

# **NORTH EAST SCOTLAND PENSION FUNDS**

## **AUDITED PENSION FUNDS ANNUAL REPORT**

**2010/2011**

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## INTRODUCTION

Local authorities responsible for administering a pension fund (administering authorities) forming part of the Local Government Pension Scheme (LGPS) are required by a recent amendment to the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report from 2011.

The annual report is a publication separate from the authorities own statutory accounts and contains financial statements in respect of each pension fund maintained by an authority. Authorities are required to publish the first annual report by 1 December 2011.

This document details compliance with the above regulations.

## REPORT BY THE HEAD OF FINANCE

Welcome to the Annual Report for Funds administered by Aberdeen City Council.

**The key statistics for the year are:**

### KEY FACTS

#### North East Scotland Pension Fund

- The Fund has nearly **49,978** members and **57** scheme employers.
- There are three main categories of membership, comprising of actively contributing members (**21,268**), members who have left employment but who have a deferred entitlement (**13,849**) and members in receipt of pensions, paid monthly (**14,861**).
- A diversified portfolio of assets amounting to **£2.2bn** is managed Externally by a number of appointed fund managers
- Pension Contributions in 2010/11 **£124m** comprising employer contributions of **£98m** and employee contributions **of £26m**
- Pension Payments in 2010/11 – **£68m**
- Lump Sum Payments in 2010/11 – **£25m**
- The estimated funding position as at 31 March 2011 – **89%**

#### Aberdeen City Council Transport Fund

- The Fund has nearly **655** members and **1** Scheme employer.
- Scheme membership, comprising of actively contributing members (**120**), members who have left employment but who have a deferred entitlement (**168**) and members in receipt of pensions, paid monthly (**367**).

- A diversified portfolio of assets amounting to **£68m** is managed externally by a single appointed fund manager
- Pension Fund Contribution in 2010/11 of **£3.6m**, comprising employer contributions of **£3.3m** and employee contributions of **£265k**
- Pension Payments in 2010/11 of **£2.2m**
- Lump Sum Payments in 2010/11 of **£653k**
- The estimated funding position as at 31 March 2011 – **90%**

During the year there have been a number of key themes which have impacted on Local Government Pension Schemes across the UK which the Pensions Panel of Aberdeen City Council, has considered with the support of officers and its advisors.

- Continuing impact of longevity which will be addressed again in the 2011 scheme valuation
- Volatility in world stock markets as the markets continued to their recovery from 2008
- Publication of the Hutton Report
- Progress of the Pathfinder Project in Scotland
- Financial Management which is addressed through the annual Pension Funds budget presented to the Pensions Panel and reviewed half yearly

## **KEY ACHIEVEMENTS**

- During the year a dedicated area of the Pension Funds website was created for elected members of the Joint Investment Advisory Committee (JIAC) and Pension Panel giving them access to scheme regulations, fund managers reporting and copies of committee reports
- The Funds signed up to the United Nations Principles for Responsible Investment. The United Nations-backed Principles for Responsible Investment Initiative (PRI) is a network of international investors working together to put principles for responsible investment into practice. Further details can be found on the Pension Funds website at [www.nespf.org.uk](http://www.nespf.org.uk)
- Officers worked with the Fund's global custodian over the year to enhance the quality of information provided to the JIAC in terms of investment performance measurement and governance by the custodian
- The Funds reviewed their AVC provision and introduced a range of new Fund's for members to access. Full details can be found on the Pension Fund website at [www.nespf.org.uk](http://www.nespf.org.uk)

## Fund Administration

|  |  |
|--|--|
| <b>Administering Authority</b><br>Aberdeen City Council  | <b>AVC Providers</b><br>Prudential<br>Standard Life Assurance Company                          |
| <b>Pensions Panel</b><br><br>Councillor Neil Fletcher (Convener)<br>Councillor James Kiddie<br>Councillor Barney Crockett<br>Councillor Alan Milne   | <b>Actuary</b><br><br>Mercer<br><br><b>Performance Measurement</b><br>Bank of New York Mellon  |
| <b>Joint Investment Advisory Committee</b><br><br><b>Aberdeen City Council</b><br>Councillor Neil Fletcher (Convener)<br>Councillor James Kiddie<br>Councillor Barney Crockett<br>Councillor Alan Milne<br><br><b>Aberdeenshire Council</b><br>Councillor Alastair Bews<br>Councillor Robert Thomas<br>Councillor Rosemary Bruce<br>Councillor Michael Watt<br><br><b>Moray Council</b><br>Councillor Graham Leadbitter<br>Councillor Gary Coull<br><br><b>Scottish Water</b><br>Mr Douglas Millican<br><br><b>North East Colleges</b><br>Mr Robert Duncan | <b>Custodian</b><br><br>Bank of New York Mellon<br><br><b>Auditors</b><br><br>Henderson Loggie |
| <b>Advisors</b>  |  |
| <b>Head of Finance</b><br>Barry Jenkins<br><b>Pensions Manager</b><br>Joanne Hope  |  |

## **FUND STRUCTURE**

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

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 their individual admission criteria which are out with the control of Aberdeen City Council.

## **SCHEME GOVERNANCE**

Aberdeen City Council as the administering authority for the Pension Funds, delegates all pensions scheme matters to the Pensions Panel with details of their delegated power given in the Funds Governance Statement. Support for the Pension Panel in investment matters is provided by the Joint Investment Advisory Committee with details of its role also detailed in the Fund Governance Statement. Support to both committees is provided by the Head of Finance of Aberdeen City Council. A copy of the Fund Governance Statement is available on the Pension Funds website [www.nespf.org.uk](http://www.nespf.org.uk) or on request from the Head of Finance, the Town House, Broad Street, Aberdeen, AB10 1AH.

## **ELECTED MEMBER TRAINING**

Good governance is a crucial element of effective public services. It leads to good management, good performance and good stewardship of public money. Elected member training forms a key aspect of good governance and as such has been recognised in both the Myner's Principles and the recent guidance from the Scottish Public Pension Agency (SPPA) on Fund Governance. Training is extended to all members of the Joint Investment Advisory Committee.

### **Training 2010/11**

The first Myner's Principle states that; administering authorities should ensure that;

- *decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation; and*
- *those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest*

In complying with the principle, committee members undertake regular training throughout the year as part of the quarterly meetings of the Joint Investment Advisory Committee. In addition members are encouraged to attend at least 1 external training course/seminar during the year.

During 2010/11, elected members received training in a number of areas including the following:

- Baillie Gifford Elected Member training – assets management
- LGC Investment Summit – Celtic Manor – asset management and future of the LGPS

- In House – Scheme Legislation and Governance Training
- In House – Actuarial Valuation 2011 Training
- In House – Defined Benefit V CARE Scheme

Fund compliance with the CIPFA Skills and Knowledge Framework was presented to the August 2010 meeting of the JIAC and will form the basis of the training agenda for the year 2011/12.

#### Training Agenda 2011/12

- Review of the CIPFA Knowledge and Skills Framework
- Revised Pensions Legislation
- Risk Management
- 2011 Actuarial Valuation
- Funding Strategy Asset Liability Modelling (ALM)
- Performance Measurement
- Custody Services

### **FUNDING STRATEGY STATEMENT**

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 and its subsequent amendments require administering authorities to prepare, maintain and publish a written Funding Strategy Statement (FSS). The FSS is normally reviewed on the receipt of a new triennial actuarial valuation

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. A copy of the current FSS may be obtained from the Fund's website.

### **GOVERNANCE COMPLIANCE STATEMENT**

The Regulations that govern the management of LGPS funds in Scotland require that a Governance Compliance Statement is published. The North East Scotland Pension Funds have published a Governance Statement (copy available on the North East Scotland Pension Fund's website), provided below is the Governance Compliance Statement which sets out the extent to which governance arrangements comply with best practice.

#### **Principle**

#### **Compliant**

##### **1. Structure**

- |  |   |
|--|---|
| a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.   | √ |
| b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. | √ |
| c) That where a secondary committee or panel has been  | √ |

established, the structure ensures effective communication across both levels.

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

√

## **2. Committee Membership and Representation**

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-

√

i) employing authorities (including non-scheme employers, e.g., admitted bodies);

ii) scheme members (including deferred and pensioner scheme members),

iii) where appropriate, independent professional observers, and

iv) expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

√

## **3. Voting**

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

√

## **4. Training/Facility time/Expenses**

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

√

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

√

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

√

## **5. Meetings (frequency /quorum)**

a) That an administering authority's main committee or committees meet at least quarterly.

√

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

√

c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

√.



## 6. Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee

√  
**Subject to the standing orders on confidentiality of Aberdeen City Council**

## 7. Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

√

## 8. Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

√

## INVESTMENT REPORT

| <u>Market Returns</u>               | <u>1 Year</u> | <u>3 Years (p.a.)</u> | <u>5 years (p.a.)</u> |
|-------------------------------------|---------------|-----------------------|-----------------------|
| FTSE All-share index                | 8.72          | 5.38                  | 3.71                  |
| FTSE North America index            | 9.58          | 10.52                 | 4.96                  |
| FTSE Europe Ex UK index             | 8.21          | 3.35                  | 5.05                  |
| FTSE Japan index                    | -4.02         | 3.59                  | -3.27                 |
| FTSE Pacific Ex Japan index         | 13.06         | 13.98                 | 14.01                 |
| FTA Government Securities All Stock | 5.16          | 5.36                  | 4.81                  |
| FTA Index Linked All Stocks         | 6.53          | 5.04                  | 6.19                  |
| LIBID (1 month)                     | 0.45          | 1.73                  | 3.14                  |
|                                     |               |                       |                       |

## Introduction

After the turbulent performance of 2008 and 2009, 2010/11 markets reverted to their long term expected returns.

