



**The Highland Council Pension Fund**  
**Annual Report & Statement of Accounts**  
**(Unaudited)**

**Aithris Chunntasan**

**2012 - 2013**

Pensions Regulator Scheme Number: 10051259

# HIGHLAND COUNCIL PENSION FUND 2012/13

## ANNUAL REPORT & STATEMENT OF ACCOUNTS 2012/13

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## HIGHLAND COUNCIL PENSION FUND 2012/13

### ANNUAL REPORT & STATEMENT OF ACCOUNTS 2012/13

#### Foreword by Director of Finance

It is my pleasure to present the Annual Report and Statement of Accounts of the Highland Council Pension Fund (“the Fund”) for 2012/13.

The Fund is a Local Government Pension Scheme (LGPS), established to provide retirement and death benefits to employees within the scheme. The Fund provides benefits for those employees of the Highland Council, Comhairle Nan Eilean Siar and of 36 other scheduled and admitted bodies that are members of the Fund.

The Fund has 11,454 Contributors, 7,273 Pensioners and 7,649 Deferred Pensioners.

Against a backdrop of continued uncertainty in the global economy, and volatility in the financial markets, the Fund had a positive year in terms of investment performance, with investment benchmarks exceeded overall, and the value of the Fund’s net investment assets increasing by 14.6% to £1,173m (2011/12 £1,024m).

More information on the economic and market environment during the year, and the Fund’s investment performance, is set out later in this report.

During the course of the year, the Fund also completed the transition of c£127m of global equity assets from a terminated Fund manager to a newly appointed Fund manager. The Fund also made its first commitments towards its new Private Equity investment portfolio during the year.

Total contributions income received from employers and employees totalled £48.689m for the year, a slight decrease on the previous year’s £48.984m.

Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £40.776m, compared to £40.917m for the previous year.

The Fund remains in a positive position in terms of maturity and cash, with a net £6.783m addition from dealing with scheme members (£8.236m previous year).

On 1 July 2012 the Fund also implemented its Administration Strategy, with details of the Fund’s performance against administrative performance targets set out within this report.

The Financial Statements for the Fund are prepared in accordance with International Financial Reporting Standards. The Fund is a separate entity from the Highland Council, and therefore its accounts are not included in the Council’s Core Financial Statements.

The Highland Council is the administering authority for the Fund.

#### The Statement of Accounts

The following key financial statements are included within the Statement of Accounts:

#### **Pension Fund Account**

The Pension Fund Account sets out all income and expenditure of the Pension Fund.

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#### **Net Assets Statement**

The Net Assets Statement sets out the value, as at the Statement date, of all assets and liabilities of the Fund. The net assets of the Fund (assets less liabilities) represent the funds available to provide for pension benefits at the statement date.

#### **Accounting Policies and Notes to the Accounts**

Explanations are provided for the basis of the figures included within the Accounts, and the accounting policies adopted, particularly where there is more than one acceptable basis. Notes are provided to set out further details of certain items included within the key financial statements.

#### Actuarial Valuations

Every three years, an independent actuary undertakes a valuation of the Pension Fund. The main purpose of the valuation is to review the financial position of the Fund and to determine the rate at which the employing 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 most recent triennial Valuation was completed as at 31 March 2011. This resulted in the funding level showing a slight decline since the 2008 valuation (97% compared to 98%) due to a number of factors, but primarily due to lower than assumed investment returns. However, this negative effect is mitigated by future pension increases being linked to CPI (rather than RPI), later retirement age plans and short term pay adjustment to reflect continued public sector pay restraint in the short-term. Details of the triennial Valuation are included in the Actuarial Position set out later in this report.

#### Looking Ahead

Looking ahead, there are a number of challenges facing Local Government Pension Schemes:

- Reform of the Local Government Pension Scheme in Scotland, based on a career average rather than final salary, is under development. Plans for England and Wales have already been announced, with the framework for Scotland remaining under development, with clarification awaited at this time. An implementation date of April 2015 is expected. The move towards a career average salary is likely to have significant implications for the Fund in relation to the transition to and administration of a new scheme, as well as implications in relation to the Fund's assets, liabilities, and future funding requirements.
- Auto enrolment will commence for some of the Fund employers from April 2013, resulting in eligible employees who had previously opted out of the pension scheme, now becoming members of the scheme automatically.
- The formation of the new Scottish Police & Fire Services from April 2013, and the expectation that Police and Fire scheme members may transfer out of the Fund to 'host' Funds for the new Police and Fire Services over the medium-term. At

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this time, under transitional arrangements, it is expected Police and Fire employees within the pension scheme will remain in the Fund until at least 2015.

- The on-going volatility and uncertainty in the global economy, and linked to that the continuing regime of public sector austerity over the medium and quite possibly longer term. These issues have significant implications for the Fund and Fund employers.

The next actuarial valuation of the Fund will be as at 31 March 2014.

#### In Conclusion

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

Derek Yule B.Com. CPFA. IRRV (Hons)  
Director of Finance  
7 June 2013

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#### **About the Fund**

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 and the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2010.

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

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.

Employees' contributions to the Fund are fixed by statute and contributions payable by employing bodies 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. A common contribution rate of 17.3% of payroll contributions was set by the Actuary for the period 1 April 2012 to 31 March 2013 in the Triennial Actuarial Valuation report 2011.

A Funding Strategy Statement, which summaries the Fund's approach to funding liabilities, has been prepared and describes the strategy of the Highland Council acting in its capacity of Administering Authority for the funding of the Highland Council Pension Fund.

<http://www.highlandpensionfund.org/themes/highland/scheme%20documents/Funding%20Strategy%20Statement.pdf>

A Statement of Investment Principles (SIP) details the policy governing the Fund's investments. A summary of the SIP is set out on page 15. The Fund's Governance Policy Statement is set out later within this document (page 56).

The Highland Council has delegated authority to a Pensions Committee to take decisions on behalf of the Pension Fund. The Investment Sub Committee is responsible for overseeing the management of the investments of the Fund and scrutinises the performance of the Fund's six specialist managers. Both Committees meet quarterly, and on an ad hoc basis as required. The Investment Sub Committee also makes decisions in relation to the appointment/termination of managers and any other issues relating to the management of investments.

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

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### **Members & Advisors**

#### Pensions Committee Membership as at 31 March 2013

Cllr Dave Fallows (Chair)  
Cllr David Alston  
Cllr Helen Carmichael  
Cllr Norrie Donald  
Cllr John Ford  
Cllr Richard Laird  
Cllr Colin Macaulay  
Cllr Alister MacKinnon  
Cllr Thomas MacLennan  
Cllr Kenneth MacLeod  
Cllr Carolyn Wilson

#### **Non-voting members**

Cllr Angus Campbell (Comhairle Nan Eilean Siar)  
Ms Elaine Ward, Representative for the Other Employers  
Mr Ewen Macniven, Scheme Members Representative

(Ms Liz MacKay, Scheme Members Representative joined May 2013)

#### Investment Sub Committee Membership as at 31 March 2013

Cllr Colin Macaulay (Chair)  
Cllr Helen Carmichael  
Cllr John Ford  
Cllr Richard Laird  
Cllr Alister Mackinnon  
Cllr Ken MacLeod  
Cllr Carolyn Wilson

#### **Non-voting members**

Cllr Angus Campbell (Comhairle Nan Eilean Siar)  
Ms Elaine Ward (Employers Representative)

#### Fund Custodian

The Northern Trust Company

#### Fund Actuary

Barnett Waddingham LLP (to 31/3/13)  
Hymans Robertson (from 1/4/13)

#### Investment Advisers

Hymans Robertson (to 31/03/13)  
AON Hewitt (from 1/4/13)

#### Fund Bankers

Clydesdale Bank plc

#### AVC Provider

Prudential



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#### Fund Investment Managers

Baillie Gifford & Co

Fidelity International

Legal & General Investment Management

Partners Group

Pyrford International

Schroder Property Investment Management Limited

#### **How to Contact Us**

#### **Enquiries regarding Pension Fund Investments:**

Corporate Budgeting, Tax and Treasury

Council Buildings

Glenurquhart Road

Inverness

IV3 5NX

Tel: 01463 702424

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

#### **Enquiries regarding Pensions Contributions & Benefits:**

Pensions Section

The Highland Council

Council Buildings

Glenurquhart Road

Inverness

IV3 5NX

Tel: 01463 702441

E-mail: [pensions.section@highland.gov.uk](mailto:pensions.section@highland.gov.uk)

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

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### Administration Strategy and Performance

On 1 July 2012 the Fund implemented an Administration Strategy which can be found on the Fund's website.

<http://www.highlandpensionfund.org/themes/highland/scheme%20documents/Administration%20Policy.pdf>

The strategy sets out the roles and responsibilities of both the Administering Authority and scheme employers, and includes a number of 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	Total received	% completed within target	Previous year %
New Entrants	Issue Statutory Notice within <b>14 days of receipt</b> of a new start notice	920	88%	n/a
Early Leaver	Issue entitlement notice within <b>2 months of leaving employment</b>	585	86%	n/a
Retirements including deferred benefits coming into payment	To be paid by date of entitlement	357	85%	n/a
Deaths in Service	Contact next of kin within <b>5 days of notification being received</b>	15	100%	n/a
Transfers in from outwith fund	Issue statutory notice within <b>14 days of receipt of payment</b>	70	100%	n/a
Transfers of pension rights outwith fund	Make payment within <b>14 days of receipt of election</b>	55	100%	n/a
Estimate of benefits	Issue within <b>10 days of receipt of request</b>	525	100%	n/a

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

<b>Standard</b>	<b>Number from 1/7/12 to 31/3/13</b>	<b>% achieved</b>	<b>Previous year %</b>
New Start Notification – within 30 days of joining (or 10 days from first deduction if later)	920	91%	n/a
Retirement information – to allow benefits to be paid on time	218	89%	n/a
Death in Service notification – within 7 days of death	15	100%	n/a
Year End Query responses – within 14 days	19 employers were issued with queries	100%	

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**Investment Performance Report**

Economic and market background

Over the year to 31 March 2013, equity markets were extremely volatile with Eurozone issues dominant. The uncertainty in markets eased considerably when the President of the European Central Bank ("ECB") vowed in July 2012 "to do whatever it takes" to preserve the single currency, and then on 2 August 2012 the ECB announced that it would undertake purchases of Eurozone countries' short-term bonds in the secondary market. Concerns were however raised again in quarter 1 of 2013 due to an inconclusive outcome to the Italian elections and the approach agreed to bailing-out Cyprus which involved depositors seeing a reduction to their savings. Investors were also nervous in the build-up to the US fiscal cliff deadline potentially involving reductions in tax cuts and government spending that were due to take effect from January 2013, which was only averted at the last minute. Economic data releases in the US were strong but were weak elsewhere with many governments maintaining austerity strategies.

