

North East Scotland
PENSION FUND



ANNUAL REPORT AND
**FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2013

2012-2013

Contents

Foreword	4
Statement of Responsibilities	5
Statement on the System of Internal Financial Controls	6
Governance Compliance Statement	10
Compliance with the Myners Principles	12
Pension Fund Committees	16
Training Policy	17
Risk	23
Funding Strategy Statement	25
Statement by the Consulting Actuary	26
Statement of Investment Principles	30
Investment Strategy	31
Investment Performance	32
Financial Performance	37
Responsible Investment	39
Investment & Accounting Report	43
Benefit Administration Report	44
Technical & Communication Report	45
Financial Statements	47
Independent Auditor's Report	97



Foreword

At more than £2.5 billion, the North East Scotland Pension Fund is one of Scotland's larger Local Government Pension Funds, providing pension benefits for over 50,000 members drawn from over 50 employers.

Fund Achievements – The Funds' outstanding achievement during 2012/2013 was the implementation of 'Altair Payroll', an integrated payroll system designed specifically to pay pension benefits.

The implementation project started in March 2012 following an initial payroll survey, with data mapping being completed during July 2012.

Once these milestones were achieved Altair Payroll was run in parallel with the existing payroll system, going live during in November 2012. The project was completed and signed off in March 2013 following the final merge of the standalone payroll database into the existing Altair live service.

The new payroll system provides straight through processing while improving administration and eliminates risk.

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

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

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

The Financial Statements for the North East Scotland Pension Fund show that members' contributions are slightly down on 2011/2012 at £24.9m from £25.3m. Total overall income in respect of members has reduced to £105.5m from £141m in 2011/2012, with member expenditure down at £105.2m from £105.8m in 2011/2012.

Investment income has increased from £44m in 2011/2012 to £46m for 2012/2013.

And the Financial Statements for the Aberdeen City Council Transport Fund show that members' contributions decreased from £170,000 in 2011/2012 to £152,000 in 2012/13. Total overall income in respect of members has reduced to £2.4m from £3.9m in 2011/2012, with member expenditure down at £3.6m from £4.5m in 2011/2012.

Investment income has decreased from £1.8m in 2011/2012 to £1.5m for 2012/2013.

With confidence returning to many investment markets around the world, leading to strong returns for investors in most areas especially in equities and corporate bonds, this helped the fund's investments gain in value by £260m for the North East Scotland Pension Fund and £8m for the Aberdeen City Council Transport Fund, reaching new highs in asset values for both Funds.

Valuation of the Funds' liabilities being the projected cost of future pensions is based on gilt yields.

With yields having reduced over the year the Fund's liabilities have increased from £2,941m to £3,435m for the North East Scotland Pension Fund and £64.5m to £73.1m for the Aberdeen City Council Transport Fund. With contributions being set until 2015 there is no immediate impact to employers, further details regarding the Funds' funding position can be found in the notes to the accounts and the Statement by the Consulting Actuary.

Steven Whyte, CPFA

Aberdeen City Council, Chief Accountant

Date: 27 September 2013

Statement of Responsibilities

THE ADMINISTERING AUTHORITY IS 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. The Council has agreed that in the absence of the Head of Finance, the Chief Accountant will be this officer.
- manage their 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 53 to 119 give a true and fair view of the financial position of North East Scotland Pension Funds for 2012 / 2013 and its income and expenditure for the year ended 31 March 2013.

Steven Whyte, CPFA

Aberdeen City Council, Chief Accountant

Date: 27 September 2013

Statement on the System of Internal Financial Controls

This statement is given in respect of the 2012/13 Financial Statements for the North East Scotland Pension Funds. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources deployed by Aberdeen City Council as the administering authority for the North East Scotland Pension Funds.

The system of internal financial control can provide only reasonable, not absolute, assurance that resources are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures and processes (including segregation of duties), management supervision, and a system of delegation and accountability. The Funds also place reliance upon the internal financial controls within Aberdeen City Council's financial systems and the monitoring in place to ensure the effectiveness of these controls. Development and maintenance of the Funds' system is undertaken by managers within the North East Scotland Pension Funds. In particular, the system includes:

- identifying the objectives of the Funds in Funding Strategy Statements and Statements of Investment Principles;
- comprehensive budgeting systems;
- the regular review of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- formal governance arrangements.

The Director of Corporate Governance has overall management responsibility for Internal Audit in Aberdeen City Council (Administering Authority for the North East Scotland Pension Funds). The Internal Audit function is under contract to PricewaterhouseCoopers LLP.

The Head of Internal Audit is responsible for the day to day management and has a direct reporting relationship to the Audit and Risk Committee, with free access to myself, the Chief Executive, Directors and elected members of the Council when required.

The Internal Audit Section is responsible for:

- examining and evaluating the adequacy of the Pension Funds systems of internal control;
- ensuring adherence to Council policies, strategies and objectives;
- reviewing the means of safeguarding assets and, as appropriate, verifying their existence; and
- appraising the effective and efficient use of resources through value for money audits.

The Head of Internal Audit prepares an annual report for Aberdeen City Council (the administering authority) containing a view on the adequacy and effectiveness of the system of internal controls, with specific Pension Fund audit work being referenced as appropriate.

My review of the effectiveness of the system of internal financial control is informed by:

- the work of the manager within the North East Scotland Pension Funds;
- regular reporting to the Pensions Panel;
- the work of Internal Audit ;
- external audit reports and annual audit letter;
- updates to the Audit and Risk Committee Members on progress on implementing internal audit recommendations.

Recommendations arising from the work of both the internal and external auditors are discussed with management and recommendations agreed and implemented within acceptable timescales.

Having reviewed the framework, it is in my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control in the year to 31 March 2013.

Steven Whyte, CPFA
Aberdeen City Council, Chief Accountant
Date: 27 September 2013

About the Fund

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, Teachers).

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

Over the 12 Months to 31 March 2013 the Fund's total membership grew slightly from 52,554 to 54,217 (NESPf) and 649 to 651 (ACC Transport Fund)

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

Further information regarding the Fund is provided through out this report and the Funds' website at www.nespf.org.uk.

FUND ADMINISTRATION

Administering Authority	Aberdeen City Council
Committees	Pensions Panel, Joint Investment Advisory Committee
Head of Finance	Barry Jenkins (left 31/8/2013)
Chief Accountant	Steven Whyte – officer with the responsibility for the financial affairs of the funds (with effect from 22/5/2013)
Pensions Manager	Laura Goodchild
Actuary	Mercer
Global Custodian	Bank of New York Mellon
Performance Measurement	Bank of New York Mellon
Bank	Clydesdale Bank
AVC Providers	Prudential, Standard Life Assurance Company
External Auditors	Audit Scotland
Internal Auditors	PwC

Employers

NORTH EAST SCOTLAND PENSION FUND

1	Aberdeen City Council	Scheduled
2	Aberdeenshire Council	Scheduled
3	The Moray Council	Scheduled
4	NOSWA	Scheduled
5	Grampian Valuation Joint Board	Scheduled
6	Grampian Police Joint Board	Scheduled
7	Grampian Fire Joint Board	Scheduled
8	Aberdeen College	Scheduled
9	Banff & Buchan College	Scheduled
10	Moray College	Scheduled
11	Visit Scotland	Scheduled
12	NESTRANS	Scheduled
13	Scottish Police Services Authority	Scheduled
14	Northern Community Justice Authority	Scheduled
15	Robertsons Facilities Management (Shire)	Transferee
16	Aberdeen Heat & Power	Transferee
17	Station House Media Unit	Transferee
18	Aberdeen Sports Village	Transferee
19	Aberdeen Sports Trust	Transferee
20	Graham Asset Management	Transferee
21	Robertson Facilities Management (City)	Transferee
22	Forth & Oban	Transferee
23	Drugs Action	Transferee
24	Aberdeen Endowments Trust	Admitted
25	North East Sensory Services	Admitted
26	Aberlour Child Care	Admitted
27	Fraserburgh Harbour Commissioners	Admitted
28	Peterhead Port Authority	Admitted
29	Robert Gordon's University	Admitted
30	Robert Gordon's College	Admitted
31	Aberdeen Cyrenians	Admitted
32	Mental Health Aberdeen	Admitted
33	Alcohol Support Ltd	Admitted
34	Fersands & Fountain Community Project	Admitted
35	SCARF	Admitted
36	Inspire	Admitted



Employers

37	Manor Project	Admitted
38	Archway	Admitted
39	Middlefield Community Project	Admitted
40	Multiple Sclerosis Society	Admitted
41	Gordon Rural Action	Admitted
42	Moray Association Mental Health	Admitted
43	Reach Out Project	Admitted
44	St Machar Parent Support Project	Admitted
45	Printfield Community Project	Admitted
46	Mastrick Home Start	Admitted
47	Aberdeen Foyer	Admitted
48	Home Start (NEA) Fraserburgh	Admitted
49	Aberdeen Greenspace	Admitted
50	Pathways	Admitted
51	Cairngorms Outdoor Access Trust	Admitted
52	Aberdeenshire Housing Partnership	Admitted
53	Aberdeen Performing Arts	Admitted
54	Aberdeen International Youth Festival	Admitted
55	Sanctuary Housing (Tenants First Housing Co-op)	Admitted

ABERDEEN CITY COUNCIL TRANSPORT FUND

1	First Aberdeen	Scheduled
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Governance Compliance Statement

PRINCIPLE	FULLY COMPLIANT
1. Structure <ul style="list-style-type: none"> 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. 	<p>Fully compliant</p> <p>Fully compliant</p> <p>Fully compliant</p> <p>Fully compliant</p>
2. Committee Membership and Representation <ul style="list-style-type: none"> a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- <ul style="list-style-type: none"> 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. 	<p>Fully compliant</p> <p>Fully compliant</p>
3. Voting <ul style="list-style-type: none"> 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. 	<p>Fully compliant</p>

Governance Compliance Statement

PRINCIPLE	FULLY COMPLIANT
4. Training/Facility time/Expenses <ul style="list-style-type: none"> 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. 	<p>Fully compliant</p> <p>Fully compliant</p> <p>Fully compliant</p>
5. Meetings (frequency /quorum) <ul style="list-style-type: none"> 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 	<p>Fully compliant</p> <p>Fully compliant</p> <p>Fully compliant</p>
6. Access <ul style="list-style-type: none"> 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 	<p>Fully compliant</p>
7. Scope <ul style="list-style-type: none"> a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements 	<p>Fully compliant, wider issues of administration are reported quarterly to the Pensions Panel</p>
8. Publicity <ul style="list-style-type: none"> 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. 	<p>Fully compliant</p>

Compliance with the Myners Principles

REQUIREMENT	NORTH EAST SCOTLAND PENSION FUND ARRANGEMENTS	ASSESS STATUS COMPLIANT
<p>PRINCIPLE 1:</p> <p>EFFECTIVE DECISION MAKING</p> <p><i>Administering authorities should ensure that;</i></p> <ul style="list-style-type: none"> <i>decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation; and</i> <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> 	<p>The Pension Fund 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>	<p>Subject to ongoing review and training</p>
<p>PRINCIPLE 2:</p> <p>CLEAR OBJECTIVES</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 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.</i></p>	<p>The Statement of Investment Principles and the Funding Strategy Statement define the Funds' primary funding objectives.</p> <p>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.</p> <p>The attitude to risk of employers and the administering authority is specifically taken into account in the setting of strategy through the composition of the JIAC.</p> <p>Reviews of investment strategy focus on the split between broad asset classes (equities, bonds and alternative investments).</p> <p>Each Investment Management Agreement set clear benchmarks and risk parameters, and includes the requirement to comply with the Funds' Statement of Investment Principles.</p> <p>Appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contract. Procurement of advisers is conducted within EU procurement Regulations.</p> <p>The setting of the Funding Strategy included specific consideration of the covenants of the Funds' participating employers and the need to maintain stability in employer contribution rates.</p>	<p>Compliant</p>

Compliance with the Myners Principles

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 Fund 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 Pensions Panel.

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

Compliant

PRINCIPLE 4: PERFORMANCE ASSESSMENT

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers.

Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

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

Investment Performance is reviewed quarterly by the Pensions 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.

Compliant

Compliance with the Myners Principles

**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 Principles.

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

- The Fund 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 Funds' policy on responsible ownership is contained in the Funds' Corporate Governance Statement and included in the Statement of Investment Principles.
- The Funds' Annual Review includes i.) details of the Funds' voting activity, ii.) a summary of the Funds' approach to responsible investment.
- A summary of the Annual Review is sent to members. The full report is available on the website, and is sent to members on request.