## Equities

### UK Equities

A range of results were to be found in 2010/11 where the best returns were posted by the FTSE 250 with 16.7% and the FTSE Small Cap returning 14.5% against the FTSE 100 return of 7.4%.

## Overseas

On a one year view strong double digit Sterling returns were delivered by Pacific ex Japan posting 13.0%, Canada posting 13.3% and Emerging Markets 12.1%. The 15.4% US local currency return reduced to 9.6% in Sterling terms whereas the Japanese local currency return for the year of -10.2% improved to -4% when translated into Sterling. Within Europe results were mixed and ranged from a high Sterling return of 27.4% for Sweden, lifted by currency movements from its local currency return of 18.0%, to low Sterling returns of -29.4% for Greece and -16.2% for Ireland.

## **Bonds**

### UK Gilts

Gilts had a positive year to the 31 March 2011 with Long-dated Gilts returning 6.9% and outperforming the Short-dated Gilts return of 2.1% by 4.8%. The overall Gilts return for one year was 5.2% which was just below the Non-Gilt return of 5.3%

### UK Index Linked

Over a one year period the overall Index-Linked Gilts return was 6.5%. The highest return for the year was 8.0% posted by the medium-dated Index-Linked Gilts while the short and long dated had similar performance posting 5.3% and 5.4% respectively.

### Overseas Bonds

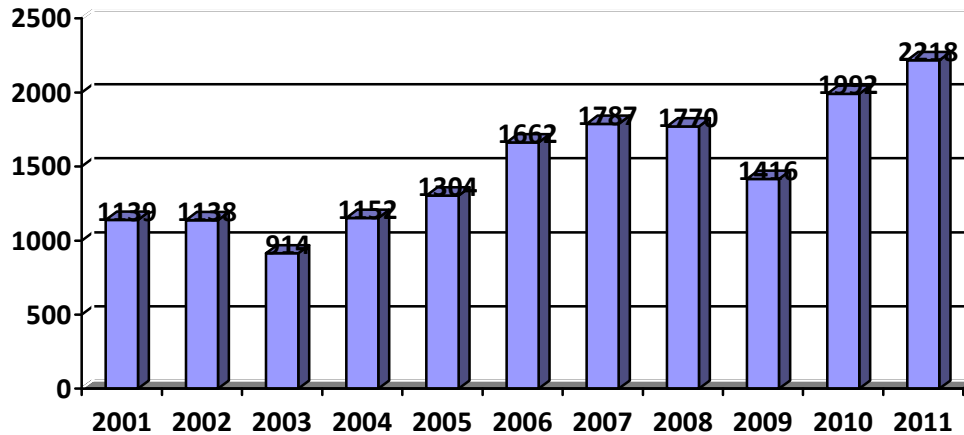
For the year the positive US local Bond return of 4.7% translated into a negative -0.9% Sterling return as the Dollar weakened. High Sterling terms returns of 13.5% posted by Australia, 9.2% posted by Sweden and 8.8% posted by Japan were in large part due to favourable currency movements as the local returns were 6.5%, 1.2% and 2.0% respectively.

## **Property**

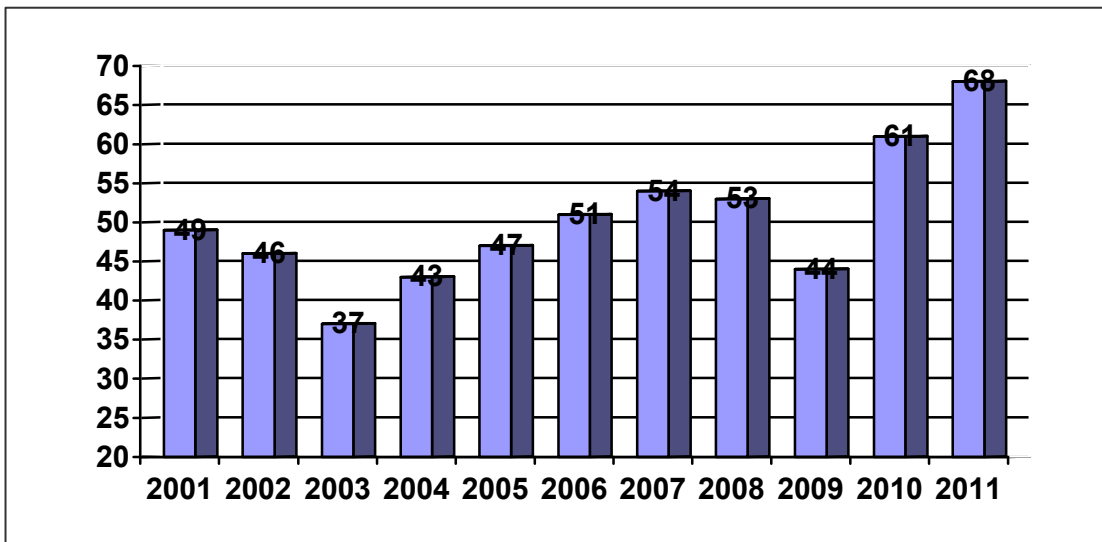
The Property return for the year was 7.3% and this underperformed the FTSE All-Share return of 8.7% by 1.4%.

## MARKET VALUATIONS

### Market Value of the North East Scotland Pension Fund to 31 March 2011



### Market Value of the Aberdeen City Council Transport Fund to 31 March 2011



## **INVESTMENT POLICY**

### **NORTH EAST SCOTLAND PENSION FUND**

This policy sets out the investment policy for the North East Scotland Pension Fund (NESPF); the policy is supported by the Fund's:

- Statement of Investment Principles,
- Funding Strategy Statement and;
- Cash Manual

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

The objective of investment is to deliver long-term returns which are greater than the growth in money to be paid out in pensions. The investment strategy is monitored on an ongoing basis by the JIAC, focusing on long term policies with consideration given to short tactical strategy - employed if appropriate.

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

The Cash Manual details the Fund's policy with regard to investment of Fund monies.

In line with the Statement of Investment Principles and the Funding Strategy Statement, the Fund monitors the diversity of the Funds' assets and investments. The Fund takes proper advice at reasonable intervals regarding its investments, through its advisors to the Pensions Panel and the Joint Investment Advisory Committee.

The above policy documents are reviewed on an ongoing basis by the Pensions Panel.

### **ABERDEEN CITY COUNCIL TRANSPORT FUND**

The Aberdeen City Council Transport Fund is a closed fund with a shorter life span than that of the NESPF. As such it has a specific asset allocation to mitigate risk with an asset split of 70% equities 30% bonds. Within the asset split the Fund maintains a diversified investment strategy - that is, investments are spread across different investment asset types and different countries, sectors and companies, in order to control risk. Discussions are ongoing with the scheme employer with regard to the implementation of a bespoke investment strategy to meet the Fund's long term liability profile.

## **INVESTMENT AND ACCOUNTING REPORT**

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

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

2010/11 saw no changes in Investment strategy within either Fund. There were no revisions to manager appointments or asset allocation during the period. March 2011 is the date of the next triennial actuarial valuation following which the Funds will undertake an investment strategy review with the assistance of external advisors.

The Investment and Accounting team worked during the year to enhance performance reported with the assistance of the Pension Funds global custodian and worked to enhance reporting to committee in such areas as scheme governance and financial management.

## **INVESTMENT PERFORMANCE**

### **North East Scotland Pension Fund**

The fund outperformed its customised benchmark over the year with a return of 10.64% versus the benchmark return of 8.49%.

The Fund achieved significant out performance in equities over the year. Of the Fund's equity managers both Baillie Gifford and Blackrock outperformed their benchmarks, with Aberdeen Asset Managers underperforming in their first year managing Global Equities on behalf of the Fund.

Barings Asset managers the funds bond and cash manager achieved an overall out performance of the benchmark by 0.8% over the year. The return alone from bonds was below benchmark with a relative return of -0.8%.

In June 2010 Aberdeen Property Investors were instructed to restructure the existing direct property portfolio. The portfolio has underperformed the benchmark over the year as the manager has worked to complete the restructuring exercise.

Our main focus in alternatives remains investment in private equity. Following the dramatic reduction in new investment opportunities during 2009/10 the market began to recover in 2010/11 and we saw significant draw downs from Standard Life in the European Market £5,807,560 and HarbourVest

£5,612,141 in the North American Market. We also saw a return to the Fund of £4,215,575 from realisations from both managers.

Total fund performance and manager performance is reported quarterly to the Joint Investment Advisory Committee who meet at least 6 monthly with each manager and more often if required.

### **Aberdeen City Council Transport Fund**

The Fund is managed by a single manager – Aberdeen Asset Management. A positive year across all asset classes for the Fund, with significant out performance in UK and International Equities. Discussion commenced during 2010/11 with the scheme actuary and the single scheme employer on developing a long term investment strategy for the fund to ensure it meets its long term liabilities. The Fund achieved a return of 10.27 over the year versus the benchmark of 8.51.

