Item: 16

Pension Fund Sub-committee, together with Pension Board:
16 November 2022.

1. Recommendations

It is recommended:

1.1.

That the Committee approves the attached minute as a true record.

2. Appendix

Draft Minute of the Meeting of the Pension Fund Sub-committee, together with the Pension Board, held on 16 November 2022.

Minute

Pension Fund Sub-committee, together with Pension Board

Wednesday, 16 November 2022, 09:30.

Council Chamber, Council Offices, School Place, Kirkwall.

Present

Pension Fund Sub-committee:

Councillors Heather N Woodbridge, P Lindsay Hall, Steven B Heddle, Kristopher D Leask, James W Stockan and Mellissa-Louise Thomson.

Pension Board:

Employer Representatives:

Councillors Graham A Bevan, James R Moar and Owen Tierney, Orkney Islands Council.

Trade Union Representatives:

Karen Kent (Unison), Eoin Millar (Unite) and Eileen Swanney (Unison).

Clerk

- Sandra Craigie, Committees Officer.

In Attendance

- Gareth Waterson, Corporate Director for Enterprise and Sustainable Regeneration.
- Erik Knight, Head of Finance.
- Shonagh Merriman, Service Manager (Corporate Finance).
- Paul Maxton, Solicitor.

Audit Scotland:

- Gillian Woolman, Audit Director.
- Claire Gardiner, Senior Audit Manager.

In Attendance via remote link (Microsoft Teams)

Hymans Robertson:

- David Walker, Partner.

Observing

- Katie Gibson, Team Manager (Corporate Finance).
- Karen Rorie, Senior Accounting Officer (Treasury).

Apology

Pension Fund Sub-committee:

- Councillor Rachael A King.

Not Present

Pension Board:

Trade Union Representatives:

- Mark Vincent (GMB).

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor Heather N Woodbridge.

1. Disclosure of Exempt Information

The Sub-committee noted the proposal that the public be excluded from the meeting for consideration of Item 6 as the business to be discussed involved the potential disclosure of exempt information of the classes described in the relevant paragraphs of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

2. Orkney Islands Council Pension Fund

Audit Report to those charged with Governance

After consideration of a report by the Corporate Director for Enterprise and Sustainable Regeneration, copies of which had been circulated, and after hearing a report from the Audit Director, Audit Scotland, the Sub-committee:

Noted:

2.1. That Audit Scotland, as the Council’s external auditors, had concluded their audit of the Orkney Islands Council Pension Fund’s Annual Report and Accounts for the year ended 31 March 2022.

2.2. That Audit Scotland had provided an unmodified certificate on the Pension Fund’s Annual Report and Accounts for the year ended 31 March 2022.

2.3. That the draft audit certificate stated that the accounts had been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

2.4. That, during the course of the audit, a number of presentational, consistency and disclosure errors were identified within the financial statements, which had been adjusted in the final accounts.

2.5. That no material weaknesses in the accounting and internal control systems relating to the Pension Fund were identified during the audit.

2.6. Audit Scotland’s covering letter in respect of the Orkney Islands Council Pension Fund’s Annual Accounts for 2021/22, attached as Appendix 1 to the report by the Corporate Director for Enterprise and Sustainable Regeneration.

2.7. Orkney Island’s Council’s Letter of Representation to Audit Scotland in connection with its audit of the financial statements of Orkney Islands Council Pension Fund for the year ended 31 March 2022, attached as Appendix 2 to the report by the Corporate Director for Enterprise and Sustainable Regeneration.

2.8. The Annual Audit Report to Members of the Pension Fund Sub-committee and the Controller of Audit, attached as Appendix 3 to the report by the Corporate Director of Enterprise and Sustainable Regeneration.

Karen Kent joined the meeting during discussion of this item.

3. Pension Fund – Annual Accounts

After consideration of a report by the Corporate Director for Enterprise and Sustainable Regeneration, copies of which had been circulated, and after hearing a report from the Head of Finance, the Sub-committee:

Noted:

3.1. The requirement, in terms of the Local Authority Accounts (Scotland) Regulations 2014, for a local authority, or a committee of the authority, whose remit included audit or governance functions, to consider and approve the audited Annual Accounts for signature no later than 30 September immediately following the financial year to which the accounts relate.

3.2. That, in terms of the Coronavirus (Scotland) Act 2020, the deadline for publication of final accounts could be extended by two months, if required, from 31 October 2022 to 15 December 2022.

3.3. That, if approved, the signed Annual Accounts, together with an appropriate audit certificate, would be published by 30 November 2022.

3.4. The Management Commentary, contained in pages 1 to 13 of the Annual Report and Accounts of the Orkney Islands Council Pension Fund, attached as Appendix 1 to the report by the Corporate Director for Enterprise and Sustainable Regeneration, which provided an overview of the most significant matters reported in the Annual Accounts for financial year ended 31 March 2022, with the key facts and figures summarised at section 4.3 of the report by the Corporate Director for Enterprise and Sustainable Regeneration.

On the motion of Councillor Heather N Woodbridge, seconded by Councillor James W Stockan, the Sub-committee resolved, in terms of delegated powers:

3.5. That the Annual Report and Accounts of the Orkney Islands Council Pension Fund 2021/2022, attached as Appendix 1 to this Minute, be approved.

4. Revenue Expenditure Monitoring

After consideration of a report by the Head of Finance, copies of which had been circulated, the Sub-committee:

Noted:

4.1. The revenue financial summary statement, in respect of service areas for which the Pension Fund Sub-committee was responsible, for the period 1 April to 30 September 2022, attached as Annex 1 to the report by the Head of Finance, indicating a budget deficit position of £39,837,800.

4.2. The revenue financial detail by service area statement, in respect of service areas for which the Pension Fund Sub-committee was responsible, for the period 1 April to 30 September 2022, attached as Annex 2 to the report by the Head of Finance.

The Sub-committee scrutinised:

4.3. The explanations given and actions proposed, in respect of significant budget variances, as outlined in the Budget Action Plan, attached as Annex 3 to the report by the Head of Finance, and obtained assurance that action was being taken with regard to significant budget variances.

5. Statement of Investment Principles

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Corporate Finance), the Sub-committee:

Noted:

5.1. The requirement of the Council, as administering authority for the Orkney Islands Council Pension Fund, to review the Statement of Investment Principles at least every three years.

5.2. That the Statement of Investment Principles, which set out a number of detailed investment principles for achieving the prime objective of the Pension Fund, namely to be able to meet employers’ pension liabilities into the future, as set out in the Funding Strategy Statement, were last reviewed and updated on 26 February 2020.

5.3. That the Fund’s Investment Strategy and Manager structure was formally reviewed in 2021, following completion of the 2020 actuarial valuation, and provided assurance that the interim and long-term strategies remained appropriate in the context of the Fund’s long-term objectives.

5.4. That the Statement of Investment Principles had been reviewed and revised to reflect asset risks associated with Environmental, Social and Governance issues, as well as Climate Change, and how those risks were managed.

5.5. That the Statement of Investment Principles had also been updated to reflect the Fund Manager appointments made since the last review in February 2020 and showed the long-term targets for funds held by each Fund Manager under each asset class.

The Sub-committee resolved, in terms of delegated powers

5.6. That the Statement of Investment Principles, including the Statement of Compliance with the Chartered Institute of Public Finance and Accountancy Principles, attached as Appendix 2 to this Minute, be approved.

6. Statement of Managed Pension Funds

On the motion of Councillor Heather N Woodbridge, seconded by Councillor James W Stockan, the Sub-committee resolved that the public be excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Corporate Finance), the Sub-committee:

Noted:

6.1. The investment monitoring report for the Pension Fund produced by Hymans Robertson, the Council's appointed investment advisor, attached as Appendix 1 to the report by the Head of Finance, relating to the performance of managed funds for the quarter to 30 September 2022.

6.2. That the Pension Fund investments returned a loss of £4,800,000, or minus 1.3% over the quarter to 30 September 2022, which was 0.3% behind benchmark and was considered poor.

6.3. That the value of the Pension Fund had decreased by 18.5% over the 12-month period to 30 September 2022, which was 15.2% behind benchmark over that period and was considered very poor.

6.4. That an average return of 4.5% per annum for the Pension Fund remained positive but was marginally behind the benchmark over the five-year period and therefore behind target, which was to outperform the aggregate benchmark.

6.5. The Governance Summary extracted from Baillie Gifford's investment report for the quarter ending 30 September 2022, attached as Appendix 2 to the report by the Head of Finance.

6.6. The extract from IFM Global Infrastructure's quarterly investor report, showing the responsible investment update for the quarter ending 30 September 2022, attached as Appendix 3 to the report by the Head of Finance.

6.7. The Corporate Governance Summary extracted from Legal and General's investment report for the quarter ending 30 September 2022, attached as Appendix 4 to the Head of Finance.