Compliant

Compliance with the Myners Principles

PRINCIPLE 6: TRANSPARENCY AND REPORTING

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

Aberdeen City Council has delegated strategic responsibility for the administration of the Pension Fund to the Pensions Panel. The Council's 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**

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 Pensions Panel reports and minutes are made available to members of the JIAC

Performance Standards are incorporated in an annual report to stakeholders

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

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

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

Compliant

Pension Fund Committees

PENSIONS PANEL

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

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

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

MEMBERSHIP DURING THE 2012 / 2013

Cllr Barney Crockett (Convener)

Cllr Ross Thompson (Vice Convener)

Cllr Jim Noble

Cllr Aileen Malone

JOINT INVESTMENT ADVISORY COMMITTEE (JIAC)

The JIAC consists of 14 members, 4 elected members from Aberdeen City Council (members of the Pensions Panel), 4 elected members from Aberdeenshire Council, 2 elected members from The Moray Council, 1 member representing the Colleges and Admitted Bodies, 1 member representing Scottish Water and 2 Trade Union representatives.

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

MEMBERSHIP DURING THE 2012 / 2013

Cllr Barney Crockett (Convener)	Aberdeen City Council
Cllr Ross Thompson	Aberdeen City Council
Cllr Jim Noble	Aberdeen City Council
Cllr Aileen Malone	Aberdeen City Council
Cllr Alastair Bews	Aberdeenshire Council
Cllr Richard Cowling (Vice Convener)	Aberdeenshire Council
Cllr Sheena Lonchay	Aberdeenshire Council
Cllr Michael Watt	Aberdeenshire Council
Cllr Graham Leadbitter	The Moray Council
Cllr Gary Coull	The Moray Council
Ms Pat Briggs	Colleges & Admitted Bodies
Mr Alun Williams	Trade Union representative
Mr Michael Middleton	Trade Union representative

Training Policy

1. Introduction

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

2. Training Programme

- 2.1 Training is provided to both members of the Pensions Panel and the JIAC in respect of the following:

2.1.1 Scheme Governance

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

2.1.2 Investment Strategy

- Asset Classes
- Risk
- Investment Structure

Investment Management and Performance Monitoring

2.1.3 Support Services

- Custody Services
- Service Organisations
- Role of the Head of Finance

Role of the Pensions Manager and Pensions Section

3. Scheme Documentation

- 3.1 On joining either the Pensions Panel or the JIAC, a new member will receive the following documentation:
 - Copy of the guide to the Local Government Pension Scheme (LGPS)
 - Actuarial Valuation and Funding Strategy Statement
 - Copy of the Governance Statement
 - Copy of the LGPS investment regulations
 - Copy of the Funds' compliance with the Myners Principles
 - Copy of the Statement of Investment Principles

4. Training Agenda

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

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

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

5. Review arrangements

- 5.1 A report will be presented to the JIAC on an annual basis detailing:
 - training provided in the previous year
 - those elected members who attended the various training sessions
 - seminars and conferences held in the previous year
 - which seminars and conferences were attended by elected members and by which members

- 5.2 The Pension Panel will review the Training policy annually.

6. Reimbursement of Expenses

- 6.1 The training costs are met directly by the Pension Fund.

Appendix I

CONVENER OF THE PENSIONS PANEL AND JOINT INVESTMENT ADVISORY COMMITTEE (JIAC)

PURPOSE OF ROLE

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

PRINCIPAL RESPONSIBILITIES

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

PERSONAL SPECIFICATION

REQUIREMENT	ESSENTIAL	DESIRABLE
1. Educational	<ul style="list-style-type: none"> Appropriate financial experience and training. Knowledge of pension funds and schemes. 	<ul style="list-style-type: none"> Demonstrable evidence of knowledge kept up to date.
2. Work Experience	<ul style="list-style-type: none"> Political awareness in numerous political environments. Chairing high level partnership meetings achieving effective outcomes. Operated for 5 years at a senior level. Experience of risk and performance frameworks. 	<ul style="list-style-type: none"> Previously chaired a pension committee or similar.
3. Abilities, Intelligence & Special Aptitudes	<ul style="list-style-type: none"> Chairing skills. Influencing and consensus building. Listening skills. Able to assimilate complex information. 	<ul style="list-style-type: none"> Mathematical/statistical literacy. Knowledge of public sector and local government finance.
4. Adjustment & Social Skills	<ul style="list-style-type: none"> Ability to establish good working relationships with councillors, officers and advisors. Able to direct discussions in politically sensitive environments. Able to command respect and demonstrate strong leadership. Assertive in pursuing the correct course of action. Able to work effectively with colleagues who may have different levels of experience and understanding. 	<ul style="list-style-type: none"> Diplomacy and tact.
5. Motivation	<ul style="list-style-type: none"> Enthusiastic, not easily deterred and able to convey enthusiasm to others. Committed to the objectives of the Pension Scheme and Fund(s). 	
6. Equal Opportunities	<ul style="list-style-type: none"> Understanding and commitment to promoting equality of opportunity with an understanding of the pension context. 	

COMPLIANCE WITH THE JOB DESCRIPTION

1. Pensions Legislative and Governance context

- 1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.
- 1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS Governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework Delivering Good Governance in Local Government).

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

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

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

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

2. Pensions accounting and auditing standards

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

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

3. Investment performance and risk management

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

All investment performance and risk management is reported by the Fund custodian. Regular training sessions be given to all 'elected members' of the JIAC on understanding investment performance and risk reporting. Understanding investment performance and risk are key functions of the Convener and Vice Convener 's of the Pension Panel and JIAC, therefore additional external training is required in this area, specially through the NAPF May conference highlighted above and specific training events through the year which officers will bring to the attention of elected members.

4. Financial markets and product knowledge

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

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

5. Actuarial methods, standards and practices

5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

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



Appendix II

KNOWLEDGE AND SKILLS FRAMEWORK

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

Level of knowledge required

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

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

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

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

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



RISK MANAGEMENT REVIEW

A Risk Management Review was completed during 2012 / 2013, establishing and maintaining a detailed Risk Register and Action List. The review formalised the risk management process and identifies areas for development. Risk management is an ongoing process. Quarterly reporting is provided to the Pensions Panel detailing progress achieved in the implementation of the action plan, the ongoing review of the Risk Register and reporting of new Risks that have been identified.

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

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

Funding Strategy Statement



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

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

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

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

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

North East Scotland Pension Fund and Aberdeen City Council Transport Fund

Accounts for the year ended 31 March 2013 – Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 31A (1) (d) of The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

NORTH EAST SCOTLAND PENSION FUND

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2011 to determine the contribution rates with effect from 1 April 2012 to 31 March 2015.

On the basis of the assumptions adopted, the Fund's assets of £2,218 million represented 88% of the Fund's past service liabilities of £2,512 million (the "Funding Target") at the valuation date.

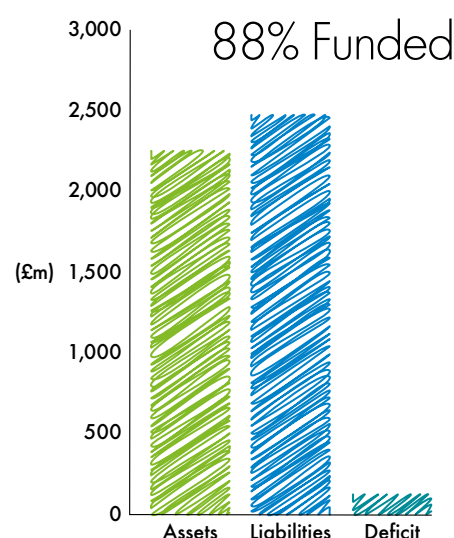
The valuation also showed that a common rate of contribution of 14.2% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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 3.7% of pensionable pay for 22 years. This would imply an average employer contribution rate of 17.9% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2012.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. Due to investment market changes after the valuation date, it was agreed as part of the consultation that the majority of employers would maintain their current rate of contribution of 19.3% of pensionable pay.



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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	5.9% per annum	6.5% per annum
- post retirement	5.9% per annum	6.5% per annum
Rate of pay increases	4.75% per annum	4.75% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2014. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2015.

ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.25% per annum	4.15% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

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

During the year corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £2,941 million. The effect of the changes in financial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c£340 million. Adding interest over the year increases the liabilities by a further c£146 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£8 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £3,435 million.

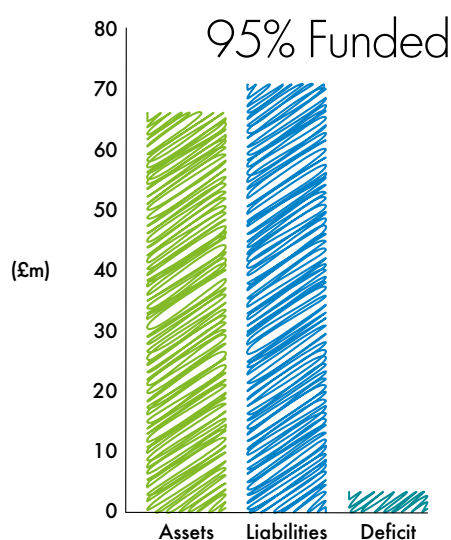
ABERDEEN CITY COUNCIL TRANSPORT FUND

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2011 to determine the contribution rates with effect from 1 April 2012 to 31 March 2015. On the basis of the assumptions adopted, the Fund's assets of £67.9 million represented 95% of the Fund's past service liabilities of £71.5 million (the "Funding Target") at the valuation date.

The valuation also showed that a common rate of contribution of 30.8% of pensionable pay per annum was required. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an annual contribution addition of £609,000 for 7 years. However, due to investment market changes after the valuation date, as part of the consultation process it was agreed higher deficit contributions would be paid and further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2012.

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



	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	5.9% per annum	5.9% per annum
- post retirement	4.4% per annum	4.4% per annum
Rate of pay increases	5.2% per annum	5.2% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.2% per annum	3.2% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2014. Based on the results of this valuation, the contribution rates payable will be revised with effect from 1 April 2015.

ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26

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

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

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.5% per annum	4.4% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.25% p.a. The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% p.a.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £64.5 million. The effect of the changes in financial and demographic assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c£7.9 million. Adding interest over the year increases the liabilities by a further c£3.2 million, and allowing for net benefits accrued/paid over the period reduces the liabilities by c£2.5 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £73.1 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2013

Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund and Aberdeen City Council Transport Fund and is effective from 4 June 2012. It complies with the requirements in Sections 35, 36 and 47 of the Pensions Act 1995. In its preparation, the Council has obtained appropriate professional advice.

All investment decisions are governed by 'The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

The fund's objective is to meet the benefit liabilities as they fall due at a reasonable cost to the participating employers, given that employee contributions are fixed. Reasonable, in this context, refers to both the absolute level of contribution – normally expressed as a percentage of pensionable payroll – and its predictability. The employer contribution rates are impacted by both the assessed level of funding – ratio of the value of assets to liabilities – and the assumptions underlying the actuarial valuation.

The fund targets a 100% funding level. 'Growth' assets, such as equities, are expected to give a higher long-term return than 'liability-matching' assets, such as bonds. The benefit of higher investment returns is, over the long-term, a higher level of funding should achieve lower employer contribution rates. However the additional investment returns from growth assets come with a price: greater volatility relative to the liabilities, thus introducing risk. The risk is evidenced by the potential volatility of both the funding level and the employer contribution rate. There is therefore a trade-off between the additional investment return from greater exposure to growth assets and its benefits - higher funding level, lower employer contribution level - and the benefits of greater predictability - of both funding level and employer contribution rate - from having greater exposure to liability matching assets.

The trade-off, and its consequences on both funding level and employer contribution level, was examined by both the Pensions Panel and Joint Investment Advisory Committee and led to the strategic benchmark.

A summary is provided below with the full statement available on the Funds' website **www.nespf.org.uk**.



Investment Strategy

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.

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

The objective of the investment strategy is to deliver long term returns which are greater than the growth in money to be paid out in pensions.

The investment strategy is monitored on an ongoing basis by the Joint Investment Advisory Committee, focusing on long term policies with consideration given to short tactical strategy.

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

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

Asset Structure 2012/2013

Asset Class	Distribution as at 31st March 2012		Distribution as at 31st March 2013	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including alternatives)	81%	82%	84%	82%
Bonds	9.2%	10%	8.9%	10%
Property	6.2%	8%	5.5%	8%
Cash	3.6%		1.5%	
Total	100%	100%	100%	100%

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

Equities	70% (range +/- 5%)
Property	10% (range +/- 2%)
Bonds	8% (range +/- 2%)
Alternative assets (including private equity)	12%

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

Investment Performance

Investment report for the year to 31.3.13

During the 12 month period, confidence returned to many investment markets around the world, leading to strong returns for investors in most areas especially in equities and corporate bonds. Even in economies where uncertainty persisted, market performance was generally positive. This was a marked turnaround from the previous 12 months when attractive returns were scarce across most equity markets.

