



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

2020 - 2021

Pensions Regulator Scheme Number: 10051259

Pending Committee Approval

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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, 01463 702 432.

How to Contact Us

<http://www.highlandpensionfund.org/highland-pension-fund/about-us/contact-details/>

General enquiries about this document.

E-mail: 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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The Highland Council
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Glenurquhart Road
Inverness
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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

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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 amount 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 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 17.8% of pay for payroll contributions was set by the Actuary for the period 1 April 2020 to 31 March 2021 in the Triennial Actuarial Valuation report 2017. In addition to this, the secondary rate (past service contributions) for 2020/21 is £4,248,000. Looking ahead to financial year 2021/22 the primary contribution rate will be 21.2% as set out in the Triennial Actuarial Valuation report 2020.

- 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 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 (pre-1 April 2014 pensions benefits payable were based on final pensionable pay and length of pensionable service. After 1 April 2014, 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 and administration costs.

Annual report and Accounts

This is the Annual Report and Accounts for the Highland Council Pension Fund 2020/21.

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 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).

The next page outlines the key personnel and organisation involved in the management of the fund and on page 7 there is an overview of performance data for 2020/21 compared to 2019/20 and key points to note are:

- An increase in benefits payable due to the transfer of Visit Scotland pensions administration from Highland Council Pension Fund to Lothian Pension Fund.
- Decrease in employer bodies is due to Visit Scotland and Western Isles Tourist Board being transferred to Lothian Pension Fund and the Scottish Police Service Authority now being administered as part of the Scottish Police Authority.
- Increase in returns due to the recovery in financial markets (2019/20 returns were impacted by volatility in financial markets due to uncertainties caused by COVID-19).
- Increase in management costs and cost per member due to increased performance by fund managers as fees are related to asset market values.

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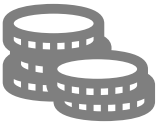







Management of the Fund

Administering Authority	The Highland Council, HQ, Glenurquhart Road, Inverness, IV3 5NX
Scheme Administrators	The Highland Council, Pensions Section, HQ, Glenurquhart Road, Inverness, IV3 5NX
Fund Actuary	Hymans Robertson
Fund Custodian	Northern Trust
Performance Management	Northern Trust
Investment Advisors	Aon
Fund Officers	Liz Denovan, Executive Chief Officer, Resources and Finance Edward Foster, Head of Corporate Finance and Commercialism Margaret Grigor, Finance Manager Charlie MacCallum, Payroll and Pensions Manager
AVC Provider	Prudential Assurance
Bankers	Clydesdale Bank
External Auditor	Grant Thornton

Investment Managers



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2019/20	Performance	2020/21
£61.3m	Contributions receivable 	£63.1m
£65.1m	Pension benefits payable 	£74.4m
£8.5m	Management expenses 	£12.5m
£263.46	Cost per member 	£378.17
32,385	Total Membership 	32,978
29	Number of employers 	26
-£95m	Return on investment 	£526m
£1.892bn	Net assets of the Fund 	£2.394bn

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Management Commentary

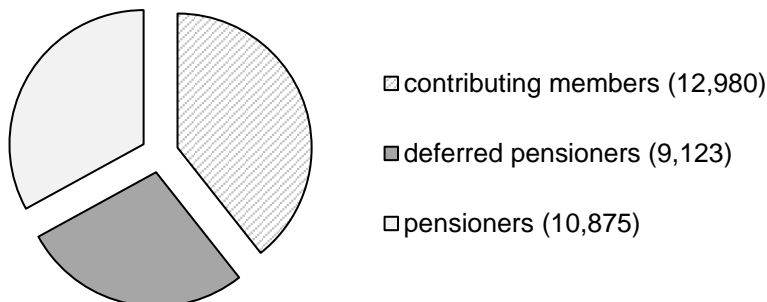
Background

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 2021 are £2,394m (31 March 2020 £1,892m).

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 the Fund specifically, 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 19, Annual Governance Statement on page 40 and the Governance Compliance Statement on page 44.

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 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.

Pension 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

The 2020/21 year was busy and challenging for the Pensions Administration team.

The COVID-19 pandemic and lockdown required the team to adapt and amend processes to deliver the Pension service remotely. Despite these challenges the team continued to deliver a high standard of service.

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 a demanding but essential factor in the delivery of the Pension service.

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

- Guaranteed Minimum Pensions (GMP) reconciliation exercise.

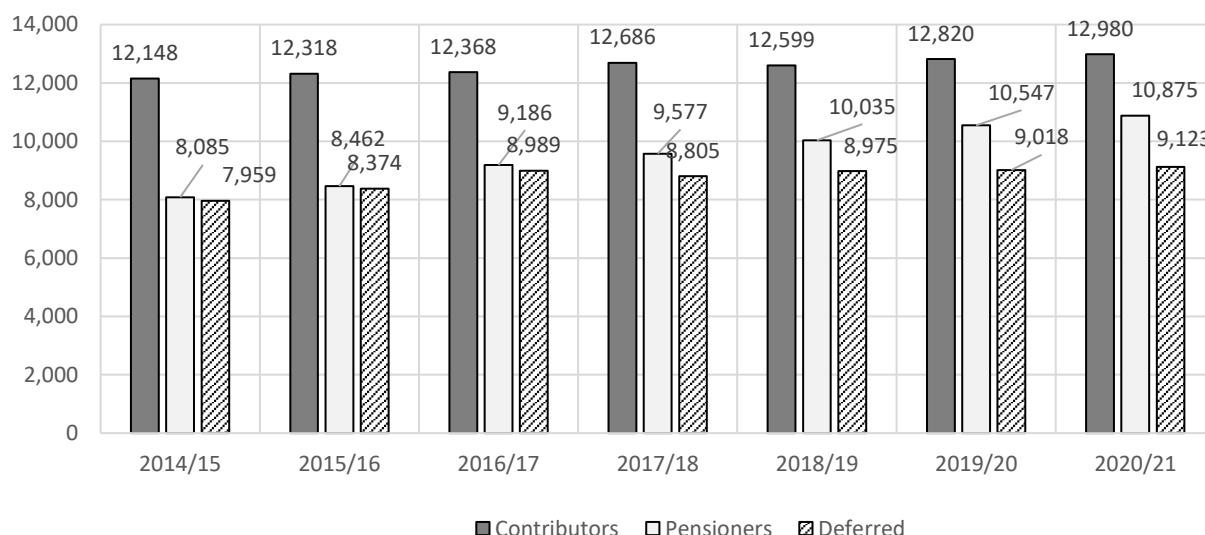
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- Working in partnership with the Fund Actuary to conclude the 2020 Valuation exercise
- Communicating with Fund employers to explain the Valuation results and any financial impact
- Negotiating any changes in draft valuation results with employers

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 and a review of staff numbers required has been undertaken.

Membership statistics



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

Retirements during 2020/21

	2019/20 Number of Retirements	2020/21 Number of Retirements
Early retirement	37	26
Ill-health retirement	77	33
Early payment of deferred benefits	109	48
Sub-total	223	107
Normal retirements	463	447
Totals	686	554

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b) Communication

As highlighted earlier, the Fund communicated regularly with Fund employers as part of the valuation exercise but 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.

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/client-area/news/>

c) Performance

The administration performance is generally consistent with the previous year.

There has been a slight dip in areas around the payment of certain benefits and transfers between funds. This is mainly attributable to changes in regulation introducing additional layers of complexity and the delay in guidance from the Government Actuary's department.

Overall, the Fund returned a surplus of £502.153m and comparators for previous years are provided below, alongside the unit costs per member.

Pension Fund Account	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m	£m
Contributions received	56.941	59.346	57.982	60.262	61.343	63.111
Pensions paid	(54.689)	(57.922)	(56.077)	(59.887)	(65.107)	(74.394)
Management expenses	(7.024)	(7.717)	(8.895)	(9.401)	(8.532)	(12.471)
Returns on investment	25.247	301.927	125.898	124.177	(94.379)	525.907
Overall surplus/(deficit)	20.475	295.634	118.908	115.151	(106.675)	502.153
Unit costs per member	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£	£
Administrative unit cost	31.98	34.50	31.89	39.25	37.03	34.91
Oversight and Governance	10.68	8.55	12.52	10.38	12.52	14.93
Investment management expenses	240.95	262.98	241.90	247.78	213.91	328.34
Total cost per member	283.61	306.03	286.31	297.41	263.46	378.17

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Investment Management

The Fund income comes from 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 2020/21 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 activity of the Fund is set out in the Statement of Investment Principles (SIP) which is reviewed regularly and agreed by the Pension Committee and Board and performance of the fund managers is reviewed by the Investment Sub Committee.

<https://www.highlandpensionfund.org/media/6186/2021-03-18-statement-of-investment-principles-approved-pc-mar-21.pdf>

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.

<http://www.highlandpensionfund.org/highland-pension-fund/about-us/forms-and-publications/>

For the year to 31 March 2021 the Fund returned 27.0%, outperforming the benchmark of 23.8%. This was in the main due to the strong performance of global equities which recovered following the initial market reaction to COVID-91 in March 2020. Some economic context which impacted on the Fund's investments is provided below.

In the quarter to June 2020, with a sharp rebound in global markets, the Fund outperformed its benchmark (12.3% against the benchmark of 11.4%). During this quarter global equities recovered the bulk of the losses sustained in the quarter to 31 March 2020 as many economies reopened so despite economic data indicating the worst recession in generations, expanded fiscal and monetary stimulus measure provided support for markets as the MSCI AC World Index returned 18.4% in Q2, the best quarterly return since 1998. Gilt yields continued their fall over the quarter due to quantitative easing and sustained demand for safe haven assets with short duration gilts ending the quarter at negative levels after the Bank of England announced that negative interest rates were under review for the first time. Sterling fell over the quarter: Brexit uncertainty; prospects of negative interest rates and a poor economic outlook kept sterling weak. UK property capital

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values fell by 3.6% over the quarter as property valuations continued to be written down to reflect the economic downturn.

