



**The Highland Council Pension Fund**  
**Annual Report and Annual Accounts**  
**Aithris Chunntasan**

**2021 - 2022**

Pensions Regulator Scheme Number: 10051259

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**Contact Us**

To request this information in an alternative format, e.g. large print, Braille, computer disc, audio tape, or suitable language, please contact The Highland Council's Treasury and Investment Section, [treasury.team@highland.gov.uk](mailto:treasury.team@highland.gov.uk), 01463 702432.

**How to Contact Us**

<https://www.highlandpensionfund.org/contact-us/>

General enquiries about this document.

E-mail: [treasury.team@highland.gov.uk](mailto:treasury.team@highland.gov.uk)

The Pension Section is available to help with all aspects of scheme membership including benefits for active, deferred and pensioner members.

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Information on how the scheme operates and key documents can be found on the following website. If you are unable to access any of these documents or would like a paper copy, please don't hesitate to contact us using the contact details for queries on this document.

[www.highlandpensionfund.org](http://www.highlandpensionfund.org)

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## **Introduction**

### **About the Fund**

The Fund is part of the national Local Government Pension Scheme (LGPS) and is a contributory defined benefit pension scheme. The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK.

The LGPS scheme is governed by the Public Service Pensions Act 2013 and the Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme (Scotland) Regulations 2018
- the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015

The Administering Authority (The Highland Council) runs The Highland Council Pension Fund, to make sure the Fund achieves the following objectives:

- **Receives the proper amounts of contributions from employees and employers and any transfer payments.**

The Fund is built up by contributions from both employees and employers, together with interest and dividends from investments, out of which defined pensions and other benefits are paid.

Employees' contributions to the Fund are fixed by statute and information on current rates is available on the Fund's website

<https://www.highlandpensionfund.org/your-pension/paying-in/membership-and-contributions/>

Contributions payable by employers are fixed every three years following a report by an independent actuary who determines the level of contribution necessary to ensure that the Fund will be able to meet future benefits.

The primary contribution rate (future service contributions) for the whole Fund is 21.2% of pay for payroll contributions which was set by the Actuary for the period 1 April 2021 to 31 March 2022 in the Triennial Actuarial Valuation report 2020. In addition to this, the secondary rate amount (past service contributions) for 2021/22 is -£4,581,000.

- **Invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth.**

The Fund's assets are managed by appointed Investment Fund Managers. Once the cost of current benefits is met, all surplus cash income is invested to

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meet future liabilities to employees within the Fund and deferred pension benefits.

- **Uses the assets to pay Fund benefits to its members (as and when they retire, for the rest of their lives) and to their dependants (when members die)**, as defined in the LGPS Regulations. Before 1 April 2015 pensions benefits payable were based on final pensionable pay and length of pensionable service. After 1 April 2015, the scheme became a career average scheme whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup> which is updated annually in line with the Consumer Price Index. Assets are also used to pay transfer values out of the Fund and administration costs.

#### Annual Report and Accounts

This is the Annual Report and Accounts for the Highland Council Pension Fund 2021/22.

The Annual Report has been prepared in accordance with Regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2018 and the CIPFA Guidance for Local Government Pension Scheme Funds (2019 Edition) entitled "Preparing the Annual Report". The Management commentary is required to be prepared in accordance with the statutory guidance issued under the Local Government Scotland Act 2003. The Annual Governance statement is prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016), and the Governance Compliance Statement is prepared in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018.

The Annual Accounts have been prepared in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

On page 6 the key personnel and organisations involved in the management of the fund are listed. On page 8 there is an overview of performance data for 2021/22 compared to 2020/21 and key points to note are:

- Pensions payable have decreased in 2021/22 but if transfer payments out are excluded, the value of pensions payable has increased from £61.5m in 2020/21 to £67.8m in 2021/22. In the previous financial year 2020/21 there was a group transfer payment out of £11.8m for the Visit Scotland pensioners transferred to the Lothian Pension Fund.
- Membership of the scheme has increased following the lifting of pandemic restrictions and staff being recruited by Fund employers, with a corresponding increase in contributions payable.
- Decrease in returns due to volatility in financial markets caused by uncertainties around the Ukraine conflict and the outlook for future economic growth and rising inflation which impacted the market value of investments at 31 March 2022. It

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should be noted that the Fund is a long-term investor with a diversified portfolio and market risks are considered when setting the strategic asset allocation.

- Increase in management costs due to an increase in the level of assets held (although there was market volatility management returns were still positive and the overall value of assets increased), as fees correlate to asset market values and performance.

#### Management of the Fund

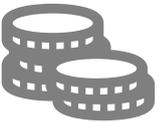
<b>Administering Authority</b>	The Highland Council, HQ, Glenurquhart Road, Inverness, IV3 5NX
<b>Scheme Administrators</b>	The Highland Council, Pensions Section, HQ, Glenurquhart Road, Inverness, IV3 5NX
<b>Fund Actuary</b>	Hymans Robertson LLP
<b>Fund Custodian</b>	Northern Trust
<b>Performance Management</b>	Northern Trust
<b>Investment Advisors</b>	Aon
<b>Fund Officers</b>	Edward Foster, Head of Corporate Finance and Commercialism Margaret Grigor, Finance Manager Catriona Stachan, Principal Accountant Annabel Scott, Technical and Communications Officer Lindsay Junor, Operations Manager Natasha Oram, Operations Manager
<b>AVC Provider</b>	Prudential Assurance
<b>Bankers</b>	Clydesdale Bank
<b>External Auditor</b>	Grant Thornton UK LLP

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Investment Managers



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<b>2020/21</b>	<b>Performance</b>	<b>2021/22</b>
£63.1m	<b>Contributions receivable</b> 	£66.2m
£74.4m	<b>Pension benefits payable</b> 	£70.4m
£12.5m	<b>Management expenses</b> 	£16.1m
£378.17	<b>Cost per member</b> 	£463.59
<b>32,978</b>	<b>Total Membership</b> 	<b>34,648</b>
26	<b>Number of employers</b> 	26
£526m	<b>Return on investment</b> 	£100m
£2.394bn	<b>Net assets of the Fund</b> 	£2.474bn

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**Management Commentary**

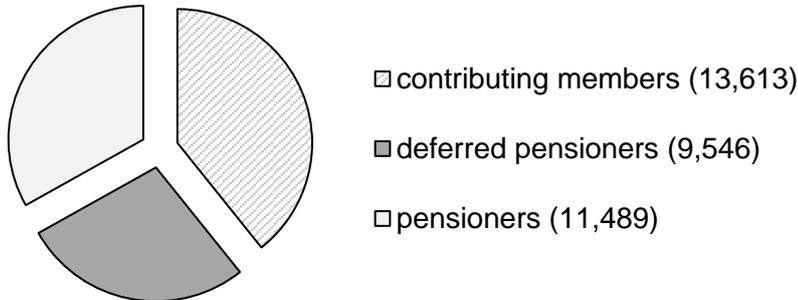
**Background**

Under the Local Government Pension Scheme (LGPS), The Highland Council is designated as an “Administering Authority” and is required to operate and maintain a pension fund - the Highland Council Pension Fund (HCPF) (“the Fund”). The Fund is established to provide retirement and death benefits to employees and dependants within the scheme.

The closing net assets of the Fund at 31 March 2022 are £2,474m (31 March 2021 £2,394m).

The Fund provides benefits for those employees of The Highland Council, Comhairle Nan Eilean Siar and 24 other scheduled and admitted bodies that are active members of the Fund.

**Current Scheme Membership**



**Governance**

The main legislation directing the governance requirements for the Fund is The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. The main impact of these regulations was the creation of The Scheme Advisory Board and Pension Boards.

The Scheme Advisory Board is a Scottish-wide Board which provides advice to the Scottish Ministers on the desirability of changes to the LGPS. It also provides guidance to the scheme managers or pension boards on the effective and efficient administration and management of the LGPS and the Fund.

Each scheme has its own Pension Board to ensure the regulations and legislation relating to the governance and administration of the LGPS are complied with.

For this Fund, governance is undertaken by the Pensions Committee and Pensions Board which meet simultaneously to consider the same agenda and to whom Fund business has been delegated by The Highland Council. This includes the appointment and monitoring of investment managers, which is further delegated to the Pensions Investment Sub Committee.

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More information on the governance process can be found in the Governance section on page 21, Annual Governance Statement on page 45 and the Governance Compliance Statement on page 49.

**Business Model and Risk**

The Fund is managed and administered from The Highland Council Headquarters in Inverness.

Many of the Fund's activities are managed in-house and Council officers are accountable to the Pensions Committee and Board, Fund employers, and scheme members. The in-house support teams aim to provide a quality service to meet the needs of the Fund's stakeholders.

The in-house Fund support functions cover the following areas:

- Membership and Benefits Administration
- Investment Management
- Funding and Accounting

**Membership and Benefits Administration**

For the benefit of all Fund stakeholders the website below includes a broad range of information relating to the Fund.

<https://www.highlandpensionfund.org>

a) General

2021/22 year was another busy and challenging year for the Pensions Administration team.

The number of retirements and new starts increased considerably in 2021/22 compared to 2020/21 and alongside other projects outlined below has meant a considerable workload for the team.

Pension Regulations at a National level are now increasingly subject to change with the result that the Administration team is constantly reviewing and interpreting these changes and their impact on processes and policies. Often the required Government actuarial guidance to support the changes is delayed causing a backlog of cases to be reviewed.

Team training is therefore demanding but essential to the delivery of the Pension service. Following the lifting of Covid restrictions, staff are now working to some extent in the office under the Hybrid model which means the majority of training is now completed in person.

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In addition to the challenges of the core business of delivering pension administration, senior officers in the team were also involved in several other projects/changes including:

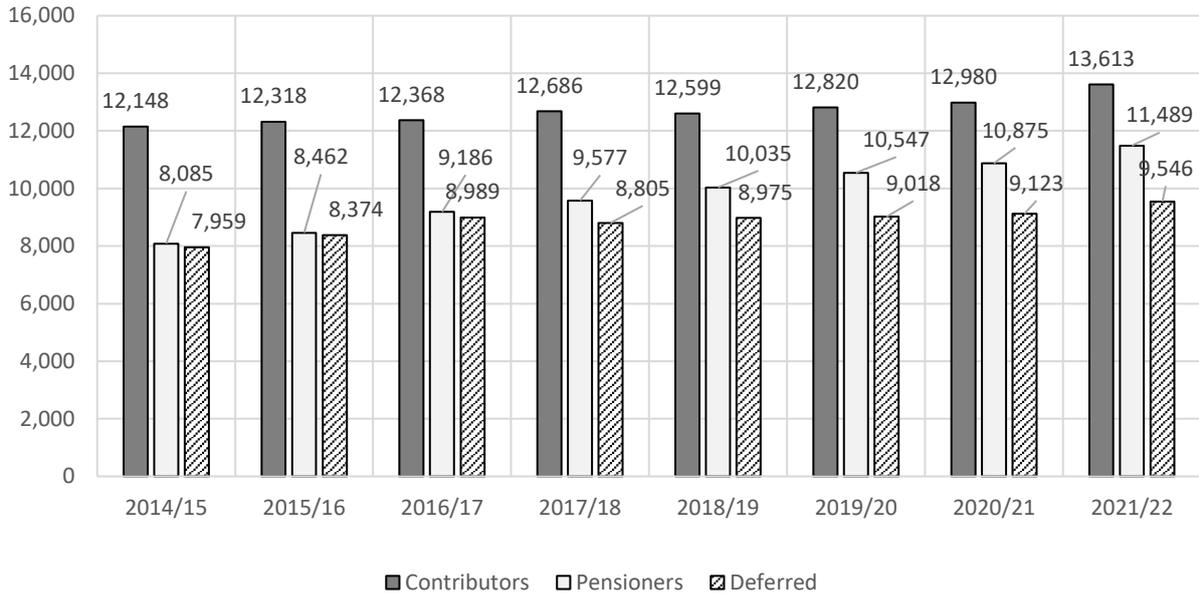
- the Guaranteed Minimum Pensions (GMP) reconciliation exercise was a data reconciliation exercise completed by public sector pension schemes and HM Revenue and Customs (HMRC). This exercise allowed schemes and HMRC to compare contracted out records for members who reached their state pension age before April 2016 and identify over and underpayments. In January 2022, corrective action was taken for 31 under repayments with a cost to the Fund of £34k which was reported to Pensions Committee in February 2022.
- facilitating a training session for all Scottish LGPS fund (October 2021) Committee members and officers.
- Following the introduction of the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulation 2021 (came into force in November 2021), there is an increased responsibility on Funds to raise awareness of pension scams and signpost members to appropriate guidance when a request for transfer is made. Funds are required to carry out due diligence checks by assessing the request against two conditions set out in the regulations and where necessary, pause or stop a transfer and refer a member to guidance from MoneyHelper <https://www.moneyhelper.org.uk/en/pensions-and-retirement> Funds are also required to provide advance notice of the new regulations and the actions a member may be required to take.
- considering the potential implications of the McCloud and Goodwin judgements and changes that will need to be made to processes following on from guidance.
- involvement in the Pensions Dashboard initiative which will enable individuals to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement.
- updating the Highland Council Pension Fund website to a new format and publishing information on the website to raise awareness about pension scams.
- implementing the i-connect system which is a secure portal that automates the submission of employee information directly from employer payroll systems, reducing the need for manual returns and risk of errors.

Overall, there are increasing demands and complexities around pensions as well as the increased expectations of all stakeholders and statutory national requirements creating additional pressures on the Pension Administration team. Due to a number of unforeseen factors, the team was not resourced to agreed establishment levels for a significant period. Adequate resourcing is needed to avoid breaches of the regulations. Following a review of staff numbers required, recruitment is now underway.

The graph on page 12 illustrates the increasing number of pensioners, members and deferreds in 2021/22.

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**Membership statistics**



The table below sets out details of new pensioners analysed by ill health, early and normal retirement.

**Retirements during 2021/22**

	<b>2020/21 Number of Retirements</b>	<b>2021/22 Number of Retirements</b>
Early retirement	26	64
Ill-health retirement	33	35
Early payment of deferred benefits	48	73
<b>Sub-total</b>	<b>107</b>	<b>172</b>
Normal retirements	447	601
<b>Totals</b>	<b>554</b>	<b>773</b>

b) Communication

As highlighted earlier, the Fund communicated regularly with Fund employers as part of the valuation exercise and also received requests from employers to provide an overview of the Fund, regulations and governance.

The Fund continues to make the best use of technology and publishes Annual Benefit Statements on-line which avoids printing and postage costs and is always looking at ways to use technology to improve processes.

There were three training sessions held during February and March 2022 for Employers covering the following topics, with ongoing training scheduled for 2022/23.

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- Pensionable Pay and Assumed Pensionable Pay
- Fundamental Employer Responsibilities
- Ill Health Retirement (Best Practice)

The Fund's website features a news page which the Pensions Administration team use to upload articles of interest for scheme members to view.

<https://www.highlandpensionfund.org/resources/>

c) Performance

Despite increases in volumes, there has been an improvement by the Administering Authority in the processing of retirement benefits. Slight dips in performance regarding the payment of certain benefits and transfers between funds is mainly attributable to this increase in volumes, changes in regulation introducing additional layers of complexity alongside a shortage of staff.

Also, delays have occurred in the transfer process from November 2021 with the introduction of the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulation 2021. As noted on page 11, there is now increased responsibility on Funds to raise awareness of pension scams and signpost members to appropriate guidance when a request for transfer is made and follow due diligence processes when processing transfer requests. These new regulatory requirements have increased the processing time for transfer requests.

The implementation of the i-connect system also meant some backlogs due to staff resource required to implement this. Considerable time was required working with employers to achieve workable extracts from different payroll systems but looking ahead i-connect should improve the efficiency of workflows and reporting.

Overall, the Fund returned a surplus of £79.992m and comparators for previous years are provided in the table on page 14, alongside the total costs per member and administration cost per member.

The increase in the total cost per member is mainly attributable to an increase in investment management fees which are linked to the level of funds under managements and performance management fees.

The administration cost per member for the fund for 2021/22 is £31.96. In 2020/21 where there is comparator data available, the Fund was just below the average administration cost per member across the Scottish LGPS funds. In 2020/21 the administration cost per member across the Scottish LGPS funds ranged from the lowest at £16.61 per member to the highest being £102.75.

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Pension Fund Account	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m	£m
Contributions received and transfers in	59.346	57.982	60.262	61.343	63.111	66.237
Pensions paid and transfers out	(57.922)	(56.077)	(59.887)	(65.107)	(74.394)	(70.454)
Management expenses	(7.717)	(8.895)	(9.401)	(8.532)	(12.471)	(16.063)
Returns on investment	301.927	125.898	124.177	(94.379)	525.907	100.272
<b>Overall surplus/(deficit)</b>	<b>295.634</b>	<b>118.908</b>	<b>115.151</b>	<b>(106.675)</b>	<b>502.153</b>	<b>79.992</b>
	£	£	£	£	£	£
<b>Total cost per member*</b>	306.03	286.31	297.41	263.46	378.17	463.59
Administration cost	34.50	31.89	39.25	37.03	34.91	31.96
Average across Scottish LGPS funds	34.30	36.89	36.89	32.37	35.44	**

\* the cost was calculated using the year-end financial information on management expenses (includes administrative, oversight and governance and investment management expenses) and the year-end membership at 31 March 2022 of 34,648.

\*\* 2021/22 data is not yet available.

### Investment Management

The sources of the Fund's income are member contributions, employer contributions and interest and returns on Fund investments. Fund expenditure relates to paying of member benefits and the administration costs of looking after the Fund. Overall, taking into account returns on investment, for 2021/22 the Fund is in surplus, i.e. the income is greater than the expenditure.

Investment Management of the Fund's assets is undertaken by external fund managers and overseen by the Pensions Accounting team with the support of Aon, the Fund's Investment Adviser.

The investment strategy of the Fund is set out in the Statement of Investment Principles (SIP) which is reviewed regularly and agreed by the Pension Committee and performance of the fund managers is reviewed by the Investment Sub Committee.

<https://www.highlandpensionfund.org/resources/statement-of-investment-principles/>

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Some of the main considerations in the SIP are:

- the types of investment to be held
- the balance between different types of investment
- risk, including the ways in which risks are to be measured and managed
- the expected return on investments

A list of the Fund's investments is published quarterly on the Fund's website.

<https://www.highlandpensionfund.org/resources/>

During 2021/22, officers and the Fund's investment advisor continued to work on implementing changes to the strategic asset allocation to manage the risk of potentially lower returns from equity markets globally and in the UK.

There were three new investment mandates funded in 2021/22 and an infrastructure manager (KKR Diversified Core Infrastructure) was appointed at the end of the financial year, with initial investment made to this fund in April 2022.

