

Highland Council Pension Fund Annual Report & Statement of Accounts

2010 - 2011

Pensions Regulator Scheme Number: 10051259

ANNUAL REPORT 2010/11

Contents

	Page
Foreword	3
Statement of Responsibilities	4
Statement on the System of Internal Financial Control	5
Independent Auditor's Report	6 - 7
Fund Operation and Management	8 - 9
Members & Advisors	9
Statement of Investment Principles (inc. reference to the Funding Strategy Statement)	10 - 12
Actuarial Position	12
Investment Performance Report	13 - 14
Fund Account & Net Asset Statement	15 - 16
Notes to the Accounts (1 to 17)	17 - 27
Governance Policy Statement & Governance Compliance Statement	28 - 32
Actuary's Statement	33 - 35
How to Contact Us	36

ANNUAL REPORT 2010/11

Foreword by Director of Finance

It's my pleasure to present the Annual Accounts of the Highland Council's Pension Fund for 2010/11.

The Highland Council is the administering authority for the Pension Fund which provides pensions for those employees of the Council, Comhairle Nan Eilean Siar and of other scheduled and admitted bodies that are eligible to join (refer to Note 17).

This year has seen the introduction of separate reporting for Local Government Scheme Funds in Scotland and the adoption of International Financial Reporting Standards. The Fund is a separate entity from the Highland Council and its accounts are not included in the Council's Core Statements.

As shown in the investment performance report on page 13 from a geographical perspective, investments in North America, Asia Pacific (excluding Japan) and Emerging Markets, produced strong returns to the end of March 2011. These returns were achieved despite pressure on markets caused by the natural disaster in Japan, the economic volatility in Europe and the political unrest in the Middle East.

In the year to 31st March 2011, the Highland Council Pension Fund achieved a return on investments of +9.82% against its customised benchmark of +8.34%, a welcome out performance in difficult economic times. The continued market recovery (and volatility) to date is illustrated by the fact that the final market value of Fund's investments as at 31st March 2011 was £981.7m up from £884m at 31st March 2010 and from £628m at March 2009. The Fund has 11,743 Contributors, 6,437 Pensioners and 7,744 Deferred Pensioners.

The Key to the Fund's out-performance over the last twelve months comes in the main from one of the Fund's Investment Manager's UK & Global Equity portfolios – the key sectors providing positive contributions being Oil & Gas, Industrials and Financials. The Fund's exposures to both Government and Corporate Bonds were also beneficial and helped offset generally weak returns from the Fund's other global equity and property investments.

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
Director of Finance
30 June 2011

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 2011 was the Deputy Chief Executive & 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 Deputy Chief Executive & 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* (the Code).

In preparing this statement of accounts, the Section 95 Officer 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 Deputy Chief Executive & 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 2011 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
Director of Finance
30 June 2011

Note: - following the preparation of the Accounts there was a change of Section 95 Officer

Statement on the System of Internal Financial Control

This statement is given in respect of the statement of accounts for the Highland Council Pension Fund. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision and a scheme of delegation and accountability. The system is maintained and developed by officers within the Council, along with external advisers, and includes:

- comprehensive accounting systems that record income and expenditure for both member and investment activities,
- regular reviews of investment reports that measure investment returns against agreed benchmarks,
- regular reviews of investment manager reports that measure performance against agreed targets.

The council's Internal Audit section operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom. The Head of Internal Audit & Risk Management reports to the Audit and Scrutiny Committee. The section undertakes an annual programme of work based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Pension Fund. In respect of 2010/11 no specific work was undertaken in respect of the Pension Fund. The Head of Internal Audit & Risk Management has provided an assurance statement that includes his opinion on the adequacy and effectiveness of the system of internal financial control.

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

- the annual risk assessment/audit planning process of Internal Audit as described above,
- the work of professional accountancy staff within the Pension Fund,
- the External Auditor's reports,

Having reviewed the framework it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control systems. There are no matters highlighted for improvement.

Derek Yule
Director of Finance
30 June 2011

ANNUAL REPORT 2010/11

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

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

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

Respective responsibilities of the Chief Financial Officer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

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

ANNUAL REPORT 2010/11

- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

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

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement on the System of Internal Financial Control does not comply with the 2010/11 Code.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight

**Audit Scotland
7th Floor
Plaza Tower
East Kilbride
G74 1LW**

Date 15 November 2011

ANNUAL REPORT 2010/11

Fund Operation & Management

The Fund is constituted under legislation governing the Local Government Superannuation Scheme, the primary Act of governance is the Superannuation Act 1972. Detailed regulations for the Scheme are contained in the Local Government Pension Scheme (Scotland) Regulations 1998.

The 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. An employer's contribution rate for the Highland Council of 290% of employees' contributions was set by the Actuary for the period 1 April 2010 to 31 March 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. A Statement of Investment Principles (SIP) details the policy governing the Funds investments. A summary of the SIP and details of where to find the Funding Strategy Statement are shown below.

Investment returns from equities remained positive throughout 2010 although not as strong as 2009. From a geographical perspective North America, Asia Pacific excl. Japan and Emerging Markets produced double digit returns to the end of March 2011 albeit on the back of the natural disaster and subsequent nuclear meltdown in Japan, unrest in the Middle East and the continuing economic woes in mainland Europe with Portugal the latest sovereign entity seeking financial support from the EU. The MSCI Japan was down 7% in Q1 2011.

The Highland Council Resources Committee has delegated authority from the Council to take decisions on behalf of the Pension Fund. A working group of the Resources Committee, the Investment Advisory Group (IAG) meets quarterly and on an ad hoc basis as required to scrutinise the performance of investments which are currently managed by five specialist managers. The IAG make recommendations to the Resources Committee in relation to the appointment/termination of managers and any other issues relating to the management of the investments.

Custodial Arrangements

The Custodians produce an annual report on their internal controls which is examined by KPMG LLP in accordance with the American Institute of Certified Public Accountants Statement on Auditing Standards (no 70) SAS70- Report on the Processing of Transactions by Service Organisations. KPMG LLP approved the most recent report on 19 November 2010.

