



The Highland Council Pension Fund

Annual Report and Annual Accounts Aithris Chunntasan

2023 - 2024

Pensions Regulator Scheme Number: 10276691

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Contact Us

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To request this information in an alternative format, e.g. large print, Braille, computer disc, audio tape, or suitable language, please contact the pensions team on 01463 702441.

How to Contact Us

mypension@highland.gov.uk

General enquiries about this document.

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. General enquiries regarding Pension Fund Investments should also be directed to the following address.

Pensions Section
Highland Council Pension Fund
The Highland Council
The Highland Council Headquarters
Glenurquhart Road
Inverness
IV3 5NX

mypension@highland.gov.uk

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

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Introduction

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About the Fund

The Highland Council Pension 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 2023 to 31 March 2024 in the Triennial Actuarial Valuation report 2020. In addition to this, the secondary rate amount (past service contributions) for 2023/24 is £4,772,000.

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- **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 2023/24.

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 2023/24 (the Accounting Code).

On page 7 the organisations involved in the management of the fund are listed. On page 8 there is an overview of performance data for 2023/24 compared to 2022/23 and key points to note are:

- membership of the scheme has increased, with a corresponding increase in contributions receivable (excluding transfers in) which has also increased due to the pay award (note that there was an overall decrease when transfers in are included which is due to the £9.6m transfer in from HIE in 2022/23). There has

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also been an increase in the number of pensioners which has meant higher levels of pensions payable.

- increase in investment returns is due to the strong performance of financial markets, with global equities market values rising significantly in the final quarter of the financial year. It should be noted that the Fund is a long-term investor with a diversified portfolio and market risks and volatility are considered when setting the strategic asset allocation.
- increase in management costs is due to an increase in the market value of assets held as fees correlate to asset market values and performance. Also, there are increased administrative costs due to investment being made in technology to improve processes and efficiency.
- decrease in the number of employers from 27 to 25, following the establishment of UHI North, West and Hebrides (previously Lews Castle, North Highland College and West Highland College).

Management of the Fund

Administering Authority	The Highland Council, The Highland Council Headquarters, Glenurquhart Road, Inverness, IV3 5NX
Scheme Administrators	The Highland Council, The Highland Council Headquarters, Glenurquhart Road, Inverness, IV3 5NX
Fund Actuary	Hymans Robertson LLP
Fund Custodian	Northern Trust
Performance Management	Northern Trust
Investment Advisors	Aon
Additional Voluntary Contribution Provider (AVC)	Prudential Assurance
Bankers	Virgin Money
External Auditor	Audit Scotland
Internal Auditor	Highland Council Internal Audit team

Investment Managers



Investment Management











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2022/23	Performance	2023/24
£81.8m	Contributions receivable 	£77.9m
£76.0m	Pension benefits payable 	£82.0m
£14.1m	Management expenses 	£15.5m
£396.40	Cost per member 	£427.34
35,551	Total Membership 	36,243
27	Number of employers 	25
-£60m	Return on investment 	£273m
£2.406bn	Net assets of the Fund 	£2.659bn

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Management Commentary

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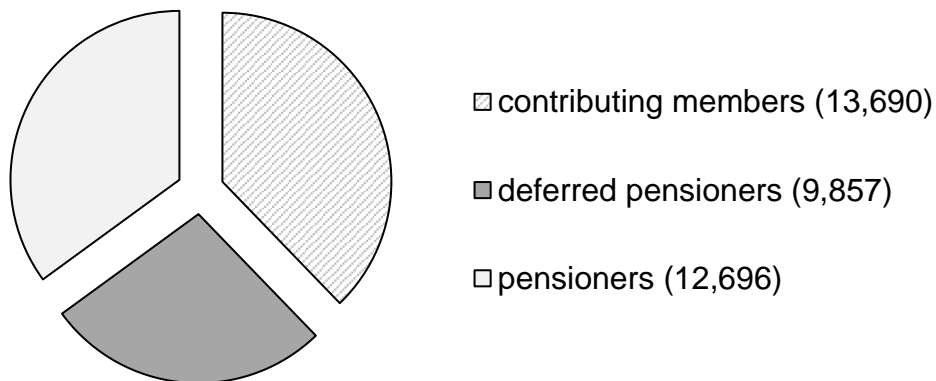
Background

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 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 2024 are £2,659m (31 March 2023 £2,406m).

The Fund provides benefits for those employees of The Highland Council, Comhairle nan Eilean Siar and 23 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 (“SAB”) 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.

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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 24, Annual Governance Statement on page 52 and the Governance Compliance Statement on page 56.

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

2023/24 year was another busy and challenging year for the Pensions Administration team, with the number of retirements and new starts increasing compared to the previous financial year. Investment is being made in technology with the aim of streamlining processes and improving the customer experience.

There are 2 main systems developments ongoing; Member Self Service (Engage) and the Altair Pensioner Payroll system. During the year, the roll out of Member Self Service (Engage) was a significant development which allows active and deferred members to access their annual benefit statement information, update

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their personal details, make or change beneficiary nominations and access retirement planning tools to perform estimate calculations.

<https://highlandpensionfund.mypensiondetails.co.uk/login>

The roll-out of Member Self Service to councillor and deferred members will continue during 2024/25. Also, scheduled for 2024/25 is the implementation of the Altair Pensioner Payroll system.

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 Fund uses 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 the triennial Actuarial Valuation process.
- Organising training sessions for scheme employers – these sessions were designed to help employers understand the definitions of final pay and how these relate to the calculation of pension benefits and their responsibilities to the Fund. Excellent feedback was received following the training sessions with 100% of attendees likely or very likely to attend future sessions.
- 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 being provided as required.
- Ongoing responsibility on funds to raise awareness of pension scams and signpost members to appropriate guidance when a request for transfer is made (Occupational and Personal Pension Schemes (Conditions for Transfers) Regulation 2021). 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

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from MoneyHelper <https://www.moneyhelper.org.uk/en/pensions-and-retirement>.

- Considering the potential implications of the McCloud and Goodwin judgements and changes that will need to be made to processes following on from guidance.
- Lifetime Allowance was abolished from April 2024 and two new limits on pension savings have been introduced. A review of internal processes has been carried out and information provided to members upon retirement has been updated to reflect these changes.
- 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.
- Ongoing work with UHI and other Colleges regarding the merger to set up UHI North, West and Hebrides.
- Work on 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.

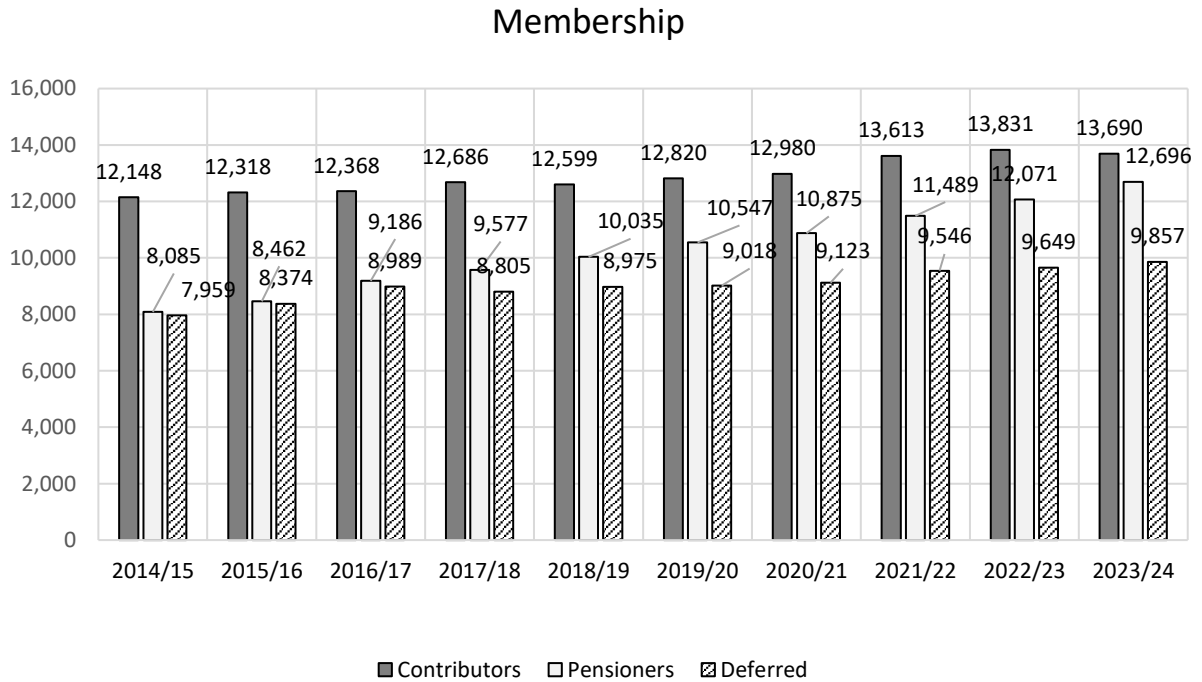
Overall, there are increasing demands and complexities around pensions as well as the increased expectations of all stakeholders and statutory national requirements creating additional pressures on the Pension Administration team. Staff were recruited during the year and ongoing restructuring is still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

The graph on the next page illustrates the increasing number of pensioners, members and deferred members in 2023/24.

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Membership statistics (31 March 2024)



The table below sets out details of new pensioners analysed by ill health, early and normal retirement as at 31 March 2024.

Retirements during 2023/24

	2022/23 Number of Retirements	2023/24 Number of Retirements
Early retirement	37	49
Ill-health retirement	47	31
Early payment of deferred benefits	96	102
Sub-total	180	182
Normal retirements	590	642
Totals	770	824

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.

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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.

The Fund continues to make the best use of technology and is continuing to roll out Member Self Service (Engage) to all members providing functionality to make nominations and generate benefit estimates online. Over 30% of active members have registered so far and this is expected to increase once the annual benefit statements for 2024 are made available at the end of August. Members are being encouraged to use member self-service to update their nominations and perform estimate calculations.

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/news/>.

The website also has a dedicated resources section which contains member guides and forms:

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

c) Performance

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 2023/24 on page 46 show improved performance.

The administering authority performance reduced against all the targets though the average time taken to process certain processes has reduced considerably. Where there has been a reduction in performance this is for a number of reasons including vacancies across both management and operational levels. The implementation of the staff restructure is now underway, with the Pension Fund Manager appointed in May 2024 and appointments made in the operational team, with ongoing recruitment underway.

The reason for delays, particularly in relation to transfer processing is the impact of McCloud remedy and system updates to support this. There is a requirement to collect additional information from scheme members and public service pension schemes in order to determine if any public service membership exists during the remedy period to decide whether a member qualifies for underpin protection under the McCloud remedy.

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Overall, the Fund returned a surplus of £253.3m and comparators for previous years are provided in the table below, alongside the total costs per member and administration cost per member.