The three new investment mandates that received funding in 2021/22 were

- Fixed income, multi asset credit fund (Robeco Sustainable Development Goals Credit Income fund) with £100m of assets transitioned in October 2021.
- Private credit, direct lending (CVC European Direct Lending 2021 fund) initial investment November 2021.
- Private credit, property debt (BentallGreenOak Secured Lending III) initial investment February 2022.

Details of the full commitment to these investments can be found in Note 21 of the Annual Accounts.

For the year to 31 March 2022 the Fund returned 3.86%, underperforming the benchmark of 10.0% (combined fund benchmark, different benchmarks are set for each Fund Manager depending on the asset class). This was in the main due to the impact on performance in quarter 4 of global equities due to the uncertain global situation amid rising interest rates and the expectation that these will increase further during 2022 as global central banks attempt to manage rising inflation. However, the Fund returns continue to outperform the benchmark when looking longer term across a 5-year period (return is 7.45% compared to the benchmark of 7.26%). Some economic context which impacted on the Fund's investments in the last quarter of the financial year is provided below.

In the final quarter of the financial year to 31 March 2021, the MSCI AC World index posted a -4.6% return in local terms and a -2.5% return in sterling terms as global equity markets fell in response to heightened geopolitical tensions and continued inflationary pressure.

UK equities were bolstered over Q1 by rising crude oil and raw material prices due to their tilt towards the Energy and Materials sectors. European equities, on the other hand, were the worst performing market due to the close trading relationship with Russia. US equities performed the second-best amongst major equity regions. US

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dollar strength due to its status as a safe haven and Fed indications that rate hikes would not be slowed limited the loss in sterling terms.

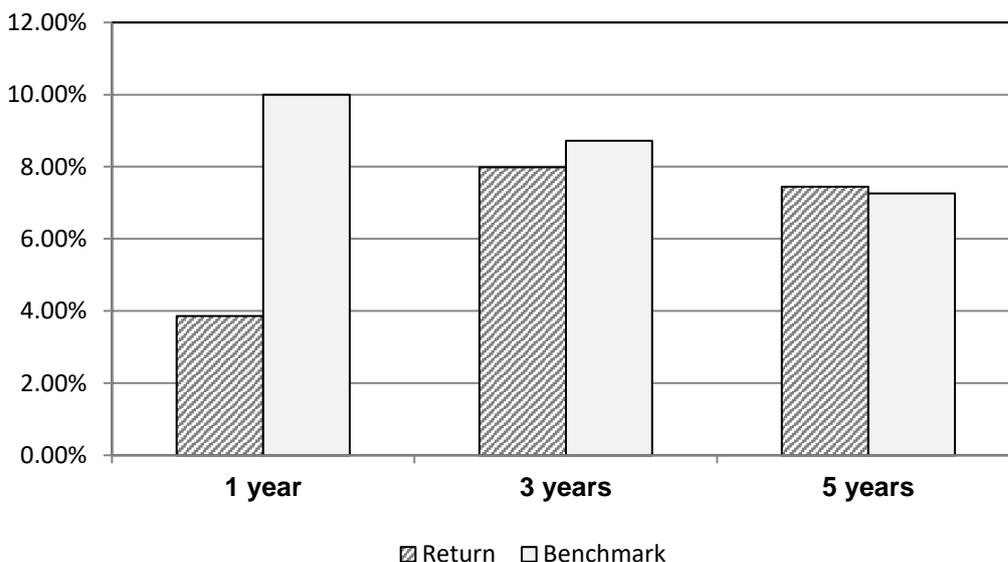
Bond credit spreads widened over the quarter. UK investment grade credit spreads rose by 22bps to 130bps, based on IBoxx Sterling Non-Gilts data. Lower quality bond credit spreads widened more than their higher quality counterparts, with BBB-rated non-gilt spreads rising by 33bp to 185bps. The increase in spreads and the significant rise in government bond yields led the Sterling Non-Gilts Index to post a return of -6.2%.

The UK gilt curve rose across all maturities over the first quarter on expectations of higher policy rates, driving the negative performance of UK fixed-interest government bonds. After rising in January, yields fell back in February as investors flocked to safe-haven assets in response to the beginning of the conflict in Ukraine. However, yields rose strongly over March as inflationary concerns around food and energy prices increased and the BoE reiterated its commitment to tightening monetary policy.

UK property capital values continued to rise over the quarter to 31 March. Together with a steady income return, the MSCI UK Monthly Property Index posted a strong return of 5.6% over the quarter, reaching an all-time high index level.

The following graph shows the annualised Fund return against the benchmark for the last year, the last 3 years and the last 5 years. From the graph, it can be seen that although there has been recent underperformance against benchmark, the fund has outperformed the benchmark over the longer-term 5-year period.

Different benchmarks are used to assess the performance of each asset class such as the MSCI (Morgan Stanley Capital International) All Countries World Index for global equities. Further information on the benchmarks used for the Fund is included in the SIP.



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Investment decisions for the Fund are considered over the longer term. Short term performance is reviewed closely, but, alone, it is unlikely to lead to investment change. In 2021/22 the total Fund's investments increased in value to £2,467m from £2,387m at the end of 2020/21 despite the fall in asset values in the quarter to 31 March 2022

A review of Investment performance is provided on page 32 of this report.

### **Funding and Accounting**

Funding and accounting matters are undertaken internally by the Pensions Accounting team with the assistance of the Fund Actuary, Hymans Robertson LLP.

Every three years the actuary carries out a valuation of the Fund. The main purpose of the valuation is to review the financial position of the Fund and determine the rate at which the employer bodies participating in the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

The triennial valuation as at 31 March 2020 applies to the financial years from 2021/22 until 2023/24. In the 2020 actuarial valuation, the Fund was assessed as 100% funded (2017 valuation: 101%) with a surplus of £6m (2017 surplus £13m). Following the 2020 valuation, there is some upwards pressure on the primary contribution rates due to a weaker outlook for future investment returns and secondary contribution rates have decreased as employer assets have increased since 31/03/2017. The Actuarial Valuation was approved by Pensions Committee in March and can also be accessed on the Highland Council Pension Fund website.

<https://www.highlandpensionfund.org/resources/actuarial-valuation-report-2020/>

Alongside the completion of the Actuarial Valuation, the Funding Strategy Statement, which explains the setting of the employer contribution rates, was updated and also approved at Pensions Committee in March 2021.

The Funding Strategy Statement is also available on the Highland Council Pension Fund website.

<https://www.highlandpensionfund.org/resources/funding-strategy-statement-march-2021/>

### **Risk**

Awareness of risk and risk mitigation is a key aspect of the Fund's strategic and operational activities. Whilst it is not possible to eliminate risk entirely, the Fund has taken steps to evaluate risk and put mitigating controls in place to minimise its adverse effects.

A risk register is maintained and reported to the Pensions Committee (Item 10).

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[https://www.highland.gov.uk/meetings/meeting/4585/pensions\\_committee\\_and\\_board](https://www.highland.gov.uk/meetings/meeting/4585/pensions_committee_and_board)

The eleven risks identified as the most significant are as follows. These risks and the mitigating controls in place to manage them were reported to the Pensions Committee in February 2022.

1. **Staffing** - due to the imminent turnover of senior staff there is the risk of loss of knowledge and experience. Also, potential staff turnover generally in this specialist area has associated risks.
2. **Homeworking** - homeworking is no longer a Government requirement but with the majority of staff continuing to work from home until the arrangements for hybrid working are established there are some risks associated with this. These risks include training new staff to adequate level of competence and increased supervising resource for monitoring staff in the homeworking environment.
3. **Knowledge** - ongoing risk of members and officers being unaware of changes to LGPS governance, administration and investment matters with the risk of non-compliance with Pension Fund Regulator requirements.
4. **Changes in Committee membership** - following the May 2022 local government elections there are new Committee members, with the risk of new members having little or no knowledge of pensions.
5. **Failure/loss of IT** - organisations are being increasingly targeted by cybercrime with the risk of an attack which could potentially result in the loss or disruption to IT services and potential data breaches.
6. **Funding risk (contribution rates)** - if the investment strategy is inconsistent with funding plans it can lead to setting inaccurate employer contribution rates.
7. **Funding risk (investment returns)** – if the investment return is below that assumed by the actuary in funding the plan then this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk. This risk would be increased by volatile markets created by global uncertainty.
8. **Funding risk (rising inflation)** - inflation has risen further and faster than most expected. Rising inflation will increase pension liabilities which are inflation linked, which could mean a potential increase to employer contributions.
9. **Climate risk** - as long-term investors, climate risk may affect the value of the Fund's investments.

## THE HIGHLAND COUNCIL PENSION FUND

### ANNUAL REPORT AND ANNUAL ACCOUNTS 2021/22

10. **Responsible investment risks** - the risks associated with Responsible Investment are not managed which could potentially impact the long-term value of the Fund's investments. There is also risk that the Fund does not comply with statutory reporting requirements on Climate Change Related Disclosures.
11. **McCloud case** - the outcome of the recent McCloud judgement will impact future liabilities of the Fund and potentially increase pressure on contributions as well as placing extra demands on the Pensions Administration team as additional benefit calculations will need to be completed.

#### Looking Ahead

- The Actuarial Valuation as at 31/03/2020 shows the Fund as 100% funded (31/03/2017 the fund was 101% funded). Following this, there is some upwards pressure on the primary contribution rates due to a weaker outlook for future investment returns and secondary contribution rates have decreased as employer assets have increased since 31/03/2017.
- Ongoing volatility and uncertainty in the global economy and investment markets may have significant financial implications for the Fund and Fund employers. Changes to the strategic asset allocation were implemented during 2021/22 to manage the risk of potentially lower returns from equity markets globally and in the UK. Commitments to these new investments will continue to be met in 2022/23.
- As highlighted in the key risks reported to Committee, inflation has risen further and faster than most expected. Rising inflation would increase pension liabilities which are inflation linked, which could mean a potential increase to employer contributions.
- Following on from the Responsible Investing workshops held during 2021/22 and the approval of a Responsible Investment policy, the policy will be implemented, and compliance monitoring processes and reporting developed.
- We will continue to engage with Committee Members to identify training needs and provide appropriate training opportunities, particularly for new Pensions Committee and Board Members.
- The Administration team will continue to provide training for Employer organisations with sessions scheduled for 2022/23 which will cover Employer Discretions and other areas.
- The Pensions Dashboard initiative will enable individuals to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement. The Administration team must have uploaded all data to the Pensions Dashboards by September 2024. As part of the work to support the implementation of the Pensions Dashboard, Administration staff

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will participate in planning meetings, and closer to the deadline be involved in collating, cleansing and preparing data in the format required.

- The Guaranteed Minimum Pensions (GMP) exercise for underpayments was concluded at the end of the of December 2021 with communications send out to members affected and arrears and interest paid. During 2022/23, the final part of the GMP exercise will be completed to verify total reconciliation across all records.
- With the Fund being cash flow negative, daily monitoring of the Pension Fund cash flows is completed. The current position is that existing cash balances held by the fund managers are where necessary used to meet cash requirements without the need to disinvest. Even if investment income yields fall below current levels, the time when assets need to be sold to meet benefit payments still looks sometime in the future. We will continue to monitor this on an ongoing basis. Detail on the cashflow position can be found at page 44.
- The legislation to support the proposed remedy for the legal case (McCloud) regarding an age discrimination challenge to the transitional protections put in place when the LGPS benefit structure was reformed in 2015 has been delayed until 2023. Once updated guidance is received, Administration staff will assess the implications of this for members and the Fund.
- The Administration team will continue to develop new processes making best use of technology to increase efficiency and improve the customer experience.

#### **In Conclusion**

Our thanks and appreciation is extended to all Councillors and Officers for their continued input to the strong governance and management of the Fund.

Donna Manson  
Chief Executive

Edward Foster CPFA  
Head of Corporate Finance

Thomas MacLennan  
Chairman  
Pensions Committee

# THE HIGHLAND COUNCIL PENSION FUND

## ANNUAL REPORT AND ANNUAL ACCOUNTS 2021/22

### Governance

The Highland Council is the Administering Authority of the Highland Council Pension Fund and is responsible for ensuring that the Fund is operating in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The Highland Council as administering authority has delegated all pension scheme matters to the Pensions Committee. In addition, an Investment Sub Committee has been established to enhance the Council's management and investment of the assets of the Fund in accordance with its respective objectives and strategies.

The Pensions Committee's specific functions include setting the Fund's objectives and ensuring that appropriate strategies, policies and procedures are put in place to achieve these objectives. This requires setting and agreeing strategies, policies and procedures and reviewing these.

The Investment Sub-Committee will exercise the delegated powers and duties of the Pensions Committee in relation to the management and investment of the Fund's assets.

The local Pension Board was established to assist the Scheme Manager (The Highland Council) to comply with the rules relating to scheme governance and administration and complying with the requirements set out by The Pensions Regulator.

The key role of the Pension Board is to help ensure the Fund complies with governance and administration requirements.

The remit of the Committees and Board is set out in full in the Fund's Governance Policy.

<https://www.highlandpensionfund.org/resources/governance-policy-statement-2021-22/>

The Annual Governance Statement is published on page 45 which is an assessment of the effectiveness of the systems of internal control as required by the Local Authority Accounts (Scotland) Regulations 2019.

The Governance Compliance Statement is published on page 49 as required by Regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2018.

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All Councillors on the Pensions Committee have been appointed by The Highland Council. The membership of the Pensions Committee, Pensions Board and Investment Sub Committee as at 31 March 2022 is outlined below.

#### Committee and Board Membership

##### Pensions Committee

Cllr R Gale (Chairman)  
Cllr R Bremner  
Cllr J Gray  
Cllr H Carmichael  
Cllr C Fraser  
Cllr A Jarvie  
Cllr B Lobban  
Cllr D Louden  
Cllr C Munro  
Cllr P Saggars

##### Investment Sub Committee

Cllr R Bremner  
Cllr H Carmichael  
Cllr R Gale (Chairman)  
Cllr B Lobban  
Cllr D Louden  
Cllr P Saggars

##### Non-Voting Members

Mr E Macniven, GMB  
Cllr A MacLeod, Comhairle nan Eilean Siar (substitute)

##### Pensions Board

Cllr C Caddick, The Highland Council  
Cllr M Paterson, The Highland Council  
Mr R Fea Cromarty Port Authority, Representative for Other Employers'  
Cllr A MacLeod, Comhairle nan Eilean Siar (substitute)  
Ms L MacKay, Unison  
Mr D MacSween, Unison  
Mr D Main, UNITE/UCATT  
Mr E Macniven, GMB (Chairman)

#### Attendance at Committee and Board meetings

The good governance of the Fund depends on the Committee and Board meetings being adequately attended. During 2021/22, all meetings were quorate and the following table provides detail of individual attendance during the year.

During 2021/22 all meetings of the Pensions Committee and Board and Investment Sub Committee were held remotely due to the ongoing COVID-19 pandemic.

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<b>Pensions Committee</b>	<b>22/09/21</b>	<b>14/02/22</b>	<b>Pensions Board</b>	<b>22/09/21</b>	<b>14/02/22</b>
Cllr R Bremner			Cllr C Caddick	✓	
Cllr H Carmichael			Mr R Fea	✓	✓
Cllr R Gale (Chair)	✓	✓	Cllr A MacLeod (substitute)		✓
Cllr J Gray		✓	Cllr M Paterson		✓
Cllr C Fraser			Ms L MacKay		✓
Cllr A Jarvie	✓	✓	Mr D MacSween		✓
Cllr B Lobban	✓	✓	Mr D Main		
Cllr D Louden	✓	✓	Mr E Macniven (Chair)	✓	✓
Cllr C Munro	✓	✓			
Cllr P Saggars	✓	✓			
Cllr B Thompson	✓	N/A			

<b>Investment Sub Committee</b>	<b>11/06/21</b>	<b>17/09/21</b>	<b>19/11/21</b>	<b>17/12/21</b>	<b>25/02/22</b>	<b>11/03/22</b>
Cllr R Bremner		✓		✓	✓	✓
Cllr H Carmichael	✓	✓	✓	✓	✓	✓
Cllr R Gale (Chair from 19/11/21)	✓	✓	✓	✓	✓	✓
Cllr B Lobban (resigned 10/03/22, attended meeting 11/03 as non-member)		✓	✓	✓	✓	✓
Cllr D Louden	✓	✓	✓	✓	✓	✓
Cllr P Saggars	✓	✓		✓	✓	
Cllr B Thompson (Chair till 19/11/21)	✓	✓	N/A	N/A	N/A	N/A
Cllr A MacLeod substitute (Pension Board non - voting)						
Mr E Macniven (Pension Board non - voting)	✓		✓	✓		
Mr R Fea (Pension Board observer)		✓	✓	✓		✓
M J Gibson (Pension Board observer)			✓	✓	✓	✓

Pension Board observers are entitled but not required to attend Investment Sub Committee meetings.

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## ANNUAL REPORT AND ANNUAL ACCOUNTS 2021/22

### Training, Knowledge and Skills - Policy Statement

The Fund's training policy which was approved by Highland Council Pensions Committee on 22 September 2021, recognises that those involved in the governance of the Fund should have the necessary level of skills and knowledge to allow them to complete their duties effectively.

<https://www.highlandpensionfund.org/resources/training-policy-and-training-plan-2021-22/>

The training policy sets out the following:

- the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, and CIPFA's supporting Framework and guidance documentation.
- the legal requirements for individual Pension Board members to have the correct level of knowledge and understanding to undertake their role.

The Policy sets out a plan for training during 2021/22 and advises Committee and Board Members to complete an assessment of their skills and knowledge against the CIPFA Framework and to complete the Pensions Regulator online training modules. Correspondence is issued annually requesting that Committee and Board members submit details of training attended and notify officers of any further training requirements.

The specific training events set out below are supplemented by additional knowledge and skills acquired through other 'on the job' activities including participation in working groups, attendance at meetings, general reading and research e.g. agenda reports and presentations, investment manager reports and briefings, magazines and other periodicals and online reading etc.

The training events attended during the year covered a range of subjects which are set out below. Training was also provided to Members on Responsible Investment as part of a series of workshops held to develop a Responsible Investment policy.