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

ANNUAL REPORT 2010/11

Members & Advisors

Investment Advisory Group Membership as at 31 March 2011

Cllr Carolyn Wilson
Cllr Linda Munro
Cllr Helen Carmichael
Cllr Peter Cairns
Cllr John Ford
Cllr Angus Campbell (Comhairlie Nan Eilean Siar)

Fund Managers

Baillie Gifford & Co
Alliance Bernstein Institutional Investments
FIL Pensions Management
Legal & General Investment Management
Schroder Property Investment Management Limited

Fund Custodian

The Northern Trust Company

Fund Actuary

Barnett Waddingham LLP

Investment Advisers

Hymans Robertson

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

Funding Policy

The Fund is a defined benefit pension scheme which provides Member's 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.highland.gov.uk/yourcouncil/finance/accountingandbudgeting/treasuryandinvestments>

Investment Policy

The overall investment policy is geared towards the production of superior investment returns relative to the growth of liabilities, whilst striving to maintain a level of consistency within the rate of contribution for employers.

The investment policy is based upon achieving a long- term return on investments in excess of inflation through strategic benchmarking and selective asset allocation. With 80% of the Fund's investments in active management and 20% in index tracking (passive), it is hoped that an efficient balance will be met between risk and return in light of liability profile (the sums the Fund has to pay out in the future for pensions) and the funding level (the funds available to make these payments).

Asset Mix of Investments

The overall investment portfolio for the Fund is weighted to the equity market, both UK and Overseas.

However, the portfolio also has invested in Index-Linked Gilts, Property, UK Bonds, Overseas Bonds and Cash.

This diverse range of investments over 5 different Managers (4 active and 1 passive) is employed to minimise the effect of risk and enhance overall performance of the Fund for its Members.

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

ANNUAL REPORT 2010/11

Monitoring

The Fund's officers, and when required advisers, meet quarterly with each of its Investment Managers on a rotational basis to monitor performance relative to performance targets. Adoption of the strategic benchmark and the performance monitoring constrains the Investment Managers from deviating significantly from the intended approach. It also permits flexibility to manage the Fund in such a way as to enhance returns.

Risk

The Fund pursues a policy of lowering risk through diversification of 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 10% 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 sales.

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

Corporate Governance

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

Custody

The Fund has a Global Custodian which ensures the safekeeping of all assets separate from each Investment Manager and other officials.

The Global Custodian also provides all the reporting data to the Council for performance monitoring and independent reconciliation purposes with 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

ANNUAL REPORT 2010/11

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

Actuarial Position

In accordance with Regulation 4(2) (b) of the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 and with effect from 1 April 2009 a five tier contribution rate structure delivering an average employee contribution rate of 6.3% was introduced. Employers' contributions are assessed every three years by an independent actuary and expressed as a percentage of employees' contribution rates.

The latest actuarial valuation was carried out as at 31 March 2008, in accordance with Regulation 76 of the Local Government Pension Scheme Regulations (Scotland) 1998 ("The Regulations"). The principal employers' contribution rates expressed as a percentage of employees' contribution rates of 275% for 2009/10, 290% for 2010/11 and 290% for 2011/12 were set using the "Projected Unit Method" by the Fund's Actuaries during the Valuation Process at 31 March 2008.

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

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:

	Nominal	Real
	p.a.	p.a.
Investment Return/Discount Rate	6.9%	3.1%
Pay Increase	5.2%	1.5%
Price Inflation/Pension Increase	3.7%	0.0%

The actuarial projection of the Market Value of the Fund's assets as at 31 March 2008 was £817m. The actuarial value represented 98% of the Fund's accrued liabilities. The 2008 funding level had increased from 92% in March 2005 largely due to investment returns achieved by the Fund being greater than were assessed at the previous valuation. However an increase in the cost of ongoing accrued benefits, plus allowances for mortality improvements and the introduction of a new scheme in 2009 is expected to have a negative effect on the funding level at the next valuation date of March 2011. The actuarial report detailing this is due shortly.

The Actuary's Statement for 2010/11 is included in page 33 of this report.

Investment Performance Report

Market Value of Investments

The Market Value of Investments can rise or fall reflecting varying economic and market circumstances.

As at 31st March 2011 the total market value of Investments under external management was £982m.

The proportions of investments under management attributable to each of the Fund's Investment Managers at 31st March 2011 together with 2010 comparable figures are shown in the table Funds under External Management (refer to Note 3). Total purchase in the year amounted to **£182.860m** (£210.061m in 2009/10) and total sales were **£155.433m** (£173.288m 2009/10)

Classification of Investments

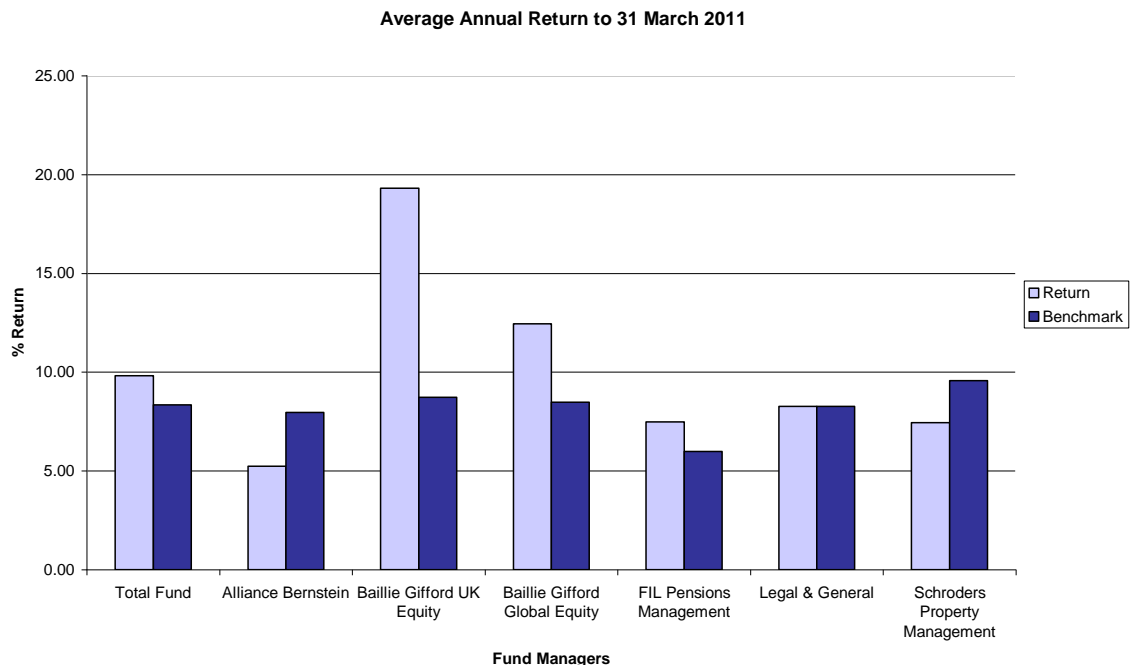
A detailed classification of investments under external management as at 31st March 2011 together with 2010 comparable figures is shown in the table Net Investments (refer to Note 2)