In the quarter to September 2020, the Fund again outperformed its benchmark returning 2.9% (benchmark 1.4%). Global equities continued their rebound over this quarter due to optimism over progress in COVID-19 vaccine trials and supportive monetary and fiscal policies, though there was a slight downturn toward the end of the quarter due to rising fears of a second wave outbreak. UK nominal government bonds yields rose over the quarter as global risk sentiment improved and sterling rose by 4.6% against the US dollar and the euro respectively with hopes that a UK-EU trade deal would be reached by the end of the year. The total return of the MSCI UK monthly property index returned to positive territory (0.7%) though UK property capital values continued to trend lower, albeit at a slower rate than before.

The Fund continued the theme of outperformance returning 7.7% against the benchmark of 7.5% in the quarter to December 2020. Global equities continued to perform well boosted by optimism over COVID-19 vaccination programmes and supportive monetary and fiscal policies. After breaking its pre-pandemic all time high in the previous quarter, the MSCI AC World index continued its strong run despite uncertainties around the US elections and surging COVID-19 cases and deaths.

UK nominal government bond yields fell slightly over the quarter with increased expectations of negative rates, Brexit uncertainty and concerns over recession as the UK entered a second national lockdown. After years of negotiations, the UK and EU reached a historic Brexit trade deal at the last minute before the new year deadline. The deal allows most goods to be traded between the UK and EU without tariffs or quotas. Sterling rose by 5.7% and 1.3% against the US dollar and Euro respectively over the quarter. The MSCI UK monthly property index was boosted by a rise in UK property capital values – the first rise since quarter ending September 2018.

In the final quarter of the financial year to 31 March 2021, equities again performed well with a return of 2% broadly in line with the benchmark due to a number of factors. These included improving economic data over the quarter in most countries and the global vaccination roll-out provided continued optimism over economic recovery. In the US, the \$1.9tn US economic relief package was approved by the Senate after Democrat Joe Biden was sworn in as UK President in January. However, global COVID-19 cases continued to surge, with many countries going back into lockdown as new virus variants raised concern. Health risks also halted the vaccine roll-out in some countries while supply constraints led to slower roll-out in Europe than expected.

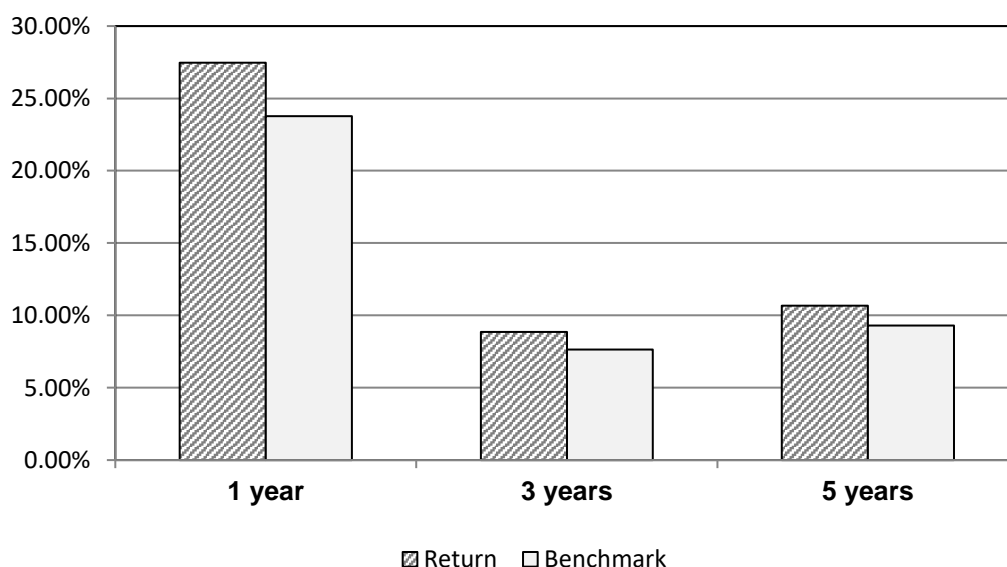
Global equities continued to perform well with the MSCI AC Work posting a 6% return in local terms and 3.7% return in sterling terms as sterling appreciated in a relief rally after a Brexit agreement was finally reached with the European Union at the end of 2020. Bond yields rose over the quarter, most markedly in the US on

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the back of economic recovery and inflation expectations fuelled by the new stimulus package. Meanwhile, the US Federal Reserve (Fed) continued to indicate that it would keep interest rates near zero until at least 2024 while upgrading its 2021 growth forecast to 6.5% from 4.2%. The European Central Bank (ECB) pledged to speed up its bond-buying programme under its €1.9tn pandemic emergency purchase program (PEPP). UK investment grade spreads continued to contract as credit markets performed well. However, the return on the iBoxx Sterling Non-Gilt Index fell by 4.1% over this quarter, driven by rising government bond yields. A steady income return ensured the total return of the MSCI UK monthly property index remained in positive territory as the index returned 2.2% overall and was boosted by a risk in UK property capital values.

The following graph shows the annualised Fund return against the benchmark for the last year, the last 3 years and the last 5 years which show that performance has been strong across all periods. 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 in the SIP.



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 2020/21 the total Fund's investments increased in value to £2,387m from £1,885m at the end of 2019/20 as equity markets recovered following the initial shock to markets in March 2020.

During March 2021, an initial investment was made with Man Group to fund a multi asset absolute return investment.

A review of Investment performance is provided on page 30 of this report.

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Funding and Accounting

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

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 2017 applies from financial years 2018/19 until 2020/21. The data collection for the valuation as at 31 March 2020 is complete and will apply from financial years 2021/22 until 2023/24.

At the 2017 actuarial valuation the Fund was assessed as 101% funded (2014 valuation 96%) with a surplus of £13m (2014 deficit £52m). The 2017 funding level increased due to investment returns being higher than expected since 2014 and membership experience actuals being different to forecast (lower than expected salary and pension increases and lower than expected ill health retirements). Alongside the completion of the Actuarial Valuation, the Funding Strategy Statement, which explains the setting of the employer contribution rates, was updated and approved at Pensions Committee in February 2018. The strategy can be viewed at

<https://www.highlandpensionfund.org/media/3743/funding-strategy-statement-2018.pdf>

Looking ahead to financial year 2021/22, the Actuarial Valuation has been completed as at 31/03/2020 and shows the Fund as 100% funded. The Valuation and Funding Strategy statement were approved at Committee in March 2021.

https://www.highland.gov.uk/meetings/meeting/4406/pensions_committee_and_board

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).

https://www.highland.gov.uk/meetings/meeting/4406/pensions_committee_and_board

The eight highest identified risks reported to Committee:

1. With the Government COVID-19 mitigation measures requiring staff to homework during 2020/21 where possible, risks associated with this include

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training new staff to adequate level of competence and increased supervising resource for monitoring staff in homeworking environment.

2. Ongoing risk of members and officers being unaware of changes to LGPS. governance, administration and investment matters and of non-compliance with Pension Fund Regulator requirements.
3. Unfilled vacancies or insufficient staffing levels will result in the pension administration service not meeting statutory deadlines or paying benefits on time. Increasing demands and complexity around pensions as well as the increased expectations of all stakeholders and statutory national requirements has created additional pressures on the Pension Administration team. Without adequate resourcing, there is a risk of non-compliance with regulations.
4. Ultra vires pension fund actions leading to financial loss and reputational damage.
5. If the investment strategy is inconsistent with funding plans it can lead to setting inaccurate employer contribution rates.
6. Volatility in markets created by global uncertainty could adversely impact investment returns leading to increasing deficits and additional costs i.e.COVID-19. If the investment return is below that assumed by the actuary in funding the plan 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
7. Brexit risks potentially include the following which could impact the Fund's assets and liabilities.
 - i. Risk of rising inflation increasing the amount of future pensions paid.
 - ii. Actuarial basis risk of falling gilt yields, which could accelerate rate at which contributions are required to be paid following the next actuarial valuation
 - iii. Capital value loss risk on UK property
8. The outcome of the McCloud judgement (ruling that transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination) will impact future liabilities of the Fund and potentially increase pressure on contributions depending on the remedy decided.

These risks and the mitigating controls in place to manage them were reported to the Pensions Committee in March 2021.

Looking Ahead

- The Actuarial Valuation has been completed as at 31/03/2020 and 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 are being implemented to

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manage the risk of potentially lower returns from equity markets globally and in the UK.

- The Scheme Advisory Board (SAB) work is ongoing to compare the status quo/collaboration and merger options considering costs of change, potential organisational, operational and investment benefits and the different governance arrangements that would be required.
- The Guaranteed Minimum Pensions (GMP) exercise is anticipated to be concluded by the end of the of December 2021 with amendments to records made according to Fund policy.
- 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. Detail on the cashflow position can be found at page 39.
- We will continue to engage with Members to identify training needs and provide appropriate training opportunities.
- The legislation to support the proposed remedy for the legal case (McCloud/Sargeant) 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 2022.
- The Administration team will continue to develop new processes making best use of technology to increase efficiency and reduce cost.
- As the lockdown restrictions ease the Fund must decide on the format of working going forward i.e. office, home or a blend of both.

