The Highland Council
Comhairle na Gàidhealtachd

The Highland Council Pension Fund

Annual Report and Annual Accounts
Aithris Chunntasan

2022 - 2023

Pensions Regulator Scheme Number: 10276691

THE HIGHLAND COUNCIL PENSION FUND

ANNUAL REPORT AND ANNUAL ACCOUNTS 2022/23

Contact Us

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

How to Contact Us

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

General enquiries about this document.

E-mail: treasury.team@highland.gov.uk

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

Pensions Section
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Council Buildings
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Inverness
IV3 5NX

E-mail: pensions.section@highland.gov.uk

General enquiries regarding Pension Fund Investments:

Treasury and Investments Section
The Highland Council
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Information on how the scheme operates and key documents can be found on the following website. If you are unable to access any of these documents or would like a paper copy, contact us using the details above.

www.highlandpensionfund.org

Introduction

About the Fund

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

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

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

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

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

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

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

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

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

  The primary contribution rate (future service contributions) for the whole Fund is 21.2% of pay for payroll contributions which was set by the Actuary for the period 1 April 2022 to 31 March 2023 in the Triennial Actuarial Valuation report 2020. In addition to this, the secondary rate amount (past service contributions) for 2022/23 is -£4,671,000.

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

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

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

Annual Report and Accounts

This is the Annual Report and Accounts for the Highland Council Pension Fund 2022/23.

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

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

On page 6 the key personnel and organisations involved in the management of the fund are listed. On page 8 there is an overview of performance data for 2022/23 compared to 2021/22 and key points to note are:

- Contributions received and transfers in have increased due the group transfer in of Highlands and Islands Enterprise (HIE) staff from other LGPS funds to the Highland Council Pension Fund (transfer value £9.6m).
- Membership of the scheme has increased, with a corresponding increase in contributions payable which has also increased due to the pay award.
- Decrease in investment returns due to volatility in financial markets caused by global uncertainty and the outlook for future economic growth and rising inflation which impacted the market value of investments at 31 March 2023. It should be noted that the Fund is a long-term investor with a diversified portfolio and market risks are considered when setting the strategic asset allocation.
- Lower management costs due to a decrease in the market value of assets held as fees correlate to asset market values and performance.

- Increase in the number of employers to 27, following the admission of West Highland College to the Fund.

Management of the Fund

Administering Authority	The Highland Council, HQ, Glenurquhart Road, Inverness, IV3 5NX
Scheme Administrators	The Highland Council, Pensions Section, HQ, Glenurquhart Road, Inverness, IV3 5NX
Fund Actuary	Hymans Robertson LLP
Fund Custodian	Northern Trust
Performance Management	Northern Trust
Investment Advisors	Aon
Fund Officers	Brian Porter, Head of Corporate Finance Catriona Stachan, Principal Accountant Annabel Scott, Technical and Communications Officer Lindsay Junor, Operations Manager Natasha Oram, Operations Manager
AVC Provider	Prudential Assurance
Bankers	Virgin Money
External Auditor	Audit Scotland
Internal Auditor	Highland Council Internal Audit team

Investment Managers

AberdeenStandard Investments

Legal & General Investment Management

BAILLIE GIFFORD

Schroders

Fidelity INTERNATIONAL

Man

Partners Group REALIZING POTENTIAL IN PRIVATE MARKETS

BentallGreenOak

KKR

ROBECO

mirova Investing in sustainability

CVC

2021/22	Performance	2022/23
£66.2m	Contributions receivable	£81.8m
£70.4m	Pension benefits payable	£76.0m
£16.1m	Management expenses	£14.1m
£463.59	Cost per member	£396.40
34,648	Total Membership	35,551
26	Number of employers	27
£100m	Return on investment	-£60m
£2.474bn	Net assets of the Fund	£2.406bn

Management Commentary

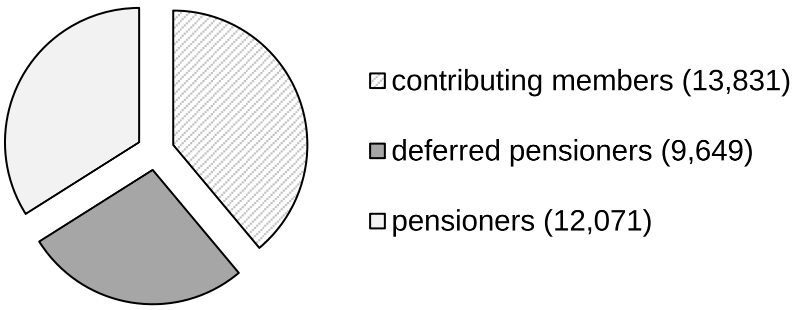
Background

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

The closing net assets of the Fund at 31 March 2023 are £2.406bn (31 March 2022 £2.474bn).

The Fund provides benefits for those employees of The Highland Council, Comhairle Nan Eilean Siar and 25 other scheduled and admitted bodies that are active members of the Fund.

Current Scheme Membership



Governance

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

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

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

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

More information on the governance process can be found in the Governance section on page 21, Annual Governance Statement on page 49 and the Governance Compliance Statement on page 53.

Business Model and Risk

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

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

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

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

Membership and Benefits Administration

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

https://www.highlandpensionfund.org

a) General

2022/23 year was another busy and challenging year for the Pensions Administration team.

The number of retirements and new starts increased in 2022/23 compared to 2021/22 and alongside other projects outlined below has meant a considerable workload for the team.

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

Team training is therefore demanding but essential to the delivery of the Pension service. Staff are working under the Hybrid model and for newly recruited staff there is supervisor and training support provided in the office daily. Induction training for new staff is provided to familiarise them with operational procedures and policies. As well as in-house and external training, the Pension Fund utilises Heywood Pension Technologies Training and Education Centre (TEC) which provides a library of e-learning modules covering pension legislation and benefit calculations with progress being logged and fed back to managers.

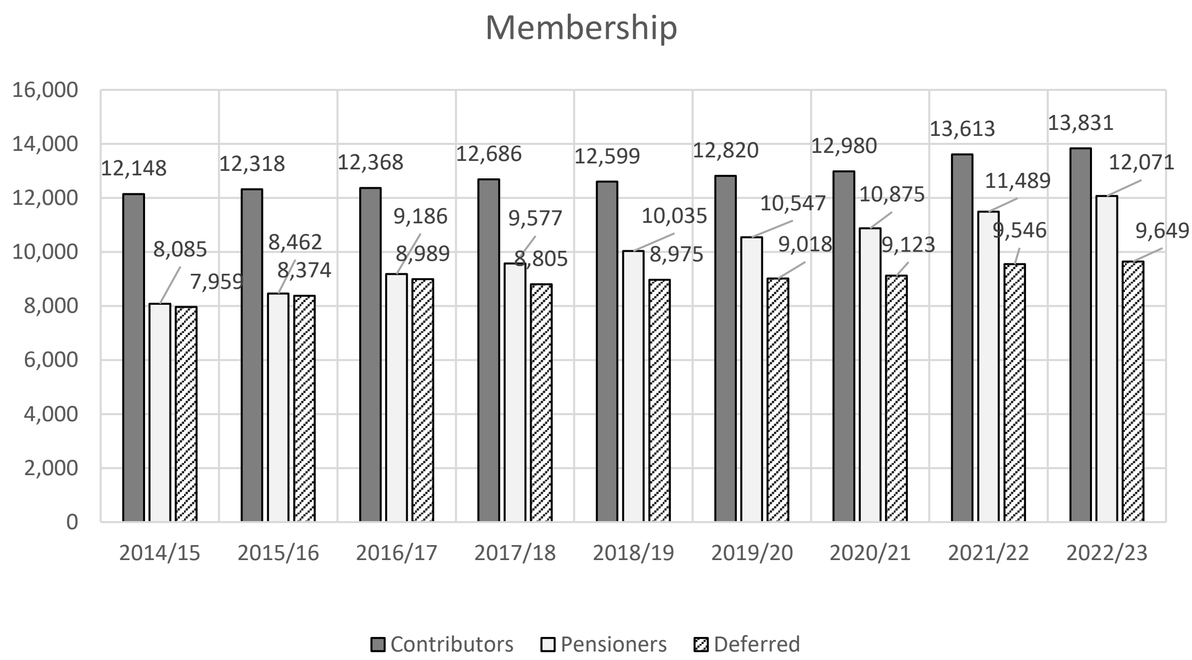
In addition to the challenges of the core business of delivering pension administration, senior officers in the team were also involved in several other projects/changes including:

- Organising training sessions for Committee members and officers on Pension Scheme Governance, the role of Custodian and Responsible Investing.
- Recruitment for Pensions Administration staff was ongoing and alongside this senior staff have been providing and organising training and supervision for newly recruited staff. Within the team, staff have changed roles and training is provided as required.
- Following the introduction of the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulation 2021, there is an increased responsibility on Funds to raise awareness of pension scams and signpost members to appropriate guidance when a request for transfer is made. Funds are required to carry out due diligence checks by assessing the request against two conditions set out in the regulations and where necessary, pause or stop a transfer and refer a member to guidance from MoneyHelper https://www.moneyhelper.org.uk/en/pensions-and-retirement. Funds are also required to provide advance notice of the new regulations and the actions a member may be required to take.
- Considering the potential implications of the McCloud and Goodwin judgements and changes that will need to be made to processes following on from guidance.
- Involvement in the Pensions Dashboard initiative which will enable individuals to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement.
- Updating the Highland Council Pension Fund website on an ongoing basis and publishing information on the website to raise awareness about pension scams and news items.
- Implementing the i-connect system across employers which is a secure portal that automates the submission of employee information directly from employer payroll systems, reducing the need for manual returns and risk of error. During the year i-connect was successfully rolled out across all employers apart from one.
- The consolidation transfer project whereby Highlands and Islands Enterprise employees from other LGPS funds were transferred to the Highland Council Pension Fund.
- Setting up an admission agreement and guarantee bond for the West Highland College, and ongoing work with UHI and other Colleges regarding the proposed merger.
- Work for the triennial Actuarial Valuation as at 31 March 2023 was completed from August 2023 to February 2024 with the Actuarial Valuation approved at Pensions Committee on the 22 February 2024.
- Staff have also been involved in the Technology One project to implement a new financial ledger and payroll system.

Overall, there are increasing demands and complexities around pensions as well as the increased expectations of all stakeholders and statutory national requirements creating additional pressures on the Pension Administration team. Staff were recruited during the year and ongoing restructuring is still underway across the team.

The graph below illustrates the increasing number of pensioners, members and deferred members in 2022/23.

Membership statistics (31 March 2023)



The table below sets out details of new pensioners analysed by ill health, early and normal retirement as at 31 March 2023.

Retirements during 2022/23

	2021/22 Number of Retirements	2022/23 Number of Retirements
Early retirement	64	37
Ill-health retirement	35	47
Early payment of deferred benefits	73	96
Sub-total	**172**	**180**
Normal retirements	601	590
Totals	**773**	**770**

b) Communication

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

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

Senior Officers in the Pensions Administration team share invitations to training with Employers such as the Pensions Ombudsman training session on ill health and early retirement (September 2022).

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

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

c) Performance

Despite general increases in volumes, there has been an overall improvement by the Administering Authority in the processing of retirement benefits. Performance against targets in 2022/23 dipped slightly in some areas due to the significant increase in work volumes but there have been improvements particularly with the Scheme Employer Performance.

Also, delays occur on an ongoing basis in the transfer request process due to the requirements placed on Funds by the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulation 2021. These regulations place increased responsibility on Funds to raise awareness of pension scams and signpost members to appropriate guidance when a request for transfer is made and follow due diligence processes when processing transfer requests.

The implementation of the i-connect system has improved the efficiency of the processes for employers submitting data as employer bodies can now upload forms and submit these electronically. As a result of this process improvement, the employer statistics for 2022/23 on page 44 show improved performance.

Overall, the Fund returned a deficit of £68.626m and comparators for previous years are provided in the table on page 14, alongside the total costs per member and administration cost per member. This is mainly attributable to volatility in financial markets caused by global uncertainty and the outlook for future economic growth and rising inflation which impacted the market value of investments at 31 March 2023.

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

The administration cost per member for the fund for 2022/23 is £36.05. In 2020/21 where there is comparator data available, the Fund was just below the average administration cost per member across the Scottish LGPS funds. In 2020/21 the administration cost per member across the Scottish LGPS funds ranged from the lowest at £16.61 per member to the highest being £102.75.

Pension Fund Account	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Contributions received and transfers in	57.982	60.262	61.343	63.111	66.237	81.804
Pensions paid and transfers out	(56.077)	(59.887)	(65.107)	(74.394)	(70.454)	(76.079)
Management expenses	(8.895)	(9.401)	(8.532)	(12.471)	(16.063)	(14.092)
Returns on investment	125.898	124.177	(94.379)	525.907	100.272	(60.259)
Overall surplus/(deficit)	**118.908**	**115.151**	**(106.675)**	**502.153**	**79.992**	**(68.626)**
	£	**£**	**£**	**£**	**£**	**£**
Total cost per member*	286.31	297.41	263.46	378.17	463.59	396.40
Administration cost	31.89	39.25	37.03	34.91	37.45	36.05
Average across Scottish LGPS funds	36.89	36.89	32.37	35.44	36.89	**

* the total cost per member cost was calculated using the year-end financial information on management expenses (includes administrative, oversight and governance and investment management expenses) and the year-end membership at 31 March 2023 of 35,551.
The administration cost includes central support costs.

** 2022/23 data is not being collated by CIPFA going forwards.

Investment Management

The sources of the Fund's income are member contributions, employer contributions and interest and returns on Fund investments. Fund expenditure relates to paying of member benefits and the administration costs of looking after the Fund. Overall, taking into account returns on investment, for 2022/23 the Fund is in deficit, i.e. the income is less than the expenditure. This is attributable to unrealised losses as the investment assets have lower market values due to volatility in the markets.