The Scottish Pensions Liaison Group (SPLG) training was organised by officers from Highland Council Pension Fund and covered the following in 2 separate sessions:

- Valuations – summary of 2020 valuation results across the Scottish LGPS
- Pensions Data Dashboards
- Current issues for Pensions Administration
- The Pensions Regulator new Code of Practice
- Role of the Custodian
- Environmental, Social, Governance issues - TCFD (Taskforce for Climate related Financial Disclosures) and Stewardship reporting
- Scottish LGPS structure review update
- Cost transparency

Investment Strategy training was provided at the meeting of the Investment Sub Committee and covered the following

- UK and global equities
- Direct lending
- Property debt

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<b>Date</b>	10/09/21	17/09/21	06/10/21	29/10/21	19/11/21	25/02/22
<b>Event</b>	Responsible Investing training workshop	Direct Lending property CVC	SPLG Governance Investments	SPLG Training Pensions Admin	Property Debt BGO	Equities Baillie Gifford
<b>Pensions Committee</b>						
Cllr J Gray	✓					
Cllr C Fraser						
Cllr A Jarvie	✓					
<b>Pension Board</b>						
Cllr C Caddick						
Mr R Fea	✓	✓		✓	✓	✓
Mr J Gibson	✓				✓	✓
Ms L Mackay						
Mr D Macdonald	✓					
Mr D MacSween						
Mr D Main	✓					
Mr E Macniven	✓				✓	✓
Cllr C Munro	✓					
Cllr M Paterson						
<b>Pensions Committee &amp; Investment Sub Committee</b>						
Cllr B Thompson	✓	✓	✓			
Cllr R Bremner		✓				✓
Cllr H Carmichael		✓			✓	✓
Cllr R Gale	✓	✓	✓	✓	✓	✓
Cllr B Lobban	✓	✓	✓		✓	✓
Cllr D Louden	✓	✓	✓	✓	✓	✓
Cllr P Sagers		✓				✓

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## **Funding Strategy Statement**

Implementing a Funding Strategy Statement is a regulatory requirement which summarises the Fund's approach to funding liabilities. The Funding Strategy Statement describes the strategy of The Highland Council acting in its capacity as Administering Authority for the funding of the Highland Council Pension Fund and is published on the Fund's website.

<https://www.highlandpensionfund.org/resources/funding-strategy-statement-march-2021/>

Employees' benefits are guaranteed by LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but with no guarantee as to the level of funding. Employees' contributions are fixed in the Regulations, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The Funding Strategy Statement focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

The Funding Strategy Statement provides details of the key elements of the funding strategy, the regulatory framework, responsibilities of key parties, links to the SIP, key risks (financial, demographic, regulatory and governance), calculation of employer contributions and actuarial assumptions.

The Funding Strategy Statement was updated alongside the Actuarial Valuation as at 31 March 2020 and applies to the three financial years from 1 April 2021. This was approved at Pensions Committee in March 2021 (Item 4 in link below).

[https://www.highland.gov.uk/meetings/meeting/4406/pensions\\_committee\\_and\\_board](https://www.highland.gov.uk/meetings/meeting/4406/pensions_committee_and_board)

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## **Investment Policy**

### **Statement of Investment Principles**

A Statement of Investment Principles (SIP) details the policy governing the Fund's investments. A summary of the SIP is set out on the following page.

The detailed version of the SIP expanding on the paragraphs below was approved by Committee and Board on 18 March 2021, with amendments made to this in February 2022.

<https://www.highlandpensionfund.org/resources/statement-of-investment-principles/>

The Highland Council has delegated authority to the Pensions Committee to take decisions on behalf of the Pension Fund. The Pensions Board was set up to comply with the LGPS (Governance) (Scotland) 2015 Regulations and is responsible for assisting the Committee in securing compliance with pension governance and administration legislation and regulations and requirements of the Pensions Regulator. The Investment Sub Committee is responsible for overseeing the management of the investments of the Fund and scrutinises the performance of the Fund's twelve investment managers.

The Highland Council Pension Fund qualifies as an HMRC 'exempt approved scheme'.

### **Statement of Investment Principles – Summary**

#### **Background**

The Highland Council is the administering authority of the Highland Council Pension Fund. Elected members recognise that they have fiduciary duties and responsibilities towards beneficiaries, employers and local taxpayers that are similar to those of Trustees in the private sector.

#### **Advisors**

Independent Investment Managers, Investment Consultants, Actuaries and Performance Measurement Consultants are employed to give ongoing expert advice and assistance in the managing of the Fund.

#### **Funding Policy**

The Fund is a defined benefit pension scheme which provides members with pensions and lump sums related to their salaries. The fundamental objective is to meet these benefits on retirement, or the dependant's benefits on death before or after retirement.

The funding policy is directed to ensuring that in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that the appropriate level of contributions is agreed by the administering authority to meet the cost of future benefits accruing.

A Funding Strategy Statement for the Pension Fund has been prepared in accordance with Regulation 75A (1) of the Local Government Pension Scheme (Scotland) Regulations 1998 as amended by the Local Government Pension Scheme (Scotland) Amendment Regulations

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### ANNUAL REPORT AND ANNUAL ACCOUNTS 2021/22

2005. The Statement describes the strategy of The Highland Council acting in its capacity as Administering Authority for the funding of the Highland Council Pension Fund.

#### **Investment Policy**

The Fund's Investment Policy will be directed to ensuring that in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that an appropriate level of contributions is agreed by the administering authority to meet the cost of future employees' benefits accruing.

The long-term investment objective of the Fund is to achieve a real rate return of 3-4% per annum on average. The Fund has a strategic benchmark for each Manager. In broadly defining the assets to be held and setting the asset allocation, this benchmark provides an efficient balance between risk and return in light of the liability profile, and funding level of the Fund. There were changes proposed to the asset allocation in order to reduce the overall risk in the Fund which were approved at Pensions Committee in March 2021.

The strategic benchmark is expected to produce a return over the long term in excess of the investment return assumed in the Actuarial Valuation. The Fund's assets are currently managed approximately 87% on an active basis and these are expected to outperform their respective benchmarks over the long term. The remainder is managed on an index tracking (passive) basis. The plan to reduce equities and bonds will eventually result in the Fund's assets being managed approximately 89% on an active basis and 11% on a passive basis.

#### **Asset Mix of Investments**

The overall investment portfolio for the Fund is weighted to the equity market, both UK and overseas. However, the portfolio also has investments in Index-Linked Gilts, Property, UK bonds, overseas bonds, private equity, property debt, direct lending, alternative risk premia and cash with a future commitment to infrastructure not funded until 2022/23. This diverse range of investments over 12 different Managers (11 active and 1 passive) is employed to minimise the effect of risk and enhance overall performance of the Fund for its Members.

Each Manager, with the exception of the index tracking Manager, has full discretion within the parameters of their mandate in the asset mix and stock selection, subject to the investment principles.

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#### Strategic Asset Allocation

The Fund's strategic asset allocation targets are as follows.

Target set March 22 %	Asset Class	Fund Actual 31/03/21 %	Fund Actual 31/03/22 %
	- UK equities – active	17.5	15.1
	- UK equities – passive	2.4	1.7
44.8	Global equities – active	36.5	31.9
11.2	Global equities – passive	9.3	8.4
<b>56.0</b>	<b>Total equities</b>	<b>65.7</b>	<b>57.1</b>
<b>0.0</b>	<b>Cash (Legal and General)</b>	<b>0.4</b>	<b>2.7</b>
12.0	Fixed income – active	10.3	9.6
	- Fixed income – passive	2.7	2.4
<b>12.0</b>	<b>Total fixed income</b>	<b>13.0</b>	<b>12.0</b>
10.0	Property	8.5	11.5
7.0	Property debt and other private credit - active	2.4	4.4
5.0	Private equity	5.1	7.0
5.0	Infrastructure	-	-
5.0	Alternative risk premia strategies	4.9	5.3
<b>100.0</b>	<b>Total assets</b>	<b>100.0</b>	<b>100.0</b>

#### Monitoring

The Fund's officers and, when required, advisers meet with each of its Investment Managers on a rotational basis and monitor performance quarterly relative to performance targets.

Adoption of the strategic benchmark and the performance monitoring constrains the Investment Managers from deviating significantly from the intended approach. It also permits flexibility to manage the Fund in such a way as to enhance returns.

#### Risk

The Fund pursues a policy of lowering risk through diversification of both investments and investment managers. A management agreement is in place for each Investment Manager, which sets out the relevant benchmark performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

#### Realisation of Investments

Currently 77.1% of the investments held by the Fund at 31 March 2022 are quoted on major stock markets and may be realised quickly if required. Property investment is via pooled

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### ANNUAL REPORT AND ANNUAL ACCOUNTS 2021/22

funds which are relatively illiquid. These currently make up 11.5% of the total Fund. There are also private equity 7.0% (target asset allocation 5.0%) and private credit property debt and direct lending investments 4.4% (target asset allocation 7.0%) which are also very illiquid.

#### **Underwriting**

The Fund's Investment Managers are permitted to underwrite and sub-underwrite stock issues only on the basis that the subject stock is already held in the portfolio or that the Manager wishes to acquire a long term holding.

#### **Responsible Investing**

The Fund acknowledges its responsibilities as an institutional asset owner with long term liabilities and takes the approach that there should be effective stewardship of all the Fund's assets which focuses on good corporate governance to deliver sustainable investor value.

The Fund has a Responsible Investment policy which was approved by Pensions Committee in February 2022 and details of this are at page 35.

The Fund has been a member of the Institutional Investors' Group on Climate Change (IIGCC) since September 2020. This allows the Fund to be aligned with and contribute to one of the leading organisations challenging corporate entities over their climate change policies such as Climate 100+ which was an investor initiative to lobby the world's largest corporate organisations to reduce carbon emissions.

#### **Corporate Governance**

The Fund ensures that the votes attached to its holdings in all UK quoted companies are exercised whenever practical. The Fund's votes are exercised by its Investment Managers in accordance with their own policies and practices and taking account of the Combined Code on Corporate Governance.

#### **Custody**

The Fund has a Global Custodian (Northern Trust) who ensures the safekeeping of all assets separate from each Investment Manager and other officials. The Global Custodian also provides all the reporting data to the Council for performance monitoring and independent reconciliation purposes for each Investment Manager.

#### **Stock Lending**

The Fund has had a stock-lending agreement with Northern Trust since 2015. Adequate collateral is held which consists of acceptable securities and government debt and as at 31 March 2022 the Fund held collateral (via the custodian) of 110.1% of stock lent.

The amount of lendable securities is limited to a maximum of 25% of the value of the Fund. This arrangement will be regularly reviewed to take account of changing market circumstances.

#### **Compliance**

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Investment Managers and the Custodian provide an annual statement to The Highland Council confirming that they have adhered to the investment principles contained in this document so far as is reasonably practicable. All eleven Fund Managers provided annual compliance statements as part of the 2021/22 year-end accounts process (KKR was funded on 1 April 2022 so no compliance statement was requested).

Adhering to guidance given by Scottish Ministers, The Fund is compliant with the six revised principles on investment decision making for occupational pension schemes, as set out in guidance published by the Chartered Institute of Public Finance and Accountancy in December 2009 called 'Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles'.

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### ANNUAL REPORT AND ANNUAL ACCOUNTS 2021/22

#### Investment Performance Report

##### Economic and Market Background

##### Equities

The initial quarter of the financial year to 30 June started the year on a positive note with the successful roll out of vaccination programmes around the world. However, there were uncertainties over the reopening of the global economy and how pent-up demand would impact inflation, alongside concerns about further Covid variants emerging. Despite these concerns, the Share indices all increased in the quarter, with good 1-year performance (FTSE World 25.5%, FTSE North American 27.3%, FTSE All Share 21.5%, Developed Asia Pacific 30.3%, FTSE World Europe excl UK 22.8%).

The quarter to 30 September saw global equities experience their toughest quarter since the decline after the onset of the pandemic, US and developed ex-US earning growth mostly offset lower valuations but emerging market earning lagged. Strong corporate profitability and easy monetary policy lifted developed equities but concerns on Chinese regulatory measures, inflation and unwinding stimulus combined for an anxious market as the quarter ended. In the UK, equity performance fell in line with general global performance where energy outperformed all other sectors short and long term by a considerable way.

In the quarter to 31 December in spite of concerns regarding increasing inflation and interest rates, global equities rebounded from a disappointing quarter three to finish the year with a final quarterly return in the high single digits, with US equities delivering good performance once again. The UK fell out of line with global trends as real estate outperformed all other sectors in the long and short term with the FTSE All Share index increasing by 4.2% and energy was the only sector delivering a negative return.

In the quarter to March 2021, war in the Ukraine, slowing growth and increasing inflation all threatened to slow the economic recovery from the global pandemic. Looking ahead escalating energy prices and increasing supply shortages are likely to continue and European growth forecasts have been revised down sharply. Looking beyond Europe, Chinese growth is at risk from another virus wave and potential sanctions, depending on any moves to assist Russia. US growth expectations were also revised downwards despite less reliance on imported energy and robust momentum.

##### Fixed income

In the quarter to June 2021, fixed income markets experienced positive performance as expectations that the accelerating vaccination programmes and removal of COVID-19 lockdown measures would be followed by a period of high growth and inflation. With the continued recovery of the economy following the global pandemic in 2020, inflation news dominated the headlines with the concern that central bankers could overreact to inflation by pushing interest rates higher and therefore lower growth.

The quarter to 30 September began with a rally in treasuries which was driven by the spread of the delta variant of COVID-19 alongside concerns that the economic recovery was not as strong as expected and a rush to the relative safety of government

## THE HIGHLAND COUNCIL PENSION FUND

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bonds. However, by the end of the quarter the rally had ended, with all the quarter's gains wiped out in a few days of trading as September closed.

In the last quarter of 2021, while there was plenty of volatility, yields and spreads finished at the end of this quarter to levels very similar to the end of the quarter to June 2021.

In the last quarter of the financial year to 31 March 2021, after a couple of quarters with lots of volatility, fixed income markets fell. Yield curves shifted up substantially in all hard currencies causing big losses in fixed income indices, initially caused by high inflation and accelerated by the Russian invasion of Ukraine.

#### Property

UK property capital values continued to rise over the financial year. Together with a steady income return, the MSCI UK Monthly Property Index posted a strong return of 5.6% over the final quarter to 31 March, reaching an all-time high index level.

#### Pension Fund Investment Performance

For the year to 31 March 2022 the Fund returned 3.86%, underperforming the benchmark of 10.0%. This was in the main due to the impact on performance in the quarter ending 31 March 2022 of global equities due to the uncertain global situation amid rising interest rates and the expectation that these will increase further during 2022 as global central banks attempt to manage rising inflation.

The longer-term performance is positive with the Fund returns outperforming the benchmark across a 5-year period (return is 7.45% compared to the benchmark of 7.26%).

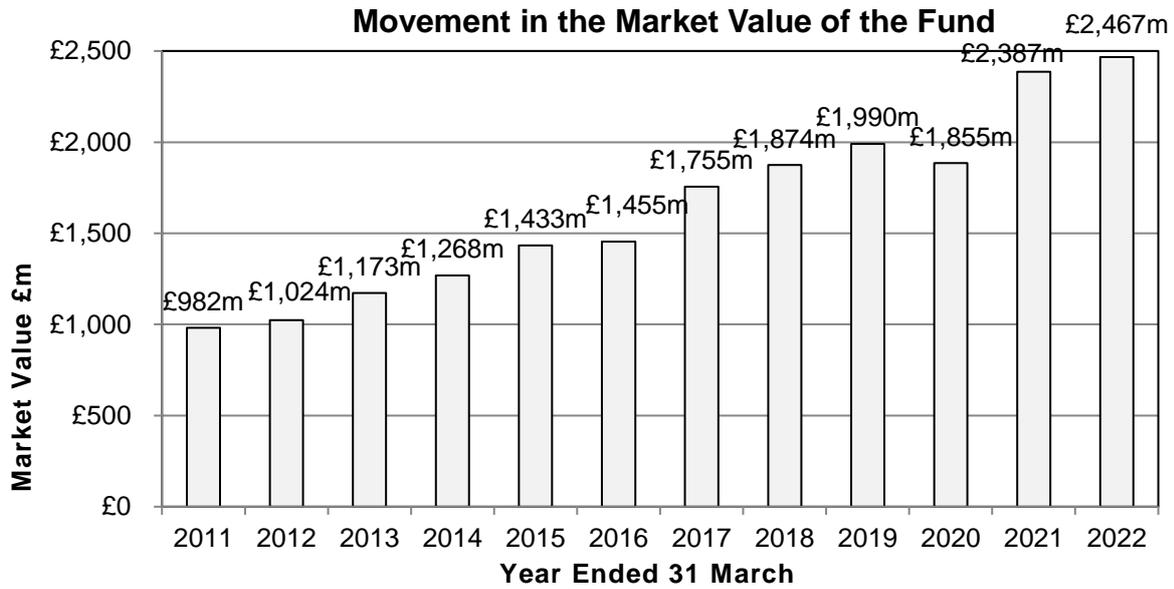
The table below also includes the Scottish LGPS Average to provide an indication of how the Fund has performance compared to the other Scottish Funds. However, it should be noted that each Fund will have different investment objectives depending on the Fund maturity and liability profile.

The 2021/22 CIPFA Scottish Directors of Finance Performance indicator comparative data is not yet available so 2020/21 has been used for comparison.

	1 year per annum%	3 years % per annum	5 years % per annum	Inception % per annum
Fund return (2021/22)	3.9	7.9	7.5	8.7
Benchmark return (2021/22)	10.0	8.7	7.3	8.4
Fund return (2020/21)	27.0	8.7	10.6	8.9
LGPS average (2020/21)	24.8	9.0	10.5	-

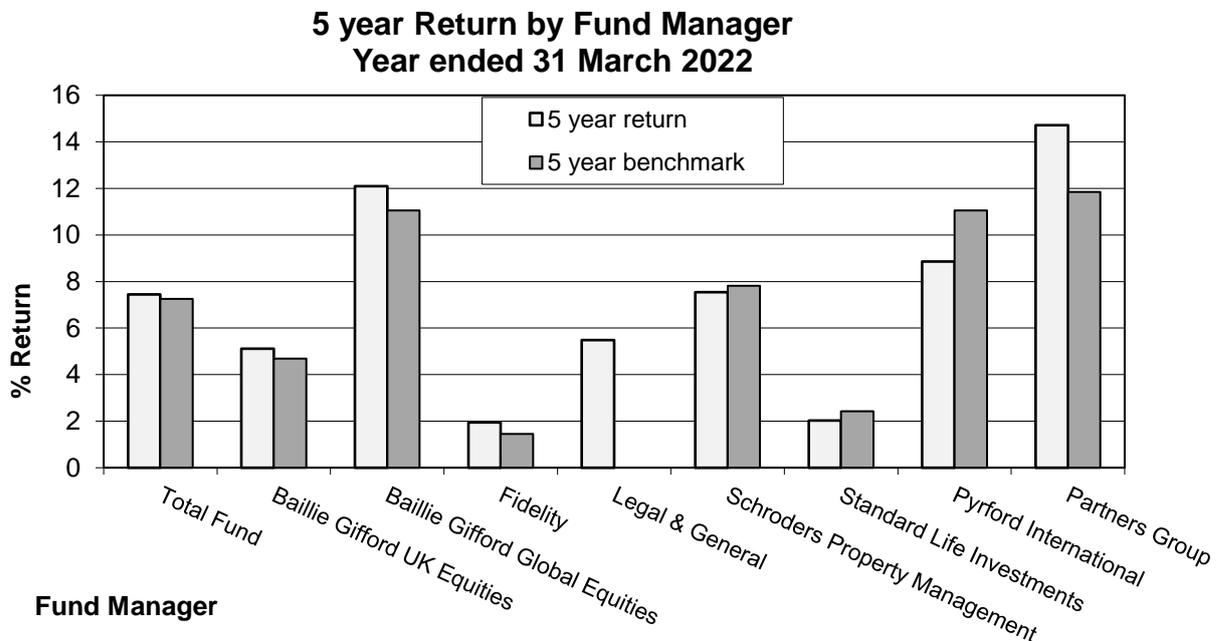
The market value of the Fund's net investment assets as at 31 March 2022 was £2,467m (£2,387m at 31 March 2021). The movement in the market value of the Fund's net investment assets is on page 34.