The increase in the total cost per member is mainly attributable to an increase in investment management fees. This fee correlates to the market value of the funds under management and performance management fees, with global equities having a positive year and equity market rising significantly in the quarter to 31 March 2024.

The administration cost per member for the fund for 2023/24 is £42.76. The increase in 2023/24 is due to investment in new technology to improve customer service and streamline processes.

Pension Fund Account	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m	£m
Contributions received and transfers in	60.262	61.343	63.111	66.237	81.804	77.946
Pensions paid and transfers out	(59.887)	(65.107)	(74.394)	(70.454)	(76.079)	(82.017)
Management expenses	(9.401)	(8.532)	(12.471)	(16.063)	(14.092)	(15.488)
Returns on investment	124.177	(94.379)	525.907	100.272	(60.259)	272.859
Overall surplus/(deficit)	115.151	(106.675)	502.153	79.992	(68.626)	253.300
Total cost per member*	297.41	263.46	378.17	463.59	396.40	427.34
Administration cost	39.25	37.03	34.91	37.45	36.05	42.76

* 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 2024 of 36,243.

The administration cost includes central support costs.

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 2023/24 the Fund is in surplus, i.e. the income is more than the

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expenditure. This is attributable to unrealised gains as the investment assets have higher market values due to the strong performance of the investment 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 2023/24, Officers continued to fund the alternative investments in private debt and infrastructure. In September 2023, the Investment Sub Committee approved commitments to the following investment with Partners Group in order to maintain the private equity allocation at the target allocation of 5%.

- €29m EUR Partners Group Direct Equity V
- €29m EUR Partners Group Secondary VIII

Equity protection remains in place 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%. This equity protection is regularly reviewed.

In May 2024, the Investment Strategy review was completed by the Fund's Investment Advisor and presented to Investment Sub Committee for review. The SIP containing these changes was then approved by Pensions Committee in June 2024. The strategic asset allocation has been amended with the investment

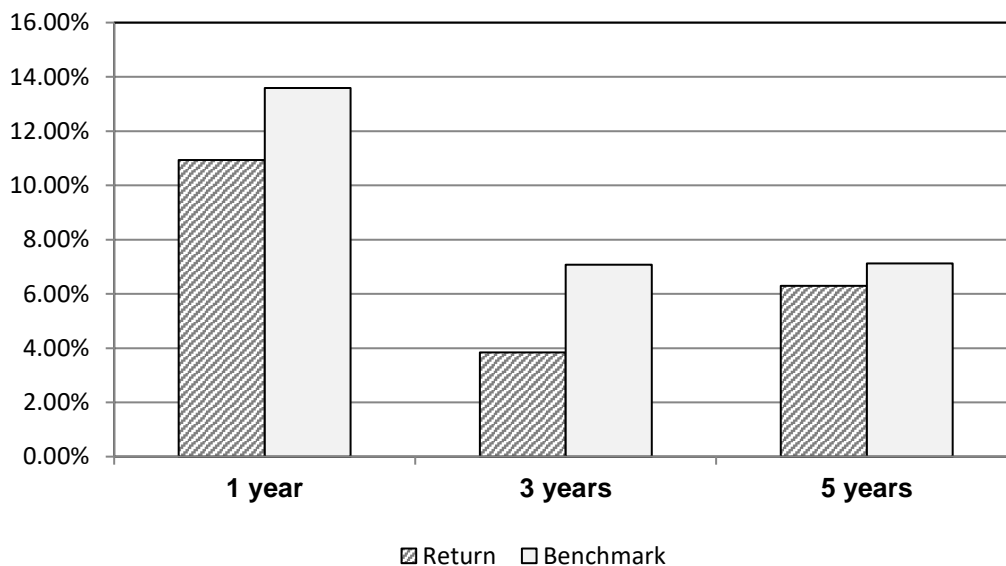
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objective of preserving the surplus from the 2023 actuarial valuation and managing equity and inflation risks.

https://www.highland.gov.uk/download/meetings/id/83531/item_3_-_statement_of_investment_principles

For the year to 31 March 2024 the Fund returned 10.93%, underperforming the benchmark of 13.59% (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. The economic context which impacted on the Fund's investments during the financial year to 31 March 2024 is provided at page 34.



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 2023/24 the total Fund's investments increased in value to £2,650m from £2,390m at the end of 2022/23.

A review of Investment performance is provided on page 34 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.

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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 was some upwards pressure on the primary contribution rates due to a weaker outlook for future investment returns and secondary contribution rates had decreased as employer assets increased since 31/03/2017. The Actuarial Valuation was approved by Pensions Committee in February 2021 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/>

From 1 April 2024, there is an updated triennial actuarial valuation and funding strategy statement.

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/4938/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 2024.

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.

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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 an upcoming election, 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 payroll, creditor payments, property, senior management (section 95 officer) and Human Resources. Due to the 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 in the last few years. 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 (the potential negative effects of climate change on various aspects of the environment, businesses and society) 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

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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.

When the Government reformed public service pension schemes in 2014 and 2015, transitional protections were introduced for older members. In December 2018, the Court of Appeal ruled that younger members of the judicial and firefighters' pension schemes had been unlawfully discriminated against because the protections did not apply to them.¹ This ruling is called the McCloud judgment, after a member of the Judicial Pension Scheme involved in the case. Because of the ruling, there will be changes to all public service pension schemes that provided transitional protection, including the LGPS. The changes are called the McCloud remedy and are intended to remove the age discrimination found in the McCloud court case

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Looking Ahead

- The Actuarial Valuation at 31/03/2023 was completed during financial year 2023/24 and results presented to Pensions Committee on 22 February 2024. The funding level has improved to 136% (Actuarial Valuation at 31/03/2020 was 101% funded) due to better than expected investment returns and higher assumed future investment returns, which have more than offset the increase in short to medium-term inflation expectations.
- Ongoing volatility and uncertainty in the global economy and investment markets can have significant financial implications for the Fund and Fund employers. In May 2024, an Investment Strategy review was completed to review the strategic asset allocation in the context of the Actuarial Valuation at 31/03/2023. The updated Statement of Investment Principles (including a revised asset allocation) was approved by Pensions Committee on 24 June 2024 containing amendments to the strategic asset allocation to preserve the surplus and manage both inflation and equity risk in the portfolio. These changes will be implemented during 2024/25 with the support of the Fund's Investment Advisor.
- The Responsible Investment policy will be reviewed during 2024/25 and training provided to members. The Fund aims to integrate consideration of Environment, Social, Governance (ESG) issues in all aspects of the investment decision-making including modelling and setting investment strategy and appointing and monitoring the Fund's investment managers.
- 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 and sessions will be scheduled as required for 2024/25 which will cover the Valuation process and other key areas.
- Staff recruitment will be completed to fill vacancies and training will be ongoing as part of embedding the staffing structure, with the level of resources to meet fund obligations being regularly reviewed.
- One of the employer bodies, Sight Action went into liquidation with the winding up order granted on 28 March 2024. We are currently working with the Actuary to determine the cessation valuation.

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- 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 2024/25 includes the continued roll-out of Member Self Service which will enable pensioner members to check and print their payroll documentation such as Pay Advice and P60 certificates online. Further developments for Member self-service will include a secure document upload facility, online processes for retirements and refunds, and enhancements to the existing benefit projectors.
- The Heywood Altair payroll system is also being implemented with a planned “go live” of February 2024. This system will integrate with the Benefits system with the aim of streamlining processes and improving efficiency. An increase in the number of members and volume of work to process (significant increases in volumes of new entrants, early leavers and retirements) as well as increased volume of pension benefits estimates has meant reduced performance against KPIs and requires process efficiencies to be implemented.
- 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 required. 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 51.
- 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 is in the process of being implemented.

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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
Chief Officer, Corporate
Finance

Derek Loudon
Chairman
Pensions Committee

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The Highland Council Pension Fund

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Governance

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 2024 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 T MacLennan (Chair)
Cllr P Oldham
Cllr M Paterson
Cllr T Robertson
Cllr A Sinclair

Investment Sub Committee

Cllr C Ballance
Cllr R Gale
Cllr B Lobban
Cllr D Louden (Chair)
Cllr P Oldham
Cllr M Paterson
Cllr T Robertson

Non-Voting Members

Ms E Johnston, GMB
Cllr N Macdonald, Comhairle nan Eilean Siar
Cllr C Munro, Highland Council (observer)

Pensions Board

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

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Attendance at Committee and Board meetings

The good governance of the Fund depends on the Committee and Board meetings being adequately attended. During 2023/24, the Pensions Committee and Investment Sub Committee meetings were quorate. The table below provides detail of individual attendance during the year.

During 2023/24 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	21/09/23	22/02/24	Pensions Board	21/09/23	22/02/24
Cllr C Ballance	✓	✓	Mr R Fea	✓	✓
Cllr J Bruce			Cllr N Macdonald		✓
Cllr R Gale		✓	Cllr K Macleod		
Cllr L Kraft	✓	✓	Cllr G Mackenzie	✓	✓
Cllr B Lobban	✓	✓	Cllr C Munro	✓	✓
Cllr D Louden	✓	✓	Ms L Mackay		
Cllr T MacLennan	✓	✓	Mr D MacSween		
Cllr P Oldham	✓	✓	Mr D MacDonald (substitute)	✓	✓
Cllr M Paterson	✓	✓	Ms E Johnston		✓
Cllr T Robertson	✓		Mr D Main		
Cllr A Sinclair	✓				

Investment Sub Committee	22/06/23	08/09/23	24/11/23	20/03/24
Cllr C Ballance	✓		✓	✓
Cllr R Gale	✓		✓	✓
Cllr B Lobban	✓			✓
Cllr D Louden (Chair)	✓	✓	✓	✓
Cllr A MacDonald (until 21/09/23)	✓		N/A	N/A
Cllr P Oldham	✓	✓	✓	✓
Cllr M Paterson		✓	✓	
Cllr T Robertson (from 21/09/23)	N/A	N/A	✓	✓
Pensions Board				
Ms E Johnston (non voting)	✓	✓	✓	✓
Cllr N Macdonald (non voting)	✓		✓	
Cllr C Munro (PB observer)	✓	✓		

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

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Training, Knowledge and Skills - Policy Statement

The Fund's training policy which was approved by Highland Council Pensions Committee on 21 September 2023, 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.highland.gov.uk/download/meetings/id/82214/item_9training_policy_and_training_an_202324

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 2023/24 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 focussed on the Triennial Actuarial Valuation with an "Ask the Actuary" session held in September 2023 and a session in January 2024 providing an overview of the triennial Actuarial Valuation process covering

- Current valuation results and comparison to previous valuations
- Process for setting employer rates
- Members' role in the valuation process

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

- Private equity (Partners Group)
- Bonds (Fidelity)
- Global Infrastructure (KKR)
- Property (Schroders)
- Global equities (Mirova)
- Private credit -corporate debt (CVC)