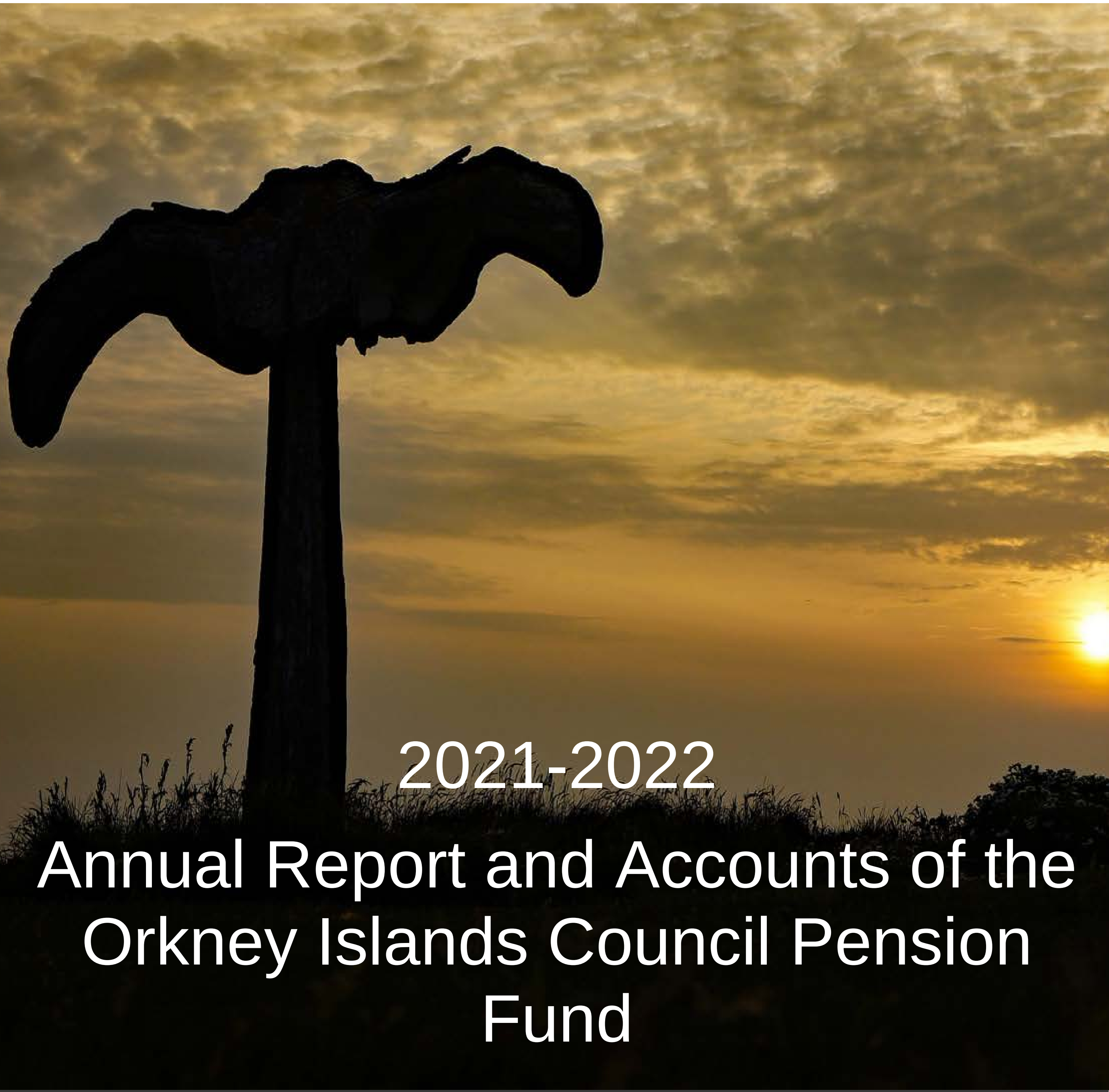
7. Conclusion of Meeting

At 10:33 the Chair declared the meeting concluded.

Signed: H N Woodbridge.

Appendix 1

ORKNEY
ISLANDS COUNCIL



2021-2022

Annual Report and Accounts of the Orkney Islands Council Pension Fund

www.orkney.gov.uk

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Management Commentary

Introduction

Welcome to the Annual Report and Accounts for the Orkney Islands Council Pension Fund for the year ended 31 March 2022.

The Local Government Pension Scheme (Scotland) Regulations 2018 require the Council, as administering authority for the Fund, to produce a separate statement of accounts for the Pension Fund and incorporate it into an Annual Report.

This Annual Report has been produced to provide Elected Members, employers, scheme members and other interested parties with information concerning the administration and performance of the fund for financial year 2021-2022 and we hope you find its content useful.

To assist in the understanding of the Annual Report and Accounts we would encourage you to make reference to the Management Commentary in the first instance.

We realise that pensions are a highly complicated subject. It is, however, important that scheme members take the time to try and understand the scale of benefits that they will receive when they retire - whether this is from the Local Government Pension Scheme itself or through other pension arrangements, such as the State Pension.

Overview of Fund Business

Under the statutory provisions of the Local Government Pension Scheme, Orkney Islands Council is designated as an “Administering Authority” and is required to operate and maintain a pension fund – the Orkney Islands Council Pension Fund (“the Fund”).

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. Contributions to the Fund are made by employee members and by participating employers. The Fund also receives income from its investments, which include equities and pooled investment vehicles.

The Fund operates under the terms of the Local Government Pension Scheme, which is a public sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not eligible to join another public sector pension scheme. Teachers are not included as they have a separate national pension scheme.

Review of the Year

Key Facts and Figures:
Value of the Fund at 31 March 2022 was £508.5 million (£520.8m at 31 March 2021).
An Operational and Investment Income Loss of £12.3 million was incurred on the activities of the fund (compared to a surplus of £144.3m for the year ended 31 March 2021).
The decrease in fund value over the year was largely the result of a decrease in the market value of investments of £19.6m. Outflows, including benefits payable (£9.2m) and management expenses (£2.7m) were offset by investment income of £8.0m and contributions receivable of £11.1m. Overall, this represents a year-on-year decrease of 2.4% in the value of the fund.
Performance of the Fund on a three-year rolling average basis has been 8.8% p.a., giving a relative return below benchmark of 0.6%.
Fund membership increased by 172 to 4,339.
Employers contributed £8.2 million to the Fund (£7.8m to 31 March 2021).
Employees contributed £2.9 million (£2.8m to 31 March 2021).
Pension and other benefits paid out were £9.2 million (£8.6m to 31 March 2021).
Transfer values paid into the Fund because staff changed employers was £0.8 million (£0.6m to 31 March 2021).
Transfer values out of the Fund because staff changed employers was £0.7m (£2.1m to 31 March 2021).

In a challenging year throwing up many headwinds, the Fund returned -2.4%.

The main contributor of this total return figure was Baillie Gifford's Global Alpha Fund which returned -7.1% over the year. Positive absolute returns over the first three quarters were offset by underperformance over the last 3 months, driven by shifting market sentiment from growth to value-orientated stocks and in particular positioning within the technology sector.

The UK equity holding with Baillie Gifford fared better from an absolute perspective, with the market benefiting from its more natural value bias due to its sectoral composition (above average exposure to energy, metals, and financials). That said, performance was still subdued with a return of 0.5% over the financial year by the end of March 2022.

Performance from the two multi asset investments with Baillie Gifford, the Diversified Growth Fund and the Multi-asset Growth Fund was positive despite significant drawdowns over the last 3 months when the funds equity investments (over 20% of holdings) weighed on returns. 12-month returns were 3.8% and 1.2% respectively.

The Fund's gilts holdings (fixed-interest and index-linked) had contrasting experiences. The rising interest rate environment proved a struggle for the fixed interest holdings resulting in a 12 month return of -5.1%. The Fund’s index-linked gilt holdings however benefitted from rising inflation expectations, where increased demand for inflation protection benefitted valuations. The passively held holdings with Legal and General Investment Management (LGIM) were the best performing asset for the Fund in absolute terms over the period with a return of 4.8%.

As at 31 March 2022, the Fund’s investments in infrastructure (via IFM) and Private Debt (via Barings) remain relatively recent additions. In future years it will be more appropriate to comment on performance.

The benchmark return of 9.6% generally reflects variable market conditions for investors over the 12 months to 31 March 2022.

The table shown within the Investment strategy section, page 5, details the allocation of the fund within asset class or pooled investment vehicle.

The value of the fund decreased by £12.3m or 2.4% in the financial year and totalled £508.5m at 31 March 2022.

The change in value of the fund over any given period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of its investments. During the year, a loss on member contributions receivable and transfers in over pension payments and management expenses of £0.7m (2021: £1.8m loss) was offset by income from dividends and interest of £8.0m (2021: £5.8m). The fund was further reduced by a net capital loss of £19.6m (2021: £140.2m gain).

The Accounts are based on the market value of investments at 31 March 2022. This means that they include the profit or loss that has been made, due to the change in the value of investments, over the period from the date of their purchase to 31 March 2022 even though no actual sale has taken place. This notional value is defined as "unrealised” profit or loss. By contrast “realised” profits and losses are those that have arisen from actual sales throughout the year. Of the net capital loss of £19.6m in the year, £53.4m was an unrealised loss (2021: £110.7m gain) and £33.9m (2021: £29.5m) realised profit.

After allowing for projected liabilities on the fund, the funding level has decreased to 137% at 31 March 2022 from its value of 146% last financial year end, calculated on an ongoing funding basis. The outlook for future returns has improved however this has been more than offset by an increase to future inflation expectations.

We are pleased to report that the Fund maintains a position above its 100% funding target, being in surplus by £137m at the financial year end (2020/2021: £165m) according to the actuary’s most recent funding update.

Economic and Market Background

Global GDP rose rapidly over the 2021/2022 financial year as major economies moved towards a more permanent easing of pandemic restrictions; however, momentum started to ease towards the end of the period. Physical disruptions and sanctions caused by the Russia-Ukraine conflict triggered broad commodity price rises which, alongside existing inflationary pressures, increased input costs and weighed on consumer’s real incomes. As a result, CPI inflation forecasts reached new highs while consensus forecasts for global growth were revised downwards. That said they still point to a relatively robust pace of growth over 2022 and 2023 by post-Global Financial Crisis standards.

One of the main talking points coming out of 2021/2022 from an economic perspective was inflation. Soaring energy costs pushed headline inflation higher, but core inflation, which excludes volatile energy and food costs, also rose and is running at a 30-year high. UK and US headline CPI inflation increased to 7.0% and 8.5% year-on-year, respectively in March.

The inflation backdrop saw central banks turn more hawkish over the period, despite the potential downside risks to growth from higher commodity prices. After a first hike in December, the Bank of England raised rates twice in Q1, to 0.75% p.a., and, as expected, the US Federal Reserve raised rates by 0.25% p.a. in March, with the median voting member now expecting seven rate rises in 2022 and four in 2023. The European Central Bank confirmed its asset purchases will end this year, leaving the door open to an interest rate rise, while the Federal Reserve System noted plans to reduce the size of its balance sheet.

Despite a tightening stance from central banks and a weakening outlook towards the end of the period, the economic and earnings recovery supported a 9.1% return from global equities over 2021/2022. Amid surging oil and gas prices, the energy sector notably outperformed whilst commodity price rises also benefitted basic materials. Rising yields benefitted the financial sector whilst rising input costs and a squeeze on real incomes weighed on the industrial and consumer discretionary sectors, respectively.

Within fixed income markets, government bond yields rose in line with the recovery in growth and inflation expectations, with 10-year government bonds rising 0.8% p.a., to 1.6% p.a. Global investment-grade credit spreads rose 0.3% p.a. and European high yield bond spreads rose 0.9% p.a., while their US counterparts were little changed: the larger rise in European credit spreads perhaps reflecting expectations of a larger negative impact from the Russia-Ukraine conflict.