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Across the longer term, the main contributors to the positive performance have been global equities, due to overall equity market performance (benchmark return) and strong manager stock selection and market out-performance (excess return).

Details of the Fund's investments analysed by investment category are shown in the financial statements (Note 13) and performance against benchmark for Fund Managers across a 5-year period is shown below.



There is no benchmark for Legal and General due to a portfolio change in 2020/21 and there is no 5-year data available for Man Group, CVC and BGO as the initial investments were made in the last 2 years.

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#### Responsible Investing and Climate Change

The Pensions Committee has a fiduciary duty to act in the best financial interest of the members of the Fund and ensure that the objectives of the Fund are met. Alongside this fiduciary duty, The Highland Council Pension Fund is a long-term investor, and the Pensions Committee members recognise that they should incorporate ESG (Environmental Social Governance) risks into the investment decision making process.

If ESG risks are not understood, evaluated and managed properly these could negatively impact the long-term value of investments. In this context, the Committee considered it important to clearly document the Fund's approach to Responsible Investment in a Responsible Investment (RI) policy.

Following a series of workshops held in 2021, the Fund's RI policy was approved by Pensions Committee on 14 February 2022.

<https://www.highlandpensionfund.org/resources/responsible-investment-policy/>

The Fund's RI policy sets out the following

- the Fund's beliefs and principles and approach to Responsible Investing. These are that the Pensions Committee consider ESG in all aspects of the investment decision-making supported by officers and the Investment Advisor and undertake periodic training on RI; and Committee members do not apply personal, ethical or moral judgements when making investment decisions, and will remain focused on the primary objective of acting in the best financial interests of the Fund's members.
- the Framework for ESG risk monitoring and assessment which will be implemented going forward.
- expectations and monitoring of the Fund's investment managers which include the following:
  - we expect the Fund's investment managers to take account of financially material ESG considerations (including climate change) in the selection, retention and realisation of investments. Whilst we do not expect all our investment managers to explicitly take into account non-financial ESG considerations, we do expect transparency on these matters in order to facilitate a full understanding of the Fund's investments.
  - The Fund will complete a periodic review of the ESG profile of the investments. The use of third-party data from MSCI, manager data from the Principles for Responsible Investment ("PRI") alongside commentary from the advisor, can support the Committee in identifying areas of potential ESG risk and engagement opportunities.
  - investment managers align with the UK Stewardship Code Principles and PRI objectives. Where managers are not signatories to these codified principles, we will assess with our advisor how the manager is implicitly aligned as part of our monitoring

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- implementation of the policy will require the following work to be undertaken in 2022/23 and on an ongoing basis:
  - periodic review of assets to check these meet a certain minimum threshold ESG rating/requirement; with the threshold being reviewed on a periodic basis to ensure that it meets the Fund's evolving requirements.
  - consideration of new investment solutions (across all asset classes) and assessment of the suitability of such investments within the context of the wider Fund in discussion with its investment advisor.

For example, during 2021 the Committee approved the re-allocation of the Global Alpha strategy managed by Baillie Gifford, to the Paris Aligned version, which aims to address climate and societal challenges through the net-zero transition by 2050. In addition to this, in 2022/23, the Fund is moving LGIM passive equities to track a World Futures index (July 2022).

  - we expect the Fund's appointed fund managers to be transparent in their approach, including their approach to stewardship, how they integrate ESG into their investment decision making process and consideration of social and environmental impact matters.
  - we expect the Fund's investment managers to provide their RI policy to us and our advisors periodically, including details of their approach to stewardship, how they integrate ESG into their investment decision making process and their approach to non-financial factors. When we look to appoint a new investment manager, we request and consider this information as part of the selection process. We review responses with support and input from the Fund's investment advisor.
- evolving the Fund's approach as this will need to continually evolve due to both the changing landscape with respect to ESG issues and broader industry developments.

Following approval at Pensions Committee, the Fund's Responsible Investment policy was circulated to all Fund Managers. During 2022/23 officers will work on implementing the Responsible Investment policy and developing compliance monitoring and reporting processes.

The Fund is committed to making ongoing improvements to our approach and the processes that underpin the delivery of this policy and is focused on making sure that it remains relevant and appropriate for our members.

The Fund is a member of the Institutional Investors Group on Climate Change. The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. IIGCC has more than 375 members, mainly pension funds and asset managers, across 23 countries, with over €51 trillion in assets under management.

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The Highland Council Pension Fund is one of the signatories to the Global Investors Statement to Governments on the Climate Crisis which was co-ordinated by the IIGCC. The Statement was backed by 457 investors representing over \$41 trillion in assets and urged all governments to raise their climate ambition and implement robust policies before COP26 which was held in November 2021.

The Statement called on governments to undertake the following five priority actions:

1. strengthen Nationally Determined Contributions for 2030 in line with limiting warming to 1.5°C
2. commit to a mid-century net zero emissions target with clear sectoral decarbonisation roadmaps
3. ensure ambitious pre-2030 policy action including strengthened carbon pricing, phasing out fossil fuel subsidies and thermal coal-based power, avoiding new carbon-intensive infrastructure (no new coal power plants) and developing just transition plans
4. ensure COVID-19 economic recovery plans support the transition to net zero emissions
5. commit to implementing mandatory climate risk disclosure requirements.

<https://www.iigcc.org/news/over-450-investors-managing-41-trillion-in-assets-tell-governments-to-get-climate-policy-right-and-massive-investment-will-flow/>

<https://theinvestoragenda.org/wp-content/uploads/2021/09/2021-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf>



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#### Actuarial Position

Employer contributions are assessed every three years by an independent actuary and expressed as a percentage of pensionable pay.

The actuarial valuation as at 31 March 2020 applies to the financial years from 2021/22 to 2023/24. Full details of the contribution rates payable can be found in the 2020 actuarial valuation report and the funding strategy statement on the Pension Fund website.

<https://www.highlandpensionfund.org/resources/actuarial-valuation-report-2020/>

In the 2020 actuarial valuation, the Fund was assessed as 100% funded (2017 valuation: 101%) with a surplus of £6m (2017 surplus £13m). Following the 2020 valuation, there is some upwards pressure on the primary contribution rates due to a weaker outlook for future investment returns and secondary contribution rates have decreased as employer assets have increased since 31/03/2017.

Due to regulatory changes there is now a primary rate which is the payroll weighted average of the underlying individual employer primary rates and the secondary rate which is the underlying individual employer secondary rates, calculated in accordance with the Regulations and CIPFA guidance. In the 31 March 2020 Valuation, the primary rate was 21.2% (2017, 17.8%)

More information on the actuarial valuation can be found in the Actuarial statement (page 101).

For the purposes of the contribution rates set for the financial year 2021/22, the following assumptions from the triennial Valuation completed in 2020 were used.

#### Financial assumptions

Financial assumptions are used to estimate the amount of benefits and contributions payable and to place a current value on these benefits and contributions. The key financial assumptions are:

Financial Assumptions	March 2017		March 2020	
	Nominal p.a.	Real (CPI) p.a.	Nominal p.a.	Real (CPI) p.a.
Discount Rate	3.7%	1.3%	3.2%	2.4%
Salary Increase (excludes promotional increases)	3.4%	1.0%	2.5%	1.8%
Price Inflation/Pension Increases	2.4%	-	1.7%	-

The actuarial projection of the Market Value of the Fund's assets as at 31 March 2020 was £1,892m (2017 Valuation £1,768m). The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates.

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#### Longevity assumptions

The key longevity assumptions are that all members will follow the mortality experience based on the latest industry standard and using information from longevity experts.

Future life expectancy based on the Actuary's Fund-specific mortality review at age 65 are in the table below.

	31 March 2017		31 March 2020	
	Male	Female	Male	Female
Current pensioners	21.9	24.3	21.0	23.5
Future pensioners*	23.3	26.1	22.4	25.5

\* assumed current age 45 at date of valuation

#### Commutation assumption

Half the members will commute their commutable pension for cash at retirement. Active members will retire one year later than they are first able to do so without reduction.

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**Scheme Administration**

**Administration Strategy and Performance**

The Fund's Administration Strategy and Discretionary Policy can be found on the Fund's website at

<https://www.highlandpensionfund.org/resources/administration-policy/>

The strategy sets out the roles and responsibilities of both the Administering Authority and scheme employer. The strategy also sets out several key processes and tasks to be benchmarked against expected results. Service level standards for the administering authority performance are based on industry standard Performance Indicators and are detailed in the following tables.

**Administering Authority Performance**

<b>Task</b>	<b>Target</b>	<b>Number from 1/4/20 to 31/3/21</b>	<b>% on target</b>	<b>Number from 1/4/21 to 31/3/22</b>	<b>% on target</b>
New Entrants (includes re-employments)	Issue Statutory Notice within 14 days of receipt of a new start notice.	1,475	43%	2,759	33%
Early Leavers	The standard issue date is 10 days from receipt of leavers forms and 15 days for deferred benefit entitlement.	549	16%	903	17%
Retirements including deferred benefits coming into payment	The standard issue date is 10 days of receipt of leaver option forms.	514	85%	751	91%
Deaths in Service	Contact next of kin within 5 days of notification being received.	13	92%	21	86%
Transfers in from out with Fund	The standard is to issue statutory notice within 10 days of receipt of payment.	42	33%	44	11%
Transfers of pension rights out with Fund	Case to be finalised & payment made within 10 days of receipt of election payment.	32	59%	150	27%
Estimate of benefits	Issue within 10 days of request.	1,099	54%	1,395	64%

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#### Scheme Employer Performance - Target performance 90%

Standard	Number from 1/4/20 to 31/3/21	% on target	Number from 1/4/21 to 31/3/22	% on target
New Start Notification – within 30 days of joining (or 10 days from first deduction if later).	1,475	78%	2,759	79%
Retirement information – to allow benefits to be paid on time.	274	89%	387	91%
Early leaver notification – within 30 days of leaving (or 10 days after last deduction if later).	549	79%	903	80%
Death in Service notification – within 7 days of death.	13	92%	21	100%
Year End Queries issued to employers, responses – within 14 days.	11	100%	11	100%

Despite significant increases in volumes, there has been an improvement by the Administering Authority in the processing of retirement benefits. Performance against targets in 2021/22 has dipped slightly in some areas due to the significant increase in work volumes, and staff shortages in key areas. Compared to 2020/21 in 2021/22 there have been significant increases in the number of new entrants to process (87%), early leavers (64%) and retirements (46%).

During the COVID-19 pandemic, the number of retirements was lower and staff recruitment was put on hold across the employer bodies because of uncertainty and training issues due to the various lockdowns and restrictions in place. However, in 2021/22, following the successful roll-out of vaccination programmes and the economy returning to business as usual, the number of retirements and new starts increased. The re-opening of the economy has also seen a buoyant labour market and staff turnover has been high due to opportunities available outwith the employer bodies. This has meant an increased workload for the Administration team as they have increased volumes of leavers and new starts to process.

During 2021/22, the implementation of i-connect also meant some backlogs but going forward the use of i-connect should improve the efficiency of workflows and reporting.

Following the implementation of the new version of i-connect extract, reporting will be more efficient and employer bodies are now able to upload forms via i-connect which should improve processes.

Staff recruitment is underway which will help with the management of workloads going forward into 2022/23.

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#### Financial Performance

The Pension Fund budget is set annually and approved by Pensions Committee. The budget is set for controllable expenditure and therefore excludes benefit and transfer payments as well as contributions receivable and transfers into the fund.

The budget is monitored at each meeting of the Pensions Committee and performance against budget for 2021/22 is as follows.

<b>Annual Budget</b>	Annual budget £000	Year-end actual £000	Year-end variance £000
Staff costs (Pensions)	774	684	(90)
GMP	100	53	(47)
Computer and ICT	261	348	87
Postages, printing stationery	15	4	(11)
Pensions Admin Other	26	18	(8)
Other Central support recharges	-	191	191
<b>Administrative expenses</b>	<b>1,176</b>	<b>1,298</b>	<b>122</b>
Actuarial Fees	100	83	(17)
Audit Fees	30	33	3
Central Support - Pensions Investment	230	163	(67)
Training	5	-	(5)
Subsistence and travel	-	-	-
Investment Consultant Fees	100	198	98
Performance Management Fees	23	27	4
Tax Legal Expenses	5	39	34
<b>Oversight and governance</b>	<b>493</b>	<b>543</b>	<b>50</b>
Investment expenses	335	256	(79)
Custodian Fees	85	94	9
Transaction costs	330	1,492	1,162
Fund Manager fees	8,200	12,380	4,180
<b>Management fees</b>	<b>8,950</b>	<b>14,222</b>	<b>5,272</b>
<b>Overall total</b>	<b>10,619</b>	<b>16,063</b>	<b>5,444</b>

The main variances between the budgeted and actual relate to the following.

Administrative expenses – overspend due to computer costs associated with implementing i-connect.

Oversight and governance – overspend due to the Investment Advisor costs being higher than budget due to support provided for the Strategic Asset implementation and additional Investment Sub Committee meetings.

Management fees - with the level of investments increasing during 2021/22, fees which are based on market values, were higher than anticipated resulting in an overall overspend. There are also performance fees payable for private equity when a specific target rate of return is achieved which has contributed to the higher fee levels.

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**Contributions made to the Fund in 2021/22**

During 2021/22, members and employers paid the following contributions.

	<b>21/22 Employees contributions</b>	<b>21/22 Employers contributions</b>	<b>Total contributions</b>
<b>Scheduled Bodies</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
The Highland Council	8,616	27,476	36,092
Comhairle Nan Eilean Siar	2,421	8,223	10,644
Highland & Western Isles Valuation Joint Board	99	293	392
HITRANS	40	99	139
Inverness College	298	893	1,191
Lews Castle College	81	246	327
The North Highland College	177	518	695
Scottish Fire and Rescue	120	384	504
Scottish Police Authority	458	1,306	1,764
<b>Total Scheduled Bodies</b>	<b>12,310</b>	<b>39,438</b>	<b>51,748</b>
<b>Admitted Bodies</b>			
An Comunn Gaidhealach	8	26	34
Bord Na Gaidhlig	51	141	192
Cromarty Firth Port Authority	135	327	462
Eden Court Theatre	10	105	115
Forth & Oban Limited	8	37	45
Hebridean Housing Partnership Limited	105	287	392
Highland Blindcraft	18	59	77
Highland & Islands Enterprise (HIE)	50	352	402
Highlife Highland	1,007	3,195	4,202
Inverness Harbour Trust	7	55	62
Morrison FM	17	122	139
NHS Highland	960	2,917	3,877
Skills Development Scotland	38	449	487
Stornoway Port Authority	61	176	237
University of the Highlands & Islands	389	1,313	1,702
Sight Action	9	29	38
WIPRO Holdings (UK) Limited	18	173	191
<b>Total Admitted Bodies</b>	<b>2,891</b>	<b>9,763</b>	<b>12,654</b>
<b>Total</b>	<b>15,201</b>	<b>49,201</b>	<b>64,402</b>

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#### Cashflow

The following table sets out the new inflows and outflows to the Fund in respect of dealing with members and does not include information on investments.

<b>Pension Fund Account</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Contributions received and transfers in	59,346	57,982	60,262	61,343	63,111	66,237
Pensions paid and transfers out	(57,922)	(56,077)	(59,887)	(65,107)	(74,394)	(70,454)
Net cash flow	1,424	1,905	375	(3,764)	(11,283)	(4,217)

The above analysis of cash inflows and outflows shows that the Fund is in cashflow negative territory. This reflects the increasing maturity of the fund with increased number of deferred and pensioner members compared to active members.

All cashflow requirements are identified well in advance with pension fund cashflows being monitored as part of daily treasury activity. There has been no requirement to disinvest any assets as cash required has been readily available from the Fund Managers, such as distributions received back from the private equity and property debt investments. The cashflow position is monitored daily and reported regularly to the Investment Sub Committee.

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**Governance**

**Annual Governance Statement**

**Scope of responsibility**

The Highland Council acts as Administering Authority for the Highland Council Pension Fund. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. This includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. The Code is available on The Highland Council website. The authority's financial and management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in local government.

The Local Code of Corporate Governance evidences the Council's commitment to achieving good governance and demonstrates how it complies with the governance standards recommended by CIPFA. The document is regularly reviewed and updated.

**The purpose of the governance framework**

The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled, and the activities used to engage with and lead the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level, and provide reasonable, but not absolute, assurance that policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise the risks being realised, and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2022 and up to the date of approval of the Annual Accounts.

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#### **The governance framework**

The Local Code is based upon the following seven principles:

1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of members and officers to be effective.
6. Engaging with local people and other stakeholders to ensure robust public accountability.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The Pension Fund has a separate Governance Policy Statement which is one of several key documents it must hold, and this was updated to reflect the changes in governance arrangements as a result of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. The updated Statement for 2021/22 was approved by Pensions Committee in September 2021.

<https://www.highlandpensionfund.org/resources/governance-policy-statement-2021-22/>

#### **Review of effectiveness**

The Highland Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Head of Corporate Governance has been given responsibility for:

- overseeing the implementation of the Local Code of Corporate Governance and monitoring its operation.
- reviewing the operation of the Local Code of Corporate Governance in practice.
- reporting annually to the Council on compliance with the Local Code and any changes required to maintain it and ensure its effectiveness.

In fulfilling these duties, the Head of Corporate Governance has taken into account the results of reviews of internal control that have been carried out by Internal Audit.

The Council's corporate governance arrangements are subject to annual review by Internal Audit and the work undertaken in respect of the Local Code during this year has not identified any control weaknesses in these arrangements.

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Emergency governance arrangements were put in place in the Council in March 2020 as a result of COVID-19 outbreak and details of these, including a decisions log, are published on the Council's website. There were no decisions made that impacted upon the Pension Fund. During 2021/22, Pension Board and Committee and Investment Sub Committee meetings continued to be held remotely using MS Teams.

The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (the Standards). Section 2450 of the Standards states that "the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control". In addition, the annual report must incorporate:

- the opinion;
- the summary of work that supports that opinion; and
- a statement on conformance with the Standards and the results of the quality assurance and improvement programme.