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	21/09/23 "Ask the Actuary" session	24/01/24 Overview of the valuation process
Investment Sub Committee		
Cllr C Ballance	✓	
Cllr J Bruce		
Cllr R Gale		✓
Cllr L Kraft	✓	✓
Cllr B Lobban	✓	✓
Cllr D Louden	✓	✓
Cllr T MacLennan	✓	✓
Cllr P Oldham	✓	✓
Cllr M Paterson	✓	✓
Cllr T Robertson	✓	✓
Cllr A Sinclair	✓	
Pensions Board		
Mr R Fea	✓	✓
Cllr N MacDonald		
Cllr K Macleod		
Cllr G Mackenzie	✓	✓
Cllr C Munro	✓	✓
Ms L Mackay		
Mr D MacSween		
Mr D MacDonald (substitute)	✓	✓
Ms E Johnston		✓
Mr D Main		

	22/06/23 Private equity (Partners Group) and fixed income (Fidelity)	08/09/23 Infrastructure (KKR) and property (Schroders)	24/11/23 Global equities (Mirova) and CVC (direct lending)	20/03/24 Global equities (Baillie Gifford) and property debt (BGO)
Investment Sub Committee				
Cllr C Ballance	✓		✓	✓
Cllr R Gale	✓		✓	✓
Cllr B Lobban	✓			✓
Cllr D Louden (Chair)	✓	✓	✓	✓
Cllr A MacDonald (until 21/09/23)	✓		N/A	N/A
Cllr P Oldham	✓	✓	✓	✓
Cllr M Paterson		✓	✓	
Cllr T Robertson (from 21/09/23)	N/A	N/A	✓	✓
Pensions Board				
Ms E Johnston (non voting)	✓	✓	✓	✓
Cllr N Macdonald (non voting)	✓		✓	
Cllr C Munro (PB observer)	✓	✓		

Members of the Investment Sub-Committee also attended various online webinars during the year such as the Baillie Gifford webinars 13 to 16 November 2024. Greyed out represents non-attendance.

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Funding Strategy Statement

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

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

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 2023 and applies to the three financial years from 1 April 2024. This was approved at Pensions Committee in February 2024.

<https://www.highlandpensionfund.org/resources/funding-strategy-statement-2024/>

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Investment Policy Poileasaidh Tasgaidh

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/>

On 24 June 2024, an updated SIP was approved by Pensions Committee which will be implemented during financial year 2024/25.

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.

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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 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 80% on an active basis and these are expected to outperform their respective benchmarks over the long term. The remainder is managed on an index tracking (passive) basis.

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 effects of risk and enhance overall performance of the Fund for its Members.

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

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Strategic Asset Allocation

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

Target set	Asset Class	Fund Actual	Fund Actual
March 22		31/03/23	31/03/24
%		%	%
	- UK equities – active	-	-
	- UK equities – passive	-	-
44.8	Global equities – active	36.9	39.2
11.2	Global equities – passive	16.2	16.3
56.0	Total equities	53.1	55.5
	- Cash (legal and general)	-	-
12.0	Fixed income – active	8.9	8.5
	- Fixed income – passive	1.9	1.5
12.0	Total fixed income	10.8	10.0
10.0	Property	10.6	9.2
7.0	Property debt and other private credit - active	5.5	6.2
5.0	Private equity	7.8	7.1
5.0	Infrastructure	6.4	6.1
5.0	Alternative risk premia strategies	5.8	5.9
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.

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Realisation of Investments

Approximately 80% of the investments held by the Fund at 31 March 2024 were quoted on major stock markets and may be realised quickly if required. Property investment is via pooled funds which are relatively illiquid. These made up 9.2% of the total Fund. There are also private equity 7.1% (target asset allocation 5.0%) and private credit property debt and direct lending investments 6.2% (target asset allocation 7.0%) and infrastructure 6.1% (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 40.

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.

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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 2024 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 in line with legislation. 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 2023/24 year-end accounts process.

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

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The Highland Council Pension Fund

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Investment Performance Report Aithisg Coileanadh Tasgaidh

Economic and Market Background

Equities

Overall, equities had a positive year with global equity markets rising significantly in the last quarter to 31 March 2024 (Q1 2024).

The initial quarter of the financial year to 30 June (Q2 2023) saw the MSCI AC World Index post a -6.7% return in local terms. However, sterling appreciation against the US dollar pushed returns in sterling terms down to 3.4%. UK equities were the only developed market to deliver negative returns in local terms in Q2 2023, a result of comparatively higher exposure to the Commodities sector and lack of exposure to the Information Technology sector than its developed market peers. US equities were the best-performing market in sterling terms driven by double-digit returns delivered by index heavyweights in the Information Technology (15.8%), Consumer Discretionary (13.3%) and Communication Services (12.7%) sectors. Japanese equities were the strongest performer in local currency terms, returning 15.6% in Q2 2023. The sharp depreciation in the yen helped exporters over the quarter as it declined to a seven-month low against the US dollar.

In the quarter to September (Q3 2023), the MSCI AC World index fell 2.4% in local currency terms. However, sterling depreciation against the US dollar pushed returns in sterling terms up to 0.7%. UK equities delivered positive returns in Q3 2023. Comparatively higher exposure to the Commodities sector led to the relative outperformance of UK equities compared to its developed market peers. Rising commodity prices helped the sizeable resource sector as the Energy and Materials rose by 14.1% and 6.8% respectively. Amongst other major sectors, Financials rose 1.1%. US equities were the second worst-performing market in local terms but gained in sterling terms due to dollar appreciation. After gaining for first half of the year, index heavyweight sectors like Information Technology (-5.5%) and Consumer Discretionary (-4.3%) underperformed in Q3.

In the quarter to 31 December (Q4 2023), global equities (measured via MSCI All Country World Index) rose 9.5% in local currency terms. However, sterling appreciation against the US dollar pushed down returns in sterling terms to 6.4%. UK equities rose over the quarter but delivered the lowest regional returns in sterling terms in Q4 2023. This was partly due to UK equities' comparatively higher exposure to the commodities sector compared to its developed market peers. US equities were the best-performing market in local terms and second-best in sterling terms over the quarter. Index-heavyweight sectors like Information Technology (17.0% return), Financials (15.1%), and Consumer Discretionary (12.7%) performed strongly in Q4.

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In the final quarter (Q1 2024), global equity markets rose significantly. The MSCI All Country World Index rose 9.6% in local currency terms. However, sterling depreciated against the US dollar but an appreciation against the euro and the yen pushed down returns in sterling terms to 9.3%. UK equities delivered the second-lowest returns in sterling terms among developed markets in Q1 2024. The index-heavyweight Financial sector rose by 4.4%, while other heavyweight sectors such as Industrials and Energy rose by 12.9% and 4.6%, respectively. US equities were the second best-performing market in local and sterling terms over the quarter. Index-heavyweight sectors such as Information Technology (12.3% return), Financials (12.8%), and Health Care (8.7%) performed strongly in Q1.

Bonds

In the quarter to June, Global bond yields trended higher (prices falling) as major central banks indicated further interest rate rises to bring inflation down to target. UK investment grade credit spreads fell marginally by 0.11% to 1.55%. The iBoxx Sterling Non-Gilts Index posted a return of -3.4% as rising government bond yields offset contracting spreads and the income yield.

During the quarter to 30 September, UK investment grade credit spreads fell by 10bps to 144bps, based on the iBoxx Sterling Non-Gilts index. Higher-quality bond credit spreads contracted less than their lower-quality counterparts, with AAA-rated non-gilt spreads falling by 4bps to 47bps whilst BBB-rated non-gilt spreads fell by 15bps to 207bps. The iBoxx Sterling Non-Gilts Index posted a return of 2.3%.

In the quarter to 31 December, UK investment grade credit spreads fell by 22bps to 121bps, based on the iBoxx Sterling Non-Gilts index. Higher-quality bond credit spreads contracted less than their lower-quality counterparts, with AAA-rated non-gilt spreads falling by 6bps to 41bps whilst BBB-rated non-gilt spreads fell by 30bps to 176bps. The iBoxx Sterling Non-Gilts Index posted a return of 7.3%.

In the last quarter, UK investment grade credit spreads fell by 14bps to 107bps, based on the iBoxx Sterling Non-Gilts index. Higher-quality bond credit spreads contracted less than their lower-quality counterparts, with AAA-rated non-gilt spreads falling by 11bps to 30bps while BBB-rated non-gilt spreads fell by 19bps to 157bps. The iBoxx Sterling Non-Gilts Index posted a return of 0.1%.

Gilts

In the quarter to 30 June, the UK nominal gilt curve rose across all maturities with yields rising more at the short end of the curve relative to longer maturities. The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index fell 5.4% and 6.6% respectively.

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During the quarter to 30 September, the UK nominal gilt curve fell at short to medium maturities but rose at longer end of the curve. The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index fell 0.6% and 4.7% respectively.

In the quarter to 31 December, the UK nominal gilt curve shifted downwards over the quarter as yields fell sharply across maturities. The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index rose 8.1% and 8.7% respectively. Long-dated gilts outperformed medium and short-dated gilts over the quarter.

During the quarter to 31 March, the UK nominal gilt curve shifted upwards over the quarter as yields rose across maturities. The spread between 2-year and 10-year gilt yield rose to 29bps from 15bps over the quarter. The 10-year nominal bond yield rose by 32bps to 3.97%.

Property

In the quarter to June, UK property capital values continued to fall but were offset by the increase in income return, recording a total return of 1.0%. Capital values fell by 0.4% whilst the income return was 1.4%. Vacancy rates rose from 10.3% to 10.4%.

During the quarter to 30 September, UK property capital values continued to fall and weighed over the increase in income return, recording a total return of -0.2%. Capital values fell by 1.6% whilst the income return was 1.4%. Vacancy rates rose from 10.4% to 10.6%.

In the quarter to 31 December, UK property capital values continued to fall and outweighed the income return, recording a total return of -1.2%. Capital values fell by 2.6% whilst the income return was 1.4%. Vacancy rates fell from 10.6% to 10%. The Office sector was the worst performer, returning -4.1%, while the Industrial sector was the best performer returning 0.5%. The Retail sector fell 1.8%.

In the last quarter, UK property capital values fell but a sharp rise in the income return outweighed the fall in property capital values, recording a total return of 0.6%. Capital values fell by 0.8% whilst the income return was 1.5%. Vacancy rates increased from 10% to 10.4%. The Retail sector was the best performer, returning 1.5%, while the Office sector was the worst performer returning -1.4%. The Industrial sector rose 1.1%.

Impact on the Fund

In the quarter to June, on a relative basis the Fund was behind the benchmark by 0.51% (gross) over the quarter. However, it should be noted that the largest detractor from relative performance versus the aggregate benchmark over the period was Partners private equity. In private equity, returns are measured based on internal rate of return (IRR), which is a measure based on actual cash distributions to investors rather than current market values of the underlying assets. In contrast, public market securities can be valued daily.