Equities – UK equity markets were strong against this poor economic backdrop, driven by positive sentiment, higher levels of liquidity and the Government's Quantitative Easing programme. UK equity markets were largely unaffected by Moody's downgrading of the UK Government credit rating in February 2013. Despite the fragility of the world economy, global equity returns were also strong over the 12 months.

Bonds - Risk aversion caused safe haven flows into gilts during the Eurozone turmoil. Yields reached all-time lows over the summer of 2012 before moving higher over the next 6 months.

Property - UK commercial property had positive returns over the year, as income returns more than offset capital losses. London was the top spot in Europe for transaction activity driven in large part by overseas investors. Outside of Central London, UK investor demand has been focused on prime properties let on long leases to strong tenants. Demand for industrial property at a national level remained lukewarm, although there were pockets of growth. The retail sector saw some big name casualties over the period. There are still great contrasts across Europe, with core European countries outperforming peripheral and emerging European countries, where property markets continue to struggle.

Private Equity - the private equity market saw fundraising at reasonable levels over the year. Private equity conditions in North America were reasonably strong compared to Europe due to the growing sense of stability. Conditions across Europe varied between Northern and Southern countries. Sovereign debt worries, rising taxes and budget austerity crippled deal making activity in Italy, Spain and France, whilst activity remained strong in Germany and the UK.

Pension Fund Investment Performance

In the year to 31 March 2013, the Highland Council Pension Fund achieved a return on investments of +14.86% against its customised benchmark of +13.98%. The overall level of performance was very positive, as was the out-performance of the benchmark, in what continues to be challenging economic times.

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The market value of the Fund's net investment assets as at 31<sup>st</sup> March 2013 was £1,173m up from £1,024m at 31 March 2012.

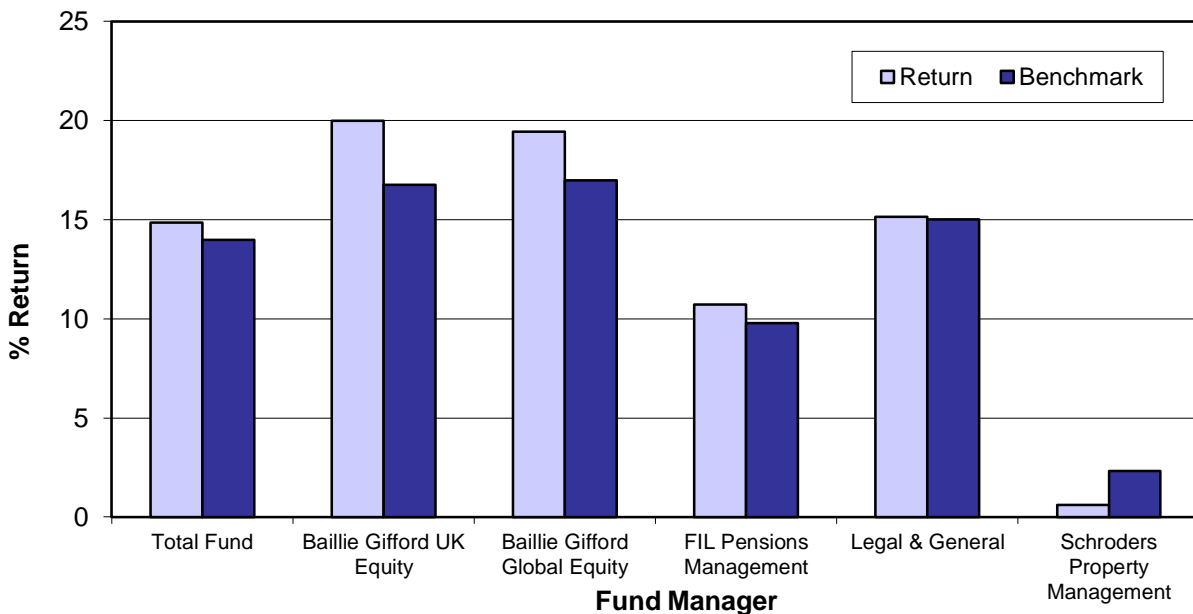
Overall the main positive contributors to performance have been; UK Equities, Bonds, Index Linked Gilts and Private Equity. The single most significant contributor has been the performance of one particular investment manager, whose UK and Global Equity investments have exceeded benchmarks by 2.75% and 2.08% respectively on a relative basis.

The only notable detractor from performance was the Fund's property mandate, which though +0.61% for the year, was under benchmark by -1.7%. The main factor being the continued depressed state of the European property market, impacting on returns.

Details of the Fund's investments, analysed by investment category, and by Fund manager, are shown in the financial statements (refer to Note 15).

Further analysis of investment performance is summarised in the following graphs.

**Average Annual Return by Fund Manager year ended 31 March 2013**

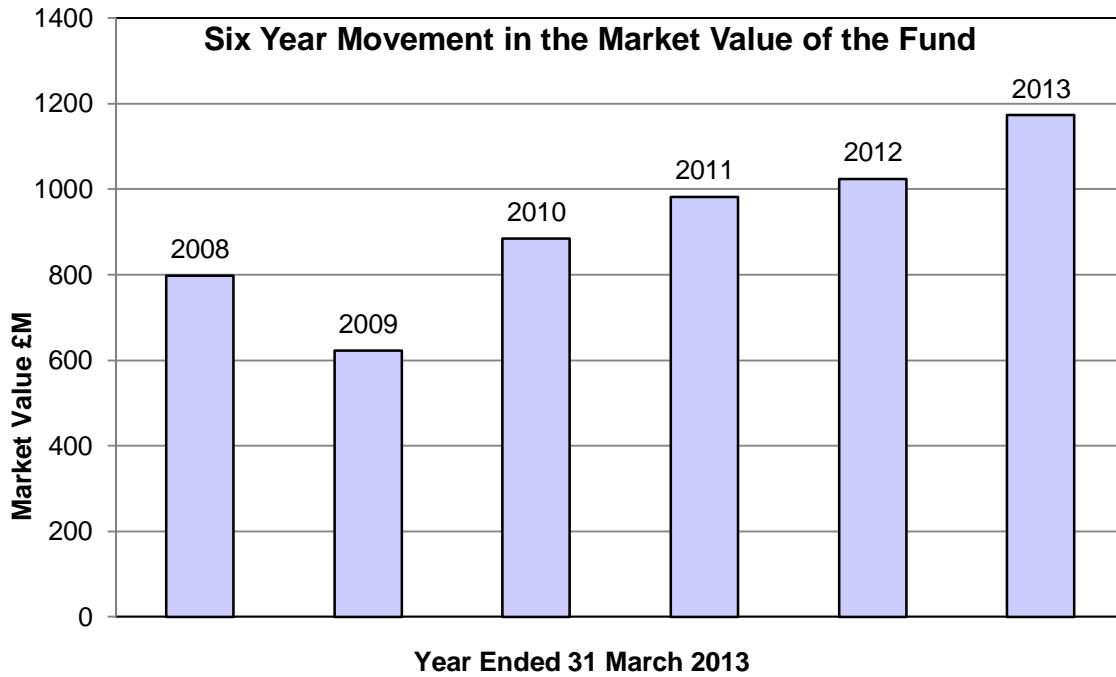
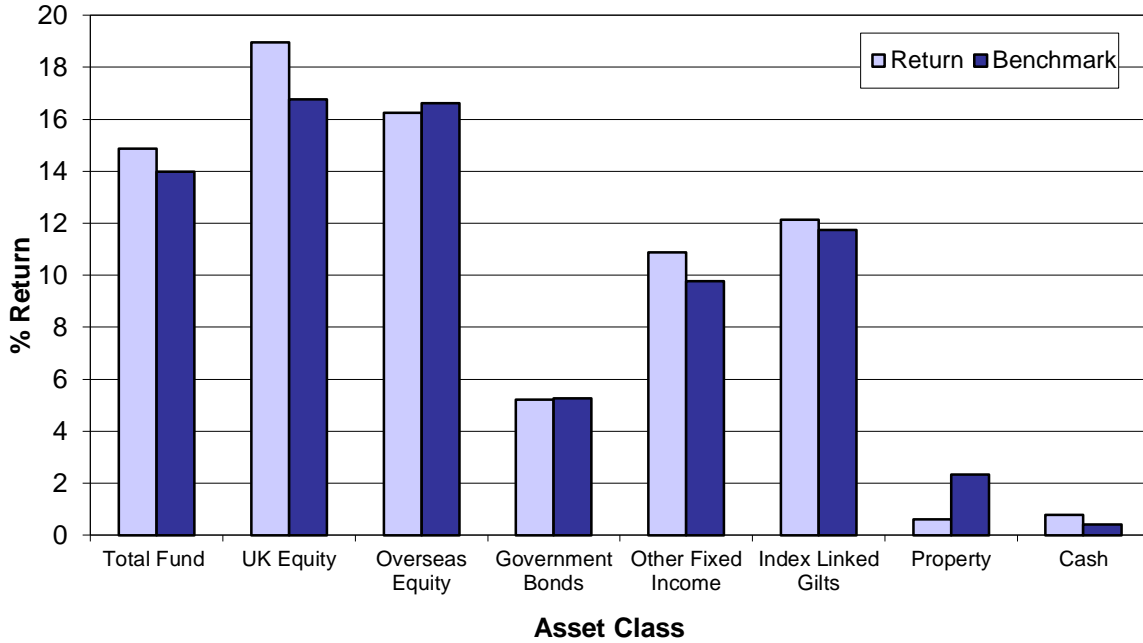


Note that Pymfords, Partners Group and Alliance Bernstein have not been included in the above graph as there is not a full year of data available.