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

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

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

Some of the main considerations in the SIP are:

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

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

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

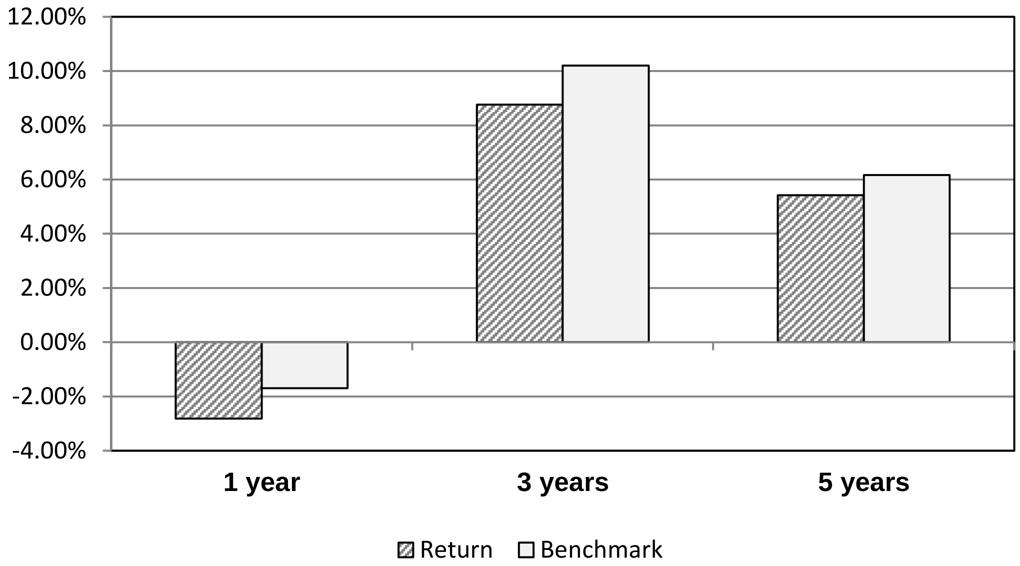
During 2022/23 Officers and the Fund’s investment advisor worked on implementing the final changes to the strategic asset allocation to manage the risk of potentially lower returns from equity markets globally and in the UK. In December 2022 the remaining holdings in the Baillie Gifford UK portfolio (£133m) and Pyrford global equities (£263m) were transitioned to the Mirova sustainable global equities (£196m) and Legal and General Investment Management (LGIM) (£182m), with the remaining cash used for pension fund cashflows (£10m).

There were two new investment mandates that received funding in 2022/23 as follows:

- Infrastructure (KKR Diversified Core Infrastructure) initial investment April 2022 with further commitments called during the financial year. Details of the full commitment to these investments can be found in Note 22 of the Annual Accounts.
- Global equities (Mirova Sustainable Global Equities fund) initial investment December 2022.

Alongside the above changes during December 2022 equity protection was implemented with the objective of protecting £367m of global equities for a three-year period until December 2025. As long as returns are not below -25% over the next 3 years, this amount will be fully protected against negative returns and also retain up to 36% of any cumulative positive market returns. If total returns are below -25% over 3 years e.g. -40% then the Fund is protected against the first 25% so would be expected to incur total return losses of 15%.

For the year to 31 March 2023 the Fund returned -2.82%, underperforming the benchmark of -1.26% (combined fund benchmark, different benchmarks are set for each Fund Manager depending on the asset class) and underperformed against the 3 and 5 year benchmarks. Although the market rebounded in the quarter to 31 March 2023, this was not enough to reverse the general impact that the uncertain global situation amid rising interest rates and the expectation that these will increase further during 2023 as global central banks attempt to manage rising inflation, has had on all asset classes. Some economic context which impacted on the Fund's investments during the financial year to 31 March 2023 is provided at page 32.



Investment decisions for the Fund are considered over the longer term. Short term performance is reviewed closely but alone it is unlikely to lead to investment change. In 2022/23 the total Fund's investments decreased in value to £2,390m from £2,467m at the end of 2021/22.

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

Funding and Accounting

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

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

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

https://www.highlandpensionfund.org/resources/actuarial-valuation-report-2020/
Alongside the completion of the Actuarial Valuation, the Funding Strategy Statement, which explains the setting of the employer contribution rates, was updated and also approved at Pensions Committee in March 2021.

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

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

Risk

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

A risk register is maintained and reported to the Pensions Committee and is in the link below (Item 7).

https://www.highland.gov.uk/meetings/meeting/4747/pensions_committee_and_board

The eleven risks identified as the most significant and the mitigating controls in place to manage them were reported to the Pensions Committee in February 2023.

1. **Staffing** - potential staff turnover in this specialist area has associated risks. Increasing demands and complexity around pensions, the increased expectations of all stakeholders and statutory national requirements has created additional pressures on the Pension Administration team. Without adequate resourcing, there is a risk of non-compliance with regulations.

2. **Knowledge** - ongoing risk of members and officers being unaware of changes to LGPS governance, administration and investment matters with the risk of non-compliance with Pension Fund Regulator requirements.

3. **Government policy** - With the appointment of a new Pensions Minister in October 2022, there is the potential for future regulatory and policy changes.

4. **Highland Council support services** - Services are provided by the Highland Council to the Highland Council Pension fund for central support services e.g. ICT support service, Payroll for staff who administer the Fund and Pensioners, Creditor payments, Property, Senior Management (section 95 officer) and

Human Resources. Due to need for cost savings to be made by Highland Council, there are the following potential risks:

- potential adverse impact on central support services provided by the Highland Council with lack of service or reduced quality.
- increase in the central support charge charged by the Highland Council for these services.

5. **Failure/loss of IT** - organisations are being increasingly targeted by cybercrime with the risk of an attack which could potentially result in the loss or disruption to IT services and potential data breaches.

6. **Funding risk (contribution rates) -** if the investment strategy is inconsistent with funding plans it can lead to setting inaccurate employer contribution rates.

7. **Funding risk (investment returns)** – if the investment return is below that assumed by the actuary in funding the plan then this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk. This risk would be increased by volatile markets created by global uncertainty.

8. **Funding risk (rising inflation) -** inflation has risen further and faster than most expected. Rising inflation will increase pension liabilities which are inflation linked, which could mean a potential increase to employer contributions.

9. **Climate risk** - as long-term investors, climate risk may affect the value of the Fund’s investments.

10. **Responsible investment risks** - the risks associated with Responsible Investment are not managed which could potentially impact the long-term value of the Fund’s investments. There is also risk that the Fund does not comply with statutory reporting requirements on Climate Change Related Disclosures.

11. **McCloud case -** the outcome of the recent McCloud judgement will impact future liabilities of the Fund and potentially increase pressure on contributions as well as placing extra demands on the Pensions Administration team as additional benefit calculations will need to be completed.

Looking Ahead

- The Actuarial Valuation as at 31/03/2020 shows the Fund as 100% funded (31/03/2017 the fund was 101% funded). Following this, there is some upwards pressure on the primary contribution rates due to a weaker outlook for future investment returns and secondary contribution rates have decreased as employer assets have increased since 31/03/2017. The Actuarial Valuation at 31/03/2023 was completed in financial year 2023/24 with results presented to Pensions Committee on 22 February 2024.

- Ongoing volatility and uncertainty in the global economy and investment markets may have significant financial implications for the Fund and Fund employers. The last of the changes to the strategic asset allocation were implemented during 2022/23 to manage the risk of potentially lower returns from equity markets globally and in the UK. The asset allocation will be considered alongside the Actuarial Valuation at 31/03/2023 and amendments made as required to meet future funding requirements and presented to Committee in 2024.

- As highlighted in the key risks reported to Committee, inflation has risen further and faster than most expected. Rising inflation would increase pension liabilities which are inflation linked, which could mean a potential increase to employer contributions.

- Following on from the Responsible Investing workshops held during 2021/22 and the approval of a Responsible Investment policy, further Responsible Investment training was held in March 2023. Officers are in the process of implementing reporting to comply with the Taskforce for Climate Related Financial Reporting Disclosures (TCFD).

- We will continue to engage with Committee Members to identify training needs and provide appropriate training opportunities, particularly for new Pensions Committee and Board Members.

- The Administration team will continue to provide training for Employer organisations with sessions scheduled for 2023/24 which will cover the Valuation process and other key areas.

- The Administration team continue to develop new processes making best use of technology to increase efficiency and improve the customer experience. The Business Plan for 2023/24 includes the implementation of Member Self Service which will enable pensioners to check and print payroll documentation such as Pay Advice and P60s. Members will also be able to generate benefit estimate statements and quickly access information they need as well as being able to generate “what if” modelling and update details.

- The Pensions Dashboard initiative will enable individuals to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement. The Administration team must have uploaded all data to the Pensions Dashboards by October 2025. As part of the work to support the implementation of the Pensions Dashboard, Administration staff will participate in planning meetings, and closer to the deadline be involved in collating, cleansing and preparing data in the format required.

- With the Fund being cash flow negative, daily monitoring of the Pension Fund cash flows is completed. The current position is that existing cash balances held by the fund managers are where necessary used to meet cash requirements without the need to disinvest. Even if investment income yields fall below current levels, the time when assets need to be sold to meet benefit payments still looks sometime in the future. We will continue to monitor this on an ongoing basis. Detail on the cashflow position can be found at page 48.

- The legislation to support the proposed remedy for the legal case (McCloud) regarding an age discrimination challenge to the transitional protections put in place when the LGPS benefit structure was reformed in 2015 has been delayed until later in 2023. Once updated guidance is received, Administration staff will assess the implications of this for members and the Fund.

In Conclusion

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

Derek Brown Chief Executive	Brian Porter Head of Corporate Finance	Thomas MacLennan Chairman Pensions Committee

Governance

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

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

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

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

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

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

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

https://www.highlandpensionfund.org/resources/governance-policy-statement-2022-23/

The Annual Governance Statement is published on page 49 which is an assessment of the effectiveness of the systems of internal control as required by the Local Authority Accounts (Scotland) Regulations 2019.

The Governance Compliance Statement is published on page 53 as required by Regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2018.

All Councillors on the Pensions Committee have been appointed by The Highland Council. The membership of the Pensions Committee, Pensions Board and Investment Sub Committee as at 31 March 2023 is outlined below.

Committee and Board Membership

Pensions Committee
Cllr C Ballance
Cllr J Bruce
Cllr R Gale
Cllr L Kraft
Cllr B Lobban
Cllr D Louden
Cllr A MacDonald
Cllr T MacLennan (Chair)
Cllr P Oldham
Cllr M Paterson
Cllr A Sinclair

Investment Sub Committee
Cllr C Ballance
Cllr R Gale
Cllr B Lobban
Cllr D Louden (Chair)
Cllr A MacDonald
Cllr P Oldham
Cllr M Paterson

Non-Voting Members
Ms E Johnston, GMB
Cllr C Munro, Highland Council

Pensions Board
Mr R Fea, Cromarty Firth Port Authority, Representative for Other Employers'
Cllr N MacDonald, Comhairle nan Eilean Siar
Cllr K Macleod, Comhairle nan Eilean Siar (substitute)
Cllr G MacKenzie, The Highland Council (Chair)
Cllr C Munro, The Highland Council
Ms E Johnston, GMB
Ms L MacKay, Unison
Mr D MacSween, Unison
Mr D Main, UNITE/UCATT

Attendance at Committee and Board meetings

The good governance of the Fund depends on the Committee and Board meetings being adequately attended. During 2022/23, the Pensions Committee and Investment Sub Committee meetings were quorate. The Pension Board meeting on 30 September was not quorate. The table on the next page provides detail of individual attendance during the year.

During 2022/23 meetings of the Pensions Committee and Board and Investment Sub Committee were held in a hybrid format with Committee and Board members attending in person or remotely.

Pensions Committee	30/09/22	16/02/23
Cllr C Ballance	✓	✓
Cllr J Bruce		
Cllr R Gale	✓	✓
Cllr L Kraft	✓	✓
Cllr B Lobban		
Cllr D Louden	✓	✓
Cllr A MacDonald		
Cllr T MacLennan (Chair)	✓	✓
Cllr P Oldham	✓	✓
Cllr M Paterson	✓	✓
Cllr A Sinclair	✓	

Pensions Board	30/09/22*	16/02/23
Mr R Fea		
Cllr N MacDonald		
Cllr G MacKenzie (Chair)		✓
Cllr C Munro	✓	✓
Ms L MacKay		
Mr D MacSween		✓
Ms E Johnston	✓	✓
Mr D Main, UNITE/UCATT		
Cllr K Macleod (substitute)	✓	

*Pension Board meeting on 30 September was not quorate.

Investment Sub Committee	21/10/22	16/03/2023
Cllr C Ballance		✓
Cllr R Gale		✓
Cllr B Lobban		✓
Cllr D Louden (Chair)	✓	✓
Cllr A MacDonald		✓
Cllr P Oldham	✓	✓
Cllr M Paterson		✓
Mr R Fea (Pension Board observer until 16 February 2023)	✓	N/A
Cllr C Munro (Pension Board observer from 16 February 2023)	N/A	
Ms E Johnston (Pension Board non -voting)	✓	✓
Cllr N MacDonald (Comhairle nan Eilean Siar) (non voting (remote)		✓

Pension Board observers are entitled but not required to attend Investment Sub Committee meetings. Greyed out represents non-attendance.

Training, Knowledge and Skills - Policy Statement

The Fund's training policy which was approved by Highland Council Pensions Committee on 30 September 2022, recognises that those involved in the governance of the Fund should have the necessary level of skills and knowledge to allow them to complete their duties effectively.

https://www.highlandpensionfund.org/resources/training-policy-and-training-plan-2022-23/

The training policy sets out the following:

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

The Policy sets out a plan for training during 2022/23 and advises Committee and Board Members to complete an assessment of their skills and knowledge against the CIPFA Framework and to complete the Pensions Regulator online training modules. Correspondence is issued annually requesting that Committee and Board members submit details of training attended and notify officers of any further training requirements.

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

The training events attended during the year covered a range of subjects which are set out below. Training was provided to Members on Pensions Governance, the role of the Custodian and Responsible Investment.