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Therefore, private equity returns are not completely comparable to the returns of the public market, particularly in the short-term. Long-term, Partners have delivered good relative returns, exceeding a public market benchmark (the MSC World Index) by 1% p.a. (net) over 5 and 10-year periods. In addition, some of the relatively new 'Alternatives' holdings such as KKR, CVC and BGO appear to have underperformed slightly in the short term but these investments are in a build-up phase of drawing and investing capital into underlying assets. Over time, the underlying investments grow in value and as capital is returned (during the harvesting phase) performance becomes positive.

During the quarter to 30 September the Fund was behind the benchmark by 1.5% (gross) over the quarter. The largest detractor from relative performance versus the aggregate benchmark over the period was the Baillie Gifford Global Equity fund. Baillie Gifford's stock selection was the biggest drag on their performance over the quarter, with stocks in the Financials and Health Care sectors detracting from relative performance by -1.9% and -1.4%, respectively. Not owning Energy stocks, which performed well in the global equity benchmark, also detracted from relative performance.

Baillie Gifford admits that the quarter to 30 September continues a run of underperformance that began from Q4 2021 as rising policy rates and monetary tightening from global central banks to manage inflation have impacted the types of stocks they own and therefore has reduced their relative performance versus the wider market. However, they are a long-term investor as is the Fund and aim to look through short to medium term periods of underperformance. Their since inception return for the Fund is still marginally ahead of benchmark (0.13% p.a.).

In the quarter to 31 December, the Fund was behind the benchmark by 0.37% (gross) over the quarter. The largest detractor from relative performance versus the aggregate benchmark over the period was the KKR Infrastructure Fund. Most holdings within KKR's portfolio have delivered positive gross asset returns. KKR are working with specialist business areas of the wider KKR organisation to reassess business plans for the asset over the coming regulatory periods. The second largest detractor from relative performance versus the aggregate benchmark over the period was Partners private equity.

In the final quarter of the year to 31 March, on a relative basis the Fund was marginally behind the benchmark by 0.2% (gross) over the quarter. Mirova was the largest positive driver of relative performance as they outperformed the wider global equity benchmark by 1.8% (net of fees). The largest detractor from relative performance versus the aggregate benchmark over the period was Partners private equity. Long term, Partners continue to deliver robust absolute returns (estimated 11.9% p.a. net).

Pension Fund Investment Performance

For the year to 31 March 2024 the Fund returned 10.93%, underperforming the benchmark of 13.59%. The increase in absolute returns was due the improved performance of

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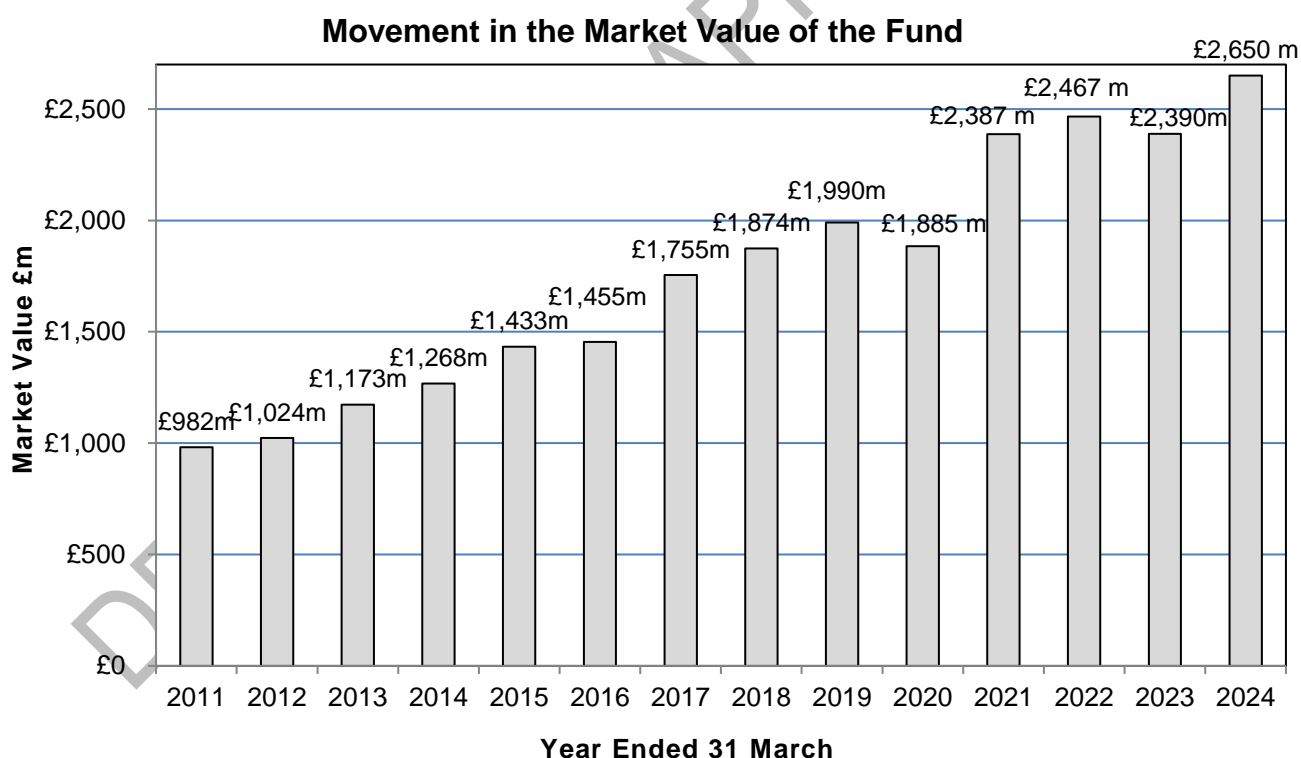
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investment markets, with equity market values increasing significantly in the last quarter of the financial year.

In terms of the longer-term performance, the Fund returns underperformed the benchmark across a 5-year period (return is 6.3% compared to the benchmark of 7.1%) and there is positive performance when reviewing the performance since inception (8.2% compared to 8.0%)

	1 year per annum%	3 years % per annum	5 years % per annum	Inception % per annum
Fund return (2023/24)	10.9	3.8	6.3	8.2
Benchmark return (2023/24)	13.6	7.0	7.1	8.0

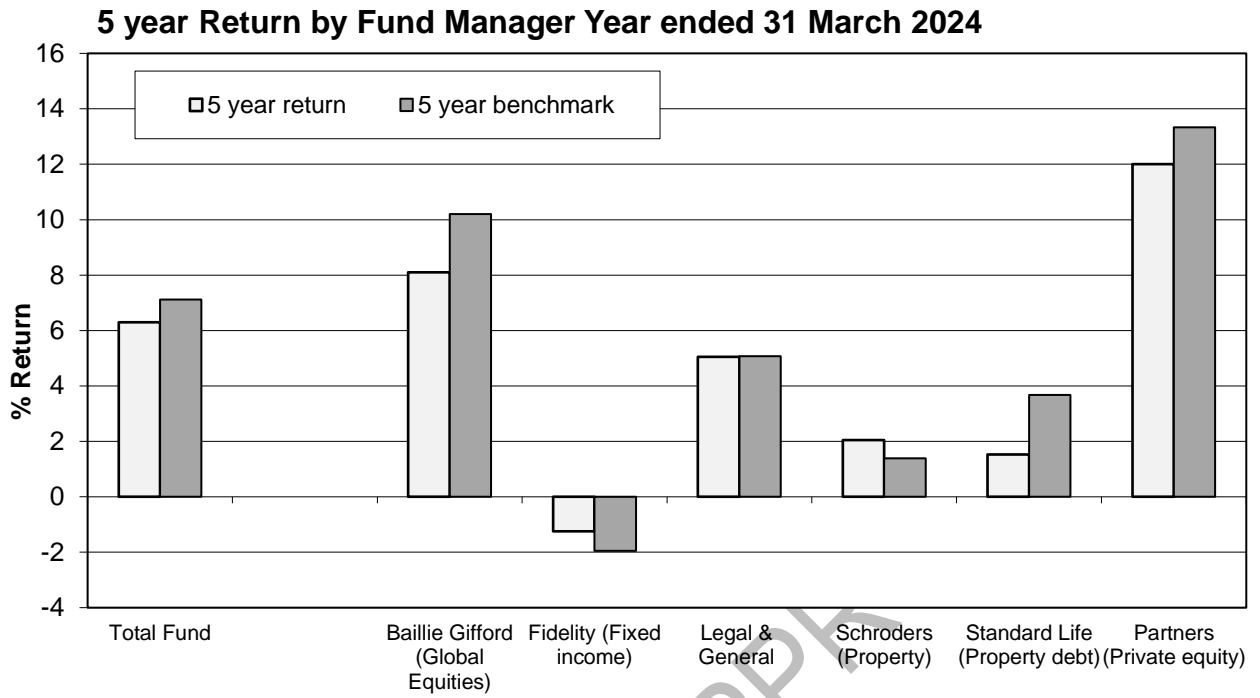
The market value of the Fund's net investment assets as at 31 March 2024 was £2,650m (£2,390m at 31 March 2023), with an increase in market value due to the increase in investment values. The movement in the market value of the Fund's net investment assets is set out below.



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 on the next page. 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.

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Responsible Investing and Climate Change

Tasgadh Cunntasach agus Atharrachadh na Gnàth-shìde

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 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.

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- 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.

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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 (IIGCC). The Institutional Investors Group on Climate Change is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future.

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>



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Actuarial Position **Suidheachadh Achdaireach**

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 was 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 is complete and the actuarial valuation was approved by Pensions Committee on 22 February 2024.

<https://www.highlandpensionfund.org/resources/actuarial-valuation-report-2023/>

The Funding Strategy Statement 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 117).

For the purposes of the contribution rates set for the financial year 2023/24, the following assumptions from the triennial Valuation completed in 2020 were used.

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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.

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Scheme Administration

Administration Strategy and Performance Ro-innleachd agus Coileanadh Rianachd

The Fund's Administration Strategy and Discretionary Policy can be found on the Fund's website <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 1/4/22 to 31/3/23	% on target	Number from 1/4/23 to 31/3/24	% on target
New Entrants (includes re-employments)	Issue Statutory Notice within 14 days of receipt of a new start notice.	3,233	29%	2,422	12%
Early Leavers	The standard issue date is 10 days from receipt of leavers forms and 15 days for deferred benefit entitlement.	1,397	10%	905	7%
Retirements including deferred benefits coming into payment	The standard issue date is 10 days of receipt of leaver option forms.	760	92%	779	85%
Deaths in Service	Contact next of kin within 5 days of notification being received.	13	100%	21	91%
Transfers in from out with Fund	The standard is to issue statutory notice within 10 days of receipt of payment.	64	25%	61	23%
Transfers of pension rights out with Fund	Case to be finalised & payment made within 10 days of receipt of election payment.	109	37%	69	26%
Estimate of benefits	Issue within 10 days of request.	1,385	74%	1,566	58%

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Scheme Employer Performance - Target performance 90%

Standard	Number from 1/4/22 to 31/3/23	% on target	Number from 1/4/23 to 31/3/24	% on target
New Start Notification – within 30 days of joining (or 10 days from first deduction if later).	3,233	92%	2,422	95%
Retirement information – to allow benefits to be paid on time.	370	90%	378	89%
Early leaver notification – within 30 days of leaving (or 10 days after last deduction if later).	1,397	88%	905	88%
Death in Service notification – within 7 days of death.	13	100%	21	100%
Year End Queries issued to employers, responses – within 14 days.	7	100%	8	100%

The Scheme Employer Performance statistics for 2023/24 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.