### **LONG TERM INVESTMENT 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 Fund's performance against these benchmarks that effect the long-term employer contribution rate, which is variable.

The table below shows that the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund have both shown a real return above Average Earnings and Consumer Price Index over the longer term. **Prior to March 2011 long term investment performance was measured against the Retail Price Index, however as benefit payments are now tied to the CP index, performance of the Fund has been revised to show the return versus the new index.** The long-term aim of the investment strategy is 'through an effective investment policy to target low stable costs to employers.' The investment strategy for both Funds is therefore monitored on an on-going basis to ensure that it continues to provide long term real returns.

| Year Ending March                   | 2011        | Average over the last 3 yr. | Average over the last 5 yr. |
|-------------------------------------|-------------|-----------------------------|-----------------------------|
|                                     | %           | %                           | %                           |
| <b><i>NESPF RETURN</i></b>          | <b>10.6</b> | <b>6.7</b>                  | <b>4.8</b>                  |
| <b><i>Transport Fund RETURN</i></b> | <b>10.3</b> | <b>8.3</b>                  | <b>6.3</b>                  |
| <b>Average Earnings</b>             | 2.3         | 2.0                         | 3.0                         |
| <b>Consumer Price Index</b>         | 3.1         | 3.1                         | 2.7                         |

## **CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT**

The North East Scotland Pension Funds support the view that the willingness and ability of a company to adopt the highest standards of corporate responsibility is increasingly important to its long-term growth. Good corporate governance and good social and environmental practice can have a favourable effect on financial performance and improve investment returns to shareholders as well as society at large. Conversely, companies that fail to adequately manage good governance and social and environmental risks may become vulnerable to higher operating costs, (including fines, lawsuits, damage to reputation) and subsequent loss of confidence to the detriment of all shareholders.

**Voting** is an integral part of good governance, and over the last year the Funds have voted at 258 Annual General Meetings/Special Meetings. From May 2011 the Fund appointed P.I.R.C (Pensions & Investment Research Consultants Ltd) as our new voting advice provider. PIRC is the UK's leading independent research and advisory consultancy who provide services to institutional investors on corporate governance and corporate responsibility. . Additional advice is also received from the Local Authority Pension Fund Forum (LAPFF)

During the year to 31 March 2011 we voted against management at 112 meetings, the most contentious points were:

**Remuneration Packages** – we voted against remuneration packages at 51 AGM's due to:

- Lack of Disclosure
- Performance targets not increased in tandem with salary increases
- Unjustified Bonuses

**Election of Directors** – we voted against nominations at 53 AGM's due to:

- Independent issues
- Directors holding over the recommend amount of directorships
- Attendance

In the USA we supported 25 Shareholder Resolutions which covered a wide range of topics, the most common being:

- Report on Political Contributions
- Amend Bylaws

### **Local Authority Pension Fund Forum**

#### **Engagement**

Through our membership of LAPFF, we engage with companies on environmental, social and governance (ESG) issues. Last year engagement was carried out with 439 companies. The engagements were divided between Environmental 89%, Social 5% and Governance 6%

- Extensive engagement with 33 companies
- Moderate engagement with 10 companies
- Basic engagement with 369 companies

## **UNPRI**

In Aug 2010 the Funds signed up to the United Nations Principles for Responsible Investment.

The United Nations-backed Principles for Responsible Investment Initiative (PRI) is a network of international investors working together to put the six principles for responsible investment into practice.

The Principles are:-

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

The Principles were devised by the investment community. They reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary duty. The principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.



## **MEMBERSHIP STATISTICS**

| <b><u>NESPF</u></b>          | <b><u>2006/07</u></b> | <b><u>2007/08</u></b> | <b><u>2008/09</u></b> | <b><u>2009/10</u></b> | <b><u>2010/11</u></b> |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Active                       | 24,709                | 25,622                | 25,250                | 24,419                | 21,268                |
| Deferred                     | 9,679                 | 10,267                | 11,283                | 12,427                | 13,849                |
| Pensioners                   | 12,330                | 12,755                | 13,373                | 13,991                | 14,861                |
| <b><u>Transport Fund</u></b> |                       |                       |                       |                       |                       |
| Active                       | 198                   | 182                   | 157                   | 136                   | 120                   |
| Deferred                     | 170                   | 174                   | 178                   | 174                   | 168                   |
| Pensioners                   | 315                   | 315                   | 341                   | 356                   | 367                   |

## **BENEFIT ADMINISTRATION & TECHNICAL REPORT**

The Benefit Administration Team is responsible for the calculation of scheme benefits, such as retirement benefits, widow/ers benefits, divorce calculations and estimates for retirements for 50,000 scheme members

- achieve excellent customer care;
- to continually improve service delivery
- to pay out monies in respect of Scheme benefits,
- transfer values, costs, charges and expenses;
- to maintain an accurate database;

The service endeavours to provide a quality service delivered cost-effectively and within agreed timescales.

The benefits team continues to keep up to date with the administration for the LGPS, Police and Fire Schemes.

Employers continue to seek to reduce staff through various voluntary severance/early retirement exercises. As a result the benefits team has processed over 400 redundancies during the past year.

Members and employers can request quotes at any time but are limited to one quote per person per 12 months.

During the year the Funds appointed a mortality tracing firm (ATMOS), to help identify deaths of pensioners that hadn't been notified to the Pensions Office. Also the Funds participate in the National Fraud Initiative.

During 2010/11 a number of benefits staff successfully passed the Pension administration qualification.

The benefits team also worked to produce several responses to consultations on the Future of the LGPS in both Scotland and at UK national level.

The Technical and Communications Team are responsible for the maintenance, upgrade of the Benefits IT system, the creation and maintenance of the Pension Funds website, the training of benefit staff, updating of all scheme documentation covering regulations, tax and payroll. The team is also responsible for the pension fund help desk and both internal and external communication.

During 2010 work commenced with input from Aberdeen City Council Legal Services and Procurement to upgrade our pension administration software. After a robust procurement process our existing supplier's latest solution was the only system which met all the requirements contained within the Pre Qualification Questionnaire to deliver our pensions administration in the future. The new system is called Altair and is currently used by 3 other Scottish administering authorities.

Altair incorporates leading web and database technologies to deliver increased efficiency, improved service and reduce costs. The system supports any combination of Defined Benefit, Career Average and Defined Contribution schemes which ensures we have a solution that can accommodate possible scheme changes in the future.

Altair will be hosted by the software company and its intuitive browser-based user interface allows access from any location with internet access.

Automated system upgrade routines ensure that all existing functionality and configuration is retained for calculations, letters, workflows, reports and images.

Altair provides a solution for problems associated with administering multiple membership processing arising from multiple periods of employment or concurrent employments which are currently retained as separate records. Personal member data being retained in a single location within Altair allows single calculations to be applied across multiple memberships.

Implementation of the new system is expected by end July 2011.

### **Help Desk**

There has been a good deal of change in terms of personnel within the Pensions help desk over the last year which has resulted in intensive training for the new staff who has taken over.

In regards to workload there have been the standard jobs of processing the mail, new starts entry, scanning and indexing, Bacs Payments for Investments and Phone cover.

Some of the new tasks which have been taken on by the team have been the completion of a new screen when adding new starts in order to report on turn-around time when evaluation of performance starts under the Pensions Administration Statement (PAS). The Statutory Notice procedure was amended by Heywood and this has now been successfully integrated into the standard weekly process of sending out notices to new members.

Over the last year the team has also worked with employers to identify changes of address details for scheme members to ensure that member annual benefit statements are sent to the correct address.

Electronic Data Interchange (EDI) from HMRC now provides regular updates on pensioner's tax codes. The Pensions Assistants in the help desk have now been trained to process these files.

Our electronic filing system has also been improved with employers folders having now been set up containing all the relevant information for anything we receive regarding individual Employers. The system for recording and scanning members who opt out has also been refined.

### **PENSIONS ADMINISTRATION STATEMENT**

The Pension Administration Statement was drafted and consulted upon during 2010. Measurement of performance against the strategy will be introduced with the implementation of the new benefit administration system in autumn 2011. A copy of the Statement is available on request from Barry Jenkins, Head of Finance of Aberdeen City Council or via the Pension Fund website: [www.nespf.org.uk](http://www.nespf.org.uk)

# NORTH EAST SCOTLAND PENSION FUNDS

## FINANCIAL STATEMENTS

FOR THE PERIOD

1 APRIL 2010 TO 31 MARCH 2011

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

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## EXPLANATORY FOREWORD

### 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 their individual admission criteria which are out with the control of Aberdeen City Council.

#### **There are 13 scheduled bodies:**

|   |  |                   |
|---|--|-------------------|
| Aberdeen City Council                     | Aberdeenshire Council                        | The Moray Council |
| Grampian Fire and Rescue<br>(Non Uniform) | Grampian Joint Police Board<br>(Non Uniform) |                   |
| Scottish Water                            | SPSA   | Visit Scotland    |
| Aberdeen College                          | Banff and Buchan College                     | Moray 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, The Town House, Broad Street, Aberdeen, AB10 1AH and is also contained with in the Annual Pension Funds Report.