Central banks continued to supply liquidity through easy monetary policies and quantitative easing, with the European Central Bank implementing a series of measures aimed at stabilising the Eurozone. However, concerns resurfaced in February following an inconclusive election in Italy, and the handling of the Cyprus bailout in March caused further anxiety.

Confidence in US growth returned gradually, underpinned by the early signs of recovery in the housing market and, as the period ended, signs of further strengthening in economic data. This was positive against a background of fiscal contraction, with spending cuts starting to take effect in March, and revenue measures reducing incomes. The Federal Reserve reiterated its commitment to maintaining very loose monetary policy until unemployment falls further.

Meanwhile, in Japan, markets welcomed the election of new Prime Minister Shinzo Abe, given his resolve to strengthen fiscal and monetary efforts to boost economic growth. Government bond yields fell further on the assumption that achieving higher inflation would require more substantial bond purchases by the Bank of Japan, while the yen depreciated further against the US dollar.

In the UK, the Bank of England maintained highly accommodative monetary policy, increasing the size of its balance sheet through further quantitative easing. It also introduced a scheme to boost business lending, while the Treasury announced plans to stimulate the housing market through a mortgage guarantee scheme.

Within Emerging markets, there was a marked dispersion of returns at the country level. The smaller South East Asian markets of Indonesia, Thailand and the Philippines fared particularly well with continued strong foreign investment evident.

In contrast, the performance of economies reliant on commodity demand from China, most notably Brazil and Russia, suffered as a result of a move by the new Chinese leadership towards encouraging greater domestic consumption. Despite the slowdown in global growth, some emerging market countries managed to maintain relatively solid and stable growth, supported by strong domestic demand.

EQUITIES

Strong returns from European shares over the period (+18%) suggested that investors were becoming less fearful of a catastrophic breakup of the single currency. US equities ended the period at record high levels after posting a rise of 19% in sterling terms (the appreciation of the US Dollar against most currencies helped). The UK stock market also fared well, recording a 17% increase.

Developed Asia gained 20% and Japan rose 14% (though was up 24% in local currency terms). The Japanese market has been strong as the new Prime Minister's aggressive monetary and fiscal stimulus engendered depreciation in the yen in order to bolster the big exporters.

Emerging Markets were the laggard among the major regional equity areas, despite ending the period 7% higher, at least partly attributable to concerns over the extent to which growth in the Chinese economy could be slowing.

Such concerns about slower Chinese growth led to dull performance from economically-sensitive sectors, like mining and oil. Given the prominent role which China plays as a buyer of many commodities, this was perhaps unsurprising, however, it is worth noting that Chinese growth in 2012 was still almost 8%, despite the market's fear of a calamitous slowdown.

Some of the more 'defensive' and higher yielding sectors, such as healthcare and consumer staples, rallied in a period of generally buoyant global equity returns, as investors apparently craved certainty in a still uncertain world.

BONDS

Underpinned by the concerted efforts of many central banks to implement their quantitative easing programmes (essentially, pumping money into economies by buying bonds), UK government bonds rose by slightly more than 5% over the year, and overseas government bonds posted a similar return of 4.5%, the latter measured in local currency terms. An expected change in the calculation of Retail Price Inflation did not take place and led to a 10% rise in UK inflation-protected bonds.

Corporate bond markets were also strong, rising 12%, with the extra yield proving attractive to investors seeking to improve their returns in the current low interest rate environment. New issuance of corporate bonds was high as many companies sought to take advantage of demand for their debt. Interest rates are likely to remain low for the foreseeable future and this is still providing support for government bonds, keeping gilt yields artificially low.

PROPERTY

UK commercial property posted only modest returns over the year, perhaps reflecting the backdrop of a still-languishing UK economy.

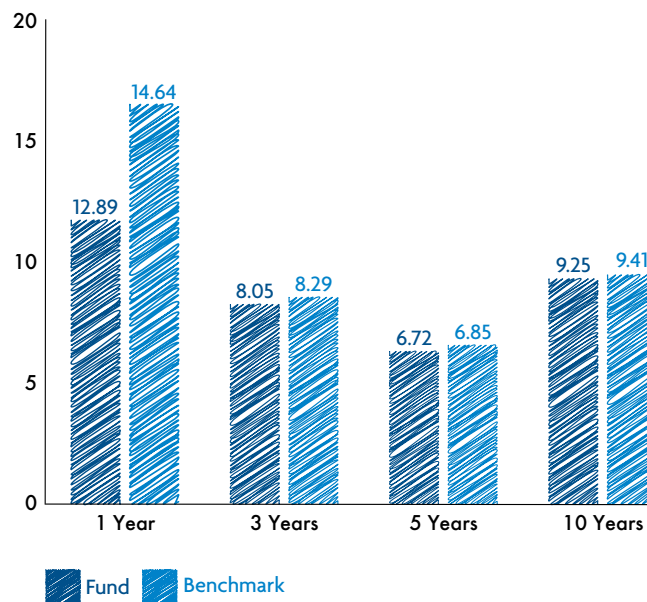
Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
FTSE All Share Index	16.77	8.79	6.74
FTSE North American Index	19.28	11.80	11.47
FTSE Europe (ex UK) Index	17.98	3.97	2.88
FTSE Japan Index	14.31	3.46	5.11
FTSE Developed Asia Ex Japan Index	19.95	9.16	11.45
FTSE Emerging Markets Index	7.39	3.19	7.15
FTA Government Securities All Stocks	5.25	8.21	7.09
ML UK Corporate Bonds	11.96	8.75	8.06
FTA Index Linked All Stocks	10.21	11.53	8.58

Above are total returns in Sterling

NORTH EAST SCOTLAND PENSION FUND

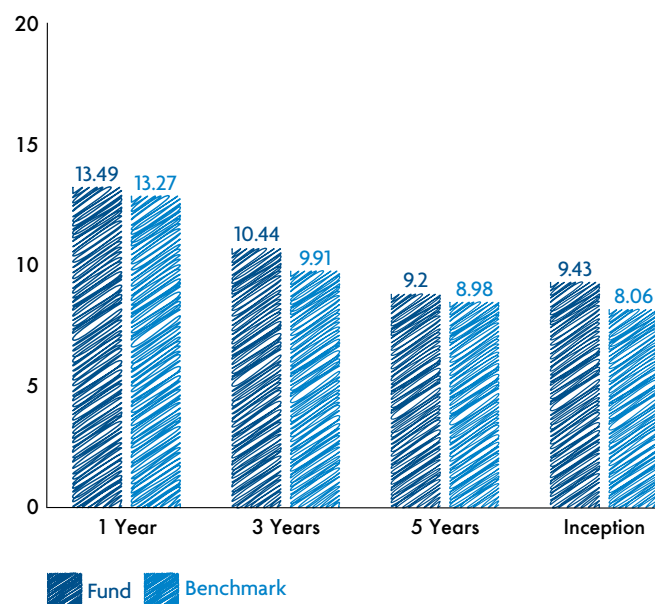
In 2005 a long term investment strategy for the NESPF was agreed with customised benchmark with the aim to deliver a return of 1% over the benchmark over rolling three year periods.

The graph below shows the Fund's performance over the short, medium and long term against the Fund's customised benchmark. The Fund underperformed in the last year from a combination of underperformance from the UK Equity portfolio managed by Blackrock and the continued restructuring of the property portfolio by Aberdeen Asset Managers.



ABERDEEN CITY COUNCIL TRANSPORT FUND

The Transport Fund benchmark has moved over time from 70% equities / 30% bonds split to 60% equities / 40% bonds split in 2011/12. This move is part of a de-risking strategy to ensure that the assets meet the long term liabilities of the Fund. The Fund is managed by a single manager; Aberdeen Asset Managers who slightly outperformed their benchmark over the year.



LONG TERM FUND PERFORMANCE

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

Year Ending	2010/11	2011/12	2012/13	3 Yr Annualised	5 Yr Annualised
CPI	3.1	3.5	2.2	3.5	3.3
Average Earning	2.3	0.2	1.8	2.0	1.9
NESPF Return	10.6	1.0	12.9	8.1	6.7

INVESTMENT MANAGEMENT STRUCTURE

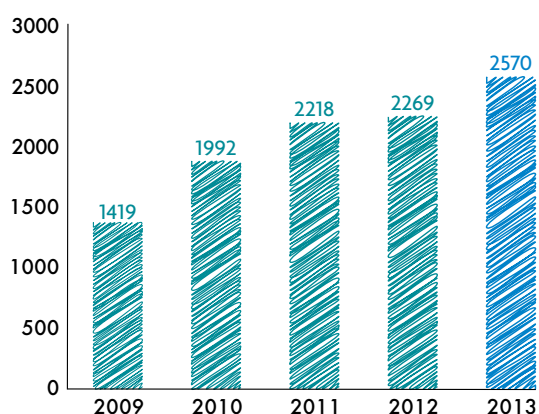
Manager	31/3/12 £M	31/3/12 %	31/3/13 £M	31/3/13 %
SSGA	721	31.8	834	32.5
Baillie Gifford	478	21.1	551	21.5
Blackrock	326	14.4	373	14.5
Barings	229	10.1	242	9.5
AAM Global	207	9.1	250	9.8
AAM Property	147	6.5	150	5.9
Harbour Vest	54	2.4	63	2.4
SL Capital Partners	47	2.1	48	1.8
Partners Group	4	0.1	8	0.3
AAM Frontier Fund	0	0.0	29	1.1
Maven Capital	0	0.0	2	0.0
NESPF	4	0.1	3	0.1

Financial Performance

NORTH EAST SCOTLAND PENSION FUND FINANCIAL SUMMARY

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Contributions					
Less benefits and expenses paid					
Net additions	29,408	32,584	26,897	35,229	361
Net investment income					
Change in Market Value					
Net return on Investment	(380,399)	540,459	199,197	15,879	300,543
Net increase in Fund	(350,991)	573,043	226,094	51,108	300,904
Fund Balance as at 31 March (Market Value)	1,418,871	1,991,914	2,218,008	2,269,116	2,570,020

Fund Balance as at 31 March 2013 (£m)



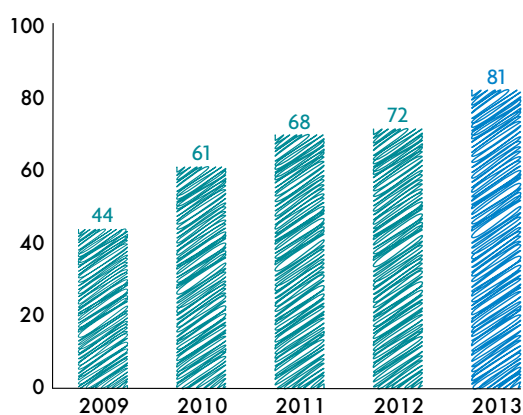
MEMBERSHIP STATISTICS

	2008/09	2009/10	2010/11	2011/12	2012/13
Active	25,250	24,419	21,268	20,361	20,869
Pensioners	13,373	13,991	14,861	15,768	16,472
Deferred	11,283	12,427	16,125	16,425	16,876

ABERDEEN CITY COUNCIL TRANSPORT FUND FINANCIAL SUMMARY

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Contributions					
Less benefits and expenses paid					
Net additions	(348)	(67)	742	(650)	(1,190)
Net investment income					
Change in Market Value					
Net return on Investment	(8,688)	16,718	6,418	5,095	9,583
Net increase in Fund	(9,036)	16,651	7,160	4,445	8,39
Fund Balance as at 31 March (Market Value)	44,085	60,736	67,896	72,341	80,734

Fund Balance as at 31 March 2013 (£m)



MEMBERSHIP STATISTICS

Transport Fund	2008/09	2009/10	2010/11	2011/12	2012/13
Active	157	136	120	105	92
Pensioners	341	356	367	381	393
Deferred	178	174	168	163	166

Responsible Investment

The North East of Scotland Pension Fund supports the view that the willingness and ability of a company to adopt the highest standards of corporate responsibility is increasingly important to its long-term growth. Good corporate governance and good social and environmental practice can have a favourable effect on financial performance and improve investment returns to shareholders as well as society at large.