The administering authority performance reduced against all the targets, though the average time taken to process certain tasks including transfers in from out with Fund and Transfers outwith the Fund has reduced significantly.

Where there has been a reduction in performance this is for a number of reasons including vacancies across both management and operational levels. Other factors which have contributed to the decrease in performance, include the following:

- Transfers in from out with Fund - new guidance received and manual calculations required until software is updated so process is currently taking longer than the target timeframes.
- Transfers of pension rights out with Fund – regulations require members to obtain advice before transferring out to other arrangements, which often contributes to delays.
- The volume of retirements and deaths increased in 2023/24 by 7% and 33% respectively (390 deaths in 23/24 compared to 292 in 22/23) with workloads being focussed on these areas.

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- Staff shortages have required staff to focus on a variety of tasks which has impacted performance.

The implementation of the staff restructure is now underway, with the Pension Fund Manager appointed in May 2024 and appointments made in the operational team, with ongoing recruitment and the level of resources to meet fund obligations being regularly reviewed.

Looking ahead to 2024/25, the implementation of Member Self Service (Engage) is scheduled to be complete by February 2025. This 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 Engage and if there is good uptake, this will generate efficiencies across all processes and improve estimate of benefits and general performance.

Further investments are being made in technology to streamline processes which include the implementation of the Altair payroll system which will be integrated with pension administration system and improve the efficiency of processes.

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Financial Performance

Coileanadh Ionmhasail

The Pension Fund budget is set annually and approved by the 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 2023/24 is as follows.

Annual Budget	Annual budget £000	Year-end actual £000	Year-end variance £000
Staff costs (Pensions)	946	842	(104)
GMP	-	-	-
Computer and ICT	401	554	153
Postages, printing stationery	6	3	(3)
Pensions Admin Other	25	15	(10)
Other Central support recharges	150	136	(14)
Administrative expenses	1,528	1,550	22
Actuarial Fees	150	229	79
Audit Fees	36	38	2
Central Support - Pensions Investment	254	325	71
Training	5	-	(5)
Subsistence and travel	-	-	-
Investment Consultant Fees	75	81	6
Performance Management Fees	50	50	-
Tax & Legal Expenses	10	13	3
Oversight and governance	580	736	156
Investment expenses	350	436	86
Custodian Fees	100	76	(24)
Transaction costs	350	1,395	1,045
Fund Manager fees	10,039	11,295	1,256
Management fees	10,839	13,202	2,363
Overall total	12,947	15,488	2,541

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

Administrative expenses – overspend due to computer costs associated with implementing Member Self Service (Engage). Staff costs underspend is due to vacancies.

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Oversight and governance – overspend due to the Actuarial costs being higher than budget due to support provided for the triennial actuarial valuation and increase 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 increasing during 2023/24, fees which are based on market values, these fees were higher than anticipated resulting in an overall overspend.

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Contributions made to the Fund in 2023/24

During 2023/24, members and employers paid the following contributions.

	23/24 Employees contributions	23/24 Employers contributions	Total contributions
Scheduled Bodies	£000	£000	£000
The Highland Council	10,084	32,594	42,678
Comhairle nan Eilean Siar	2,729	8,872	11,601
Highland & Western Isles Valuation Joint Board	105	323	428
HITRANS	44	126	170
Inverness College	367	1,128	1,495
Scottish Fire and Rescue	148	485	633
Scottish Police Authority	565	1,635	2,200
<u>UHI North, West and Hebrides</u>			
- Lews Castle College	29	90	119
- The North Highland College	312	979	1,291
- West Highland College	55	190	245
Total Scheduled Bodies	14,438	46,422	60,860
Admitted Bodies			
An Comunn Gàidhealach	8	28	36
Bòrd na Gàidhlig	65	183	248
Cromarty Firth Port Authority	167	413	580
Eden Court Theatre	12	113	125
Forth & Oban Limited	6	27	33
Hebridean Housing Partnership Limited	121	338	459
Highland Blindcraft	21	69	90
Highland & Islands Enterprise (HIE)	91	541	632
Highlife Highland	1,168	3,743	4,911
Inverness Harbour Trust	5	43	48
Morrison FM	13	93	106
NHS Highland	942	2,907	3,849
Skills Development Scotland	40	464	504
Stornoway Port Authority	76	225	301
University of the Highlands & Islands	365	1,786	2,151
Sight Action	15	47	62
WIPRO Holdings (UK) Limited	3	13	16
Total Admitted Bodies	3,118	11,033	14,151
Total	17,556	57,455	75,011

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Cashflow

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

Pension Fund Account	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000	£000	£000	£000
Contributions received and transfers in	57,982	60,262	61,343	63,111	66,237	81,804	77,946
Pensions paid and transfers out	(56,077)	(59,887)	(65,107)	(74,394)	(70,454)	(76,079)	(82,017)
Net cash flow	1,905	375	(3,764)	(11,283)	(4,217)	5,725	(4,071)

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.

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

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Governance

Annual Governance Statement Aithris Riaghlachais Bhliadhna

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.

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The governance framework has been in place for the year ended 31 March 2024 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 2023/24 was approved by Pensions Committee in September 2023.

<https://www.highlandpensionfund.org/resources/governance-policy-statement-2023-24/>

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 Chief Officer, Legal and 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.

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In fulfilling these duties, the Chief Officer, Legal and 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 were discharged through the presentation of the Internal Audit Annual Report 2023/24 to the Audit Committee meeting 13/06/2024.

A review of the adequacy and effectiveness of the systems of internal control for the financial year 2023/24 has not identified any control issues.

The Fund Managers and the Global Custodian normally 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. Eleven of these reports were obtained and reviewed, and Internal Audit confirmed that the appropriate assurances were provided by the independent accountants for ten of the Fund Managers in place at the time of the audit, and the Global Custodian. In considering these assurances it was noted that all Fund Managers and the Global Custodian have outsourced some of their services/ systems 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 nine of the Fund Managers and the Global Custodian.

No assurance report was provided by one of the Fund Managers.

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The 2023/24 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 2023/24.
- Review of Pension Fund Investments. This report had the opinion of "Full Assurance" with no audit recommendations. It was concluded that the key controls for the Council's Pension Fund investments were operating effectively and ensure that investments comply with relevant legislation and guidance.
- In addition to the above, an audit of pension fund payments was carried forward into 2023/24 as work in progress. The final report was considered by the Committee on 21/09/23. This audit had the opinion of "Substantial Assurance" and contained 1 medium and 1 low grade priority recommendations. The agreed management actions in response to these recommendations have been satisfactorily implemented.

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 2024.

Derek Brown
Chief Executive

Derek Louden
Chairman
Pensions Committee

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

The Highland Council Pension Fund

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Governance Compliance Statement Aithris Gèillidh Riaghlachais

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 2023/24 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.

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Principle	Fully Compliant and Comments	
<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> • Employing authorities (including non-scheme employers, e.g. admitted bodies). • Scheme members (including deferred and pensioner scheme members). • Where appropriate, independent professional observers. • Expert advisors (on an ad-hoc basis). 	Yes	<p>As stated above there are employer and employee representatives on both Pensions Committee and the Pension Board. The Fund's investment advisers regularly attend the Investment Sub Committee and the Fund's actuaries attend the Pension Committee and Board when appropriate.</p> <p>In addition, Fund Managers attend the Investment Sub Committee on a rotational basis.</p>
Representation		
<p>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.</p>	Yes	<p>All Pensions Committee and Board members are provided with training, as well as access to papers in advance of Committee meetings and have the opportunity to contribute to the decision-making process.</p> <p>There is a Pensions Board which is a bipartite body with an equal number of representatives from local government employers and relevant trade unions. There must be a minimum of 4 from each side.</p>
Selection and Role of Lay Members		
<p>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.</p>	Yes	<p>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.</p>
<p>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.</p>	Yes	<p>The declaration of Members' interests is a standard item on the agenda of the Pension Fund Committee, Pension Board and Investment Sub Committee.</p>

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Principle	Fully Compliant and Comments	
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 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	<p>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 2023/24.</p> <p>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.</p>
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.

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Principle	Fully Compliant and Comments	
Meeting Frequency		
That an administering authority's main committee or committees meet at least quarterly.	No	<p>The Pensions Committee and Board meet twice a year with the option to hold special meetings as necessary.</p> <p>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.</p>
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 meets.	Yes	<p>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.</p>
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	<p>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.</p>
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	<p>All Members of the Pensions Committee, Board and Investment Sub Committee have full access to agendas, reports and minutes.</p>
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	<p>The Pensions 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.</p>

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Principle	Fully Compliant and Comments	
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/ Internal Audit complete a review of the internal controls for the Pension Fund which is included in the Annual Governance Statement in the accounts.

Derek Brown
Chief Executive

Derek Loudon
Chairman
Pensions Committee

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

The Highland Council Pension Fund

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Statement of Responsibilities

Aithris Dhleastanasan airson nan Cunntasan Bliadhna

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 Chief Officer 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 6 December 2024

Derek Loudon
Chairman
Pensions Committee

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The Responsibilities of the Chief Officer, Corporate Finance

The Chief Officer, 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 Chief Officer, 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 Chief Officer, 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 Chief office 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 2024.

Brian Porter CPFA
Chief Officer, Corporate Finance

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Independent Auditor's Report Aithisg Neach-sgrùdaidh Neo-eisimeilich

Independent auditor's report to the members of The Highland Council Pension Fund 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 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of material accounting policy information. 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 2023/24 (the 2023/24 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 2024 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 2023/24 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-

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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 Chief Officer, Corporate Finance and The Highland Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Officer - 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 Chief Officer - 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 Chief Officer - 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

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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 Chief Officer - 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 Chief Officer - 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.

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Reporting on other requirements

Other information

The Chief Officer - 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

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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

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Financial Statements Aithrisean Ionmhasail

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.