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

- Global equities (Baillie Gifford)
- Multi Asset Credit (Robeco)
- Alternative risk premia strategy (Man Group)

Date	26/09/22	17/10/22	21/10/22	9-10/11/22	13/03/23	16/03/23
Event	Pension Fund Governance (Hymans)	Role of the Custodian (Northern Trust)	Multi asset credit (Robeco) Global equities (Baillie Gifford)	LGPS conference (Baillie Gifford)	Responsible investing (Aon)	Alternative risk premia strategy (Man Group)
Pensions Committee						
Cllr J Bruce			N/A*	N/A*		N/A*
Cllr L Kraft	✓	✓	N/A*	N/A*		N/A*
Cllr T MacLennan	✓	✓	N/A*	N/A*	✓	N/A*
Cllr A Sinclair	✓		N/A*	N/A*		N/A*
Pensions Committee & Investment Sub Committee						
Cllr C Ballance				N/A**	✓	✓
Cllr R Gale	✓			N/A**	✓	✓
Cllr B Lobban	✓	✓		N/A**		✓
Cllr D Louden	✓	✓	✓	N/A**	✓	✓
Cllr A MacDonald	✓			N/A**		✓
Cllr P Oldham	✓	✓	✓	N/A**	✓	✓
Cllr M Paterson	✓	✓		✓	✓	✓

Pensions Board						
Mr R Fea	✓	✓	✓	N/A**	✓	✓
Cllr N Macdonald		✓		N/A**	✓	✓
Cllr K Macleod (substitute)	✓	✓		N/A**	✓	
Cllr G Mackenzie		✓		N/A**		
Cllr C Munro	✓			N/A**	✓	✓
Ms L Mackay				N/A**		
Mr D MacSween				N/A**		
Ms E Johnston	✓	✓	✓	✓	✓	✓
Mr D Main				N/A**		

*Attendance not required as not a member of the Investment Sub Committee.

**Attendance at this “in person” event was restricted to 2 members from each LGPS Fund.

Funding Strategy Statement

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

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

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

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

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

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

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

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

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

Investment Policy

Statement of Investment Principles

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

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

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

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

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

Statement of Investment Principles – Summary

Background

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

Advisors

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

Funding Policy

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

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

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

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

Investment Policy

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

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

The strategic benchmark is expected to produce a return over the long term in excess of the investment return assumed in the Actuarial Valuation. The Fund's assets are currently managed approximately 82% on an active basis and these are expected to outperform their respective benchmarks over the long term. The remainder is managed on an index tracking (passive) basis.

Asset Mix of Investments

The overall investment portfolio for the Fund is weighted to the equity market, both UK and overseas. However, the portfolio also has investments in Index-Linked Gilts, Property, UK bonds, overseas bonds, private equity, property debt, direct lending, alternative risk premia and cash and infrastructure. This diverse range of investments over 12 different Managers (11 active and 1 passive) is employed to minimise the effect of risk and enhance overall performance of the Fund for its Members.

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

Strategic Asset Allocation

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

Target set March 22 %	Asset Class	Fund Actual 31/03/22 %	Fund Actual 31/03/23 %
-	UK equities – active	15.1	-
-	UK equities – passive	1.7	-
44.8	Global equities – active	31.9	36.9
11.2	Global equities – passive	8.4	16.2
56.0	**Total equities**	**57.1**	**53.1**
-	Cash (legal and general)	2.7	-
12.0	Fixed income – active	9.6	8.9
-	Fixed income – passive	2.4	1.9
12.0	**Total fixed income**	**14.7**	**10.8**
10.0	Property	11.5	10.6
7.0	Property debt and other private credit - active	4.4	5.5
5.0	Private equity	7.0	7.8
5.0	Infrastructure	-	6.4
5.0	Alternative risk premia strategies	5.3	5.8
100.0	**Total assets**	**100.0**	**100.0**

Monitoring

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

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

Risk

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

Realisation of Investments

Currently 81.9% of the investments held by the Fund at 31 March 2023 are quoted on major stock markets and may be realised quickly if required. Property investment is via pooled funds which are relatively illiquid. These currently make up 10.6% of the total Fund. There are also private equity 7.8% (target asset allocation 5.0%) and private credit property debt and direct lending investments 5.5% (target asset allocation 7.0%) and infrastructure 6.4% (target asset allocation 5.0%) which are also very illiquid.

Underwriting

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

Responsible Investing

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

The Fund has a Responsible Investment policy which was approved by Pensions Committee in February 2022 and details of this are at page 37.

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

Corporate Governance

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

Custody

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

Stock Lending

The Fund has had a stock-lending agreement with Northern Trust since 2015. Adequate collateral is held which consists of acceptable securities and government debt and as at 31 March 2023 the Fund held collateral (via the custodian) of 104.8% of stock lent.

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

Compliance

Investment Managers and the Custodian provide an annual statement to The Highland Council confirming that they have adhered to the investment principles contained in this document so far as is reasonably practicable. All twelve Fund Managers provided annual compliance statements as part of the 2022/23 year-end accounts process.

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

Investment Performance Report

Economic and Market Background

Equities

Overall, equities were impacted by continued inflationary pressure and fears of corresponding tighter financial policy leading to recession fears which particularly affected the performance of growth equity managers.

The initial quarter of the financial year to 30 June saw the MSCI AC World Index post a -13.5% return in local terms and -8.4% return in sterling terms as global equity markets fell in response to continued inflationary pressure and fears of corresponding tighter monetary policy leading to recession fears.

UK equities fell in response to global recession fears, which weighed on the Materials and Industrial sectors. European equities, on the other hand, were the second worst performing market due to the close trading relationship with Russia.

US equities performed the worst amongst major equity regions. US dollar strength due to its status as a safe haven and Fed indications that rate hikes would not be slowed limited the loss in sterling terms.

During the following quarter to 30 September, for the same reasons as above the MSCI AC World was in negative territory again in local terms (-4.7%) but with a slight positive return in sterling terms (1.5%).

In the quarter to 31 December, following the UK's emergence from the gilt market crisis, UK equities rose by 8.6% in sterling terms after bond yields fell and much of the government's debt-funded expansionary fiscal policies were reversed. The MSCI AC World index returned 7.5% in local terms and 2.0% in sterling

In the final quarter, the MSCI AC World index posted a 7.2% return in local currency terms as major central banks slowed the pace of monetary policy tightening. However, the material appreciation of the sterling against the US dollar pushed down the returns in sterling terms down to 4.5%. UK equities returned 3.2% but was the worst-performing major equity region. Amongst the major sectors financials, industrials and consumer discretionary sectors returned 5.4%, 12.0% and 10.7% respectively while materials sector fell by 9.2%. US equities were the second-best performer amongst major equity regions in local currency terms as investors shrugged off short-lived concerns over the banking sector and priced in a quicker end to the sharpest tightening cycle in recent memory, returning 7.7% over the quarter. European ex-UK equities continued to be the best performer, returning 10.5% in local currency terms.

Bonds

In the quarter to June, credit spreads widened over the quarter. UK investment grade credit spreads rose by 0.44% to 1.75% based on iBoxx Sterling non-Gilts data. Lower quality bond credit spreads widened more than their higher quality counterparts, with BBB-rates non-gilt spreads rising by 0.70% to 2.54%. The increase in spreads and the significant rise in government bond yields led the Sterling Non-Gilts Index to post a return of -6.8%.

During the quarter to 30 September, credit spreads widened over the quarter and the increase in spreads and significant rise in government bond yields led the Sterling Non-Gilts Index to post a return of -11.0%. Global investment grade credit spreads rose by 0.04% to 1.80% over the quarter. Meanwhile, credit spreads of riskier areas of credit such as UK high-yield bonds, fell by 0.44% to end the quarter at 5.43%.

In the quarter to 31 December, credit spreads narrowed over the quarter and alongside the general fall in UK government bond yields led the Sterling Non-Gilts Index to post a return of 5.7%. Global investment grade spreads fell by 0.32% to 1.485 over the quarter. Meanwhile, credit spreads of riskier areas of credit such as high-yield bonds, fell by 0.62% to end the quarter at 4.81%.

In the last quarter, UK investment grade credit spreads fell marginally by 0.01% to 1.67%. The fall in UK government bond yields, yield component returns, and the narrowing of spreads led the Sterling Non-Gilts Index to post a return of 2.4%.

Gilts

In the quarter to 30 June, the UK gilt curve rose across all maturities on expectations of higher policy rates, driving the negative performance of UK fixed-interest government bonds. Yields rose strongly over the quarter as inflationary concerns around food and energy prices remained and the Bank of England reiterated its commitment to maintaining tighter monetary policy.

During the quarter to 30 September, the UK gilt curve rose across all maturities. The sharpness of the sell-off was exacerbated by the forced unwinding of LDI position, as UK pension scheme struggled to provide collateral to Liability Driven Investment (LDI investments which generate returns that match a pension fund's liabilities) managers as yields rose sharply. The FTSE All Stocks Index returns -12.8% and the FTSE All Stocks Index-Linked Gilts Index returns -9.3%.

In the quarter to 31 December, the UK gilt curve fell against shorter maturities but rose modestly at longer maturities over the fourth quarter. Yields fell back across the curve at the start of the quarter after a government U-turn on fiscal policy and Liz Truss resigned as prime minister. The FTSE All Stocks Gilts Index returned 1.7% and FTSE All Stock Index-Linked gilts Index returned -6.0% over the quarter.

During the quarter to 31 March, the UK nominal gilt curve fell across all maturities except for the shortest end of the curve, as markets priced in additional rate increases in the immediate future but a lower terminal rate thereafter. The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index returned 2.0% and 4.3%.

Property

In the quarter to June, UK property capital values continued to rise albeit at a slower rate than before. Together with a steady income return, the MSCI UK Monthly Property Index posted a strong return of 3.8% reaching an all-time high index level.

During the quarter to 30 September, UK property capital values fell, even with a steady income return, the MSCI UK Monthly Property Index posts a return of -4.1% falling from the all-time high index level. Meanwhile vacancy rates fell to 9.5% whilst rental growth was slightly positive. The Industrial sector was the worst performer, returning -7.3% over Q3 as capital values fell 8.1% with fears over recession weighing on the sector. Meanwhile the Retail and Office sectors returned -1.9% and 01.5% respectively.

In the quarter to 31 December, UK property capital values fell further and posted a poor return of -14.5% continuing to fall from the all-time high index level in June 2022. Meanwhile, vacancy rates rose from 9.5% to 9.9% whilst rental growth was slightly positive. The Industrial sector was the worst performer returning -19.4% over the quarter with capital values falling 20.3% as fears over recession weighed on the sector. Meanwhile the Residential and Retail sectors returned -3.5% and -10.8% respectively.

In the last quarter, UK property capital values continued to fall over this quarter largely offsetting the increase in income return, recording a return of 0.2%. Capital values fell by 1.2% whilst income return increased by 1.4%. Vacancy rates rose from 9.9% to 10.3%.

Impact on the Fund

The quarter to 30 September was dominated by headlines relating to increasing inflation and global central bank action to manage down inflation. This culminated in central banks raising interest rates and reducing monetary support following this, and the expectation that central banks would go further still over 2022, “risk” assets such as equities and corporate fixed income were impacted negatively.

When most other traditional asset classes struggled, delivering negative returns, the Fund’s holding in UK property and the Man Group Alternative Risk Premia (ARP) delivered the strongest absolute returns in a period. The Man Group ARP is an unconstrained strategy and aims to provide downside protection when traditional managers may be struggling. Higher interest rates proved to be a significant headwind for Managers with a “growth” style of equity investing (Baillie Gifford). Private equity investments delivered material outperformance compared to the wider equity market this quarter due to an increase in valuation which was aided by the appreciation of the Euro against Sterling.

During the quarter to 30 September, global markets continued to be dominated by high and persistent inflation and global central bank policy, as they continued to raise interest rates and tighten policy. Once again the Man Group ARP investment had the largest positive impact on returns and the largest detractor from performance was Robeco as a result of the rise in US Government bond yields which impacts most areas of the global credit market.

The quarter to 31 December was overall more positive as easing inflation and investor optimism over the Federal Reserve applying the brakes on interest rate hikes helped the market although volatility remained elevated. This helped Legal and General deliver the strongest absolute net return over the quarter with 6.3%. As UK government bond yields slightly declined, Robeco's sensitivity to interest rates (i.e. duration exposure) had a positive contribution with Robeco delivering the strongest absolute net return over the quarter or 7.3%. Falling property values impacted the absolute performance of the property portfolio (Schroders) but they still significantly outperformed the benchmark return due to restructuring the portfolio to include more defensive style strategies which provided downside protection in the worst quarter on record for commercial real estate. Rising equity discount rates and rising inflation negatively impacted asset valuations for infrastructure (KKR).

In the final quarter of the year to 31 March, risk assets rebounded and Baillie Gifford, Robeco, and Schroders all added to relative returns. The largest detractor from relative performance over the period was Partners, however, they still delivered a positive absolute return of 0.3% over the quarter. As it's a private fund, it does not track the movement of public market equities. Sterling also strengthened against the Euro which would have provided a slight headwind to Partners over the period. Man Group also detracted slightly from relative performance with a return of -1.0% which was largely driven by its exposure to fixed income and commodities.

Pension Fund Investment Performance

For the year to 31 March 2023 the Fund returned -2.82%, underperforming the benchmark of -1.26%. This was in the main due to the impact on of global equities due to the uncertain global situation, amid rising interest rates and the expectation that these will increase further during 2023 as global central banks attempt to manage rising inflation.