Voting is an integral part of good governance and over the last year the Fund has voted at 196 Annual General Meetings/Special meetings. The Funds' voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum

During the year to 31 March 2013 the most contentious areas were:

REMUNERATION REPORTS

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

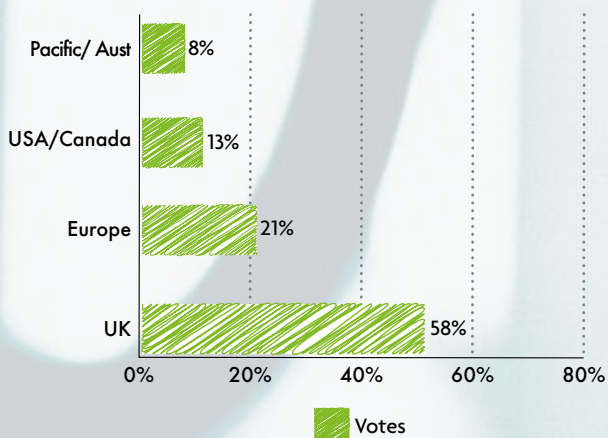
ELECTION OF DIRECTORS

- Insufficient Independent representation on the board
- Concerns over aggregated time commitments
- Lack of attendance

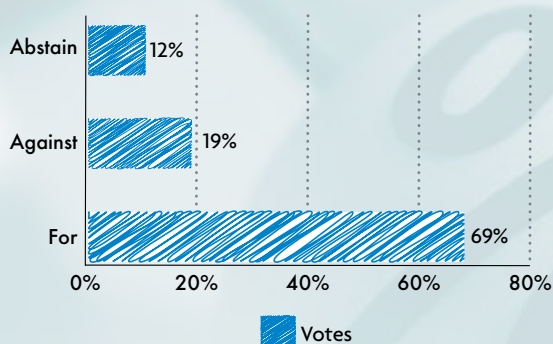
AUDITORS APPOINTMENTS

The level of non audit fees having the potential to compromise the objectivity of the auditing service provided

Voting By Region



Voting on Resolutions



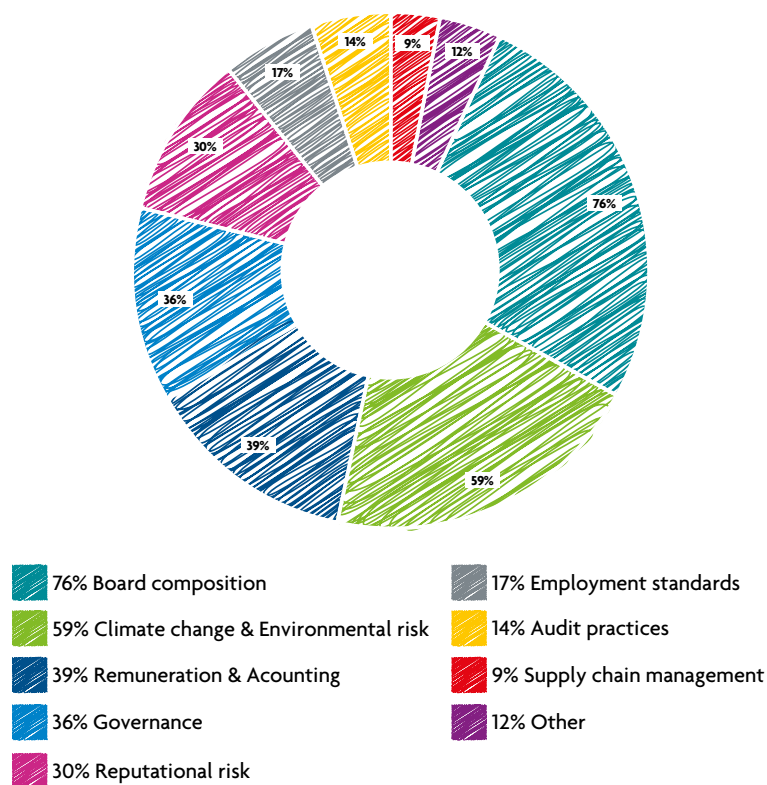
Local Authority Pension Fund Forum

The NESPF is a member of the Local Authority Pension Fund Forum (LAPFF) which is the UK's leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together 56 local authority pension funds from across the country with combined assets of over £115 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss investment issues and shareholder engagement. Local authority pension fund investment policies have important implications for their beneficiaries, local communities, council tax payers and the wider economy. As a group, local authority funds are now amongst the most important domestic asset owners, and typically account for a significant slice of the ownership of UK-listed companies. The powerful influence exercised by such funds acting together as shareholders on issues of common concern has considerable potential in relation to companies where they invest.

Given the nature of their liabilities, local authority pension funds can adopt a more long-term approach to the companies they invest in. As such, much of the Forum's work is in ensuring that companies have the right policies and right people in place to create value for shareholders over the long term. Therefore the Forum considers that issues such as climate change and employee engagement require as much investor attention as more traditional concerns such as corporate governance and executive remuneration.

In the wake of the global financial crisis, LAPFF has adopted a more high-profile and interventionist approach to shareholder engagement. It has led investor criticism of accounting standards that misrepresented the capital position of financial institutions, and spoken out publicly against poor standards and excessive pay at the banks.

With stewardship now considered a core part of shareholders' responsibilities, LAPFF's long-standing commitment to responsible and robust engagement makes it one of the most important UK investor groups.



This year LAPFF initiated intensive engagement with 91 companies on multiple engagement topics, held 34 face-to-face meetings and conference calls to discuss environmental, social and corporate governance issues with companies. Nearly 75% of engagement activity was conducted at board level with chairmen, CEO's and non-executive directors.

Through collaborative investor initiatives LAPFF reached more than 650 companies on issues such as climate change, water management, forests and biodiversity, hydraulic fracturing and environmental risks.

During 2012, LAPFF led a number of campaigns seeking improvements in corporate governance and sustainability. The 'shareholder spring' dominated the proxy season with a number of high profile defeats of UK companies' remuneration reports. LAPFF has consistently called for better alignment between pay and performance, and this year it issued several voting recommendations to oppose company pay reports.

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



United Nations Principles for Responsible Investment

In August 2010 the fund signed up to the United Nations Principles for Responsible Investment (UNPRI). This is a world wide initiative with a set of aspirational and voluntary guidelines for investment entities wishing to address environmental, social, and corporate governance (ESG) issues. Over 1000 companies representing over US\$32 trillion have signed up to the Principles.

UNPRI is based on the notion that ESG issues, such as climate change and human rights, can affect the performance of investment portfolios and should therefore be considered alongside more traditional financial factors if investors are to properly fulfill their fiduciary duty.

DURING THE YEAR THE FUND HAS PARTICIPATED IN THE UNDERNOTED ACTIVITIES

- Webinar - Better Boards: Practical steps for how to increase women's participation on corporate boards and executive committees the united national
- Webinar - Workshop on the 2012 PRI online Reporting Tool Pilot
- Webinar - ESG Shareholder Proposals: lessons learned from 2012

The webinar explored the key themes and impact of ESG-themed shareholder proposals during the 2012 proxy season, in three markets where filing is now a common occurrence: Japan, Canada and the US

The Fund is collaborating in an engagement proposal for more **Sustainable Stock Exchanges**. The engagement aims to improve the quality of disclosure by companies on their environmental, social and corporate governance (ESG) performance. We have participated in conference calls throughout the year and are currently taking part in a consultation exercise to provide a specific proposal of what investors want regarding an ESG listing standard and a strategy of how to promote an ESG listing standard across markets.

Investment & Accounting Report

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

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

2012/13 saw no changes in the Investment strategy within the North East Scotland Pension Fund rather the Fund continued to implement the long term strategy of diversification into alternative assets agreed following the outcome of the 2009 Fund asset liability study.

Throughout the year the Fund continued to fund the recent commitments to the Scottish Loan Fund, Partners Group Global Real Estate Fund, Partners Group Global Infrastructure Fund and the Aberdeen Asset Manager Frontier Fund.

During the year the accounting team supported the implementation of the new payroll system, reviewed and updated procedures together with improving and adding to reconciliations between the Funds' administration/ payroll systems and the Funds' accounts, enhancing the financial information available to the Fund, while continuing to provide timely and accurate data.

Benefit Administration Report

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

The benefit team saw increased workload in 2012/13 as they participated in the testing project for the new Pension's payroll system. With the continuing pressure on employer budgets, the benefits team also continued to see a high demand for voluntary severance/early retirement quotations.

REGULATION CHANGES

LGPS (Miscellaneous Amendments) (Scotland) Regulations 2013

Amended regulations came into force from 01/02/2013 in respect of the following:

- i) to comply with auto enrolment, regulation allows non-eligible job holders (casual employees and those with contract of less than 3 months) the right to opt in to the scheme
- ii) Guidance on final pay where member has concurrent employments
- iii) Allow purchase of additional survivor benefits for co-habiting partner with stipulation that elections must be made with 12 months of nomination or by 31/03/14 whichever is the latter
- iv) Amendments to regulations in connection with admission bodies
- v) Amendment to allow pension saving certificates and scheme pays in relation to annual allowance.
- vi) Refund of contributions to be made by employer if member leaves/opt's out within 3 months of joining
- vii) Limit for combining previous deferred benefits extended to 31/01/2014 or within 12 months of joining whichever is the latter.

SINGLE SCOTTISH POLICE AND FIRE FORCES FROM 2013

The creation of single Scottish Police and Fire Forces has seen transitional arrangements in place for staff pension arrangement.

Agreement was reached to maintain the status quo of current LGPS payments /administration for Police and Fire Support Staff post 1 April 2013 with transitional arrangements to ensure:

Continuity of LGPS pension benefits for all Support Staff in the new

- Scottish Fire and Rescue Service and the Police Service of Scotland.
- No financial detriment to current LGPS pension funds.
- No unnecessary additional pension transfer costs at this time.
- That this transitional arrangement is reviewed by the two new services, in consultation with key stakeholders, the SPPA and the Scottish Government; for implementation of the best option for future LGPS payments/administrative arrangements by 1 April 2016.

The creation of the single forces did see requests to the benefit administration team for over 150 redundancy quotations to be provided prior to March 2013.

REFORM OF LGPS

With the publication of the Finance Bill there is ongoing discussion with COSLA and Scottish ministers regarding the future of the LGPS in Scotland. The North East Scotland Pension Fund through the Principal Pension Officer – Benefits will take an active role in those discussions along with colleagues across Scotland.

STATEMENTS

Year end processing of LGPS member records was completed by 31st August and annual benefit statements were issued in September.

Statements for Police and Fire Schemes were issued at start of November.

Annual allowance calculations have been calculated by Altair for all members. Pension Saving Statements issued to those who may be affected.

STAFF NEWS

We are delighted to report that staff members Eilidh Williams and Natalie Walker successfully completed their Foundation Degree in Pensions Administration and Management and graduated in November. Staff training is key to ensuring that the North East Scotland Pension Fund continues to deliver an efficient and high quality service to scheme employers and scheme members.

Technical & Communication Report

The Technical and Communication Team are responsible for the maintenance, upgrade of the Benefits IT systems, the training of benefit team updating of all scheme documentation and regulation, tax and payroll guides. The team is also responsible for both internal and external communication.

INTEGRATED PENSIONER PAYROLL

A project to implement a new integrated payroll system with our existing administration system commenced in 2012. The plan was to migrate in 2 stages to deliver the numerous benefits an integrated system provides:

- Stage 1 – to merge existing 18,000 pensioners and dependants from ceding system into a new payroll database in order make live payments of £10 million monthly from November 2012.
- Stage 2 - to merge the standalone payroll database with the existing pension administration database by January 2013.

The project commenced with a payroll survey to determine NESPF requirements going forward, the main change being an increase from 2 to 7 payrolls which would replicate the scheme set up in the existing administration system and enable accurate reporting to meet new accounting requirements.

A data mapping survey was carried out in May 2012 to determine migration requirements and a conversion program was developed. A successful live conversion took place in August and two months parallel running commenced. Although contingency extracts were taken from the ceding system during the parallel running the goal was to keep both systems in tandem throughout this period. This was achieved by checking 100% of all input done in both systems.

Live processing commenced in October 2012 and all 18,000 payments were successfully deposited in the correct bank accounts on 15 November 2012.

Stage 2 followed, with a test conversion to integrate the payroll database now used to make payments with the existing administration database, this identified a small number of errors. These errors were corrected and a successful live conversion took place on schedule in January 2013.

The completed project provides staff with the benefits of, an integrated system which delivers:

- All member data held on a single database
- Production of BACSTEL and cheque payments as and when required
- 25% reduction in benefit processing time compared with previous system
- Data can be passed from one area of the database to another efficiently, accurately and securely
- Single source of data for accurate reporting.

AUTO ENROLMENT

One of the biggest challenges in 2012/13 was helping members and employers prepare for auto enrolment and the NESPF focused on providing information via its website.

Links were made available for members to access information from:

- The Pensions Regulator
- UK Government
- The Pensions Advisory Service
- The Money Advice Service.

Links were also available for employers to:

- View Local Government Pension Committee guides
- Participate in a webinar by The Pensions Regulator
- View bulletins issued by NESPF
- View guides and a webcast by the scheme actuary.

Auto enrolment featured heavily at our annual employer forum in November 2012. As well as a presentation by the scheme actuary there was also a demonstration of a software solution called I-Connect which will be adopted by large employers in 2013/14.

RECORD KEEPING

In December 2012 NESPF developed procedures to carry out annual checks against all scheme data held on its pension administration system to improve data quality:

- Developed numerical data reporting
- Developed conditional data tests
- Measured common data against benchmarks set by The Pensions Regulator
- Carried out a risk assessment on failed tests
- Created an action plan to address failed tests

Results were reported and published on the Pension Fund website at www.nespf.org.uk.