Performance Returns

The Council's Investment Advisory Group meets quarterly to review the performance of the Fund's investments. In this regard, the Group assesses performance measurement statistics produced by the Fund's Global Custodian, Northern Trust Limited, and reports accordingly to the Council's Resources Committee.

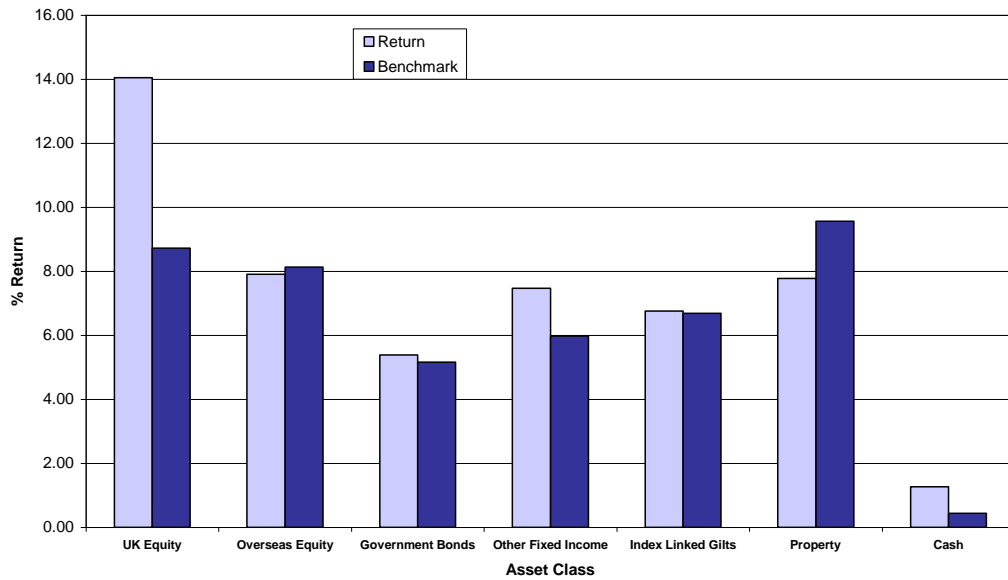
In the financial year to 31st March 2011 the actual return on total Fund investment was 9.8% against a benchmark return of 8.3%.

The graphs below detail the Average Annual Returns achieved by investment classification measured against specific benchmarks for the year to 31st March 2011 and Annualised Returns for the 3 years to 31st March 2011.

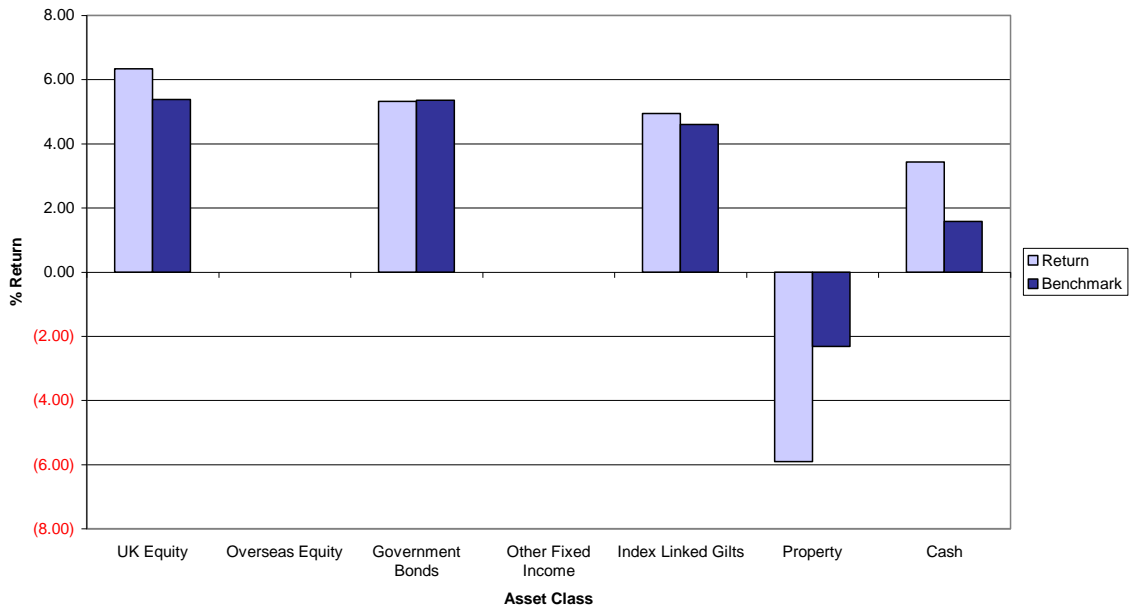


ANNUAL REPORT 2010/11

Returns by Asset Class 2010/11



Annualised Return - 3 years to 31 March 2011



The Fund underwent a restructuring between Quarter ended 31 Dec 2008 and Quarter ended 31 March 2009. This involved a change of benchmarks within some of the individual Manager's portfolios. As a result of the timing of transition it has not been possible to produce meaningful three year returns for 2010/11 for Overseas Equities and Other Fixed Income.