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Returns by Asset Class year ended 31 March 2013



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#### 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 tax payers that are similar to those holding the office of Trustee in the private sector.

##### **Advisors**

Independent Investment Managers, Investment Advisers, Actuaries and Performance Measurement Advisers are employed to give on-going 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 final 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 2005. The Statement describes the strategy of the Highland Council in acting in its capacity as Administering Authority for the funding of the Highland Council Pension Fund. The Statement can be viewed at:

<http://www.highlandpensionfund.org/themes/highland/scheme%20documents/Funding%20Strategy%20Statement.pdf>

##### **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 of return of 3-4% per annum on average. With 75% of the Fund's investments in active management and 25% in index tracking (passive), it is hoped that an efficient balance will be met between risk and return in light of liability profile and the funding level.

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

The overall investment portfolio for the Fund is weighted to the equity market, both UK and Overseas and some Private Equity. However, the portfolio also has invested in Index-Linked Gilts, Property, UK Bonds, Overseas Bonds and Cash.

This diverse range of investments over 6 different Managers (5 active and 1 passive) is employed to minimise the effect of risk and enhance overall performance of the

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Fund for its Members.

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

#### **Monitoring**

The Investment Sub Committee meets quarterly. Each of its Investment Managers attends these meetings on a rotational basis to monitor performance relative to performance targets and officers meet and discuss these with managers throughout the year.

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

#### **Risk**

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

#### **Realisation of Investments**

The majority of the investments held by the Fund are quoted on major stock markets and may be realised quickly if required. Property investment is via pooled funds which are relatively illiquid and make up approximately 8% of the total Fund.

#### **Underwriting**

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

#### **Social, Environmental and Ethical Considerations**

The Fund recognises that social, environmental and ethical considerations are among the factors which Managers will take into account, where relevant, when selecting investments for purchase, retention or sale.

In general terms, this means that there is a group of socially responsible investment concerns which investors need to be aware of and which should be taken into consideration when the decision to invest is being made. This does not mean that the decision whether or not to invest depends entirely on the assessment of these factors but that they should be weighed in the balance along with all other relevant factors when decisions to buy, hold or sell investments are being made.

The Council has instructed the Investment Managers to take into account the key principles of socially responsible investment primarily through a policy of engagement with Companies that demonstrate appropriate observance of these principles.

#### **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.



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#### **Custody**

The Fund has a Global Custodian responsible for the safekeeping of all assets and execution of transactions.

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 no stock released to a third party under a securities lending agreement at this time.

#### **Compliance**

Investment Managers and the Custodian will provide an annual statement to the Council confirming that they have given effect to the investment principles contained in this document so far as is reasonably practicable.

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'.

A detailed version of this Statement of Investment Principles (SIP) expanding on the paragraphs above can be obtained from the address below:

Treasury, Leasing & Investments Section, Corporate Finance, Finance Service, Highland Council, Glenurquhart Road, Inverness, IV3 5NX or [Treasury.Team@Highland.gov.uk](mailto:Treasury.Team@Highland.gov.uk)

#### **Strategic asset allocation**

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

<b>Portfolio</b>	<b>Target %</b>	<b>Comment</b>
UK Equities	30.5*	18% Baillie Gifford – active 12.5% L&G – passive
Global Equities	32.0	15% Baillie Gifford – active 12% Pyrford – active 5% L&G – passive
Private Equity	5.0*	Partners Group - active
Property	10.0	Schroder – active fund of funds
Bonds	22.5	15% Fidelity– active 7.5% L&G – passive manager

\* When private equity is fully funded.

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#### Actuarial Position

Employers' contributions are assessed every three years by an independent actuary and expressed as a percentage of pensionable pay. The Common Rate of Contribution payable by each authority under Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 is 17.3% of pensionable pay on the basis of the last actuarial valuation as at 31 March 2011, applying to financial years 2012/13 – 2014/15.

The "Projected Unit Method" was used for employers open to new staff and the "Attained Age Method" was used for employers that are closed to new staff.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2011 actuarial valuation report and the funding strategy statement on the Pension Fund website.

<http://www.highland.gov.uk/yourcouncil/finance/pensions/local-government-pension-scheme/>

Demographic assumptions are used to estimate future consequences for the Fund. They take account of expected future trends (for instance future improvements in life expectancy) as well as the past experience in the Fund.

As at the 2011 actuarial valuation, the fund was assessed as 97% funded (2008 valuation: 98%). This corresponded to a deficit of £33m at that time (2008 valuation: deficit of £16.3m). The 2011 funding level had decreased marginally from 98% in March 2008 largely due to investment returns achieved by the Fund being less than were assessed at the previous valuation.

#### 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 2011		March 2008	
	Nominal p.a.	Real p.a.	Nominal p.a.	Real p.a.
<b>Investment Return</b>				
Equities/absolute return funds	6.9%	3.4%	7.4%	3.7%
Gilts	4.3%	0.8%	4.6%	0.9%
Bonds & Property	5.5%	2.0%	6.1%	2.4%
Discount Rate	6.4%	2.9%	6.9%	3.1%
Pay Increase	5.0%	1.5%	5.2%	1.5%
Price Inflation	3.5%	0.0%	3.7%	-
Pension Increases	3.0%	(0.5%)	3.7%	-

The actuarial projection of the Market Value of the Fund's assets as at 31 March 2011 was £986m. 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.

#### Mortality assumptions

The key mortality assumptions are that all members will follow the mortality experience of a table which is based on the mortality assumptions underlying the 110% S1PA

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tables allowing for CMI projections, with a long term rate of 1%.

Future life expectancy based on the Actuary's fund-specific mortality review was:

<b>Mortality assumption at age 65</b>	<b>Male</b>	<b>Female</b>
Current pensioners	21.3	23.5
Future pensioners (assumed current age 45)	22.6	25.1

#### **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.

The Actuary's Statement for 2012/13 is included in pages 60 and 61 of this report.

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### STATEMENT OF ACCOUNTS 2012/13

#### Statement of Responsibilities for the Statement of Accounts

##### 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 ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer in the year to 31 March 2013 was the Director of Finance (Section 95 Officer),
- manage its affairs, to secure economic, efficient and effective use of resources and safeguard its assets.

##### The Chief Finance Officer's Responsibilities

The Director of 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 2012/13* (the Code).

In preparing this statement of accounts, the Director of Finance has:

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

The Director of Finance has also:

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

I, the Director of Finance of Highland Council as Chief Finance Officer state that the accounts for the year ended 31 March 2013 give a true and fair view of the financial position of the Pension Fund at that date and of its income and expenditure for the year then ended.

Derek Yule B.Com. CPFA. IRRV (Hons)  
Director of Finance  
7 June 2013

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### Statement on the System of Internal Financial Control

#### Responsibilities for Internal Control

It is the responsibility of senior management to establish an appropriate and sound system of internal control, and to monitor the continuing effectiveness of that system.

The Head of Internal Audit and Risk Management, Highland Council, provides an annual overall assessment of the robustness of the system of internal control.

#### Internal Control

Internal control is defined as *"the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance"* regarding the achievement of one or more of the following objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, regulations and contracts.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or plans.

Any system of control can only provide reasonable, and not absolute assurance that control weaknesses or irregularities do not exist, or that there is no risk of material errors, losses, fraud or breaches of laws and regulations. Accordingly the Fund should seek continual improvement in the effectiveness of its systems of internal control.

#### Internal Audit

Internal Audit is an independent appraisal function established for the review of the internal control system as a service to the Highland Council and by extension, to the Pension Fund. It objectively examines, evaluates and reports upon the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. Any areas of concern together with the management agreed actions and target dates for implementation are summarised in an Action Plan within the report. It is the responsibility of management to ensure that implementation of these actions takes place as agreed. The Internal Audit Section will undertake periodic follow-up reviews to ensure that the management agreed actions have been satisfactorily implemented.

The Internal Audit Section operates in accordance with the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006. As required by the Code, a risk based tactical audit plan for the Highland Council is produced each year, and submitted for information to the Audit and Scrutiny Committee. Within this plan, provision is made for the auditing of key systems relevant to the Pension Fund and details of the annual planned audit activities are provided to the Pensions Committee.

#### Evaluation of Control Environment

Evaluation of the control environment is informed by a number of different sources:

- The audit work undertaken by the Internal Audit Section during the year to 31st March 2013. This includes work undertaken directly for the Pension Fund and indirectly where the Highland Council's financial systems are used. For this year, this consisted of:

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

- (i) a high level review of the adequacy and effectiveness of the Pension Fund's system of internal control,
  - (ii) targeted testing of key controls to confirm that the Council's main financial systems are operating as intended, and this included a sample of transactions relating to the Pension Fund,
  - (iii) assurance provided by individual audits of the Council's main financial systems,
  - (iv) an applications audit of the Pensions computer system,
  - (v) a systems-based audit of Pension Fund Contributions.
- Knowledge and audit appraisal of the governance, risk management and performance monitoring arrangements.
  - The assessment of risk completed during preparation of the annual tactical plan.
  - Any findings reported by the External Auditor and any other inspection agencies.

#### **Information Security**

The Council's information systems are used to administer the Pension Fund, and these are provided by Fujitsu Services as part of a five year contract which commenced on 01/04/10. With regard to this service, assurance has been obtained in various areas. In particular, Fujitsu have provided an ISO 27001 (information security management) certificate which covers the period 05/05/12 – 04/12/15 and this covers their Data Centre in Stevenage and back up site in London. A visit was also made to the Stevenage Data Centre by Computer Audit staff on 21/05/13 and no areas of concern were identified.

With regard to the system used for administering Pension Fund contributions (AXISe) the software supplier also has an ISO 27001 certificate which covers the period 20/12/11 – 19/12/14.

A Customer Authorisation Notice (CAN) from the Public Services Network is in place, allowing use of this Network to 30/09/13. The Council's Computer Audit staff were involved in witnessing aspects of the testing towards achieving the CAN.