The Corporate Audit Manager's responsibilities in this regard will be discharged through the presentation of the Internal Audit Annual Report 2021/22 to the Audit and Scrutiny Committee meeting in September 2022.

A review of the adequacy and effectiveness of the systems of internal control for the financial year 2021/22 has not identified any control issues.

The eleven Fund Managers and the Global Custodian each provide an annual assurance report (AAF 01/06/ ISAE 3402) which sets out the control procedures in place during the year, and includes an assessment, by an independent accountant, of the effectiveness of the systems of internal controls in operation throughout the period examined. These reports were obtained and reviewed, and Internal Audit confirmed that the appropriate assurances were provided by the independent accountants for eleven of the Fund Managers in place at the time of the audit, and the Global Custodian. In considering these assurances it was noted that an increased number of Fund Managers have outsourced some services to third parties (sub-service organisations). The normal approach is for the accountants to use the "carve out" method by excluding the sub-service's control procedures from the scope of their work. This was the case for eight of the Fund Managers and the Global Custodian. Furthermore, one of these reports contained a qualification specific to the control objective examining "Logical Access to in-scope systems" as a number of exceptions were identified from the audit testing. The Fund Manager has stated that this is principally due to legacy business systems.

The 2021/22 Internal Audit plan comprised of the following:

- Review of the systems of internal control to inform the Fund's Annual Governance Statement and the Internal Audit Annual Report 2021/22.
- Review of Pension Fund Investments. This audit was carried forward into 2021/22 at the request of the Service. This report had the opinion of "Full

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Assurance” and it was concluded that the key controls for Pension Fund investments were operating effectively. The report contains 1 low grade recommendation which is due to be implemented by 31/12/22. All audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented and this will be followed up at the appropriate time.

- Review of Pension Fund Payments. This audit was delayed due to the retirement of senior officers and has been carried forward into the 2022/23 audit plan.

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council’s internal control systems for the year to 31 March 2022.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Scrutiny Committee on 25/11/21 and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. Internal Audit commits to monitoring implementation of any future recommendations as part of the next annual review.

Donna Manson  
Chief Executive

Thomas MacLennan  
Chairman  
Pensions Committee

On behalf of the members and senior officers of the Highland Council

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#### Governance Compliance Statement

The Regulations that govern the management of LGPS funds in Scotland require that a Governance Compliance Statement is published. The Governance Compliance Statement sets out the extent to which governance arrangements comply with best practice. The following arrangements were in place for financial year 2021/22 and complies with guidance from the Scottish Ministers.

Principle	Fully Compliant and Comments	
<b>Structure</b>		
The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council.	Yes	The Highland Council as administering authority has delegated all pension scheme matters to the Pensions Committee. Meeting at the same time as the Committee, the Pensions Board was set up to comply with the LGPS (Governance) (Scotland) 2015 Regulations and is responsible for assisting the Committee in securing compliance with pension governance and administration legislation and regulations and requirements of the Pensions Regulator. In addition, a small Investment Sub Committee has been established to enhance the Council's management and investment of the assets of the Pension Fund in accordance with the respective objectives and strategies of the Fund.
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.	Yes	The Pensions Committee has members representing other employers and two voting members representing scheme members. The Pensions Board has 4 trade union members and 4 employer representatives. The Investment Sub Committee has two non-voting members representing other employers.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes	The Pensions Committee and the Pensions Board meet concurrently. The minutes of the Investment Sub Committee are presented to the Pensions Committee and Board and there is significant commonality in the membership of the two committees.
That where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The minutes of the Investment Sub Committee are presented to the Pensions Committee and Board and there is significant commonality in the membership of the two committees.
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"> <li>• Employing authorities (including non-scheme employers, e.g. admitted bodies).</li> <li>• Scheme members (including deferred</li> <li>• and pensioner scheme members).</li> </ul>	Yes	As stated above there are employer and employee representatives on both Pension Fund Committees and the Pension Board. The Fund's investment advisers regularly attend the Pension Investment Sub Committee and the Fund's actuaries attend the Pension Committee and Board when appropriate.

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Principle	Fully Compliant and Comments	
<ul style="list-style-type: none"> <li>• Where appropriate, independent professional observers.</li> <li>• Expert advisors (on an ad-hoc basis).</li> </ul>		In addition, Fund Managers attend the Investment Sub Committee on a rotational basis.
<b>Representation</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.	Yes	<p>All Pensions Committee and Board members are provided with training, as well as access to papers in advance of Committee meetings and have the opportunity to contribute to the decision-making process.</p> <p>There is a Pensions Board which is a bipartite body with an equal number of representatives from local government employers and relevant trade unions. There must be a minimum of 4 from each side.</p>
<b>Selection and Role of Lay Members</b>		
That committee or panel members are made fully aware of the status, role and function that they are required to perform on either a main or secondary committee.	Yes	A comprehensive training programme including induction is in place. Training for Pension Committee, Pensions Board and Investment Sub Committee members includes presentations from investment managers, Custodian, actuary and investment advisors. Attendance at meetings and training is monitored and reported.
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	The declaration of Member's interests is a standard item on the agenda of the Pension Fund Committee, Pension Board and Investment Sub Committee.
<b>Voting</b>		
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.	Yes	The policy on voting rights is clearly stated in the remits of the Pension Fund Committee, Board and Investment Sub Committee.
<b>Training /Facility Time /Expenses</b>		
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.	Yes	There is a training, knowledge and skills policy in place which was approved by Pensions Committee in September 2021 which incorporates the CIPFA Local Pensions Boards Technical Knowledge and Skills framework, including the self-assessment matrix. This Policy also highlights the assessment and training resources provided by the Pensions Regulator and sets out a training programme for 2021/22.

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<b>Principle</b>	<b>Fully Compliant and Comments</b>	
		The training policy recognises the importance of ensuring that Committee has the necessary resources to discharge its pension administration responsibilities and that all staff and members charged with financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
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.	Yes	All members are treated equally under the training policy regardless of whether they have voting rights.
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	Members receive training each year and this is monitored and reported.
<b>Meeting Frequency</b>		
That an administering authority's main committee or committees meet at least quarterly.	No	The Pensions Committee and Board meet twice a year with the option to hold special meetings as necessary.  Officers completed a review of business covered at Pensions Committee and benchmarked against the governance structures in place at other Funds. Following this review this it was decided that Pensions Committee business could be adequately covered in 2 meetings a year, particularly as the monitoring of investment performance is completed by the Investment Sub Committee which meets quarterly.
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	Yes	The Investment Sub Committee meets at least four times a year with the option to hold special meetings as necessary. The Investment Sub-Committee meetings will be timed so minutes can be presented to the Pensions Committee and Board.
That an administering authority which 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.	N/A	There is a Scheme Members' representative on the Pensions Committee. The Pensions Board has an equal number of representatives from local government employers and relevant trade unions.

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<b>Principle</b>	<b>Fully Compliant and Comments</b>	
<b>Access</b>		
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.	Yes	All Members of the Pension Fund committees, Board and Investment Sub Committee have full access to agendas, reports and minutes.
<b>Scope</b>		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pension Committee has an overview of investment, funding and member benefit matters. The Pensions Board assists the Committee with securing compliance with pension legislation and regulations.
<b>Publicity</b>		
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 interest in wanting to be part of those arrangements.	Yes	The Highland Council publishes governance documents and communicates regularly with employers and scheme members.  <a href="https://www.highlandpensionfund.org/resources/">https://www.highlandpensionfund.org/resources/</a>

Donna Manson  
Chief Executive

Thomas MacLennan  
Chairman  
Pensions Committee

On behalf of the members and senior officers of the Highland Council

## THE HIGHLAND COUNCIL PENSION FUND

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#### Statement of Responsibilities

##### The Authority's Responsibilities

The Highland Council, as the administering authority for the Highland Council Pension Fund, is required to:

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

Thomas MacLennan  
Chairman  
Pensions Committee

## THE HIGHLAND COUNCIL PENSION FUND

### ANNUAL REPORT AND ANNUAL ACCOUNTS 2021/22

#### **The Responsibilities of the Head of Corporate Finance**

The Head of Corporate Finance is responsible for the preparation of the Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing this statement of accounts, the Head of Corporate Finance has:

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

The Head of Corporate Finance has also:

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

I, the Head of Corporate Finance as Chief Finance Officer certify that the financial statements give a true and fair view of the financial transactions of the Fund for the year ended 31 March 2022.

Edward Foster CPFA  
Head of Corporate Finance

# THE HIGHLAND COUNCIL PENSION FUND

## ANNUAL REPORT AND ANNUAL ACCOUNTS 2021/22

### Independent Auditor's Report

Independent auditor's report to the members of The Highland Council as administering authority for The Highland Council Pension Fund and the Accounts Commission

### Reporting on the audit of the financial statements

#### Opinion on financial statements

We certify that we have audited the financial statements in the annual report of The Highland Council Pension Fund (the fund) for the year ended 31 March 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the financial transactions of the fund during the year ended 31 March 2022 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

#### Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is six years. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a

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period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, we report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

#### **Risks of material misstatement**

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

#### **Responsibilities of the Head of Corporate Finance and The Highland Council for the financial statements**

As explained more fully in the Statement of Responsibilities, the Head of Corporate Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Corporate Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Corporate Finance is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

The Highland Council is responsible for overseeing the financial reporting process.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the fund is complying with that framework;
- identifying which laws and regulations are significant in the context of the fund;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

## THE HIGHLAND COUNCIL PENSION FUND

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The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Reporting on other requirements

#### Other information

The Head of Corporate Finance is responsible for other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and our auditor's report thereon.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

#### Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with

## THE HIGHLAND COUNCIL PENSION FUND

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the Delivering Good Governance in Local Government: Framework (2016):  
and

- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

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

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records;  
or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

#### **Conclusions on wider scope responsibilities**

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

#### **Use of our report**

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 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Barrie Morris, (for and on behalf of Grant Thornton UK LLP),  
2 Glass Wharf,  
Bristol,  
BS2 0EL  
Date:

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**Financial Statements**

**Pension Fund Account**

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

2020/21 £000		Notes	2021/22 £000
	<b>Dealings with members, employers and others directly involved in the scheme</b>		
61,363	Contributions receivable	8	64,402
1,748	Individual Transfers in from other pension funds		1,835
<u>63,111</u>			<u>66,237</u>
(61,537)	Benefits payable	9	(67,830)
(12,857)	Payments to and on account of leavers	10	(2,624)
<u>(74,394)</u>			<u>(70,454)</u>
<b>(11,283)</b>	<b>Net additions/(reductions) from dealings with members</b>		<b>(4,217)</b>
<b>(12,471)</b>	Management expenses	11	<b>(16,063)</b>
<u><b>(23,754)</b></u>	<b>Net additions/(withdrawals) including fund management expenses</b>		<u><b>(20,280)</b></u>
	<b>Returns on Investments</b>		
33,207	Investment income	12	41,288
(639)	Taxes on income from equities		(750)
493,339	Profit and (losses) on disposal of investments and changes in values of investments	13.1	59,734
<b>525,907</b>	<b>Net Return on Investments</b>		<b>100,272</b>
<u><b>502,153</b></u>	<b>Net increase/(decrease) in the net assets available for benefits during the year</b>		<u><b>79,992</b></u>
<b>1,892,287</b>	Opening net assets as at the start of the year		<b>2,394,440</b>
<u><b>2,394,440</b></u>	<b>Closing net assets as at the end of the year</b>		<u><b>2,474,432</b></u>

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**Net Assets Statement**

The Net Assets Statement sets out the value, as at the Statement date, of all assets and liabilities (excluding future pension liabilities) of the Fund.

As at 31/03/21 £000		Notes	As at 31/03/22 £000
2,348,129	Investment assets		2,367,396
(15,835)	Investment liabilities		(9,357)
<u>2,332,294</u>		13.1	<u>2,358,039</u>
47,709	Cash deposits		106,673
6,641	Investment income due		5,851
1,478	Amounts receivable for sales		4,789
(772)	Amounts payable for purchases		(8,120)
<u><b>2,387,350</b></u>	<b>Total net investment assets</b>		<u><b>2,467,232</b></u>
	<b>Long term assets</b>		
<b>435</b>	<b>Long term debtors</b>	23	<b>498</b>
	<b>Current assets</b>		
6,219	Short term debtors		6,250
5,350	Bank accounts		5,801
<u>11,569</u>		22	<u>12,051</u>
	<b>Less current liabilities</b>		
(4,914)	Sundry creditors	24	(5,349)
<b>6,655</b>	<b>Net current assets</b>		<b>6,702</b>
<u><b>2,394,440</b></u>	<b>Closing net assets as at the end of the year available to fund benefits at the period end<sup>1</sup></b>		<u><b>2,474,432</b></u>

Edward Foster CPFA  
Head of Corporate Finance

<sup>1</sup> The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 17.

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**Notes to Accounts**

**Accounting Policies**

**1. Description of Fund**

The Highland Council is the administering authority of the Highland Council Pension Fund (“the Fund”) and is the reporting entity for the Fund.

**General**

The Fund is part of the national Local Government Pension Scheme (LGPS) and is a contributory defined benefit pension scheme. The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK.

The Fund is constituted under legislation governing the Local Government Superannuation Scheme. The primary Act of governance is the Superannuation Act 1972. Detailed regulations for the Scheme are contained in the Local Government Pension Scheme (Scotland) Regulations 1998, the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2010, the Local Government Pension Scheme (Transitional Provisions and Saving) (Scotland) Regulations 2014, the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 and the Local Government Pension Scheme (Scotland) Regulations 2018.

The Administering Authority (The Highland Council) runs The Highland Council Pension Fund, to make sure the Fund achieves the following objectives:

- **Receives the proper amounts of contributions from employees and employers, and any transfer payments.**

The Fund is built up by contributions from both employees and employers, together with interest and dividends from investments, out of which defined pensions and other benefits are paid.

Employees’ contributions to the Fund are fixed by statute. Contributions payable by employers are fixed every three years following a report by an independent actuary who determines the level of contribution necessary to ensure that the Fund will be able to meet future benefits.

The primary contribution rate (future service contributions) for the whole Fund of 21.2% of pay for payroll contributions was set by the Actuary for the period 1 April 2021 to 31 March 2022 in the Triennial Actuarial Valuation report 2020. In addition to this, the secondary rate (past service contributions) for 2021/22 is -£4,581,000.

- **Invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth.**

The Fund's assets are managed by appointed Investment Fund Managers. Once the cost of current benefits is met all surplus cash income is invested to meet future liabilities to employees within the Fund and deferred pension benefits.

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- **Uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives) and to their dependants (when members die)**, as defined in the LGPS Regulations. Before 1 April 2015 pensions benefits payable were based on final pensionable pay and length of pensionable service. After 1 April 2015 the scheme became a career average scheme whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th which is updated annually in line with the Consumer Price Index. Assets are also used to pay transfer values out of the Fund and administration costs.

## **2. Basis of Preparation**

The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Reporting Standards (IFRS) as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of the promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed at Note 17 of these accounts.

The accounts have been prepared on a going concern basis.

## **3. Summary of Significant Accounting Policies**

### **Fund account – revenue recognition**

#### **a. Contribution income**

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the Fund Actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current asset (sundry debtor). Amounts not due until future years are classed as long-term financial assets (long term debtors).

#### **b. Transfer 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 2013.

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see paragraph m) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

**c. Investment income**

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transactions costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

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 investment income due.

iii) Distributions from pooled funds

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 investment income due.

iv) Property-related income

The Fund does not invest directly in property. All property investments are on a 'fund of funds' basis.

v) Movement in the net market value of investments

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

vi) Stock lending income

Income from stock lending is recognised when the deal has been agreed to lend stock and any amount not received by the end of the reporting period is disclosed in the net assets statement as investment income due.

**Fund account – expense items**

**d. Benefits payable**

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

**e. 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

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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 at year end.

**f. Management expenses**

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with the CIPFA guidance, Accounting for Local Government Pension Scheme Management Costs (2016).

- **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All pension administration team costs are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

- **Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

- **Investment management expenses**

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

Investment management fees charged by the external Fund Managers and the Fund 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 advance of preparing the year end accounts a request was made to all Fund Managers, the Fund Custodian and the Fund Advisors for their fee invoice to the end of March 2022 or an estimated fee for accrual purposes.

A proportion of the Council's costs representing management time spent by officers on investment management are also charged to the Fund.

For private equity fees, property debt, direct lending and the hedge fund fees, the relevant Fund Managers provided information on fees to the end of March 2022 or a basis for estimating these fees.

**Net Assets Statement**

**g. Financial assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised costs and reflected in the reconciliation of movements in investments and

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derivatives note in Note 13.1. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 13.1). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association 2016).

**h. Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

**i. Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 13.6).

**j. Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. 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.

**k. Financial liabilities**

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

**l. Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Assets Statement (Note 17). The Fund's actuary has provided an updated calculation of the Actuarial present value of promised retirement benefits which includes an allowance for the McCloud ruling i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes (Note 17).

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**m. Additional voluntary contributions**

The Highland Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 18).

**n. Contingent assets and contingent liabilities**

A contingent liability arises when an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

**o. Prior year adjustments**

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Fund's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

**4. Accounting Standards Issued but Not Yet Adopted**

The following accounting standards will be adopted within the 2022/23 Code effective from 1 April 2022. There is therefore no impact on the 2021/22 financial statements.

- IFRS 16 Leases (but only for those local authorities that have decided to adopt IFRS 16 in the 2022/23 year). Highland Council Pension Fund will not be adopting IFRS 16 in 2022/23.

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- Annual Improvements to IFRS Standards 2018-2020. The annual IFRS improvement programme notes 4 changed standards:
  - IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
  - IAS 37 (Onerous contracts) – clarifies the intention of the standard
  - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
  - IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

None of the matters covered in the annual improvements are dealt with in detail in the 2022/23 Code. During the consultation process on the 2022/23 Code CIPFA/LASAAC did not envisage them having a significant effect on local authority financial statements.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

The above is unlikely to impact the Pension Fund.

#### 5. Critical Judgements in Applying Accounting Policies

There were no critical judgements used in applying accounting policies for 2021/22. However, a number of assumptions were made about the future and other major sources of estimation uncertainty which are outlined below in Note 6.

