains and Losses on Financial Instruments**

<b>31 March 2014</b>		<b>31 March 2015</b>
<b>£'000</b>	<b>Financial Assets</b>	<b>£'000</b>
206,995	Fair Value through Profit and Loss	292,821
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	<b>Financial Liabilities</b>	
13,230	Fair Value through Profit and Loss	(313)
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
<b>220,225</b>	<b>Total</b>	<b>292,508</b>

**Note 16: Fair Value of Financial Instruments and Liabilities**

<b>Carrying Value</b>	<b>Fair Value</b>		<b>Carrying Value</b>	<b>Fair Value</b>
<b>31 March 2014</b>			<b>31 March 2015</b>	
<b>£'000</b>	<b>£'000</b>	<b>Financial Assets</b>	<b>£'000</b>	<b>£'000</b>
2,034,142	2,766,734	Fair Value through Profit and Loss	2,119,168	3,076,069
82,862	82,862	Loans and Receivables	107,585	107,585
<b>2,117,004</b>	<b>2,849,596</b>	<b>Total Financial Assets</b>	<b>2,226,753</b>	<b>3,183,654</b>
		<b>Financial Liabilities</b>		
(386)	(386)	Fair Value through Profit and Loss	(1,032)	(1,032)
(15,635)	(15,635)	Financial Liabilities at Amortised Cost	(21,058)	(21,058)
<b>(16,021)</b>	<b>(16,021)</b>	<b>Total Financial Liabilities</b>	<b>(22,090)</b>	<b>(22,090)</b>
<b>2,100,983</b>	<b>2,833,575</b>		<b>2,204,663</b>	<b>3,161,564</b>

## **Note 17: Valuation of Financial Instruments carried at Fair Value**

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

### **Level 1**

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

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

### **Level 2**

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

### **Level 3**

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

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

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

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

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



	<b>Quoted</b>	<b>Using</b>	<b>With</b>	
	<b>Market</b>	<b>Observable</b>	<b>Significant</b>	
<b>Values at 31 March</b>	<b>Price</b>	<b>Inputs</b>	<b>Unobservable</b>	
<b>2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	2,736,521	211,960	127,588	3,076,069
Loans and Receivables	107,585			107,585
<b>Total Financial Assets</b>	<b>2,844,106</b>	<b>211,960</b>	<b>127,588</b>	<b>3,183,654</b>
<b>Financial Liabilities</b>				
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)
<b>Total Financial Liabilities</b>	<b>(21,058)</b>	<b>(1,032)</b>	<b>0</b>	<b>(22,090)</b>
<b>Net Financial Assets</b>	<b>2,823,048</b>	<b>210,928</b>	<b>127,588</b>	<b>3,161,564</b>

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

#### Note 18: Risk arising from Financial Instruments

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

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

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

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

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

## **Market Risk**

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

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

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

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

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's scheme actuary the Fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period.

<b>Asset Type</b>	<b>Potential Market Movements (+/-)</b>
Global Bonds	7.0%
UK Equities	17.1%
Overseas Equities	17.4%
Private Equity	24.2%
Property	15.1%
Cash	1.8%

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

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

<b>Asset Type</b>	<b>Value as at 31 March 2015</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	86,985	1.8	88,551	85,419
<b>Investment Portfolio Assets</b>				
Global Bonds	264,545	7.0	283,063	246,027
UK Equities	1,137,179	17.1	1,331,637	942,721
Overseas Equities	1,316,825	17.4	1,545,953	1,087,697
Private Equity	145,560	24.2	180,786	110,334
Property	211,960	15.1	243,966	179,954
<b>Total Assets Available to Pay Benefits</b>	<b>3,163,054</b>		<b>3,673,956</b>	<b>2,652,152</b>

<b>Asset Type</b>	<b>Value as at 31 March 2014</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	63,058	1.8	64,193	61,923
<b>Investment Portfolio Assets</b>				
Global Bonds	238,640	8.1	257,970	219,310
UK Equities*	1,110,083	17.0	1,298,797	921,369
Overseas Equities*	1,122,356	17.3	1,316,524	928,188
Private Equity	136,414	25.4	171,063	101,765
Property	159,240	15.1	183,285	135,195
<b>Total Assets Available to Pay Benefits</b>	<b>2,829,791</b>		<b>3,291,832</b>	<b>2,367,750</b>

\* This note for 2013-14 has been amended by £35,824k for the Reclassification of Frontier Funds' Pooled Investment from UK to Overseas.