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

Liz Denovan CPFA
Executive Chief Officer
Resources and Finance

Richard Gale
Chairman
Pensions Committee

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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 Pension 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/media/6405/governance-policy-2020-21.pdf>

The Annual Governance Statement is published on page 40 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 44 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 2021 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
 Cllr B Thompson

Investment Sub Committee

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

Non-Voting Members

Mr E Macniven, GMB
 Cllr C Nicolson, Comhairle nan Eilean Siar

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 C Nicolson, Comhairle nan Eilean Siar
 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 2020/21, all meetings were quorate and the following table provides detail of individual attendance during the year.

During 2020/21 all meetings of the Pensions Committee and Investment Sub Committee were held remotely due to the ongoing COVID-19 pandemic.

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Pensions Committee	23/09/20	18/03/21	Pensions Board	23/09/20	18/03/21
Cllr R Bremner	✓	✓	Cllr C Caddick	✓	✓
Cllr H Carmichael	✓	✓	Mr R Fea	✓	✓
Cllr R Gale (Chair)	✓	✓	Cllr C Nicolson		✓
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 P Saggars	✓	✓	Mr D Macdonald (substitute)	N/A	✓
Cllr B Thompson	✓	✓			
Cllr A MacInnes (substitute)	✓	N/A			

Investment Sub Committee	25/09/20	04/12/20	05/02/21	12/03/21
Cllr R Bremner	✓			✓
Cllr H Carmichael	✓	✓	✓	✓
Cllr R Gale	✓	✓	✓	✓
Cllr B Lobban	✓	✓	✓	✓
Cllr D Louden	✓	✓	✓	✓
Cllr P Saggars	✓	✓	✓	✓
Cllr B Thompson (Chair)	✓	✓	✓	✓
Cllr C Nicolson (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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Training, Knowledge and Skills - Policy Statement

The Fund's training policy which was approved by Highland Council Pensions Committee on 23 September 2020, 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/media/6406/training-policy-and-plan-2020-21.pdf>

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 2020/21 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.

Scottish Pensions Liaison Group (SPLG) training covered the following

- Valuations
- Ethical Social Governance issues
- Structure review update
- Improving the customer journey
- Update on Pensions Administration
- Cost transparency
- Infrastructure investing presentation from Lothian Pension Fund

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

- UK and global equities
- Property
- Passive equities

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Date	23/09/20	25/09/20	01/10/20	08/10/20	04/12/20	12/03/21
Event	Training Hymans	Schroders Property	SPLG Governance Investments	SPLG Training Pensions Admin	Baillie Gifford Global & UK Equities	LGIM Passive equities
Pensions Committee						
Cllr J Gray	✓		✓			
Cllr C Fraser	✓					
Cllr A Jarvie						
Pension Board						
Cllr C Caddick	✓					
Mr R Fea	✓		✓	✓		✓
Mr J Gibson						✓
Cllr C Nicolson		✓				✓
Ms L Mackay						
Mr D Macdonald			✓			
Mr D MacSween	✓		✓			
Mr D Main						
Mr E Macniven	✓	✓	✓	✓	✓	✓
Cllr M Paterson						
Pensions Committee & Investment Sub Committee						
Cllr B Thompson	✓	✓			✓	✓
Cllr R Bremner	✓	✓				✓
Cllr H Carmichael	✓	✓			✓	✓
Cllr R Gale	✓	✓			✓	✓
Cllr B Lobban	✓	✓			✓	✓
Cllr D Louden	✓	✓			✓	✓
Cllr P Saggars	✓	✓			✓	✓

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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/media/3743/funding-strategy-statement-2018.pdf>

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 has been updated alongside the Actuarial Valuation as at 31 March 2020 and will apply to the next 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

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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.

<https://www.highlandpensionfund.org/media/6186/2021-03-18-statement-of-investment-principles-approved-pc-mar-21.pdf>

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 seven 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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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 80% 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 84% on an active basis and 16% 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 and Cash. This diverse range of investments over 8 different Managers (7 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 21 %	Asset Class	Fund Actual 31/03/20 %	Fund Actual 31/03/21* %
8.4	UK equities - active	16.8	17.5
-	UK equities - passive	3.4	2.4
30.8	Global equities - active	30.3	36.5
16.8	Global equities - passive	9.9	9.3
56.0	Total equities	60.4	65.7
0.0	Cash (Legal and General)	5.7	0.4
12.0	Fixed income - active	12.2	10.3
-	Fixed income - passive	3.9	2.7
12.0	Total fixed income	16.1	13.0
10.0	Property – active	9.6	8.5
7.0	Property debt and other private credit* – active	2.9	2.4
5.0	Private equity - active	5.3	5.1
5.0	Infrastructure*	-	-
5.0	Alternative risk premia strategies	-	4.9
100.0	Total Assets	100.0	100.0

*work has been ongoing to appoint 2 new fund managers for investments in infrastructure and private credit with appointments to be made during 2021.

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,

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which sets out the relevant benchmark performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

Realisation of Investments

Currently 84.6% of the investments held by the Fund at 31 March 2021 are quoted on major stock markets and may be realised quickly if required. Property investment is via pooled funds which are relatively illiquid. These currently make up approximately 7.8% of the total Fund. There are also private equity 5.4% (target asset allocation 5.0%) and property debt investments 2.3% (target asset allocation 4.0%) which are 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.

With a view to developing and publishing a Responsible Investing Policy Statement that is consistent with the Fund's fiduciary duty, a workshop will be held for the Pensions Committee members during 2021.

The Fund recognises that social, environmental and ethical considerations are among the factors which Investment Managers will consider, where relevant, when selecting investments for purchase, retention or sale. However, the overriding consideration for Pension Committee members in decision-making is their fiduciary duty to the scheme employers and scheme members.

Whilst recognising its over-riding fiduciary duties the Fund will continue to encourage its managers to engage on issues with companies in which it holds investments as the Fund believes that environmental, social and corporate governance (ESG) issues will have a significant effect on the performance of investment portfolios through time.

Engagement in this context is to involve the Investment Managers in the following and reporting this activity in their quarterly Investment Reports:

- Meeting and corresponding with Companies on relevant issues;
- Working with the representatives of other shareholders, where appropriate;
- Voting against adverse proposals at Company AGM/EGMs;
- Reporting regularly on actions taken in this regard.

Where it is consistent with its fiduciary duty, the Fund would follow the principles below:

- Incorporate ESG issues into investment analysis and decision-making processes – this would require to be done by the investment managers and monitored by the Fund.

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- Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights and the engagement activity of managers.
- Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment manager engagement.
- Consider potential Fund Manager's approach to ESG issues during the procurement process.

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 2021 the Fund held collateral (via the custodian) of 104.1% 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

Investment Managers and the Custodian will 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 eight Fund Managers provided annual compliance statements as part of the 2020/21 year end accounts process.

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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Investment Performance Report

Economic and Market Background

During the final quarter to March 21, improving economic data in most countries and the global vaccination roll-out provided continued optimism over economic recovery.

Global equities continued to perform well during this quarter with the MSCI AC World posting a 6% return in local terms and a 3.7% return in Sterling terms as Sterling appreciated in a relief rally after a Brexit agreement was finally reached with the European Union at the end of 2020.

Bond yields rose over the quarter, most markedly in the US on the back of economic recovery and inflation expectations fuelled by the new stimulus package. Meanwhile the US Federal Reserve (Fed) continued to indicate that it would keep interest rates near zero until 2024 while upgrading its 2021 growth forecast to 6.5% from 4.2%. The European Central Bank (ECB) pledged to speed up its bond-buying program under its €1.9tn pandemic emergency purchase program (PEPP).

The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked gilts Index returned -7.2% and -6.3% respectively as gilt yields followed US treasury yields higher and were boosted by economic optimism as vaccines were rolled out speedily in the UK.

UK investment grade spreads continued to contract as credit markets performed well. However, the return on the iBoxx Sterling Non-Gilt fell by 4.1% over Q1, driven by rising government bond yields.

A steady income return ensured that the total return of the MSCI UK Monthly Property Index remained in positive territory, as the index returned 2.2% overall. The index was boosted by a rise in UK property capital values.

Pension Fund Investment Performance

In the year to 31 March 2021, the Highland Council Pension Fund achieved a strong, positive return on investments of 27.0% which was better than the benchmark of 23.8%; longer term performance has been strong in absolute and relative terms, with details set out in the table below. The table also includes the Scottish LGPS Average to provide an indication of how the Fund has performance compared to the other Scottish Funds. The 2020/21 CIPFA Scottish Directors of Finance Performance indicator comparative data is not yet available so 2019/20 has been used.