On a regional basis, the US led performance rankings due to strong performance in the first three quarters of the period. The UK also outperformed, particularly in the last quarter, benefitting from above-average exposure to energy, metals, and miners. On the other hand, Emerging Market equities were the worst performing region, pulled lower by weak performance from China, where announcements of tighter regulation were compounded by a slowdown in Chinese property and manufacturing sectors, and high energy prices.

The improved outlook for the majority of the 2021/2022 financial year has proved supportive to the UK commercial property market. There was an 18.0% rise in the Morgan Stanley Capital International (MSCI) UK IPD capital value index over the preceding 12-month period to 31 March 2022, which can mainly be attributable to the buoyant industrials sector. It continued to set record highs with capital values rising by 36.8% over the period, the sector’s strongest annual return to date. Return on the all-property index, including income, was 23.9% in the 12 months to 31 March 2022.

From an investment perspective, above-trend growth is still forecasted and though inflation may not be expected to be a long-term problem, even if exacerbated by the Russia-Ukraine conflict, it will likely be higher for longer. Amidst this backdrop, central banks are likely to continue raising rates. The potential impact of inflation and energy prices on real consumer incomes increases the downside risks for growth.

In respect of equities, valuations for global markets, in aggregate, remain expensive relative to history with cyclically adjusted price-to-earnings (P/E) ratios for the MSCI World Index well above long-term median levels. This picture varies greatly by region and sector with UK and Emerging Market equities looking particularly cheap, whilst the US continues to look stretched. Earnings growth in 2022 will inevitably slow sharply from an expected 54% in 2021, but demand and revenue growth remain strong and there is evidence that businesses expect to be able to pass on most of their higher costs. Nevertheless, there are risks, and the inflationary backdrop may favour sectors that benefit from more inelastic demand and greater industry concentration, both of which are key in maintaining pricing power and margins.

Turning to fixed income instruments, sovereign bond yields have risen to reflect a faster path of interest-rate rises, and the risk of higher inflation is increasingly balanced by the risk that a faster-than-expected slowdown eases current price pressures. Uncertainty and risk to the inflation outlook may provide near-term support to index-linked gilts, but the very low level of real yields undermines their relative appeal on a longer-term view. Spreads have also risen across credit markets. A view can be held that investment-grade markets offer better value at present than speculative-grade markets, where spreads may still not adequately reflect increased downside risk. Nevertheless, despite improved valuations in bond and credit markets, the potential impact of high and more persistent inflation on real returns could provide material headwinds over the upcoming period.

Investment Strategy

The Investment Strategy of the Fund is to invest monies in a prudent and diversified manner, in accordance with the Scheme regulations and in recognition of the inherent risks that accompany any investment in the respective asset classes. The strategy is set out in the Statement of Investment Principles which can be viewed on request.

A revised investment strategy was approved in February 2019. The process of transitioning to the revised strategy started during 2019 with the selection, appointment, and onboarding of new fund managers. Although the transition of investments was subsequently delayed in Quarter 1 2020 due to the impact of COVID-19 on the financial markets, significant steps have been taken towards the Fund’s interim-target allocation during the year. The revised asset allocation and range guidelines were applied with effect from December 2019 and are shown in the Asset Allocation table below together with the actual asset allocation at 31 March 2022.

Asset Class	Asset Allocation at 31/03/2022	Range Guideline	Fund Specific Benchmark
	%	%	%
Growth			
UK Equities	9.3	41-61	8.0
Overseas Equities	50.0		43.0
Global Pooled - Diversified/Multi-Asset Growth	22.2	14-34	24.0
Income			
Infrastructure Credit	4.2	0-20	5.0
Private Debt	5.1		5.0
Protection			
UK Gilts	4.2	5-25	7.5
UK Index-Linked Gilts	4.4		7.5
Cash	0.6	0-10	0.0
Total	**100.00**		**100.0**

The Fund has acted to reduce its holdings in growth–seeking assets in favour of funding a new allocation to income generating assets as part of a strategy to further diversify the Fund's investments. Nevertheless, holdings in equities still account for 59.3%, with indirect holdings in Diversified Growth and Multi-Asset Growth pooled funds accounting for a further 22.2% of the Fund's portfolio as at 31 March 2022. The remaining 18.5 is held in Infrastructure Credit, Private Debt, Bonds and Cash at 4.2%, 5.1%, 8.6% and 0.6% respectively.

Along with new allocations to infrastructure equity and private debt, other changes included an increase in the bonds allocation which is now managed on a passive basis. These changes are intended to reduce the risk profile of the fund and will be matched by a proportionate reduction in growth assets.

As a result of its exposure to equities, the relative performance of the Fund against its benchmark can be volatile over the short term. However, the fund continues to have a strong funding position together with a net contribution from its dealings with members which allows it to take a long-term view across successive investment cycles.

The top 10 direct equity holdings within the fund at 31 March 2022 were:

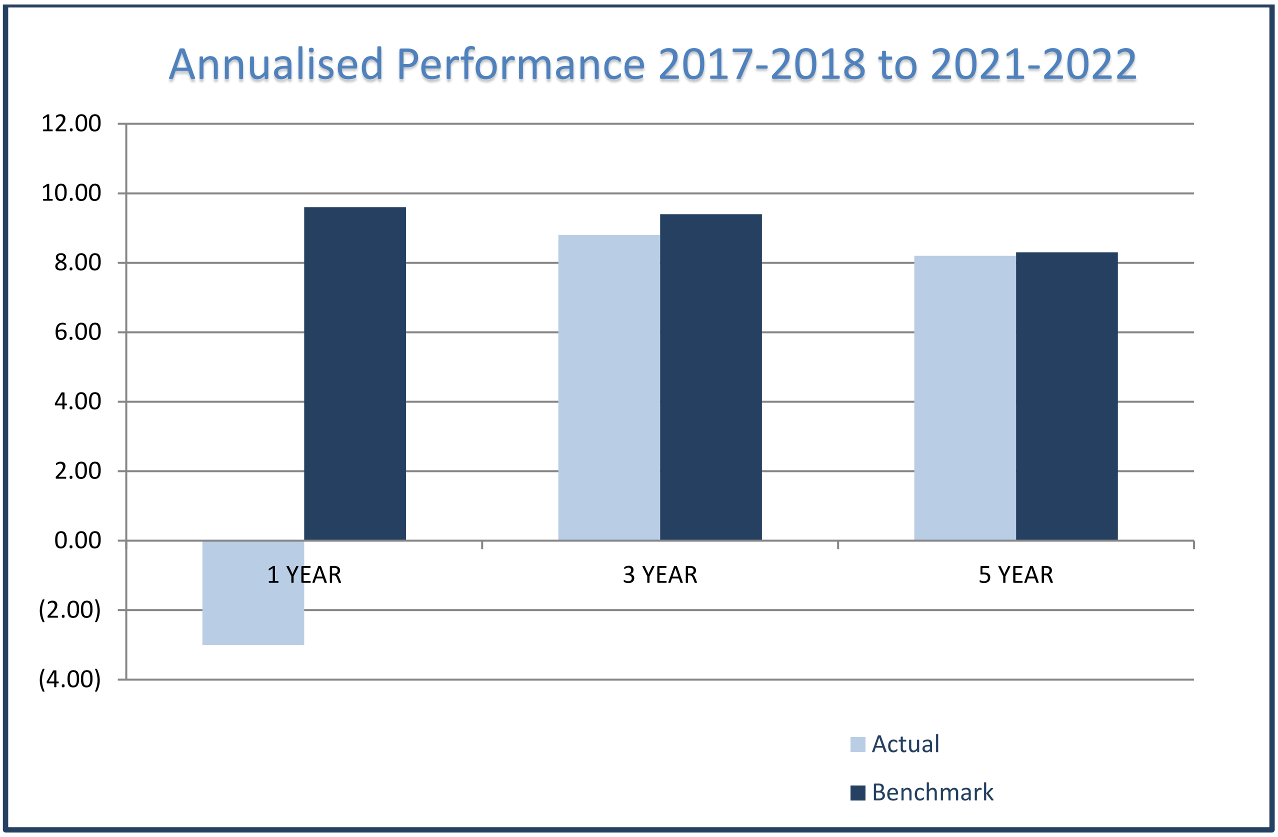
Company	Market Value of Holding £m
Baillie Gifford Multi Asset Growth Fund C Acc*	62.6
Baillie Gifford Diversified Growth Fund C Acc*	50.2
Anthem Inc	9.1
Alphabet Inc Class C	8.0
Microsoft	7.9
BHP Group Ltd – DI	7.6
Moody's	7.5
Martin Marietta Materials	7.1
Reliance Inds, GDR	6.7
Rio Tinto	6.4

* Capital Accumulated.

Investment Performance

The performance of the Pension Fund managed investments has been measured against a bespoke or fund specific benchmark since the 1 April 2017, following the closure of the previous peer group benchmark, and reflects the weighting or concentration of individual asset classes within the approved investment strategy. The benchmark is maintained by Hymans Robertson. A revised investment strategy was approved in February 2019 and included principally new allocations to infrastructure equity and private debt, funded by a further reduction in the Fund's exposure to equities. The weightings of the fund specific benchmark were subsequently amended in December 2019 to reflect the revised investment strategy and signalled the start of the process to transition the Fund's investments to the new strategy. The Fund's performance target for this accounting period is to outperform the fund specific benchmark measured over a rolling 5-year period. The average performance over the last 5 years of 8.2% is slightly behind the benchmark of 8.3%.

The following graph summarises investment performance on an annualised basis over 1, 3 and 5-year periods.



Structure of Administration

Staffing

Administration of the Scheme is carried out in-house and undertaken by the Payroll and Pensions section within Orkney Islands Council's Enterprise & Sustainable Regeneration Service.

The Pensions team within the Payroll and Pensions section has 4.0 full time equivalents, consisting of one full time Service Manager, one full time Senior Assistant, two part time Senior Assistants and an Administrative Assistant. In addition to maintaining scheme members' records using data supplied by all Fund employers, the Pensions team also provides frontline services to scheme members. As well as answering telephone calls and responding to electronic and written correspondence, meetings are provided where requested.

The staff resources detailed above are supplemented by shared staff resources within the Enterprise & Sustainable Regeneration Service, providing additional governance, payments, investment, and accounting expertise. In addition, the Human Resources and service, within Orkney Islands Council's Strategy, Performance & Business Solutions Service also supports the work of the Pension section by arranging pre-retirement workshops for scheme members who are within two years of retirement.

Systems

Scheme members' records are maintained on Aquila Heywood's pensions administration system known as Altair. Every current and former employee of Fund employers, including Orkney Islands Council, who has a pension entitlement in the Fund is included in the Altair system.