In terms of the longer-term performance, the Fund returns underperform the benchmark across a 5-year period (return is 5.4% compared to the benchmark of 5.8%) and there is positive performance when reviewing the performance since inception (8.0% compared to 7.8%)

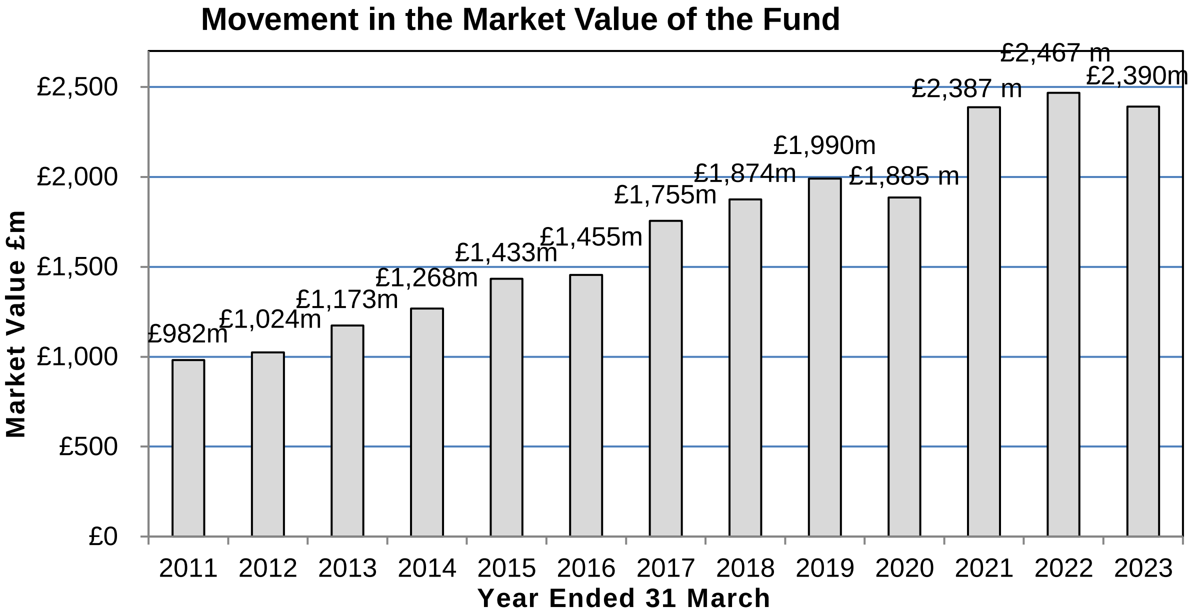
The table below also includes the Scottish LGPS Average to provide an indication of how the Fund has performed compared to the other Scottish Funds. However, it should be noted that each Fund will have different investment objectives depending on the Fund maturity and liability profile.

The 2022/23 and 2021/22 CIPFA Scottish Directors of Finance Performance indicator comparative data is not yet available so 2020/21 has been used for comparison.

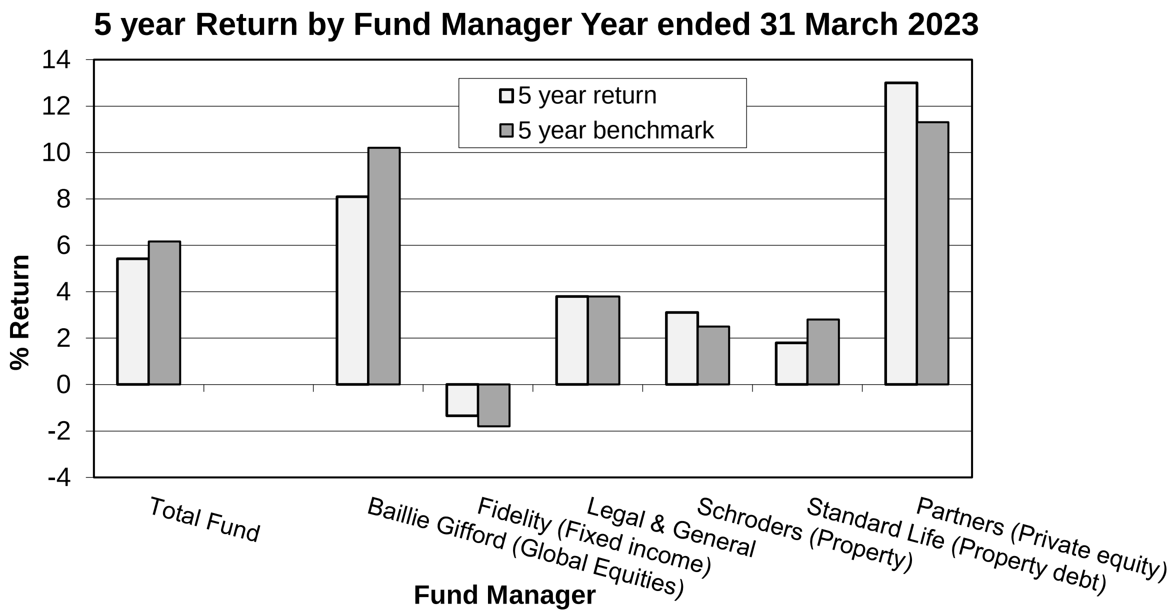
	1 year per annum%	3 years % per annum	5 years % per annum	Inception % per annum
Fund return (2022/23)	-2.8	8.7	5.4	8.0
Benchmark return (2022/23)	-1.3	10.2	5.8	7.8

Fund return (2020/21)	27.0	8.7	10.6	8.9
LGPS average (2020/21)	24.8	9.0	10.5	-

The market value of the Fund's net investment assets as at 31 March 2023 was £2,390m (£2,467m at 31 March 2022), with a slight reduction in the market value due to ongoing volatility. The movement in the market value of the Fund's net investment assets is set out below.



Across the longer term, the main contributors to overall absolute returns have been global equities and private equity. Details of the Fund's investments analysed by investment category are shown in the financial statements (Note 14) and performance against benchmark for Fund Managers across a 5-year period is shown below. There is no data for BGO, CVC, KKR, Man Group, Mirova and Robeco as investments have not been held with these Managers for more than 5 years.



Responsible Investing and Climate Change

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

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

The Fund's RI policy was approved by Pensions Committee on 14 February 2022.

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

The Fund's RI policy sets out the following:

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

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

    For example, during 2022 the Baillie Gifford UK investments were transferred to the Baillie Gifford Global Alpha Paris Aligned fund, which aims to address climate and societal challenges through the net-zero transition by 2050. In addition to this, the Fund moved LGIM passive equities to track a World Futures index (July 2022) and funded an investment in the Mirova Global Sustainable equity fund (December 2022).
  - We expect the Fund's appointed fund managers to be transparent in their approach, including their approach to stewardship, how they integrate ESG into their investment decision making process and consideration of social and environmental impact matters.
  - We expect the Fund's investment managers to provide their RI policy to us and our advisors periodically, including details of their approach to stewardship, how they integrate ESG into their investment decision making process and their approach to non-financial factors. When we look to appoint a new investment manager, we request and consider this information as part of the selection process. We review responses with support and input from the Fund's investment advisor.
- Evolving the Fund's approach as this will need to continually evolve due to both the changing landscape with respect to ESG issues and broader industry developments.

The Fund's Responsible Investment policy has been circulated to all Fund Managers.

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

Training was provided to all Pension Committee and Board members on Responsible Investment in March 2023 and will be provided on an ongoing basis.

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

The Highland Council Pension Fund is one of the signatories to the Global Investors Statement to Governments on the Climate Crisis which was co-ordinated by the IIGCC. The Statement was backed by 532 investors representing over $39 trillion in assets and urged all governments to raise their climate ambition and implement robust policies before COP27 held in November 2022.

The Statement called on governments to undertake the following five priority actions:
1. Ensure that the 2030 targets in their Nationally Determined Contributions align with the goal of limiting global temperature rise to 1.5°C.
2. Implement domestic policies across the real economy and take early action to ensure that their 2030 greenhouse gas emissions are aligned with the goal of keeping global temperature rise to 1.5°C.
3. Contribute to the reduction in non-carbon dioxide greenhouse gas emissions and support the effective implementation of the Global Methane Pledge to reduce emissions by at least 30 percent from 2020 levels by 2030.
4. Scale up the provision of climate finance from the public and the private sector for mitigation, and for adaptation and resilience, with a particular focus on the needs of developing countries.
5. Strengthen climate disclosures across the financial system.

https://theinvestoragenda.org/wp-content/uploads/2022/08/2022-Global-Investor-Statement-.pdf

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

IIGCC
The Institutional Investors Group on Climate Change

Taskforce for Climate Related Financial Disclosures (TCFD) reporting

Pension funds in England and Wales will be required to publish an annual climate risk report, either as a standalone document or a section in their annual reports. The first reporting year will be 2023/24, with the first reports required by December 2024. The implementation date for Scottish LGPS funds has not yet been set.

https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks

As part of implementing the Fund's Responsible Investment Policy, monitoring processes are being developed with the objective of implementing TCFD reporting before the introduction of any mandatory deadlines.

The Fund's Custodian, Northern Trust provided TCFD reporting retrospectively to June 2021, December 2021, June 2022 and December 2022 which covered listed equity and corporate debt investments (LGIM, Baillie Gifford, Mirova, Robeco and part of the Fidelity portfolio).

The Northern Trust climate risk report is designed to support the analytical requirements within the Taskforce for Climate-related Financial Disclosures reporting framework reports and includes the following information:

1. An overview of ESG metrics including climate risk scoring and business involvement exposures.
2. Carbon emissions details including total carbon emissions, carbon footprint and weighted average carbon intensity (WACI).

The following changes made to the investment portfolio over the last 2 years are reflected in the TCFD reporting below:

- Baillie Gifford portfolio transferred to the Paris Aligned Fund (June 2021).
- The LGIM portfolio was moved to track the World Future index (July 2022).
- A new investment was made in the Mirova Global Sustainable Equity fund which is invested in international companies that are positively exposed to, or have developed solutions to, sustainable development issues (December 2022).

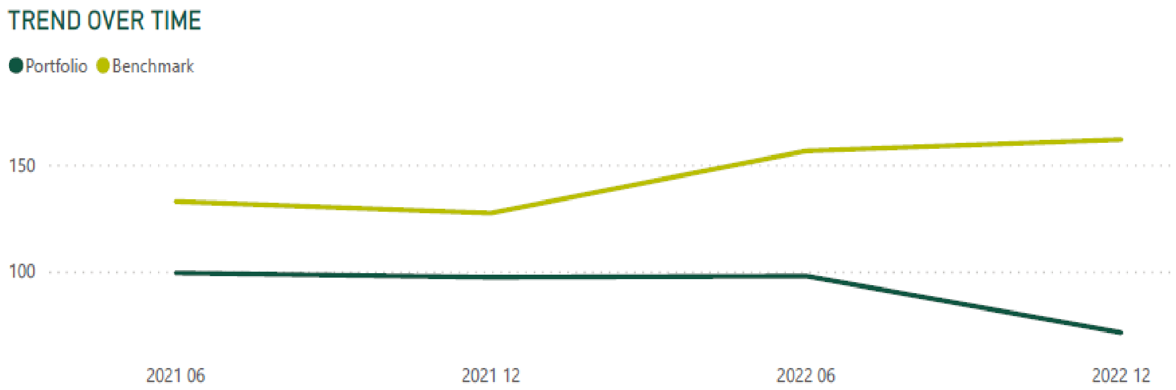
Carbon Risk Rating

The Carbon Risk Rating assesses how an issuer is exposed to climate risks and opportunities, and whether these are managed in a way to seize opportunities, and to avoid or mitigate risks. It provides investors with critical insights into how issuers are prepared for a transition to a low carbon economy and is a central instrument for the forward looking analysis of carbon related risks at portfolio and issuer level.

From June 2021 to December 2022, there has been an overall increase in carbon risk rating over time from 51 to 61 (a higher number means better disposed towards climate change), particularly for the LGIM portfolio where there was a move to track the World Future index in July 2022.

Weighted Average Carbon Intensity (WACI)

Weighted Average Carbon Intensity (WACI) has generally decreased over time (also a positive indicator as this refers to a lower intensity by volume, measurement is tons of CO2 emitted per $1m).



The TCFD reporting will be included in the Annual Accounts going forward and reported to Committee for monitoring on an annual basis. Reporting will be developed to cover all asset classes.

Actuarial Position

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

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

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

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

The 2023 actuarial valuation has now been completed with results approved by Pensions Committee on 22 February 2024 and the approved Funding Strategy will apply from 1 April 2024.
https://www.highland.gov.uk/download/meetings/id/82935/item_8_-_funding_strategy_statement

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

More information on the actuarial valuation can be found in the Actuarial statement (page 108).

For the purposes of the contribution rates set for the financial year 2022/23, the following assumptions from the triennial Valuation completed in 2020 were used.

Financial assumptions

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

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

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

Longevity assumptions

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

Future life expectancy based on the Actuary's Fund-specific mortality review is in the table below.

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

* assumed current age 45 at date of valuation

Commutation assumption

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

Scheme Administration

Administration Strategy and Performance

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

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

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

Administering Authority Performance

Task	Target	Number from 1/4/21 to 31/3/22	% on target	Number from 1/4/22 to 31/3/23	% on target
New Entrants (includes re-employments)	Issue Statutory Notice within 14 days of receipt of a new start notice.	2,759	33%	3,233	29%
Early Leavers	The standard issue date is 10 days from receipt of leavers forms and 15 days for deferred benefit entitlement.	903	17%	1,397	10%
Retirements including deferred benefits coming into payment	The standard issue date is 10 days of receipt of leaver option forms.	751	91%	760	92%
Deaths in Service	Contact next of kin within 5 days of notification being received.	21	86%	13	100%
Transfers in from out with Fund	The standard is to issue statutory notice within 10 days of receipt of payment.	44	11%	64	25%
Transfers of pension rights out with Fund	Case to be finalised & payment made within 10 days of receipt of election payment.	150	27%	109	37%
Estimate of benefits	Issue within 10 days of request.	1,395	64%	1,385	74%

Scheme Employer Performance - Target performance 90%

Standard	Number from 1/4/21 to 31/3/22	% on target	Number from 1/4/22 to 31/3/23	% on target
New Start Notification – within 30 days of joining (or 10 days from first deduction if later).	2,759	79%	3,233	92%
Retirement information – to allow benefits to be paid on time.	387	91%	370	90%
Early leaver notification – within 30 days of leaving (or 10 days after last deduction if later).	903	80%	1,397	88%
Death in Service notification – within 7 days of death.	21	100%	13	100%
Year End Queries issued to employers, responses – within 14 days.	11	100%	7	100%

Despite increases in volumes, there has been an overall improvement by the Administering Authority in the processing of retirement benefits. Performance against targets in 2022/23 dipped slightly in some areas due to the significant increase in work volumes, but there have been improvements particularly with the Scheme Employer Performance statistics.