EMPLOYER ACCESS OVER THE INTERNET

Over the last twelve months the NESPF have implemented and started to roll out secure remote access over the internet to our pension administration system for employers to:

- View information held on pensions administration system
- Provide new starts, amendments and leavers information electronically
- Run reports to compare against data held on their own systems

Implementation and testing was completed in December 2012 and roll out commenced in January 2013.

As at 31 March 2013 fourteen employers have registered to use this facility and 104 interface files have been received:

New Starts	Amendments	Leavers	Total	
JANUARY	18	3	5	26
FEBRUARY	9	3	20	32
MARCH	18	11	17	46

Remote access over the internet reduces employer enquires, improves the accuracy and flow of data received and reduces the time taken to process member benefits.

PENSIONS ADMINISTRATION STRATEGY (PAS)

The Pensions Administration Strategy (PAS) has been revised to incorporate the Pension Funds' move to electronic data exchange and enhanced workflow measurement. A copy of the revised PAS will be issued to all scheme employers early in 2013/14 with performance monitoring commencing with effect from 1 April 2013.

TESTING WORKING PARTY (TWP) 2013

NESPF joined South Yorkshire, Norfolk, Essex, NILGOSC and Mouchel to participate in the national TWP for the latest release of pension administration software. Testing commenced in January 2013 and was completed and available for general release from March 2013.

PENSION AWARDS

During the year the communication team made two successful submissions on behalf of the Fund to the LGC Investment Awards and the Professional Pensions Awards, having been short listed for both.

Financial Statements for the year ended 31 March 2013 2012 - 2013

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



Contents

1. Explanatory Foreword	50	Note 16. Financial Instruments	68
Introduction		Note 17. Net Gain and Losses on Financial Instruments	69
Fund Structure		Note 18. Fair Value of Financial Instruments and Liabilities	69
Membership		Note 19. Valuation of Financial Instruments carried at Fair Value	70
Investments		Note 20. Risk arising from Financial Instruments	72
Actuarial Valuation		Other Price risk – Sensitivity Analysis	
2. Accounting Policies	53	Interest Rate Risk	
3. North East Scotland Pension Fund Accounts	56	Interest Rate Risk – Sensitivity Analysis	
4. Aberdeen City Council Transport Fund Accounts	58	Currency Risk	
5. Notes to the North East Scotland Pension Fund Accounts	60	Currency Risk – Sensitivity Analysis	
Note 1. Actuarial Valuation Report	60	Credit Risk	
Note 2. Contributions Receivable	61	Liquidity Risk	
Note 3. Transfers in from other Pension Funds	61	Note 21. Breakdown of Long & Short Term Assets and Liabilities	77
Note 4. Benefits Payable	61	Note 22. Fund Managers Transaction Costs	77
Note 5. Payments to and on Account of Leavers	62	Note 23. Related Party Transactions	78
Note 6. Administrative Expenses	62	Note 24. Key Management Personnel	78
Note 7. Investment Income	62	Note 25. Contractual Commitments	78
Note 8. Taxes on Income	63	Note 26. Additional Voluntary Contributions (AVC)	79
Note 9. Investment Expenses	63	Note 27. Contingent Assets/Liabilities	79
Note 10. Investment Assets	64	Note 28. Impairment Losses	79
Note 11. Analysis of Investments (excluding derivatives contracts and cash)	65	Note 29. Investment Principles	79
Note 12. Analysis of Derivatives	66	Note 30. Critical Judgments in applying Accounting Policies	80
Note 13. Investment Analysed by Fund Manager	67	Note 31. Events after the Balance Sheet Date	80
Note 14. Stock Lending	67		
Note 15. Property Holdings	67		

6. Notes to the Aberdeen City Council Transport Fund Accounts

Note 1.	Actuarial Valuation Report	81
Note 2.	Contributions Receivable	82
Note 3.	Benefits Payable	82
Note 4.	Payments to and on Account of Leavers	82
Note 5.	Administrative Expenses	83
Note 6.	Investment Income	83
Note 7.	Taxes on Income	83
Note 8.	Investment Expenses	83
Note 9.	Investment Assets	84
Note 10.	Analysis of investments (excluding derivatives contracts and cash)	84
Note 11.	Investment Analysed by Fund Manager	85
Note 12.	Stock Lending	85
Note 13.	Financial Instruments	86
Note 14.	Net Gain and Losses on Financial Instruments	86
Note 15.	Fair Value of Financial Instruments and Liabilities	87
Note 16.	Valuation of Financial Instruments carried at Fair Value	87

Note 17. Risk arising from Financial Instruments 89

Other Price Risk – Sensitivity Analysis

Interest Rate Risk

Interest Rate Risk – Sensitivity Analysis

Currency Risk

Currency Risk – Sensitivity Analysis

Credit Risk

Liquidity Risk

Note 18. Breakdown of Long & Short Term Assets and Liabilities 94**Note 19.** Fund Managers Transaction Costs 94**Note 20.** Related Party Transactions 95**Note 21.** Key Management Personnel 95**Note 22.** Investment Principles 95**Note 23.** Critical Judgment in applying Accounting Policies 96**7. Independent Auditor's Report 97**

Explanatory Foreword

INTRODUCTION

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

This foreword provides an explanation of the Pension Funds' Financial Statements, along with a summary of any changes to the Pension Funds over the period to 31 March 2013.

FUND ACCOUNTS

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

Please note there is a significant difference in employer contributions between the years 2011-12 and 2012-13. This is due to the receipt in 2011-12 of an advanced payment for past service costs made by two employers.

NET ASSET STATEMENTS

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

STATEMENT OF RESPONSIBILITIES

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

ACHIEVEMENTS THIS YEAR INCLUDE:

The Fund completed the implementation of a new integrated payroll system, providing straight through processing from the existing administration system.

The North East Scotland Pension Fund saw a rise in value over the period of £301m, while the Aberdeen City Council Transport Fund had a rise of £8m. Full investment returns can be found in the Annual Report.

FUND STRUCTURE

The North East Scotland Pension Funds are administered by Aberdeen City Council within the Local Government Pension Scheme regulations.

There are two funds, the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACC Transport Fund).

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

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

There are 14 scheduled bodies:

Aberdeen City Council
Aberdeenshire Council
The Moray Council
Grampian Fire and Rescue (Non uniform)
Grampian Joint Police Board (Non uniform)
Scottish Water
Scottish Police Services Authority
Visit Scotland
Aberdeen College
Banff and Buchan College
Moray College
Northern Community Justice Authority
Grampian Valuation Joint Board
NESTRANS

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, Town House, Broad Street, Aberdeen, AB10 1AH and is also contained within 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 Funds are able to meet all future benefits.

With effect from 1 April 2009, employee contributions are based on tiered rates, detailed below are the tiered rates for 2012/2013.

Band	Range	Contribution Rate
1	On earnings up to and including £19,400	5.50%
2	On earnings above £19,400 and up to £23,700	7.25%
3	On earnings above £23,700 and up to £32,500	8.50%
4	On earnings above £32,500 and up to £43,300	9.50%
5	On earnings above £43,300	12.00%

MEMBERSHIP

North East Scotland Pension Fund	31 March 2012	31 March 2013
Number of employers with active members	52	55
Number of employees in the scheme	20,361	20,869
Number of Pensioners	15,768	16,472
Deferred Pensioners	16,425	16,876

Aberdeen City Council Transport Fund	31 March 2012	31 March 2013
Number of employers with active members	1	1
Number of employees in the scheme	105	92
Number of Pensioners	381	393
Deferred Pensioners	163	166

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 future liabilities to employees within the Funds. In addition to a contingent liability to meet future pension benefits payable to existing employees, the Funds must also provide for the future payment of deferred pension benefits which have been preserved by former employees in respect of service prior to their leaving.

The Funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and quoted investments of the Funds have been re-valued to market value at 31 March 2013 with the gain/loss on revaluation being attributed to the Funds.

ACTUARIAL VALUATION

Detailed in the notes to the accounts, is the outcome of the 2011 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.

Steven Whyte, CPFA

Aberdeen City Council, Chief Accountant

Date: 27 September 2013

Accounting Policies

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

The Financial Statements summarise the Funds' transactions for the 2012/2013 financial year and its position at year end as at 31 March 2013.

The Financial Statements do not take account of the obligation to pay pensions and benefits which fall due after the end of the year. The Funds' Financial Statements are generally prepared on an accruals basis.

CONTRIBUTION INCOME

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

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

TRANSFERS TO AND FROM OTHER SCHEMES

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

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

INVESTMENT INCOME

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

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

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

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

The property portfolio accounts are prepared on an accrual basis.

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

FUND ACCOUNT - EXPENSES BENEFITS PAYABLE

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

TAXATION

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

ADMINISTRATIVE EXPENSES

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

INVESTMENT MANAGEMENT EXPENSES

All investment management expenses are accounted for on an accrual basis. Other than alternative investments where management fees are included within the Net Asset Value (NAV).

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

In addition the Fund has negotiated performance related fees with a number of its investment managers. Performance related fees were £1,121,187 in 2012/2013 (2011/2012 £1,606,654).

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

FINANCIAL ASSETS

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

VALUATION OF INVESTMENTS

All investments are valued at their market value at 31 March 2013 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 (Colliers International), in accordance with the Valuation Standards issued by The Royal Institute of Chartered Surveyors.

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

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

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

DERIVATIVES

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

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

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

CASH

Cash comprises cash in hand and demand deposits.

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

FINANCIAL LIABILITIES

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

ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The actuarial present value of promised retirement benefits of each of the Funds are assessed on a quarterly basis by the Scheme Actuary, and in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement, (Note 1) together with the full Statement by the Consulting Actuary as Appendix 1 of the Annual Report.

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

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

ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

UNQUOTED PRIVATE EQUITY INVESTMENTS

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

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

The value of unquoted private equities at 31 March 2013 was £103,621,886 (31 March 2012 £96,933,000).

ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Each fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

EVENTS AFTER THE REPORTING PERIOD

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

those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

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

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

North East Scotland Pension Fund Accounts

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2013

Contributions Receivable	Notes	2011 / 2012 £'000	2012 / 2013 £'000
Employee Contributions	2	25,263	24,918
Employer Contributions	2	111,513	77,585
Transfer Values	3	4,170	2,962
Other Income		61	56
		141,007	105,521
Benefits Payable			
Retirement Pensions	4	73,748	80,146
Retirement Allowances	4	22,842	15,983
Death Gratuities	4	2,825	2,575
Contributions Refunded	5	1,205	398
Transfer Values	5	3,448	4,069
Fund Administration	6	1,710	1,989
		105,778	105,160
Net additions from Dealings with Members		35,229	361
Return on Investment			
Investment Income	7	44,068	45,969
Change in Market Value of Investments		(22,509)	260,044
Investment Management Expenses	9	(5,680)	(5,470)
Net Return on Investments		15,879	300,543
Net Increase in the Fund during the year		51,108	300,904
Opening Net Assets of the Fund		2,218,008	2,269,116
Net Assets of the Fund at the end of the year		2,269,116	2,570,020

NET ASSETS STATEMENT AS AT 31 MARCH 2013

	Notes	2011 / 2012 £'000	2012 / 2013 £'000
Investment Assets			
Fixed Interest, Public Sector		58,567	43,748
Fixed Interest, Corporate		27,399	28,548
Fixed Interest, Overseas		123,881	155,937
Index Linked		0	10,932
Equities UK		505,568	607,641
Equities, Overseas		483,213	555,689
Pooled Vehicle		736,850	870,945
Property, Unit Trust		11	11
Property, Direct		138,755	140,365
Unit Trust, Other		5,916	4,638
Derivative Contracts (Including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		827	0
Other, Private Equity		105,195	118,472
Funds held by Investment Managers		41,418	28,203
ACC Loan Fund Deposit	23	32,102	11,760
Investment Assets		2,259,702	2,571,889
Investment Liabilities			
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		0	(5,822)
Net Investment Asset		2,259,702	2,566,067
Long Term Debtor	21	0	132
Current Assets	21	20,041	18,973
Current Liabilities	21	(10,627)	(15,152)
Net Assets of the Fund at the end of the year		2,269,116	2,570,020

Steven Whyte, CPFA

Aberdeen City Council, Chief Accountant

Date: 27 September 2013

The Unaudited Accounts were issued on the 17 June 2013 and the Audited Accounts were authorised for issue on 27 September 2013.