### **Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset Type</b>	<b>As at 31 March 2014</b>	<b>As at 31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	63,443	88,017
Cash Balances	126	5
Fixed Interest Securities	238,640	264,545
<b>Total</b>	<b>302,209</b>	<b>352,567</b>

### **Interest Rate Risk Sensitivity Analysis**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund considers that long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

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

<b>Asset Type</b>	<b>Carrying Amount as at 31 March 2015</b>	<b>Change in Year in the Net Assets available to Pay Benefits</b>	
		<b>+ 100 BPS</b>	<b>- 100 BPS</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	88,017	88,897	87,137
Cash Balances	5	6	4
Fixed Interest Securities	264,545	267,190	261,900
<b>Total Change in Assets Available</b>	<b>352,567</b>	<b>356,093</b>	<b>349,041</b>

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

### Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2014	Asset Value as at 31 March 2015
	£'000	£'000
Overseas Quoted Securities	623,343	741,326
Overseas Unquoted Securities	119,178	124,679
Overseas Unit Trusts	519,378	600,150
Overseas Public Sector Bonds (Quoted)	115,886	117,201
Overseas Corporate Bonds (Quoted)	38,962	47,183
<b>Total Overseas Assets</b>	<b>1,416,747</b>	<b>1,630,539</b>

### Currency Risk – Sensitivity Analysis

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

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

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

<b>Currency Exposure – Asset Type</b>	<b>Asset Value as at 31 March 2015</b>	<b>Change to Net Assets</b>	<b>Change to Net Assets</b>
		<b>+10%</b>	<b>-10%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas Quoted Securities	741,326	815,459	667,193
Overseas Unquoted Securities	124,679	137,147	112,211
Overseas Unit Trust	600,150	660,165	540,135
Overseas Public Sector Bonds (Quoted)	117,201	128,921	105,481
Overseas Corporate Bonds (Quoted)	47,183	51,901	42,465
<b>Total Change in Assets Available</b>	<b>1,630,539</b>	<b>1,793,593</b>	<b>1,467,485</b>

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

## Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2015 was £88,022,000 (31 March 2014 £63,569,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2014	Balance as at 31 March 2015
		£'000	£'000
<b>Money Market Funds</b>			
Deutsche Managed GBP	AAAm	36,351	37,676
Deutsche Euro	AAAm	3,908	5,581
BNY Mellon LIQ USD	AAAm	0	1,041
<b>Bank Deposit Accounts</b>			
ACC Loans Fund Deposit	N/A	14,390	27,560
BNY Mellon	AAAm	7,083	11,474
Natwest, (API)	A	1,711	4,685
<b>Total</b>		<b>63,443</b>	<b>88,017</b>
<b>Bank Current Accounts</b>			
Clydesdale Bank	BBB+	126	5
<b>Total</b>		<b>63,569</b>	<b>88,022</b>



## **Liquidity Risk**

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2015 the value of illiquid assets was £339,548,136, which represented 10.7% of the total fund assets (31 March 2014 £282,330,379 which represented 9.8% of the total fund assets).

**Note 19: Breakdown of Long & Short Term Assets and Liabilities**

	<b>31 March 2014</b>	<b>31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
<b>Long Term Assets</b>	<b>99</b>	<b>233</b>
<b>Short Term Assets</b>		
Employees' Contributions	2,150	2,208
Employers' Contributions	5,655	5,801
Transfers	0	0
Sundry Debtors	11,389	11,321
	<b>19,194</b>	<b>19,330</b>
Bank	126	5
<b>Total Short Term Assets</b>	<b>19,320</b>	<b>19,335</b>
<b>Total Long &amp; Short Term Assets</b>	<b>19,419</b>	<b>19,568</b>