With regard to information management, an Information Management Strategy and Information Management Policy are both in place. Although the supporting Information Management Framework and Information Security Framework have not been implemented, the Council has recognised this and has a plan in place to complete these.

#### **Governance, Risk Management and Performance Monitoring**

Local Government Pension Schemes are required to measure compliance of their governance arrangements against compliance standards and this is included within the Pension Fund's Annual Report.

The Pension Fund also has a Governance Policy Statement which is one of a number of key documents it must hold and this was recently updated in May 2013. Within the Statement reference is made to the Fund's Risk Management arrangements whereby identified risks and their countermeasures are contained within the Funding Strategy Statement (FSS). New CIPFA guidance on "*Managing risk in the LGPS*" was issued in November 2012 and it is intended that any changes required will be incorporated into the next review of the FSS. This will also include the development of a Fund specific risk register. At present, strategic risks are addressed through the Council's risk management arrangements.

The performance of Pension Fund investments are reported on a quarterly basis to the Pensions Committee's Investment Sub Committee. In addition, a periodic report

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

upon the efficiency and accuracy of pension contributions and administration is provided to the Pensions Committee. The most recent report was provided on 23/05/13 and this included details of a performance across a range of indicators for the period 01/07/12 – 31/03/13.

#### **Review of Internal Controls and Main Financial Systems**

As stated earlier, a high level review of the Fund's system of internal control was undertaken and this did not identify any areas of concern.

Administration of the Pension Fund is undertaken by Highland Council staff using the Council's financial systems, although the Fund has its own bank account. During the financial year 2012/13 an audit was undertaken of the Debtors system. In addition, the other main financial systems; Creditors, Payroll, General Ledger, Income and Budgetary Control have been subject to a review of the key controls including:

- Financial procedures and guidance issued to staff;
- Segregation of duties;
- User access levels and appropriateness;
- System backups.

A sample of transactions across all organisations which use the Council's financial systems was also selected for detailed testing to verify that the controls were operating as expected. This was verified from the testing of the Council's transactions and no control issues were identified.

#### **Internal Audits**

The Tactical Plan for 2013/14 was provided to the Pensions Committee on 23/05/13 and the planned activities consist of an audit of Pension Fund Contributions and work to support the Statement on Internal Control for 2012/13.

The Pension Fund Contributions audit examined transactions for the year 2012/13 and reviewed two main areas:

- Ensuring that there are appropriate controls in place for admission to the Fund and that contributions are received promptly and are properly accounted for. This involved checking that the contributions were paid into the Pension Fund's Bank Account.
- Review of transfers in/ from the Fund to ensure that these were calculated correctly and received/ paid promptly.

In addition, a computer audit of the Pensions' system from the previous year is nearing completion, and this will ensure that:

- Physical and logical access controls comply with best practice.
- Application controls in terms of input, processing, output, audit trail, backup, restore and business continuity are satisfactory.
- Contractual license, security and support arrangements are in place.
- Some minor issues have been identified which will be addressed in separate audit reports, which will be provided to the Pensions Committee, but these do not affect the audit opinion.

#### **Assurances from Fund Managers and Global Custodian**

The 6 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

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

effectiveness of the systems of internal controls in operation throughout the period examined.

These reports were obtained and reviewed, and it was confirmed that the appropriate assurances were provided by the independent accountants.

#### **Action Tracking**

As part of the audit process, the recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. The results of the action tracking process in respect of Pension Fund matters are reported periodically to the Pensions Committee.

#### **Audit Opinion**

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 Pension Fund's internal control systems for the year to 31 March 2013.

Derek Yule B.Com. CPFA. IRRV (Hons)  
Director of Finance  
7 June 2013



# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### Pension Fund Account

2011/12 £000		Notes	2012/13 £000
	<b>Dealings with members, employers and others directly involved in the scheme</b>		
48,984	Contributions receivable	7	48,689
2,553	Transfers in from other Pension Funds	8	1,843
(40,917)	Benefits payable	9	(40,776)
(1,675)	Payments to and on account of leavers	10	(2,131)
(709)	Administrative expenses	11	(842)
<b>8,236</b>	<b>Net additions/(withdrawals) from dealings with members</b>		<b>6,783</b>
	<b>Returns on Investments</b>		
23,487	Investment income	12	22,411
16,902	Profit and losses on disposal of investments and changes in Values of Investments	16.2	126,223
(287)	Taxes on Income	13	(205)
(2,427)	Investment management expenses	14	(2,444)
<b>37,675</b>	<b>Net Return on Investments</b>		<b>145,985</b>
<b>45,911</b>	<b>Net increase (decrease) in the Net Assets available for Benefits during the year</b>		<b>152,768</b>
986,767	Opening net assets as at the start of the year		1,032,678
<b>1,032,678</b>	<b>Closing net assets as at the end of the year</b>		<b>1,185,446</b>

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### Net Assets Statement as at 31 March 2013

As at 31/03/12 £000		Notes	As at 31/03/13 £000
1,009,487	Investment assets	15.1	1,155,943
14,060	Cash deposits	15.1	17,117
2,772	Investment income due	15.1	2,921
9	Amounts receivable for sales	15.1	1,143
(2,287)	Investment liabilities	15.1	(3,940)
<b>1,024,041</b>	<b>Total net investment assets</b>	15.1	<b>1,173,184</b>
	<u>Current assets</u>		
1,790	Sundry debtors	21	7,267
19,454	Bank accounts		7,516
<b>21,244</b>	<b>Total current assets</b>		<b>14,783</b>
	<u>Less current liabilities</u>		
<b>(12,607)</b>	<b>Sundry creditors</b>	22	<b>(2,521)</b>
<b>1,032,678</b>	<b>Closing net assets as at the end of the year available to fund benefits at the period end<sup>1</sup></b>		<b>1,185,446</b>

Derek Yule B.Com. CPFA. IRRV (Hons)  
 Director of Finance  
 7 June 2013

<sup>1</sup> The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 18.

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### Notes to Accounts

#### 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.

The following description of the fund is a summary only. For more detail, reference should be made to the Highland Council Pension Fund Annual report 2012/13 at the beginning of this document.

#### General

The Fund is governed by the Local Government Superannuation Scheme, the primary legislation being the Superannuation Act 1972

#### 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 2012/13 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 18 of these accounts.

#### 3. Summary of Significant Accounting Policies

##### Fund account – revenue recognition

##### a. Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

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).

##### 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 (see Notes 8 and 10).

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 below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

terms of the transfer agreement.

#### **c. Investment income**

##### **i) 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 a current asset (sundry debtor).

##### **ii) 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 a current asset (sundry debtor).

##### **iii) Property-related income**

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

##### **iv) 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.

#### **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 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. Administrative expenses**

All administrative expenses are accounted for on an accruals basis. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

#### **g. Investment management expenses**

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

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

In advance of preparing the year end a request is made to all Investment Managers for their fee to the end of March 2013 or an estimated fees accrual figure.

The cost of obtaining investment advice from external advisers is included in the

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

investment manager charges and as above a request is sent all external advisers for their fee to the end of March 2013 or an estimated fees accrual figure.

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

#### **Net Assets Statement**

##### **h. 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 asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) **Market-quoted investments**  
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Fixed interest securities**  
Fixed interest securities are recorded at net market value based on their current yields.
- iii) **Unquoted investments**  
The fair value of investments for which market quotations are not readily available is determined as follows:
  - Unquoted holdings in private equity funds have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Unquoted Fund investments are valued at fair value as determined by the Directors or General Partner. The valuations provided by the general partners or managers typically reflect the fair value of the Company's capital account balance of each Fund investment, including unrealised gains and losses, as reported in the Financial Statements of the respective Fund. Private equity investments are typically illiquid and resale is restricted.
- iv) **Pooled investment vehicles**  
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

##### **i. 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.

##### **j. Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

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

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

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

#### **k. Cash and cash equivalents**

Cash comprises cash in hand and demand deposits.

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

#### **l. 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.

#### **m. 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 (Code Para 6.5.2.8).

As permitted under IAS 26 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 18).

#### **n. 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 their movements in the year.

AVCs are not included in the accounts in accordance with section 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (Statutory Instrument 2010/233).

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### 4. Critical Judgements in Applying Accounting Policies

#### Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March was £13.0m

#### Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Position (Note 18). This estimate is subject to significant variances based on changes to the underlying assumptions.

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

This Statement of Accounts contains estimated figures that are based on assumptions made by the Fund 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 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £75 million. A 10% increase in mortality rates would result in a decrease in the pension fund of £18 million.
<b>Debtors</b>	As at 31 March 2013, the Fund had a sundry debtors balance of £7.3m. A review was completed of significant balances and there were 0% of debts over 6 months old.	Debtors are actively monitored and sums pursued by the Council's Income and Recovery Team. Any sums due but not paid would reduce the Fund's income.
<b>Private equity</b>	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £13.0m. There is a risk that this investment may be under or overstated in the accounts.

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### 6. Events after the Balance Sheet Date

Events taking place after the Net Asset Statement date are not reflected in the accounts or notes. There have been no material events since the date of the Net Assets Statement which have required the figures in the accounts and notes to be adjusted

### 7. Contributions Receivable

#### By category

	2011/12	2012/13
	£000	£000
Members' Pension Contributions	12,129	11,996
Employers' Pension Contributions	36,855	36,693
<b>Total contributions</b>	<b>48,984</b>	<b>48,689</b>

As Highland Council Pension Fund had a deficit at the last actuarial valuation in 2011, the employers were required to make a contribution towards restoring the funding position in excess of the amount required to fund the on-going accrual of benefits. The table below shows an estimation of the split between normal contributions (required to fund the accrual of benefits for current service) and the amount attributable to deficit funding. This estimate is calculated based on a future service contribution rate excluding deficit contribution of 16.3% (as stated in the actuarial valuation at 31 March 2011). The Strain on the Fund is the cost to the Fund of the early release of Pension Benefits. These costs are payable by the Employer. The contribution rates that have been certified by the Actuary have been set to fund each employer's share of the deficiency in the Fund over the next 20 years.