Staff turnover across employer organisation increased again in 2022/23 which has meant an increased workload for the Administration team with high volumes of leavers and new starts to process. The increased volumes have impacted performance but the Administration team continue to focus on prioritising the processing of death and retirement benefits, achieving 100% for contacting next of kin within 5 days of notification being received for deaths in service.

The Scheme Employer Performance statistics for 2022/23 show the benefits and efficiencies of the take up by employers of i-connect which has resulted in improved performance as employer bodies can now upload forms and submit these electronically.

Looking ahead to 2023/24, Member Self Service (MSS) will be implemented which will allow members to quickly access information on their retirement benefits. Members will be able to check and print payroll documentation such as Pay Advice and P60s and generate benefit estimate statements as well as being able to generate "what if" modelling and update details. One of the key aims of the project will be encouraging members to use MSS and if there is good uptake, this will generate efficiencies across all processes and improve estimate of benefits and general performance.

There is an ongoing staff restructure underway in 2023/24 with the objective of building contingency in the team, improving processes and reducing backlogs.

Financial Performance

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

The budget is monitored at each meeting of the Pensions Committee and performance against budget for 2022/23 is as follows.

Annual Budget	Annual budget £000	Year-end actual £000	Year-end variance £000
Staff costs (Pensions)	801	726	(75)
GMP	50	1	(49)
Computer and ICT	301	326	25
Postages, printing stationery	10	4	(6)
Pensions Admin Other	25	31	6
Other Central support recharges	-	193	193
Administrative expenses	**1,187**	**1,281**	**94**
Actuarial Fees	100	65	(35)
Audit Fees	33	34	1
Central Support - Pensions Investment	230	290	60
Training	5	4	(1)
Subsistence and travel	-	-	-
Investment Consultant Fees	75	104	29
Performance Management Fees	30	31	1
Tax & Legal Expenses	10	19	9
Oversight and governance	**483**	**547**	**64**
Investment expenses	350	376	26
Custodian Fees	100	80	(20)
Transaction costs	350	2,266	1,916
Fund Manager fees	9,800	9,542	(258)
Management fees	**10,600**	**12,264**	**1,664**
Overall total	**12,270**	**14,092**	**1,822**

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

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

Oversight and governance – overspend due to the Investment Advisor costs being higher than budget due to support provided for the Strategic Asset implementation and increases in Central Support costs (these are a proportion of the costs for senior management staff – chief executive officers etc, business support, payroll, creditors, property, legal, committee services, ICT etc)

Management fees - with the level of investments decreasing during 2022/23, fees which are based on market values, were lower than anticipated resulting in an overall underspend but transaction costs increased due to increased transaction costs for private equity investments.

Contributions made to the Fund in 2022/23

During 2022/23, members and employers paid the following contributions.

	22/23 Employees contributions	22/23 Employers contributions	Total contributions
Scheduled Bodies	**£000**	**£000**	**£000**
The Highland Council	9,445	30,330	39,775
Comhairle Nan Eilean Siar	2,547	8,393	10,940
Highland & Western Isles Valuation Joint Board	101	302	403
HITRANS	42	114	156
Inverness College	340	1,015	1,355
Lews Castle College	92	280	372
The North Highland College	200	580	780
Scottish Fire and Rescue	145	471	616
Scottish Police Authority	506	1,435	1,941
Total Scheduled Bodies	**13,418**	**42,920**	**56,338**
Admitted Bodies			
An Comunn Gaidhealach	9	26	35
Bord Na Gaidhlig	58	161	219
Cromarty Firth Port Authority	154	374	528
Eden Court Theatre	11	113	124
Forth & Oban Limited	6	27	33
Hebridean Housing Partnership Limited	114	313	427
Highland Blindcraft	21	69	90
Highland & Islands Enterprise (HIE)	64	419	483
Highlife Highland	1,097	3,485	4,582
Inverness Harbour Trust	6	50	56
Morrison FM	15	101	116
NHS Highland	915	2,855	3,770
Skills Development Scotland	39	453	492
Stornoway Port Authority	68	232	300
University of the Highlands & Islands	413	1,760	2,173
Sight Action	10	34	44
WIPRO Holdings (UK) Limited	2	12	14
West Highland College	11	38	49
Total Admitted Bodies	**3,013**	**10,522**	**13,535**
Total	**16,431**	**53,442**	**69,873**

Cashflow

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

Pension Fund Account	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000	£000	£000
Contributions received and transfers in	59,346	57,982	60,262	61,343	63,111	66,237	81,804
Pensions paid and transfers out	(57,922)	(56,077)	(59,887)	(65,107)	(74,394)	(70,454)	(76,079)
Net cash flow	1,424	1,905	375	(3,764)	(11,283)	(4,217)	5,725

The above analysis of cash inflows and outflows shows that the Fund is generally in cashflow negative territory. This reflects the increasing maturity of the fund with increased number of deferred and pensioner members compared to active members. The reason for the cashflow being positive in 2022/23 is due to the group transfer in from Highlands and Islands Enterprise (£9.6m).

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

Governance

Annual Governance Statement

Scope of responsibility

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

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

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

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

The purpose of the governance framework

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

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

The governance framework has been in place for the year ended 31 March 2023 and up to the date of approval of the Annual Accounts.

The governance framework

The Local Code is based upon the following seven principles:

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

The Pension Fund has a separate Governance Policy Statement which is one of several key documents it must hold, and this was updated to reflect the changes in governance arrangements as a result of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. The updated Statement for 2022/23 was approved by Pensions Committee in September 2022.

https://www.highlandpensionfund.org/resources/governance-policy-statement-2022-23/

Review of effectiveness

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

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

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

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

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

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

The Strategic Lead (Corporate Audit & Performance) responsibilities in this regard was discharged through the presentation of the Internal Audit Annual Report 2022/23 to the Audit and Scrutiny Committee meeting in June 2023.

A review of the adequacy and effectiveness of the systems of internal control for the financial year 2022/23 has not identified any control issues.

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

The 2022/23 Internal Audit plan comprised of the following:

- Review of the systems of internal control to inform the Fund's Annual Governance Statement and the Internal Audit Annual Report 2022/23.
- Review of Pension Fund Payments. This audit was carried forward into the 2022/23 audit plan, due to the retirement of senior officers. This report had the opinion of "Full Assurance", and it was concluded that the key controls for the Pension Fund Payments were operating effectively. The report contains 1 medium grade and 1 low grade recommendation which were implemented in 30 June 2023 and are now complete.

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2023.

Derek Brown Chief Executive	Thomas MacLennan Chairman Pensions Committee

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

Governance Compliance Statement

The Regulations that govern the management of LGPS funds in Scotland require that a Governance Compliance Statement is published. The Governance Compliance Statement sets out the extent to which governance arrangements comply with best practice. The following arrangements were in place for financial year 2022/23 and complies with guidance from the Scottish Ministers.

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

Principle	Fully Compliant and Comments	
• Where appropriate, independent professional observers. • Expert advisors (on an ad-hoc basis).		In addition, Fund Managers attend the Investment Sub Committee on a rotational basis.
Representation		
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Yes	All Pensions Committee and Board members are provided with training, as well as access to papers in advance of Committee meetings and have the opportunity to contribute to the decision-making process. There is a Pensions Board which is a bipartite body with an equal number of representatives from local government employers and relevant trade unions. There must be a minimum of 4 from each side.
Selection and Role of Lay Members		
That committee or panel members are made fully aware of the status, role and function that they are required to perform on either a main or secondary committee.	Yes	A comprehensive training programme including induction is in place. Training for Pension Committee, Pensions Board and Investment Sub Committee members includes presentations from investment managers, Custodian, actuary and investment advisors. Attendance at meetings and training is monitored and reported.
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	The declaration of Member's interests is a standard item on the agenda of the Pension Fund Committee, Pension Board and Investment Sub Committee.
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	The policy on voting rights is clearly stated in the remits of the Pension Fund Committee, Board and Investment Sub Committee.
Training /Facility Time /Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	There is a training, knowledge and skills policy in place which was approved by Pensions Committee in September 2022 which incorporates the CIPFA Local Pensions Boards Technical Knowledge and Skills framework, including the self-assessment matrix. This Policy also highlights the assessment and training resources provided by the Pensions Regulator and set out a training programme for 2022/23.

Principle	Fully Compliant and Comments	
		The training policy recognises the importance of ensuring that Committee has the necessary resources to discharge its pension administration responsibilities and that all staff and members charged with financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
That where such a policy exists it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	All members are treated equally under the training policy regardless of whether they have voting rights.
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	Members receive training each year and this is monitored and reported.
Meeting Frequency		
That an administering authority's main committee or committees meet at least quarterly.	No	The Pensions Committee and Board meet twice a year with the option to hold special meetings as necessary. Officers completed a review of business covered at Pensions Committee and benchmarked against the governance structures in place at other Funds. Following this review this it was decided that Pensions Committee business could be adequately covered in 2 meetings a year, particularly as the monitoring of investment performance is completed by the Investment Sub Committee which meets quarterly.
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	Yes	The Investment Sub Committee meets at least four times a year with the option to hold special meetings as necessary. The Investment Sub-Committee meetings will be timed so minutes can be presented to the Pensions Committee and Board.
That an administering authority which does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	N/A	There is a Scheme Members' representative on the Pensions Committee. The Pensions Board has an equal number of representatives from local government employers and relevant trade unions.

Principle	Fully Compliant and Comments	
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes	All Members of the Pension Fund committees, Board and Investment Sub Committee have full access to agendas, reports and minutes.
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pension Committee has an overview of investment, funding and member benefit matters. The Pensions Board assists the Committee with securing compliance with pension legislation and regulations.
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express interest in wanting to be part of those arrangements.	Yes	The Highland Council publishes governance documents and communicates regularly with employers and scheme members. https://www.highlandpensionfund.org/resources/

Derek Brown
Chief Executive

Thomas MacLennan
Chairman
Pensions Committee

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

Statement of Responsibilities

The Authority's Responsibilities

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

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

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 22 February 2024.

Thomas MacLennan
Chairman
Pensions Committee

The Responsibilities of the Head of Corporate Finance

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

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

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

The Head of Corporate Finance has also:

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

I, the Head of Corporate Finance as Chief Finance Officer certify that the financial statements give a true and fair view of the financial transactions of the Fund for the year ended 31 March 2023.

Brian Porter CPFA
Head of Corporate Finance

Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of The Highland Council Pension Fund (the fund) for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statements and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2023 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 5 June 2023. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

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

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

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

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;

- inquiring of the Head of Corporate Finance as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;

- inquiring of the Head of Corporate Finance concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;

- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Other information

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

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

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

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

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

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

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and

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

Matters on which I am required to report by exception

I am required by the Accounts Commission 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.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Michael Oliphant FCPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Financial Statements

Pension Fund Account

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

2021/22 £000		Notes	**2022/23 £000**
	Dealings with members, employers and others directly involved in the scheme		
64,402	Contributions receivable	8	69,873
1,835	Transfers in from other pension funds	9	11,931
66,237			81,804
(67,830)	Benefits payable	10	(71,429)
(2,624)	Payments to and on account of leavers	11	(4,650)
(70,454)			(76,079)
(4,217)	**Net additions/(reductions) from dealings with members**		**5,725**
(16,063)	Management expenses	12	**(14,092)**
(20,280)	**Net additions/(withdrawals) including fund management expenses**		**(8,367)**
	Returns on Investments		
41,288	Investment income	13	40,361
(750)	Taxes on income from equities		(562)
59,734	Profit and (losses) on disposal of investments and changes in values of investments	14.1	(100,058)
100,272	**Net Return on Investments**		**(60,259)**
79,992	**Net increase/(decrease) in the net assets available for benefits during the year**		**(68,626)**
2,394,440	Opening net assets as at the start of the year		**2,474,432**
2,474,432	**Closing net assets as at the end of the year**		**2,405,806**

Net Assets Statement

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

As at 31/03/22 £000		Notes	**As at 31/03/23 £000**
2,367,396	Investment assets		2,377,340
(9,357)	Investment liabilities		(28,726)
2,358,039		14.1	2,348,614
106,673	Cash deposits		39,376
5,851	Investment income due		2,456
4,789	Amounts receivable for sales		329
(8,120)	Amounts payable for purchases		(1,137)
2,467,232	**Total net investment assets**		**2,389,638**
	Long term assets		
498	**Long term debtors**	24	**351**
	Current assets		
6,250	Short term debtors		6,754
5,801	Bank accounts		15,011
12,051		23	21,765
	Less current liabilities		
(5,349)	Sundry creditors	25	(5,948)
6,702	**Net current assets**		**15,817**
2,474,432	**Closing net assets as at the end of the year available to fund benefits at the period end[1]**		**2,405,806**

Brian Porter CPFA
Head of Corporate Finance
The unaudited accounts were issued on 28 June 2023 and the audited accounts were authorised for issue on 19 March 2024.

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

Notes to Accounts

Accounting Policies

1. Description of Fund

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

General

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

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

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

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

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

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

  The primary contribution rate (future service contributions) for the whole Fund of 21.2% of pay for payroll contributions was set by the Actuary for the period 1 April 2022 to 31 March 2023 in the Triennial Actuarial Valuation report 2020. In addition to this, the secondary rate (past service contributions) for 2022/23 (£4,671,000).

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

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

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

2. Basis of Preparation

The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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.

The accounts have been prepared on a going concern basis.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

a. Contribution income

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

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

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

b. Transfer to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013.

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

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

c. Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as investment income due.

iv) Property-related income

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

v) Movement in the net market value of investments

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

vi) Stock lending income

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

Fund account – expense items

d. Benefits payable

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

e. Taxation

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

f. Management expenses

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

- Administrative expenses

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

- Oversight and governance costs

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

- Investment management expenses

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

Investment management fees charged by the external Fund Managers and the Fund Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

For the private equity fees, there is a performance fee charged. Transaction costs are fees associated with completing sales and purchases which would include brokerage fees.

In advance of preparing the year end accounts a request was made to all Fund Managers, the Fund Custodian and the Fund Advisors for their fee invoice to the end of March 2023 or an estimated fee for accrual purposes.