<b>Analysis of Assets</b>	<b>31 March 2014</b>	<b>31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
<b>Long Term Assets</b>		
Other Entities and Individuals	<b>99</b>	<b>233</b>
Central Government Bodies	524	148
Other Local Authorities	7,252	7,650
Other Entities and Individuals	11,418	11,532
<b>Total Short Term Assets</b>	<b>19,194</b>	<b>19,330</b>
<b>Total Long &amp; Short Term Assets</b>	<b>19,293</b>	<b>19,563</b>

	<b>31 March 2014</b>	<b>31 March 2015</b>
<b>Short Term Liabilities</b>	<b>£'000</b>	<b>£'000</b>
Sundry Creditors	10,452	14,170
Benefits Payable	5,183	6,888
<b>Total</b>	<b>15,635</b>	<b>21,058</b>

<b>Analysis of Liabilities</b>	<b>31 March 2014</b>	<b>31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Central Government Bodies	1,686	1,503
Other Local Authorities	624	572
Other Entities and Individuals	13,325	18,983
<b>Total</b>	<b>15,635</b>	<b>21,058</b>

#### **Note 20: Fund Manager Transaction Costs**

	<b>31 March 2014</b>	<b>31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Fee/Tax	1,284	881
Commission	551	510
<b>Total</b>	<b>1,835</b>	<b>1,391</b>

#### **Note 21: Related Party Transactions**

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

The costs of these services for the North East Scotland Pension Fund amounted to £1,084,325 (2014 - £990,664).

Prior to the remittance of excess cash to the Investment Fund Managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £27,560,000 (2014 - £14,390,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £126,686 (2014 - £49,466) for the North East Scotland Pension Fund.

#### **Note 22: Key Management Personnel**

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

		<b>Accrued Pension 2013/14</b>	<b>Accrued Pension 2014/ 2015</b>
		<b>£'000</b>	<b>£'000</b>
Barry Jenkins	Head of Finance till Aug'13	30	0
Steven Whyte	Head of Finance from Jan'14	19	22
Laura Goodchild		1	0

## Governance

Aberdeen City Council agreed on 20 August 2014 to rename the Pensions Panel to the Pensions Committee and increase its membership from 5 to 9. This change took effect on 8 October 2014.

As at 31 March 2015, 8 members of the Pensions Committee were active members of the North East Scotland Pension Fund.

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

In 2014/15, Elected Members' declared an admitted body interest in Oakbank School Trust.

### Note 23: Contractual Commitments as at 31 March 2015

As at 31 March 2015 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

	<b>Contractual Commitments</b>	<b>Undrawn Commitments</b>
	<b>£'000</b>	<b>£'000</b>
HarbourVest	111,149	36,628
Standard Life	108,169	41,172
Partners Group	26,045	12,283
NESPF	0	0
Maven (SLF)	10,000	6,541
<b>Total</b>	<b>255,363</b>	<b>96,624</b>

### Note 24: Additional Voluntary Contributions (AVC)

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

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

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

**Standard Life – Financial Statement for the period 6th April 2014 to 5 April 2015**

	£
<b>Opening Net Asset Value</b>	<b>2,132,978</b>
Total Income	63,888
Total Expenditure	272,188
<b>Closing Net Asset Value</b>	<b>2,103,397</b>

**Prudential – Financial Statement for the period 1 April 2014 to 31 March 2015**

	£
<b>Opening Net Asset Value</b>	<b>22,366,585</b>
Total Income	1,797,494
Total Expenditure	3,071,015
<b>Closing Net Asset Value</b>	<b>22,765,446</b>

**Note 25: Contingent Assets/Liabilities**

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

**Orphan liabilities**

Orphan liabilities are managed under the Fund's termination policy, as set out by the Scheme's Actuary. The Fund has no potential Orphaned liabilities.

## Note 26: Impairment Losses

During 2014/15 the Fund has recognised an impairment loss of £2,649,444 (2013/2014 £2,872,444) for possible non recovery of pensioner death overpayments and potential non-payment of cessation values where the employer is not backed by a guarantee.