The outcome of the 2011 valuation resulted in revised contribution rates for years 2012/13 onwards. The rates relating to 2012/13 are derived from the 2008 valuation

#### Analysis of Contributions by Authority

2011/12		2012/13			
		Highland Council	Scheduled Bodies	Admitted Bodies	Totals
£000		£000	£000	£000	£000
31,688	Normal Contribution	17,970	8,121	8,040	34,131
2,890	Deficit Funding	367	162	108	637
<b>34,578</b>		<b>18,337</b>	<b>8,283</b>	<b>8,148</b>	<b>34,768</b>
2,277	Strain on Fund	1,252	563	110	1,925
36,855	Employer's contributions	19,589	8,846	8,258	36,693
12,129	Members' Pension Contributions	6,264	2,876	2,856	11,996
<b>48,984</b>	<b>Total contributions</b>	<b>25,853</b>	<b>11,722</b>	<b>11,114</b>	<b>48,689</b>



## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

#### Number of Contributors and Pensioners

<b>2012/13</b>	Contributors	Pensioners	Deferred Pensioners
Highland Council	6,337	5,442	5,552
Scheduled Bodies	2,624	1,543	1,599
Admitted Bodies	2,493	288	498
<b>Total</b>	<b>11,454</b>	<b>7,273</b>	<b>7,649</b>
<b>2011/12</b>			
Highland Council	7,747	5,239	5,609
Scheduled Bodies	2,642	1,481	1,534
Admitted Bodies	1,126	235	391
<b>Total</b>	<b>11,515</b>	<b>6,955</b>	<b>7,534</b>

#### 8. Transfers in from other Pension Funds

	2011/12	2012/13
	£000	£000
Group transfers	-	-
Individual transfers	2,553	1,843
	<b>2,553</b>	<b>1,843</b>

#### 9. Benefits payable

##### By category

	2011/12	2012/13
	£000	£000
Pensions	(28,254)	(31,011)
Lump sum retirement benefits	(11,424)	(7,650)
Lump sum death benefits	(1,239)	(2,115)
	<b>(40,917)</b>	<b>(40,776)</b>

##### By authority

	2011/12	2012/13
	£000	£000
Highland Council	(29,510)	(29,189)
Scheduled Bodies	(9,563)	(8,717)
Admitted Bodies	(1,844)	(2,870)
	<b>(40,917)</b>	<b>(40,776)</b>

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### 10. Payments to and on account of leavers

	2011/12	2012/13
	£000	£000
Refunds to members leaving service	(127)	(100)
Payments for members joining state scheme	(104)	(80)
Group transfers	-	-
Individual transfers	(1,444)	(1,951)
	<b>(1,675)</b>	<b>(2,131)</b>

### 11. Analysis of administration expenses

	31 March 2012	31 March 2013
	£000	£000
Highland Council Recharge	(641)	(790)
Actuarial Fees*	(27)	(16)
Other Administration	(10)	(5)
External Audit Fee	(31)	(31)
	<b>(709)</b>	<b>(842)</b>

\*Actuarial fees were included in Investment Management expenses in 2011/12 but for 2012/13 these are included in Administration Expenses above in accordance with the CIPFA LGPS example accounts.

### 12. Analysis of investment income

	31 March 2012	31 March 2013
	£000	£000
Dividends from Equities	14,167	13,736
Income from Pooled Investments	9,222	8,606
Interest on cash deposits	16	152
Private Equity Income	-	145
Other Investments	337	26
Investment Expenses	(255)	(254)
	<b>23,487</b>	<b>22,411</b>

### 13. Taxes on income

	31 March 2012	31 March 2013
	£000	£000
Withholding tax – fixed interest securities	-	-
Withholding tax - equities	(287)	(205)
Withholding tax – pooled	-	-
	<b>(287)</b>	<b>(205)</b>

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### 14. Investment management expenses

	31 March 2012	31 March 2013
	£000	£000
Custodial Fees & Performance Measurement	(174)	(163)
Fund Manager Fees	(2,142)	(2,208)
Investment Advisory Fees	(88)	(54)
General Fees	(23)	(19)
	<b>(2,427)</b>	<b>(2,444)</b>

The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments. For certain investments in accordance with industry practice and investment agreements, some management expenses are netted off investment returns at source by managers and are not separately disclosed.

### 15. Investment assets

#### 15.1. Reconciliation of movements in investments and derivatives

2012/13

Classifications	Market Value at 1 April 2012	Purchases at Cost & Derivative Payments	Sales Proceeds & Derivative Receipts	Change in Market Value	Market Value at 31 March 2013
	£000	£000	£000	£000	£000
<b>Investment assets</b>					
Equities	461,658	198,139	(189,346)	69,352	539,803
Unitised Insurance Policies	305,512	121,637	(131,873)	44,718	339,994
Unit Trusts (Property)	88,934	17,503	(13,177)	(2,061)	91,199
Unit Trusts (Other)	153,359	6,315	-	11,834	171,508
Private Equity	-	15,556	(4,138)	1,564	12,982
Equity Futures	18	-	-	(18)	-
Currency Forwards	6	-	-	451	457
	<b>1,009,487</b>	<b>359,150</b>	<b>(338,534)</b>	<b>125,840</b>	<b>1,155,943</b>
Cash Deposits	14,060	-	-	3,057	<b>17,117</b>
Investment income due	2,772	-	-	149	<b>2,921</b>
Amounts receivable for sales	9	-	-	1,134	<b>1,143</b>
<b>Investment liabilities</b>					
Equity Futures Offsets	(18)	-	-	18	-
Currency Forwards	(21)	-	-	21	-
Amounts payable for purchases	(2,248)	-	-	(1,692)	<b>(3,940)</b>
<b>Total net investment assets</b>	<b>1,024,041</b>	<b>359,150</b>	<b>(338,534)</b>	<b>128,527</b>	<b>1,173,184</b>

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

2011/12

Classifications	Market value at 1 April 2011	Purchases at cost & derivative payments	Sales proceeds & derivative receipts	Change in market value	Market value at 31 March 2012
	£000	£000	£000	£000	£000
<b>Investment assets</b>					
Equities	540,377	119,347	(185,714)	(12,352)	461,658
Unitised insurance policies	190,547	175,608	(75,622)	14,979	305,512
Unit trusts (property)	86,634	14,165	(12,065)	200	88,934
Unit trusts (other)	150,045	6,809	(16,576)	13,081	153,359
Equity futures	26	-	-	(8)	18
Currency forwards	32	-	-	(26)	6
	967,661	315,929	(289,977)	15,874	1,009,487
Cash deposits	11,860	-	-	2,200	14,060
Investment income due	2,349	-	-	423	2,772
Amounts receivable for sales	909	-	-	(900)	9
<b>Investment liabilities</b>					
Equity futures offsets	(26)	-	-	8	(18)
Currency forwards	(72)	-	-	51	(21)
Amounts payable for purchases	(1,014)	-	-	(1,234)	(2,248)
<b>Total net investment assets</b>	<b>981,667</b>	<b>315,929</b>	<b>(289,977)</b>	<b>16,422</b>	<b>1,024,041</b>

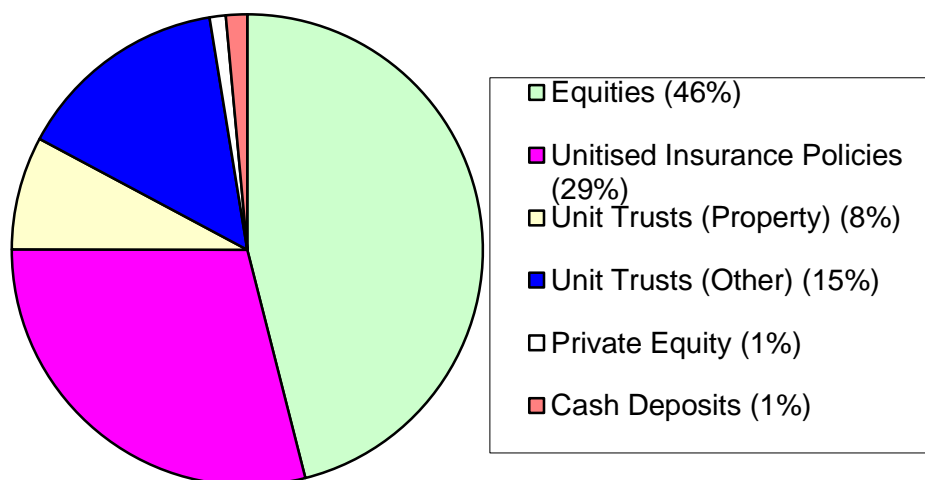
The change in market value of investments during the year comprises of all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction Costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as commissions, stamp duty and fees. Transaction costs incurred during the year amounted to £0.354m (£0.564m 2011/12). In addition to the transaction costs disclosed above, some indirect investment costs are incurred due to the nature of some of the investment funds. The amount of indirect costs is not separately provided to the Fund.