Aberdeen City Council Transport Fund Accounts

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2013

Contributions Receivable	Notes	2011 / 2012 £'000	2012 / 2013 £'000
Employee Contributions	2	170	152
Employer Contributions	2	3,434	1,900
Other Income		257	308
		3,861	2,360
Benefits Payable			
Retirement Pensions	3	2,580	2,763
Retirement Allowances	3	1,711	694
Death Gratuities	3	161	0
Contributions Refunded	4	0	2
Transfer Values	4	0	26
Fund Administration	5	59	65
		4,511	3,550
Net Additions from Dealings with Members		(650)	(1,190)
Return on Investment			
Investment Income	6	1,762	1,517
Change in Market Value of Investments		3,344	8,050
Investment Management Expenses	8	(11)	16
Net Return on Investments		5,095	9,583
Net Increase in the Fund during the year		4,445	8,393
Opening Net Assets of the Fund		67,896	72,341
Net Assets of the Fund at the end of the year		72,341	80,734

NET ASSETS STATEMENT AS AT 31 MARCH 2013

	Notes	2011 / 2012 £'000	2012 / 2013 £'000
Investment Assets			
Fixed Interest, Public Sector		13,607	15,871
Fixed Interest, Overseas		1,505	1,330
Equities UK		20,363	20,884
Equities, Overseas		3,766	4,665
Pooled Vehicle		21,919	24,470
Property, Unit Trust		2	1
Indexed Linked Securities		5,500	7,550
Funds held by Investment Managers		4,469	5,050
ACC Loan Fund Deposit *	20	482	198
Net Investment Assets		71,613	80,019
Long Term Debtor	18	562	458
Current Assets	18	395	459
Current Liabilities	18	(229)	(202)
Net Current Assets		166	257
Net Assets of the Fund at the end of the year		72,341	80,734

Steven Whyte, CPFA
Aberdeen City Council, Chief Accountant
Date: 27 September 2013

The Unaudited Accounts were issued on the 17 June 2013 and the Audited Accounts were authorised for issue on 27 September 2013.

Notes to the North East Scotland Pension Fund Accounts

NOTE 1: ACTUARIAL VALUATION REPORT

An Actuarial report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2011.

Information from the 2011 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£ 2,218,000,000
Liabilities	£ 2,512,400,000
Deficit	£ 294,400,000

FUNDING LEVEL

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 88%

CORRECTING THE SHORTFALL

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (**the funding target**). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The maximum deficit recovery period for the Fund has been set as **22 years**.

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £294.4 million could be eliminated by an average contribution addition of 3.7% of Pensionable Pay for 22 years. This would imply an average employer contribution rate of 17.9% of Pensionable Pay (19.3% at the previous valuation).

Post 31 March 2011 there was significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. Due to this volatility, the Administering Authority (following consultation with the actuary and employers) agreed **that average contributions will be kept, as far as possible, at previous rates i.e. 19.3% of Pensionable Pay**. To achieve this in practice the deficit recovery period will be restricted accordingly to lower than the maximum recovery period of 22 years.

In practice, each employer's position is assessed separately, details of which can be found in the 2011 Actuarial Valuation, this sets out the contributions for each employer over the three year period to 31 March 2015.

SCHEDULE TO THE RATES AND ADJUSTMENTS CERTIFICATE

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2015. The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period, and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2015 onwards will be revised as part of the next actuarial valuation as at 31 March 2014 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

ASSUMPTIONS USED TO CALCULATE FUNDING TARGET

Pre-retirement	5.90% p.a
Post-retirement	5.90% p.a.
Implied Market Price Inflation (RPI)	3.80% p.a
Assumed Long Term Price Inflation (CPI)	3.00% p.a
Salary Increases	4.78% p.a
Pension Increases in Payment	3.00% p.a

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

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

ACTUARIAL STATEMENT

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS19) assumptions, is estimated to be £3,435m (2012 £2,941m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS26.

The figure is only prepared for the purposes IAS26 and has no validity in other circumstances payable to the Fund. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

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

NOTE 2: CONTRIBUTIONS RECEIVABLE

	2011/2012 £'000	2012/2013 £'000
Employers	111,513	77,585
Members	25,263	24,918
Total	136,776	102,503

	2011/2012 £'000	2012/2013 £'000
Scheduled Bodies	125,291	92,889
Admitted Bodies	10,586	8,905
Transferee Admission Bodies	899	709
Total	136,776	102,503

NOTE 3: TRANSFERS IN FROM OTHER PENSION FUNDS

	2011/2012 £'000	2012/2013 £'000
Individual Transfers	4,170	2,962
Total	4,170	2,962

NOTE 4: BENEFITS PAYABLE

	2011/2012 £'000	2012/2013 £'000
Pensions	73,748	80,146
Commutation and Lump Sum Retirement Benefits	22,842	15,983
Lump Sum Death Benefits	2,825	2,575
Total	99,415	98,704

	2011/2012 £'000	2012/2013 £'000
Scheduled Bodies	63,993	59,805
Admitted Bodies	35,385	38,846
Transferee Admission Bodies	37	53
Total	99,415	98,704

NOTE 5: PAYMENT TO AND ON ACCOUNT OF LEAVERS

	2011/2012 £'000	2012/2013 £'000
Refunds to Members Leaving Service	1,093	317
Payments for Members Joining State Scheme	112	81
Individual Transfers	3,448	4,069
Total	4,653	4,467

NOTE 6: ADMINISTRATIVE EXPENSES

	2011/2012 £'000	2012/2013 £'000
Pension Fund Staffing Costs	756	899
Support Services including IT	653	848
Printing and Publications	24	17
Pension Fund Committee	28	25
External Audit Fees	31	37
Internal Audit fees	6	10
Actuarial Fees	212	153
Total	1,710	1,989

NOTE 7: INVESTMENT INCOME

	2011/2012 £'000	2012/2013 £'000
Fixed Interest Securities	8,896	8,471
Equity Dividends	28,864	29,530
Pooled Property Investments	309	14
Property - Rental Income	10,062	11,118
Direct Operating Expenses	(1,916)	(1,781)
Net Property Income	8,146	9,337
Interest on Cash Deposit	241	174
Other (including P/L from Currency and Derivatives)	(75)	1,020
Total	46,381	48,546
Tax	(2,313)	(2,577)
Net Total	44,068	45,969

NOTE 8: TAXES ON INCOME

	2011/2012 £'000	2012/2013 £'000
Withholding Tax – Fixed Interest Securities	(7)	(37)
Withholding Tax – Equities	(2,295)	(2,538)
Withholding Tax – Pooled	(11)	(2)
Total	(2,313)	(2,577)

NOTE 9: INVESTMENT EXPENSES

	2011/2012 £'000	2012/2013 £'000
Management Fees	5,509	5,338
Custody Fees	171	132
Total	5,680	5,470

Management Fees stated above do not include Private Equity Fees, as these are included within the net asset value of these funds.



NOTE 10: INVESTMENT ASSETS

Reconciliation of Movements in Investments and Derivatives

	Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March 2012 £'000	£'000	£'000	£'000	31 March 2013 £'000
Fixed Interest	209,847	203,935	(184,647)	10,030	239,165
UK Equities	505,568	184,987	(153,303)	70,389	607,641
Overseas Equities	483,213	64,555	(55,805)	58,726	550,689
Pooled Investments	742,777	25,647	(12,157)	119,327	875,594
Property	138,755	34,144	(22,067)	(10,467)	140,365
Private Equity	105,195	13,162	(16,637)	16,752	118,472
	2,185,355	526,430	(444,616)	264,757	2,531,926
Derivative contracts					
FX Contracts	827	10,048	(11,984)	(4,713)	(5,822)
	2,186,182	536,478	(456,600)	260,044	2,526,104
Cash	73,520				39,963
Net Investment Assets	2,259,702				2,566,067
	Restated Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March 2011 £'000	£'000	£'000	£'000	31 March 2012 £'000
Fixed Interest	164,214	110,494	(72,663)	7,802	209,847
UK Equities	546,147	146,766	(159,544)	(27,801)	505,568
Overseas Equities	483,590	87,163	(87,621)	81	483,213
Pooled Investments	730,395	12,916	(8,326)	7,792	742,777
Property	123,080	47,795	(13,941)	(18,179)	138,755
Private Equity	97,332	13,025	(9,467)	4,305	105,195
	2,144,758	418,159	(351,562)	(26,000)	2,185,355
Derivative Contracts					
FX Contracts	(1,826)	10,560	(11,398)	3,491	827
	2,142,932	428,719	(362,960)	(22,509)	2,186,182
Other					
Cash	65,832				73,520
Net Investment Assets	2,208,764				2,259,702

NOTE 11: ANALYSIS OF INVESTMENTS (EXCLUDING DERIVATIVES CONTRACTS AND CASH)

	2011/2012 £'000	2012/2013 £'000
Fixed Interest Securities		
UK		
Public Sector Quoted	58,567	43,748
Corporate Quoted	27,399	28,548
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	88,059	119,669
Corporate Quoted	35,822	36,268
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	209,847	228,233
Subtotal Index Linked Securities	0	10,932
Equities		
UK		
Quoted	505,568	607,641
Unquoted	0	0
Overseas		
Quoted	483,213	550,689
Unquoted	0	0
Subtotal Equities	988,781	1,158,330
Pooled Funds – Additional Analysis		
UK		
Fixed Income	0	0
Unit Trusts	366,399	454,892
Pooled Property Investment	11	11
Overseas		
Fixed Income	15,516	7,501
Unit Trusts	360,851	413,190
Subtotal Pooled Funds	742,777	875,594
Private Equity	105,195	118,472
Property, Direct	138,755	140,365
Grand Total	2,185,355	2,531,926

NOTE 12: ANALYSIS OF DERIVATIVES

Forward Foreign Currency

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

As part of the fund investment strategy the bond manager incorporates Foreign Exchange Contracts.

Settlement	Currency Bought £'000	Local Value	Currency Sold £'000	Local Value	Asset Value £'000	Liability Value
Up to 3 Months	SGD	1,258	GBP	1,206	52	
Up to 3 Months	GBP	3,599	ZAR	3,596	3	
Up to 3 Months	GBP	58,942	EUR	60,350		1,408
Up to 3 Months	GBP	2,444	NOK	2,392	52	
Up to 3 Months	GBP	8,157	PLN	8,328		171
Up to 3 Months	NOK	3,848	GBP	3,802	46	
Up to 3 Months	PLN	2,245	GBP	2,301		56
Up to 3 Months	SEK	2,400	GBP	2,446		46
Up to 3 Months	USD	1,976	GBP	1,932	44	
Up to 3 Months	GBP	6,138	SEK	6,531		393
Up to 3 Months	GBP	53,557	USD	56,576		3,019
Up to 3 Months	GBP	14,151	AUD	14,615		464
Up to 3 Months	GBP	6,997	CAD	7,160		163
Up to 3 Months	GBP	5,890	MXN	6,197		307
Up to 3 Months	CAD	4,957	GBP	4,854	103	
Up to 3 Months	GBP	4,692	JPY	4,787		95
Net Forward Currency Contracts at 31 March 2013						(5,822)
Prior Year Comparative						
Open Forward Currency Contracts at 31 March 2012					1,199	(372)
Net Forward Currency Contracts at 31 March 2012						827

NOTE 13: INVESTMENTS ANALYSED BY FUND MANAGER

Investment Assets	31 March 2012 £'000	%	31 March 2013 £'000	%
State Street Global Advisors	721,335	31.8	834,063	32.5
Baillie Gifford	478,192	21.1	550,590	21.5
Blackrock Asset Management	325,901	14.4	372,778	14.5
Baring Asset Managers	228,597	10.1	242,445	9.5
AAM Global Ex UK	206,722	9.1	250,311	9.8
Aberdeen Frontier	0	0.0	29,441	1.1
Aberdeen Property Investors	147,421	6.5	150,171	5.9
HarbourVest	53,736	2.4	62,719	
2.4 Standard Life	46,922		2.1	47,8001.8
ACC Loan Fund Deposit	32,102	1.4	11,760	0.5
Global Custodian	10,818	0.5	1,308	
0.0 Partners Group	4,006		0.1	7,5830.3
NESPF	3,939	0.1	3,258	0.1
RREEF	11	0.0	11	0.0
Maven Capital	0	0.0	1,829	0.0
	2,259,702	99.6	2,566,067	99.9

Net Current Assets

Bank Account	172	0.0	268	0.0
Short Term Debtors Less Creditors	9,242	0.4	3,685	0.1

Net Assets	2,269,116	100.0	2,570,020	100.0
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NOTE 14: STOCK LENDING

	2011/2012 £'000	Collateral Percentage	2012/2013 £'000	Collateral Percentage
Stock on Loan				
Equities	28,424		64,610	
Fixed Interest	26,863		24,082	
Total Exposure	55,287		88,692	
Total Collateral	59,093	106.88	97,336	109.75

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 15: PROPERTY HOLDINGS

	2011/2012 £'000	2012/2013 £'000
Opening Balance	123,080	138,755
Additions	47,795	34,144
Disposals	(13,941)	(22,067)
Net Increase in Market Value	(18,179)	(10,467)
Other Changes in Fair Value	0	0
Closing Balance	138,755	140,365

NOTE 17: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS.