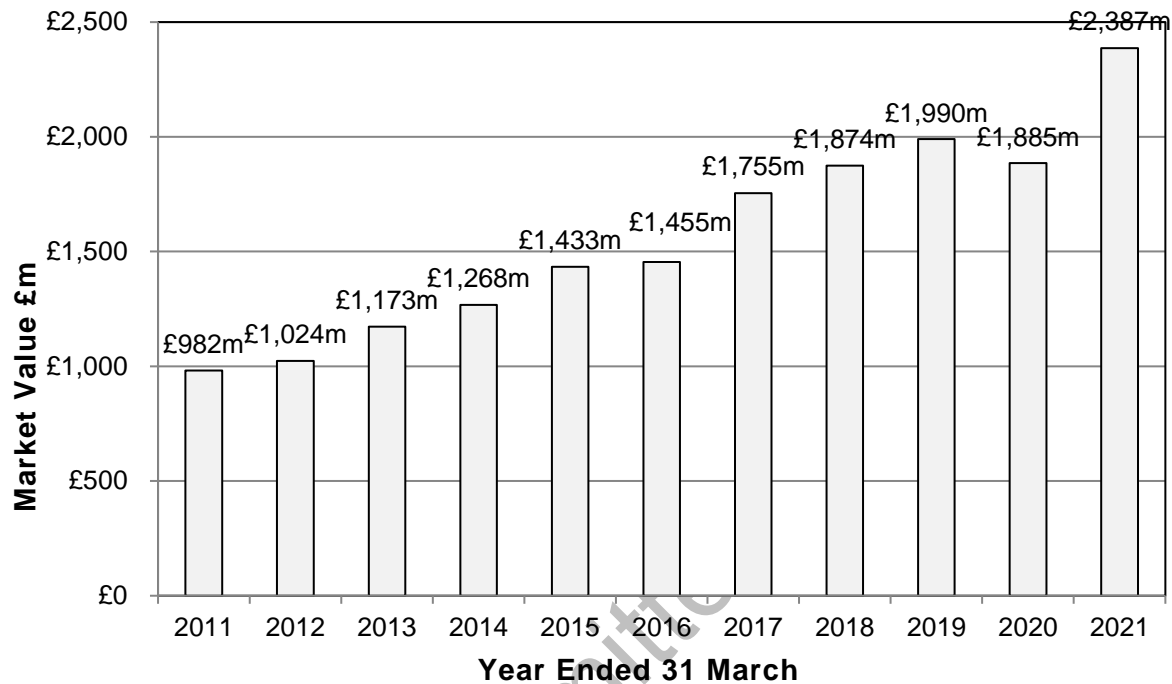
	1 year per annum%	3 years % per annum	5 years % per annum	Inception % per annum
Fund return (2020/21)	27.0	8.7	10.6	8.9
Benchmark return (2020/21)	23.8	7.6	9.3	8.3
Fund return (2019/20)	-4.9	2.7	5.8	-
LGPS average (2019/20)	-4.1	2.5	5.7	-

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The market value of the Fund's net investment assets as at 31 March 2021 was £2,387m (£1,885m at 31 March 2020). The movement in the market value of the Fund's net investment assets is on the following page.

Movement in the Market Value of the Fund

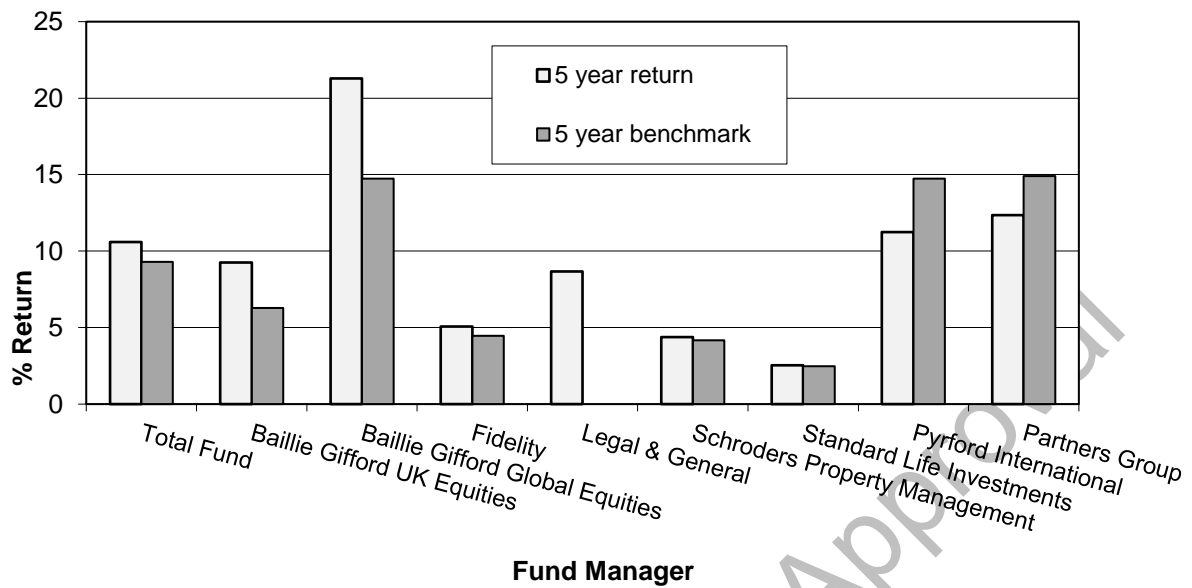


Across the longer term, the main contributors to the positive performance have been global equities, due to overall equity market performance (benchmark return) and strong manager stock selection and market out-performance (excess return).

Details of the Fund's investments analysed by investment category are shown in the financial statements (Note 13) and performance against benchmark for each Fund Manager is on the next page.

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5 year Return by Fund Manager
Year ended 31 March 2021



No benchmark for Legal and General due to a portfolio change in 2020/21
No 5 year data available for Man Group as the initial investment was made in
March 2021

Pending Committee Approval

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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 2017 applies to financial years 2018/19 to 2020/21. Full details of the contribution rates payable can be found in the 2017 actuarial valuation report and the funding strategy statement on the Pension Fund website.

<https://www.highlandpensionfund.org/media/3737/hcpf-fund-actuarial-valuation-2017-final.pdf>

In the 2017 actuarial valuation, the Fund was assessed as 101% funded (2014 valuation: 96%) with a surplus of £13m (2014 deficit £52m). The 2017 funding level increased due to investment returns being higher than expected since 2014 and membership experience actuals being different to forecast (lower than expected salary and pension increases and lower than expected ill health retirements).

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 2017 Valuation, the primary rate was 17.8%.

More information on the actuarial valuation can be found in the Actuarial statement (page 97).

For the purposes of the contribution rates set for financial year 2020/21, the following assumptions from the triennial Valuation completed in 2017 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 2014		March 2017	
	Nominal p.a.	Real (RPI) p.a.	Nominal p.a.	Real (RPI) p.a.
Discount Rate	5.3%	2.6%	3.7%	1.3%
Salary Increase (excludes promotional increases)	4.5%	1.8%	3.4%	1.0%
Price Inflation/Pension Increases	2.7%	-	2.4%	-

The actuarial projection of the Market Value of the Fund's assets as at 31 March 2017 was £1,768m (2014 Valuation £1,279m). 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 2014		31 March 2017	
	Male	Female	Male	Female
Current pensioners	22.5	24.1	21.9	24.3
Future pensioners*	24.7	26.8	23.3	26.1

* 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.

Actuarial valuation

The Actuarial Valuation has been completed as at 31/03/2020 and 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. This Valuation will apply to contributions from 1 April 2021.

For the purposes of these accounts, the contribution rates in place from 01/04/2020 to 31/03/2021 were set at the Actuarial Valuation as at 31/03/2017.

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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/media/4625/administration-policy.pdf>

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

Task	Target	Number from 1/4/20 to 31/3/21	% on target	Number from 1/4/19 to 31/3/20	% on target
New Entrants (includes re-employments)	Issue Statutory Notice within 14 days of receipt of a new start notice.	1,475	43%	1,857	79%
Early Leavers	The standard issue date is 10 days from receipt of leavers forms and 15 days for deferred benefit entitlement.	549	16%	938	79%
Retirements including deferred benefits coming into payment	The standard issue date is 10 days of receipt of leaver option forms.	514	85%	731	92%
Deaths in Service	Contact next of kin within 5 days of notification being received.	13	92%	30	97%
Transfers in from out with Fund	The standard is to issue statutory notice within 10 days of receipt of payment.	42	33%	48	88%
Transfers of pension rights out with Fund	Case to be finalised & payment made within 10 days of receipt of election payment.	32	59%	51	94%
Estimate of benefits	Issue within 10 days of request.	1,099	54%	929	84%

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Scheme Employer Performance - Target performance 90%

Standard	Number from 1/4/20 to 31/3/21	% on target	Number from 1/4/19 to 31/3/20	% on target
New Start Notification – within 30 days of joining (or 10 days from first deduction if later).	1,475	78%	1,857	95%
Retirement information – to allow benefits to be paid on time.	274	89%	326	90%
Early leaver notification – within 30 days of leaving (or 10 days after last deduction if later).	549	79%	938	93%
Death in Service notification – within 7 days of death.	13	92%	30	100%
Year End Queries issued to employers, responses – within 14 days.	11	100%	12	100%

Performance in 2020/21 has been impacted adversely by technological difficulties, adapting processes to home working and staff shortages in key areas.

Looking ahead, the team are implementing a new version of i-connect extract that provides more efficient reporting and employer bodies able to upload forms via i-connect which will improve processes. Staff have also been recruited to the team which will help with the management of workloads going forward into 2021/22.

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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 2020/21 is as follows.

Annual Budget	Annual budget £000	Year-end actual £000	Year-end variance £000
Staff costs (Pensions)	684	627	(57)
GMP	100	37	(63)
Computer and ICT	261	268	7
Postages, printing stationery	15	1	(14)
Pensions Admin Other	22	13	(9)
Other Central support recharges	200	205	5
Administrative expenses	1,282	1,151	(131)
Actuarial Fees	70	152	82
Audit Fees	30	33	3
Central Support - Pensions Investment	200	144	(56)
Training	5	-	(5)
Subsistence and travel	1	-	(1)
Investment Consultant Fees	80	130	50
Performance Management Fees	23	23	-
Tax Legal Expenses	5	10	5
Oversight and governance	414	492	78
Investment expenses	335	376	41
Custodian Fees	85	96	11
Transaction costs	330	396	66
Fund Manager fees	8,300	9,960	1,660
Management fees	9,050	10,828	1,778
Overall total	10,746	12,471	1,725

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

Administrative expenses –underspend on the Guaranteed Minimum Pension exercise due to this being a “one off” exercise and difficult to accurately predict the scale of analysis and associated costs and underspend on staff costs.