#### 6. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because outcomes cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Financial Statements at 31 March 2022 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 assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension Fund assets. A firm of consulting actuaries is engaged to provide the	The effects on the net pension liability of changes in individual assumptions can be measured. <ul style="list-style-type: none"> <li>• 0.1% p.a. increase in the pension increase rate would result in an increase of approximately 2% to liabilities (£49m).</li> <li>• 0.1% p.a. increase in salary rate would result in an increase of approximately to liabilities of £5m.</li> </ul>

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	<p>Fund with expert advice about the assumptions to be applied.</p> <p>The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening year. The methodology used is in line with accepted guidelines.</p> <p>The estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 17.</p> <p>These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.</p>	<ul style="list-style-type: none"> <li>• 0.1% p.a. decrease in the discount rate assumption would result in an increase of approximately 2% to liabilities (£55m).</li> <li>• 1-year increase in member life expectancy would result in an increase in the liabilities of 4% (£115m).</li> </ul>
<b>Private equity</b>	<p>Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines (as at 31 March 2022). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity investments in the financial statements are £164.3m. While the Pension Fund is satisfied the assets are appropriately valued as at 31 March there is a risk the valuation could move over the next 12 months. For example, a potential market movement of 25.0% up or down could result in an increase in value to £205.4m or decrease to £123.2m.</p>
<b>Property Debt</b>	<p>Investment is valued by the Fund Manager using critical accounting estimates and judgements from the fund's financial statement. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total property debt investments in the financial statements are £80.7m. While the Pension Fund is satisfied the assets are appropriately valued as at 31 March there is a risk the valuation could move over the next 12 months. For example, a potential market movement of 7.5% up or down could result in an increase in value to £86.7m or decrease to £74.6m.</p>

## 7. Events after the Reporting Date

The unaudited statement of accounts was issued on 30 June 2022. Events taking place after this date are not reflected in the accounts or notes. There have been no events since 31 March 2022 and up to the date these accounts were authorised that require any adjustment to these accounts.

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**8. Contributions Receivable**

<b>By category</b>	2020/21	<b>2021/22</b>
	£000	<b>£000</b>
Employees' pension contributions	14,330	15,201
Employers' pension contributions	47,033	49,201
<b>Total contributions</b>	<b>61,363</b>	<b>64,402</b>

As a result of the 2020 valuation, the primary contribution rate (future service contributions) for the whole Fund of 21.2% of pay for payroll contributions was set by the Actuary for the period 1 April 2021 to 31 March 2022 in the Triennial Actuarial Valuation report 2020. In addition to this, the secondary rate amount (past service contributions) for 2021/22 is -£4.581m (page 6 of 2020 Actuarial Valuation).

<https://www.highlandpensionfund.org/resources/actuarial-valuation-report-2020/>

**Analysis of Contributions by Authority**

	<b>2021/22</b>			<b>Totals</b>
	<b>Highland Council</b>	<b>Scheduled Bodies</b>	<b>Admitted Bodies</b>	
	£000	£000	£000	£000
Normal contribution	27,466	11,474	9,265	48,205
Deficit funding	0	0	484	484
	27,466	11,474	9,749	48,689
Strain on Fund	10	488	14	512
<b>Employer's contributions</b>	<b>27,476</b>	<b>11,962</b>	<b>9,763</b>	<b>49,201</b>
<b>Members' pension contributions</b>	<b>8,616</b>	<b>3,694</b>	<b>2,891</b>	<b>15,201</b>
<b>Total contributions</b>	<b>36,092</b>	<b>15,656</b>	<b>12,654</b>	<b>64,402</b>
	<b>2020/21</b>			<b>Totals</b>
	<b>Highland Council</b>	<b>Scheduled Bodies</b>	<b>Admitted Bodies</b>	
	£000	£000	£000	£000
Normal contribution	23,238	10,284	8,351	41,873
Deficit funding	2,654	996	1,286	4,936
	25,892	11,280	9,637	46,809
Strain on Fund	61	60	103	224
<b>Employer's contributions</b>	<b>25,953</b>	<b>11,340</b>	<b>9,740</b>	<b>47,033</b>
<b>Members' pension contributions</b>	<b>7,940</b>	<b>3,552</b>	<b>2,838</b>	<b>14,330</b>
<b>Total contributions</b>	<b>33,893</b>	<b>14,892</b>	<b>12,578</b>	<b>61,363</b>

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**Number of Contributors and Pensioners**

<b>2021/22</b>	<b>Contributors</b>	<b>Pensioners</b>	<b>Deferred Pensioners</b>	<b>Total</b>
Highland Council	8,252	7,861	5,989	22,102
Scheduled Bodies	3,028	2,383	2,368	7,779
Admitted Bodies	2,333	1,245	1,189	4,767
<b>Total</b>	<b>13,613</b>	<b>11,489</b>	<b>9,546</b>	<b>34,648</b>
<b>2020/21</b>				
Highland Council	7,720	7,502	5,833	21,055
Scheduled Bodies	3,015	2,249	2,223	7,487
Admitted Bodies	2,245	1,124	1,067	4,436
<b>Total</b>	<b>12,980</b>	<b>10,875</b>	<b>9,123</b>	<b>32,978</b>

**9. Benefits Payable**

<b>By category</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000</b>	<b>£000</b>
Pensions	(50,013)	(51,904)
Lump sum retirement benefits	(9,530)	(13,558)
Lump sum death benefits	(1,994)	(2,368)
	<b>(61,537)</b>	<b>(67,830)</b>
<b>By authority</b>		
Highland Council	(39,929)	(43,286)
Scheduled Bodies	(13,805)	(14,719)
Admitted Bodies	(7,803)	(9,825)
	<b>(61,537)</b>	<b>(67,830)</b>

**10. Payments to and on Account of Leavers**

	<b>2020/21</b>	<b>2021/22</b>
	<b>£000</b>	<b>£000</b>
Refunds to members leaving service	(125)	(162)
Payments for members joining state scheme	(1)	-
Group transfers	(11,811)	(350)
Individual transfers	(920)	(2,112)
	<b>(12,857)</b>	<b>(2,624)</b>

At the year-end there are no potential liabilities in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions.

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**11. Management Expenses**

	2020/21	2021/22
	£000	£000
Administrative costs	(1,151)	(1,298)
Investment Management expenses	(10,828)	(14,222)
Oversight and Governance costs	(492)	(543)
	<b>(12,471)</b>	<b>(16,063)</b>

**Analysis of Management Expenses**

<b>Administrative Costs</b>	2020/21	2021/22
	£000	£000
Administrative costs	(169)	(192)
Employee costs	(972)	(1,099)
Other administration	(10)	(7)
<b>Total administrative costs</b>	<b>(1,151)</b>	<b>(1,298)</b>

**Investment Management Expenses**

<b>2021/22</b>	<b>Management</b>	<b>Performance</b>	<b>Transaction</b>	<b>Total</b>
<b>External management fees</b>	<b>fees</b>	<b>fees</b>	<b>costs</b>	<b>£000</b>
<b>invoiced</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
Unitised insurance policies	(139)	-	-	(139)
Equities	(4,110)	-	(402)	(4,512)
Fixed income	(244)	-	-	(244)
Property	(495)	-	(156)	(651)
<b>External management fees</b>				
<b>deducted from capital</b>				
Private equity	(2,749)	(3,015)	(934)	(6,698)
Private debt	(725)	-	-	(725)
Hedge fund	(903)	-	-	(903)
<b>Custodian fees</b>	-	-	-	(94)
<b>Investment expenses</b>	-	-	-	(256)
<b>Total</b>	<b>(9,365)</b>	<b>(3,015)</b>	<b>(1,492)</b>	<b>(14,222)</b>

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<b>2020/21</b>	<b>Management</b>	<b>Performance</b>	<b>Transaction</b>	<b>Total</b>
<b>External management fees</b>	<b>fees</b>	<b>fees</b>	<b>costs</b>	<b>£000</b>
<b>invoiced</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
Unitised insurance policies	(193)	-	-	(193)
Equities	(3,543)	-	(485)	(4,028)
Bonds	(286)	-	-	(286)
Property	(397)	-	(27)	(424)
<b>External management fees deducted from capital</b>				
Private equity	(1,388)	(3,954)	116	(5,226)
Private debt	(192)	-	-	(192)
Hedge fund	(7)	-	-	(7)
<b>Custodian fees</b>	-	-	-	(96)
<b>Investment expenses</b>	-	-	-	(376)
<b>Total</b>	<b>(6,006)</b>	<b>(3,954)</b>	<b>(396)</b>	<b>(10,828)</b>

<b>Oversight and Governance costs</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000</b>	<b>£000</b>
Actuarial fees	(152)	(83)
External Audit fees	(32)	(33)
Internal Audit fees	(4)	(4)
Investment advisor fees	(130)	(198)
Performance management	(23)	(27)
Employee costs	(123)	(139)
Sundry costs	(17)	(20)
Legal costs	(11)	(39)
<b>Total oversight and governance costs</b>	<b>(492)</b>	<b>(543)</b>
<b>Total Management Expenses</b>	<b>(12,471)</b>	<b>(16,063)</b>

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**12. Analysis of Investment Income**

	2020/21	<b>2021/22</b>
	£000	<b>£000</b>
Income from equities	22,243	26,609
Income from pooled investments (unit trusts and other managed funds including multi asset credit/fixed income)	4,522	2,615
Pooled property investments	5,271	6,948
Private equity	599	1,111
Private debt – property debt and direct lending	-	1,627
Interest on cash deposits	112	1,629
Stock lending and other income	460	749
	<b>33,207</b>	<b>41,288</b>

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**13. Investment Assets**

**13.1. Reconciliation of Movements in Investments and Derivatives**

<b>2021/22 Classifications</b>	<b>Market value 1 Apr 21 £000</b>	<b>Purchases at cost derivative payments £000</b>	<b>Sales proceeds derivative receipts £000</b>	<b>Change in market value £000</b>	<b>Market value 31 Mar 22 £000</b>
<b>Investment assets</b>					
Equities	1,231,873	196,542	(274,161)	(33,021)	1,121,233
<u>Pooled investments</u>					
Unitised ins policies (equities)	291,153	-	(56,307)	22,306	257,152
Unitised ins policies (bonds)	64,026	-	-	(5,985)	58,041
Unitised ins policies (cash)	9,138	5,265	-	-	14,403
Unit trusts (equities)	19,912	146	(1,287)	(3,687)	15,084
Fixed income/multi asset credit	244,845	130,527	(125,485)	(14,405)	235,482
Unit trusts (property)	185,127	57,350	(10,770)	35,921	267,628
Hedge fund	116,133	-	(903)	15,390	130,620
<u>Venture capital and partnerships</u>					
Private equity	127,983	36,205	(38,746)	38,849	164,291
Property debt	55,000	28,590	(2,892)	(24)	80,674
Direct lending		25,486	(3,730)	897	22,653
Currency forwards	554	-	-	(554)	-
Equity options	2,385	-	-	(2,250)	135
<b>Total Investment assets</b>	<b>2,348,129</b>	<b>480,111</b>	<b>(514,281)</b>	<b>53,437</b>	<b>2,367,396</b>
<b>Investment liabilities</b>					
Currency forwards	(261)	-	-	(896)	(1,157)
Equity options	(15,574)	-	-	7,374	(8,200)
<b>Total investment liabilities</b>	<b>(15,835)</b>	<b>-</b>	<b>-</b>	<b>6,478</b>	<b>(9,357)</b>
Net investment assets	2,332,294	480,111	(514,281)	59,915	2,358,039
<b>Other investment balances</b>					
Cash deposits	47,709	-	-	(181)	106,673
Investment income due	6,641	-	-	-	5,851
Amounts receivable for sales	1,478	-	-	-	4,789
Amounts payable for purchases	(772)	-	-	-	(8,120)
<b>Total net investment assets</b>	<b>2,387,350</b>	<b>-</b>	<b>-</b>	<b>59,734</b>	<b>2,467,232</b>

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<b>2020/21</b>	<b>Market</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in</b>	<b>Market</b>
<b>Classifications</b>	<b>value</b>	<b>at cost</b>	<b>proceeds</b>	<b>market</b>	<b>value</b>
	<b>1 Apr 20</b>	<b>derivative</b>	<b>derivative</b>	<b>value</b>	<b>31 Mar 21</b>
	<b>£000</b>	<b>payments</b>	<b>receipts</b>	<b>£000</b>	<b>£000</b>
		<b>£000</b>	<b>£000</b>		
<b>Investment assets</b>					
Equities	872,835	192,863	(191,049)	357,224	1,231,873
<u>Pooled investments</u>					
Unitised ins policies (equities)	244,877	-	(51,277)	97,553	291,153
Unitised ins policies (bonds)	72,941	-	-	(8,915)	64,026
Unitised ins policies (cash)	62,075	-	(52,937)	-	9,138
Unit trusts (equities)	10,950	68	-	8,894	19,912
Fixed income/multi asset credit	230,615	11,484	(6,918)	9,664	244,845
Unit trusts (property)	180,186	10,208	(5,749)	482	185,127
Hedge fund	-	115,993	-	140	116,133
<u>Venture capital and partnerships</u>					
Private equity	99,547	3,936	(21,145)	45,645	127,983
Private debt	55,000	-	(1,187)	1,187	55,000
Currency forwards	646	-	-	(92)	554
Equity options	17,945	-	-	(15,560)	2,385
<b>Total Investment assets</b>	<b>1,847,617</b>	<b>334,552</b>	<b>(330,262)</b>	<b>496,222</b>	<b>2,348,129</b>
<b>Investment liabilities</b>					
Currency forwards	(2,269)	-	-	2,008	(261)
Equity options	(11,285)	-	-	(4,289)	(15,574)
<b>Total investment liabilities</b>	<b>(13,554)</b>	<b>-</b>	<b>-</b>	<b>(2,281)</b>	<b>(15,835)</b>
<b>Net investment assets</b>	<b>1,834,063</b>	<b>334,552</b>	<b>(330,262)</b>	<b>493,941</b>	<b>2,332,294</b>
<b>Other investment balances</b>					
Cash deposits	46,083	-	-	(602)	47,709
Investment income due	6,366	-	-	-	6,641
Amounts receivable for sales	598	-	-	-	1,478
Amounts payable for purchases	(1,855)	-	-	-	(772)
<b>Total net investment assets</b>	<b>1,885,255</b>	<b>-</b>	<b>-</b>	<b>493,339</b>	<b>2,387,350</b>

The change in market value of investments during the year comprises of all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

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**13.2. Investments Analysed by Fund Manager**

The market value of the assets which were under the management of fund managers and the proportion managed by each manager are below.

2020/21		Manager Analysis	2021/22	
Market Value £000	% of Fund		Market Value £000	% of Fund
987,344	41.3	Baillie Gifford (UK and global equity)	893,133	36.2
298,339	12.5	Pyrford (global equity)	269,986	10.9
246,367	10.3	Fidelity (bonds and gilts)	140,473	5.7
-	-	Robeco (corporate bonds)	95,112	3.9
351,129	14.7	Legal and General (unitised insurance - equity, bonds and cash)	372,570	15.1
200,577	8.4	Schroders (property fund)	284,082	11.5
116,133	4.9	Man Group (alternative risk premia hedge fund)	130,620	5.3
130,766	5.5	Partners Group (private equity)	172,015	7.0
56,695	2.4	Standard Life (private debt)	55,755	2.3
-	-	BentallGreenOak (property debt)	25,869	1.0
-	-	CVC (direct lending)	27,617	1.1
<b>2,387,350</b>	<b>100.0</b>	<b>Combined Fund</b>	<b>2,467,232</b>	<b>100.0</b>

**13.3. Top 10 Equity Holdings by Market Value**

Holding at 31 March 2022	Market Value £000	% of Total Equity	Classification
Rio Tinto	23,143	1.59	Metals and Mining
Prudential	22,357	1.53	Insurance
Anthem	20,507	1.41	Health Care Providers & Services
Microsoft	18,115	1.24	Software
Alphabet	17,827	1.21	Interactive Media & Services
Moodys	16,898	1.16	Capital Markets
Diageo	16,660	1.14	Beverages
Legal and General	15,414	1.06	Insurance
St James's Place	15,075	1.03	Capital Markets
Bunzl plc	14,421	0.99	Trading Companies & Distributors
<b>Total</b>	<b>180,417</b>	<b>12.36</b>	

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**13.4 Holdings Exceeding 5% by Total Net Assets**

The Fund holds the following investments that exceed 5% of the net assets available for benefits.

<b>Fund Manager &amp; Category</b>	Market Value at 31 March 2021 £000	% of total net assets %	<b>Market Value at 31 March 2022 £000</b>	<b>% of total net assets %</b>
Fidelity (Institutional UK Sustainable Aggregated Bond)	122,302	5.1	140,469	5.7
Total net assets available for benefits	2,394,440			2,474,432

**13.5. Stock Lending**

The Fund's investment strategy sets parameters for the Fund's stock-lending programme.

At the year-end, the value of quoted equities on loan was £55.686m (31 March 2021 - £97.342 m). These equities continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank. At the year end, the Fund held collateral (via the custodian) at fair value of £61.329m (31 March 2021 - £101.286m) representing 110.1% of stock lent. Collateral consists of acceptable securities and government debt.

Stock Lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

The income from stock lending in 2021/22 was £0.106m (2020/21 £0.132m) which is included in investment income in the Pension Fund account and is part of the "Stock lending and other income" in Note 12 Analysis of Investment Income £0.749m (2020/21 £0.460m).

There are no liabilities associated with the loaned assets.

**13.6. Analysis of Derivatives**

**Objectives and policies for holding derivatives**

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset.

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The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers. The derivatives that the Fund uses are forward foreign currency (currency forwards) and options. In December 2018, options were purchased to minimise the risk of loss of value through adverse equity price movements until December 2021 with some options extended to June 2022.

**Forward foreign currency (currency forwards)**

To maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock. The Investment Managers Pyrford International and Baillie Gifford hold short term currency forwards for the Fund. The use of these forward foreign currency contracts is in line with the investment management agreement between the Fund and these Fund Managers.

This currency hedging is in place to reduce the extent to which the Fund is exposed to certain currency movements. These investments are used to ensure that cash can remain invested short term in equities. The sale of currency forwards, traded over the counter (OTC), is undertaken in order to hedge foreign currency exposure risk back to the portfolio's base currency of GBP.

<b>Investment underlying option contract</b>	<b>Currency bought</b>	<b>Local value</b>	<b>Currency sold</b>	<b>Local value</b>	<b>Asset value</b>	<b>Liability value</b>
		000		000	£000	£000
Up to six months	GBP	21,715	CHF	(26,882)		(655)
Up to six months	GBP	10,423	CAD	(17,974)		(502)
<b>Net forward currency contracts at 31 March 2022</b>						<b>(1,157)</b>
<b>Prior year comparative</b>						
<b>Net forward currency contracts at 31 March 2021</b>						<b>554 (261)</b>

**Purchased/written options**

Equity protection options were purchased in December 2018 to protect passive equities (pooled investment - unitised insurance equities) from losses caused by adverse equity price movements until December 2021. These options are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle but have been shown as separate assets and liabilities in note 13.1. The equity options that expired in June 2019 were extended to June 2022.

When an entity buys an options contract, it grants them the right, but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. A call option gives the holder the right to buy stock and a put option gives the holder the right to sell stock.

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The basis of valuing the options (which are “over-the-counter” derivatives) is the Black-Scholes model. Black-Scholes is a pricing model used to determine the fair value or theoretical value for a derivative option based on six variables such as volatility, type of option, underlying stock price, time strike price, and risk-free rate. Outstanding over-the-counter options held in the bespoke equity protection pooled fund are as follows.