The Council's ResourceLink Payroll system is used to pay pensioner benefits. The Pensions team is restricted to read only access of the payroll system, with amendments being made to pensioner records via a formal request process to the Payroll team.

Administration Performance

Orkney Islands Council as administering authority is committed to providing a high-quality pension service to both members and employers and ensuring members receive their correct pension benefits entitlement.

Administration performance figures are monitored by the Pension Fund for financial year 2021-2022, against the key service standards set by the Pension Fund Sub-committee, as follows:

Category	Performance Standard – No of Working Days	Number of records processed within standard	Number of records processed Outwith standard	Percentage of records processed within standard	Prior Year Performance
New Entrant Information	10	244	0	100.0%	100.0%
Leaver Information	10	166	0	100.0%	100.0%
Deferred Benefit Information	1 Month	109	0	100.0%	95.7%
Pension Estimates	10	120	4	96.8%	92.8%
Retirements	5	89	0	100.0%	100.0%
Transfers In	10	34	2	94.4%	100.0%
Transfers Out	10	5	0	100.0%	100.0%
Refunds	5	11	2	84.6%	94.1%

Fund Update

Membership details are shown below along with a short description for each membership status:

Membership	2020-2021	2021-2022
Contributing members	2,071	2,126
Pensioners	1,103	1,161
Deferred members	993	1,052
Total	**4,167**	**4,339**

Contributing Member	Someone who is currently employed by a scheduled or admitted body and is making contributions from their pay to the Pension Scheme. Such a person is referred to as an "active" member.
Deferred Member	Someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.
Pensioner/Dependent Member	Someone who is receiving benefits from the Fund either as a former contributor or as a dependant of a former contributor who has deceased.

Employer Bodies

The Fund invested and administered pensions on behalf of 5 current and former employers during financial year 2021-2022. These include scheduled bodies, brought into the Fund by legislation, and admitted bodies, which chose to join the Fund. The detailed listing of employers and their membership numbers is contained in Note 27 of the Annual Report and Accounts for the Fund.

Pension Increases

Pensions which are in payment and deferment are increased each April in accordance with the Pension (Increase) Act 1971. Since April 2011, this increase has been linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

Actuarial Valuation

Annex 2 contains the formal Actuarial Statement for financial year 2021-2022 which is prepared in line with International Accounting Standard (IAS) 26 and supports the preparation of the Financial Statements for the Pension Fund.

The last triennial valuation, as at the 31 March 2020, calculated that the Fund's assets were valued at £377m, and were sufficient to meet 118.0% of the liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. This compared with 113% at the previous March 2017 valuation. The resulting surplus at the 2020 valuation was £58m.

For the purpose of reporting a funding level and an associated surplus/deficit for the 2020 valuation a prudent future investment return of 2.9% p.a with a 75% likelihood of success has been used, this compared to 3.1% p.a for the 2017 valuation.

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.

Since the previous valuation, various events have taken place which affect the value placed on the liabilities, including:

- Increase due to interest applied to the previous valuation liability value – the benefits that have been accrued to the valuation date are three years closer to payment at 31 March 2020 than they were at 31 March 2017, meaning there is less opportunity for future investment returns to help meet this cost.
- Decrease due to changes to the longevity assumptions used for the valuation resulting in a modest reduction in life expectancies.
- Decrease due to a reduction in the assumed rate of future CPI inflation, from 2.4% p.a at 31 March 2017 to 1.7% at 31 March 2020.
- Increase due to a reduction in the assumed rate of future investment returns, from 3.1% at March 2017 to 2.9% at March 2020.

This overall increase in liabilities has been offset by an increase in the Fund's assets resulting from a positive investment return and a net cash inflow over the period since the last full valuation at 31 March 2020.

As recommended by the Fund's actuary (Hymans Robertson) the employers contribution rate has been maintained at 17.0% for the period 01 April 2021 to 31 March 2024 with reference to the future costs and also taking account of the current funding position, which is based on past service benefits

The LGPS regulations state that a Primary Contribution Rate should also be set, which is the cost of active members accruing benefits in the scheme. There is currently an upward pressure on the Primary Rate due to a reduction in the future yields on investments, resulting from rising inflation forecasts. This means that the current Primary Rate of 24% is now less likely to meet future service costs.

The most recent funding update produced at 31 March 2022 indicates that the funding surplus has decreased from 146% to 137% since 31 March 2021. This can be attributed to losses in asset returns and increases in past service liabilities during the year. A summary of these results is shown below:

	31 March 2021	31 March 2022
Assumed Future Investment Return (Based on a 75% Likelihood of Success	3.2% p.a.	3.6% p.a.
Salary Increase Assumption	3.0% p.a.	3.3% p.a.
Pension Increase Assumption	2.5% p.a.	2.8% p.a.
Assets	£520m	£507m
Past Service Liabilities	£355m	£370m
Surplus/ (Deficit)	**£165m**	**£137m**
Funding Level	**146%**	**137%**
Future Investment Return Required to be 100% Funded	1.4% p.a.	2.0% p.a.
Likelihood of Achieving This Return	90%	90%
Likelihood of Primary Rate of 24% of Pay Meeting the Cost of Future Benefit Accrual	61%	63%

The assessed Primary contribution rate for 1 April 2021 – 31 March 2024 at March 2020 was 24.0%. On applying a Secondary contribution rate of -7.0% to give a required minimum contribution, against the background of increased uncertainty over the future impacting on actuarial assumptions the employer contribution rate will be maintained at 17.0% for the three-year period 2021 to 2024.

Main Risks and Uncertainties facing the Fund

Awareness of risk and risk mitigation is a key facet 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 strategies and controls in place to minimise its adverse effects.

The Fund has its own risk register, which details some 29 risks faced by the fund and can be viewed at the related downloads section here. The risk register is reviewed annually by the Pension Fund Sub-committee and Pension Board.

Principal risks, and the way in which they are managed, are as follows:

Financial Mismatch, the risk that the Fund's assets fail to grow in line with the cost of meeting its liabilities. The Pension Fund Sub-committee measures and manages financial mismatch in several ways. It has set a strategic asset allocation benchmark for the Fund and assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns. It also assesses risk relative to liabilities by monitoring benchmark returns relative to liabilities. The Pension Fund Sub-committee keeps under review demographic assumptions which could impact on the cost of benefits. These assumptions are considered formally in the triennial valuation and reviewed annually within funding update reports (Navigator) produced by the Fund's actuary, Hymans Robertson.

Systemic Risk, the risk of an interlinked and simultaneous failure of several asset classes and/or investment managers. The Pension Fund Sub-committee seeks to manage systemic risk by the appointment of investment managers. The Pension Fund Sub-committee regularly reviews total asset values within asset class.

Liquidity Risk, the risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. This is controlled by the regular estimation of cash flow to ensure that sufficient cash balances are available. By holding the majority of its assets in liquid assets such as equities and bonds, unexpected cash flow requirements can be met by the realisation of assets. Liquidity risk is also moderated by the Fund continuing to have a surplus of contributions receivable over pensions payable.

Custody Risk, the risk of losing rights to Fund assets when they are held in custody or being traded. The Pensions Sub-committee manages custody risk by the monitoring of custodian activities. The Fund has appointed Bank of New York Mellon's London branch as its Custodian.

Transition Risk, the risk of incurring unexpected costs or losses when assets are transferred between asset classes. When carrying out significant transitions the Pensions Sub-committee will take professional advice and consider the appointment of specialist transition managers.

Pension Fund Sub-Committee and Pensions Board

In line with Scheme regulations, and the respective terms of reference for the Pension Fund Sub-committee and Pensions Board, the group met concurrently on four occasions during 2021-2022.

Training activity for the members of the Pension Fund Sub-committee and Pension Board was undertaken during the financial year 2021-2022, in accordance with the agreed training plan, to enable Councillors charged with the governance of the Fund to execute their role as quasi-trustees effectively. In recognition of the complex and ever-changing environment of Local Government Pension Scheme finance, and specifically to address the governance requirements, the Chartered Institute of Public Finance and Accountancy Code of Practice on Public Sector Pensions Finance Knowledge and Skills has been adopted.

Acknowledgement

We would like to take this opportunity to thank our colleagues in the Enterprise & Sustainable Regeneration Service and the members of the Pension Fund Sub-committee and the Pensions Board for their help and co-operation in managing the financial affairs of the Pension Fund.

Gareth Waterson, BAcc, CA	Councillor James Stockan	John W Mundell, OBE
Section 95 Officer	Leader	Interim Chief Executive
15 September 2022	15 September 2022	15 September 2022

Statement of Responsibilities for the Annual Accounts

Responsibilities of the Orkney Islands Council as Administering Authority

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Orkney Islands Council Pension Fund (the Fund) and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director of Enterprise & Sustainable Regeneration.

- Manage the affairs of the Fund to secure economic, efficient, and effective use of resources and safeguard its assets.

- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and the Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021, 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.

Signed on behalf of Orkney Islands Council

Councillor James Stockan

Leader

15 September 2022

The Corporate Director of Enterprise & Sustainable Regeneration Service responsibilities

The Corporate Director of Enterprise & Sustainable Regeneration is responsible for the preparation of the Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Annual Accounts, the Corporate Director of Enterprise & Sustainable Regeneration has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with legislation.
- Complied with the Code (in so far as it is compatible with legislation).

The Corporate Director of Enterprise & Sustainable Regeneration Service has also:

- Kept adequate accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the annual accounts give a true and fair view of the financial position of the Orkney Islands Council Pension Fund as at 31 March 2022, and of its transactions for the year ended 31 March 2022.

Gareth Waterson, BAcc, CA

Section 95 Officer

15 September 2022

Remuneration Report

The Pension Fund does not directly employ any staff. We have therefore not included a remuneration report within the Annual Report.

All staff are employed by Orkney Islands Council, and their costs reimbursed by the Pension Fund.

The Councillors, who are members of the Pension Fund Sub-committee and Pension Board are also remunerated by Orkney Islands Council.

Details of Councillor and Senior Employee remuneration can be found in the accounts of Orkney Islands Council on the Council's website:

https://www.orkney.gov.uk/Council/Statement_of_Accounts/Statement-of-Accounts.htm.

Annual Governance Statement

Scope of Responsibility

The Orkney Islands Council acts as Administering Authority for the Orkney Islands 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 Council’s website. The authority's financial and management arrangements conform to 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.