2022/23		Notes	2023/24
£000			£000
	Dealings with members, employers and others directly involved in the scheme		
69,873	Contributions receivable	8	75,011
11,931	Transfers in from other pension funds	9	2,935
81,804			77,946
(71,429)	Benefits payable	10	(79,440)
(4,650)	Payments to and on account of leavers	11	(2,577)
(76,079)			(82,017)
5,725	Net additions/(reductions) from dealings with members		(4,071)
(14,092)	Management expenses	12	(15,488)
(8,367)	Net additions/(withdrawals) including fund management expenses		(19,559)
	Returns on Investments		
40,361	Investment income	13	39,736
(562)	Taxes on income from equities		(312)
(100,058)	Profit and (losses) on disposal of investments and changes in values of investments	14.1	233,435
(60,259)	Net Return on Investments		272,859
(68,626)	Net increase/(decrease) in the net assets available for benefits during the year		253,300
2,474,432	Opening net assets as at the start of the year		2,405,806
2,405,806	Closing net assets as at the end of the year		2,659,106

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Net Assets Statement

Aithris Sho-mhaoin Lom

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 31/03/23 £000		Notes	As at 31/03/24 £000
2,377,340	Investment assets		2,671,041
(28,726)	Investment liabilities		(57,717)
<u>2,348,614</u>		14.1	<u>2,613,324</u>
39,376	Cash deposits		32,204
2,456	Investment income due		2,180
329	Amounts receivable for sales		3,411
(1,137)	Amounts payable for purchases		(1,413)
2,389,638	Total net investment assets		2,649,706
351	Long term debtors	24	417
	Current assets		
6,754	Short term debtors		8,299
15,011	Bank accounts		7,888
<u>21,765</u>		23	<u>16,187</u>
	Less current liabilities		
(5,948)	Short term creditors	25	(7,204)
15,817	Net current assets		8,983
2,405,806	Closing net assets as at the end of the year available to fund benefits at the period end¹		2,659,106

Brian Porter CPFA, Chief Officer, Corporate Finance

The unaudited accounts were issued on 27 June 2024 and the audited accounts were authorised for issue on 6 December 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.

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Notes to Accounts

Notaichean air Cunntasan

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 2023 to 31 March 2024 in the Triennial Actuarial Valuation report 2020. In addition to this, the secondary rate (past service contributions) for 2023/24 was £4,772,000.

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- **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 2023/24 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.

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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.

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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.

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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 2024 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 2024 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).

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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

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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 2024/25 Code effective from 1 April 2024. There is therefore no impact on the 2023/24 financial statements.

None of these standards below expected to have a significant impact on the 2024/25 financial statements.

- IFRS 16 Leases. Implementation of IFRS 16 Leases which replaces IAS 17 Leases will be mandatory from 2024/25.
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1) issued in January 2020. The amendments:
 - specify that an entity's right to defer settlement must exist at the end of the reporting period
 - clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement
 - clarify how lending conditions affect classification, and
 - clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

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- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) issued in September 2022. The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions.
- Non-current Liabilities with Covenants (Amendments to IAS 1) issued in October 2022. The amendments improved the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants.
- International Tax Reform: Pillar Two Model Rules (Amendments to IAS 12) issued in May 2023. Pillar Two applies to multinational groups with a minimum level of turnover. The amendments introduced:
 - a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes, and
 - targeted disclosure requirements for affected entities.
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) issued in May 2023. The amendments require an entity to provide additional disclosures about its supplier finance arrangements. The IASB developed the new requirements to provide users of financial statements with information to enable them to:
 - assess how supplier finance arrangements affect an entity's liabilities and cash flows, and
 - understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

5. Critical Judgements in Applying Accounting Policies

There were no critical judgements used in applying accounting policies for 2023/24. 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.

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The items in the Financial Statements at 31 March 2024 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
<p>Actuarial present value of promised retirement benefits</p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.</p> <p>The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening year. The methodology used is in line with accepted guidelines.</p> <p>The estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 18.</p> <p>These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> • 0.1% p.a. increase in the pension increase rate would result in an increase of approximately 2% to liabilities (£34m). • 0.1% p.a. increase in salary increase rate would result in an increase of approximately to liabilities of £2m. • 0.1% p.a. decrease in the discount rate assumption would result in an increase of approximately 2% to liabilities (£37m). • 1-year increase in member life expectancy would result in an increase in the liabilities of 4% (£88m).
<p>Private equity</p>	<p>Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines (as at 31 March 2024). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity investments in the financial statements are £184.3m. While the Pension Fund is satisfied the assets are appropriately valued as at 31 March there is a risk the valuation could move over the next 12 months. For example, a potential market movement of 20.0% up or down could result in an increase in value to £221.2m or decrease to £147.4m.</p>

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Item	Uncertainties	Effect if actual results differ from assumptions
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 £72.6m. 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 8.9% up or down could result in an increase in value to £79.1m or decrease to £66.1m.

7. Events after the Reporting Date

The unaudited statement of accounts was issued on 27 June 2024. Events taking place after this date are not reflected in the accounts or notes. There have been no events since 31 March 2024 and up to the date these accounts were authorised that require any adjustment to these accounts.

8. Contributions Receivable

By category	2022/23	2023/24
	£000	£000
Employees' pension contributions	16,431	17,556
Employers' pension contributions	53,442	57,455
Total contributions	69,873	75,011

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 2023/24 is £4.772m (page 6 of 2020 Actuarial Valuation).

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

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Analysis of Contributions by Authority

	2023/24			Totals
	Highland Council	Scheduled Bodies	Admitted Bodies	
	£000	£000	£000	
Normal contribution	32,577	13,758	9,987	56,322
Deficit funding	0	0	478	478
	32,577	13,758	10,465	56,800
Strain on Fund	17	70	568	655
Employer's contributions	32,594	13,828	11,033	57,455
Members' pension contributions	10,084	4,354	3,118	17,556
Total contributions	42,678	18,182	14,151	75,011

	2022/23			Totals
	Highland Council	Scheduled Bodies	Admitted Bodies	
	£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

Number of Contributors and Pensioners

2023/24	Contributors	Pensioners	Deferred Pensioners	Total
Highland Council	8,234	8,541	6,067	22,842
Scheduled Bodies	3,383	2,636	2,449	8,468
Admitted Bodies	2,073	1,519	1,341	4,933
Total	13,690	12,696	9,857	36,243
2022/23				
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

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9. Transfers in from other Pension Funds

	2022/23	2023/24
	£000	£000
Group transfer	9,627*	-
Individual transfer	2,304	2,935
	11,931	2,935

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

10. Benefits Payable

By category	2022/23	2023/24
	£000	£000
Pensions	(55,444)	(62,683)
Lump sum retirement benefits	(13,455)	(14,193)
Lump sum death benefits	(2,530)	(2,564)
	(71,429)	(79,440)
By authority		
Highland Council	(46,161)	(50,192)
Scheduled Bodies	(14,788)	(16,631)
Admitted Bodies	(10,480)	(12,617)
	(71,429)	(79,440)

11. Payments to and on Account of Leavers

	2022/23	2023/24
	£000	£000
Refunds to members leaving service	(182)	(259)
Payments for members joining state scheme	-	-
Group transfers	-	-
Individual transfers	(4,468)	(2,318)
	(4,650)	(2,577)

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

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12. Management Expenses

	2022/23	2023/24
	£000	£000
Administrative costs	(1,281)	(1,550)
Investment Management expenses	(12,264)	(13,202)
Oversight and Governance costs	(547)	(736)
	(14,092)	(15,488)

Analysis of Management Expenses

Administrative Costs	2022/23	2023/24
	£000	£000
Administrative costs	(555)	(708)
Employee costs	(726)	(842)
Total administrative costs	(1,281)	(1,550)

Investment Management Expenses

2023/24	Management fees	Performance fees	Transaction costs	Other costs	Total
	£000	£000	£000	£000	£000
External management fees invoiced					
Unitised insurance policies	(452)	-	-	-	(452)
Equities	(3,753)	-	(212)	-	(3,965)
Fixed income	(502)	-	-	-	(502)
Property	(481)	-	(206)	-	(687)
External management fees deducted from capital					
Private equity	(1,968)	(504)	(977)	-	(3,449)
Private debt	(1,870)	-	-	-	(1,870)
Hedge fund	(1,089)	-	-	-	(1,089)
Infrastructure	(676)	-	-	-	(676)
Custodian fees	-	-	-	(76)	(76)
Investment expenses	-	-	-	(436)	(436)
Total	(10,791)	(504)	(1,395)	(512)	(13,202)

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2022/23	Management fees	Performance fees	Transaction costs	Other costs	Total
External management fees invoiced	£000	£000	£000	£000	£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)	(80)
Investment expenses	-	-	-	(376)	(376)
Total	(10,095)	553	(2,266)	(456)	(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.

Oversight and Governance costs	2022/23	2023/24
	£000	£000
Actuarial fees	(65)	(228)
External Audit fees	(34)	(38)
Internal Audit fees	(8)	(32)
Investment advisor fees	(104)	(82)
Performance management	(31)	(50)
Employee costs	(136)	(132)
Central support costs	(145)	(160)
Sundry costs	(5)	-
Tax and legal costs	(19)	(14)
Total oversight and governance costs	(547)	(736)
Total Management Expenses	(14,092)	(15,488)

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13. Analysis of Investment Income

	2022/23	2023/24
	£000	£000
Income from equities	18,335	6,758
Income from pooled investments (unit trusts and other managed funds including multi asset credit/fixed income)	2,756	4,523
Pooled property investments	8,784	9,054
Private equity, private debt (property debt and direct lending)	4,642	11,282
Infrastructure	1,996	5,280
Interest on cash deposits	3,268	1,741
Stock lending and other income	580	1,098
	40,361	39,736

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14. Investment Assets

14.1. Reconciliation of Movements in Investments and Derivatives

2023/24	Market	Purchases	Sales	Change	Market
Classifications	value	at cost	proceeds	in	value
	1 Apr 23	derivative	derivative	market	31 Mar 24
	£000	payments	receipts	value	£000
		£000	£000	£000	
Investment assets					
Equities	868,302	142,182	(145,920)	157,635	1,022,199
<u>Pooled investments</u>					
Unitised ins policies (equities, bonds, cash)	428,065	-	-	93,260	521,325
Unit trusts (equities)	-	-	-	-	-
Fixed income/multi asset credit	213,052	4,778	(503)	7,274	224,601
Unit trusts (property)	234,651	24,102	(18,315)	(7,010)	233,428
Hedge fund	138,862	-	(1,090)	18,861	156,633
<u>Venture capital and partnerships</u>					
Private equity	186,221	8,004	(14,218)	4,286	184,293
Property debt	53,757	27,432	(10,583)	1,963	72,569
Direct lending	74,471	12,574	(2,241)	2,082	86,886
Infrastructure	152,386	5,280	(675)	4,899	161,890
Currency forwards	-	-	-	-	-
Equity options	27,573	-	-	(20,356)	7,217
Total Investment assets	2,377,340	224,352	(193,545)	262,894	2,671,041
Investment liabilities					
Currency forwards	-	-	-	-	-
Equity options	(28,726)	-	-	(28,991)	(57,717)
Total investment liabilities	(28,726)	-	-	(28,991)	(57,717)
Net investment assets	2,348,614	224,352	(193,545)	233,903	2,613,324
Other investment balances					
Cash deposits	39,376			(468)	32,204
Investment income due	2,456			-	2,180
Amounts receivable for sales	329			-	3,411
Amounts payable for purchases	(1,137)			-	(1,413)
Total net investment assets	2,389,638			233,435	2,649,706

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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
<u>Pooled investments</u>					
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
<u>Venture capital and partnerships</u>					
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

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

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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.