<b>Investment underlying option contract</b>	<b>Expires</b>	<b>Put/ call</b>	<b>Notional holding</b>	<b>Market value 31 Mar 21</b>	<b>Notional holding</b>	<b>Market value 31 Mar 22</b>
				£000		£000
<b>Assets</b>						
UK equities	June 2022	Put	275	1,252	275	105
Overseas equities	June 2022	Put	152	454	152	30
						<b>135</b>
<b>Liabilities</b>						
<b>Investment underlying option contract</b>	<b>Expires</b>	<b>Put/ call</b>	<b>Notional holding</b>	<b>Market value 31 March 21</b>	<b>Notional holding</b>	<b>Market value 31 March 22</b>
				£000		£000
UK equities	June 2022	Put	(275)	(419)	(275)	(24)
	June 2022	Call	(275)	(250)	(275)	(448)
Overseas equities	June 2022	Put	(152)	(177)	(152)	(11)
	June 2022	Call	(152)	(5,555)	(152)	(7,717)
						<b>(8,200)</b>
<b>Net purchased/written options at 31 March 2022</b>						<b>(8,065)</b>

#### **14.1. Fair Value – Basis of Valuation**

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

##### **Level 1**

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

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**Level 2**

Assets and liabilities 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 based on observable market data.

**Level 3**

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

<b>Description of Asset</b>	<b>Valuation hierarchy</b>	<b>Basis of valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuations provided</b>
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a quoted market value based on current yields	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled investments – overseas unit trusts, property funds and alternative risk premia, unitised insurance policies (equities and bonds)	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required

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<b>Description of Asset</b>	<b>Valuation hierarchy</b>	<b>Basis of valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuations provided</b>
Pooled investments – property funds which are not listed	Level 3	Financial statements or other market indicators or information are used to calculate valuation	The following is used: Estimated rental growth Covenant strength for existing tenancies Discount rate Estimated rental growth Land/building valuation survey	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Unquoted equity/private debt	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (31 March 2020)	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements and the Fund's own reporting date, by changes to expected cash flows, and any differences between audited and unaudited accounts
Unquoted commercial real estate debt	Level 3	Valued by the Fund Manager using critical accounting estimates and judgements from the fund's financial statement	Observable and unobservable input are critical accounting estimates and judgements from the fund's financial statement	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, any differences between audited and unaudited accounts

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**14.2. Sensitivity of assets valued at level 3**

Having consulted the Fund's independent investment advisors (Aon), it was determined that the valuation methods described above for Level 3 investments are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

<b>Asset type</b>	<b>Value as at 31 Mar 2022</b>	<b>Assessed valuation range</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>£000</b>
<u>Pooled investment vehicles</u>				
Units trust (property)	267,628	12.5%	301,082	234,175
<u>Venture capital and partnerships</u>				
Private equity	164,291	25.0%	205,364	123,218
Property debt	80,674	7.4%	86,644	74,704
Direct lending	22,653	6.4%	24,103	21,203

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**14.3. Fair Value Hierarchy**

Values at 31 March 2022	Quoted market price	Using observable input	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial assets</b>				
Equities	1,121,233	-	-	1,121,233
<u>Pooled investments</u>				
Unitised insurance policies (equities)	-	257,152	-	257,152
Unitised insurance policies (bonds)	-	58,041	-	58,041
Unitised insurance policies (cash)	-	14,403	-	14,403
Unit trust (equities)	-	15,084	-	15,084
Fixed income/multi asset credit	-	235,482	-	235,482
Unit trust (property)	-	-	267,628	267,628
Hedge fund	-	130,620	-	130,620
<u>Venture capital and partnerships</u>				
Private equity	-	-	164,291	164,291
Property debt	-	-	80,674	80,674
Direct lending	-	-	22,653	22,653
Cash deposits	106,673	-	-	106,673
Investment income due	5,851	-	-	5,851
Amounts receivable for sales	4,789	-	-	4,789
Equity options	-	135	-	135
Currency forwards	-	-	-	-
<b>Total investment assets</b>	<b>1,238,546</b>	<b>710,917</b>	<b>535,246</b>	<b>2,484,709</b>
<b>Investment liabilities</b>				
Currency forwards	-	(1,157)	-	(1,157)
Amounts payable for purchases	(8,120)	-	-	(8,120)
Equity options	-	(8,200)	-	(8,200)
<b>Total investment liabilities</b>	<b>(8,120)</b>	<b>(9,357)</b>	<b>-</b>	<b>(17,477)</b>
<b>Net investments total</b>	<b>1,230,426</b>	<b>701,560</b>	<b>535,246</b>	<b>2,467,232</b>

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Values at 31 March 2021	Quoted market price	Using observable input	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial assets</b>				
Equities	1,231,873	-	-	1,231,873
<u>Pooled investments</u>				
Unitised insurance policies (equities)	-	291,153	-	291,153
Unitised insurance policies (bonds)	-	64,026	-	64,026
Unitised insurance policies (cash)	-	9,138	-	9,138
Unit trust (equities)	-	19,912	-	19,912
Fixed income/multi asset credit	-	244,845	-	244,845
Unit trust (property)	-	-	185,127	185,127
Hedge fund	-	116,133	-	116,133
<u>Venture capital and partnerships</u>				
Private equity	-	-	127,983	127,983
Property debt	-	-	55,000	55,000
Cash deposits	47,709	-	-	47,709
Investment income due	6,641	-	-	6,641
Amounts receivable for sales	1,478	-	-	1,478
Equity options	-	2,385	-	2,385
Currency forwards	-	554	-	554
<b>Total investment assets</b>	<b>1,287,701</b>	<b>748,146</b>	<b>368,110</b>	<b>2,403,957</b>
<b>Investment liabilities</b>				
Currency forwards	-	(261)	-	(261)
Amounts payable for purchases	(772)	-	-	(772)
Equity options	-	(15,574)	-	(15,574)
<b>Total investment liabilities</b>	<b>(772)</b>	<b>(15,835)</b>	<b>-</b>	<b>(16,607)</b>
<b>Net investments total</b>	<b>1,286,929</b>	<b>732,311</b>	<b>368,110</b>	<b>2,387,350</b>

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**14.4. Reconciliation of Fair value Measurements within Level 3**

	<b>Pooled investment vehicles</b>	<b>Venture capital and partnerships</b>		
	<b>Units trust (property)</b>	<b>Direct lending</b>	<b>Private equity</b>	<b>Property debt</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Market value 1 Apr 2021	185,127	-	127,983	55,000
Purchases during the year and derivative payments	57,350	25,486	36,205	28,590
Sales during the year and derivative receipts	(10,770)	(3,730)	(38,746)	(2,892)
Unrealised gains/(losses)	37,148	833	12,873	(685)
Realised gain	(1,227)	64	25,976	661
<b>Market value 31 March 2022</b>	<b>267,628</b>	<b>22,653</b>	<b>164,291</b>	<b>80,674</b>

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**15. Financial Instruments**

**15.1. Classification of 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 carrying amount of financial assets and liabilities by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

<b>31 March 2022</b>	<b>Fair value through profit &amp; loss</b>	<b>Financial assets at amortised cost</b>	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial assets</b>				
Equities	1,121,233	-	-	1,121,233
<u>Pooled investments</u>				
Unitised ins policies (equities)	257,152	-	-	257,152
Unitised ins policies (bonds)	58,041	-	-	58,041
Unitised ins policies (cash)	14,403	-	-	14,403
Unit trust equity	15,084	-	-	15,084
Fixed income/multi asset credit	235,482	-	-	235,482
Unit trusts (property)	267,628	-	-	267,628
Hedge funds	130,620	-	-	130,620
<u>Venture capital and partnerships</u>				
Private equity	164,291	-	-	164,291
Property debt	80,674	-	-	80,674
Direct lending	22,653	-	-	22,653
Currency forwards	-	-	-	-
Equity options	135	-	-	135
Amounts receivable for sales	-	4,789	-	4,789
Cash deposits	96,792	9,881	-	106,673
Investment income due	-	5,851	-	5,851
Long term debtors	-	498	-	498
Short term debtors	-	6,250	-	6,250
Bank	-	5,801	-	5,801
<b>Total financial assets</b>	<b>2,464,188</b>	<b>33,070</b>	<b>-</b>	<b>2,497,258</b>
<b>Financial liabilities</b>				
Currency forwards	(1,157)	-	-	(1,157)
Equity options	(8,200)	-	-	(8,200)
Amounts payable for purchases	-	-	(8,120)	(8,120)
Creditors	-	-	(5,349)	(5,349)

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	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
<b>Total financial liabilities</b>	<b>(9,357)</b>	-	<b>(13,469)</b>	<b>(22,826)</b>
<b>Closing net financial assets</b>	<b>2,454,831</b>	<b>33,070</b>	<b>(13,469)</b>	<b>2,474,432</b>

<b>31 March 2021</b>	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	£000	£000	£000	£000
<b>Financial assets</b>				
Equities	1,231,873	-	-	1,231,873
<u>Pooled investments</u>				
Unitised ins policies (equities)	291,153	-	-	291,153
Unitised ins policies (bonds)	64,026	-	-	64,026
Unitised ins policies (cash)	9,138	-	-	9,138
Unit trust equity	19,912	-	-	19,912
Fixed income/multi asset credit	244,845	-	-	244,845
Unit trusts (property)	185,127	-	-	185,127
Hedge funds	116,133	-	-	116,133
<u>Venture capital and partnerships</u>				
Private equity	127,983	-	-	127,983
Property debt	55,000	-	-	55,000
Currency forwards	554	-	-	554
Equity options	2,385	-	-	2,385
Amounts receivable for sales	-	1,478	-	1,478
Cash deposits	45,634	2,075	-	47,709
Investment income due	-	6,641	-	6,641
Long term debtors	-	435	-	435
Short term debtors	-	6,219	-	6,219
Bank	-	5,350	-	5,350
<b>Total financial assets</b>	<b>2,393,763</b>	<b>22,198</b>	-	<b>2,415,961</b>
<b>Financial liabilities</b>				
Currency forwards	(261)	-	-	(261)
Equity options	(15,574)	-	-	(15,574)
Amounts payable for purchases	-	-	(772)	(772)
Creditors	-	-	(4,914)	(4,914)

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	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
<b>Total financial liabilities</b>	(15,835)	-	(5,686)	(21,521)
<b>Closing net financial assets</b>	2,377,928	22,198	(5,686)	2,394,440

## 15.2. Net Gains and Losses on Financial Instruments

	2020/21 £000	2021/22 £000
<b>Financial assets</b>		
Fair value through profit and loss	496,222	53,437
Amortised cost – unrealised gains	(602)	(181)
<b>Financial liabilities</b>		
Fair value through profit and loss	(2,281)	6,478
<b>Total</b>	<b>493,339</b>	<b>59,734</b>

## 16. The Nature and Extent of Risks Arising from Financial Instruments

### Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefit 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 to ensure 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 programme.

The Pensions Committee is responsible for the Fund's risk management strategy. There is a risk register in place which follows the CIPFA guidance Managing risk in the LGPS. This is regularly reviewed, and significant risks are reported to the Pensions Committee.

### Market risk

Market risk is the risk of loss from fluctuations in equity and commodity 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.

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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. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks by ensuring that specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

**Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments.

**Other price risk – sensitivity analysis**

Following analysis of historical data and expected investment return movement and in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period.

<b>Asset type</b>	<b>Potential market movement (+/ 2020/21</b>	<b>Potential market movement (+/ 2021/22</b>
UK equities	19.0%	19.0%
Global equities (excluding UK)	18.0%	18.0%
UK fixed income unit trusts	8.0%	8.0%
Corporate bonds (medium term)	7.5%	7.5%
Overseas corporate bonds	7.5%	7.5%
UK fixed gilts (medium term)	8.5%	8.5%

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UK index linked gilts (medium term)	7.0%	7.0%
Property	12.5%	12.5%
Private Equity	25.0%	25.0%
Property Debt	7.5%	7.5%
Multi Asset Credit	-	9.7%
Direct Lending	-	6.4%
Alternative risk premia strategies	-	8.0%
Cash	0.0%	0.0%

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 investment advisors' most recent review. The Fund's investment advisors suggest that the approach to modelling market price risk should take account of the diversification of assets in the Fund. This approach is different to that outlined in the CIPFA recommended code of practice, where the sum of all potential changes in asset class values are taken to determine the impact on the total value of the Fund. Consequently, the total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

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 would have been as follows:

Asset type	Value as at 31 Mar 2022 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash deposits	106,673	0.0	106,673	106,673
Unitised ins policies (cash)	14,403	0.0	14,403	14,403
<b>Investment portfolio assets:</b>				
UK equities	433,679	19.0	516,078	351,280
Global equities (overseas)	959,789	18.0	1,132,552	787,028
UK fixed income unit trusts	60,683	8.0	65,538	55,828
UK Corporate bonds (medium term)	53,378	7.5	57,381	49,375
Overseas Corporate bonds (medium term)	26,408	7.5	28,389	24,427
Fixed income multi asset credit	95,013	9.7	104,229	85,797
UK fixed gilts (medium term)	41,684	8.5	45,227	38,141
UK index linked gilts (medium term)	16,357	7.0	17,502	15,212
Unit trusts property	267,628	12.5	301,082	234,175
Private equity	164,291	25.0	205,364	123,218
Property debt	80,674	7.4	86,644	74,704

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Direct lending	22,653	6.4	24,103	21,203
Hedge funds	130,620	8.0	141,070	120,170
Investment income due	5,851	0.0	5,851	5,851
Amounts receivable for sales	4,789	0.0	4,789	4,789
Net equity options (UK)	(366)	19.0	(436)	(296)
Net equity options (overseas)	(7,698)	18.0	(9,084)	(6,313)
Amount payable for purchases	(8,120)	0.0	(8,120)	(8,120)
Net currency forwards	(1,157)	0.0	(1,157)	(1,157)
<b>Net investment assets</b>	<b>2,467,232</b>		<b>2,838,078</b>	<b>2,096,388</b>

<b>Asset type</b>	<b>Value as at 31 Mar 2021 £000</b>	<b>Percentage change %</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Cash deposits	47,709	0.0	47,709	47,709
Unitised ins policies (cash)	9,138	0.0	9,138	9,138
Unit trusts (bonds) cash held	2,448	0.0	2,448	2,448
<b>Investment portfolio assets:</b>				
UK equities	527,114	19.0	627,265	426,962
Global equities (overseas)	1,015,825	18.0	1,198,673	832,976
UK fixed income unit trusts	114,343	8.0	123,490	105,195
UK Corporate bonds (medium term)	88,879	7.5	95,545	82,214
Overseas Corporate bonds (medium term)	39,175	7.5	42,114	36,237
UK fixed gilts (medium term)	48,470	8.5	52,590	44,350
UK index linked gilts (medium term)	15,556	7.0	16,645	14,467
Unit trusts property	185,127	12.5	208,268	161,986
Private equity	127,983	25.0	159,979	95,987
Property debt	55,000	7.5	59,125	50,875
Hedge funds	116,133	7.0	124,262	108,004
Investment income due	6,641	0.0	6,641	6,641
Amounts receivable for sales	1,478	0.0	1,478	1,478
Net equity options (UK)	641	19.0	763	519
Net equity options (overseas)	(13,831)	18.0	(16,320)	(11,341)
Amount payable for purchases	(772)	0.0	(772)	(772)
Net currency forwards	293	0.0	293	293
<b>Net investment assets</b>	<b>2,387,350</b>		<b>2,759,334</b>	<b>2,015,366</b>

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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 represent 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 officers and its investment advisors 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 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

<b>Asset type</b>	31 March 2021	<b>31 March 2022</b>
	£000	<b>£000</b>
Cash and cash equivalents	47,709	106,673
Unitised ins policies (cash)	9,138	14,403
Bank accounts	5,350	5,801
Legal & General fixed interest gilts	48,470	41,684
Legal & General index linked gilts	15,556	16,357
Fidelity and Robeco (fixed income)	244,845	235,482
<b>Total</b>	<b>371,068</b>	<b>420,400</b>

**Interest rate risk sensitivity analysis**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The Fund's investment advisors suggest that a 100-basis point (BPS) movement in interest rates is appropriate for carrying out the interest rate sensitivity analysis.

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 (1%) change in interest rates:

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Asset type	Carrying amount as at 31 March 2022	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash and cash equivalents	106,673	1,067	(1,067)
Unitised ins policies (cash)	14,403	144	(144)
Bank accounts	5,801	58	(58)
Legal & General fixed interest gilts	41,684	417	(417)
Legal & General index linked gilts	16,357	164	(164)
Fidelity and Robeco (fixed income)	235,482	2,355	(2,355)
<b>Total</b>	<b>420,400</b>	<b>4,205</b>	<b>(4,205)</b>

Asset type	Carrying amount as at 31 March 2021	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash and cash equivalents	47,709	477	(477)
Unitised ins policies (cash)	9,138	91	(91)
Bank accounts	5,350	54	(54)
Legal & General fixed interest gilts	48,470	485	(485)
Legal & General index linked gilts	15,556	156	(156)
Fidelity and Robeco (fixed income)	244,845	2,448	(2,448)
<b>Total</b>	<b>371,068</b>	<b>3,711</b>	<b>(3,711)</b>

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the base currency of the Fund (£ Sterling).

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

The following table summarises the Fund's currency exposure as at 31 March 2022 and as at the previous period end.

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<b>Currency exposure – asset type</b>	Asset value as at 31 March 2021 £000	Asset value as at 31 March 2022 £000
Overseas quoted securities and cash	790,305	747,526
Overseas unitised insurance policies	235,503	215,337
Overseas property fund	284	310
Overseas unquoted private equity	127,983	164,291
Overseas unit trust (bonds)	39,175	110,280
<b>Total overseas assets</b>	<b>1,193,250</b>	<b>1,237,744</b>

**Currency risk - sensitivity analysis**

A 13% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant. A 13% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows.