ANNUAL REPORT 2010/11

Fund Account & Net Assets Statement

PENSION FUND ACCOUNT

2009/10 £000		Notes	2010/11 £000
	Dealings with members, employers and others directly involved in the scheme		
	Contributions	5	
34,546	Employer Contributions		37,291
<u>12,376</u>	Employee Contributions		<u>12,513</u>
46,922			49,804
<u>4,486</u>	Transfers in from other Pension Funds		<u>3,479</u>
<u>51,408</u>			53,283
	Benefits	5	
(24,057)	Pensions		(25,502)
(7,557)	Lump sum retirement benefits		(8,331)
(847)	Lump sum death benefits		(919)
<u>(32,461)</u>			(34,752)
	Payments to and on account of leavers		
(208)	Refunds of contributions		(282)
<u>(2,284)</u>	Transfers out		<u>(2,089)</u>
(2,492)			(2,371)
<u>(702)</u>	Administrative expenses	7	<u>(747)</u>
15,753	Net additions (withdrawals) from dealings with members		15,414
	Returns on Investments		
19,454	Investment income	6	21,368
226,550	Profit and losses on disposal of Investments and Changes in Values of Investments		65,864
(342)	Taxes on Income		(341)
<u>(2,241)</u>	Investment management expenses	7	<u>(2,482)</u>
243,421	Net Return on Investments		84,409
259,174	Net increase (decrease) in the Net Assets available for Benefits during the year		99,821
627,772	Opening net assets as at the start of the year		886,946
<u>886,946</u>	Closing net assets as at the end of the year		986,767

ANNUAL REPORT 2010/11

NET ASSETS STATEMENT AS AT 31 MARCH 2011

As at 31/03/10 £000		Notes	As at 31/03/11 £000
<u>Restated</u>	Investment assets	2 & 3	
477,728	Equities		540,378
173,856	Unitised insurance policies		190,552
81,018	Unit trusts – (property)		86,629
140,709	Unit trusts – (other)		150,045
15	Equity futures	4	26
-	Currency forwards	4	32
11,002	Cash deposits		11,860
<u>(332)</u>	Other investment balances		<u>2,244</u>
883,996			981,766
	Investment liabilities		
(15)	Equity futures	4	(26)
(13)	Currency forwards	4	(73)
<u>883,968</u>	NET INVESTMENT ASSETS		<u>981,667</u>
	Current assets		
1,226	Sundry debtors		1,642
<u>2,795</u>	Deposits with Council's Loans Fund		<u>4,267</u>
<u>4,021</u>			<u>5,909</u>
	Less current liabilities		
<u>(1,043)</u>	Sundry creditors		<u>(811)</u>
<u>2,978</u>	Net current assets		<u>5,097</u>
<u>886,946</u>	Net Assets of the Scheme available to fund benefits at the year end		<u>986,767</u>

The unaudited statement of accounts was issued on 30th June 2011 and the audited statement of accounts was authorised for issue on 15 November 2011.

Derek Yule
Director of Finance

The 31 March 2010 figures for Equities and Unit Trusts (Other) have been restated to reflect a new categorisation of holdings by the Custodian, there is no impact on the Net Asset position.

ANNUAL REPORT 2010/11

1. Summary of significant Accounting Policies

The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010. The Accounts summarise the transactions of the Pension Fund during the year and show the net assets at the end of the year.

Basis

The Accounts have been prepared on an accruals basis and do not take account of liabilities to pay pensions and other benefits after the year end. The accruals concept is applied accordingly.

Valuation of Investments

The Fund's investments which are listed on recognised Stock Exchanges are valued on the basis of market convention at Bid market price with the exception of Unit Trusts managed by Fidelity which continue to be valued at Middle market price. Derivatives are valued at Fair Value. Where representative prices are unavailable, investments are valued on the most appropriate basis in the opinion of the Custodian.

Assets and liabilities in foreign currency are translated into sterling at the closing rates of exchange on the last working day of the financial year.

Investment Income

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

Liabilities

Whilst the Accounts don't take account of the obligation to pay pensions and benefits which fall due after the end of the financial year, the Actuarial Position contained within this report does account for these obligations and should be read in conjunction with the Accounts.

2. Net Investments

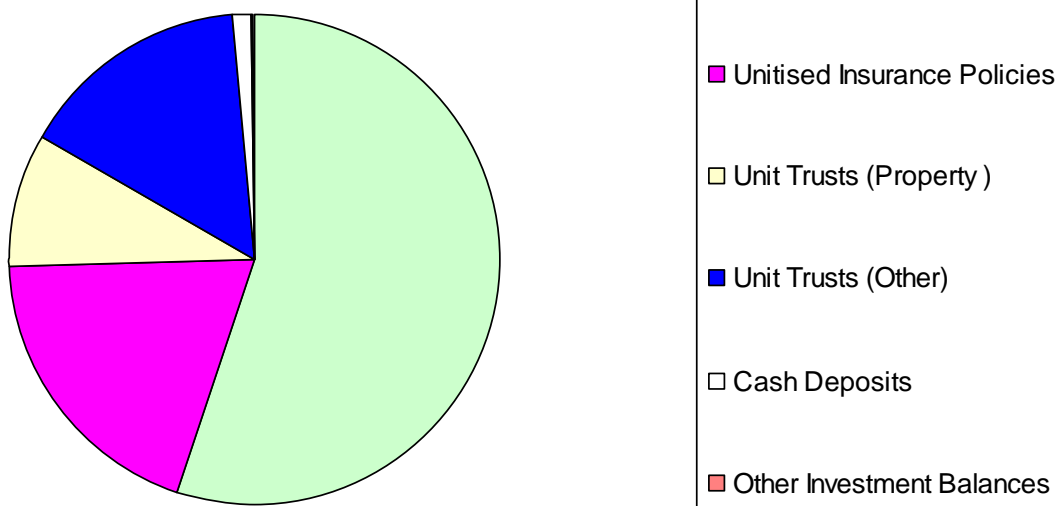
Classifications	Market Value at 1 April 10	Purchases at Cost & Derivative Payments	Sales Proceeds & Derivative Receipts	Change in Market Value	Market Value at 31 March 11
	£000	£000	£000	£000	£000
Investment Assets					
Equities	477,728	154,737	(134,235)	42,148	540,378
Unitised Insurance Policies	173,856	11,500	(9,300)	14,496	190,552
Unit Trusts (Property)	81,018	8,588	(7,485)	4,508	86,629
Unit Trusts (Other)	140,709	8,035	(4,413)	5,714	150,045
Equity Futures	15			11	26
Currency Forwards	-			32	32
	<u>873,326</u>	<u>182,860</u>	<u>(155,433)</u>	<u>66,909</u>	<u>967,662</u>
Cash Deposits	11,002			857	11,860
Other Investment Balances	(332)			2,577	2,244
Total	<u>883,996</u>	<u>182,860</u>	<u>(155,433)</u>	<u>70,343</u>	<u>981,766</u>
Investment Liabilities					
Equity Futures Offsets	(15)			(11)	(26)
Currency Forwards	(13)			(59)	(73)
Total Net Investment Assets	<u>883,968</u>	<u>182,860</u>	<u>(155,433)</u>	<u>70,273</u>	<u>981,667</u>