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

For private equity fees, property debt, direct lending, hedge fund and infrastructure fees, the relevant Fund Managers provided information on fees to the end of March 2023 or a basis for estimating these fees.

Net Assets Statement

g. Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised costs and reflected in the reconciliation of movements in investments and derivatives note in Note 14.1. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 15.1). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association 2016).

h. Foreign currency transactions

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

i. Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 14.6).

j. Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k. Financial liabilities

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

l. Actuarial present value of promised retirement benefits

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Assets Statement (Note 18). The Fund's actuary has provided an updated calculation of the Actuarial present value of promised retirement benefits which includes an allowance for the McCloud ruling i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes (Note 18).

m. Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 19).

n. Contingent assets and contingent liabilities

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

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

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

o. Prior year adjustments

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

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

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

4. Accounting Standards Issued but Not Yet Adopted

The following accounting standards will be adopted within the 2023/24 Code effective from 1 April 2023. There is therefore no impact on the 2022/23 financial statements.

- IFRS 16 Leases (only for those local authorities that have decided to adopt IFRS 16 in the 2023/24 year). Highland Council will not be adopting IFRS 16 in 2023/24.

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

5. Critical Judgements in Applying Accounting Policies

There were no critical judgements used in applying accounting policies for 2022/23. However, a number of assumptions were made about the future and other major sources of estimation uncertainty (see Note 6 below).

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

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

The items in the Financial Statements at 31 March 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	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 net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening year. The	The effects on the net pension liability of changes in individual assumptions can be measured. • 0.1% p.a. increase in the pension increase rate would result in an increase of approximately 2% to liabilities (£33m). • 0.1% p.a. increase in salary increase rate would result in an increase of approximately to liabilities of £3m. • 0.1% p.a. decrease in the discount rate assumption would result in an increase of approximately 2% to liabilities (£36m). • 1-year increase in member life expectancy would result in an

Item	Uncertainties	Effect if actual results differ from assumptions
	methodology used is in line with accepted guidelines. The estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 18. These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.	increase in the liabilities of 4% (£79m).
Private equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines (as at 31 March 2023). 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 £186.2m. While the Pension Fund is satisfied the assets are appropriately valued as at 31 March there is a risk the valuation could move over the next 12 months. For example, a potential market movement of 25.0% up or down could result in an increase in value to £232.8m or decrease to £139.7m.
Property Debt and private lending	Investment is valued by the Fund Manager using critical accounting estimates and judgements from the fund's financial statement. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total property debt investments in the financial statements are £53.7m. While the Pension Fund is satisfied the assets are appropriately valued as at 31 March there is a risk the valuation could move over the next 12 months. For example, a potential market movement of 7.7% up or down could result in an increase in value to £57.9m or decrease to £49.6m.

7. Events after the Reporting Date

The unaudited statement of accounts was issued on 29 June 2023.
Since 31 March 2023 up to the date these accounts were authorised, the actuarial valuation at 31 March 2023 was approved at Pensions Committee on 22 February 2024. The 2023 Valuation showed an increase in the Funding level to 136% from 100% at the previous 2020 Valuation. This event required no adjustment to these accounts other than to update the narrative in the Annual Report to reflect this. There are no other events since 31 March 2023 up to the date these accounts were authorised that require any adjustment to these accounts.

8. Contributions Receivable

By category	2021/22	**2022/23**
	£000	**£000**
Employees' pension contributions	15,201	16,431
Employers' pension contributions	49,201	53,442
Total contributions	**64,402**	**69,873**

As a result of the 2020 valuation, the primary contribution rate (future service contributions) for the whole Fund of 21.2% of pay for payroll contributions was set by the Actuary for the period 1 April 2022 to 31 March 2023 in the Triennial Actuarial Valuation report 2020. In addition to this, the secondary rate amount (past service contributions) for 2022/23 is (£4.671m) (page 6 of 2020 Actuarial Valuation).

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

Analysis of Contributions by Authority

2022/23

	Highland Council	**Scheduled Bodies**	**Admitted Bodies**	**Totals**
	£000	£000	£000	£000
Normal contribution	30,233	12,399	9,614	52,246
Deficit funding	0	0	479	479
	30,233	12,399	10,093	52,725
Strain on Fund	97	189	431	717
Employer's contributions	**30,330**	**12,589**	**10,522**	**53,442**
Members' pension contributions	**9,445**	**3,975**	**3,011**	**16,431**
Total contributions	**39,775**	**16,564**	**13,533**	**69,873**

2021/22

	Highland Council	**Scheduled Bodies**	**Admitted Bodies**	**Totals**
	£000	£000	£000	£000
Normal contribution	27,466	11,474	9,265	48,205
Deficit funding	0	0	484	484
	27,466	11,474	9,749	48,689
Strain on Fund	10	488	14	512
Employer's contributions	**27,476**	**11,962**	**9,763**	**49,201**
Members' pension contributions	**8,616**	**3,694**	**2,891**	**15,201**
Total contributions	**36,092**	**15,656**	**12,654**	**64,402**

Number of Contributors and Pensioners

2022/23	**Contributors**	**Pensioners**	**Deferred Pensioners**	**Total**
Highland Council	8,394	8,203	6,014	22,611
Scheduled Bodies	3,093	2,494	2,375	7,962
Admitted Bodies	2,344	1,374	1,260	4,978
Total	**13,831**	**12,071**	**9,649**	**35,551**
2021/22				
Highland Council	8,252	7,861	5,989	22,102
Scheduled Bodies	3,028	2,383	2,368	7,779
Admitted Bodies	2,333	1,245	1,189	4,767
Total	**13,613**	**11,489**	**9,546**	**34,648**

9. Transfers in from other Pension Funds

	2021/22 £000	**2022/23** **£000**
Group transfer*	-	9,627
Individual transfer	1,835	2,304
	1,835	**11,931**

*transfer of Highlands and Islands Enterprise (HIE) staff from other LGPS funds to the Highland Council Pension Fund.

10. Benefits Payable

By category	2021/22 £000	**2022/23** **£000**
Pensions	(51,904)	(55,444)
Lump sum retirement benefits	(13,558)	(13,455)
Lump sum death benefits	(2,368)	(2,530)
	(67,830)	**(71,429)**
By authority		
Highland Council	(43,286)	(46,161)
Scheduled Bodies	(14,719)	(14,788)
Admitted Bodies	(9,825)	(10,480)
	(67,830)	**(71,429)**

11. Payments to and on Account of Leavers

	2021/22	**2022/23**
	£000	**£000**
Refunds to members leaving service	(162)	(182)
Payments for members joining state scheme	-	-
Group transfers	(350)	-
Individual transfers	(2,112)	(4,468)
	(2,624)	**(4,650)**

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

12. Management Expenses

	2021/22	**2022/23**
	£000	**£000**
Administrative costs	(1,298)	(1,281)
Investment Management expenses	(14,222)	(12,264)
Oversight and Governance costs	(543)	(547)
	(16,063)	**(14,092)**

Analysis of Management Expenses

Administrative Costs	2021/22	**2022/23**
	£000	**£000**
Administrative costs	(192)	(541)
Employee costs	(1,099)	(726)
Other administration	(7)	(14)
Total administrative costs	**(1,298)**	**(1,281)**

Investment Management Expenses

2022/23 **External management fees invoiced**	**Management fees** **£000**	**Performance fees** **£000**	**Transaction costs** **£000**	**Total** **£000**
Unitised insurance policies	(221)	-	-	(221)
Equities	(3,156)	-	(705)	(3,861)
Fixed income	(494)	-	-	(494)
Property	(517)	-	(236)	(753)
External management fees deducted from capital				
Private equity	(2,536)	553*	(1,325)	(3,308)
Private debt	(1,763)	-	-	(1,763)
Hedge fund	(1,014)	-	-	(1,014)
Infrastructure	(394)	-	-	(394)
Custodian fees	-	-	-	(80)
Investment expenses	-	-	-	(376)
Total	**(10,095)**	**553**	**(2,266)**	**(12,264)**

*Due to lower valuations in Q3 and Q4 2022 for the Partners Group Direct Equity 2019 fund, performance fell below the hurdle, meaning the accrued fees are returned to the fund, resulting in a positive expense.

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

Oversight and Governance costs	2021/22 £000	**2022/23** **£000**
Actuarial fees	(83)	(65)
External Audit fees	(33)	(34)
Internal Audit fees	(4)	(8)
Investment advisor fees	(198)	(104)
Performance management	(27)	(31)
Employee costs	(139)	(136)
Central support costs	-	(145)
Sundry costs	(20)	(5)
Tax and legal costs	(39)	(19)
Total oversight and governance costs	**(543)**	**(547)**
Total Management Expenses	**(16,063)**	**(14,092)**

13. Analysis of Investment Income

	2021/22 £000	**2022/23** **£000**
Income from equities	26,609	18,335
Income from pooled investments (unit trusts and other managed funds including multi asset credit/fixed income)	2,615	2,756
Pooled property investments	6,948	8,784
Private equity, private debt (property debt and direct lending)	2,738	4,642
Infrastructure	-	1,996
Interest on cash deposits	1,629	3,268
Stock lending and other income	749	580
	41,288	**40,361**

14. Investment Assets

14.1. Reconciliation of Movements in Investments and Derivatives

2022/23 **Classifications**	**Market value** **1 Apr 22** **£000**	**Purchases at cost derivative payments** **£000**	**Sales proceeds derivative receipts** **£000**	**Change in market value** **£000**	**Market value** **31 Mar 23** **£000**
Investment assets					
Equities	1,121,233	686,193	(876,733)	(62,391)	868,302
Pooled investments					
Unitised ins policies (equities, bonds, cash)	329,596	181,913	(68,814)	(14,630)	428,065
Unit trusts (equities)	15,084	-	(11,721)	(3,363)	-
Fixed income/multi asset credit	235,482	3,044	(495)	(24,979)	213,052
Unit trusts (property)	267,628	18,224	(13,661)	(37,540)	234,651
Hedge fund	130,620	-	(1,014)	9,256	138,862
Venture capital and partnerships					
Private equity	164,291	26,486	(14,364)	9,808	186,221
Property debt	80,674	24,289	(53,498)	2,292	53,757
Direct lending	22,653	48,940	(611)	3,489	74,471
Infrastructure	-	145,043	(394)	7,737	152,386
Currency forwards	-	-	-	-	-
Equity options	135	-	-	27,438	27,573
Total Investment assets	**2,367,396**	1,134,132	(1,041,305)	(82,883)	**2,377,340**
Investment liabilities					
Currency forwards	(1,157)	-	-	1,157	-
Equity options	(8,200)	-	-	(20,526)	(28,726)
Total investment liabilities	**(9,357)**	-	-	(19,369)	**(28,726)**
Net investment assets	2,358,039	1,134,132	(1,041,305)	(102,252)	2,348,614
Other investment balances					
Cash deposits	106,673			2,194	39,376
Investment income due	5,851			-	2,456
Amounts receivable for sales	4,789			-	329
Amounts payable for purchases	(8,120)			-	(1,137)
Total net investment assets	**2,467,232**			(100,058)	**2,389,638**

2021/22 **Classifications**	**Market value** **1 Apr 21**	**Purchases at cost derivative payments**	**Sales proceeds derivative receipts**	**Change in market value**	**Market value** **31 Mar 22**
	£000	**£000**	**£000**	**£000**	**£000**
Investment assets					
Equities	1,231,873	196,542	(274,161)	(33,021)	1,121,233
Pooled investments					
Unitised ins policies (equities, bonds, cash)	364,317	5,265	(56,307)	16,321	329,596
Unit trusts (equities)	19,912	146	(1,287)	(3,687)	15,084
Fixed income/multi asset credit	244,845	130,527	(125,485)	(14,405)	235,482
Unit trusts (property)	185,127	57,350	(10,770)	35,921	267,628
Hedge fund	116,133	-	(903)	15,390	130,620
Venture capital and partnerships					
Private equity	127,983	36,205	(38,746)	38,849	164,291
Property debt	55,000	28,590	(2,892)	(24)	80,674
Direct Lending	-	25,486	(3,730)	897	22,653
Currency forwards	54	-	-	(554)	-
Equity options	2,385	-	-	(2,250)	135
Total Investment assets	**2,348,129**	480,111	(514,281)	53,437	**2,367,396**
Investment liabilities					
Currency forwards	(261)	-	-	(896)	(1,157)
Equity options	(15,574)	-	-	7,374	(8,200)
Total investment liabilities	**(15,583)**	-	-	6,478	**(9,357)**
Net investment assets	**2,332,294**	480,111	(514,281)	59,915	2,358,039
Other investment balances					
Cash deposits	47,709			(181)	106,673
Investment income due	6,641			-	5,851
Amounts receivable for sales	1,478			-	4,789
Amounts payable for purchases	(772)			-	(8,120)
Total net investment assets	**2,387,350**			59,734	**2,467,332**

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.

14.2. Investments Analysed by Fund Manager

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

2021/22 Market Value £000	% of Fund	Manager Analysis	2022/23 Market Value £000	% of Fund
893,133	36.2	Baillie Gifford (UK and global equity)	678,235	28.4
269,986	10.9	Pyrford (global equity)	-	-
-	-	Mirova (global equity)	204,723	8.6
140,473	5.7	Fidelity (bonds and gilts)	121,883	5.1
95,112	3.9	Robeco (corporate bonds)	91,511	3.8
372,570	15.1	Legal and General (unitised insurance - equity, bonds and cash)	430,983	18.0
284,082	11.5	Schroders (property fund)	252,293	10.6
130,620	5.3	Man Group (alternative risk premia hedge fund)	138,862	5.8
172,015	7.0	Partners Group (private equity)	186,741	7.8
55,755	2.3	Standard Life (private debt)	26,430	1.1
25,869	1.0	BentallGreenOak (property debt)	29,651	1.2
27,617	1.1	CVC (direct lending)	75,702	3.2
-	-	Infrastructure (KKR)	152,624	6.4
2,467,232	**100.0**	**Combined Fund**	**2,389,638**	**100.0**

14.3. Top 10 Equity Holdings by Market Value

Holding at 31 March 2023	Market Value £000	% of Total Equity	Classification
Microsoft	25,132	1.96	Software
Prosus	24,920	1.94	Broadline retail
Elevance Health	24,829	1.94	Health Care Providers & Services
Moodys	22,535	1.76	Capital Markets
Pernod Ricard	16,921	1.32	Beverages
Service Corp International	16,630	1.30	Diversified Consumer Services
Mastercard	15,578	1.21	Financial Services
Amazon	15,440	1.20	Broadline retail
Alphabet	14,922	1.16	Interactive Media and Services
AIA Group	14,740	1.15	Insurance
Total	**191,647**	**14.94**	

14.4 Holdings Exceeding 5% by Total Net Assets

The Fund holds the following investments that exceed 5% of the net assets available for benefits. However, note that these are pooled investments, where two or more parties "pool" or combine their investments which allows the fund to benefit from lower transaction costs due to economies of scale and diversification which reduces risk.