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

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

With effect from 1 April 2009, employee contributions are based on a tiered rate as detailed below.

| Band | Range                                       | Contribution Rate |
|------|---|-------------------|
| 1    | On earnings up to and including £18,000     | 5.50%             |
| 2    | On earnings above £18,000 and up to £22,000 | 7.25%             |
| 3    | On earnings above £22,000 and up to £30,000 | 8.50%             |
| 4    | On earnings above £30,000 and up to £40,000 | 9.50%             |
| 5    | On earnings above £40,000                   | 12.00%            |

## **MEMBERSHIP**

### **North East Scotland Pension Fund:**

The active membership of the North East Scotland Pension Fund decreased from 24,419 employees at 31 March 2010 to 21,268 as at 31 March 2011 and the number of pensioner and deferred members increased from 26,418 at 31 March 2010 to 28,710 as at 31 March 2011.

### **Aberdeen City Council Transport Fund:**

The contributing employees of the Aberdeen City Council Transport Fund decreased from 136 as at 31 March 2010 to 120 as at 31 March 2011 and the number of pensioner and deferred members increased from 530 at 31 March 2010 to 535 as at 31 March 2011.

## **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, with the exception of a small investment in the 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 further 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 fund have been re valued to market value at 31 March 2011 with the gain/loss on revaluation being credited to the fund.

## **RISK**

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

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

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

The Fund's 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 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 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.

## **ACTUARIAL VALUATION**

Detailed in the notes to the accounts, is the outcome of the 2008 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.

All employers with the effect from 31 March 2009 have the same employer contribution rate unless specified in the 2008 Actuarial Valuation or have been admitted to the Scheme after the 2008 Actuarial Valuation.

## **RESTATEMENT OF THE 2009/2010 ACCOUNTS**

The North East Scotland Pension Fund and the Aberdeen City Council Transport Fund accounts have both been restated due to the inclusion of the Strain on the Fund income accrual.

**Barry Jenkins, B.Acc, CPFA, MBA**  
**Aberdeen City Council, Head of Finance**  
**30 November 2011**



## **STATEMENT OF RESPONSIBILITIES**

### **The Pension Funds are required to:**

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

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

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

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

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

The Head of Finance has also:

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

### **Financial Position:**

The detailed financial statements set out in pages 5 to 24 give a true and fair view of the financial position of North East Scotland Pension Funds for 2010/11 and its income and expenditure for the year ended 31 March 2011.

**Barry R Jenkins, B.Acc, CPFA, MBA**  
**Aberdeen City Council, Head of Finance**  
**30 November 2011**

## NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

| <b>Contributions Receivable</b>                          | <b>Notes</b> | <b>2009/2010<br/>£'000<br/>Restated</b> | <b>2010/2011<br/>£'000</b>  |
|--|--------------|---|-----------------------------|
| Employee's Contributions                                 | 2            | 26,515                                  | 26,417                      |
| Employer's Contributions *                               | 2            | 90,145                                  | 98,144                      |
| Transfer Values  | 3            | 6,335                                   | 4,243                       |
| Other Income   |              | 157                                     | 42                          |
|  |              | <b><u>123,152</u></b>                   | <b><u>128,846</u></b>       |
| <br><b>Benefits Payable</b>                              |              |   |                             |
| Retirement Pensions                                      | 2            | 63,649                                  | 67,636                      |
| Retirement Allowances                                    | 2            | 18,250                                  | 24,550                      |
| Death Gratuities   | 2            | 2,023                                   | 3,064                       |
| Contributions Refunded                                   |              | 430                                     | 604                         |
| Transfer Values  | 3            | 4,471                                   | 4,502                       |
| Fund Administration                                      |              | 1,745                                   | 1,593                       |
|  |              | <b><u>90,568</u></b>                    | <b><u>101,949</u></b>       |
| <br><b>Net additions from dealings with members</b>      |              | <br><b><u>32,584</u></b>                | <br><b><u>26,897</u></b>    |
| <br><b>Return on Investment</b>                          |              |   |                             |
| Investment Income  | 4, 17        | 34,937                                  | 42,574                      |
| Change in market value of investments                    | 17           | 510,151                                 | 165,476                     |
| Investment management expenses                           |              | (4,629)                                 | (8,853)                     |
| <br><b>Net return on investments</b>                     |              | <br><b><u>540,459</u></b>               | <br><b><u>199,197</u></b>   |
| <br><b>Net increase in the Fund during the year</b>      |              | <br><b>573,043</b>                      | <br><b>226,094</b>          |
| <br><b>Opening net assets of the Fund</b>                |              | <br><b><u>1,418,871</u></b>             | <br><b><u>1,991,914</u></b> |
| <br><b>Net assets of the Fund at the end of the year</b> |              | <br><b><u>1,991,914</u></b>             | <br><b><u>2,218,008</u></b> |

## NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

|  | Notes | 01/04/2009<br>£'000<br>Restated | 2009/2010<br>£'000<br>Restated | 2010/2011<br>£'000      |
|--|-------|---------------------------------|--------------------------------|-------------------------|
| <b>NET ASSETS STATEMENT</b>  |       |                                 |                                |                         |
| <b>Investment Assets</b>   |       |                                 |                                |                         |
| Fixed Interest, Public Sector  | 17    | 34,202                          | 43,616                         | 40,670                  |
| Fixed Interest, Corporate  | 17    | 7,781                           | 14,992                         | 17,085                  |
| Fixed Interest, Overseas   | 17    | 113,514                         | 101,792                        | 106,459                 |
| Equities, UK   |       | 298,024                         | 481,882                        | 546,147                 |
| Equities, Overseas   |       | 266,020                         | 423,703                        | 483,590                 |
| Pooled Vehicle   |       | 351,396                         | 656,619                        | 720,918                 |
| Property, Unit Trusts  |       | 749                             | 600                            | 392                     |
| Property, Direct   |       | 94,150                          | 119,890                        | 123,080                 |
| Unit Trust, Other  |       | 19,500                          | 6,032                          | 9,085                   |
| Derivative Contracts (including, Futures, Options, <sup>6</sup><br>Forward Foreign Exchange Contracts and Swaps) |       | (5,349)                         | (77)                           | (1,826)                 |
| Other, Private Equity  |       | 70,233                          | 80,806                         | 97,332                  |
| Liquidity Fund   |       | 28,036                          | 0                              | 0                       |
| Funds held by Investment Managers  |       | 121,536                         | 41,499                         | 57,462                  |
| <b>Net Investment Assets</b>   | 5, 17 | <b><u>1,399,792</u></b>         | <b><u>1,971,354</u></b>        | <b><u>2,200,394</u></b> |
| <b>Current assets *</b>  | 7     | <b>28,407</b>                   | <b>30,896</b>                  | <b>28,374</b>           |
| <b>Current Liabilities</b>   | 7     | <b>(9,328)</b>                  | <b>(10,336)</b>                | <b>(10,760)</b>         |
| <b>Net assets of the Fund at the end of year</b>   |       | <b><u>1,418,871</u></b>         | <b><u>1,991,914</u></b>        | <b><u>2,218,008</u></b> |

**Barry Jenkins, B.Acc, CPFA, MBA**  
Aberdeen City Council, Head of Finance

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on 30 November 2011

\* In compliance with the Code, based on IFRS, the values at 01/04/2009 and for the financial year 2009/2010 have been restated, please refer to Note 16 for further details.

## ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

| Contributions Receivable                             | Notes | 2009/2010<br>£'000<br>Restated | 2010/2011<br>£'000   |
|--|-------|--------------------------------|----------------------|
| Employee's Contributions                             | 2     | 284                            | 265                  |
| Employer's Contributions *                           | 2     | 2,629                          | 3,271                |
| Transfer Values                                      | 3     | 0                              | 0                    |
| Other Income   |       | 259                            | 250                  |
|  |       | <b><u>3,172</u></b>            | <b><u>3,786</u></b>  |
| <b>Benefits Payable</b>                              |       |                                |                      |
| Retirement Pensions                                  | 2     | 2,121                          | 2,177                |
| Retirement Allowances                                | 2     | 972                            | 653                  |
| Death Gratuities                                     | 2     | 0                              | 77                   |
| Transfer Values                                      | 3     | 86                             | 73                   |
| Fund Administration                                  |       | 60                             | 64                   |
|  |       | <b><u>3,239</u></b>            | <b><u>3,044</u></b>  |
| <b>Net additions from dealings with members</b>      |       | <b><u>(67)</u></b>             | <b><u>742</u></b>    |
| <b>Return on Investment</b>                          |       |                                |                      |
| Investment Income                                    | 4     | 1,380                          | 1,566                |
| Change in market value of investments                |       | 15,321                         | 4,830                |
| Investment management expenses                       |       | 17                             | 22                   |
| <b>Net return on investments</b>                     |       | <b><u>16,718</u></b>           | <b><u>6,418</u></b>  |
| <b>Net increase in the Fund during the year</b>      |       | <b><u>16,651</u></b>           | <b><u>7,160</u></b>  |
| <b>Opening net assets of the Fund</b>                |       | <b><u>44,085</u></b>           | <b><u>60,736</u></b> |
| <b>Net assets of the Fund at the end of the year</b> |       | <b><u>60,736</u></b>           | <b><u>67,896</u></b> |

## ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

|  | Notes | 01/04/2009<br>£'000  | 2009/2010<br>£'000<br>Restated | 2010/2011<br>£'000   |
|--|-------|----------------------|--------------------------------|----------------------|
| <b>NET ASSETS STATEMENT</b>                      |       |                      |                                |                      |
| <b>Investment Assets</b>                         |       |                      |                                |                      |
| Fixed Interest, Public Sector                    |       | 8,998                | 8,665                          | 11,732               |
| Fixed Interest, Corporate                        |       | 1,860                | 0                              | 0                    |
| Fixed Interest, Overseas                         |       | 1,928                | 1,858                          | 1,944                |
| Equities, UK                                     |       | 11,384               | 16,682                         | 21,167               |
| Equities, Overseas                               |       | 4,467                | 6,186                          | 5,578                |
| Pooled Vehicle                                   |       | 13,654               | 19,953                         | 22,611               |
| Property, Unit Trusts                            |       | 115                  | 47                             | 51                   |
| Indexed Linked Securities **                     |       | 0                    | 2,191                          | 1,915                |
| Private Equity                                   |       | 2                    | 0                              | 0                    |
| Funds held by Investment Managers                |       | 1,196                | 4,232                          | 1,816                |
| <b>Net Investment Assets</b>                     | 5     | <b><u>43,604</u></b> | <b><u>59,814</u></b>           | <b><u>66,814</u></b> |
| <b>Current assets *</b>                          | 7     | <b>632</b>           | <b>1,139</b>                   | <b>1,226</b>         |
| <b>Current Liabilities</b>                       | 7     | <b>(151)</b>         | <b>(217)</b>                   | <b>(144)</b>         |
| <b>Net assets of the Fund at the end of year</b> |       | <b><u>44,085</u></b> | <b><u>60,736</u></b>           | <b><u>67,896</u></b> |

**Barry Jenkins, B.Acc, CPFA, MBA**  
Aberdeen City Council, Head of Finance

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on 30 November 2011

\* In compliance with the Code, based on IFRS, the values for the financial year 2009/2010 have been restated, please refer to Note 16 for further details.

\*\* Additional analysis is now available to the Fund, which enables further breakdown of assets. 09/10 has also been restated to provide this breakdown.

## ACCOUNTING POLICIES

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

The Financial Statements summarise the transactions of the Funds during the year and the net assets at the year end.

The Funds Financial Statements are generally prepared on an accruals basis. The net assets statement does not include liabilities to pay pensions and benefits after the end of the Funds year and the accruals concept is applied accordingly. Receipts and payments in respect of the transfer of benefits to and from other schemes are treated on a cash basis.

### Valuation of Investments

All investments are valued at their market value at 31 March 2011 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:

1. Earning Multiple (based on comparable quoted multiples and significant third party transactions)
2. Price of Recent Investment
3. Net Assets
4. 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, in accordance of the Valuation Standards issued by The Royal Institution 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, The Town House, Broad Street, Aberdeen, AB10 1AH.

Quoted Investments are valued at the bid price at the reporting date less a Marketability Discount to reflect the size of the holding and any formal restriction on trading in the relevant securities.

### **Investment Income**

Dividends are accounted for when the price of the stock is quoted on an ex-dividend basis. Interest is included in the accounts on an accrual basis.

### **Liabilities**

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 actuarial position of the scheme, which does take account of such obligations, is summarised in Note 1 of the Notes to the Accounts.

Orphan liabilities will be managed under the termination policy of the Funds as set out by the Scheme Actuary.

## NOTES TO THE ACCOUNTS

### Note 1. ACTUARIAL VALUATION REPORTS

Actuarial reports for both the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council (ACC) Transport Fund were provided as at 31 March 2008.

Information from the 2008 Actuarial valuation is detailed below:

|                                     | <b>NESPF</b>         | <b>ACC Transport Fund</b> |
|-------------------------------------|----------------------|---------------------------|
| Market value of assets at valuation | £1,769,900,000       | £53,100,000               |
| Liabilities                         | £2,142,200,000       | £71,500,000               |
| <b>Deficit</b>                      | <b>£ 372,300,000</b> | <b>£18,400,000</b>        |

Employee's contributions to 31 March 2011 are based on a tiered rate detailed in the explanatory notes to the accounts.

#### **Common Employer contribution rates as a percentage of pensionable payroll from 1 April 2009.**

|                               |       |     |
|-------------------------------|-------|-----|
| 1 April 2009 to 31 March 2010 | 19.1% | 24% |
| 1 April 2010 to 31 March 2011 | 19.2% | 24% |
| 1 April 2011 to 31 March 2012 | 19.3% | 24% |

Employer specific rates are detailed in the 2008 actuarial valuation reports, in addition to regular contributions, First Aberdeen are required to make annual individual adjustments.

#### **Valuation Assumptions**

|                  |          |          |
|------------------|----------|----------|
| Pension Increase | 3.3% p.a | 3.6% p.a |
| Discount Rate    | 6.2% p.a | 5.9% p.a |
| Salary Increase  | 5.1% p.a | 5.1% p.a |
| Price Inflation  | 3.6% p.a | 3.6% p.a |

The Projected Unit method was used for the valuation of the North East Scotland Pension Fund. The Aberdeen City Council 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 level of funding in terms of the percentage of assets available to meet liabilities was;

|                       |            |            |
|-----------------------|------------|------------|
| <b>Funding Level:</b> | <b>83%</b> | <b>74%</b> |
|-----------------------|------------|------------|

The Administering Authority's long term funding target is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

The Administering Authority has adopted the following objectives to achieve the funding target:



1. A Stepped increase over 3 years for employers in the North East Scotland Pension Fund.
2. A deficit recovery period of 25 years for the North East Scotland Pension Fund.

In determining the deficit recovery period the Administering Authority has had regard to:

1. The responses made to the consultation with employers on the Funding Strategy Statement (FSS).
2. The need to balance a desire to attain the target as soon as possible against the short term cash requirements which a shorter period would impose, and
3. The Administering Authority's views on the strength of the participating employers covenants in achieving the objective.

The full Actuarial Report for both Funds are available from the office of the Head of Finance, Aberdeen City Council, The Town House, Broad Street, Aberdeen, AB10 1AH.

### **Actuarial Present Value of Promised Retirement Benefits for the purposes of IAS26**

Actuarial value of promised retirement benefits is required to be disclosed and for this purpose the actuarial assumptions and methodology used is based on IAS19 rather than the assumptions and methodology used for funding purposes. The relevant information is disclosed in the Statement by the Consulting Actuary included at Appendix II of the Pension Funds Annual Report 2010/11.

**Note 2. Contributions Receivable and Benefits Payable.**

|                         | <b>2009/2010</b>       | <b>2010/2011</b>       | <b>2009/2010</b>          | <b>2010/2011</b>          |
|-------------------------|------------------------|------------------------|---------------------------|---------------------------|
|                         | <b>Conts<br/>£'000</b> | <b>Conts<br/>£'000</b> | <b>Benefits<br/>£'000</b> | <b>Benefits<br/>£'000</b> |
| <b>NESPF:</b>           |                        |                        |                           |                           |
| Administering Authority | 33,760                 | 40,473                 | 35,531                    | 39,980                    |
| Scheduled Bodies        | 69,988                 | 71,526                 | 38,788                    | 45,224                    |
| Admitted Bodies         | 12,912                 | 12,562                 | 9,603                     | 10,046                    |
| <b>Total</b>            | <b>116,660</b>         | <b>124,561</b>         | <b>83,922</b>             | <b>95,250</b>             |

|                           |              |              |              |              |
|---------------------------|--------------|--------------|--------------|--------------|
| <b>ACC Transport Fund</b> | <b>2,913</b> | <b>3,536</b> | <b>3,093</b> | <b>2,907</b> |
|---------------------------|--------------|--------------|--------------|--------------|

**NESPF:**

**Employers**

|            |        |        |
|------------|--------|--------|
| Normal     | 80,319 | 79,376 |
| Special *  | 9,826  | 18,768 |
| Additional | 0      | 0      |

**Members**

|        |        |        |
|--------|--------|--------|
| Normal | 26,515 | 26,417 |
|--------|--------|--------|

|              |                |                |
|--------------|----------------|----------------|
| <b>Total</b> | <b>116,660</b> | <b>124,561</b> |
|--------------|----------------|----------------|

**ACC Transport Fund:**

**Employers**

|            |       |       |
|------------|-------|-------|
| Normal     | 979   | 902   |
| Special *  | 1,650 | 2,369 |
| Additional | 0     | 0     |

**Members**

|        |     |     |
|--------|-----|-----|
| Normal | 284 | 265 |
|--------|-----|-----|

|              |              |              |
|--------------|--------------|--------------|
| <b>Total</b> | <b>2,913</b> | <b>3,536</b> |
|--------------|--------------|--------------|

\* The adoption of the IFRS based code has resulted in the restatement of the special employer contributions to reflect the inclusion of the strain on the fund. Further details will be found in Note 16.