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### 15.2. Analysis of investments



2011/12		Portfolio Distribution – (UK/Overseas)	2012/13	
UK £000	Overseas £000		UK £000	Overseas £000
		<b>Investment assets</b>		
209,238	252,420	Equities	238,749	301,054
305,512	-	Unitised insurance policies	339,994	-
88,934	-	Unit trusts (property)	91,199	-
88,971	64,388	Unit trusts (other)	119,947	51,561
-	-	Private equity	-	12,982
-	18	Equity futures	-	-
-	6	Currency forwards	-	457
11,314	2,746	Cash deposits	14,742	2,375
2	2,770	Investment income due	1,713	1,208
-	9	Amounts receivable for sales	655	488
<b>703,971</b>	<b>322,357</b>		<b>806,999</b>	<b>370,125</b>
		<b>Investment liabilities</b>		
-	(18)	Equity future offsets	-	-
-	(21)	Currency forwards	-	-
(1,804)	(444)	Amounts payable for purchases	(3,455)	(485)
<b>702,167</b>	<b>321,874</b>	<b>Net total</b>	<b>803,544</b>	<b>369,640</b>
	<b>1,024,041</b>	<b>Total UK &amp; overseas total</b>		<b>1,173,184</b>

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

2011/12		Portfolio Distribution – (Quoted/Unquoted)	2012/13	
Quoted £000	Unquoted £000		Quoted £000	Unquoted £000
		<b>Investment assets</b>		
461,658	-	Equities	539,803	-
305,512	-	Unitised insurance policies	339,994	-
88,934	-	Unit trusts (property)	91,199	-
153,359	-	Unit trusts (other)	171,508	-
-	-	Private equity	-	12,982
18	-	Equity futures	-	-
-	6	Currency forwards	-	457
-	14,060	Cash deposits	-	17,117
2,772	-	Investment income due	2,921	-
-	9	Amounts receivable for sales	-	1,143
<b>1,012,253</b>	<b>14,075</b>		<b>1,145,425</b>	<b>31,699</b>
		<b>Investment liabilities</b>		
(18)	-	Equity future offsets	-	-
-	(21)	Currency forwards	-	-
-	(2,248)	Amounts payable for purchases	-	(3,940)
<b>1,012,235</b>	<b>11,806</b>	<b>Net total</b>	<b>1,145,425</b>	<b>27,759</b>
	<b>1,024,041</b>	<b>Total quoted &amp; unquoted</b>		<b>1,173,184</b>

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

#### 15.3. Funds under External Management

The Market Value of the assets (at 1 April 2012 and 31 March 2013) which were under the management of fund managers and the proportion managed by each manager are below.

It should be noted that during the year, assets were transitioned to a new global equity manager (Pyrford) from Alliance Bernstein and the Fund also invested assets in private equity using the Partners Group.

2011/12			2012/13	
Market Value	% of Total Fund	Manager Analysis	Market Value	% of Total Fund
£000	£000		£000	£000
129,684	12.7	Alliance Bernstein (global equity)	-	-
354,938	34.6	Baillie Gifford (UK and global equity)	424,968	36.2
-	-	Pyrford (global equity)	144,899	12.4
143,006	14.0	Fidelity (bond fund)	158,582	13.5
305,515	29.8	Legal and General (managed fund)	339,997	29.0
-	-	Legal and General (transition)	208	-
90,898	8.9	Schroders (property fund)	91,337	7.8
-	-	Partners Group (private equity)	13,193	1.1
<b>1,024,041</b>	<b>100.0%</b>	<b>Combined Fund</b>	<b>1,173,184</b>	<b>100.0%</b>

#### 15.4. Top 10 Equity Holdings by Market Value

Holding at 31 March 2013	Market Value £000	% of Total Equity Investments	Classification
British American Tobacco	14,871	1.67	Tobacco
Prudential	12,099	1.36	Insurance
BG Group	9,171	1.03	Oil & Gas
HSBC Holdings PLC	8,669	0.97	Banking
Rolls Royce Holdings	8,632	0.97	Aerospace
Roche Holdings	7,805	0.88	Pharmaceuticals
Bunzl Plc.	7,700	0.87	Support Services
Nestle	7,648	0.86	Food & Beverage
Legal & General	7,428	0.83	Insurance
Royal Dutch Shell 'B'	7,021	0.79	Oil & Gas
<b>Total</b>	<b>91,044</b>	<b>10.23</b>	

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

#### 15.5. 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 2012	Exceeds 5% of Net Assets	Market Value at 31 March 2013	Exceeds 5% of Net Assets
	£000	%	£000	%
Fidelity UK Inst Stg Core Plus	71,675	7.0	79,438	7.0
Legal & General (UK Equity Index)	229,173	22.0	199,703	17.0
Fidelity Instl UK Agg Bond	71,331	7.0	79,145	7.0
Total net assets	1,032,678		1,185,446	

#### 15.6. Derivatives - Summary of Contracts at 31 March 2013

Derivative	Fair Value £000
<b>Forward Currency Contracts</b>	
FX Deal transacted 12/03/13 CHF to GBP	306
FX Deal transacted 12/03/13 CAD to GBP	47
FX Deal transacted 12/03/13 AUD to GBP	104
	<b>457</b>

Investment Managers Pyrford International and Baillie Gifford hold short term currency forwards for the Fund. 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.

#### 15.7. Stock lending

As at 31 March 2013, no stock was released to a third party under a securities lending agreement.



# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### 16. Financial Instruments

#### 16.1. 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 analysis the carrying amount of financial asset and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

	31 March 2013			
	Fair value £000	Loans & receivables £000	Financial liabilities at amortised cost £000	Total £000
	£000	£000	£000	£000
<b>Financial assets</b>				
Equities	539,803	-	-	539,803
Unitised insurance policies	339,994	-	-	339,994
Unit trusts (property)	91,199	-	-	91,199
Unit trusts (other)	171,508	-	-	171,508
Private equity	12,982	-	-	12,982
Derivative contracts – equity futures	-	-	-	-
Derivative contracts – currency forwards	457	-	-	457
Cash deposits	-	17,117	-	17,117
Investment income due	-	2,921	-	2,921
Amounts receivable for sales	-	1,143	-	1,143
	<b>1,155,943</b>	<b>21,181</b>	-	<b>1,177,124</b>
<b>Financial liabilities</b>				
Derivative contracts - equity futures offsets	-	-	-	-
Derivative contracts – currency forwards	-	-	-	-
Amounts payable for purchases	-	-	(3,940)	(3,940)
<b>Total net investment assets</b>	<b>1,155,943</b>	<b>21,181</b>	<b>(3,940)</b>	<b>1,173,184</b>

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

	31 March 2012				
	Fair Value £000	Fair Value £000	Loans & receivables £000	Financial liabilities amortised cost £000	Total £000
<b>Financial assets</b>					
Equities	461,658	-	-	-	461,658
Unitised insurance policies	305,512	-	-	-	305,512
Unit trusts (property)	88,934	-	-	-	88,934
Unit trusts (other)	153,359	-	-	-	153,359
Derivative contracts - equity futures	18	-	-	-	18
Derivative contracts - currency forwards	6	-	-	-	6
Cash deposits	-	14,060	-	-	14,060
Investment income due	-	2,772	-	-	2,772
Amounts receivable for sales	-	9	-	-	9
	<b>1,009,487</b>	<b>16,841</b>			<b>1,026,328</b>
<b>Financial liabilities</b>					
Derivative contracts - equity futures	(18)	-	-	-	(18)
Derivative contracts - currency forwards	(21)	-	-	-	(21)
Amounts payable for purchases	-	-	(2,248)	(2,248)	(2,248)
<b>Total net investment assets</b>	<b>1,009,448</b>	<b>16,841</b>	<b>(2,248)</b>		<b>1,024,041</b>

### 16.2. Net gains and losses on financial instruments

	31 March 2012 £000	31 March 2013 £000
<b>Financial assets</b>		
Fair value through profit and loss	16,660	126,223
Loans and receivables	242	1
Financial liabilities measured at amortised cost	-	-
<b>Financial liabilities</b>		
Fair value through profit and loss	-	-
Loans and receivables	-	-
Financial liabilities measured at amortised cost	-	(1)
<b>Total</b>	<b>16,902</b>	<b>126,223</b>

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

#### 16.3. Fair value of financial instruments and liabilities

2011/12			2012/13	
Carrying value	Fair value		Carrying value	Fair value
£000	£000		£000	£000
		<b>Financial assets</b>		
794,173	1,009,487	Fair value through profit and loss	848,501	1,155,943
16,600	16,841	Loans and receivables	21,181	21,181
-	-	Financial liabilities measured at amortised cost	-	-
<b>810,773</b>	<b>1,026,328</b>		<b>869,682</b>	<b>1,177,124</b>
		<b>Financial liabilities</b>		
-	-	Fair value through profit and loss	-	-
-	-	Loans and receivables	-	-
(2,287)	(2,287)	Financial liabilities measured at amortised cost	(3,941)	(3,940)
<b>808,486</b>	<b>1,024,041</b>		<b>865,741</b>	<b>1,173,184</b>

#### 16.4. Valuation of financial instruments carried at fair value

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

##### Level 1

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

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

##### Level 2

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

##### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### Values at 31 March 2013

	Quoted market price	Using observable input	With significant unobservable inputs	
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	£000	£000	£000	£000
<b>Financial assets at fair value through profit and loss</b>				
Investment assets	1,052,681	90,281	12,981	1,155,943
Investment income due	2,921	-	-	2,921
Amounts receivable for sales	1,143	-	-	1,143
<u>Current assets</u>				
Sundry debtors	7,267	-	-	7,267
Bank	7,516	-	-	7,516
Cash and cash equivalents	17,117	-	-	17,117
<b>Total financial assets</b>	<b>1,088,645</b>	<b>90,281</b>	<b>12,981</b>	<b>1,191,907</b>
<b>Financial liabilities at fair value through profit and loss</b>				
Financial liabilities at fair value through profit and loss	(3,940)	-	-	(3,940)
<u>Current liabilities</u>				
Sundry creditors	(2,521)	-	-	(2,521)
<b>Total financial liabilities</b>	<b>(6,461)</b>	<b>-</b>	<b>-</b>	<b>(6,461)</b>
<b>Net financial assets</b>	<b>1,082,184</b>	<b>90,281</b>	<b>12,981</b>	<b>1,185,446</b>

### Values at 31 March 2012

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	£000	£000	£000	£000
<b>Financial assets at fair value through profit and loss</b>				
Investment assets	923,062	63,275	23,150	1,009,487
Investment income due	2,772	-	-	2,772
Amounts receivable for sales	9	-	-	9
<u>Current assets</u>				
Sundry debtors	1,790	-	-	1,790
Bank	19,454	-	-	19,454
Cash and cash equivalents	12,409	1,651	-	14,060
<b>Total financial assets</b>	<b>957,496</b>	<b>64,926</b>	<b>23,150</b>	<b>1,047,572</b>

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

#### Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss	(2,287)	-	-	(2,287)
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#### Current liabilities

Sundry creditors	(12,607)	-	-	(12,607)
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<b>Total financial liabilities</b>	<b>(14,894)</b>	<b>-</b>	<b>-</b>	<b>(14,894)</b>
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<b>Net financial assets</b>	<b>944,602</b>	<b>64,926</b>	<b>23,150</b>	<b>1,032,678</b>
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## 17. 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.