## Note 27: Investment Principles

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

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

## Note 28: Critical Judgements in applying Accounting Policies

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

The items in the net asset statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the scheme actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the scheme actuary every 3 months. Further information can be found in note 1.
Private Equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Financial Statements is £146 million. There is a risk that this investment may be under or overstated in the accounts.

## Note 29: Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Head of Finance on 15 June 2015. Events taking place after this date are not reflected in the Financial Statements or notes.

## Note 30: Agency Arrangements for Administering Compensatory 'Added' Years

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

The cash flows and associated payroll cost for those compensatory 'added' years payments are:

	<b>2013/14</b> <b>£'000</b>	<b>2014/15</b> <b>£'000</b>
Cost Incurred	5,938	6,025
Cost Recovered	5,938	6,025
Associated Payroll Cost	5	5

## NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Note 1: Actuarial Valuation Report

An Actuarial report for the Transport Fund was provided as at 31 March 2014. Information from the 2014 Actuarial valuation is detailed below:

Market Value of Assets at Valuation	£79,800,000
Liabilities	£86,200,000
Deficit	£ 6,400,000

### Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 93%

### Addressing the Shortfall

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

Adopting the same method and assumptions as used for calculating the funding target, by maintaining the contributions at the 2014/15 levels the deficit of £6.4 million could be eliminated in approximately 6-7 years.

Since 31 March 2014 there has been significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. However, the Administering Authority and employer (following consultation with the actuary) have agreed that contributions will remain at the current level. (as detailed in the Schedule to the Rates and Adjustments Certificate).

<b>Total Contribution Rate</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
(as percentage of payroll)	33% plus	33% plus	33% plus
	£1,500,000	£1,500,000	£1,500,000

### Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2018.

The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period and implementation of changes in employer contributions where these are required. Contribution



requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

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

Pre-retirement	3.65% p.a
Post-retirement	3.65% p.a
Assumed Long Term Price Inflation (CPI)	3.1% p.a
Salary Increases – Long term	5.1% p.a
Salary Increases – Short term	3.1% p.a
Pension Increases in Payment	3.1% p.a

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

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

### **Actuarial Statement**

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS 19) assumptions, is estimated to be £78.8m (2014 £71.3m). The figure is used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

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

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

**Note 2: Contributions Receivable**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
<b>Employees' Normal Contributions</b>	<b>144</b>	<b>134</b>
Employer's Normal Contributions	704	725
Employer's Deficit Recovery Contributions	1,328	1,494
Employer's Augmentation Contributions	0	0
<b>Employer Total</b>	<b>2,032</b>	<b>2,219</b>
<b>Total</b>	<b>2,176</b>	<b>2,353</b>

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Scheduled Body	2,176	2,353
<b>Total</b>	<b>2,176</b>	<b>2,353</b>

**Note 3: Benefits Payable**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Pensions	2,821	2,921
Commutation and Lump Sum Retirement Benefits	567	325
Lump Sum Death Benefits	7	85
<b>Total</b>	<b>3,395</b>	<b>3,331</b>

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Scheduled Body	3,395	3,331
<b>Total</b>	<b>3,395</b>	<b>3,331</b>

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

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Contributions Refunded	0	1
Individual Transfers	22	0
<b>Total</b>	<b>22</b>	<b>1</b>

## Note 5: Management Expenses

	2013/14	2014/15
	£'000	£'000
Pension Fund Staffing Costs – Administration	24	26
Support Services including IT	13	16
Printing and Publications	1	1
<b>Administration Expenses Total</b>	<b>39</b>	<b>43</b>
Pension Fund Staffing Costs – Investment	3	3
Pension Fund Committee	1	1
External Audit Fees	1	1
Internal Audit Fees	0	1
Actuarial Fees	13	31
<b>Oversight and Governance Expenses Total</b>	<b>18</b>	<b>37</b>
Investment Management	(12)	(13)
Custody Fee	11	11
<b>Investment Management Expenses</b>	<b>(1)</b>	<b>(2)</b>
<b>Management Expenses Grand Total</b>	<b>56</b>	<b>78</b>