### Note 3. Transfer Values

|                                 | NESPF              |                    | ACC Transport Fund |                    |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                 | 2009/2010<br>£'000 | 2010/2011<br>£'000 | 2009/2010<br>£'000 | 2010/2011<br>£'000 |
| <b>Transfer Values Received</b> |                    |                    |                    |                    |
| Individual                      | 6,335              | 4,243              | 0                  | 0                  |
| <b>Transfer Values Paid</b>     |                    |                    |                    |                    |
| Individual                      | 4,471              | 4,502              | 86                 | 73                 |

### Note 4. Investment Income Breakdown

|  | NESPF              |                    | ACC Transport Fund |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | 2009/2010<br>£'000 | 2010/2011<br>£'000 | 2009/2010<br>£'000 | 2010/2011<br>£'000 |
| Fixed Interest   | 8,589              | 9,221              | 461                | 693                |
| Equity Dividends                                       | 21,121             | 21,501             | 994                | 860                |
| Property, Unit Trust                                   | 42                 | 4                  | 0                  | 0                  |
| Rent   | 8,621              | 8,119              | 0                  | 0                  |
| Cash Deposit Interest                                  | 477                | 219                | 12                 | 19                 |
| Other (including P/L from<br>Currency and Derivatives) | (2,214)            | 5,322              | 6                  | 80                 |
|  | <b>36,636</b>      | <b>44,386</b>      | <b>1,473</b>       | <b>1,652</b>       |
| Non Recoverable Tax                                    | (1,699)            | (1,812)            | (93)               | (86)               |
| <b>Total</b>   | <b>34,937</b>      | <b>42,574</b>      | <b>1,380</b>       | <b>1,566</b>       |

## Note 5. Investment Assets

Market Value of assets for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund, and the value and proportion which are under the management of each Fund Manager.

### NESPF

| <b>31 March 2010</b>      | <b>%</b>     | <b>Investment Assets</b>           | <b>31 March 2011</b> | <b>%</b>     |
|---------------------------|--------------|------------------------------------|----------------------|--------------|
| <b>£'000</b>              |              |                                    | <b>£'000</b>         |              |
| 656,620                   | 33.0         | State Street Global Advisors       | 713,589              | 32.2         |
| 399,040                   | 20.0         | Baillie Gifford                    | 474,547              | 21.4         |
| 341,102                   | 17.1         | Blackrock Asset Management         | 381,184              | 17.2         |
| 182,142                   | 9.1          | AAM Global Ex UK                   | 198,494              | 8.9          |
| 161,994                   | 8.3          | Baring Asset Managers              | 172,636              | 7.8          |
| 137,275                   | 6.9          | Aberdeen Property Investors        | 130,880              | 5.9          |
| 38,798                    | 1.9          | HarbourVest                        | 45,536               | 2.1          |
| 36,993                    | 1.9          | Standard Life                      | 52,743               | 2.4          |
| 7,436                     | 0.4          | Global Custodian                   | 24,953               | 1.1          |
| 7,434                     | 0.4          | NESPF                              | 5,440                | 0.2          |
| 2,187                     | 0.1          | AAM Segregated Fund                | 0                    | 0.0          |
| 600                       | 0.0          | RREEF                              | 392                  | 0.0          |
| 264                       | 0.0          | Capital International              | 0                    | 0.0          |
| (531)                     | 0.0          | Rogge                              | 0                    | 0.0          |
| <b>1,971,354</b>          | <b>99.1</b>  |                                    | <b>2,200,394</b>     | <b>99.2</b>  |
| <b>Net Current Assets</b> |              |                                    |                      |              |
| 0                         | 0.0          | ACC Loan Fund Deposit              | 8,370                | 0.4          |
| 10,169                    | 0.5          | Bank Account                       | (317)                | 0.0          |
| 10,391                    | 0.4          | Short Term Debtors less Creditors* | 9,561                | 0.4          |
| <b>1,991,914</b>          | <b>100.0</b> |                                    | <b>2,218,008</b>     | <b>100.0</b> |

## ACC Transport Fund

| 31 March 2010<br>£'000    | %            | Investment Assets                     | 31 March 2011<br>£'000 | %            |
|---------------------------|--------------|---------------------------------------|------------------------|--------------|
| 59,814                    | 98.4         | Aberdeen Asset Managers               | 66,814                 | 98.4         |
| <b>Net Current Assets</b> |              |                                       |                        |              |
| 889                       | 1.5          | ACC Loan Fund Deposit                 | 644                    | 1.0          |
| 2                         | 0.0          | Bank Account                          | 2                      | 0.0          |
| 31                        | 0.1          | Short Term Debtors less Creditors*436 |                        | 0.6          |
| <b>60,736</b>             | <b>100.0</b> |                                       | <b>67,896</b>          | <b>100.0</b> |

\* The adoption of the IFRS based code has resulted in the restatement of the short term debtors less creditors to reflect the inclusion of the strain on the fund. Further details will be found in Note 16.

## Investments – Market Value Movement Analysis

The change in the value of investments during 2010/2011 is set out below:

### NESPF

|                   | Value at<br>31 March<br>2010<br>£'000 | Purchases<br>£'000 | Sales<br>£'000   | Restatement<br>Change in<br>Market Value<br>2009/2010<br>£'000 | Change in<br>Market<br>Value<br>£'000 | Value at<br>31 March<br>2011<br>£'000 |
|-------------------|---------------------------------------|--------------------|------------------|--|---------------------------------------|---------------------------------------|
| Fixed Interest *  | 160,400                               | 90,834             | (83,621)         | 2,405  | (5,804)                               | 164,214                               |
| UK Equities       | 481,882                               | 126,479            | (115,343)        |  | 53,129                                | 546,147                               |
| Overseas Equities | 423,703                               | 74,187             | (65,108)         |  | 50,808                                | 483,590                               |
| Pooled Vehicles   | 663,251                               | 359,237            | (352,851)        |  | 60,758                                | 730,395                               |
| Property          | 119,890                               | 8,702              | (3,200)          |  | (2,312)                               | 123,080                               |
| Private Equity    | 80,806                                | 18,381             | (12,501)         |  | 10,646                                | 97,332                                |
| FX Contracts      | (77)                                  |                    |                  |  | (1,749)                               | (1,826)                               |
|                   | <b>1,929,855</b>                      | <b>677,820</b>     | <b>(632,624)</b> | <b>2,405</b>   | <b>165,476</b>                        | <b>2,142,932</b>                      |
| Cash              | 41,499                                |                    |                  |  |                                       | 57,462                                |
|                   | <b>1,971,354</b>                      |                    |                  |  |                                       | <b>2,200,394</b>                      |

\* Due to the move to the Global Custodian as the primary record keeper, resulting in a change in asset valuation regarding accrued interest a restatement for 2009/2010 was required, please refer to Note 17 for further information.

## ACC Transport Fund

|                   | <b>Value at<br/>31 March<br/>2010<br/>£'000</b> | <b>Purchases<br/>£'000</b> | <b>Sales<br/>£'000</b> | <b>Change in<br/>Market<br/>Value<br/>£'000</b> | <b>Value at<br/>31 March<br/>2011<br/>£'000</b> |
|-------------------|---|----------------------------|------------------------|---|---|
| Fixed Interest    | 12,714  | 10,203                     | (7,402)                | 76  | 15,591  |
| UK Equities       | 16,682  | 5,337                      | (2,859)                | 2,007   | 21,167  |
| Overseas Equities | 6,186   | 1,454                      | (2,464)                | 402   | 5,578   |
| Pooled Vehicles   | 20,000  | 3,935                      | (3,618)                | 2,345   | 22,662  |
|                   | <b>55,582</b>                                   | <b>20,929</b>              | <b>(16,343)</b>        | <b>4,830</b>                                    | <b>64,998</b>                                   |
| Cash              | 4,232   |                            |                        |   | 1,816   |
|                   | <b>59,814</b>                                   |                            |                        |   | <b>66,814</b>                                   |

### Details of the investment assets between UK and Foreign, and Listed and Unlisted.

|                  | <b>NESPF</b>               |                            | <b>ACC Transport Fund</b>  |                            |
|------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|                  | <b>2009/2010<br/>£'000</b> | <b>2010/2011<br/>£'000</b> | <b>2009/2010<br/>£'000</b> | <b>2010/2011<br/>£'000</b> |
| UK Listed        | 873,486                    | 969,387                    | 28,938                     | 45,443                     |
| UK Unlisted      | 125,558                    | 126,544                    | 0                          | 0                          |
| Foreign Listed   | 855,750                    | 961,542                    | 26,644                     | 19,555                     |
| Foreign Unlisted | 75,139                     | 87,285                     | 0                          | 0                          |
| Other, Cash      | 41,421                     | 55,636                     | 4,232                      | 1,816                      |
|                  | <b>1,971,354</b>           | <b>2,200,394</b>           | <b>59,814</b>              | <b>66,814</b>              |

**Note 6. Derivative Contracts (including Futures, Options, Forward Foreign Exchange Contracts and Swaps).**

|                      | <b>NESPF</b>     |                  | <b>ACC Transport Fund</b> |                  |
|----------------------|------------------|------------------|---------------------------|------------------|
|                      | <b>2009/2010</b> | <b>2010/2011</b> | <b>2009/2010</b>          | <b>2010/2011</b> |
|                      | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>              | <b>£'000</b>     |
| Derivative Contracts | 0                | 0                | 0                         | 0                |
| Futures              | 0                | 0                | 0                         | 0                |
| Options              | 0                | 0                | 0                         | 0                |
| FX Contracts         | (77)             | (1,826)          | 0                         | 0                |
| Swaps                | 0                | 0                | 0                         | 0                |
| <b>Total</b>         | <b>(77)</b>      | <b>(1,826)</b>   | <b>0</b>                  | <b>0</b>         |

The Fund has used Forward Foreign Exchange Contracts to hedge the currency exposure on certain overseas investments and take strategic foreign currency positions.