ANNUAL REPORT 2010/11

The change in market value of investments during the year comprises 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 £0.488m (£0.472m 2009/10). 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.

Distribution of Assets by Value at 31 March 2011



2009/10		Portfolio Distribution – (UK/Overseas)	2010/11	
UK £'000	Overseas £'000		UK £'000	Overseas £'000
Investment Assets				
176,890	300,838	Equities	203,090	337,288
173,856	-	Unitised Insurance Policies	190,552	-
81,018	-	Unit Trusts (Property)	86,629	-
104,564	36,145	Unit Trusts (Other)	96,934	53,111
-	15	Equity Futures	-	26
-	-	Currency Forwards	-	32
7,967	3,035	Cash Deposits	7,735	4,125
(332)	-	Other Investment Balances	2,244	-
543,963	340,033		587,184	394,582
Investment Liabilities				
-	(15)	Equity Future Offsets	-	(26)
-	(13)	Currency Forwards	-	(73)
543,963	340,005	Net Total	587,184	394,483

ANNUAL REPORT 2010/11

2009/10		Portfolio Distribution – (Quoted/Unquoted)	2010/11	
Quoted £'000	Unquoted £'000		Quoted £'000	Unquoted £'000
Investment Assets				
477,728	-	Equities	540,378	-
173,856	-	Unitised Insurance Policies	190,552	-
81,018	-	Unit Trusts (Property)	86,629	-
140,709	-	Unit Trusts (Other)	150,045	-
15	-	Equity Futures	26	-
-	-	Currency Forwards	-	32
-	11,002	Cash Deposits	-	11,860
(332)	-	Other Investment Balances	2,244	-
872,994	11,002		969,874	11,892
Investment Liabilities				
(15)	-	Equity Future Offsets	(26)	-
-	(13)	Currency Forwards	-	(73)
872,979	10,989	Net Total	969,848	11,819

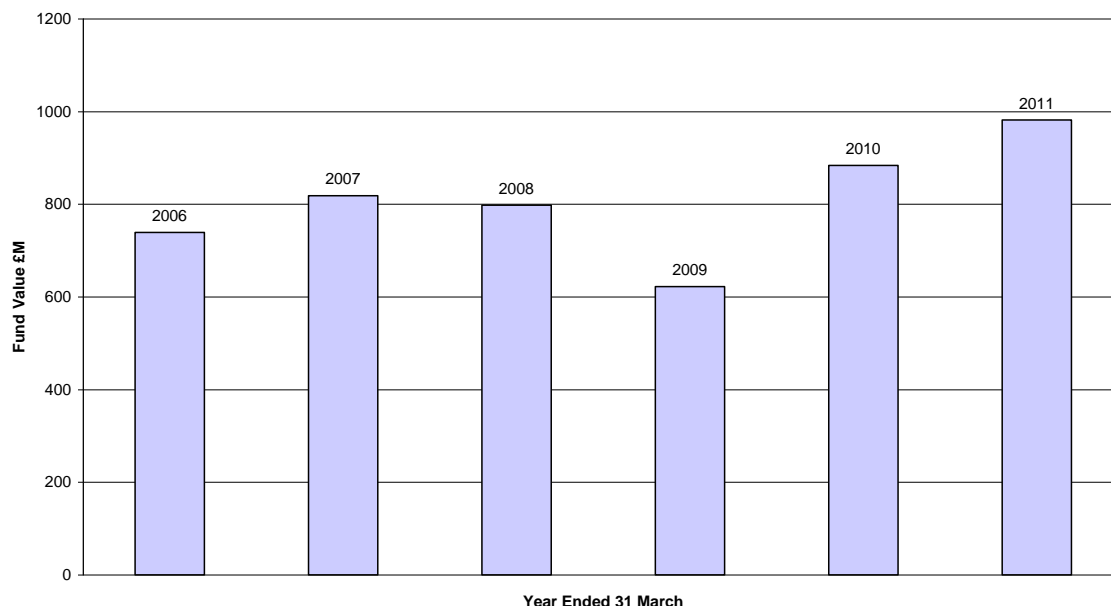
3. Funds under External Management

The Market Value of the assets (at 1 April 2010 and 31 March 2011) which were under the management of fund managers and the proportion managed by each manager are shown in the table below and a six year analysis in the graph.

2009/10		Manager Analysis	2010/11	
Market Value £'000	% of Total Fund		Market Value £'000	% of Total Fund
225,643	25.5	Alliance Bernstein – Global Equity	240,561	24.5
288,981	32.6	Baillie Gifford – Global Equity	338,670	34.5
114,165	13.0	FIL – Bond Fund	123,424	12.6
173,855	19.7	Legal and General – Managed Fund	190,550	19.4
81,324	9.2	Schroders – Property Fund	88,462	9.0
883,968	100.0%	Combined Fund	981,667	100.0%

ANNUAL REPORT 2010/11

Six Year Movement in Investment Value



4. Derivatives - Summary of Contracts at 31 March 2011

Derivative	Currency £000	Fair Value £000
Equity Futures		
Fut Jun 11 EMINI S&P 500	GBP	26
Forward Currency Contracts		
FX Deal transacted 16/02/11		(64)
FX Deal transacted 08/03/11		(9)
FX Deal transacted 15/03/11		2
FX Deal transacted 18/03/11		19
FX Deal transacted 18/03/11		11
		<u>41</u>

Investment Manager Alliance Bernstein holds stock index (equity) futures and short currency forwards for the Fund. These investments are used to ensure that cash can remain invested short term in equities. The index futures can be traded and as such they provide flexibility to the investment manager. They target a 0.5% cash weight in the portfolio thereby keeping a high exposure to equity markets. 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.