Fund Manager & Category	Market Value at 31 March 2022	% of total net assets	**Market Value at 31 March 2023**	**% of total net assets**
	£000	%	£000	%
Legal and General (unitised insurance policy – equities, bonds, cash)	321,532	13.0	426,912	17.7
Mirova Global Sustainable Equity	-	-	204,721	8.5
KKR Diversified Core Infrastructure	-	-	152,386	6.3
Man Group Alternative Risk Premia	130,620	5.3	138,862	5.8
Fidelity (Institutional UK Sustainable Aggregated Bond)	140,469	5.7	121,879	5.1
Total net assets available for benefits	2,474,432			2,405,808

14.5 Stock Lending

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

At the year-end, the value of quoted equities on loan was £42.865m (31 March 2022 - £55.686 m). These equities continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank. At the year end, the Fund held collateral (via the custodian) at fair value of £44.942m (31 March 2022 - £61.329m) representing 104.8% of stock lent. Collateral consists of acceptable securities and government debt.

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

The income from stock lending in 2022/23 was £0.057m (2021/22 £0.106m) which is included in investment income in the Pension Fund account and is part of the "Stock lending and other income" in Note 13 Analysis of Investment Income £0.580m (2021/22 £0.749m).

There are no liabilities associated with the loaned assets.

14.6. Analysis of Derivatives

Objectives and policies for holding derivatives

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

The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers. The derivatives that the Fund uses are forward foreign currency (currency forwards) and options.

In December 2022, options were purchased to provide equity protection covering £367m of global equities to protect these for a three-year period until December 2025. The protection implemented was to ensure that as long as returns are not below -25% over the next 3 years, this amount will be fully protected against negative returns and the fund will also retain up to 36% of any cumulative positive market returns. If the total returns are below -25% over 3 years e.g. -40% then the Fund is protected against the first 25% so would be expected to incur total return losses of 15%.

Forward foreign currency (currency forwards)

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

This currency hedging is in place to reduce the extent to which the Fund is exposed to certain currency movements. These investments are used to ensure that cash can remain invested short term in equities. The sale of currency forwards, traded over the counter (OTC), is undertaken in order to hedge foreign currency exposure risk back to the portfolio's base currency of GBP. There were no forward currency contracts at 31 March 2023.

Purchased/written options

As noted above, equity protection options were purchased in December 2022 to protect passive equities (pooled investment - unitised insurance equities) from losses caused by adverse equity price movements until December 2025. These options are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle but have been shown as separate assets and liabilities in note 14.1.

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

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

Outstanding over-the-counter options held in the bespoke equity protection pooled fund are as follows.

Investment underlying option contract	Expires	Put/ call	Notional holding	Market value 31 Mar 22	Notional holding	Market value 31 Mar 23
				£000		£000
Assets						
UK equities	Dec 2025	Put	-	-	780	780
Overseas equities	Dec 2025	Put	-	-	3,493	26,793
						27,573

Investment underlying option contract	Expires	Put/ call	Notional holding	Market value 31 Mar 22	Notional holding	Market value 31 Mar 23
Liabilities						
				£000		£000
UK equities	Dec 2025	Put	-	-	(190)	(277)
	Dec 2025	Call	-	-	(190)	(316)
Overseas equities	Dec 2025	Put	-	-	(3,493)	(9,980)
	Dec 2025	Call	-	-	(3,493)	(18,153)
						(28,726)
Net purchased/written options at 31 March 2023						**(1,153)**

15.1. Fair Value – Basis of Valuation

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

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

Level 2
Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active; or where valuation techniques are used to determine fair value based on observable market date.

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

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

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

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

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

15.2. Sensitivity of assets valued at level 3

Having consulted the Fund's independent investment advisors (Aon), it was determined that the valuation methods described above for Level 3 investments are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2023.

Asset type	Value as at 31 Mar 2023	Assessed valuation range	Value on increase	Value on decrease
	£000	%	£000	£000
Pooled investment vehicles				
Units trust (property)	234,651	12.5%	263,982	205,320
Venture capital and partnerships				
Private equity	186,221	25.0%	232,776	139,666
Property debt	53,757	7.7%	57,896	49,618
Direct lending	74,471	6.7%	79,461	69,481
Infrastructure	152,386	14.5%	174,482	130,290

15.3. Fair Value Hierarchy

Values at 31 March 2023	**Quoted market price**	**Using observable input**	**With significant unobservable inputs**	
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets	**£000**	**£000**	**£000**	**£000**
Equities	868,302	-	-	868,302
Pooled investments				
Unitised insurance policies (equities, bonds, cash)	-	428,065	-	428,065
Unit trust (equities)	-	-	-	-
Fixed income/multi asset credit	-	213,052	-	213,052
Unit trust (property)	-	-	234,651	234,651
Hedge fund	-	138,862	-	138,862
Venture capital and partnerships				
Private equity	-	-	186,221	186,221
Property debt	-	-	53,757	53,757
Direct lending	-	-	74,471	74,471
Infrastructure	-	-	152,386	152,386
Cash deposits	39,376	-	-	39,376
Investment income due	2,456	-	-	2,456
Amounts receivable for sales	329	-	-	329
Equity options	-	27,573	-	27,573
Currency forwards	-	-	-	-
Total investment assets	**910,463**	**807,552**	**701,486**	**2,419,501**
Investment liabilities				
Currency forwards	-	-	-	-
Amounts payable for purchases	(1,137)	-	-	(1,137)
Equity options	-	(28,726)	-	(28,726)
Total investment liabilities	**(1,137)**	**(28,726)**	**-**	**(29,863)**
Net investments total	**909,326**	**778,826**	**701,486**	**2,389,638**

Values at 31 March 2022	**Quoted market price**	**Using observable input**	**With significant unobservable inputs**	
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets	**£000**	**£000**	**£000**	**£000**
Equities	1,121,233	-	-	1,121,233
Pooled investments				
Unitised insurance policies (equities, bonds, cash)	-	329,596	-	329,596
Unit trust (equities)	-	15,084	-	15,084
Fixed income/multi asset credit	-	235,482	-	235,482
Unit trust (property)	-	-	267,628	267,628
Hedge fund	-	130,620	-	130,620
Venture capital and partnerships				
Private equity	-	-	164,291	164,291
Property debt	-	-	80,674	80,674
Cash deposits	106,673	-	-	22,653
Investment income due	5,851	-	-	106,673
Amounts receivable for sales	4,789	-	-	5,851
Equity options	-	135	-	4,789
Currency forwards	-	-	-	135
Total investment assets	**1,238,546**	**710,917**	**535,246**	**2,484,709**
Investment liabilities				
Currency forwards	-	(1,157)	-	(1,157)
Amounts payable for purchases	(8,120)	-	-	(8,120)
Equity options	-	(8,200)	-	(8,200)
Total investment liabilities	**(8,120)**	**(9,357)**	**-**	**(17,477)**
Net investments total	**1,230,426**	**701,560**	**535,246**	**2,467,232**

15.4. Reconciliation of Fair value Measurements within Level 3

	Pooled investment vehicles	Venture capital and partnerships			
	Units trust (property)	**Direct lending**	**Private equity**	**Property debt**	**Infra-structure**
	£000	**£000**	**£000**	**£000**	**£000**
Market value 1 Apr 2022	267,628	22,653	164,291	80,674	-
Purchases during the year and derivative payments	18,224	48,940	26,486	24,289	145,043
Sales during the year and derivative receipts	(13,661)	(611)	(14,364)	(53,498)	(394)
Unrealised gains/(losses)	(41,143)	3,091	154	927	7,393
Realised gain	3,603	398	9,654	1,365	344
Market value 31 March 2023	**234,651**	**74,471**	**186,221**	**53,757**	**152,386**

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

31 March 2023	**Fair value through profit & loss**	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**	**Total**
Financial assets	**£000**	**£000**	**£000**	**£000**
Equities	868,302	-	-	868,302
Pooled investments				
Unitised ins policies (equities, bonds, cash)	428,065	-	-	428,065
Fixed income/multi asset credit	213,052	-	-	213,052
Unit trusts (property)	234,651	-	-	234,651
Hedge funds	138,862	-	-	138,862
Venture capital and partnerships				
Private equity	186,221	-	-	186,221
Property debt	53,757	-	-	53,757
Direct lending	74,471	-	-	74,471
Infrastructure	152,386	-	-	152,386
Currency forwards	-	-	-	-
Equity options	27,573	-	-	27,573
Amounts receivable for sales	-	329	-	329
Cash deposits	38,505	871	-	39,376
Investment income due	-	2,456	-	2,456
Long term debtors	-	351	-	351
Short term debtors	-	6,754	-	6,754
Bank	-	15,011	-	15,011
Total financial assets	**2,415,845**	**25,772**	**-**	**2,441,617**
Financial liabilities				
Currency forwards	-	-	-	-
Equity options	(28,726)	-	-	(28,726)
Amounts payable for purchases	-	-	(1,137)	(1,137)
Creditors	-	-	(5,948)	(5,948)
Total financial liabilities	**(28,726)**	**-**	**(7,085)**	**(35,811)**
Closing net financial assets	**2,387,119**	**25,772**	**(7,085)**	**2,405,806**

31 March 2022	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
Financial assets	**£000**	**£000**	**£000**	**£000**
Equities	1,121,233	-	-	1,121,233
Pooled investments				
Unitised ins policies (equities, bonds, cash)	329,596	-	-	329,596
Unit trust equity	15,084	-	-	15,084
Fixed income/multi asset credit	235,482	-	-	235,482
Unit trusts (property)	267,628	-	-	267,628
Hedge funds	130,620	-	-	130,620
Venture capital and partnerships				
Private equity	164,291	-	-	164,291
Property debt	80,674	-	-	80,674
Direct Lending	22,653			22,653
Currency forwards	-	-	-	-
Equity options	135	-	-	135
Amounts receivable for sales	-	4,789	-	4,789
Cash deposits	96,792	9,881	-	106,673
Investment income due	-	5,851	-	5,851
Long term debtors	-	498	-	498
Short term debtors	-	6,250	-	6,250
Bank	-	5,801	-	5,801
Total financial assets	**2,464,188**	**33,070**	**-**	**2,497,258**
Financial liabilities				
Currency forwards	(1,157)	-	-	(1,157)
Equity options	(8,200)	-	-	(8,200)
Amounts payable for purchases	-	-	(8,120)	(8,120)
Creditors	-	-	(5,349)	(5,349)
Total financial liabilities	**(9,357)**	**-**	**(13,469)**	**(22,826)**
Closing net financial assets	**2,454,831**	**33,070**	**(13,469)**	**2,474,432**

16.2. Net Gains and Losses on Financial Instruments

	2021/22	**2022/23**
	£000	**£000**
Financial assets		
Fair value through profit and loss	53,437	(82,883)
Amortised cost – unrealised gains	(181)	2,194
Financial liabilities		
Fair value through profit and loss	6,478	(19,369)
Total	**59,734**	**(100,058)**

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. There is a risk register in place which follows the CIPFA guidance Managing risk in the LGPS. This is regularly reviewed, and significant risks are reported to the Pensions Committee.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.
The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement and in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2022/23 reporting period.

Asset type	Potential market movement (+/) 2021/22	Potential market movement (+/) 2022/23
UK equities	19.0%	19.0%
Global equities (excluding UK)	18.0%	18.0%
UK fixed income unit trusts	8.0%	10.0%
Corporate bonds (medium term)	7.5%	9.0%
Overseas corporate bonds	7.5%	9.0%
UK fixed gilts (medium term)	8.5%	11.0%
UK index linked gilts (medium term)	7.0%	9.0%
Property	12.5%	12.5%
Private Equity	25.0%	25.0%
Property Debt	7.5%	7.7%
Multi Asset Credit	9.7%	10.2%
Direct Lending	6.4%	6.7%
Alternative risk premia strategies	8.0%	8.0%
Infrastructure	-	14.5%
Cash	0.0%	0.0%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. The Fund's investment advisors suggest that the approach to modelling market price risk should take account of the diversification of assets in the Fund. This approach is different to that outlined in the CIPFA recommended code of practice, where the sum of all potential changes in asset class values are taken to determine the impact on the total value of the Fund. Consequently, the total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory. If the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows:

Asset type	**Value as at 31 Mar 2023**	**Percentage change**	**Value on increase**	**Value on decrease**
	£000	**%**	**£000**	**£000**
Cash deposits	39,376	0.0	39,376	39,376
Pooled investments				
UK equities	-	19.0	-	-
Global equities (overseas)	1,252,184	18.0	1,477,577	1,026,791
UK fixed income unit trusts	44,486	10.0	48,935	40,037
UK Corporate bonds (medium term)	43,633	9.0	47,560	39,706
Overseas Corporate bonds (medium term)	33,761	9.0	36,799	30,723
Fixed income multi asset credit	91,172	10.2	100,472	81,872
UK fixed gilts (medium term)	30,475	11.0	33,827	27,123
UK index linked gilts (medium term)	13,708	9.0	14,942	12,474
Unit trusts property	234,651	12.5	263,982	205,320
Hedge funds	138,862	8.0	149,971	127,753
Venture capital and partnerships				
Private equity	186,221	25.0	232,776	139,666
Property debt	53,757	7.7	57,896	49,618
Direct lending	74,471	6.7	79,461	69,481
Infrastructure	152,386	14.5	174,482	130,290
Investment income due	2,456	0.0	2,456	2,456
Amounts receivable for sales	329	0.0	329	329
Net equity options (UK)	187	19.0	223	151
Net equity options (overseas)	(1,340)	18.0	(1,581)	(1,099)
Amount payable for purchases	(1,137)	0.0	(1,137)	(1,137)
Net currency forwards	-	0.0	-	-
Net investment assets	**2,389,638**		**2,758,346**	**2,020,930**