Oversight and governance – overspend due to the Actuarial and Investment Advisor costs being higher than budget due to the 2020 Valuation exercise and support for the Strategic Asset implementation respectively.

Management fees - these are based on the market value of assets under management and with good performance to the year ended March 2021 (annual return was 27.0%) fees were higher than anticipated resulting in an overall overspend.

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Contributions made to the Fund in 2020/21

During 2020/21, members and employers paid the following contributions.

	20/21 Employees contributions	20/21 Employers contributions	Total contributions
	£000	£000	£000
Scheduled Bodies			
The Highland Council	7,940	25,953	33,893
Comhairle Nan Eilean Siar	2,353	7,702	10,055
Highland & Western Isles Valuation Joint Board	94	281	375
Highlands of Scotland Tourist Board	13	161	174
HITRANS	37	84	121
Inverness College	295	901	1,196
Lews Castle College	75	229	304
The North Highland College	175	490	665
Scottish Fire and Rescue	111	348	459
Scottish Police Service Authority	374	1,083	1,457
Scottish Police Service Authority	25	61	86
Total Scheduled Bodies	11,492	37,293	48,785
Admitted Bodies			
An Comunn Gaidhealach	7	21	28
Bord Na Gaidhlig	49	140	189
Cromarty Firth Port Authority	128	314	442
Eden Court Theatre	11	117	128
Forth & Oban Limited	9	41	50
Hebridean Housing Partnership Limited	103	282	385
Highland Blindcraft	17	57	74
Highland & Islands Enterprise (HIE)	56	387	443
Highlife Highland	935	3,007	3,942
Inverness Harbour Trust	8	53	61
Morrison FM	17	129	146
NHS Highland	952	3,095	4,047
Skills Development Scotland	41	467	508
Stornoway Port Authority	62	179	241
University of the Highlands & Islands	405	1,216	1,621
Sight Action	9	31	40
WIPRO Holdings (UK) Limited	29	204	233
Total Admitted Bodies	2,838	9,740	12,579
Total	14,330	47,033	61,363

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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.

Pension Fund Account	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000	£000
Contributions received	56,941	59,346	57,982	60,262	61,343	63,111
Pensions paid	(54,689)	(57,922)	(56,077)	(59,887)	(65,107)	(74,394)*
Net cash flow	2,252	1,424	1,905	375	(3,764)	(11,283)

* Pensions paid includes the Visit Scotland transfer payment to Lothian Pension Fund which was £11.811m.

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.

THE HIGHLAND COUNCIL PENSION FUND

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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 2021 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 2020/21 was approved by Pensions Committee on 23/09/20.

<https://www.highlandpensionfund.org/media/6405/governance-policy-2020-21.pdf>

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 2020/21, Pension Board and Committee and Investment Sub Committee meetings continue 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 2020/21 to the Audit and Scrutiny Committee meeting on 17 June 2021.

A review of the adequacy and effectiveness of the systems of internal control for the financial year 2020/21 has not identified any control issues.

The eight 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 two of these reports, where the Fund Managers have outsourced some services to third parties (sub-service organisations), it was noted that the accountants used the "carve out" method by excluding the sub-service's control procedures from the scope of their work.

The 2020/21 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 2020/21.
- A review of Pension Fund Contributions carried forward from 2019/20 but had to be put on hold due to the COVID-19 pandemic. This report had the opinion of "Full Assurance" and it was concluded that the system for the calculation and processing of Pension Fund Contributions is reliable.
- Review of Pension Fund Investments. This work has been carried forward into 2021/22 at the request of the Service and will be undertaken once the annual accounts have been drafted.

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Audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. The Contributions audit referred to above contained 2 audit recommendations (1 medium and 1 low grade) which are not yet due, but these will be followed up at the appropriate time.

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 2021.

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 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

Richard Gale
Chairman
Pensions Committee

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

THE HIGHLAND COUNCIL PENSION FUND

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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 2020/21 and complies with guidance from the Scottish Ministers.

Principle	Fully Compliant and Comments	
Structure		
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"> • Employing authorities (including non-scheme employers, e.g. admitted bodies). • Scheme members (including deferred • and pensioner scheme members). 	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.

THE HIGHLAND COUNCIL PENSION FUND

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Principle	Fully Compliant and Comments	
<ul style="list-style-type: none"> • Where appropriate, independent professional observers. • Expert advisors (on an ad-hoc basis). 		In addition, Fund Managers attend the Investment Sub Committee on a rotational basis.
Representation		
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>
Selection and Role of Lay Members		
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.
Voting		
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.
Training /Facility Time /Expenses		
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 2020 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 2020/21.

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Principle	Fully Compliant and Comments	
		The training policy recognises the importance of ensuring that it 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.
Meeting Frequency		
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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Principle	Fully Compliant and Comments	
Access		
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.
Scope		
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.
Publicity		
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. http://www.highlandpensionfund.org/highland-pension-fund/about-us/forms-and-publications/

Donna Manson
Chief Executive

Richard Gale
Chairman
Pensions Committee

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

THE HIGHLAND COUNCIL PENSION FUND**ANNUAL REPORT AND ANNUAL ACCOUNTS 2020/21****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 Executive Chief Officer, Resources and 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.

Richard Gale
Chairman
Pensions Committee

Pending Committee Approval

THE HIGHLAND COUNCIL PENSION FUND**ANNUAL REPORT AND ANNUAL ACCOUNTS 2020/21****The Responsibilities of the Executive Chief Officer, Resources and Finance**

The Executive Chief Officer, Resources and 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 Executive Chief Officer, Resources and 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 Executive Chief Officer, Resources and 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 Executive Chief Officer, Resources and 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 2021.

Liz Denovan CPFA
Executive Chief Officer, Resources and Finance

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DRAFT Independent Auditor's Report

Report 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 2021 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 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 five 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.

Risks of material misstatement

We report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Executive Chief Officer, Resources and Finance and The Highland Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Chief Officer, Resources and 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 Executive Chief Officer, Resources and 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 Executive Chief Officer, Resources and 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 deemed inappropriate.

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 economic 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 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.

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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. This description forms part of our auditor's report.

Reporting on other requirements

Statutory other information

The Executive Chief Officer, Resources and Finance is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and our auditor's report thereon.

Our responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements or our knowledge obtained in 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 statutory 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 statutory other information and we do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission

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 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.

THE HIGHLAND COUNCIL PENSION FUND**ANNUAL REPORT AND ANNUAL ACCOUNTS 2020/21****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 report, 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.

John Boyd, for and on behalf of Grant Thornton UK LLP
110 Queen Street
Glasgow
G1 3BX

THE HIGHLAND COUNCIL PENSION FUND
ANNUAL REPORT AND ANNUAL ACCOUNTS 2020/21

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.

2019/20 £000		Notes	2020/21 £000
	Dealings with members, employers and others directly involved in the scheme		
59,361	Contributions receivable	8	61,363
1,982	Individual Transfers in from other pension funds		1,748
61,343			63,111
(63,278)	Benefits payable	9	(61,537)
(1,829)	Payments to and on account of leavers	10	(12,857)
(65,107)			(74,394)
(3,764)	Net additions/(reductions) from dealings with members		(11,283)
(8,532)	Management expenses	11	(12,471)
(12,296)	Net additions/(withdrawals) including fund management expenses		(23,754)
	Returns on Investments		
40,076	Investment income	12	33,207
(962)	Taxes on income from equities		(639)
(133,493)	Profit and (losses) on disposal of investments and changes in values of investments	13.1	493,339
(94,379)	Net Return on Investments		525,907
(106,675)	Net increase/(decrease) in the net assets available for benefits during the year		502,153
1,998,962	Opening net assets as at the start of the year		1,892,287
1,892,287	Closing net assets as at the end of the year		2,394,440

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Net Assets Statement as at 31 March 2021

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 31/03/20 £000		Notes	As at 31/03/21 £000
1,847,617	Investment assets		2,348,129
(13,554)	Investment liabilities		(15,835)
<u>1,834,063</u>		13.1	<u>2,332,294</u>
46,083	Cash deposits		47,709
6,366	Investment income due		6,641
598	Amounts receivable for sales		1,478
(1,855)	Amounts payable for purchases		(772)
<u>1,885,255</u>	Total net investment assets		<u>2,387,350</u>
	Long term assets		
472	Long term debtors	23	435
	Current assets		
6,561	Short term debtors		6,219
3,060	Bank accounts		5,350
<u>9,621</u>		22	<u>11,569</u>
	Less current liabilities		
(3,061)	Sundry creditors	24	(4,914)
<u>6,560</u>	Net current assets		<u>6,655</u>
<u>1,892,287</u>	Closing net assets as at the end of the year available to fund benefits at the period end¹		<u>2,394,440</u>

Liz Denovan CPFA
 Executive Chief Officer, Resources and Finance

¹ 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 amount 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 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 17.8% of pay for payroll contributions was set by the Actuary for the period 1 April 2020 to 31 March 2021 in the Triennial Actuarial Valuation report 2017. In addition to this, the secondary rate (past service contributions) for 2020/21 is £4,248,000.

- 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 (pre-1 April 2014 pensions benefits payable were based on final pensionable pay and length of pensionable service. After 1 April 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 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 2020/21 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 2021 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 and the hedge fund fees, the relevant Fund Managers provided information on fees to the end of March 2021 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 2021/22 Code effective from 1 April 2021. There is therefore no impact on the 2020/21 financial statements.

- Definition of a Business: Amendments to IFRS 3 Business Combinations

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- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by The Code:

- IFRS 16 Leases will require local authorities that are lessees to recognise these leases on their balance sheets as right-of-use assets along with the corresponding lease liabilities, except for low value and short- term leases. As a result of the current COVID-19 response CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2022.