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 the policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise the risks being realised, and the impact should they be realised, and to manage them efficiently, effectively, and economically.

The governance framework has been in place for the year ended 31 March 2022 and up to the date of approval of the Annual Accounts.

Governance Framework

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
4. Determining the interventions necessary to optimise the achievement of the intended outcomes.
5. Developing the entity’s capacity, including the capability of its leadership and the individuals within it.
6. Managing risks and performance through robust internal control and strong public financial management.

The Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production of a number of key policy documents including a Valuation Report, a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Fund's objectives together with the main risks facing the Fund and the key controls to mitigate those risks.

Review of Effectiveness

Orkney Islands 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. This includes ensuring appropriate advice is available to the Pension Fund on all governance matters, providing training to all members of the Pension Fund Sub-committee and Pension Board, keeping proper administrative and financial records and accounts, and maintaining effective procedures and arrangements for the control of governance.

The Pension Fund responds to findings and recommendations of external audit, scrutiny and inspection bodies and the Council's independent internal audit section. The Pension Fund Sub-committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Administering Authority

Orkney Islands Council is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Orkney Islands geographic area.

The Council has delegated the management of the investments of the Pension Fund to the Pension Fund Sub-committee and has established a Pension Board which is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations, and the requirements of the Pension Regulator.

Regulatory Framework

The Pensions Regulator is the UK regulator of work-based pension schemes. It works with trustees, employers, pension specialists and business advisers, giving guidance on what is expected of them.

The Scottish Public Pensions Agency (SPPA) is responsible for regulating the LGPS in Scotland and the Council administers the pension scheme in accordance with guidance and regulations issued by the SPPA.

The Orkney Islands Council scheme is open to all employees of scheduled bodies except those whose employment entitles them to belong to another statutory pension scheme (e.g., Teachers). Employees of admitted bodies can join the scheme subject to those bodies meeting the statutory requirements and, on such terms and conditions as the Council (as Administering Authority) may require. A list of scheduled and admitted bodies is attached as Annex 1.

The Pension Fund Sub-committee is a formal sub-committee of Orkney Islands Council's Policy and Resources Committee. The Scheme of Administration for the Council refers to the Pension Fund Sub-committee all matters relating to the management of investments of the Council's Pension Fund.

Financial affairs are conducted in compliance with the Council's Financial Regulations which are reviewed and updated on a regular basis.

Funds are invested in compliance with the Fund's Statement of Investment Principles.

Pension Fund Sub-Committee and Pension Board

The members of the Pensions Sub-committee together with the Pensions Board act as quasi-trustees and oversee the management of the Orkney Islands Council Pension Fund.

Their overriding duty is to ensure the best possible outcomes for the Fund, its participating employers and scheme members.

The members' knowledge is supplemented by professional advice from officers of the Council, professional advisers, and other external providers.

The Pension Fund Sub-committee is comprised of seven members of the Council:

- Leader (Chair of Policy and Resources Committee).
- Deputy Leader (Vice Chair of Policy and Resources Committee), and
- Five other elected members of the Council appointed by Policy and Resources Committee.

The Scheme Actuary, the Independent Investment Consultant, Head of Finance, Pensions Manager and the Solicitor for the Council or their nominated representatives also attend the Pension Fund Sub-committee meetings as advisers.

The Pension Fund Sub-committee meets at least quarterly. Additional meetings are called as appropriate and papers and minutes are publicly available on the Council's website, unless they have been considered as private business in terms of Schedule 7A to the Local Government (Scotland) Act 1973. Minutes of the Pension Fund Sub-committee are also presented to the Policy and Resources Committee of the Council.

Membership of the Pensions Board consists of equal numbers made up of 4 trade union representatives and employer representatives, drawn from Orkney Islands Council and scheduled or admitted bodies in membership of the Pension Fund. Pension Board representatives may not participate in or act as members of the Pension Fund Sub-committee or the Monitoring and Audit Committee. Local Authority employer representatives will normally be Elected Members of the Council.

The Pension Board meets at least quarterly. A majority of either side, trade union or employer representatives, may requisition a special meeting of the Pension Board in exceptional circumstances.

While the statutory roles and function of the Pension Fund Sub-committee and Pension Board are separate, the normal practice is that both bodies meet at the same time to consider the same agenda, with the Chair of the Pension Fund Sub-committee chairing the concurrent meeting. The Council's Standing Orders apply at concurrent meetings. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

During the year 2021/22 there was no disagreement however, if the Pension Fund Sub-committee and Pension Board cannot reach joint agreement on any matter the process for resolving any differences between the two bodies is as follows:

- In the first instance, if at least half of the members of the Pension Board agree, then the Pension Board can defer a decision of the Pension Fund Sub-committee for further consideration if any of the defined grounds are met. Whilst this process is undertaken the decision of the Pension Fund Sub-committee is still competent.
- If there is no agreement after the matter has been referred back to the Pension Fund Sub-committee, the decision of the Pension Fund Sub-committee stands and the difference in view between the Pension Board and the Pension Fund Sub-committee will

be published in the form of a joint secretarial report on the Pension Fund website, included in the Pension Fund annual report and notified to the Scottish LGPS Advisory Board, and

- The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter.

Administration and Financial Management of the Fund

The Council's Corporate Director of Enterprise & Sustainable Regeneration is the Officer with responsibility to ensure proper administration of the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.

The Corporate Director of Enterprise & Sustainable Regeneration is responsible for:

- The financial accounting of the Fund.
- The preparation of the Pension Fund Annual Report and Accounts.
- Being the principal advisor on management of investments to the Council in its capacity as Trustee to the Fund and as the Fund's Administering Authority.

The day-to-day management of the investment activities of the Fund is administered by the Corporate Finance Team within the Enterprise & Sustainable Regeneration Service.

The pension benefits policy oversight and day-to-day administration for the Fund is administered by the Pensions Team within the Enterprise & Sustainable Regeneration Service.

The annual financial statement of the Fund is subject to external audit. The auditors are appointed by Audit Scotland, as part of the process to ensure that public funds are properly safeguarded and accounted for.

Professional Advisers and External Service Providers

Hymans Robertson is appointed to act as Actuary and Investment Consultants to the Fund. The services provided include advice on investment strategy, funding level and actuarial valuations. Hymans Robertson also provides independent performance measurement services for the Fund and has responsibility for measuring and reporting on the performance of the Fund during the year.

The implementation of the revised investment strategy approved in February 2019 involved Fund Manager appointments to new Infrastructure Equity, Private Debt and Bonds mandates. The Bonds mandate was fully funded in May 2020, while the Infrastructure Equity was fully drawn down in December 2021. An additional commitment to a new Private Debt fund was made during 2021/2022 and the drawdown to both funds continued throughout the financial year.

The Fund's appointed investment managers have responsibility for the selection, retention, and disposal of individual investments. Where appropriate, they also implement the Pension Fund Sub-committee's policy in relation to socially responsible investment and corporate governance. All fund managers are required to be signatories of the United Nations' Principles for Responsible Investment.

The Bank of New York Mellon is the Fund's appointed global custodian and is responsible for the safekeeping of the assets including the processing of transactions and submission of tax claims.

Internal and External Control and Review

The system of internal financial controls is based on a framework of delegation and accountability for officers and elected members embodied in procedural standing orders, financial regulations, scheme of delegation, scheme of administration, committees, and sub-committees. It is supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular this includes:

- Comprehensive accounting systems that record income and expenditure for both member and investment activities.
- Regular reviews of investment reports that measure investment returns against agreed benchmarks.
- Regular reviews of investment manager reports that measure performance against agreed targets.
- Independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services provider.

The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The Pension Fund responds to findings and recommendations of external audit, scrutiny and inspection bodies and the Orkney Islands Council's independent internal audit section. The Monitoring and Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

The Pensions team within the Payroll and Pension section consists of 4 full time equivalents.

The Corporate Director of Enterprise & Sustainable Regeneration (Section 95 officer) for the Council as Administering Authority is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate advice is made available to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.

The Chief Internal Auditor (CIA) reports to the Monitoring and Audit Committee and functionally to the Head of Legal and Governance who is also the Council's Monitoring Officer. He is in regular contact with the Head of Finance and Monitoring Officer. The CIA provides an independent and objective internal audit annual report and assurance statement on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review of the Council's arrangements.

Given the structural size of the Council, there are common controls over Council systems and pension systems. Internal audit's work on Council systems also contributes to providing management assurance that Pension Fund operations and transactions are appropriately controlled.

Counter Fraud and Anti-Corruption

Effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption. This includes, but is not limited to, ensuring established systems of internal controls and security are in place, segregation of duties and supervisory checking of all calculations, and internal audit and monitoring arrangements.

The increased risk of fraud and scams arising from the COVID-19 pandemic is also being managed on an ongoing basis, focusing on staff support, communication of potential scams and close monitoring of checks prior to any transfers out being completed. These steps are further enhanced by the development of a new on-line training course which is mandatory for all Finance staff.

Risk Management

The Fund's Risk Register was last reviewed and updated at the concurrent meetings of the Pension Fund Sub-committee together with the Pensions Board on 23 February 2022. The risk register incorporates a risk matrix to clearly demonstrate the Pension Funds current threats relative to the individual risks anticipated, and a summary and prioritisation of risks to indicate the descriptive risks ranking.

Risk awareness is embedded into the investment performance management process.

The main changes identified in the last review of the risk register were as follows:

- The risk added in 2021 regarding working from home whenever possible in accordance with Government COVID-19 mitigation measures has been lowered due to a gradual return to the workplace in compliance with Government guidance.
- The likelihood of the risk regarding recruitment and retention of new staff has been increased due to the fact that the Chartered Institute of Payroll Professionals has stopped providing the ability to study for a pension qualification in Scotland, although this may be re-introduced in the future.
- A further risk added in 2021 regarding an increased risk of fraud and scams due to the COVID-19 pandemic has been reduced due to the new Pension Regulator provisions introduced in November 2021 to strengthen the checks to take place prior to any transfers out being made.
- The risk regarding changes in legislation and other regulatory frameworks now includes specific mention to the outcome of the consultation into the creation of a National Care Service, which is ongoing and the outcome of which is currently unknown. The ranking of this risk is unchanged.