5. Contributions and Benefits

As Highland Council Pension Fund had a deficit at the last actuarial valuation in 2008, the employers were required to make a contribution towards restoring the funding position in excess of the amount required to fund the ongoing 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 of 15.1% (as stated in the actuarial valuation at 31 March 2008). 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 deficit recovery period varies depending on the individual circumstances of each employer ranging from 20 years for local authorities, 15 years for educational establishments and with the remainder being the estimated future working lifetime of current active members.

ANNUAL REPORT 2010/11

Analysis of Employers' Pension Contributions

	Highland Council	Other Scheduled Bodies	Admitted Bodies	Totals
<u>Employers</u>				
Normal	22,074	8,213	2,257	32,544
Contribution				
Deficit	2,082	770	196	3,048
Funding				
	<u>24,156</u>	<u>8,983</u>	<u>2,453</u>	<u>35,592</u>
Strain on Fund	946	501	252	1,699
	<u>25,102</u>	<u>9,484</u>	<u>2,705</u>	<u>37,291</u>

Contributions Receivable and Benefits Payable

2009/10			2010/11	
Contributions Receivable £000	Benefits Payable £000		Contributions Receivable £000	Benefits Payable £000
31,888	23,986	Highland Council	33,501	24,814
11,845	7,221	Scheduled Bodies	12,640	8,073
3,189	1,254	Admitted Bodies	3,663	1,865
<u>46,922</u>	<u>32,461</u>	Total	<u>49,804</u>	<u>34,752</u>

Number of Contributors and Pensioners

2009/10				2010/11		
Contributors	Pensioners	Deferred Pensioners		Contributors	Pensioners	Deferred Pensioners
8,620	4,703	5,877	Highland Council	8,411	4,928	5,900
2,875	1,214	1,354	Scheduled Bodies	2,761	1,322	1,470
618	190	367	Admitted Bodies	571	187	374
<u>12,113</u>	<u>6,107</u>	<u>7,598</u>	Total	<u>11,743</u>	<u>6,437</u>	<u>7,744</u>

6. Analysis of Investment Income

	31 st March 2010 £'000	31 st March 2011 £'000
Dividends from Equities	10,958	12,910
Income from Pooled Investments	8,712	9,294
Interest on cash deposits	37	49
Other Investments	464	367
Investment Expenses	(717)	(1,252)
	<u>19,454</u>	<u>21,368</u>

ANNUAL REPORT 2010/11

7. Analysis of Administration Costs

	31 st March 2010 £'000	31 st March 2011 £'000
<u>Investment Management Services</u>		
Actuarial Fees	15	16
Custodial Fees & Performance Measurement	165	170
Fund Manager Fees	1,979	2,202
Investment Advisory Fees	20	50
General Fees	62	45
	2,241	2,482
<u>Internal Administration</u>		
Highland Council Recharge	700	709
Other Administration	2	38
	702	747
Total Administration Costs	2,943	3,229

8. International Financial Reporting Standard (IFRS) Accounting

The Pension Fund Accounts for 2010/11 are the first to be prepared on an IFRS basis and material differences between accounts presented under SORP 2009 and the IFRS based Code should be disclosed. There are no material differences arising on transition to the IFRS based code.

9. Related Parties

There were no transactions with related parties during the year other than the balances with The Highland Council disclosed in the Net Asset Statement.

	2009/10 £000	Deposits with the Council's Loans Fund	2010/11 £000
	2,795		4,267

10. Contingent Assets, Liabilities and Contractual Commitments

There are two contingent assets and no contingent liabilities.

During 2006/07 The Highland Council joined a group litigation to recover tax credits on overseas dividends and foreign income dividends. The estimated claim, gross of fees is £1.7m. 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.

ANNUAL REPORT 2010/11

11. Post Balance Sheet Events

The unaudited accounts were authorised for issue on 30 June 2011 and the audited accounts were audited for issue on 15 November 2011. 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 the required the figures in the accounts and notes to be adjusted.

12. Additional Voluntary Contributions (AVC's)

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.

2009/10		2010/11
£000		£000
8,936	Opening Value	9,416
1,161	Contributions Invested	1,331
445	Interest, Bonuses & Transfers	397
(1,126)	Sale of Investments	(1,308)
<u>9,416</u>	Closing Value	<u>9,836</u>

13. Stock Lending

As at 31 March 2011, no stock was released to a third party under a securities lending agreement

ANNUAL REPORT 2010/11

14. Holdings Exceeding 5% by Type or of Total Net Assets

The Fund holds the following investments that exceed either 5% of the net assets available for benefits or 5% of security type

Market Value at 31 March 2010	Exceeds 5% by Type	Exceeds 5% of Net Assets	Fund Manager & Category	Market Value at 31 March 2011	Exceeds 5% by Type	Exceeds 5% of Net Assets
£'000	%	%		£,000	%	%
57,153	26.6	6.4	Fidelity UK Inst Stg Core Plus	61,688	8.0	6.0
131,102	61.0	14.8	Legal & General – UK Equity Index	141,795	18.0	14.0
57,012	57.2	6.4	Fidelity Instl UK Agg Bond	61,736	55.9	6.3
25,893	26.0	2.9	Legal & General – All Stocks Gilt Index	29,137	26.4	-
16,857	16.9	1.9	Legal & General – Over 5yr Index Linked Gilt	19,615	17.8	-
8,768	10.8	-	Schroders – L&G Property Fund	9,543	11.0	-
12,648	15.6	-	Schroders – Continental Europe Property Fund	12,290	15.9	-
8,395	10.4	0.9	Schroders – Aviva Investors Property Fund	9,068	9.9	-
5,739	7.1	-	Schroders – Blackrock Property Fund	6,964	8.3	-
5,501	6.8	-	Schroders – Hermes Property Fund	5,765	7.3	-
6,272	7.7	-	Schroders – Property Units Exempt Fund	6,628	9.1	-
4,801	-	5.9	Schroders – Standard Life Pooled Prop Fnd	4,920	-	-