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 2020/21. However, a number of assumptions were made about the future and other major sources of estimation uncertainty are outline 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 2021 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
Actuarial present value of promised retirement benefits	<p>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 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</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> • 0.5% p.a. increase in the pension increase rate would result in an increase of approximately 9% to liabilities (£254m). • 0.5% p.a. increase in salary rate would result in an increase of approximately 1% to liabilities (£29m). • 0.5% p.a. decrease in the discount rate assumption would result in an

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	<p>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>	<p>increase of approximately 10% to liabilities (£289m).</p> <ul style="list-style-type: none"> • 1-year increase in member life expectancy would result in an increase in the liabilities of 3-5%.
Private equity	<p>Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines (as at 31 March 2021). 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 £127.9m. 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 £159.8m or decrease to £96.0m.</p>
Property Debt	<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 £55.0m. 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 £59.1m or decrease to £50.9m.</p>

7. Events after the Reporting Date

The unaudited statement of accounts was issued on 30 June 2021. Events taking place after this date are not reflected in the accounts or notes. There have been no events since 31 March 2021 and up to the date these accounts were authorised that require any adjustment to these accounts.

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8. Contributions Receivable

By category	2019/20	2020/21
	£000	£000
Employees' pension contributions	13,865	14,329
Employers' pension contributions	45,496	47,034
Total contributions	59,361	61,363

As a result of the 2017 valuation, the primary contribution rate (future service contributions) for the whole Fund of 17.8% of pay for payroll contributions was set by the Actuary for the period 1 April 2020 to 31 March 2021 in the Triennial Actuarial Valuation report 2017. In addition to this, the secondary rate (past service contributions) for 2020/21 is £4.248m (page 10 of 2017 Actuarial Valuation). The 2020 valuation is complete and applies to contributions from 1 April 2021.

Analysis of Contributions by Authority

	2020/21			Totals
	Highland Council	Scheduled Bodies	Admitted Bodies	
	£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
Employer's contributions	25,953	11,340	9,740	47,033
Members' pension contributions	7,940	3,552	2,838	14,330
Total contributions	33,893	14,892	12,578	61,363
	2019/20			
	Highland Council	Scheduled Bodies	Admitted Bodies	Totals
	£000	£000	£000	£000
Normal contribution	22,232	10,089	7,890	40,211
Deficit funding	2,540	972	1,210	4,722
	24,772	11,061	9,100	44,933
Strain on Fund	303	137	123	563
Employer's contributions	25,075	11,198	9,223	45,496
Members' pension contributions	7,576	3,446	2,843	13,865
Total contributions	32,651	14,644	12,066	59,361

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Number of Contributors and Pensioners

2020/21	Contributors	Pensioners	Deferred Pensioners	Total
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
Total	12,980	10,875	9,123	32,978
2019/20				
Highland Council	7,518	7,341	5,800	20,659
Scheduled Bodies	3,070	2,191	2,178	7,439
Admitted Bodies	2,232	1,015	1,040	4,287
Total	12,820	10,547	9,018	32,385

9. Benefits Payable

By category	2019/20	2020/21
	£000	£000
Pensions	(47,860)	(50,013)
Lump sum retirement benefits	(12,908)	(9,530)
Lump sum death benefits	(2,510)	(1,994)
	(63,278)	(61,537)
By authority		
Highland Council	(41,743)	(39,929)
Scheduled Bodies	(13,134)	(13,805)
Admitted Bodies	(8,401)	(7,803)
	(63,278)	(61,537)

10. Payments to and on Account of Leavers

	2019/20	2020/21
	£000	£000
Refunds to members leaving service	(231)	(125)
Payments for members joining state scheme	(31)	(1)
Group transfers	-	(11,811)
Individual transfers	(1,567)	(920)
	(1,829)	(12,857)

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. The Group transfer was for Visit Scotland pensioners transferred to Lothian Pension Fund.

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11. Management Expenses

	2019/20	2020/21
	£000	£000
Administrative costs	(1,199)	(1,151)
Investment Management expenses	(6,928)	(10,828)
Oversight and Governance costs	(405)	(492)
	(8,532)	(12,471)

Analysis of Management Expenses

Administrative Costs	2019/20	2020/21
	£000	£000
Administrative costs	(172)	(169)
Employee costs	(996)	(972)
Other administration	(31)	(10)
Total administrative costs	(1,199)	(1,151)

Investment Management Expenses

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

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2019/20	Management fees	Performance fees	Transaction costs	Total
External management fees invoiced	£000	£000	£000	£000
Unitised insurance policies	(179)	-	-	(179)
Equities	(3,340)	-	(360)	(3,700)
Bonds	(274)	-	-	(274)
Property	(403)	-	(132)	(535)
External management fees deducted from capital				
Private equity	(1,466)	-	(136)	(1,602)
Property debt	(193)	-	-	(193)
Custodian fees	-	-	-	(94)
Investment expenses	-	-	-	(351)
Total	(5,855)	-	(628)	(6,928)

Oversight and Governance costs	2019/20	2020/21
	£000	£000
Actuarial fees	(35)	(152)
External Audit fees	(30)	(32)
Internal Audit fees	(3)	(4)
Investment advisor fees	(166)	(130)
Tax advisor fees	(2)	-
Performance management	(24)	(23)
Employee costs	(126)	(123)
Sundry costs	(19)	(17)
Legal costs	-	(11)
Total oversight and governance costs	(405)	(492)
Total Management Expenses	(8,532)	(12,471)

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12. Analysis of Investment Income

	2019/20	2020/21
	£000	£000
Income from equities	27,200	22,243
Income from pooled investments (unit trusts and other managed funds)	4,647	4,522
Pooled property investments	6,813	5,271
Interest on cash deposits	340	112
Private equity income	571	599
Stock lending and other income	505	460
	40,076	33,207

Pending Committee Approval

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13. Investment Assets**13.1. Reconciliation of Movements in Investments and Derivatives**

2020/21 Classifications	Market value 1 Apr 20 £000	Purchases at cost derivative payments £000	Sales proceeds derivative receipts £000	Change in market value £000	Market value 31 Mar 21 £000
Investment assets					
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
Unit trusts (bonds)	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
Property debt	55,000	-	(1,187)	1,187	55,000
Currency forwards	646	-	-	(92)	554
Equity options	17,945	-	-	(15,560)	2,385
Total Investment assets	1,847,617	334,552	(330,262)	496,222	2,348,129
Investment liabilities					
Currency forwards	(2,269)	-	-	2,008	(261)
Equity options	(11,285)	-	-	(4,289)	(15,574)
Total investment liabilities	(13,554)	-	-	(2,281)	(15,835)
Net investment assets	1,834,063	334,552	(330,262)	493,941	2,332,294
Other investment balances					
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)
Total net investment assets	1,885,255	-	-	493,339	2,387,350

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2019/20	Market	Purchases	Sales	Change in	Market
Classifications	value	at cost	proceeds	market	value
	1 Apr 19	derivative	derivative	value	31 Mar 20
	£000	payments	receipts	£000	£000
Investment assets					
Equities	962,327	138,988	(117,573)	(110,907)	872,835
<u>Pooled investments</u>					
Unitised ins policies (equities)	331,102	-	(62,075)	(24,150)	244,877
Unitised ins policies (bonds)	78,940	-	-	(5,999)	72,941
Unitised ins policies (cash)	-	62,075	-	-	62,075
Unit trusts (equities)	12,577	862	(4)	(2,485)	10,950
Unit trusts (bonds)	222,598	13,285	(9,024)	3,756	230,615
Unit trusts (property)	184,234	10,156	(7,597)	(6,607)	180,186
<u>Venture capital and partnerships</u>					
Private equity	102,558	14,251	(14,504)	(2,758)	99,547
Property debt	55,000	-	(1,546)	1,546	55,000
Currency forwards	-	-	-	646	646
Equity options	6,445	-	-	11,500	17,945
Total Investment assets	1,955,781	239,617	(212,323)	(135,458)	1,847,617
Investment liabilities					
Currency forwards	(960)	-	-	(1,309)	(2,269)
Equity options	(14,216)	-	-	2,931	(11,285)
Total investment liabilities	(15,176)	-	-	1,622	(13,554)
Net investment assets	1,940,605	239,617	(212,323)	(133,836)	1,834,063
Other investment balances					
Cash deposits	43,401	-	-	343	46,083
Investment income due	6,475	-	-	-	6,366
Amounts receivable for sales	90	-	-	-	598
Amounts payable for purchases	-	-	-	-	(1,855)
Total net investment assets	1,990,571	-	-	(133,493)	1,885,255

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.

2019/20		Manager Analysis	2020/21	
Market Value £000	% of Fund		Market Value £000	% of Fund
663,989	35.2	Baillie Gifford (UK and global equity)	987,344	41.3
244,883	13.0	Pyrford (global equity)	298,339	12.5
232,207	12.3	Fidelity (bonds and gilts)	246,367	10.3
386,553	20.5	Legal and General (unitised insurance - equity, bonds and cash)	351,129	14.7
195,092	10.3	Schroders (property fund)	200,577	8.4
-	-	Man Group (alternative risk premia hedge fund)	116,133	4.9
106,831	5.7	Partners Group (private equity)	130,766	5.5
55,700	3.0	Standard Life (property debt)	56,695	2.4
1,885,255	100.0	Combined Fund	2,387,350	100.0

13.3. Top 10 Equity Holdings by Market Value

Holding at 31 March 2021	Market Value £000	% of Total Equity	Classification
Prudential	29,818	1.87	Insurance
BHP Group Plc	25,953	1.62	Metals and Mining
Rio Tinto	25,558	1.60	Metals and Mining
Naspers	19,486	1.22	Internet and Direct Marketing Retail
St James's Place	17,848	1.12	Capital Markets
Ashtead Group	15,983	1.00	Trading companies and Distributors
Amazon	14,458	0.91	Internet and Direct Marketing Retail
Legal and General	14,453	0.91	Insurance
Diageo	14,406	0.90	Beverages
AIA Group Limited	13,825	0.87	Insurance
Total	191,788	12.02	

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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.