### Market risk

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

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

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

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. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

#### Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

Asset type	Potential market movement (+/-)%	Potential market movement (+/-)%
	2011/12	2012/13
UK equities	17.0	22.5
Global equities (excluding UK)	19.7	26.0
UK fixed income unit trusts	10.3	9.0
Corporate bonds (medium term)	10.3	9.0
UK fixed gilts (medium term)	7.8	11.0
UK index linked gilts (medium term)	5.9	9.0
Property	14.5	16.0
Private Equity	-	29.0
Cash	0.8	-

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the 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 in the market price would have been as follows (the prior year comparator is shown below):

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

Asset type	Value as at 31 March 2013	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
<b>Cash and cash equivalents</b>	17,117	0.0	17,117	17,117
<b>Investment portfolio assets:</b>				
UK equities	238,749	22.5	292,468	185,030
Global equities (excluding UK)	301,054	26.0	379,328	222,780
UK fixed income unit trusts	349,333	9.0	380,773	317,893
Corporate bonds (medium term)	79,145	9.0	86,268	72,022
UK fixed gilts (medium term)	48,073	11.0	53,361	42,785
UK index linked gilts (medium term)	34,951	9.0	38,097	31,805
Property	91,199	16.0	105,791	76,607
Private equity	12,982	29.0	16,747	9,217
Net currency forwards	457	0.0	457	457
Investment income due	2,921	0.0	2,921	2,921
Amounts receivable for sales	1,143	0.0	1,143	1,143
Amounts payable for purchases	(3,940)	0.0	(3,940)	(3,940)
<b>Net investment assets</b>	1,173,184		1,370,531	975,837
Asset type	Value as at 31 March 2012	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
<b>Cash and cash equivalents</b>	14,060	0.8	14,172	13,948
<b>Investment portfolio assets:</b>				
UK equities	209,238	17.0	244,808	173,668
Global equities (excluding UK)	252,420	19.7	302,147	202,693
UK fixed income unit trusts	310,632	10.3	342,627	278,637

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

Corporate bonds (medium term)	71,331	10.3	78,678	63,984
UK fixed gilts (medium term)	46,835	7.8	50,488	43,182
UK index linked gilts (medium term)	30,073	5.9	31,847	28,299
Property	88,934	14.5	101,828	76,038
Net currency forwards	(15)	0.0	(15)	(15)
Investment income due	2,772	0.0	2,772	2,772
Amounts receivable for sales	9	0.0	9	9
Amounts payable for purchases	(2,248)	0.0	(2,248)	(2,248)
<b>Net investment assets</b>	<b>1,024,041</b>		<b>1,167,113</b>	<b>880,967</b>

#### **Interest rate risk**

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

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

<b>Asset type</b>	<b>As at 31 March 2012</b>	<b>As at 31 March 2013</b>
	<b>£000</b>	<b>£000</b>
Legal & General fixed interest gilts	46,835	48,073
Legal & General index linked gilts	30,073	34,951
Fidelity unit trust equity	71,675	79,438
Fidelity unit trust bonds	71,331	79,145
<b>Total</b>	<b>219,914</b>	<b>241,607</b>

#### **Interest rate risk sensitivity analysis**

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

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

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates:



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Asset type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
		£000	£000
Legal & General fixed interest gilts	48,073	481	(481)
Legal & General index linked gilts	34,951	350	(350)
Fidelity unit trust equity	79,438	794	(794)
Fidelity unit trust bonds	79,145	791	(791)
<b>Total change in assets available</b>	<b>241,607</b>	<b>2,416</b>	<b>(2,416)</b>

Asset type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
		£000	£000
Legal & General fixed interest gilts	46,835	468	(468)
Legal & General index linked gilts	30,073	301	(301)
Fidelity unit trust equity	71,675	717	(717)
Fidelity unit trust bonds	71,331	713	(713)
<b>Total change in assets available</b>	<b>219,914</b>	<b>2,199</b>	<b>(2,199)</b>

#### Currency risk

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

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

Currency exposure - asset type	Asset value as at 31 March 2012	Asset value as at 31 March 2013
	£000	£000
Overseas quoted securities	252,420	301,054
<b>Total overseas assets</b>	<b>252,420</b>	<b>301,054</b>

#### Currency risk - sensitivity analysis

A 13% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

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 as at 31 March 2013	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities	301,054	340,191	261,917
<b>Total change in assets available</b>	301,054	340,191	261,917

Currency exposure - asset type	Asset value as at 31 March 2012	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities	252,420	285,235	219,605
<b>Total change in assets available</b>	252,420	285,235	219,605

#### 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.

In essence 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 investment managers of the Pension Fund have a mandate to specifically manage cash and so cash is generally held by the Custodian. In addition the Fund's surplus cash from scheme member's contributions is managed as part of the administering authority's treasury management function. Prior to transfer to the Fund's investment managers, cash surpluses, are deposited with the Pension Fund's bank thus minimising credit risk

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### 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.

Following the triennial valuation at 31 March 2011 the Fund's actuary was asked to assess the projected cash flows of the Fund assuming a variety of possible maturity profiles. This study concluded that, provided the investment income yield remains at current levels, then the time when assets need to be sold to meet benefit payments still looks a long way off. The actuary stated that there is no need to review investment strategy in the short term in any significant way although the cash flow position should continue to be monitored.

### 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.

### 18. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the pension fund liabilities on an IAS 19 basis, annually using the same base data as the triennial valuation which is rolled forward to the current financial year, taking account of changes in membership number and updating assumptions to the current year.

Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Position (page 18). This estimate is subject to significant variances based on changes to the underlying assumptions.

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

<b>Net Pension Asset as at</b>	<b>31 March 2013 £000</b>	<b>31 March 2012 £000</b>	<b>31 March 2011 £000</b>
Present Value of Funded Obligation	1,556,921	1,417,307	1,247,429
Fair Value of Scheme Assets (bid value)	1,159,711	1,019,526	968,726
<b>Net Liability</b>	<b>397,210</b>	<b>397,781</b>	<b>278,703</b>

\*Present Value of Funded Obligation consists of £1,266.606m in respect of Vested Obligation and £290.315m in respect of Non-Vested Obligation.

It is not possible to be precise on the estimated liability as at 31 March 2013 without completing a full valuation. However the Actuary is satisfied that the approach of rolling forward the previous valuation results to 31 March 2013 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions,

## HIGHLAND COUNCIL PENSION FUND 2012/13

### STATEMENT OF ACCOUNTS 2012/13

and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information the Actuary has received there appears no evidence that this approach is inappropriate

#### Financial Assumptions

The financial assumptions used for the purposes of the actuarial calculations are calculated on an IAS 19 basis and therefore differ from the results of the 2011 triennial funding valuation (see Actuarial Statement page 60) because IAS 19 stipulates a discount rate rather than a rate which reflects market values. The Financial Assumptions are as follows:

Assumptions as at	31 March 2013		31 March 2012		31 March 2011	
	%p.a.	Real	%p.a.	Real	%p.a.	Real
RPI Increases	3.4%	-	3.3%	-	3.5%	-
CPI Increases	2.6%	-0.8%	2.5%	-0.8%	2.7%	-0.8%
Salary Increases	4.8%	1.4%	4.8%	1.5%	5.0%	1.5%
Pension Increases	2.6%	-0.8%	2.5%	-0.8%	2.7%	-0.8%
Discount Rate	4.5%	1.1%	4.6%	1.3%	5.5%	1.9%

These assumptions are set with reference to market conditions at 31 March 2013. The estimate of the duration of the Fund's liabilities is 21 years.

The discount rate is the annualised yield at the 21 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS26 and with consideration of the duration of the Employer's liabilities. This approach has been updated from previous disclosures when the yield on the iBoxx AA rated over 15 year corporate bond index was used as a standard assumption for most Employers in the Fund.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 21 year point on the BoE spot inflation curve. Previously, the 20 year point was used and so this has been updated to reflect that this Employer's liabilities have a longer duration than average.

This measure has historically overestimated future increases in the RPI and so we have made a deduction of 0.25% to get the RPI assumption of 3.4%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.6%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to be 1.4% above RPI in addition to a promotional scale. This is a slightly lower long-term assumption than last year to reflect the continuing climate of low salary increases.

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#### 19. 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.

2012/13 is provisional subject to completion of the Prudential's full accounts which have been delayed due to a change in their administrative platform on 01 April 2013.

2011/12		2012/13
£000		£000
9,836	Opening Value	9,764
1,459	Contributions Invested	1,268
508	Interest, Bonuses & Transfers	290
(2,039)	Sale of Investments	(1,351)
<b>9,764</b>	<b>Closing Value</b>	<b>9,971</b>

#### 20. Related Parties

With effect from 01 April 2011 the Pension Fund opened and maintained its own separate bank accounts. As a result, as at 31 March 2013 no internal deposit was held with the Highland Council Loans Fund. The Council's Treasury Management team manage surplus cash balances prior to transmission of funds to the Fund Managers for investment.

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 2013

Name	Resp	Pension Contributions in year to		Accrued Pension Benefits as at 31.03.13	Difference in Accrued Pension benefits compared to March 2012
		31/03/12	31/03/13		
Derek Yule	Director of Finance	£12,990	£18,981	Pension £44,779 Lump Sum £113,247	£1,753

#### 21. Contingent assets, liabilities and contractual commitments

There are two contingent assets and no contingent liabilities.

During 2006/07, the Highland Council Pension Fund joined a group litigation to recover tax credits on overseas dividends and foreign income dividends. The

## HIGHLAND COUNCIL PENSION FUND 2012/13

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estimated claim, gross of fees is £1.7m. As at 31/03/13, these claims are still active although many of the tax authorities are resisting claims thus delaying the recovery process.

During 2009/10, KPMG were contracted to submit 'EU Fokus Bank' claims for recovery of withholding tax with an estimated value of £1.3m gross of fees. In March 2010, £0.1m was received in full settlement of the Dutch withholding tax claim whilst the balance is being actively pursued from tax authorities in other countries. An additional revised contract was agreed in April 2012 with KPMG to continue with the claim although the Fund has opted not to pursue a top up claim in Germany as this is not financially viable. Spain is in the process of issuing repayments.