15. Top 10 Equity Holdings by Market Value

Holding at 31 March 2011	Market Value £'000	% of Total Equity Investments	Classification
BG Group	10,443	1.93	Oil & Gas
British American Tobacco	9,603	1.78	Tobacco
HSBC Holdings PLC	9,542	1.77	Banking
Rio Tinto	9,073	1.68	Mining
BHP Billiton	8,411	1.56	Metal & Mining
Vodafone	7,659	1.42	Communications
Imperial Tobacco	7,377	1.37	Tobacco
Royal Dutch Shell 'B'	7,262	1.34	Oil & Gas
Prudential	7,209	1.33	Insurance
Royal Dutch Shell 'A'	5,698	1.05	Oil & Gas
Total	82,277	15.23	

16. Actuarial Present Value of Promised Retirement Benefits

Net Pension Asset as at	31 March 2011	31 March 2010	31 March 2009
	£000's	£000's	£000's
Present Value of Funded Obligation	1,247,429	1,382,098	814,776
Fair Value of Scheme Assets (bid value)	968,726	879,385	614,230
Net Liability	278,703	502,713	200,546

*Present Value of Funded Obligation consists of £949,184,000 in respect of Vested Obligation and £298,245,000 in respect of Non-Vested Obligation.

Valuation Data

Data Sources

In completing calculations for IAS26 purposes the Fund's Actuary used the following items of data received from The Highland Council:

- The results of the Triennial Actuarial Valuation as at 31 March 2008 which was carried out for funding purposes.
- Estimated whole fund income and expenditure items for the period to 31 March 2011.
- Estimated whole fund returns for the period to 31 March 2011 based on assets used for the purpose of the Triennial valuation as at 31 March 2010, actual fund returns for the period to 31 January 2011 and then market returns (estimated where necessary) for the period to 31 March 2011.
- Details of any new early retirements for the period to 31 March 2011 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of these data items have been estimated, the Actuary does not believe that they are likely to have a material effect on the results, especially in the context of the roll-forward approach taken (as described in the next section). Further, they are not aware of any material changes or events since the data was received.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2011 is estimated to be 8%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date. The actual return on Fund assets over the year may be different.

Unfunded Benefits

The Actuary has excluded any unfunded benefits as these are liabilities of employers rather than the Pension Fund.

ANNUAL REPORT 2010/11

Actuarial Methods and Assumptions

Roll-Forward Approach

To assess the value of the Employer's liabilities as at 31 March 2011, the Actuary has rolled forward the value of the Employer's liabilities calculated for the triennial valuation at 31 March 2008 allowing for the different financial assumptions required under IAS19.

The full actuarial valuation involved projecting future cash flows to be paid from the Fund and placing a value on them. These cash flows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to be precise on the estimated liability as at 31 March 2011 without completing a full valuation. However the Actuary is satisfied that the approach of rolling forward the previous valuation results to 31 March 2011 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, 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.

Demographic / Statistical Assumptions

The Actuary has adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2008. The post retirement mortality tables were prepared in accordance with standard actuarial practice.

The following actuarial assumptions have also been made:

- Members will exchange half of their commutable pension for cash at retirement
- Active members will retire one year later than they are first able to do so without reduction

Financial Assumptions

The financial assumptions used for the purposes of the actuarial calculations are as follows:

Assumptions as at	31 March 2011		31 March 2010		31 March 2009	
	%p.a.	Real	%p.a.	Real	%p.a.	Real
RPI Increases	3.5%	-	3.9%	-	3.0%	-
CPI Increases	2.7%	-0.8%	n/a	-	n/a	-
Salary Increases	5.0%	1.5%	5.4%	1.5%	4.5%	1.5%
Pension Increases	2.7%	-0.8%	3.9%	-	3.0%	-
Discount Rate	5.5%	1.9%	5.5%	1.5%	6.7%	3.6%

ANNUAL REPORT 2010/11

These assumptions are set with reference to market conditions at 31 March 2011. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at this date which has been chosen to meet the requirements of IAS19. 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. This measure has historically overestimated future increases in the RPI and so the Actuary has made a deduction of 0.25% to arrive at the RPI assumption of 3.5%. As future pension increases are expected to be based on CPI rather than RPI, a further assumption about CPI has been made which assume that it will be 0.8% below RPI, i.e. 2.7%.

Salary increases are then assumed to be 1.5% above RPI in addition to a promotional scale, but the Actuary has also assumed that there is a pay freeze until 31 March 2012 for all members earning over £21,000 per annum

17. Admitted & Scheduled Bodies

Administering Authority

Highland Council (also Scheduled Body)

Scheduled Bodies

Comhairle Nan Eilean Siar	Inverness College
Highland and Western Isles Valuation Joint Board	Lews Castle College
Highland & Islands Fire Board	Northern Joint Police Board
Highlands of Scotland Tourist Board	Scottish Police Service Authority
HITRANS	The Highland Council
	The North Highland College
	Western Isles Tourist Board

Admitted Bodies

Bord Na Gaidhlig	Inverness Harbour Trust
Caledonia Community Leisure Ltd	Morrison FM
Comunn Na Gaidhealach	Richard Irvin & Sons
Cromarty Firth Port Authority	Skills Development Scotland
Eden Court Theatre	Stornoway Port Authority
Fujitsu	Torvean Golf Club
Hebridean Housing Partnership	University of the Highlands and Islands
Highland Blindcraft	Vacman Limited
Highland & Islands Enterprise (HIE)	Visual Impairment Services Highland
Highlands and Islands (Scotland) Structural Funds Partnership	William Munro Construction Ltd
Highland Opportunity Ltd	

Governance Policy Statement

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

The Governance Structure

The Council delegates to a Resources Committee comprising of twenty two Elected Members (Councillors) all matters relating to the management and arrangement of the financial affairs of the Pension Fund. All committee papers and minutes are publicly available on the Council's website. The Committee meets bi-monthly and additional meetings are called as appropriate.