Fund Manager & Category	Market Value at 31 March 2020 £000	% of total net assets %	Market Value at 31 March 2021 £000	% of total net assets %
Fidelity (Institutional UK Aggregated Bond)	114,388	6.0	122,302	5.1
Total net assets available for benefits	1,892,287			2,394,440

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 £97.342 (31 March 2020 - £110.457m). 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 £101.286m (31 March 2020 - £119.005m) representing 104.1% 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 2020/21 was £0.132m (2019/20 £0.179m) 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 £0.460m (2019/20 £0.505m).

There are no liabilities associated with the loaned assets.

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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.

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.

Investment underlying option contract	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Up to six months	GBP	10,849	CAD	(11,109)		(261)
Up to six months	GBP	21,255	CAD	(20,708)	554	
Net forward currency contracts at 31 March 2021					554	(261)
Prior year comparative						
Net forward currency contracts at 31 March 2020						- (1,623)

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

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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.

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.

Investment underlying option contract	Expires	Put/ call	Notional holding	Market value 31 Mar 20	Notional holding	Market value 31 Mar 21
				£000		£000
Assets						
UK equities	Dec 2021	Put	301	2,277	301	447
	June 2022	Put	275	3,572	275	1,252
Overseas equities	Dec 2021	Put	384	3,435	384	232
	June 2022	Put	152	3,491	152	454
						2,385
Liabilities						
Investment underlying option contract	Expires	Put/ call	Notional holding	Market value 31 March 20	Notional holding	Market value 31 March 21
				£000		£000
UK equities	Dec 2021	Put	(301)	(967)	(301)	(140)
	Dec 2021	Call	(301)	(215)	(301)	(248)
	June 2022	Put	(275)	(1,627)	(275)	(419)
	June 2022	Call	(275)	(158)	(275)	(250)
Overseas equities	Dec 2021	Put	(384)	(1,522)	(384)	(90)
	Dec 2021	Call	(384)	(1,394)	(384)	(8,695)
	June 2022	Put	(152)	(1,598)	(152)	(177)
	June 2022	Call	(152)	(723)	(152)	(5,555)
						(15,574)
Net purchased/written options at 31 March 2021						(13,189)

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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.

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.

Description of Asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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

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Description of Asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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
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	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 Hewitt), 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 2021.

Asset type	Value as at 31 Mar 2020 £000	Assessed valuation range %	Value on increase £000	Value on decrease £000
<u>Pooled investment vehicles</u>				
Units trust (property)	185,127	12.5%	208,267	161,987
<u>Venture capital and partnerships</u>				
Private equity	127,983	25.0%	159,979	95,987
Property debt	55,000	7.5%	59,125	50,875

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14.3. Fair Value Hierarchy

Values at 31 March 2021	Quoted market price	Using observable input	With significant unobservable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial assets				
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
Unit trust (bonds)	-	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
Total investment assets	1,287,701	748,146	368,110	2,403,957
Investment liabilities				
Currency forwards	-	(261)	-	(261)
Amounts payable for purchases	(772)	-	-	(772)
Equity options	-	(15,574)	-	(15,574)
Total investment liabilities	(772)	(15,835)	-	(16,607)
Net investments total	1,286,929	732,311	368,110	2,387,350

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Values at 31 March 2020	Quoted market price	Using observable input	With significant unobservable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Equities	872,835	-	-	872,835
<u>Pooled investments</u>				
Unitised insurance policies (equities)	-	244,877	-	244,877
Unitised insurance policies (bonds)	-	72,941	-	72,941
Unitised insurance policies (cash)	-	62,075	-	62,075
Unit trust (equities)	-	10,950	-	10,950
Unit trust (bonds)	-	230,615	-	230,615
Unit trust (property)	-	-	180,186	180,186
<u>Venture capital and partnerships</u>				
Private equity	-	-	99,547	99,547
Property debt	-	-	55,000	55,000
Cash deposits	46,083	-	-	46,083
Investment income due	6,366	-	-	6,366
Amounts receivable for sales	598	-	-	598
Equity options	-	17,945	-	17,945
Currency forwards	-	646	-	646
Total investment assets	925,882	640,049	334,733	1,900,664
Investment liabilities				
Currency forwards	-	(2,269)	-	(2,269)
Amounts payable for purchases	(1,855)	-	-	(1,855)
Equity options	-	(11,285)	-	(11,285)
Total investment liabilities	(1,855)	(13,554)	-	(15,409)
Net investments total	924,027	626,495	334,733	1,885,255

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14.4. Reconciliation of Fair value Measurements within Level 3

	Pooled investment vehicles	Venture capital and partnerships	
	Units trust (property)	Private equity	Property debt
	£000	£000	£000
Market value 1 Apr 2020	180,186	99,547	55,000
Purchases during the year and derivative payments	10,208	3,936	-
Sales during the year and derivative receipts	(5,749)	(21,145)	(1,187)
Unrealised gains/(losses)	(1,656)	30,187	995
Realised gain	2,138	15,458	192
Market value 31 March 2021	185,127	127,983	55,000

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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.

31 March 2021	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	£000	£000	£000	£000
Financial assets				
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
Unit trusts (bonds)	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
Total financial assets	2,393,763	22,198	-	2,415,961
Financial liabilities				
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
Total financial liabilities	(15,835)	-	(5,686)	(21,521)
Closing net financial assets	2,377,928	22,198	(5,686)	2,394,440

31 March 2020 (Restated)

Financial assets

Equities	872,835	-	-	872,835
<u>Pooled investments</u>				
Unitised ins policies (equities)	244,877	-	-	244,877
Unitised ins policies (bonds)	72,941	-	-	72,941
Unitised ins policies (cash)	62,075	-	-	62,075
Unit trust equity	10,950	-	-	10,950
Unit trusts (bonds)	230,615	-	-	230,615
Unit trusts (property)	180,186	-	-	180,186
<u>Venture capital and partnerships</u>				
Private equity	99,547	-	-	99,547
Property debt	55,000	-	-	55,000
Currency forwards	646	-	-	646
Equity options	17,945	-	-	17,945
Amounts receivable for sales	-	598	-	598
Cash deposits	45,546*	537*	-	46,083
Investment income due	-	6,366	-	6,366
Long term debtors	-	472	-	472
Short term debtors	-	6,561	-	6,561
Bank	-	3,060	-	3,060
Total financial assets	1,893,163	17,594	-	1,910,757
Financial liabilities				
Currency forwards	(2,269)	-	-	(2,269)
Equity options	(11,285)	-	-	(11,285)
Amounts payable for purchases	-	-	(1,855)	(1,855)
Creditors	-	-	(3,061)	(3,061)
Total financial liabilities	(13,554)	-	(4,916)	(18,470)
Closing net financial assets	1,879,609	17,594	(4,916)	1,892,287

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* An adjustment was made to reclassify the invested cash with the Custodian as fair value through profit & loss rather than financial assets at amortised cost which is the category that was used in the annual accounts 2019/20.

This reclassification did not affect the carrying values of assets/liabilities. As noted in the introduction, 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 tables above analyse the carrying amount of financial assets and liabilities by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

15.2. Net Gains and Losses on Financial Instruments

	2019/20	2020/21
	£000	£000
Financial assets		
Fair value through profit and loss	(135,458)	496,222
Amortised cost – unrealised gains	343	(602)
Financial liabilities		
Fair value through profit and loss	1,622	(2,281)
Total	(133,493)	493,339

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

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exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. 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 2020/21 reporting period.

Asset type	Potential market movement (+/ 2019/20	Potential market movement (+/ 2020/21
UK equities	19.0%	19.0%
Global equities (excluding UK)	18.0%	18.0%
UK fixed income unit trusts	10.0%	8.0%

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Corporate bonds (medium term)	9.0%	7.5%
Overseas corporate bonds	9.0%	7.5%
UK fixed gilts (medium term)	11.0%	8.5%
UK index linked gilts (medium term)	9.0%	7.0%
Property	12.5%	12.5%
Private Equity	25.0%	25.0%
Property Debt	7.5%	7.5%
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 2021 £000	Percentage change %	Value on increase £000	Value on decrease £000
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
Investment portfolio assets:				
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

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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
Net investment assets	2,387,350		2,759,334	2,015,366

Asset type	Value as at 31 Mar 2020 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash deposits	46,083	0.0	46,083	46,083
Unitised ins policies (cash)	62,075	0.0	62,075	62,075
Unit trusts (bonds) cash held	8,394	0.0	8,394	8,394
Investment portfolio assets:				
UK equities	375,892	19.0	447,311	304,473
Global equities (overseas)	752,770	18.0	888,269	617,271
UK fixed income unit trusts	94,714	10.0	104,185	85,243
UK Corporate bonds (medium term)	91,116	9.0	99,316	82,916
Overseas Corporate bonds (medium term)	36,391	9.0	39,666	33,116
UK fixed gilts (medium term)	57,462	11.0	63,783	51,141
UK index linked gilts (medium term)	15,479	9.0	16,872	14,086
Unit trusts property	180,186	12.5	202,709	157,663
Private equity	99,547	25.0	124,434	74,660
Property debt	55,000	7.5	59,125	50,875
Investment income due	6,366	0.0	6,366	6,366
Amounts receivable for sales	598	0.0	598	598
Net equity options (UK)	4,213	19.0	5,013	3,412
Net equity options (overseas)	2,447	18.0	2,888	2,007
Amount payable for purchases	(1,855)	0.0	(1,855)	(1,855)
Net currency forwards	(1,623)	0.0	(1,623)	(1,623)
Net investment assets	1,885,255		2,173,609	1,596,901