Note - 2013/14 Adjusted to reflect new CIPFA guidance

**Note 6: Investment Income**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Fixed Interest Securities	796	705
Equity Dividends	880	887
Pooled Investments	0	1
Interest on Cash Deposit	23	21
Other (including P/L from Currency and Derivatives)	39	160
<b>Total</b>	<b>1,738</b>	<b>1,774</b>
Tax -		
Withholding Tax – Fixed Interest Securities	1	0
Withholding Tax – Equities*	(84)	(75)
Withholding Tax – Pooled*	0	(1)
<b>Total Tax</b>	<b>(83)</b>	<b>(76)</b>
<b>Net Total</b>	<b>1,655</b>	<b>1,698</b>

\* Typing Error 2013-14 Accounts Corrected

## Note 7: Investment Assets

### Reconciliation of Movements in Investments and Derivatives

	Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March 2014				31 March 2015
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	23,751	42,579	(32,999)	3,776	37,107
UK Equities	23,283	2,213	(26,202)	730	24
Overseas Equities	6,438	2,505	(9,386)	443	0
Pooled Investments	20,875	62,472	(35,119)	3,901	52,129
	<b>74,347</b>	<b>109,769</b>	<b>(103,706)</b>	<b>8,850</b>	<b>89,260</b>
Cash	4,758				(189)
<b>Net Investment Assets</b>	<b>79,105</b>				<b>89,071</b>

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

**Note 8: Analysis of Investments (excluding Derivatives Contracts and Cash)**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
<b>Fixed Interest Securities</b>		
<b>UK</b>		
Public Sector Quoted	20,970	37,107
Corporate Quoted	0	0
Corporate Unquoted	0	0
<b>Overseas</b>		
Public Sector Quoted	2,781	0
Corporate Quoted	0	0
Corporate Unquoted	0	0
<b>Subtotal Fixed Interest Securities</b>	<b>23,751</b>	<b>37,107</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	23,283	24
Unquoted	0	0
<b>Overseas</b>		
Quoted	6,438	0
Unquoted	0	0
<b>Subtotal Equities</b>	<b>29,721</b>	<b>24</b>
<b>Pooled Funds – Additional Analysis</b>		
<b>UK</b>		
Fixed Income	0	0
Unit Trusts	418	8,309
Pooled Property Investments	1	0
<b>Overseas</b>		
Fixed Income	0	0
Unit Trusts	20,456	43,820
<b>Subtotal Pooled Funds</b>	<b>20,875</b>	<b>52,129</b>
Private Equity	0	0
Property	0	0
<b>Grand Total</b>	<b>74,347</b>	<b>89,260</b>

## Note 9: Investments Analysed by Fund Manager

<b>Investment Assets</b>	<b>31 March 2014</b>	<b>%</b>	<b>31 March 2015</b>	<b>%</b>
	<b>£'000</b>		<b>£'000</b>	
Aberdeen Asset Managers	78,799	99.6	88,527	99.4
ACC Loan Fund Deposit	306	0.4	544	0.6
	<b>79,105</b>	<b>100.0</b>	<b>89,071</b>	<b>100.0</b>

## Note 10: Stock Lending

	<b>2013/14</b>	<b>Collateral</b>	<b>2014/15</b>	<b>Collateral</b>
	<b>£'000</b>	<b>Percentage</b>	<b>£'000</b>	<b>Percentage</b>
<b>Stock on Loan</b>				
Equities	2,110		4	
Fixed Interest	1,604		1	
<b>Total Exposure</b>	<b>3,714</b>		<b>5</b>	
<b>Total Collateral</b>	<b>4,114</b>	<b>110.77</b>	<b>6</b>	<b>120.00</b>

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

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

## Note 11: Financial Instruments

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

31 March 2014				31 March 2015		
Designated as Fair Value Through Profit & Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Designated as Fair Value Through Profit & loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
			<b>Financial Assets</b>			
23,751			Fixed Interest	37,107		
29,721			Equities	24		
20,874			Pooled	52,129		
1			Pooled Property	0		
	4,758		Cash			
	952		Debtors		829	
<b>74,347</b>	<b>5,710</b>	<b>0</b>		<b>89,260</b>	<b>829</b>	<b>0</b>
			<b>Financial Liabilities</b>			
			Cash		(189)	
		(219)	Creditors			(260)
<b>74,347</b>	<b>5,710</b>	<b>(219)</b>		<b>89,260</b>	<b>640</b>	<b>(260)</b>
		<b>79,838</b>				<b>89,640</b>