**Note 7. Breakdown of Short Term Debtors and Creditors.**

| <b>Short Term Debtors</b>       | <b>NESPF</b>     |                  | <b>ACC Transport Fund</b> |                  |
|---------------------------------|------------------|------------------|---------------------------|------------------|
|                                 | <b>2009/2010</b> | <b>2010/2011</b> | <b>2009/2010</b>          | <b>2010/2011</b> |
|                                 | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>              | <b>£'000</b>     |
| Contributions                   | 8,842            | 8,638            | 29                        | 24               |
| Fund Manager Income             | 6,030            | 6,236            | 104                       | 291              |
| Temp Loan Interest              | 17               | 20               | 1                         | 1                |
| Debtors                         | 3,881            | 2,818            | 11                        | 95               |
| Vat                             | 0                | 0                | 1                         | 0                |
| Bank                            | 10,169           | (317)            | 2                         | 2                |
| Deposits with Council Loan Fund | 0                | 8,370            | 889                       | 644              |
| Strain on the Fund*             | 1,957            | 2,609            | 102                       | 169              |
| <b>Total</b>                    | <b>30,896</b>    | <b>28,374</b>    | <b>1,139</b>              | <b>1,226</b>     |

\* The adoption of the IFRS based code has resulted in the restatement of the short term debtors to reflect the inclusion of the strain on the fund. Further details will be found in Note 16.

| <b>Short Term Creditors</b> | <b>NESPF</b>     |                  | <b>ACC Transport Fund</b> |                  |
|-----------------------------|------------------|------------------|---------------------------|------------------|
|                             | <b>2009/2010</b> | <b>2010/2011</b> | <b>2009/2010</b>          | <b>2010/2011</b> |
|                             | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>              | <b>£'000</b>     |
| Prepaid Rent                | 2,814            | 2,462            | 0                         | 0                |
| Custody Fees                | 32               | 6                | 0                         | 0                |
| Fund Manager Fees           | 1,076            | 2,928            | 0                         | 0                |
| Creditors                   | 1,400            | 752              | 127                       | 60               |
| Vat                         | 1,250            | 901              | 0                         | 0                |
| Tax, Refund                 | 11               | 20               | 0                         | 0                |
| Tax, Payroll                | 0                | 987              | 0                         | 0                |
| Lump Sum                    | 762              | 0                | 0                         | 0                |
| Retirement Benefits         | 2,710            | 2,670            | 90                        | 84               |
| Other                       | 281              | 34               | 0                         | 0                |
| <b>Total</b>                | <b>10,336</b>    | <b>10,760</b>    | <b>217</b>                | <b>144</b>       |

**Note 8. Purchases and Sales 2010 /2011.**

|           | <b>NESPF</b> | <b>ACC Transport Fund</b> |
|-----------|--------------|---------------------------|
|           | <b>£'000</b> | <b>£'000</b>              |
| Purchases | 677,820      | 20,929                    |
| Sales     | 632,624      | 16,343                    |

**Note 9. Stock Lending Arrangements.**

|                         | <b>NESPF</b>  | <b>Collateral</b> | <b>ACC Transport Fund</b> | <b>Collateral</b> |
|-------------------------|---------------|-------------------|---------------------------|-------------------|
|                         | <b>£'000</b>  | <b>Percentage</b> | <b>£'000</b>              | <b>Percentage</b> |
| <b>Stock on Loan</b>    |               |                   |                           |                   |
| Equities                | 51,100        |                   | 421                       |                   |
| Fixed Interest          | 25,288        |                   | 1,319                     |                   |
| <b>Total Exposure</b>   | <b>76,388</b> |                   | <b>1,740</b>              |                   |
| <b>Total Collateral</b> | <b>80,450</b> | <b>105.32</b>     | <b>1,802</b>              | <b>103.56</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 10. Fund Manager Transaction Costs.

|              | <b>NESPF</b>     |                  | <b>ACC Transport Fund</b> |                  |
|--------------|------------------|------------------|---------------------------|------------------|
|              | <b>2009/2010</b> | <b>2010/2011</b> | <b>2009/2010</b>          | <b>2010/2011</b> |
|              | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>              | <b>£'000</b>     |
| Fee/Tax      | 802              | 546              | 16                        | 26               |
| Commission   | 748              | 450              | 9                         | 10               |
| <b>Total</b> | <b>1,550</b>     | <b>996</b>       | <b>25</b>                 | <b>36</b>        |

## Note 11. 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 £1,063,242 (2010 - £1,058,754) and for the Aberdeen City Council Transport Fund £32,883 (2010 - £37,398).

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 £8,370,000 (2010 - £0m) for the North East Scotland Pension Fund and for the Aberdeen City Council Transport Fund £644,000 (2010 - £889,000)

Interest was received from the Council of £48,426 (2010 - £51,823) for the North East Scotland Pension Fund and for the Aberdeen City Council Transport Fund, £1,114 (2010 - £2,563).

## Note 12. Private Equity – Outstanding Commitments as 31 March 2011.

As at 31 March 2011 the Main Fund had outstanding commitments in respect of Private Equity:

|               |                   |
|---------------|-------------------|
|               | £                 |
| HarbourVest   | 14,332,948        |
| Standard Life | 32,180,760        |
| NESPF         | 1,566,213         |
| <b>Total</b>  | <b>48,079,921</b> |

### **Note 13. Additional Voluntary Contributions (AVC).**

Additional voluntary contributions are not included in the Pension Funds Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2010

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.

#### **Standard Life – Financial statement for the period 6<sup>th</sup> April 2010 to 5 April 2011.**

|                                | £                |
|--------------------------------|------------------|
| Opening Net Asset Value        | 2,700,277        |
| Total Income                   | 104,687          |
| Total Expenditure              | 372,166          |
| <b>Closing Net Asset Value</b> | <b>2,628,383</b> |

#### **Prudential – Financial statement for the period 1 April 2010 to 31 March 2011.**

|                                | £                 |
|--------------------------------|-------------------|
| Opening Net Asset Value        | 17,673,527        |
| Total Income                   | 2,779,123         |
| Total Expenditure              | 2,395,432         |
| <b>Closing Net Asset Value</b> | <b>18,153,190</b> |

### **Note 14. Investment Principles.**

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

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

## Note 15. Post Balance Sheet Date Events

Since the balance sheet date there has been considerable volatility in world investment markets. Since 31 March 2011 global equity markets have fluctuated significantly and the FTSE 100 Index is currently (29 November 2011) over 10% below the market close on the balance sheet date.

The Fund's investment strategy spreads risk by including a wide range of asset classes including equities, private equity, bonds, property and cash, investing in both UK and overseas markets. While the current uncertainty in world markets may continue for the foreseeable future the long terms nature of the pension investments allows the Funds to withstand short term validity. No adjustment is considered necessary to these financial statements.

There are no contingent liabilities.

## Note 16. Differences between amounts presented under the SORP 2009 and the IFRS based code.

The Pension Funds Accounts for 2010/2011 are the first to be prepared on an IFRS basis. Adoption of the IFRS based Code has resulted in the restatement of balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in last years financial statements.

The following tables explain the differences between the amounts presented in the 2009/2010 financial statements and the equivalent amounts presented in the 2010/2011 financial statements.

### Strain on the Fund.

| <b>NESPF</b>                                     | <b>UKGAAP<br/>Opening<br/>Balance<br/>£'000</b> | <b>Adjustments<br/>Made<br/>£'000</b> | <b>IFRS<br/>Restated<br/>Amounts<br/>£'000</b> |
|--|---|---------------------------------------|--|
| <u>Opening 1 April 2009 Net Assets Statement</u> |   |                                       |  |
| Short Term debtors less creditors                | 15,066  | 2,810                                 | 17,876   |
| Net assets                                       | 1,416,061                                       | 2,810                                 | 1,418,871                                      |
| <u>31 March 2010 Net Asset Statement</u>         |   |                                       |  |
| Short Term debtors less creditors                | 16,198  | 1,957                                 | 18,155   |
| Net assets                                       | 1,989,957                                       | 1,957                                 | 1,991,914                                      |
| <u>2009/2010 Fund Account</u>                    |   |                                       |  |
| Employers Contributions                          | 90,998  | (853)                                 | 90,145   |

## Strain on the Fund.

| <b>ACC Transport Fund</b>                        | <b>UKGAAP<br/>Opening<br/>Balance<br/>£'000</b> | <b>Adjustments<br/>Made<br/>£'000</b> | <b>IFRS<br/>Restated<br/>Amounts<br/>£'000</b> |
|--|---|---------------------------------------|--|
| <u>Opening 1 April 2009 Net Assets Statement</u> |   |                                       |  |
| Short Term debtors less creditors                | 481   | 0                                     | 481  |
| Net assets                                       | 44,085  | 0                                     | 44,085   |
| <u>31 March 2010 Net Asset Statement</u>         |   |                                       |  |
| Short Term debtors less creditors                | 820   | 102                                   | 922  |
| Net assets                                       | 60,634  | 102                                   | 60,736   |
| <u>2009/2010 Fund Account</u>                    |   |                                       |  |
| Employers Contributions                          | 2,527   | 102                                   | 2,629  |

### Note 17. Custodian Valuation.

In order to achieve complete SORP and now IFRS compliance, the Funds have moved to using the Fund's Global Custodian to provide complete investment accounting information.