The full risk register is available under the related download section via the following link to the Council's website:

https://www.orkney.gov.uk/Service-Directory/S/pension-fund-sub-committeepension-board.htm

Significant Governance Issues

The system of governance aims to provide reasonable, but not absolute, assurance that assets are safeguarded, transactions are authorised and properly recorded, material errors or irregularities are either prevented or detected within a timely period and significant risks impacting on the achievement of our objectives have been mitigated to an acceptable level. A review of effectiveness of the governance framework has not identified any significant governance issues or control weaknesses in the Pension Fund's governance arrangements.

There were no issues highlighted in the Annual Audit Report for financial year 2020-2021. The following updates were provided to prior year recommendations not yet implemented as at 31 March 2021:

- No register is held by the Fund detailing breaches of the Pensions Regulator Public Service Code, there is a risk that an issue is not raised with management which requires to be reported.

  While noting that no breaches of the Code have been made during the year, work is ongoing to produce a register detailing any breaches of the Pensions Regulator Public Service Code. This recommendation is now complete with the Register of Breaches created by the Pension and Payroll Manager in November 2021.

- It was not possible to identify the Fund’s share of assets from the valuation of investments provided by Barings, and that no work had been done to validate the valuation of the pooled fund provided by Barings. There is a risk that a misstatement in the valuation is not noticed by the Fund on a timely basis.

  The Fund receives regular Net Asset Value statements from the pooled fund which details both the number of units held and current market value. The nature of a pooled fund is such that individual investors hold multiple units in the fund rather than a direct share of the assets. The value of the units themselves are derived from aggregating the valuation of the investments held by pooled fund. It is considered that the regular preparation of the performance reports by Investment Advisers provides assurance that the asset valuations provided by the fund manager are reasonable and in line with expectation.

Access to Information

Pension Fund Sub-committee papers, minutes and the Funds Annual Audit Report and Accounts are available via the Council’s website https://www.orkney.gov.uk/.

Opinion

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

- The work of Internal Audit and the professional pensions and accountancy staff within the Council.
- The External Auditor’s reports.
- The Corporate Director of Enterprise & Sustainable Regeneration (Section 95 Officer), whose duties include putting in place the arrangements for the proper administration of financial affairs of the Pension Fund.

The internal financial control environment was enhanced through the adoption in 2015 of a Risk Register, Procedural Standing Orders, and the establishment of a scheme of delegation for the Pension Fund Sub-committee and supported by the Pension Board.

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council’s internal financial control systems during the year ended 31 March 2022.

Councillor James Stockan
Leader
15 September 2022

John W Mundell, OBE
Interim Chief Executive
15 September 2022

Governance Compliance Statement

The Regulations that govern the management of LGPS funds in Scotland require that a Governance Compliance Statement is published. The following compliance statement sets out the extent to which the Orkney Islands Council Pension Fund governance arrangements comply with best practice.

Principle	Compliance and Comments
1. Structure	
a) The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council.	Compliance in Full: Yes On 17 February 2015, the Policy and Resources Committee (PRC) established a Pension Fund Sub committee (PSC) and delegated to it the power to discharge all functions and responsibilities relating to the Council's role as administering authority for Orkney Islands Council Pension Fund (the Fund). The PSC is the main committee in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972, and the Public Services Act 2013. The PRC further agreed to establish a Pensions Board (PB) as a secondary committee to underpin the work of the main committee.
b) 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.	Compliance in Full: Yes There are no admitted bodies or deferred members represented on the PSC. Orkney Ferries Limited, an admitted body, currently has a representative on the PB. The existing membership of the PSC includes both active and pensioner members of the Orkney Island Council Pension Fund.
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliance in Full: Yes The agreed terms of reference for operation of the PSC include the requirement to produce a formal minute of all meetings. The PSC sit at the same time as the PB allowing them to communicate with each other on the day they sit.

d) 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.	Compliance in Full: Yes The PSC and PB sit at the same place and time to assist with the formation of a consensus. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.
2. Representation	
a) That all key stakeholders are afforded the opportunity to be represented within the Pensions Board. These include: • Employing authorities including non-scheme employers, e.g., admitted bodies. • Scheme members including deferred and pensioner scheme members • Where appropriate, independent professional observers, and • Expert advisors (on an ad-hoc basis).	Compliance in Full: Yes In accordance with the terms of reference for the operation of the PB, membership comprises 8 members: four trade union representatives and four employer representatives. Input from Hymans Robertson as expert advisors to the Pension Fund is routinely sought on policy matters.
b) That where lay members sit on a main or secondary committee, they are treated the same as elected Members 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.	Compliance in Full: Yes In accordance with the terms of reference, all members of the PB and PSC are treated equally. The two bodies sit at the same time to facilitate equal opportunity.
3. Selection and Role of Lay Members	
a) That committee or panel members are made fully aware of the status, role, and function that they are required to perform on either a main or secondary committee.	Compliance in Full: Yes At the inaugural meeting of the Pension Fund Sub committee and Pensions Board, held concurrently on 24 April 2015, respective Terms of Reference were duly approved for each body. In addition, an induction programme has been provided to members. Induction training was provided in June 2022 to new members following the local elections in May 2022. During 2021, members participated in 2 training seminars provided by the Scottish LGPS.
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliance in Full: Yes The declaration of Member’s interests is a standard item on the agenda of the PSC and PB.

4. 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.	Compliance in Full: Yes Full voting rights are given to all members of the PSC.
5. Training/ Facility Time/ Expenses	
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliance in Full: Yes The CIPFA Code of Practice for Public Sector Pensions Finance Knowledge and Skills, together with a Knowledge and Skills Framework to support the Code has been adopted as the basis for training and development of members and officers involved in Pension Fund financial matters. CIPFA Framework Members' training is funded from the Council's Pension Fund. The training policy was approved in 2015/16 and is aligned to CIPFA's Knowledge and Skills Framework.
b) That where such a policy exists it applies equally to all members of committees, sub-committees, advisory panels, or any other form of secondary forum.	Compliance in Full: Yes All elected and lay members are treated equally under the training policy.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Compliance in Full: Yes The Administering Authority of the Pension Fund Sub-committee and Pension Board has to date considered the training requirements of committee members collectively and provided training on that basis. A log has been established of all training provided to members and this is monitored and reported as appropriate. The annual training plan for 2021-22 was approved by the PSC at its meeting of 24 February 2021.
6. Meeting Frequency	
a) That an administering authority's main committee or committees meet at least quarterly	Compliance in Full: Yes The PSC and PB are scheduled to meet at least four times a year.

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	Compliance in Full: Yes The PSC and PB are scheduled to meet at least four times a year.
c) That an administering authority that 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.	Compliance in Full: Yes On 17 February 2015, the PSC agreed to establish a Pensions Board (PB), with representatives from Trade Unions and admitted bodies.
7. Access	
That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliance in Full: Yes All members are treated equally.
8. Scope	
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliance in Full: Yes. The PSC deal with all matters relating to both the administration and investment of the Pension Fund. The PSC is formed from members of the Policy and Resources Committee of the Council.
9. Publicity	
That administering authorities have published details of their governance arrangements in such a way that stakeholders, can express an interest in wanting to be part of those arrangements.	Compliance in Full: Yes. The Orkney Islands Council Pension Fund governance documents are available on the Council website using the following link:. Pension_Board_Terms_of_Reference (orkney.gov.uk) The Council as administering authority communicates regularly with employers and scheme members.

Gareth Waterson, BAcc, CA
Section 95 Officer
15 September 2022

Councillor James Stockan
Leader
15 September 2022

John W Mundell, OBE
Interim Chief Executive
15 September 2022

Annual Accounts 2021-2022

Pension Fund Account

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

2020-2021 £'000		2021-2022 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme		
10,557	Contributions Receivable	11,103	**5**
623	Transfers In	833	**7**
11,180		**11,936**	
(8,553)	Benefits Payable	(9,171)	**6**
(2,147)	Payments to and on account of leavers	(738)	**8**
(10,700)		**(9,909)**	
480	**Net additions from dealings with members**	**2,027**	
(2,327)	Management Costs	(2,678)	**19**
(1,847)	**Net additions including management expenses**	**(651)**	
	Return on Investments		
5,847	Investment Income	8,005	**9**
140,222	Profits/(losses) on disposal of investments and changes in the market value of investments	(19,596)	**10**
42	Taxes on Income	(74)	
146,111	**Net Return/(Loss) on Investments**	**(11,665)**	
144,264	**Net increase/(decrease) in the net assets available for benefits during the year**	**(12,316)**	
376,584	Opening Net Assets of the Scheme	520,848	
520,848	**Closing Net Assets of the Scheme**	**508,531**	**13**

Net Assets Statement as at 31 March 2022

The Net Assets Statement sets out the value, as at the statement date, of all assets and current liabilities of the Fund. The net assets of the Fund (assets less current liabilities) represent the funds available to provide for pension benefits as at 31 March 2022.

31 March 2021 £'000		31 March 2022 £'000	Notes
	Managed Funds		
345,942	Equities	298,603	
169,037	Pooled Investment Vehicles	205,061	
5,321	Cash Equivalents	3,252	
520,300		**506,916**	**11**
	Current Assets		
6	Cash Balances	6	
87	Contributions due	99	
998	Current Debtors	1,953	
1,091		**2,058**	**17**
	Current Liabilities		
(543)	Current Creditors	**(443)**	**18**
548	**Net Current Assets/(Liabilities)**	**1,615**	
520,848	**Net Assets of the Scheme available to fund benefits at the year end**	**508,531**	

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in Note 4 Actuarial Present Value of Promised Retirement Benefits.

The audited accounts were issued on 15 September 2022.

Gareth Waterson, BAcc, CA

Section 95 Officer

15 September 2022

Notes to the Annual Accounts

1. The Local Government Pension Scheme

The Local Government Pension Scheme is a funded defined benefit scheme, established under the Superannuation Act 1972, with pensioners receiving index-linked pensions. It is administered by Orkney Islands Council in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014 (as amended) and was contracted out of the State Second Pension until the 6 April 2016 when the new State Pension was introduced. The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions.

2. Basis of Preparation of the Financial Statements

Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices.

The accounts for the Fund have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-2022 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3. Statement of Accounting Policies

A summary of the more important accounting policies has been set out below:

3.1. Basis of Preparation

The accounts have been prepared on an accruals basis and do not take account of liabilities to pay pensions and other benefits after the year end. However, the actuarial position does account for such obligations. This is disclosed in Note 4 of the accounts and should be read in conjunction with the Actuarial Statement (Annex 2). The going concern concept assumes that the Pension Fund will continue in existence for the foreseeable future.

3.2. Transfers to and from other schemes

Transfer values represent the amounts receivable and payable during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations.