31 March 2012		31 March 2013
£'000	Financial Assets	£'000
(22,509)	Fair Value through Profit and Loss	261,761
0	Loans and Receivables	
0	Financial Assets Measured at Amortised Cost	
	Financial Liabilities	
0	Fair Value through Profit and Loss	(4,713)
0	Loans and Receivables	
0	Financial Liabilities Measured at Amortised Cost	
(22,509)	Total	257,048

NOTE 18: FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

Carrying Value	Fair Value		Carrying Value	Fair Value
31 March 2012			31 March 2013	
£'000	£'000	Financial assets	£'000	£'000
1,815,546	2,186,182	Fair Value through Profit and Loss	1,925,882	2,531,926
93,561	93,561	Loans and Receivables	59,068	59,068
1,909,107	2,279,743	Total Financial Assets	1,984,950	2,590,994
		Financial Liabilities		
0	0	Fair Value through Profit and Loss	(5,822)	(5,822)
(10,627)	(10,627)	Financial Liabilities at Amortised Cost	(15,152)	(15,152)
(10,627)	(10,627)	Total Financial Liabilities	(20,974)	(20,974)
1,898,480	2,269,116		1,963,976	2,570,020



NOTE 19: VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	2,284,943	140,365	106,618	2,531,926
Loans and Receivables	59,068			59,068
Total Financial Assets	2,344,011	140,365	106,618	2,590,994
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss		(5,822)		(5,822)
Financial Liabilities at Amortised Cost	(15,152)			(15,152)
Total Financial Liabilities	(15,152)	(5,822)		(20,974)
Net Financial Assets	2,328,859	134,543	106,618	2,570,020
	Quoted Market Price	Using Observable Inputs	With Significant Inputs	
Values at 31 March 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	1,949,667	139,582	96,933	2,186,182
Loans and Receivables	93,561			93,561
Total Financial Assets	2,043,228	139,582	96,933	2,279,743
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(10,627)			(10,627)
Total Financial Liabilities	(10,627)			(10,627)
Net Financial Assets	2,032,601	139,582	96,933	2,269,116

NOTE 20: RISK ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's scheme actuary the fund has determined that the following movements in market price risk are reasonably possible for the 2013/2014 reporting period.

Asset Type	Potential Market Movements (+/-)
Global Bonds	9.1%
UK Equities	16.6%
Overseas Equities	17.0%
Private Equity	37.0%
Property	10.7%
Cash	1.8%

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

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

Asset Type	Value as at 31 March 2013 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	34,141	1.8%	34,756	33,526

Investment Portfolio Assets

Global Bonds	246,666	9.1%	269,113	224,219
UK Equities	1,062,544	16.6%	1,238,926	886,162
Overseas Equities	963,879	17.0%	1,127,738	800,020
Private Equity	118,472	37.0%	162,307	74,637
Property	140,365	10.7%	155,384	125,346

Total Assets available to Pay Benefits	2,566,067		2,988,224	2,143,910
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Asset Type	Value as at 31 March 2012 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	74,347	1.8%	75,685	73,009

Investment Portfolio Assets

Global Bonds	225,363	9.6%	246,998	203,728
UK Equities	871,978	17.4%	1,023,702	720,254
Overseas Equities	844,064	17.4%	990,931	697,197
Private Equity	105,195	37.7%	144,853	65,536
Property	138,755	11.0%	154,018	123,492

Total Assets available to Pay Benefits	2,259,702		2,636,187	1,883,216
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Interest Rate Risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Cash and Cash Equivalents	74,347	34,141
Cash Balances	172	268
Fixed Interest Securities	225,363	246,666
Total	299,882	281,075

Interest Rate Risk Sensitivity Analysis

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

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

Asset Type	Carrying Amount as at 31 March 2013 £'000	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	34,141	34,482	33,800
Cash Balances	268	271	265
Fixed Interest Securities	246,666	249,133	244,199
Total Change in Assets Available	281,075	283,886	278,264

Asset Type	Carrying Amount as at 31 March 2012 £'000	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	74,347	75,090	73,604
Cash Balances	172	174	170
Fixed Interest Securities	225,363	227,617	223,109
Total Change in Assets Available	299,882	302,881	296,883

Currency Risk

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

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

The following table summaries the fund's currency exposure as at 31 March 2013 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2012		Asset Value as at 31 March 2013	
	£'000		£'000	
Overseas Quoted Securities	491,475		562,395	
Overseas Unquoted Securities	93,264		104,379	
Overseas Unit Trusts	376,367		420,691	
Overseas Public Sector Bonds (Quoted)	88,059		119,669	
Overseas Corporate Bonds (Quoted)	35,822		36,268	
Total Overseas Assets	1,084,987		1,243,402	

Currency Risk – Sensitivity Analysis

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

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

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

Currency Exposure – Asset Type	Asset Value as at 31 March 2013 £'000	Change to Net Assets +10% £'000	Change to Net Assets -10% £'000
Overseas Quoted Securities	562,395	618,635	506,156
Overseas Unquoted Securities	104,379	114,817	93,941
Overseas Unit Trust	420,691	462,760	378,622
Overseas Public Sector Bonds (Quoted)	119,669	131,636	107,702
Overseas Corporate Bonds (Quoted)	36,268	39,895	32,641
Total Change in Assets Available	1,243,402	1,367,743	1,119,062

Currency Exposure – Asset Type	Asset Value as at 31 March 2012 £'000	Change to Net Assets +10% £'000	Change to Net Assets -10% £'000
Overseas Quoted Securities	491,475	540,623	442,328
Overseas Unquoted Securities	93,264	102,590	83,938
Overseas Unit Trust	376,367	414,004	338,730
Overseas Public Sector Bonds (Quoted)	88,059	96,865	79,253
Overseas Corporate Bonds (Quoted)	35,822	39,404	32,240
Total Change in Assets Available	1,084,987	1,193,486	976,489



Credit Risk

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

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

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

The fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The fund's cash holding at 31 March 2013 was £40,231,000 (31 March 2012 £73,692,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2012 £'000	Balance as at 31 March 2013 £'000
Money Market Funds			
Deutsche Managed GBP	AAAm	27,196	16,306
Deutsche Euro	AAAm	6,045	2,038
BNY Mellon LIQ USD	AAAm	4,109	6,609
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	32,102	11,760
BNY Mellon	AAAm	2,183	(3,167)
Natwest, (API)	A	1,885	6,417
Total		73,520	39,963
Bank Current Accounts			
Clydesdale Bank	BBB+	172	268
Total		73,692	40,231

Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due.

The fund ensures that it has adequate cash resources to meet its commitments. The fund has immediate access to its cash holdings at all times.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2013 the value of illiquid assets was £246,983,168 which represented 9.6% of the total fund assets (31 March 2012 £235,688,000 which represented 10.4% of the total fund assets).

NOTE 21: BREAKDOWN OF LONG & SHORT TERM ASSETS AND LIABILITIES

	31 March 2012 £'000	31 March 2013 £'000
Long Term Assets	0	132
Short Term Assets		
Contributions, Employees	2,062	2,071
Contributions, Employers	6,279	5,750
Transfers	23	0
Sundry Debtors	11,505	10,884
	19,869	18,705
Bank	172	268
Total Short Term Assets	20,041	18,973
Total Long & Short Term Assets	20,041	19,105
Analysis of Assets	31 March 2012 £'000	31 March 2013 £'000
Long Term Assets		
Other Entities and Individuals	0	132
Central Government Bodies	128	115
Other Local Authorities	8,013	7,271
Other Entities and Individuals	11,728	11,319
Total Short Term Assets	19,869	18,705
Total Long & Short Term Assets	19,869	18,837
Short Term Liabilities	31 March 2012 £'000	31 March 2013 £'000
Sundry Creditors	6,027	10,376
Benefits Payable	4,600	4,776
Total	10,627	15,152
Analysis of Liabilities	31 March 2012 £'000	31 March 2013 £'000
Central Government Bodies	1,499	1,419
Other Local Authorities	63	1,249
Other Entities and Individuals	9,065	12,484
Total	10,627	15,152

NOTE 22: FUND MANAGER TRANSACTION COSTS

	31 March 2012 £'000	31 March 2013 £'000
Fee/Tax	650	824
Commission	491	465
Total	1,141	1,289

NOTE 23: 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 £1,198,936 (2012 - £982,012).

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 £11,760,000 (2012 - £32,102,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £41,418 (2012 - £38,608) for the North East Scotland Pension Fund.

NOTE 24: KEY MANAGEMENT PERSONNEL

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

	Accrued Pension as at 31 March 2012	Accrued Pension as at 31 March 2012
B Jenkins	27,649	30,404
J Hope	13,280	13,338

Governance

As at 31 March 2013, 2 members of the Pension Panel were active members of the North East Scotland Pension Fund. Each member of the Pension Panel is required to declare any financial and non financial interest they have in the items of business for consideration at each meeting, identifying the relevant agenda items and the nature of their interest. Members' admitted body interests include; Robert Gordon's College

NOTE 25: CONTRACTUAL COMMITMENTS AS AT 31 MARCH 2013

As at 31 March 2013 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

	Contractual Commitments £'000	Undrawn Commitments £'000
HarbourVest	55,978	8,907
Standard Life	98,879	36,500
Partners Group	30,444	21,522
NESPF	462	462
Maven (SLF)	10,000	8,051
Total	195,763	75,442

NOTE 26: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

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

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

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

Standard Life – Financial Statement for the period 6th April 2012 to 5 April 2013

	£
Opening Net Asset Value	2,118,968
Total Income	53,322
Total Expenditure	(214,899)
Closing Net Asset Value	2,149,616

Prudential – Financial Statement for the period 1 April 2012 to 31 March 2013

	£
Opening Net Asset Value	18,241,508
Total Income	1,504,027
Total Expenditure	2,060,960
Closing Net Asset Value	18,124,042

NOTE 27: CONTINGENT ASSETS/LIABILITIES

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

Orphan liabilities

Orphan liabilities are managed under the Fund's termination policy, as set out by the Schemes Actuary. The Fund has identified two potential Orphaned liabilities which have yet to be quantified by the Scheme Actuary and therefore have not been accrued within the accounts but are not considered to be material.

NOTE 28: IMPAIRMENT LOSSES

During 2012/2013 the fund has recognised an impairment loss of £2,649,444 (2011/2012 £2,860,800) for possible non recovery of pensioner death overpayments and potential non payment of cessation values where the employer is not backed by a guarantee.

NOTE 29: INVESTMENT PRINCIPLES

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

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

NOTE 30: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**Assumptions made about the future and other major sources of estimation uncertainty.**

The items in the net asset statement at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the scheme actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the scheme actuary every 3 months. Further information can be found in note 1.
Private Equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Financial statements are £106 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 31: EVENTS AFTER THE BALANCE SHEET DATE

The draft Statement of Accounts was authorised for issue by the Chief Accountant on 17 June 2013. Events taking place after this date are not reflected in the financial statements or notes. The Police and Fire Reform Act received Royal Assent on 7 August 2012, which meant that these bodies transferred from local to central government on 1st April 2013. Agreement was reached to maintain the status quo of current LGPS payments /administration for Police and Fire Support Staff post 1 April 2013 with transitional arrangements. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

Notes to the Aberdeen City Council Transport Fund Accounts

NOTE 1: ACTUARIAL VALUATION REPORT

An Actuarial report for the Transport Fund was provided as at 31 March 2011. Information from the 2011 Actuarial valuation is detailed below:

Market Value of Assets at Valuation	£67,900,000
Liabilities	£71,500,000
Deficit	£3,600,000

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 95%

Correcting the Shortfall

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

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £3.6 million could be eliminated by an annual contribution addition of £609,000 for 7 years.

Since 31 March 2011 there has been significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. Due to this volatility, the Administering Authority and employer (following consultation with the actuary) have agreed that contributions will be increased over those required at 31 March 2011 (as detailed in the Schedule to the Rates and Adjustments Certificate).

Total Contribution Rate	2012/13	2013/14	2014/15
(as percentage of payroll)	27% plus	30% plus	33% plus
	£1,000,000	£1,250,000	£1,500,000

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2015.