As the Custodian is the primary record keeper for the Funds and in keeping with industry best practice the Funds have in recent years worked with the Custodian to ensure that the records kept by them are comprehensive and compliant.

This year the Funds have for the first time taken advantage of the full reporting capabilities of the Custodian, providing the Funds with full market valuation, income analysis, taxation, transaction costs, and book cost reconciliations. Some of which would not be possible without the Custodian.

Previously, accrued Bond income has been included in the asset valuation following the move to the Global Custodian as stated above, the Funds are now reflecting this accrual in investment income.

For completeness the Accounts have been restated to reflect this change.

The Global Custodian records have been used for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the year 2010/2011.

**Note 18. Allocation of Overheads and Audit Fee**

The Pensions Team of Aberdeen City Council is responsible for the administration of the two Pension Funds. The Team receives an allocation of the Council's overheads, based on the proportion of central services. These costs allocated to the two Funds.

This is the first year in which the Pension Funds have been subject to a separate audit. As a result the Pension Funds have received an allocation of the audit fee for Aberdeen City Council of £53,161. This amount has been allocated between the two Pension Funds.

## **INDEPENDENT AUDITOR'S REPORT**

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

We certify that we have audited the financial statements of North East Scotland Pension Funds for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund accounts, the net assets statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Respective responsibilities of the Responsible Financial Officer and auditor**

As explained more fully in the Statement of Responsibilities set out on page 4 of the financial statements, the Head of Finance is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the financial transactions of the funds during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

## **Opinion on other prescribed matters**

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

## **Matters on which we are required to report by exception**

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Henderson Loggie  
Chartered Accountants  
Registered Auditors  
48 Queens Road  
Aberdeen  
AB15 4YE

30 November 2011

NORTH EAST SCOTLAND PENSION FUND AND ABERDEEN CITY  
COUNCIL TRANSPORT FUND

*Accounts for the year ended 31 March 2011*

Statement by Consulting Actuary

**North East Scotland Pension Fund**

This is the statement required under Regulation 31A (1)(d) of The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2008 to determine the contribution rates with effect from 1 April 2009 to 31 March 2012. The results of the valuation are contained in our report dated 26 March 2009.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £1,770 million represented 83% of the Funding Target of £2,142 million at the valuation date. The valuation also showed that a common rate of contribution of 15.0% 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.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 4.3% of pensionable pay for 25 years. This would imply an average employer contribution rate of 19.3% of pensionable pay in total.

The contributions required for each individual employer are set out in our report dated 26 March 2009. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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

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<br>(Funding Target) | For future service<br>liabilities (Common<br>Contribution Rate) |
|---|--|---|
| Rate of return on investments (discount rate):                                      |  |   |
| - pre retirement  | 6.15% per annum                                  | 6.0% per annum  |
| - post retirement   | 6.15% per annum                                  | 6.0% per annum  |
| Rate of pay increases:  | 5.05% per annum                                  | 4.25% per annum   |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension): | 3.3% per annum                                   | 2.5% per annum  |

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2011. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2012.

### **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.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 6.1% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2008 was £2,300 million.

### **Aberdeen City Council Transport Fund**

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2008 to determine the contribution rate with effect from 1 April 2009 to 31 March 2012. The results of the valuation are contained in our report dated 31 March 2009.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £53.1 million represented 74% of the Funding Target of £71.5 million at the valuation date, and that a common rate of contribution of 24.0% of pensionable pay per annum was required.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by additional annual lump sum payments of £2.146 million per year for 10 years. The contributions payable by the employer are included in our valuation report.

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<br>(Funding Target) | For future service<br>liabilities (Common<br>Contribution Rate) |
|---|--|---|
| Rate of return on investments (discount rate):                                      |  |   |
| - pre retirement  | 5.9% per annum                                   | 6.0% per annum  |
| - post retirement   | 4.9% per annum                                   | 5.0% per annum  |
| Rate of pay increases:  | 5.1% per annum                                   | 4.4% per annum  |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension): | 3.6% per annum                                   | 2.9% per annum  |

The assets were assessed at market value.

The next triennial actuarial valuation of the Transport Fund is due as at 31 March 2011. Based on the results of this valuation, the contribution rates payable will be revised with effect from 1 April 2012.

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

For the purpose of the Transport Fund's IAS 26 disclosure we have used a discount rate of 6.75% p.a., pay increases of 4.1% p.a., pension increases of 2.6% p.a. and other alternative demographic assumptions to those used in the funding target (these assumptions were selected by the employer). We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Transport Fund's promised retirement benefits as at 31 March 2008 was £45.9 million.

#### **Paul Middleman**

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

July 2011

## COMPLIANCE WITH THE MYNERS PRINCIPLES

| Requirement   | North East Scotland Pension Funds Arrangements   | Assess Status<br><b>Compliant</b><br>Subject to ongoing review and training |
|---|--|---|
| <p><b>Principle 1: Effective Decision Making</b></p> <p><i>Administering authorities should ensure that;</i></p> <ul style="list-style-type: none"> <li>• <i>decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation;</i></li> <li>• <i>Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</i></li> </ul> | <p>The Pension Funds Training Policy statement details the training agenda for elected members of the Pensions Panel and Joint Investment Advisory Committee (JIAC) and has been drawn up to meet their needs in relation to providing the Committee members with sufficient knowledge to be able to evaluate and challenge the advice they receive.</p> <p>The Head of Finance is responsible for the provision of the training plan for the Pensions Panel and JIAC to help them to make effective decisions; to ensure that they are fully aware of their statutory and fiduciary responsibilities, and regularly reminded of their stewardship role. The training plan is reviewed on annual basis by the Pensions Panel.</p> <p>Conflicts of interest are governed by the City Council standing orders.</p> | <b>Compliant</b>  |
| <p><b>Principle 2: Clear Objectives</b></p> <p><i>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</i></p>   | <p>The Statement of Investment Principles and the Funding Strategy Statement define the Fund's primary funding objectives.</p>   | <b>Compliant</b>  |

*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.*

Asset-liability modeling is undertaken with the help of external advisers to aid the setting of investment strategy in order to understand risks. The Funds have scheme-specific investment strategies.

The attitude to risk of employers and the administering authority is specifically taken into account in the setting of strategy through the composition of the JIAC.

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 Fund's 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 Fund's participating employers and the need to maintain stability in employer contribution rates.

***Principle 3: Risk and 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 Funds takes advice from the scheme's actuary regarding the nature of its liabilities. Asset-liability modeling 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 City Council Audit and Risk

**Compliant**

Committee.

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

The Pension Panel receives a quarterly update from the scheme actuary regarding the scheme on-going funding level.

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

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

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

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

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

**Complaint**

**Principle 5: Responsible Ownership**

*Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee 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*

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

The Fund's policy on responsible ownership is contained in the Fund's Corporate Governance

**Complaint**

*Principles.  
Administering authorities  
should report periodically  
to members on the  
discharge of such  
responsibilities.*

Statement and included in the Statement of Investment Principles.

The Fund's Annual Review includes i.) details of the Fund's voting activity, ii.) a summary of the Fund's 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**

**Compliant**

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

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

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

As a standing committee of the Council the Pensions Panel meeting is open to the public and a copy of the agenda and non confidential papers available in advance. The JIAC is a consultative committee with representatives of the major other scheme employers and admitted bodies. Copies of the minutes of the Pensions Panel and the JIAC are available on the Pension Fund website at [www.nespf.org.uk](http://www.nespf.org.uk)

Performance Standards are incorporated in an annual report to stakeholders

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

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

|

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

**LIST OF SCHEME EMPLOYERS**

Aberdeen City Council  
Aberdeenshire Council  
Moray Council  
Scottish Water  
Grampian Valuation Joint Board  
Robert Gordon University Nursing  
Grampian Police Joint Board  
Scottish Police Services Authority  
Grampian Fire Joint Board  
Aberdeen Endowments Trust  
Grampian Society for the Blind  
Aberlour Childcare Trust  
Fraserburgh Harbour Commissioners  
Peterhead Bay Authority  
Robert Gordon University  
Robert Gordon Colleges  
Aberdeen Cyrenians  
Aberdeen and NE Society for the Deaf\*  
Cornerstone\*  
Aberdeen Mental Health  
Alcohol Support Ltd  
Fersands and Fountain  
Save Cash and Reduce Fuel  
Partnership Housing  
Manor Project  
Archway  
Middlefield Youth Action  
Multiple Sclerosis Society  
Tenants First  
GRAIN  
Aberdeen College  
Banff and Buchan College  
Moray College  
Aberdeen and Grampian Tourist Board  
Moray Association for Mental Health  
Reach Out  
St Macher Parent Support Project  
Grampian Living Options  
Printfield Community Project  
Mastrick Home Start  
Scotland Lighthouse Museum  
Aberdeen Foyer  
Homestart Fraserburgh  
Aberdeen Countryside Project  
Pathways  
Upper Deeside Access Trust  
Aberdeenshire Housing Partnership  
Aberdeen Performing Arts  
Robertsons Facilities management Shire



Aberdeen International Youth Festival  
Nestrans  
Aberdeen Heat and Power  
Station House Media Unit  
NESTOR  
Aberdeen Sports Village  
Sport Aberdeen  
Graham Asset Management  
Robertsons City  
First Aberdeen