<b>Currency exposure - asset type</b>	<b>Asset value 31 March 2022 £000</b>	<b>Change to net assets available to pay benefits</b>	
		<b>+13% £000</b>	<b>-13% £000</b>
Overseas quoted securities and cash			
Australian dollar (AUD)	22,484	25,407	19,561
Brazilian real (BRL)	3,657	4,132	3,182
Other overseas investments in GBP	45,931	51,902	39,960
Canadian dollar (CAD)	684	773	595
Danish krone (DKK)	3,886	4,391	3,381
Euro (EUR)	64,994	73,443	56,545
Hong Kong dollar (HKD)	44,762	50,581	38,943
Indonesian rupiah (IDR)	5,960	6,735	5,185
Japanese yen (JPY)	40,208	45,435	34,981
Malaysian ringgit (MYR)	10,266	11,601	8,931
New Taiwan dollar (TWD)	14,092	15,924	12,260

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Norwegian krone (NOK)	8,797	9,941	7,653
Singapore dollar (SGD)	15,786	17,838	13,734
South African rand (ZAR)	3,969	4,485	3,453
Swedish krona (SEK)	12,881	14,555	11,207
Swiss franc (CHF)	6,200	7,006	5,394
United States dollar (USD)	442,969	500,555	385,383
<b>Total</b>	<b>747,526</b>	<b>844,704</b>	<b>650,348</b>
Overseas unitised insurance policies (quoted in GBP no other values available)	215,337	243,331	187,343
Overseas property fund (EUR)	310	350	270
Overseas unquoted private equity (EUR)	164,291	185,649	142,933
Overseas unit trust (bonds)	110,280	124,616	95,943
<b>Total change in assets available</b>	<b>1,237,744,</b>	<b>1,398,650</b>	<b>1,076,837</b>

<b>Currency exposure - asset type</b>	<b>Asset value 31 March 2021</b>	<b>Change to net assets available to pay benefits</b>	
		<b>+13%</b>	<b>-13%</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Overseas quoted securities			
Australian dollar (AUD)	24,875	28,109	21,641
Brazilian real (BRL)	2,819	3,185	2,453
Other overseas investments in GBP	15,094	17,056	13,132
Canadian dollar (CAD)	14,877	16,811	12,943
Danish krone (DKK)	2,866	3,239	2,493
Euro (EUR)	66,516	75,163	57,869
Hong Kong dollar (HKD)	50,683	57,272	44,094
Indonesian rupiah (IDR)	5,517	6,234	4,800
Japanese yen (JPY)	56,584	63,940	48,228
Malaysian ringgit (MYR)	10,987	12,415	9,559
New Taiwan dollar (TWD)	10,993	12,422	9,564
Norwegian krone (NOK)	8,899	10,056	7,740
Singapore dollar (SGD)	17,391	19,652	15,130
South African rand (ZAR)	19,476	22,008	16,944
Swedish krona (SEK)	12,900	14,577	11,223
Swiss franc (CHF)	25,442	28,749	22,134
United States dollar (USD)	444,386	502,156	386,616

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Total	790,305	893,044	686,563
Overseas unitised insurance policies (quoted in GBP no other values available)	235,503	266,118	204,888
Overseas property fund (EUR)	284	321	247
Overseas unquoted private equity (EUR)	127,983	144,621	111,345
Overseas unit trust (bonds)	39,175	44,268	34,082
<b>Total change in assets available</b>	<b>1,193,250</b>	<b>1,348,372</b>	<b>1,037,125</b>

**Credit risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects 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.

The Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

None of the Fund Managers have a mandate to specifically manage cash and so cash is generally held by the Custodian and invested in Money Market Funds (Sterling and Euro Funds). The Northern Trust Money Market Funds are triple A rated. In addition, the Fund's surplus cash from scheme members' contributions is managed as part of The Highland Council's treasury management function. Prior to transfer to the Fund's investment managers, cash surpluses, are deposited with the Pension Fund's bank (Clydesdale) thus minimising credit risk. The Fund had the following cash holdings at the year end.

	<b>31 March 2021</b>	<b>31 March 2022</b>
	<b>£000</b>	<b>£000</b>
Northern Trust Global Investment liquidity funds	45,634	96,792
Northern Trust Cash deposits	2,075	9,881
	<b>47,709</b>	<b>106,673</b>

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The following cash balances are held and managed in accordance with the Highland Council Treasury Management Strategy Statement.

	<b>31 March 2021</b>	<b>31 March 2022</b>
	<b>£000</b>	<b>£000</b>
Clydesdale accounts	5,350	5,801

### **Liquidity risk**

Liquidity risk represents the risk that the Fund will not meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

On the basis that the current investment income yield is maintained, 2021/22 investment income was £41.2m (2020/21 investment income £33.2m), then this would generate sufficient income to meet benefit payments for the immediate future. Provided the investment income yield remains at current levels then the time when assets need to be sold to meet benefit payments still looks sometime in the future.

It should be noted though that the negative cash flow position could be increased by a combination of public sector cuts, member opt-outs or outsourcing which reduces the pensionable payroll.

### **Refinancing risk**

The key risk is that the Fund will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

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

CIPFA's Code of Practice on Local Authority Accounting 2021/22 requires administering authorities of LGPS Funds that prepare Pension Fund accounts to disclose what IAS 26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS 19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared as at the date of the financial statements as is the case, IAS 26 requires the most recent valuation to be used as a

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base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS 19 and not the Fund's funding assumptions. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Statement (page 101). This estimate is subject to significant variances based on changes to the underlying assumptions.

The actuarial present value of promised retirement benefits is as follows:

	<b>31 March 2021 £m</b>	<b>31 March 2022 £m</b>
Present Value of Promised Retirement Benefits*	2,956	2,872
Net Assets per Annual Accounts	2,394	2,474

\* Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2020.

Note that the above figures at 31 March 2021 and 31 March 2022 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. The estimated allowance within the 31 March 2022 figure reflects the proposed changes to the McCloud eligibility criteria in SPPA's Consultation.

The Actuary estimates that the liability at 31 March 2022 is £2,872m which comprises of £1,487m in respect of employee members, £490m in respect of deferred pensioners and £895m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the Actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The Actuary has not made any allowance for unfunded benefits.

### **Assumptions**

The assumptions used are those adopted for the Administering Authority's IAS 19 report as required by the Code of Practice. These are given below. The Actuary estimates that the impact of the change of financial assumptions to 31 March 2021 is to decrease the actuarial present value by £213m. The Actuary also estimates that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £16m.

<b>Financial Assumptions</b>	<b>31 March 2021 %p.a.</b>	<b>31 March 2022 %p.a.</b>
Inflation/Pension Increase Rate	2.85	3.20
Salary Increase Rate	3.65	4.00
Discount Rate	2.00	2.70

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**Discount rate**

IAS 19 states that the discount rate used to place a value on the liabilities should be “determined by reference to market on high quality corporate bonds at the reporting date”. It further states that “the currency and term of the corporate bonds used to set the discount rate should be consistent with the currency and term of the liabilities”.

The Actuary’s approach to setting the discount rate as at 31 March 2022 follows the same principles to those adopted at 31 March 2020 which was to use a “Hymans Robertson LLP” corporate bond yield curve constructed based on the constituents of the iBoxx AA Corporate bond index.

Separate discount rates are then set (and corresponding RPI/CPI inflation assumptions – see below) for individual employers, dependent on their own weighted average duration. Each employer is allocated to a duration category, as defined below:

<b>Weighted average duration</b>	<b>Discount rate category</b>
Less than 17 years	Short
Between 17 and 23 years	Medium
More than 23 years	Long

**Retail price inflation assumption**

This assumption is typically derived from yields available on fixed interest and index linked government bonds and should be consistent with the derivation of the discount rate.

The Actuary uses a market implied inflation curve over a range of maturities. Cash flow weighted single RPI rates are derived from the market implied inflation curve that recognise the weighted average duration of each corresponding duration category defined above.

**Pension increase assumption**

The pension increase assumption is set in line with the Actuary’s default Consumer Prices Index (CPI) assumption. As a market in CPI linked bonds does not exist, the Actuary estimates the long-term gap between RPI and CPI in order to derive a CPI assumption for accounting purposes. The default assumed RPI-CPI gap will be 0.50% over short duration bonds, 0.45% over medium duration bonds and 0.40% over long duration bonds (note this is a slight reduction from the 2020 accounting exercise where 0.9% was used).

**Salary increase assumption**

The assumption set out in the Actuarial Valuation 2020 for salary increases is CPI plus 0.8% p.a.

**Longevity assumptions**

The life expectancy assumptions are included in the Actuarial statement on page 101.

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**18. Additional Voluntary Contributions (AVCs)**

The AVC facility is provided by the Prudential Assurance Company Limited and is a money purchase arrangement where members have the choice to invest in a range of low, medium and high-risk investment funds. In accordance with regulation 5 (2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (S1 1998 No. 1831), these figures do not form part of the accounts of the Pension Fund and are stated for information only.

The value of Prudential AVCs at 31 March 2022 is unavailable for the unaudited accounts.

**19. Agency Services**

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 (Section 31) allows employers to pay additional pensions on a voluntary basis.

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers' pensions and employee pensions are paid with the payment of funded pensions. In order that such are not regarded as "unauthorised payments" by HMRC these pension payments are met by the administering authority and recharged to the body or service which granted the benefits.

As unfunded payments are discretionary benefits, they are not relevant to the sums disclosed in the Fund accounts. As such Highland Council Pension Fund provides payment and billing services to employers on a no charge agency agreement basis.

**20. Related Parties**

The Highland Council Pension Fund is administered by the Highland Council. As a result, there is a strong relationship between the Council and the Fund. The Council is also the largest employer in the Fund.

The Pension Fund operates its own bank account. The Council's Treasury Management team manage surplus cash balances prior to transmission of funds to the Fund Managers for investment.

The Pension Fund does not directly employ any staff. Therefore, no remuneration report is included within the Annual Report and Annual Accounts. All staff are employed by the Highland Council and their costs reimbursed by the Pension Fund.

The Councillors, who are members of the Pension Fund Sub-Committee and Pension Board are also remunerated by the Highland Council. Details of Councillor and Senior Employee remuneration can be found in the accounts of the Highland Council on the Council's website.

[http://www.highland.gov.uk/downloads/download/539/annual\\_accounts](http://www.highland.gov.uk/downloads/download/539/annual_accounts)

Each member of the Fund is required to declare their interests at each meeting.

The following Senior Officer of the Highland Council held a key position in the financial

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management of the Pension Fund during the financial year to 31 March 2022.

Name	Resp	Pension contributions in year to		Accrued pension benefits as at		Difference in accrued pension benefits compared to Mar 2021
		31/03/21	31/03/22	31/03/22		
Liz Denovan	Executive Chief Officer, Resources and Finance	£18,317	£18,307	Pension	£39,423	£2,227
				Lump sum	£60,742	£513

Pension receipts and payments are transacted using the Highland Council financial systems and the Fund's banking arrangements. Throughout the year, the Fund maintains a cash balance for this purpose which is listed as Bank accounts in the net assets statement.

Contributions of £36.092m were paid by the Highland Council to the Fund during 2021/22 as set out in Note 8 (£33.893m in 2020/21) and central administration costs of £1.454m (£1.285m in 2020/21) were recharged to the Fund.

As at 31 March 2022, the Pension Fund had a net intercompany debtor of £4.386m (31 March 2021 £4.013m) representing sums due from the Highland Council. These balances in the main cover contributions payable by the Highland Council to the Pension Fund which were paid over in the first quarter of 2021.

## **21. Contingent Assets, Liabilities and Contractual Commitments**

### **Contingent assets**

- During 2009/10, KPMG were contracted to submit "EU Fokus Bank" claims for recovery of withholding tax with an estimated value of £1.228m (€1.429m) gross of fees. An additional revised contract was agreed in April 2012 with KPMG to continue with the claim. There have been no further repayments in 2021/22 with claims ongoing in France, Germany and Italy.

### **Contingent liabilities**

- As at 31 March 2022 there is a contingent liability of £0.694m (£0.669m in 2020/21) for frozen refunds representing 2,297 (2,129 in 2020/21) frozen refund records.

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**Contractual commitment**

As at 31 March 2022 the Highland Council Pension Fund had contractual commitments in respect of fund manager investments, as follows. These commitments relate to outstanding call payments due on unquoted limited partnership fund held in private equity, direct lending, property debt and infrastructure. The amounts “called” by these funds are irregular in both amount and timing over the period and can take several years to drawdown from the date of each original commitment.

<b>Investment</b>	<b>Commitment</b>	<b>Undrawn commitments 31/03/2021</b>	<b>Undrawn commitments 31/03/2022</b>
Partners Group Global Value 2011	£42.253m (€50.000m)	£5.951m (€6.986m)	£5.903m (€6.986m)
Partners Group Global Value 2014	£67.605m (€80.000m)	£8.697m (€10.209m)	£8.627m (€10.209m)
Partners Group Global Value 2017	£56.619m (€67.000m)	£31.418m (€36.881m)	£24.089m (€28.506m)
Partners Group Direct Equity IV EUR SCA SICAV RAIF (2019)	£46.901m (€55.000m)	N/A as investment not in place	£17.847m (€21.120m)
CVC European Direct Lending 2021 fund	£100.000m		£77.985m
BentallGreenOak Secured Lending III	£100.000m		£72.754m
KKR Diversified Core Infrastructure	£133.203m (\$175.000m)		£133.203m (\$175.000m)

**22. Current Assets**

2020/21 £000	<b>Debtors</b>	<b>2021/22 £000</b>
1,143	Contributions due - employees	1,194
3,798	Contributions due - employers	3,799
124	Strain on fund costs	275
1,154	Other short term debtors	982
<b>6,219</b>	<b>Total short term debtors</b>	<b>6,250</b>
5,350	Bank accounts	5,801
<b>11,569</b>	<b>Total current assets</b>	<b>12,051</b>

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**23. Long Term Debtors**

2020/21	<b>Debtors</b>	<b>2021/22</b>
£000		<b>£000</b>
194	Long term debtors	73
241	Reimbursement of lifetime tax allowances	425
<b>435</b>		<b>498</b>

**24. Current Liabilities**

2020/21	<b>Creditors</b>	<b>2021/22</b>
£000		<b>£000</b>
(3,359)	Sundry creditors	(3,922)
(105)	Transfer values payable (leavers)	(111)
(1,450)	Benefits payable	(1,316)
<b>(4,914)</b>		<b>(5,349)</b>

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**Actuarial Statement as at 31 March 2022**

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

**Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy (FSS), dated March 2021. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 67% chance that the Fund will be fully funded in the long-term (20 years).

**Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £1,892 million, were sufficient to meet 100% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £6 million. Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as set out in its FSS.

**Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the 2020 valuation report.

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**Method**

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership

**Assumptions**

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2020 valuation were as follows:

<b>Financial assumptions</b>	<b>31 March 2020</b>
Discount rate	3.2%
Salary increase assumption	2.5%
Benefit increase assumption (CPI)	1.7%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long-term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	<b>Males</b>	<b>Females</b>
Current Pensioners	21.0 years	23.5 years
Future Pensioners*	22.4 years	25.5 years

\*Currently aged 45

Copies of the 2020 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

**Experience over the period since 31 March 2020**

Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but have recovered very strongly in 2020/21. Due to the war in Ukraine, early 2022 resulted in volatile markets, which affects values at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be significantly better than that reported at the previous formal valuation at 31 March 2020.

The next actuarial valuation will be carried out as at 31 March 2023. The Funding Strategy Statement will also be reviewed at that time.

Robert Bilton FFA

3 May 2022

For and on behalf of Hymans Robertson LLP

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**Glossary**

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of <b>liabilities</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's trustees.
<b>Admission Bodies</b>	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are <b>members</b> . There will be an Admission Agreement setting out the employer's obligations.
<b>Common contribution rate</b>	The Fund-wide <b>future service rate</b> plus <b>past service adjustment</b> . It should be noted that this will differ from the actual contributions payable by individual <b>employers</b> .
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Currency forwards</b>	A currency forward contract is essentially a hedging tool that does not involve any upfront payment. It locks in the exchange rate for the purchase or sale of a currency on a future date. It can be tailored to a particular amount and delivery period, unlike standardized currency futures. Currency forwards are over-the-counter (OTC) instruments, as they do not trade on a centralized exchange.
<b>Deficit</b>	The shortfall between the assets value and the <b>liabilities</b> value. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
<b>Deficit repair/recovery period</b>	The target length of time over which the current <b>deficit</b> is intended to be paid off. A shorter period will give rise to a higher annual <b>past service adjustment</b> (deficit repair contribution), and vice versa.
<b>Discount rate</b>	The annual rate at which future assumed cash flows (in and out of the Fund) are discounted to the present day. This is necessary to provide a <b>liabilities</b> value which is consistent with the present-day value of the assets, to calculate the <b>deficit</b> . A lower discount rate gives a higher liabilities value,

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and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.

**Employer**

An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.

**Employer contribution rates (Primary and Secondary)**

Employer contributions are made up of two elements:

- 1) the estimated cost of future benefits being built up each year, after deducting members' own contributions and including an allowance for the Fund's administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus
- 2) an adjustment for the difference between the Primary rate above and the total contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

When referring to the overall primary and Secondary rates for the fund:

- 1) The Primary rate (21.2% at 2020 valuation) is the payroll weighted average of the underlying individual employer primary rates.
- 2) The Secondary rate is the total of the underlying individual employer secondary rate (-£4.581m at 2020 valuation)

**Funding level**

The ratio of assets value to **liabilities** value.

**Future service rate**

The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.

**Gilt**

A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as

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assets by the Fund, but their main use in funding is as an objective measure of solvency.

**Gilt yield curves**

The line on a graph plotting the relationship between gilt yields and their maturity dates. A yield curve can show the relation between gilts of varying maturities and their yields. Yield curves can be normal/up-sloped (indicates yield on longer term bonds may continue to rise, responding to periods of economic expansion), inverted/down-sloped (suggests yields on longer-term bonds may continue to fall, corresponding to periods of economic recession) or flat (when economy is transitioning from expansion to slower development and even recession, yields on longer maturity bonds tend to fall and yields on shorter-term securities likely to rise).

**Gilt yields**

The yield of a gilt is the annual return on the market price of the bond, expressed as a percentage. To calculate yield amount, the face value of the gilt is multiplied by the yield in decimal form.

**Guarantee / guarantor**

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

**Letting employer**

An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority.

**Liabilities**

The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

**LGPS**

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

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<b>Maturity</b>	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferred (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Past service adjustment</b>	The part of the employer's annual contribution which relates to past service <b>deficit</b> repair.
<b>Pooling</b>	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of <b>deficit</b> , or (if formally agreed) it may allow <b>deficits</b> to be passed from one employer to another.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.
<b>Scheduled Bodies</b>	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

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<b>Securities Lending</b>	Securities lending is the act of loaning a stock, derivative or other security to an investor or firm. Securities lending requires the borrower to put up collateral, whether cash, security or a letter of credit. When a security is loaned, the title and the ownership are also transferred to the borrower.
<b>Solvency</b>	In a funding context, this usually refers to a 100% <b>funding level</b> , i.e. where the assets value equals the <b>liabilities</b> value.
<b>Stabilisation</b>	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
<b>Theoretical contribution rate</b>	The employer's contribution rate, including both <b>future service rate</b> and <b>past service adjustment</b> , which would be calculated on the standard <b>actuarial basis</b> , before any allowance for <b>stabilisation</b> or other agreed adjustment.
<b>Underwriting</b>	Securities underwriting is the process by which investment banks raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt capital). The services of an underwriter are typically used during a public offering in a primary market.
<b>Valuation</b>	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2020) but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.