2022/23			2023/24	
Market Value £000	% of Fund	Manager Analysis	Market Value £000	% of Fund
678,235	28.4	Baillie Gifford (UK and global equity)	784,399	29.6
204,723	8.6	Mirova (global equity)	255,883	9.7
121,883	5.1	Fidelity (bonds and gilts)	127,446	4.8
91,511	3.8	Robeco (corporate bonds)	97,220	3.7
430,983	18.0	Legal and General (unitised insurance - equity, bonds and cash)	470,826	17.8
252,293	10.6	Schroders (property fund)	244,391	9.2
138,862	5.8	Man Group (alternative risk premia hedge fund)	156,633	5.9
186,741	7.8	Partners Group (private equity)	187,572	7.1
26,430	1.1	Standard Life (private debt)	24,012	0.9
29,651	1.2	BentallGreenOak (property debt)	48,629	1.8
75,702	3.2	CVC (direct lending)	90,797	3.4
152,624	6.4	Infrastructure (KKR)	161,898	6.1
2,389,638	100.0	Combined Fund	2,649,706	100.0

14.3. Top 10 Equity Holdings by Market Value

Holding at 31 March 2024	Market Value £000	% of Total Equity	Classification
Microsoft	35,897	2.41	Software
Meta Platforms Inc	34,719	2.33	Software
Amazon	32,701	2.20	Broadline retail
Elevance Health	27,407	1.84	Health care providers & services
Moodys	24,242	1.63	Capital markets
Mastercard	20,205	1.36	Financial services
CRH plc equity	18,407	1.24	Construction materials
Service Corp International	17,562	1.18	Diversified consumer services
Alphabet	17,403	1.17	Interactive media and services
Prosus	17,354	1.17	Broadline retail
Total	245,897	16.53	

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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 2023	% of total net assets	Market Value at 31 March 2024	% of total net assets
	£000	%	£000	%
Legal and General (unitised insurance policy – equities, bonds, cash)	426,912	17.7	470,825	17.7
Mirova Global Sustainable Equity	204,721	8.5	255,883	9.6
KKR Diversified Core Infrastructure	152,386	6.3	161,890	6.1
Man Group Alternative Risk Premia	138,862	5.8	156,633	5.9
Fidelity (Institutional UK Sustainable Aggregated Bond)	121,879	5.1	127,442	4.8
Total net assets available for benefits	2,405,808		2,659,106	

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 £48.174m (31 March 2023 - £42.865m). 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 £50.619m (31 March 2023 - £44.942m) representing 105.1% of stock lent. Collateral consists of acceptable securities and government debt.

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

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The income from stock lending in 2023/24 was £0.049m (2022/23 £0.057m) 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 £1.098m (2022/23 £0.580m).

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 2024.

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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 23 £000	31 Mar 24 £000	
Assets						
UK equities	Dec 2025	Put	190	780	190	333
Overseas equities	Dec 2025	Put	3,493	26,793	3,493	6,884
				27,573		7,217
Liabilities						
Investment underlying option contract	Expires	Put/call	Notional holding	Market value		
				31 Mar 23 £000	31 Mar 24 £000	
UK equities	Dec 2025	Put	(190)	(277)	(190)	(94)
	Dec 2025	Call	(190)	(316)	(190)	(254)
Overseas equities	Dec 2025	Put	(3,493)	(9,980)	(3,493)	(2,131)
	Dec 2025	Call	(3,493)	(18,153)	(3,493)	(55,238)
				(28,726)		(57,717)
Net purchased/written options at 31 March 2024				(1,153)		(50,500)

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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 data.

Level 3

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

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

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

Description of Asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a quoted market value based on current yields	Not required	Not required

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

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Description of Asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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 2024.

Asset type	Value as at 31 Mar 2024 £000	Assessed valuation range %	Value on increase £000	Value on decrease £000
<u>Pooled investment vehicles</u>				
Units trust (property)	233,428	12.5%	262,607	204,250
<u>Venture capital and partnerships</u>				
Private equity	184,293	20.0%	221,152	147,434
Property debt	72,569	8.9%	79,028	66,110
Direct lending	86,886	7.6%	93,489	80,283
Infrastructure	161,890	14.5%	185,364	138,416

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Asset type	Value as at 31 Mar 2023	Assessed valuation range	Value on increase	Value on decrease
	£000	%	£000	£000
<u>Pooled investment vehicles</u>				
Units trust (property)	234,651	12.5%	263,982	205,320
<u>Venture capital and partnerships</u>				
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 2024	Quoted market price	Using observable input	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Equities	1,022,199	-	-	1,022,199
<u>Pooled investments</u>				
Unitised insurance policies (equities, bonds, cash)	-	521,325	-	521,325
Unit trust (equities)	-	-	-	-
Fixed income/multi asset credit	-	224,601	-	224,601
Unit trust (property)	-	-	233,428	233,428
Hedge fund	-	156,633	-	156,633
<u>Venture capital and partnerships</u>				
Private equity	-	-	184,293	184,293
Property debt	-	-	72,569	72,569
Direct lending	-	-	86,886	86,886
Infrastructure	-	-	161,890	161,890
Cash deposits	32,204	-	-	32,204

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Values at 31 March 2024	Quoted market price	Using observable input	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Investment income due	2,180	-	-	2,180
Amounts receivable for sales	3,411	-	-	3,411
Equity options	-	7,217	-	7,217
Currency forwards	-	-	-	-
Total investment assets	1,059,994	909,776	739,066	2,708,836
Investment liabilities				
Currency forwards	-	-	-	-
Amounts payable for purchases	(1,413)	-	-	(1,413)
Equity options	-	(57,717)	-	(57,717)
Total investment liabilities	(1,413)	(57,717)	-	(59,130)
Net investments total	1,058,581	852,059	739,066	2,649,706
Values at 31 March 2023	Quoted market price	Using observable input	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Equities	868,302	-	-	868,302
<u>Pooled investments</u>				
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
<u>Venture capital and partnerships</u>				
Private equity	-	-	186,221	186,221
Property debt	-	-	53,757	53,757

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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
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

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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 2023	234,651	74,471	186,221	53,757	152,386
Purchases during the year and derivative payments	24,102	12,574	8,004	27,432	5,280
Sales during the year and derivative receipts	(18,315)	(2,241)	(14,218)	(10,583)	(675)
Unrealised gains/(losses)	(7,971)	1,589	(5,279)	586	4,224
Realised gain	961	493	9,565	1,377	675
Market value 31 March 2024	233,428	86,886	184,293	72,569	161,890

	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

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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 2024	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	£000	£000	£000	£000
Financial assets				
Equities	1,022,199	-	-	1,022,199
<u>Pooled investments</u>				
Unitised ins policies (equities, bonds, cash)	521,325	-	-	521,325
Fixed income/multi asset credit	224,601	-	-	224,601
Unit trusts (property)	233,428	-	-	233,428
Hedge funds	156,633	-	-	156,633
<u>Venture capital and partnerships</u>				
Private equity	184,293	-	-	184,293
Property debt	72,569	-	-	72,569
Direct lending	86,886	-	-	86,886
Infrastructure	161,890	-	-	161,890
Currency forwards	-	-	-	-
Equity options	7,217	-	-	7,217
Amounts receivable for sales	-	3,411	-	3,411
Cash deposits	26,469	5,735	-	32,204
Investment income due	-	2,180	-	2,180
Long term debtors	-	417	-	417
Short term debtors	-	8,299	-	8,299
Bank	-	7,888	-	7,888
Total financial assets	2,697,510	27,930	-	2,725,440
Financial liabilities				
Currency forwards	-	-	-	-
Equity options	(57,717)	-	-	(57,717)
Amounts payable for purchases	-	-	(1,413)	(1,413)
Creditors	-	-	(7,204)	(7,204)
Total financial liabilities	(57,717)	-	(8,617)	(66,334)
Closing net financial assets	2,639,793	27,930	(8,617)	2,659,106

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31 March 2023	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	£000	£000	£000	£000
Financial assets				
Equities	868,302	-	-	868,302
<u>Pooled investments</u>				
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
<u>Venture capital and partnerships</u>				
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

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16.2. Net Gains and Losses on Financial Instruments

	2022/23	2023/24
	£000	£000
Financial assets		
Fair value through profit and loss	(82,883)	262,894
Amortised cost – unrealised gains	2,194	(468)
Financial liabilities		
Fair value through profit and loss	(19,369)	(28,991)
Total	(100,058)	233,435

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.

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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 2023/24 reporting period.

Asset type	Potential market	Potential market
	movement (+/)	movement (+/)
	2022/23	2023/24
Global Equities	-	18.0%
UK equities	19.0%	16.0%
Global equities (excluding UK)	18.0%	18.0%
UK fixed income unit trusts	10.0%	10.0%
Corporate bonds (medium term)	9.0%	9.0%
Overseas corporate bonds	9.0%	9.0%
UK fixed gilts (medium term)	11.0%	11.0%
UK index linked gilts (medium term)	9.0%	9.0%
Property	12.5%	12.5%

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Private Equity	25.0%	20.0%
Property Debt	7.7%	8.9%
Multi Asset Credit	10.2%	10.2%
Direct Lending	6.7%	7.6%
Alternative risk premia strategies	8.0%	8.0%
Infrastructure	14.5%	14.5%
Cash	0.0%	1.4%

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 2024 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash deposits	32,204	1.4	32,655	31,753
Cash (pooled funds)	122,887	1.4	124,607	121,167
<u>Pooled investments</u>				
UK equities	22,380	16.0	25,961	18,799
Global equities (overseas)	1,372,475	18.0	1,619,521	1,125,430
UK fixed income unit trusts	64,103	10.0	70,513	57,693
UK Corporate bonds (medium term)	41,801	9.0	45,563	38,039
Overseas Corporate bonds (medium term)	12,617	9.0	13,753	11,481
Fixed income multi asset credit	92,806	10.2	102,273	83,340
UK fixed gilts (medium term)	26,735	11.0	29,676	23,794
UK index linked gilts (medium term)	12,321	9.0	13,430	11,212
Unit trusts property	233,428	12.5	262,607	204,250
Hedge funds	156,633	8.0	169,164	144,102