The Resources Committee has established an Investment Advisory Group (IAG) comprised of five Elected Members (Councillors) from the Highland Council and one Elected Member (Councillor) from Comhairle Nan Eilean Siar Council.

The IAG meets quarterly and its remit is 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. It achieves this by securing more detailed discussion with and appraisal of information from, the Council's Investment Managers and other specialists as necessary.

The IAG meets at least quarterly and provides advice to the Resources Committee on the management and investment of the Pension Fund.

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

The Fund has appointed a number of external providers.

A firm of actuaries has been appointed by the Fund to act as Actuary to the Fund. The services provided include advice on funding and actuarial valuations. A separate firm of actuaries has been appointed to provide independent investment advice. A representative of these advisors regularly attends the meetings of the IAG.

Five investment managers have been appointed and the Fund has also appointed a Global Custodian with responsibility for the safekeeping of the assets.

Training

The Council implements a Training Policy for its Elected Members.

Risk Management

The Highland Council has a risk management policy which includes the administration of all aspects of the Pension Fund.

External and Internal Review

The Highland Council is subject to external and internal audit.

Access to Information

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

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

ANNUAL REPORT 2010/11

Council's website.

<http://www.highland.gov.uk/yourcouncil/finance/accountingandbudgeting/treasuryandinvestments>

Employer seminars, to which all employers are invited, are held when required. In addition, quarterly meetings with Trade Union Representatives are held to discuss pensions' issues for onward presentation to the IAG for consideration, where appropriate.

This statement can be viewed on the Highland Council's website under current documents at:
<http://www.highland.gov.uk/yourcouncil/finance/accountingandbudgeting/treasuryandinvestments>

ANNUAL REPORT 2010/11

Governance Compliance Statement			
<p>The Regulations that govern the management of LGPS funds in Scotland require that a Governance Compliance Statement is published. The Highland Council Pension Fund has published a Governance Policy (copy available on the Highland Council's website), provided below is the Governance Compliance Statement which sets out the extent to what governance arrangements comply with best practice.</p>			
Principle		Full Compliance	Comments
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	Yes	The Highland Council as administering authority has delegated all pension scheme matters to the Resources Committee. In addition a small Investment Advisory Group (IAG) (comprising 6 elected Members) has been established to make observations and recommendations to the Resources Committee on Pension Fund investment matters.
	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	No	One of the members of the IAG is an elected member of the Western Isles Council, a Scheduled body of the Highland Council Pension Fund. There are currently no pensioner or deferred members on the IAG or Resources Committee.
	That where a secondary committee of panel has been established, the structure ensures effective communication across both levels.	N/A	
	That where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	N/A	
Representation	<p>a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.</p> <p>These include:</p> <ul style="list-style-type: none"> • Employing authorities (including non-scheme employers, e.g. admitted bodies; • Scheme members 	No	<p>Members of the Resources Committee are selected from the membership of the Council.</p> <p>Committee structure and responsibility for Pension Fund matters is currently under review.</p>

ANNUAL REPORT 2010/11

	(including deferred and pensioner scheme members • Where appropriate, independent professional observers, and • Expert advisors (on an ad-hoc basis).		
	b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	N/A	
Selection and Role of Lay Members	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. CIPFA framework will be used to identify gaps in knowledge. Training for IAG 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 the Resources Committee.
Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	Full voting rights are given to all members of the Resources Committee.
Training / Facility Time / Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	Yes	Members' training is funded from the Council's Pension Fund
	b) That where such a policy exists it applies equally to all	Yes	All members are treated equally under the training

ANNUAL REPORT 2010/11

	members of committees, sub-committees, advisory panels or any other form of secondary forum.		policy
	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
Meetings frequency	a) That an administering authority's main committee or committees meet at least quarterly.	Yes	The Resources Committee and IAG meet at least four times a year.
	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.	N/A	
	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.	Partial	Meetings are held with trades union representatives prior to each meeting of the IAG.
Access	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes	All members are treated equally. Committee papers and minutes are publicly available on the Council's Website
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Resources Committee deals with matters relating to both the administration and investment of the Pension Fund
Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which scheme is governed, can express in wanting to be part of those arrangements.	Yes	The Highland Council publishes governance documents and communicates regularly with employers and scheme members

The Highland Council Pension Fund

**Actuary's Statement
as at 31 March 2011**

Barnett Waddingham
Public Sector Consulting

17 October 2013

ANNUAL REPORT 2010/11

Introduction

The last full triennial valuation of the Highland Council Pension Fund was carried out by Barnett Waddingham LLP as at 31 March 2008. The results were published in our report dated February 2009.

2008 Valuation

The 2008 valuation certified a common contribution rate of 250% of member contributions 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 Funds assets as at 31 March 2008 for valuation purposes was £817.7m which represented 98% 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 6.9% per annum
- Rate of increases in pay 5.2% per annum
- Rate of Increases to pensions in payment 3.7% per annum

Post Valuation Events – Changes in market conditions

Since March 2008 investment returns have been less than assumed at the 2008 valuation although the investment returns have improved in the period since March 2009. Liabilities will have also reduced slightly due to an increase in the real discount rate underlying the valuation funding model.

This is in part due to the announcement by the Government which will link pension increases to CPI rather than RPI which will result in a lower value of future liabilities.

Overall we expect the financial position of the fund will be similar to that at the last triennial valuation.

The next actuarial valuation is due as at 31 March 2011 and the resulting contribution rates required by the employers will take effect from 1 April 2012.

A handwritten signature in black ink, appearing to read 'Alison Hamilton', with a long, sweeping flourish extending to the right.

Alison Hamilton FFA

Partner

17 October 2013

How to Contact Us

Enquiries regarding Pension Fund Investments:

Roger Niven
Principal Accountant Treasury, Leasing & Investments
Council Buildings
Glenurquhart Road
Inverness
IV3 5NX

Tel: 01463 702432

E-mail: 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