## Note 12: Net Gains and Losses on Financial Instruments

31 March 2014		31 March 2015
£'000	Financial Assets	£'000
(1,563)	Fair Value through Profit and Loss	8,850
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	<b>Financial Liabilities</b>	
0	Fair Value through Profit and Loss	0
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
<b>(1,563)</b>	<b>Total</b>	<b>8,850</b>

## Note 13: Fair Value of Financial Instruments and Liabilities

Carrying Value	Fair Value		Carrying Value	Fair Value
31 March 2014			31 March 2015	
£'000	£'000		£'000	£'000
		<b>Financial Assets</b>		
59,755	74,347	Fair Value through Profit and Loss	88,739	89,260
5,710	5,710	Loans and Receivables	829	829
<b>65,465</b>	<b>80,057</b>	<b>Total Financial Assets</b>	<b>89,568</b>	<b>90,089</b>
		<b>Financial Liabilities</b>		
		Fair Value through Profit and Loss		
		Loans and Receivables	(189)	(189)
(219)	(219)	Financial Liabilities at Amortised Cost	(260)	(260)
<b>(219)</b>	<b>(219)</b>	<b>Total Financial Liabilities</b>	<b>(449)</b>	<b>(449)</b>
<b>65,246</b>	<b>79,838</b>		<b>89,119</b>	<b>89,640</b>

## **Note 14: Valuation of Financial Instruments carried at Fair Value**

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

### **Level 1**

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

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

### **Level 2**

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

### **Level 3**

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

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

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

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

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

	Quoted	Using	With	
	Market Price	Observable	Significant	
Values at 31 March 2015	Level 1	Level 2	Unobservable	Total
	£'000	£'000	Inputs	£'000
			Level 3	
			£'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	89,260	0	0	89,260
Loans and Receivables	829	0	0	829
<b>Total Financial Assets</b>	<b>90,089</b>	<b>0</b>	<b>0</b>	<b>90,089</b>
<b>Financial Liabilities</b>				
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)
<b>Total Financial Liabilities</b>	<b>(449)</b>	<b>0</b>	<b>0</b>	<b>(449)</b>
<b>Net Financial Assets</b>	<b>89,640</b>	<b>0</b>	<b>0</b>	<b>89,640</b>

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

### Note 15: Risk arising from Financial Instruments

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

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

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

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

## Market Risk

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

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

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

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

## Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's scheme actuary the Fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period.

<b>Asset Type</b>	<b>Potential Market Movements (+/-)</b>
Global Bonds	7.0%
UK Equities	17.1%
Overseas Equities	17.4%
Cash	1.8%

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

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

<b>Asset Type</b>	<b>Value as at 31 March 2015</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	(189)	1.8%	(192)	(186)
<b>Investment Portfolio Assets</b>				
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
<b>Total Assets available to Pay Benefits</b>	<b>89,071</b>		<b>100,715</b>	<b>77,427</b>

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

### **Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset type</b>	<b>As at 31 March 2014</b>	<b>As at 31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	4,758	(189)
Cash Balances	1	1
Fixed Interest Securities	23,751	37,107
<b>Total</b>	<b>28,510</b>	<b>36,919</b>

### **Interest Rate Risk Sensitivity Analysis**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's scheme actuary has advised that long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

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

<b>Asset Type</b>	<b>Carrying Amount as at 31 March 2015</b>	<b>Change in Year in the Net Assets Available to Pay Benefits</b>	
		<b>+ 100 BPS</b>	<b>- 100 BPS</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	(189)	(191)	(187)
Cash Balances	1	1	1
Fixed Interest Securities	37,107	37,478	36,736
<b>Total Change in Assets Available</b>	<b>36,919</b>	<b>37,288</b>	<b>36,550</b>

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

### Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous period end:

Currency Exposure – Asset Type	Asset value as at 31 March 2014	Asset value as at 31 March 2015
	£'000	£'000
Overseas Quoted Securities	6,438	0
Overseas Unit Trusts	20,456	43,820
Overseas Public Sector Bonds (Quoted)	2,781	0
<b>Total Overseas Assets</b>	<b>29,675</b>	<b>43,820</b>



## Currency Risk – Sensitivity Analysis

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

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

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

<b>Currency Exposure – Asset Type</b>	<b>Asset Value as at 31 March 2015</b>	<b>Change to Net Assets</b>	<b>Change to Net Assets</b>
		<b>+10%</b>	<b>-10%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas Quoted Securities	0	0	0
Overseas Unit Trust	43,820	48,202	39,438
Overseas Public Sector Bonds (Quoted)	0	0	0
<b>Total Change in Assets Available</b>	<b>43,820</b>	<b>48,202</b>	<b>39,438</b>

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

## Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2015 was £(188,000) and at 31 March 2014 £4,759,000. This was held with the following institutions:

<b>Summary</b>	<b>Rating</b>	<b>Balance as at 31 March 2014</b>	<b>Balance as at 31 March 2015</b>
		<b>£'000</b>	<b>£'000</b>
<b>Money Market Funds</b>			
Deutsche Managed GBP	AAAm	4,481	9,473
Deutsche Euro	AAAm	1	13
<b>Bank Deposit Accounts</b>			
ACC Loans Fund Deposit	N/A	306	544
BNY Mellon	AAAm	(30)	(10,219)
<b>Bank Current Accounts</b>			
Clydesdale Bank	BBB+	1	1
<b>Total</b>		<b>4,759</b>	<b>(188)</b>

## **Liquidity Risk**

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2015 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2014 £0 which represented 0% of the total fund assets).

**Note 16: Breakdown of Long & Short Term Assets and Liabilities**

	31 March 2014	31 March 2015
	£'000	£'000
<b>Long Term Assets</b>	<b>431</b>	<b>404</b>
Employees' Contributions	4	4
Employer's Contributions	23	24
Sundry Debtors	493	396
<b>Sub Total</b>	<b>520</b>	<b>424</b>
Bank	1	1
<b>Total Short Term Assets</b>	<b>521</b>	<b>425</b>
<b>Grand Total Long &amp; Short Term Assets</b>	<b>952</b>	<b>829</b>

<b>Analysis of Long &amp; Short Term Assets</b>	31 March 2014	31 March 2015
	£'000	£'000
Central Government Bodies	431	404
Other Entities and Individuals	0	0
<b>Total Long Term Assets</b>	<b>431</b>	<b>404</b>
Central Government Bodies	27	27
Other Local Authorities	13	0
Other Entities and Individuals	480	397
<b>Total Short Term Assets</b>	<b>520</b>	<b>424</b>
<b>Grand Total Long &amp; Short Term Assets</b>	<b>951</b>	<b>828</b>

	31 March 2014	31 March 2015
<b>Short Term Liabilities</b>	£'000	£'000
Sundry Creditors	63	107
Benefits Payable	156	153
<b>Total</b>	<b>219</b>	<b>260</b>

<b>Analysis of Liabilities</b>	31 March 2014	31 March 2015
	£'000	£'000
Other Local Authorities	13	0
Other Entities and Individuals	206	260
<b>Total</b>	<b>219</b>	<b>260</b>

### Note 17: Fund Manager Transaction Costs

	31 March 2014	31 March 2015
	£'000	£'000
Fee/Tax	36	6
Commission	9	10
<b>Total</b>	<b>45</b>	<b>16</b>

### Note 18: Related Party Transactions

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

The cost of these services for the Aberdeen City Council Transport Fund was £33,536 (2014 - £30,639).

Prior to the remittance of excess cash to the Investment Fund Managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £544,000 (2014 - £306,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £2,213 (2014 - £1,714) for the Aberdeen City Council Transport Fund.

### Note 19: Key Management Personnel

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

### Note 20: Investment Principles

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

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

## Note 21: Critical Judgements in applying Accounting Policies

Assumptions made about the future and other major sources of estimation uncertainty. The items in the net asset statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumption</b>
Actuarial present value of of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex 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.