The Fund has appointed a new private equity investment manager, and in total made a 50m EUR commitment to funding the new mandate. The first drawdown of capital to the manager took place in April 2012. It will take several years for the full 50m EUR commitment to be drawn down on a phased basis. During financial year 2012/13, there were 9 drawdowns, and as a result the Fund has invested 14.4m EUR of their 50m EUR commitment (29%) to the new private equity mandate.

#### **22. Admitted & Scheduled Bodies**

##### Administering Authority

Highland Council (also Scheduled Body)

##### Scheduled Bodies

Comhairle Nan Eilean Siar  
Highland and Western Isles Valuation  
Joint Board  
Highland & Islands Fire Board  
Highlands of Scotland Tourist Board  
Western Isles Tourist Board  
HITRANS

Inverness College  
Lews Castle College  
Northern Joint Police Board  
Scottish Police Service Authority  
The Highland Council  
The North Highland College

##### Admitted Bodies

Bord Na Gaidhlig  
Caledonia Community Leisure Ltd  
Comunn Na Gaidhealach  
Cromarty Firth Port Authority  
Eden Court Theatre  
Fujitsu Ltd  
Forth & Oban Limited  
Hebridean Housing Partnership  
Highland Blindcraft  
Highland & Islands Enterprise (HIE)  
Highlands and Islands (Scotland)  
Structural Funds Partnership  
Highland Opportunity Ltd

Highlife Highland  
Inverness Harbour Trust  
Morrison FM  
NHS Highland  
Richard Irvin & Sons  
RS Occupational Health  
Skills Development Scotland  
Stornoway Port Authority  
Torvean Golf Club  
University of the Highlands & Islands  
Vacman Limited  
Visual Impairment Services Highland

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#### 23. Analysis of Debtors

2011/12	Debtors	2012/13
£000		£000
7	Central government bodies	1
-	Other local authorities	6,223
-	NHS Bodies	435
975	Public corporations and trading funds	-
808	Other entities and individuals	608
<b>1,790</b>		<b>7,267</b>

#### 24. Analysis of Creditors

2011/12	Creditors	2012/13
£000		£000
(28)	Central government bodies	(29)
(11,926)	Other local authorities	(1,570)
-	NHS Bodies	(7)
(653)	Other entities and individuals	(915)
<b>(12,607)</b>		<b>(2,521)</b>

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#### **Governance Policy Statement**

The Highland Council as the Administering Authority for the Highland Council Pension Fund has published a Governance Policy Statement in accordance with The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

The Statement is available on the Highland Council Pension Fund website <http://www.highlandpensionfund.org/about-us/forms-and-publications.aspx> and documents the governance arrangements for the Pension Scheme administered by the Highland Council. A short summary is provided below.

#### The Administering Authority and the Regulatory Framework

The Highland Council is the Administering Authority for the Highland Council Pension Fund established within the Local Government Pension Scheme. The Fund provides pensions for those employees of the Council, Comhairle Nan Eilean Siar, and of other Scheduled and Admitted Bodies which are eligible to join it.

The Scottish Public Pensions Agency is responsible for regulating the Local Government Pension Scheme in Scotland and the Council administers the Fund in accordance with relevant legislation and regulations.

#### Committee Structure

The Council has established a Pensions Committee which exercises, on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the Highland Council Pension Fund (the Fund), except where they have been specifically delegated by the Council to another Committee or to an officer(s). The Pension Committee has 11 Highland Council Elected Members who have voting rights, and 4 “non-voting” members; 2 represent other employers and 2 represent scheme members. All committee papers and minutes are publicly available on the Council’s website and meetings are webcast.

In addition the Council has established an Investment Sub-Committee (ISC) comprised of 7 Elected Members from the Highland Council who have voting rights and 2 “non-voting” members representing other employers. The ISC reports to the Pensions Committee on the management and investment of the Pension Fund investment assets.

Both Committees meet at least four times per annum and additional meetings are called as required.

Under the Highland Council’s Scheme of Delegation to Officers and Financial Regulations, the Director of Finance has powers and duties to administer the Local Government Pension Scheme in accordance with the Regulations and agreed policy.

An assessment of the extent to which delegation, or the absence of a delegation, complies with guidance given by Scottish Ministers and, to the extent that it does not so comply, the reasons for not complying are available below.

#### Training

The Fund recognises the importance of training as a key aspect of good governance, and has undertaken regular training of members and officers, in the particular knowledge and skills relating to Pension Fund and Investment matters. Training is delivered through a number of arrangements. The Pensions Committee will consider



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implementation of the CIPFA Skills & Knowledge Framework during 2013.

#### Stakeholder Communication

Committee papers and minutes are publicly available on the Council's website.

<http://www.highland.gov.uk/yourcouncil/committees/strategiccommittees/pensions-comm/>

A Pension Fund Report and Accounts and all policy documents are available on the Highland Council Pension Fund website.

<http://www.highlandpensionfund.org/about-us/forms-and-publications.aspx>

Communication with scheme members is undertaken through the annual distribution of a personal benefit statement and opportunity is provided on an annual basis to attend a presentation by an LGPS representative and representative from Prudential, which is the appointed Additional Voluntary Contributions (AVC) Provider. Pensioners receive a monthly pension advice slip. There is a Pension Fund website where all current newsletters and relevant publications are available for scheme members <http://www.highlandpensionfund.org/>

#### Governance Compliance Statement

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

Principle	Full Compliance	Comments
<b>Structure</b>		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	Yes	The Highland Council as administering authority has delegated all pension scheme matters to the Pensions Committee. 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 (Minute of The Highland Council 27 October 2011).
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 have two non-voting members representing other employers and two non-voting members representing scheme members.  The Investment Sub Committee has two non-voting members representing other employers.
That where a secondary committee of panel has been established, the structure ensures effective communication across both levels.	Yes	The minutes of the Investment Sub Committee are presented to the Pensions Committee and there is significant commonality in the membership of the two committees.
That where a secondary committee or panel has been established, at least	Yes	The minutes of the Investment Sub Committee are presented to the

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one seat of the main committee is allocated for a member from the secondary committee or panel.		Pensions Committee and there is significant commonality in the membership of the two committees.
<b>Representation</b>		
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: <ul style="list-style-type: none"> <li>• Employing authorities (including non-scheme employers, e.g. admitted bodies;</li> <li>• Scheme members (including deferred and pensioner scheme members</li> <li>• Where appropriate, independent professional observers, and</li> <li>• Expert advisors (on an ad-hoc basis).</li> </ul>	Yes	As stated above there are employer and employee representatives on both Pension Fund Committees.  The Fund's investment advisers regularly attend the Pension Investment Sub-Committee and the Fund's actuaries attend the Pension Committee when appropriate.  In addition, Fund Managers attend the Investment Sub Committee on a rotational basis.
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All Pensions Committee 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.
<b>Selection and Role of Lay Members</b>		
a) 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 & Investment Sub Committee members includes presentations from investment managers. Custodian, actuary and investment advisors. Attendance at meetings and training is monitored and reported.
b) 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 both Pension Fund Committees.
<b>Voting</b>		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	The policy on voting rights is clearly stated in the remits of both Pension Fund Committees.
<b>Training /Facility Time /Expenses</b>		
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training,	Yes	There is a policy on training which was drafted in 2011 and is in the process of being updated to incorporate the CIPFA Code of

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facility time and reimbursement of expenses in respect of members involved in the decision making process.		Practice on Public Sector Pensions Knowledge and Skill (2011). The training policy states that members' training is funded from the Council's Pension Fund.
b) That where such a policy exists it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	All members are treated equally under the training policy regardless of whether they have voting rights or not.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	Members receive training each year and this is monitored and reported.
<b>Meeting Frequency</b>		
a) That an administering authority's main committee or committees meet at least quarterly.	Yes	The Pensions Committee meets at least four times a year with the option to hold special meetings as necessary.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main 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.
c) That an administering authority who does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	N/A	There is a Scheme Members representative on the Pensions Committee.
<b>Access</b>		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes	All Members of both Pension Fund committees have full access to agendas, reports and minutes. Voting rights are restricted to Highland Council Elected Members.
<b>Scope</b>		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pension Committee has an overview of investment, funding and member benefit matters.
<b>Publicity</b>		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express interest in wanting to be part of those arrangements.	Yes	The Highland Council publishes governance documents and communicates regularly with employers and scheme members. <a href="http://www.highlandpensionfund.org/about-us/forms-and-publications.aspx">http://www.highlandpensionfund.org/about-us/forms-and-publications.aspx</a>

# HIGHLAND COUNCIL PENSION FUND 2012/13

## STATEMENT OF ACCOUNTS 2012/13

### Actuary's Statement as at 31 March 2013



#### **Introduction**

The last full triennial valuation of the Highland Council Pension Fund was carried out by Barnett Waddingham LLP as at 31 March 2011. The results were published in our report dated March 2012.

#### **2011 Valuation**

The 2011 valuation certified a common contribution rate of 17.3% of payroll to be paid by each employing body participating in the Highland Council Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

#### **Contribution Rates**

The contribution rates were calculated using the Projected Unit Method.

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due
- plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

#### **Asset Value and Funding Level**

The smoothed market value of the Fund's assets as at 31 March 2011 for valuation purposes was £991.1m which represented 97% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

To be consistent with the market related valuation of assets the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

- Rate of return on investments 6.4% per annum
- Rate of increases in pay 5.0% per annum

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- Rate of Increases to pensions in payment 3.0% per annum

#### **Post Valuation Events – Changes in market conditions**

Since March 2011 investment returns have been more than assumed at the 2011 valuation which is positive news for the fund, all else remaining equal.

We anticipate that liabilities will have remained at a similar value owing to the real discount rate underlying the valuation funding model remaining at much the same level.

Overall we expect the financial position of the fund will have improved slightly since the last triennial valuation.

The next actuarial valuation is due as at 31 March 2014 and the resulting contribution rates required by the employers will take effect from 1 April 2015.



**Alison Hamilton FFA**

**Partner**

07 June 2013

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