The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period, and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2015 onwards will be revised as part of the next actuarial valuation as at 31 March 2014 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions Used to Calculate Funding Target

Pre-retirement	5.9% p.a
Post-retirement	4.4% p.a
Implied Market Price Inflation (RPI)	3.7% p.a
Assumed Long Term Price Inflation (CPI)	3.2% p.a
Salary Increases	5.2% p.a
Pension Increases in Payment	3.2% p.a

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

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

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS19) assumptions, is estimated to be £73.1m (2012 £64.5m). The figure is used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS26.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

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

NOTE 2: CONTRIBUTIONS RECEIVABLE

	2011/2012 £'000	2012/2013 £'000
Employer	3,434	1,900
Members	170	152
Total	3,604	2,052
	2011/2012 £'000	2012/2013 £'000
Scheduled Body	3,604	2,052
Total	3,604	2,052

NOTE 3: BENEFITS PAYABLE

	2011/2012 £'000	2012/2013 £'000
Pensions	2,580	2,763
Commutation and Lump Sum Retirement Benefits	1,711	694
Lump Sum Death Benefits	161	0
Total	4,452	3,457
	2011/2012 £'000	2012/2013 £'000
Scheduled Body	4,452	3,457
Total	4,452	3,457

NOTE 4: PAYMENT TO AND ON ACCOUNT OF LEAVERS

	2011/2012 £'000	2012/2013 £'000
Contributions Refunded	0	2
Individual Transfers	0	26
Total	0	28

NOTE 5: ADMINISTRATIVE EXPENSES

	2011/2012 £'000	2012/2013 £'000
Pension Fund Staffing Costs	24	28
Support Services including IT	20	23
Printing and Publications	1	1
Pension Fund Committee	0	1
External Audit Fees	1	1
Actuarial Fees	13	11
Total	59	65

NOTE 6: INVESTMENT INCOME

	2011/2012 £'000	2012/2013 £'000
Fixed Interest Securities	727	756
Equity Dividends	992	770
Interest on Cash Deposit	30	26
Other (including P/L from Currency and Derivatives)	108	40
Total	1,857	1,592
Tax	(95)	(75)
Net Total	1,762	1,517

NOTE 7: TAXES ON INCOME

	2011/2012 £'000	2012/2013 £'000
Withholding Tax – Fixed Interest Securities	0	1
Withholding Tax – Equities	95	68
Withholding Tax – Pooled	0	6
Total	95	75

NOTE 8: INVESTMENT EXPENSES

	2011/2012 £'000	2012/2013 £'000
Management Fees	(10)	(25)
Custody Fees	21	9
Total	11	(16)

NOTE 9: INVESTMENT ASSETS

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2012 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value 31 March 2013 £'000
Fixed Interest	20,612	18,952	(15,813)	1,000	24,751
UK Equities	20,363	2,148	(4,616)	2,989	20,884
Overseas Equities	3,766	1,072	(726)	553	4,665
Pooled Investments	21,921	2,934	(3,892)	3,508	24,471
	66,662	25,106	(25,047)	8,050	74,771
Cash	4,951				5,248
Net Investment Assets	71,613				80,019

	Market Value 31 March 2011 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value 31 March 2012 £'000
Fixed Interest	15,591	13,864	(11,097)	2,254	20,612
UK Equities	21,167	5,451	(7,124)	869	20,363
Overseas Equities	5,578	1,248	(2,625)	(435)	3,766
Pooled Investments	22,662	2,995	(4,392)	656	21,921
	64,998	23,558	(25,238)	3,344	66,662
Cash	2,460				4,951
Net Investment Assets	67,458				71,613

NOTE 10: ANALYSIS OF INVESTMENTS (EXCLUDING DERIVATIVES CONTRACTS AND CASH)

	2011/2012 £'000	2012/2013 £'000
Fixed Interest Securities		
UK		
Public Sector Quoted	19,107	23,421
Corporate Quoted	0	0
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	1,505	1,330
Corporate Quoted	0	0
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	20,612	24,751
Equities		
UK		
Quoted	20,363	20,884
Unquoted	0	0
Overseas		
Quoted	3,766	4,665
Unquoted	0	0
Subtotal Equities	24,129	25,549

Pooled Funds – Additional Analysis**UK**

Fixed Income	0	0
Unit Trusts	363	346
Pooled Property Investments	2	1

Overseas

Fixed Income	0	0
Unit Trusts	21,556	24,124

Subtotal Pooled Funds**21,921 24,471**

Private Equity	0	0
Property	0	0

Grand Total**66,662 74,771****NOTE 11: INVESTMENTS ANALYSED BY FUND MANAGER**

Investment Assets	31 March 2012 £'000	%	31 March 2013 £'000	%
Aberdeen Asset Managers	71,131	99.3	79,821	99.8
ACC Loan Fund Deposit	482	0.7	198	0.2
	71,613	100.0	80,019	100.0

NOTE 12: STOCK LENDING

	2011/2012 £'000	Collateral Percentage	2012/2013 £'000	Collateral Percentage
Stock on Loan				
Equities	124		121	
Fixed Interest	3,514		748	
Total Exposure	3,638		869	
Total Collateral	3,741	102.83	841	96.78

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

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

NOTE 13: FINANCIAL INSTRUMENTS

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

31 March 2012			31 March 2013		
Designated as Fair Value Through Profit & Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000	Designated as Fair Value Through Profit & Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
					Financial assets
20,612					Fixed Interest
24,129			24,751		Equities
21,919			25,549		Pooled
2			24,470		Pooled Property
4,951			1		Cash
957				5,248	Debtors
				917	
66,662	5,908	0	74,771	6,165	0
					Financial Liabilities
		(229)			Creditors
66,662	5,908	(229)	74,771	6,165	(202)
		72,341			80,734

NOTE 14: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2012 £'000		31 March 2013 £'000
	Financial Assets	
3,344	Fair Value through Profit and Loss	8,049
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
3,344	Total	8,049

NOTE 15: FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

Carrying Value	Fair Value		Carrying Value	Fair Value
31 March 2012			31 March 2013	
£'000	£'000	Financial Assets	£'000	£'000
52,602	66,662	Fair Value through Profit and Loss	55,490	74,771
5,908	5,908	Loans and Receivables	6,165	6,165
58,510	72,570	Total Financial Assets	61,655	80,936
		Financial Liabilities		
		Fair Value through Profit and Loss		
(229)	(229)	Financial Liabilities at Amortised Cost	(202)	(202)
58,281	72,341	Total Financial Liabilities	61,453	80,734

NOTE 16: VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	74,771			74,771
Loans and Receivables	6,165			6,165
Total Financial Assets	80,936			80,936
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost (202)				(202)
Total Financial Liabilities	(202)			(202)
Net Financial Assets	80,734			80,734

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	66,662	0	0	66,662
Loans and Receivables	5,908	0	0	5,908
Total Financial Assets	72,570	0	0	72,570
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	
Financial Liabilities at Amortised Cost (229)		0	0	(229)
Total Financial Liabilities	(229)	0	0	(229)
Net Financial Assets	72,341	0	0	72,341

NOTE 17: RISK ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's scheme actuary the fund has determined that the following movements in market price risk are reasonably possible for the 2013/2014 reporting period.

Asset Type	Potential Market Movements (+/-)
Global Bonds	9.1%
UK Equities	16.6%
Overseas Equities	17.0%
Cash	1.8%

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

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

Asset Type	Value as at 31 March 2013 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	5,248	1.8%	5,342	5,154
Investment Portfolio Assets				
Global Bonds	24,751	9.1%	27,003	22,499
UK Equities	21,231	16.6%	24,755	17,707
Overseas Equities	28,789	17.0%	33,683	23,895
Total Assets available to Pay Benefits	80,019		90,783	69,255

Asset Type	Value as at 31 March 2012 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	4,951	1.8%	5,040	4,862
Investment Portfolio Assets				
Global Bonds	22,323	9.6%	24,466	20,180
UK Equities	20,728	17.4%	24,335	17,121
Overseas Equities	23,611	17.4%	27,719	19,503
Total Assets available to Pay Benefits	71,613		81,560	61,666

Interest Rate Risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Cash and Cash Equivalents	4,951	5,248
Cash Balances	2	2
Fixed Interest Securities	22,323	24,751
Total	27,276	30,001

Interest Rate Risk Sensitivity Analysis

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

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

Asset Type	Carrying Amount as at 31 March 2013 £'000	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	5,248	5,300	5,196
Cash Balances	2	2	2
Fixed Interest Securities	24,751	24,999	24,503
Total Change in Assets Available	30,001	30,301	29,701

Asset Type	Carrying Amount as at 31 March 2012 £'000	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	4,951	5,001	4,901
Cash Balances	2	2	2
Fixed Interest Securities	22,323	22,546	22,100
Total Change in Assets Available	27,276	27,549	27,003

Currency Risk

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

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

The following table summaries the fund's currency exposure as at 31 March 2013 and as at the previous period end:

Currency Exposure – Asset Type	Asset value as at 31 March 2012		Asset value as at 31 March 2013	
	£'000		£'000	
Overseas Quoted Securities	3,766		4,665	
Overseas Unit Trusts	21,556		24,124	
Overseas Public Sector Bonds (Quoted)	1,505		1,330	
Total Overseas Assets	26,827		30,119	

Currency Risk – Sensitivity Analysis

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

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

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

Currency Exposure – Asset Type	Asset Value as at 31 March 2013	Change to Net Assets +10%	Change to Net Assets -10%
	£'000	£'000	£'000
Overseas Quoted Securities	4,665	5,132	4,198
Overseas Unit Trust	24,124	26,536	21,712
Overseas Public Sector Bonds (Quoted)	1,330	1,463	1,197
Total Change in Assets Available	30,119	33,131	27,107

Currency Exposure – Asset Type	Asset Value as at 31 March 2012	Change to Net Assets +10%	Change to Net Assets -10%
	£'000	£'000	£'000
Overseas Quoted Securities	3,766	4,143	3,389
Overseas Unit Trust	21,556	23,712	19,400
Overseas Public Sector Bonds (Quoted)	1,505	1,655	1,355
Total Change in Assets Available	26,827	29,510	24,144



Credit Risk

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

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

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

The fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The fund's cash holding at 31 March 2013 was £5,250,000 (31 March 2012 £4,953,000). This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2012 £'000	Balance as at 31 March 2013 £'000
Money Market Funds			
Deutsche Managed GBP	AAAm	4,422	4,931
Deutsche Euro	AAAm	37	18
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	482	198
BNY Mellon	AAAm	10	101
Bank Current Accounts			
Clydesdale Bank	BBB+	2	2
Total		4,953	5,250

Liquidity Risk

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

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2013 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2012 £0 which represented 0% of the total fund assets).

NOTE 18: BREAKDOWN OF LONG & SHORT TERM ASSETS AND LIABILITIES

	31 March 2012 £'000	31 March 2013 £'000
Long Term Assets	562	458
Contributions, Employees	4	4
Contributions, Employers	20	20
Sundry Debtors	369	433
Sub Total	393	457
Bank	2	2
Total Short Term Assets	395	459
Grand Total	957	917

Analysis of Long & Short Term Assets	31 March 2012 £'000	31 March 2013 £'000
Central Government Bodies	562	458
Other Entities and Individuals	0	0
Total Long Term Assets	562	458
Central Government Bodies	0	27
Other Entities and Individuals	393	430
Total Short Term Assets	393	457
Grand Total	955	915

Short Term Liabilities	31 March 2012 £'000	31 March 2013 £'000
Sundry Creditors	62	70
Benefits Payable	167	132
Total	229	202

Analysis of Liabilities	31 March 2012 £'000	31 March 2013 £'000
Other Local Authorities	46	0
Other Entities and Individuals	183	202
Total	229	202

NOTE 19: FUND MANAGER TRANSACTION COSTS

	31 March 2012 £'000	31 March 2013 £'000
Fee/Tax	24	13
Commission	10	7
Total	34	20



NOTE 20: RELATED PARTY TRANSACTIONS

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

The cost of these services for the Aberdeen City Council Transport Fund was £37,080 (2012 - £30,371).

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 £198,000 (2012 - £482,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £1,538 (2012 - £3,343) for the Aberdeen City Council Transport Fund.

NOTE 21: KEY MANAGEMENT PERSONNEL

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

NOTE 22: INVESTMENT PRINCIPLES

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

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

NOTE 23: CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

Assumptions made about the future and other major sources of estimation uncertainty. The items in the net asset statement at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	<p>The methodology used by the scheme actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the scheme actuary every 3 months.</p> <p>Further information can be found in note 1.</p>



Independent Auditor's Report

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

I certify that I have audited the financial statements of North East Scotland Pension Funds for the year ended 31 March 2013 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 2012/13 (the 2012/13 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 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

RESPECTIVE RESPONSIBILITIES OF THE CHIEF ACCOUNTANT AND AUDITOR

As explained more fully in the Statement of Responsibilities, the Chief Accountant is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. My 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 me 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 Chief Accountant; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

OPINION ON FINANCIAL STATEMENTS

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the financial transactions of the funds during the year ended 31 March 2013, and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 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 my 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 I AM REQUIRED TO REPORT BY EXCEPTION

I am required to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Stephen Boyle CPFA
Assistant Director, Audit Scotland

4th Floor South Suite
8 Nelson Mandela Place
Glasgow G2 1BT

27 September 2013



ANNUAL REPORT AND **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2013

2012-2013