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Asset type	Value as at 31 Mar 2024 £000	Percentage change %	Value on increase £000	Value on decrease £000
<u>Venture capital and partnerships</u>				
Private equity	184,293	20.0	221,152	147,434
Property debt	72,569	8.9	79,028	66,110
Direct lending	86,886	7.6	93,489	80,283
Infrastructure	161,890	14.5	185,364	138,416
Investment income due	2,180	0.0	2,180	2,180
Amounts receivable for sales	3,411	0.0	3,411	3,411
Net equity options (UK)	80	16.0	93	67
Net equity options (overseas)	(50,580)	18.0	(59,684)	(41,476)
Amount payable for purchases	(1,413)	0.0	(1,413)	(1,413)
Net currency forwards	-	0.0	-	-
Net investment assets	2,649,706		3,033,343	2,266,072

Asset type	Value as at 31 Mar 2023 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash deposits	39,376	0	39,376	39,376
<u>Pooled investments</u>				
UK equities	-	16.0	-	-
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
<u>Venture capital and partnerships</u>				
Private equity	186,221	25.0	232,776	139,666

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Asset type	Value as at 31 Mar 2023 £000	Percentage change %	Value on increase £000	Value on decrease £000
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

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 2024 and 31 March 2023 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	31 March 2023 £000	31 March 2024 £000
Cash and cash equivalents	39,376	32,204
Bank accounts	15,011	7,888
Legal & General fixed interest gilts	30,475	26,735
Legal & General index linked gilts	13,708	12,321
Fidelity and Robeco (fixed income)	213,052	224,601
Total	311,622	303,749

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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 2024	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£000	£000
Cash and cash equivalents	32,204	322	(322)
Bank accounts	7,888	79	(79)
Legal & General fixed interest gilts	26,735	267	(267)
Legal & General index linked gilts	12,321	123	(123)
Fidelity and Robeco (fixed income)	224,601	2,246	(2,246)
Total	303,749	3,037	(3,037)

Asset type	Carrying amount as at 31 March 2023	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£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)

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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 2024 and as at the previous period end.

Currency exposure – asset type	Asset value as at 31 March 2023 £000	Asset value as at 31 March 2024 £000
Overseas quoted securities and cash	833,142	1,005,291
Overseas unitised insurance policies	298,278	322,155
Overseas property fund	311	14
Overseas unquoted private equity	186,735	184,293
Overseas unit trust (bonds)	109,230	94,376
Overseas infrastructure	152,623	161,890
Total overseas assets	1,580,319	1,768,019

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.

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Currency exposure - asset type	Asset value 31 March 2024	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities and cash	1,005,291	1,135,979	874,603
Overseas unitised insurance policies (quoted in GBP no other values available)	322,155	364,035	280,275
Overseas property fund (EUR)	14	16	12
Overseas unquoted private equity (EUR)	184,293	208,251	160,335
Overseas unit trust (bonds)	94,376	106,645	82,107
Overseas infrastructure (USD)	161,890	182,936	140,844
Total change in assets available	1,768,019	1,997,862	1,538,176

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

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

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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 (Virgin Money) thus minimising credit risk. The Fund had the following cash holdings at the year end.

	31 March 2023	31 March 2024
	£000	£000
Northern Trust Global Investment liquidity funds	38,505	26,469
Northern Trust Cash deposits	871	5,735
	39,376	32,204

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

	31 March 2023	31 March 2024
	£000	£000
Virgin Money accounts	15,011	7,888

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, 2023/24 investment income was £39.7m (2022/23 investment income £40.3m), 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.

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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 2023/24 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 117). 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 2023 £m	31 March 2024 £m
Present Value of Promised Retirement Benefits*	1,971	2,201
Net Assets per Annual Accounts	2,406	2,659

* Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2023.

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Note that the above figures at 31 March 2023 and 31 March 2024 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 2024 figure reflects the proposed changes to the McCloud eligibility criteria in SPPA’s Consultation.

The Actuary estimates that the liability at 31 March 2024 is £2,201m which comprises of £933m in respect of employee members, £353m in respect of deferred pensioners and £915m 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 2024 is to decrease the actuarial present value by £78m. The Actuary also estimates that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £27m.

Financial Assumptions	31 March 2023	31 March 2024
	%p.a.	%p.a.
Inflation/Pension Increase Rate	2.95	2.80
Salary Increase Rate	3.75	3.60
Discount Rate	4.75	4.80

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 2024 follows the same principles to those adopted at 31 March 2023 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,

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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.

	2023/24		2022/23	
	Males	Females	Males	Females
Current Pensioners	20.7 years	23.5 years	20.4 years	23.1 years
Future Pensioners*	21.6 years	25.1 years	21.6 years	25.0 years

*Currently aged 45

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19. Additional Voluntary Contributions (AVCs)

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

The audited value of Prudential AVCs at 31 March 2024 is £11,434,919 (2022/23 £10,100,264) and AVC contributions of £2.421m were paid directly to Prudential during the year.

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 £3.5m.

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.

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The Councillors, who are members of the Pensions 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 2024.

Name	Responsibility	Pension contributions in year to		Accrued pension benefits as at		Difference in accrued pension benefits compared to Mar 2023
		31/03/23	31/03/24	31/03/24		
Brian Porter	Chief Officer, Corporate Finance Finance and Resources	£16,609	£19,546	Pension Lump sum	£41,481 £44,126	-

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 £42.678m were paid by the Highland Council to the Fund during 2023/24 as set out in Note 8 (£39.775m in 2022/23) and central administration costs of £1.303m (£1.557m in 2022/23) 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 2024, the Pension Fund had a net intercompany debtor of £5.084m (31 March 2023 £4.622m) 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 2024/25. The intercompany debtor is included in Note 23).

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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 £0.998m (€0.849m). There was repayment of a French tax claim for the period 2006-2009 (£0.591m) which is included in Note 13 Analysis of investment income note.

Contingent liabilities

- As at 31 March 2024 there is a contingent liability of £0.792m (£0.687m in 2022/23) for frozen refunds representing 2,481 (2,328 in 2022/23) frozen refund records. Frozen refunds are where member can delay their decision on what to do if they have been in scheme less than 2 years and they have a maximum period of 5 years after leaving to make their decision. The two options are either to claim a refund of contributions or transfer to a new pension arrangement. <https://www.highlandpensionfund.org/help-support/leave-the-scheme>

Contractual commitment

As at 31 March 2024 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 31/03/2023	Undrawn commitments 31/03/2024
Partners Group Global Value 2011	€50.000m	£6.138m (€6.986m)	£5.972m (€6.986m)
Partners Group Global Value 2014	€80.000m	£8.971m (€10.209m)	£8.728m (€10.209m)
Partners Group Global Value 2017	€67.000m	£16.217m (€18.456m)	£15.779m (€18.456m)
Partners Group Direct Equity IV EUR SCA SICAV RAIF (2019)	€55.000m	£8.409m (€9.570m)	£6.066m (€7.095m)

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Investment	Commitment	Undrawn commitments 31/03/2023	Undrawn commitments 31/03/2024
Partners Group 2020	€20.000m	£9.701m (€11.040m)	£7.158m (€8.373m)
Partners Group Direct Equity V EUR SCA SICAV RAIF (2023)	€29.000m	Nil	£21.282m (€24.893m)
Partners Group Secondary VIII EUR SCA SICAV RAIF (2023)	€29.000m	Nil	Nil
CVC European Direct Lending 2021 fund	£100.000m	£29.044m	£18.218m
BentallGreenOak Secured Lending III	£100.000m	£69.389m	£50.785m
KKR Diversified Core Infrastructure	\$175.000m	£7.347m (\$9.084m)	Nil

23. Current Assets

2022/23	Debtors	2023/24
£000		£000
1,457	Contributions due - employees	1,411
4,257	Contributions due - employers	4,708
73	Strain on fund costs	30
967	Other short term debtors	2,150
6,754	Total short term debtors	8,299
15,011	Bank accounts	7,888
21,765	Total current assets	16,187

24. Long Term Debtors

2022/23	Debtors	2023/24
£000		£000
-	Long term debtors	-
351	Reimbursement of lifetime tax allowances	417
351	Total long term debtors	417

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25. Current Liabilities

2022/23	Creditors	2023/24
£000		£000
(3,212)	Sundry creditors	(3,447)
(727)	Transfer values payable (leavers)	(636)
(2,009)	Benefits payable	(3,121)
(5,948)	Total short term creditors	(7,204)

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Actuarial Statement as at 31 March 2024

Aithris Achdaireach mar aig 31 Màrt 2024

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 Statement (FSS), dated April 2024. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants;
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency;
- where appropriate, ensure stable employer contribution rates;
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy; and
- use reasonable measures to reduce the risk of 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 return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. 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 75% chance that the Fund will return to full funding over 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 2014 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £2,406 million, were sufficient to meet 136% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £633 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 2024 to 31 March 2027 were set in accordance with the Fund's funding policy as set out in its FSS.

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Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2023 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 2023 valuation were as follows:

Financial assumptions	31 March 2023
Discount rate	5.2%
Salary increase assumption	3.1%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.7 years	23.5 years
Future Pensioners*	21.6 years	25.1 years

*Currently aged 45

Copies of the 2023 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2023

Markets reflected wider volatility during 2023, impacting on investment returns achieved by the Fund's assets. Continued high levels of inflation in the UK also resulted in a higher than expected LGPS benefit increase of 6.7% in April 2024. However, asset performance has

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improved towards the end of 2023 and into 2024 and inflation has begun to return towards historical levels and the Bank of England's target (2% pa). Overall, the funding level of the Fund is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023. The next actuarial valuation will be carried out as at 31 March 2026. The FSS will also be reviewed at that time.

The next actuarial valuation will be carried out as at 31 March 2026. The FSS will also be reviewed at that time.

Barry Dodds FFA

For and on behalf of Hymans Robertson LLP

18 June 2024

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Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's trustees.
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members . There will be an Admission Agreement setting out the employer's obligations.
Common contribution rate	The Fund-wide future service rate plus past service adjustment . It should be noted that this will differ from the actual contributions payable by individual employers .
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Currency forwards	A currency forward contract is essentially a hedging tool that does not involve any upfront payment. It locks in the exchange rate for the purchase or sale of a currency on a future date. It can be tailored to a particular amount and delivery period, unlike 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

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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 (£4.772m for financial year 2023/24 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

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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.

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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

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	<p>pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.</p>
Rates and Adjustments Certificate	<p>A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.</p>
Scheduled Bodies	<p>Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).</p>
Securities Lending	<p>Securities lending is the act of loaning a stock, derivative or other security to an investor or firm. Securities lending requires the borrower to put up collateral, whether cash, security or a letter of credit. When a security is loaned, the title and the ownership are also transferred to the borrower.</p>
Solvency	<p>In a funding context, this usually refers to a 100% funding level, i.e. where the assets value equals the liabilities value.</p>
Stabilisation	<p>Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.</p>
Theoretical contribution rate	<p>The employer's contribution rate, including both future service rate and past service adjustment, which would be calculated on the standard actuarial basis, before any allowance for stabilisation or other agreed adjustment.</p>
Underwriting	<p>Securities underwriting is the process by which investment banks raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt capital). The services of an</p>

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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 2023) 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.

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