Asset type	**Value as at 31 Mar 2022**	**Percentage change**	**Value on increase**	**Value on decrease**
	£000	**%**	**£000**	**£000**
Cash deposits	106,673	0.0	106,673	106,673
Unitised ins policies (cash)	14,403	0.0	14,403	14,403
Pooled investments				
UK equities	433,679	19.0	506,078	351,280
Global equities (overseas)	959,789	18.0	1,132,552	787,028
UK fixed income unit trusts	60,683	8.0	65,538	55,828
UK Corporate bonds (medium term)	53,378	7.5	57,381	49,375
Overseas Corporate bonds (medium term)	26,408	7.5	28,389	24,427
Fixed income multi asset credit	95,013	9.7	104,229	85,797
UK fixed gilts (medium term)	41,684	8.5	45,227	38,141
UK index linked gilts (medium term)	16,357	7.0	17,502	15,212
Unit trusts property	267,628	12.5	301,082	234,175
Hedge funds	130,620	8.0	141,070	120,170
Venture capital and partnerships				
Private equity	164,291	25.0	205,364	123,218
Property debt	80,674	7.4	86,644	74,704
Direct lending	22,653	6.4	24,103	21,203
Investment income due	5,851	0.0	5,851	5,851
Amounts receivable for sales	4,789	0.0	4,789	4,789
Net equity options (UK)	(366)	19.0	(436)	(296)
Net equity options (overseas)	(7,698)	18.0	(9,084)	(6,313)
Amount payable for purchases	(8,120)	0.0	(8,120)	(8,120)
Net currency forwards	(1,157)	0.0	(1,157)	(1,157)
Net investment assets	**2,467,232**		**2,838,078**	**2,096,388**

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2023 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	31 March 2022	**31 March 2023**
	£000	**£000**
Cash and cash equivalents	106,673	39,376
Legal and General (cash)	14,403	-
Bank accounts	5,801	15,011
Legal & General fixed interest gilts	41,684	30,475
Legal & General index linked gilts	16,357	13,708
Fidelity and Robeco (fixed income)	235,482	213,052
Total	**420,400**	**311,622**

Interest rate risk sensitivity analysis

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

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

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

Asset type	**Carrying amount as at 31 March 2023**	**Change in year in the net assets available to pay benefits**	
		+1%	**-1%**
	£000	**£000**	**£000**
Cash and cash equivalents	39,376	394	(394)
Bank accounts	15,011	150	(150)
Legal & General fixed interest gilts	30,475	305	(305)
Legal & General index linked gilts	13,708	137	(137)
Fidelity and Robeco (fixed income)	213,052	2,131	(2,131)
Total	**311,622**	**3,117**	**(3,117)**

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

Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2023 and as at the previous period end.

Currency exposure – asset type	Asset value as at 31 March 2022	**Asset value as at 31 March 2023**
	£000	**£000**
Overseas quoted securities and cash	790,305	747,526
Overseas unitised insurance policies	235,503	215,337
Overseas property fund	284	310
Overseas unquoted private equity	127,983	164,291
Overseas unit trust (bonds)	39,175	110,280
Total overseas assets	**1,193,250**	**1,237,744**

Currency risk - sensitivity analysis

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

Currency exposure - asset type	Asset value 31 March 2023	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities and cash	833,142	941,449	724,833
Overseas unitised insurance policies (quoted in GBP no other values available)	298,278	337,054	259,502
Overseas property fund (EUR)	311	351	271
Overseas unquoted private equity (EUR)	186,735	211,011	162,459
Overseas unit trust (bonds)	109,230	123,430	95,030
Overseas infrastructure (USD)	152,623	172,464	132,782
Total change in assets available	1,580,319	1,785,759	1,374,877

Currency exposure - asset type	Asset value 31 March 2022	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities and cash	747,526	844,704	650,348
Overseas unitised insurance policies (quoted in GBP no other values available)	215,337	243,331	187,343
Overseas property fund (EUR)	310	350	270
Overseas unquoted private equity (EUR)	164,291	185,649	142,933
Overseas unit trust (bonds)	110,280	124,616	95,943
Overseas infrastructure (USD)	-	-	-
Total change in assets available	1,237,744	1,398,650	1,076,837

Credit risk

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

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

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

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

	31 March 2022 £000	31 March 2023 £000
Northern Trust Global Investment liquidity funds	96,792	38,505
Northern Trust Cash deposits	9,881	871
	106,673	**39,376**

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

	31 March 2022 £000	31 March 2023 £000
Virgin Money accounts	5,801	15,011

Liquidity risk

Liquidity risk represents the risk that the Fund will not meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.
On the basis that the current investment income yield is maintained, 2022/23 investment income was £40.3m (2021/22 investment income £41.2m), then this

would generate sufficient income to meet benefit payments for the immediate future. Provided the investment income yield remains at current levels then the time when assets need to be sold to meet benefit payments still looks sometime in the future.

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

Refinancing risk

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

18. Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice on Local Authority Accounting 2022/23 requires administering authorities of LGPS Funds that prepare Pension Fund accounts to disclose what IAS 26 refers to as the actuarial present value of promised retirement benefits.

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

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

If an actuarial valuation has not been prepared as at the date of the financial statements as is the case, IAS 26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS 19 and not the Fund's funding assumptions. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Statement (page 108). This estimate is subject to significant variances based on changes to the underlying assumptions.

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

	31 March 2022 £m	31 March 2023 £m
Present Value of Promised Retirement Benefits*	2,872	1,971
Net Assets per Annual Accounts	2,474	2,406

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

Note that the above figures at 31 March 2022 and 31 March 2023 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. The estimated allowance within the 31 March 2023 figure reflects the proposed changes to the McCloud eligibility criteria in SPPA's Consultation.
The Actuary estimates that the liability at 31 March 2023 is £1,971m which comprises of £933m in respect of employee members, £304m in respect of deferred pensioners and £734m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the Actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The Actuary has not made any allowance for unfunded benefits.

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS 19 report as required by the Code of Practice. These are given below. The Actuary estimates that the impact of the change of financial assumptions to 31 March 2023 is to decrease the actuarial present value by £1,082m. The Actuary also estimates that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £19m.

Financial Assumptions	31 March 2022 %p.a.	31 March 2023 %p.a.
Inflation/Pension Increase Rate	3.20	2.95
Salary Increase Rate	4.00	3.75
Discount Rate	2.70	4.75

Discount rate

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

The Actuary's approach to setting the discount rate as at 31 March 2023 follows the same principles to those adopted at 31 March 2022 which was to use a "Hymans Robertson LLP" corporate bond yield curve constructed based on the constituents of the iBoxx AA Corporate bond index.

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

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

Retail price inflation assumption

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

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

Pension increase assumption

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

Salary increase assumption

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

Longevity assumptions

The life expectancy assumptions used to calculate the actuarial present value of promised retirement benefits have reduced compared to the previous year.

	2022/23		2021/22	
	Males	Females	Males	Females
Current Pensioners	20.4 years	23.1 years	20.8 years	23.3 years
Future Pensioners*	21.6 years	25.0 years	22.0 years	25.3 years

*Currently aged 45

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.

The unaudited value of Prudential AVCs at 31 March 2023 is £10,202,325 (2021/22 £9,837,041).

20. Agency Services

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

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers' pensions and employee pensions are paid with the payment of funded pensions. In order that such are not regarded as "unauthorised payments" by HMRC these pension payments are met by the administering authority and recharged to the body or service which granted the benefits. Total added years payments in year amounts to approximately £3.31m.

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

21. Related Parties

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

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

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

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

http://www.highland.gov.uk/downloads/download/539/annual_accounts

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

The following Senior Officer of the Highland Council held a key position in the financial management of the Pension Fund during the financial year to 31 March 2023. Note that Liz Denovan was in post until 5 June 2022, Edward Foster was in post from 6 June 2022 to 8 March 2023 and Brian Porter was in post from 9 March 2023 onwards.

Name	Resp	Pension contributions in year to 31/03/22	31/03/23	Accrued pension benefits as at 31/03/23		Difference in accrued pension benefits compared to Mar 2022
Liz Denovan	Executive Chief Officer, Finance and Resources	£18,037	£3,412	Pension Lump sum	£40,359 £61,291	£936 £549
Edward Foster	Head of Corporate Finance Finance and Resources	-	£15,582	Pension Lump sum	£27,661 £13,217	-
Brian Porter	Head of Corporate Finance Finance and Resources	-	£16,609	Pension Lump sum	£38,006 £41,610	-

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

Contributions of £39.775m were paid by the Highland Council to the Fund during 2022/23 as set out in Note 8 (£36.092m in 2021/22) and central administration costs of £1.557m (£1.454m in 2021/22) were recharged to the Fund (these are included in Note 12 and split between Administrative costs and Oversight and Governance costs)

As at 31 March 2023, the Pension Fund had a net intercompany debtor of £4.622m (31 March 2022 £4.386m) representing sums due from the Highland Council. These balances in the main cover contributions payable by the Highland Council to the Pension Fund which were paid over in the first quarter of financial year 2023/24. The intercompany debtor is included in Note 23).

22. Contingent Assets, Liabilities and Contractual Commitments

Contingent assets

- During 2009/10, KPMG were contracted to submit “EU Fokus Bank” claims for recovery of withholding tax with an estimated value of £1.228m (€1.429m) gross of fees. An additional revised contract was agreed in April 2012 with KPMG to continue with the claim and the current outstanding claim value is £1.404m (€1.596m). There have been no further repayments in 2022/23 with claims ongoing in France, Germany and Italy.

Contingent liabilities

- As at 31 March 2022 there is a contingent liability of £0.687m (£0.694m in 2021/22) for frozen refunds representing 2,328 (2,297 in 2021/22) frozen refund records.

Contractual commitment

As at 31 March 2023 the Highland Council Pension Fund had contractual commitments in respect of fund manager investments, as follows. These commitments relate to outstanding call payments due on unquoted limited partnership fund held in private equity, direct lending, property debt and infrastructure. The amounts “called” by these funds are irregular in both amount and timing over the period and can take several years to drawdown from the date of each original commitment.

Investment	Commitment	Undrawn commitments 31/03/2022	Undrawn commitments 31/03/2023
Partners Group Global Value 2011	€50.000m	£5.903m (€6.986m)	£6.138m (€6.986m)
Partners Group Global Value 2014	€80.000m	£8.627m (€10.209m)	£8.971m (€10.209m)
Partners Group Global Value 2017	€67.000m	£24.089m (€28.506m)	£16.217m (€18.456m)
Partners Group Direct Equity IV EUR SCA SICAV RAIF (2019)	€55.000m	£17.847m (€21.120m)	£8.409m (€9.570m)
Partners Group 2020	€20.000m	-	£9.701m (€11.040m)
CVC European Direct Lending 2021 fund	£100.000m	£77.985m	£29.044m
BentallGreenOak Secured Lending III	£100.000m	£72.754m	£69.389m
KKR Diversified Core Infrastructure	$175.000m	£133.203m ($175.000m)	£7.347m ($9.084m)

23. Current Assets

2021/22 £000	**Debtors**	**2022/23 £000**
1,194	Contributions due - employees	1,457
3,799	Contributions due - employers	4,257
275	Strain on fund costs	73
982	Other short term debtors	967
6,250	**Total short term debtors**	**6,754**
5,801	Bank accounts	15,011
12,051	**Total current assets**	**21,765**

24. Long Term Debtors

2021/22 £000	**Debtors**	**2022/23 £000**
73	Long term debtors	-
425	Reimbursement of lifetime tax allowances	351
498		**351**

25. Current Liabilities

2021/22 £000	**Creditors**	**2022/23 £000**
(3,922)	Sundry creditors	(3,212)
(111)	Transfer values payable (leavers)	(727)
(1,316)	Benefits payable	(2,009)
(5,349)		**(5,948)**

Actuarial Statement as at 31 March 2023

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

Description of Funding Policy

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

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

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

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £1,892 million, were sufficient to meet 100% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £6 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

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

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

	Males	Females
Current Pensioners	21.0 years	23.5 years
Future Pensioners*	22.4 years	25.5 years

*Currently aged 45

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

Experience over the period since 31 March 2020

Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but recovered very strongly in 2020 and 2021. Markets have continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2020 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

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

Robert Bilton FFA 18 May 2023

For and on behalf of Hymans Robertson LLP

Glossary

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

	and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Employer contribution rates (Primary and Secondary)	Employer contributions are made up of two elements: 1) the estimated cost of future benefits being built up each year, after deducting members' own contributions and including an allowance for the Fund's administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus 2) an adjustment for the difference between the Primary rate above and the total contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year. When referring to the overall primary and Secondary rates for the fund: 1) The Primary rate (21.2% for financial year 2022/23 at 2020 valuation) is the payroll weighted average of the underlying individual employer primary rates. 2) The Secondary rate is the total of the underlying individual employer secondary rate (-£4.671m for financial year 2022/23 at 2020 valuation).
Funding level	The ratio of assets value to **liabilities** value.
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as

	assets by the Fund, but their main use in funding is as an objective measure of solvency.
Gilt yield curves	The line on a graph plotting the relationship between gilt yields and their maturity dates. A yield curve can show the relation between gilts of varying maturities and their yields. Yield curves can be normal/up-sloped (indicates yield on longer term bonds may continue to rise, responding to periods of economic expansion), inverted/down-sloped (suggests yields on longer-term bonds may continue to fall, corresponding to periods of economic recession) or flat (when economy is transitioning from expansion to slower development and even recession, yields on longer maturity bonds tend to fall and yields on shorter-term securities likely to rise).
Gilt yields	The yield of a gilt is the annual return on the market price of the bond, expressed as a percentage. To calculate yield amount, the face value of the gilt is multiplied by the yield in decimal form.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

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

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