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

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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 2021 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	31 March 2020	31 March 2021
	£000	£000
Cash and cash equivalents	46,083	47,709
Unitised ins policies (cash)	62,075	9,138
Bank accounts	3,060	5,350
Legal & General fixed interest gilts	57,462	48,470
Legal & General index linked gilts	15,479	15,556
Fidelity unit trust bonds	230,615	244,845
Total	414,774	371,068

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:

Asset type	Carrying amount as at 31 March 2021	Change in year in the net assets available to pay benefits	
	£000	+1%	-1%
		£000	£000
Cash and cash equivalents	47,709	477	(477)
Unitised ins policies (cash)	9,138	91	(91)

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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 unit trust bonds	244,845	2,448	(2,448)
Total	371,068	3,711	(3,711)

Asset type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash and cash equivalents	46,083	461	(461)
Unitised ins policies (cash)	62,075	621	(621)
Bank accounts	3,060	31	(31)
Legal & General fixed interest gilts	57,462	575	(575)
Legal & General index linked gilts	15,479	155	(155)
Fidelity unit trust bonds	230,615	2,306	(2,306)
Total	414,774	4,149	(4,149)

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 2021 and as at the previous period end.

Currency exposure – asset type	Asset value as at 31 March 2020	Asset value as at 31 March 2021
	£000	£000
Overseas quoted securities	568,899	790,305
Overseas unitised insurance policies	183,871	235,503

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Overseas property fund	293	284
Overseas unquoted private equity	99,547	127,983
Overseas unit trust (bonds)	36,391	39,175
Total overseas assets	889,001	1,193,250

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.

Currency exposure - asset type	Asset value 31 March 2021 £000	Change to net assets available to pay benefits	
		+13% £000	-13% £000
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
Total	790,305	893,044	686,563

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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
Total change in assets available	1,193,250	1,348,372	1,037,125

Currency exposure - asset type	Asset value 31 March 2020	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities			
Australian dollar (AUD)	20,608	23,287	17,929
Brazilian real (BRL)	4,152	4,692	3,612
Other overseas investments in GBP	13,001	14,691	11,311
Canadian dollar (CAD)	11,163	12,614	9,712
Danish krone (DKK)	1,941	2,193	1,689
Euro (EUR)	56,868	64,261	49,475
Hong Kong dollar (HKD)	36,252	40,965	31,539
Japanese yen (JPY)	48,915	55,274	42,556
Malaysian ringgit (MYR)	9,072	10,251	7,893
New Taiwan dollar (TWD)	12,283	13,880	10,686
Norwegian krone (NOK)	5,740	6,486	4,994
Singapore dollar (SGD)	10,290	11,628	8,952
South African rand (ZAR)	10,896	12,312	9,479
Swedish krona (SEK)	11,480	12,972	9,988
Swiss franc (CHF)	27,450	31,019	23,881
United States dollar (USD)	288,788	326,330	251,246
Total	568,899	642,855	494,942
Overseas unitised insurance policies (quoted in GBP no other values available)	183,871	207,774	159,968
Overseas property fund (EUR)	293	331	255
Overseas unquoted private equity (EUR)	99,547	112,488	86,606
Overseas unit trust (bonds)	36,391	41,122	31,660
Total change in assets available	889,001	1,004,570	773,431

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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) and Svenska Handelsbanken thus minimising credit risk. The Fund had the following cash holdings at the year end.

	31 March 2020	31 March 2021
	£000	£000
Northern Trust Global Investment liquidity funds	45,546	45,634
Northern Trust Cash deposits	537	2,075
	46,083	47,709

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

	31 March 2020	31 March 2021
	£000	£000
Clydesdale accounts	3,060	5,350

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.

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Following the triennial valuation at 31 March 2017 the Fund's Actuary was asked to assess the projected cash flows of the Fund assuming a variety of possible maturity profiles.

The cash flow position has changed since the 2014 valuation (cash flow positive until 2026) due to the total payroll, and therefore contributions paid, at 31 March 2017 being around 9% lower than assumed in the 2014 projections; and the total benefit payment at 31 March 2017 being around 6% lower than assumed in the 2014 projections indicating the possibility that the Fund could move into a negative cash flow position.

However, assuming the current investment income yield is maintained (2020/21 investment income £33.2m, 2019/20 investment income £40.0m), 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 2020/21 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 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.

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Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Statement (page 97). 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:

	31 March 2020 £m	31 March 2021 £m
Present Value of Promised Retirement Benefits*	2,241	2,956
Net Assets per Annual Accounts	1,892	2,394

* 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 2020 and 31 March 2021 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 2021 figure reflects the proposed changes to the McCloud eligibility criteria in SPPA’s Consultation.

The Actuary estimates that the liability at 31 March 2021 is £2,956m which comprises of £1,468m in respect of employee members, £527m in respect of deferred pensioners and £961m 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 increase the actuarial present value by £593m. The Actuary also estimates that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £11m.

Financial Assumptions	31 March 2020 %p.a.	31 March 2021 %p.a.
Inflation/Pension Increase Rate	1.90	2.85
Salary Increase Rate	2.80	3.65
Discount Rate	2.30	2.00

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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 2021 follows the same principles to those adopted at 31 March 2020 which was to use a “Hymans Robertson” 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:

Weighted average duration	Discount rate category
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 long-term assumption for salary increases is CPI plus 0.8% p.a.

Longevity assumptions

The life expectancy assumptions are included in the Actuarial statement on page 97.

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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 2021 is unavailable for the final 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

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At 31 March 2021, there was one member of the Pensions Board (Mr Ewen Macniven (Trade Union representative)) in receipt of a pension. 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 management of the Pension Fund during the financial year to 31 March 2021.

Name	Resp	Pension contributions in year to		Accrued pension benefits as at		Difference in accrued pension benefits compared to Mar 2020
		31/03/20	31/03/21	31/03/21		
Liz Denovan	Executive Chief Officer, Resources and Finance	£11,282	£18,317	Pension	£37,196	£35,995
				Lump sum	£60,229	£60,229

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 £33.893m were paid by the Highland Council to the Fund during 2020/21 as set out in Note 8 (£32.651m in 2019/20) and central administration costs of £1.285m (£1.315m in 2019/20) were recharged to the Fund.

As at 31 March 2021, the Pension Fund had a net intercompany debtor of £4.013m (31 March 2020 £3.864m) 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 2020/21 with claims ongoing in France, Germany and Italy.

Contingent liabilities

- As at 31 March 2021 there is a contingent liability of £0.669m (£0.613m in 2019/20) for frozen refunds representing 2,129 (2,126 in 2019/20) frozen refund records.

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Contractual commitment

As at 31 March 2021 the Highland Council Pension Fund had contractual commitments in respect of private equity.

	Commitment	Undrawn commitments
Partners Group 2011	£43.030m (€50.000m)	£5.951m (€6.986m)
Partners Group 2014	£68.848m (€80.000m)	£8.697m (€10.209m)
Partners Group 2017	£57.660m (€67.000m)	£31.418m (€36.881m)

22. Current Assets

2019/20	Debtors	2020/21
£000		£000
1,123	Contributions due - employees	1,143
3,767	Contributions due - employers	3,798
215	Strain on fund costs	124
1,456	Short term debtors	1,154
3,060	Bank accounts	5,350
9,621	Total current assets	11,569

23. Long Term Debtors

2019/20	Debtors	2020/21
£000		£000
315	Long term debtors	194
157	Reimbursement of lifetime tax allowances	241
472		435

24. Current Liabilities

2019/20	Creditors	2020/21
£000		£000
(2,137)	Sundry creditors	(3,359)
(44)	Transfer values payable (leavers)	(105)
(880)	Benefits payable	(1,450)
(3,061)		(4,914)

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Actuarial Statement as at 31 March 2021

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 demonstrates 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 full 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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Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's trustees.
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members . There will be an Admission Agreement setting out the employer's obligations.
Common contribution rate	The Fund-wide future service rate plus past service adjustment . It should be noted that this will differ from the actual contributions payable by individual employers .
Covenant	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.
Currency forwards	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.
Deficit	The shortfall between the assets value and the liabilities 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).
Deficit repair/recovery period	The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual past service adjustment (deficit repair contribution), and vice versa.
Discount rate	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 liabilities value which is consistent with the present-day value of the assets, to calculate the deficit . 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 .
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 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.

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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.
Maturity	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.
Members	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).
Past service adjustment	The part of the employer's annual contribution which relates to past service deficit repair.
Pooling	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 deficit , or (if formally agreed) it may allow deficits to be passed from one employer to another.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , i.e.

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Rates and Adjustments Certificate	<p>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 maturity also.</p> <p>A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. 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.</p>
Scheduled Bodies	<p>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).</p>
Securities Lending	<p>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.</p>
Solvency	<p>In a funding context, this usually refers to a 100% funding level, i.e. where the assets value equals the liabilities value.</p>
Stabilisation	<p>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.</p>
Theoretical contribution rate	<p>The employer's contribution rate, including both future service rate and past service adjustment, which would be calculated on the standard actuarial basis, before any allowance for stabilisation or other agreed adjustment.</p>
Underwriting	<p>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.</p>

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Valuation

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.

Pending Committee Approval