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

Transfers to the Fund from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receivables 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.

3.3. Financial Instruments

Investments

Investment assets are included in the financial statements 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.

The values of investments as shown in the net assets statement have been determined at a fair value in accordance with the requirements of the Code and IFRS 13 (see note 14). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures. Market values, which are assessed as follows:

- 3.3.1. Market quoted securities are valued at bid market prices on the final day of the accounting period.
- 3.3.2. Fixed interest securities are valued at a market value based on current yields at 31 March 2022
- 3.3.3. Pooled investments, which comprise the fund manager's unit trusts and open-ended investment companies, are valued at closing bid prices where bid and offer prices are published or closing single price where single price is published.
- 3.3.4. Unquoted equity/debt and infrastructure asset valuations are provided by fund administrators following independent validation.

Since investments are all held for trading, disclosure in the accounts is at fair value through profit and loss. Fair values are derived from unadjusted quoted prices in active markets.

3.4. Recognition of Income and Expenditure

Activity is accounted for in the year in which it takes place, not simply when cash payments are made or received. In particular:

- 3.4.1. Expenses in relation to services received (including services provided by Orkney Islands Council) are recorded as expenditure when the services are received rather than when payments are made.
- 3.4.2. Dividend income is recognised when the right to receive payment is established.
- 3.4.3. Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Net Assets Statement.

3.5. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in less than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

3.6. Administrative Overheads

The Payroll and Pensions section of Orkney Islands Council is responsible for administering the Pension Fund. The Section receives an allocation of the overheads of the Council which is based on its direct cost and the amount of central services consumed.

3.7. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. 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.

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 (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

3.8. Investment Income

Income from fixed interest, index linked securities and other interest receivable is taken into account on an accruals basis. Income from all other marketable securities is taken into account on the date when stocks are quoted ex-dividend.

3.9. Contributions Income

Normal contributions, both from the members and employers, are accounted for on an accruals basis.

Employers' augmentation contributions and pension strain costs are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid will be classed as current financial assets.

Augmentation contributions are contributions paid to the Fund by an employer where that employer awards compensatory added years to a scheme member at retirement. Strain costs are contributions paid to the Fund by an employer where a scheme member, aged 55 or over, chooses to retire prior to normal pension age and the employer elects to waive any reductions normally applied to the member's pension benefits. Strain costs are also paid to the Fund by an employer where a scheme member, aged 55 or over, retires prior to normal pension age and the grounds for retirement are redundancy or efficiency.

3.10. Foreign Currency

Income and expenditure arising from transactions denominated in a foreign currency are translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred. Where the transaction is to be settled at a contracted rate, that rate is used.

3.11. Management Expenses

Management expenses includes direct management fees from external fund managers appointed to manage a segregated portfolio(s) of investments, indirect management charges levied on pool funds, transactions costs and expenses associated with the administration and governance of the Fund.

3.12. Acquisition Cost

Any acquisition costs of investments are included in the book cost of the investment.

3.13. Critical Judgements in Applying Accounting Policies Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with International Accounting Standard IAS 26. The judgements which have the greatest impact on pension fund liabilities are those around the discount rate, the inflation rate, and the life expectancy of members.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Pension Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends, and other relevant factors. However, because such factors cannot be determined with certainty, actual results could be materially different from the assumptions and estimate. The items in the financial statements at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.
Unquoted Private Debt	Unquoted private debt investments are valued by the administrators of the specialist pooled Fund using various valuations techniques that require significant judgement in determining appropriate assumptions. In recognition that these investments are relatively illiquid and to ensure objectivity in the valuation process the results are then validated by independent administrators. Nevertheless, as these investments are not publicly listed there is a greater degree of subjectivity and estimation involved in the valuation process. Pooled Investment - Private Debt £25.857m - there is a risk that this investment may be under or overstated in the accounts.
Unlisted Infrastructure	For infrastructure preferred equity or infrastructure debt investments held within an Infrastructure equity fund, the method of valuation of assets is market value provided by an approved data provider, unless there is no market, or it does not represent fair value in which case another method will be determined. As these investments are also not publicly listed there is a greater degree of subjectivity and estimation involved in the valuation process. Pooled Investment – Infrastructure Equity £21.125m – there is a risk that this investment may be under or overstated in the accounts.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at year ended 31 March 2022	Approximate % increase to Employer Liability	Approximate monetary amount £'000
0.1% decrease in Real Discount Rate	2%	9,002
1 year increase in member life expectancy	4%	17,943
0.1% increase in the Salary Increase Rate	0%	933
0.1% increase in the Pension Increase Rate	2%	7,999

3.15. Accounting Standards that were issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The following new or amended standards have been published but not yet adopted:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

These amendments help give clarification or are generally minor in nature, and as such are not expected to have a significant impact on the Pension Fund.

3.16. Events after the Balance Sheet

Events after the net assets statement date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- 3.16.1. those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- 3.16.2. those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

The draft annual accounts were signed by the Corporate Director of Enterprise & Sustainable Regeneration on 30 June 2022. Events taking place after the date of authorisation for issue have not been reflected in the financial statements. Material events between the balance sheet date and the date of signing have been considered and where necessary reflected in the financial statements.

4. Actuarial Present Value of Promised Retirement Benefits

The Fund's actuary undertakes a valuation of the Fund's liabilities to pay future retirement benefits. This is calculated in line with the IAS 19 every year using the same base data as the triennial funding valuation, rolled forward to the current financial year and taking into account changes in membership numbers and updated assumptions.

In order to assess the value of liabilities on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Annex 2).

The actuarial present value of promised retirement benefits at 31 March 2022 was £485m (2021: £496m).

This figure is used for statutory accounting purposes by Orkney Islands Council Pension Fund and complies with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans. The IAS 26 valuation is not used for calculations undertaken for funding purposes and setting contributions payable to the Fund and has no validity in other circumstances.

Financial Assumptions

Year Ended	31 March 2021 **% p.a.**	31 March 2022 **% p.a.**
Inflation/Pensions Increase Rate	2.85%	3.20%
Salary Increase Rate	3.35%	3.70%
Discount Rate	2.00%	2.70%

Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 29.

Longevity Assumptions

	31 March 2021		31 March 2022	
	Males	Females	Males	Females
Current Pensioners	21.4 years	23.9 years	21.3 years	23.7 years
Future Pensioners*	23.1 years	26.1 years	22.9 years	25.9 years

*Future pensioners are assumed to be aged 45 as at the last formal valuation.

Commutation assumption

An allowance is included for future retirees to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

5. Analysis of Contributions Receivable

	2020-2021			2021-2022		
	Orkney Islands Council £000	Admitted Bodies £000		Orkney Islands Council £000	Admitted Bodies £000	
Employee Contributions	2,500	291	**2,791**	2,592	329	**2,921**
Employer Contributions	6,906	763	**7,669**	7,222	849	**8,071**
Strain Costs	97	0	**97**	111	0	**111**
Total	**9,503**	**1,054**	**10,557**	**9,925**	**1,178**	**11,103**

6.Analysis of Benefits Payable

	2020-2021			2021-2022		
	Orkney Islands Council £000	Admitted Bodies £000		Orkney Islands Council £000	Admitted Bodies £000	
Pensions Paid	6,041	237	**6,278**	6,449	266	**6,715**
Dependants Pensions	476	19	**495**	475	21	**496**
Lump Sums Paid	1,253	215	**1,468**	1,688	43	**1,731**
Death Grants Paid	312	0	**312**	135	94	**229**
Total	**8,082**	**471**	**8,553**	**8,747**	**424**	**9,172**

Orkney Islands Council, the administering authority, is at present the only scheduled body.

7. Transfers In

Transfers into the scheme during 2021-2022 were £0.8m (2020-2021: £0.6m). This represents the total of transfer values in respect of individual members joining the scheme.

8. Payments to and on Account of Leavers

2020-2021		2021-2022
£'000		£'000
(10)	Contributions Returned	(13)
(1,212)	Individual Transfers to other Schemes	(725)
(925)	Group Transfers *	0
(2,147)		**(738)**

*Visit Scotland transferred out during 2020/2021

9. Investment income

	2020-2021 **£'000**	2021-2022 **£'000**
Equities		
Equities UK	1,380	2,266
Equities Global	1,858	2,056
Total Equities	**3,238**	**4,322**
Pooled Investment Vehicle - Multi-Asset Growth	1,101	1,330
Pooled Investment Vehicle - Diversified Growth	904	1,107
Pooled Investment Vehicle - Private Debt	606	1,103
Pooled Investment Vehicle – Infrastructure	0	142
Interest on Cash and Deposits	**(2)**	**1**
Totals	**5,847**	**8,005**

10. Change in the Market Value of Investments

	2020-2021 £'000	2021-2022 £'000
Realised	29,522	33,853
Unrealised	110,700	(53,449)
Total	**140,222**	**(19,596)**

11. Analysis of Investments

As at 31 March 2022 the market value of the assets under management is as follows:

	31 March 2021 £'000	31 March 2022 £'000
Equities		
UK		
Quoted	60,104	46,885
Overseas		
Quoted	285,838	253,269
Total Equities	**345,942**	**300,153**
Pooled Fund - Multi-Asset Growth	61,641	62,575
Pooled Fund - Diversified Growth	48,139	50,165
Pooled Fund – Infrastructure	0	21,125
Pooled Fund - Private Debt	15,366	25,857
Pooled Fund - Fixed Income	43,891	43,789
Total Pooled Fund	**169,037**	**203,511**
Cash and Deposits	5,321	3,252
Totals	**520,300**	**506,916**

The following table provides an analysis of investments by fund manager:

	31 March 2021 £'000	%	31 March 2022 £'000	%
Baillie Gifford	461,043	88.6	416,145	82.1
Barings	15,366	3.0	25,857	5.1
IFM	0	0	21,125	4.2
LGIM	43,891	8.4	43,789	8.6
Totals	**520,300**	**100.0**	**506,916**	**100.0**

12. Reconciliation of Movements in Investments

Investments decreased in value to £506.9m as at 31 March 2022 (2021: £520.3m) a movement of £13.4m.

During 2021-2022, sales of investments totalled £82.3m and purchases totalled £90.6m, including £30.5m and £30.4m respectively relating to the transitioning to the revised investment strategy. Transaction costs are included in the cost of purchases and sales proceeds.

The following individual investments exceed 5% of the total value of the net assets of the Pension Fund at 31 March 2022.

	31 March 2021 **£'000**	31 March 2022 **£'000**
Baillie Gifford & Company - (Multi Asset Growth)	61,642	62,575
Baillie Gifford & Company - (Diversified Growth)	48,139	50,165

13. Investment Transactions

2021-2022	Opening Market Value £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Closing Market Value £'000
Investment Assets – Managed Funds					
Equities	344,032	58,202	(82,297)	(21,334)	298,603
UK Bonds	0	0	0	0	0
Index Linked Bonds	0	0	0	0	0
Pooled Investment – British Small Companies	1,910	14	(17)	(356)	1,551
Pooled Investment - Private Equity	15,366	10,359	0	131	25,856
Pooled Investment – Infrastructure	0	19,981	0	1,144	21,125
Pooled Investment – Fixed Income	43,891	(2)	0	(100)	43,789
Pooled Investment – Multi-Asset Growth	61,641	934	0	0	62,575
Pooled Investment – Diversified Growth	48,139	1,107	0	919	50,165
Total Transactions	**514,979**	**90,595**	**(82,314)**	**(19,596)**	**503,664**
Cash Deposits	5,321	0	0	(2,069)	3,252
	520,300				**506,916**
Internal Net Current Assets / (Liabilities)	**548**				**1,614**
Total	**520,848**				**508,530**

2020-2021	Opening Market Value £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Closing Market Value £'000
Investment Assets – Managed Fund					
Equities	229,453	60,773	(70,241)	124,047	344,032
UK Bonds	23,178	0	(23,905)	727	0
Index Linked Bonds	20,265	0	(21,477)	1,212	0
Pooled Investment – British Small Companies	1,062	7	0	841	1,910
Pooled Investment - Private Equity	6,549	8,321	0	496	15,366
Pooled Investment – Fixed Income	0	46,534	0	(2,643)	43,891
Pooled Investment – Multi-Asset Growth	52,023	1,101	(500)	9,017	61,641
Pooled Investment – Diversified Growth	40,710	904	0	6,525	48,139
Total Transactions	**373,240**	**117,640**	**(116,123)**	**140,222**	**514,979**
Cash Deposits	3,329				5,321
	376,569				**520,300**
Internal Net Current Assets / (Liabilities)	**15**				**548**
Total	**376,584**				**520,848**

14.Fair Value Hierarchy

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair value.

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 bonds, and quoted 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 data.

Level 3

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

The fund manager uses various valuation techniques that require significant judgement in determining appropriate assumptions.

Valuations on the private debt are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of International Financial Reporting Standards and United States Generally Accepted Accounting Principles.

Valuations on infrastructure assets are carried out by independent valuers with extensive experience, resources, and reputation. Independent valuers are rotated every 3 years by tender process. The valuation methodology is determined by the independent valuer subject to meeting appropriate accounting standards.

The following table provides an analysis of the financial assets of the Fund, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

Fair Value Through Fund Account	31 March 2021 £'000	31 March 2022 £'000
Level 1: Quoted Market Price	349,353	301,855
Level 2: Using Observable Inputs	155,581	158,080
Level 3: With Significant Unobservable Inputs	15,366	46,981
Net Investment Assets	**520,300**	**506,916**

Transfers Between Levels 1 and 2

There have been no transfers between Levels 1 and 2 during 2021/2022.

Reconciliation of Fair Value Measurements Within Level 3

The following table provides a reconciliation of fair value measurements within level 3.

	Market Value 31 March 2021 £'000	Transfers Into Level 3 £'000	Transfers Out Of Level 3 £'000	Purchases During the Year £'000	Sales During the Year £'000	Unrealised Gains/ (Losses) £'000	Realised Gains/ (Losses) £'000	Market Value 31 March 2022 £'000
Private Debt	15,366	0	0	10,360	0	131	0	25,857
Infrastructure Equity	0	0	0	19,981	0	1,144	0	21,125

Basis of Valuation

The basis of valuation of each class is set out below. There have been no changes in the valuation techniques used during the year. All assets have been valued using fair value techniques which represents 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 prices ruling on the final day of the accounting period.	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value on current yields.	Not required	Not required
Pooled Funds - Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Unquoted Equity/Debt & Infrastructure	Level 3	Valuation provided by administrators to the Fund and are validated by independent administrators.	EBITDA with multiple discounts for lack of marketability control premium.	A degree of estimation is involved in the valuation. Material events, including movement in exchange rates and Covid-19.

Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out the consequent potential impact on the closing value of investments held at 31 March 2022.

Asset Type	Assessed Valuation Range (+/-)	Value at 31 March 2022 £'000	Value on Increase £'000	Value on Decrease £'000
Private Debt	9.0%	25,857	28,184	23,530
Infrastructure Equity	14.6%	21,125	24,209	18,041

The underlying assets in private debt are a series of privately originated loans. The underlying assets in the infrastructure fund are high quality, essential and long-duration infrastructure. As such the valuations of these loans could move due to changes in a number of factors and assumptions including short term interest rates, inflation, the outlook for the profitability of the component companies and the likelihood of these companies to repay the loans. The potential movement of +/- 9.0% reflects the extent to which this value could vary based on each of these factors and assumptions.

15. Financial Instruments

Categories of Financial Instruments.

The following categories of financial instrument are carried in the Net Assets Statement:

Financial Instruments Balances	31 March 2021 £'000	31 March 2022 £'000
Investments		
Financial Assets at fair value through profit/loss	514,979	503,664
Cash and cash equivalents	5,321	3,252
Total Investments	**520,300**	**506,916**
Current Assets and Liabilities		
Debtors	1,091	2,058
Financial liabilities at amortised cost	(543)	(443)
Total Current Assets and Liabilities	**548**	**1,615**

Income, Expenses, Gains and Losses

Financial Instruments Gains/Losses	31 March 2021 Financial Assets £'000	31 March 2022 £'000
Net gains/(losses) on financial assets at fair value through profit and loss	140,222	(19,596)
Investment Income	5,847	8,005
Investment management expenses including taxation	(2,285)	(2,753)
Total Investment Gains and Losses	**143,784**	**(14,344)**

Fair Values of Assets and Liabilities

Financial assets represented by investments are carried in the Net Assets Statement at their current market value (bid price), as determined by the investment manager and the global custodian, based on a Fair Value Hierarchy detailed at Note 14.

16. Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets fall short of its liabilities (i.e., promised benefits 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. Responsibility for managing the Fund's risk rests with the Pension Fund Sub-committee, revised investment strategy was approved in February 2019.

16.1 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 Funding Strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

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

Sensitivity analysis

In consultation with the Fund's independent provider of performance and analytical data (Hymans Robertson), the Council has determined that the following movements in market price risk are reasonably possible for the reporting period.

Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	19.9
Global Equities	20.1
UK Index-Linked Gilts (long term)	9.2
UK Fixed Interest Gilts (medium term)	6.8
Diversified Growth	9.1
Private Debt	9.0
Infrastructure Equity	14.6
Cash	0.3
Total Fund Volatility	**14.0**

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows:

			Potential change in year in the net assets available to pay benefits	
Asset Type	Value	Change	Favourable Market Movement	Unfavourable Market Movement
	£'000	%	£'000	£'000
UK Equities	46,885	19.9%	56,215	37,555
Global Equities	253,268	20.1%	304,176	202,362
UK Index-Linked Gilts (long term)	21,273	9.2%	23,231	19,316
UK Fixed Interest Gilts (medium term)	22,516	6.8%	24,047	20,985
Diversified Growth and Multi Asset Growth	112,740	9.1%	122,999	102,480
Private Debt	25,857	9.0%	28,184	23,530
Infrastructure Equity	21,125	14.6%	24,209	18,040
Cash	3,252	0.3%	3,262	3,242
Total Fund Volatility	**506,916**	**14.0%**	**577,884**	**435,948**

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.

6.2 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 the Council and its Investment Advisers, 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 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2021 £'000	31 March 2022 £'000
Cash and cash equivalents	5,321	3,252

Sensitivity analysis

The Council 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 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 1% change in interest rates:

Asset Type	Carrying amount as at 31 March 2022	Potential change in year in the net assets available to pay benefits	
	£'000	1% Interest Movement £'000	-1% Interest Movement £'000
Cash and Cash Equivalents	3,252	32.5	(32.5)
Total Change in Assets Available	**3,252**	**32.5**	**(32.5)**

16.3 Currency Exposure Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in both private debt and equities overseas that are denominated in currencies other than £UK. The Fund also holds a low level of bonds denominated in overseas currencies.

The following table summarises the Fund's currency exposure at 31 March 2022:

Currency exposure - asset type	Asset value 31 March 2021 £'000	Asset value 31 March 2022 £'000
Overseas Quoted Equities	281,465	248,785
Pooled Funds - Global Basket	19,740	30,341
Total	**301,205**	**279,126**

Sensitivity analysis

Following analysis of historical data in consultation with Hymans Robertson, the council considers the likely volatility associated with foreign exchange movements to be 9.5%.

A 9.5% fluctuation is considered reasonable based on Hyman's analysis of long-term historical movements. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 9.5% 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:

Assets exposed to currency risk	Asset Value as at 31 March 2022 £'000	Potential Movement %	Value on Increase £'000	Value on Decrease £'000
Overseas Quoted Equities	248,785	9.5%	272,420	225,150
Total Change in Assets Available to Pay Benefits	**248,785**	**9.5%**	**272,420**	**225,150**

16.4 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 values of investments generally reflect 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 selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Council’s Annual Treasury Management Strategy Statement sets out the Fund’s approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council’s credit criteria. The Strategy has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund’s cash holding under its treasury management arrangements at 31 March 2022, including current account cash, was £0.006m. (31 March 2021: £0.006m). The Fund also held cash under its investment management arrangement. This was held with the following institutions:

	Rating (Fitch)	Balance 31 March 2022 £’000
Bank current accounts		
Royal Bank of Scotland	A+	6
Cash held in Portfolio		
Bank of New York Mellon (BNY)	AA	1,521

6.5 Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to 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.

The Council has immediate access to its Pension Fund cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2022, the Fund had illiquid assets of £46.981m (2020-2021: £15.366m).

17. Current Assets

	31 March 2021 £'000	31 March 2022 £'000
Income Due	651	793
Recoverable Tax	251	231
Cash Balances	6	6
Transfer Values Receivable	18	140
Contributions Due - Employers	63	71
Contributions Due - Employees	24	28
Orkney Islands Council	60	788
Sundry Debtors	18	1
Total Current Assets	**1,091**	**2,058**

18. Current Liabilities

	31 March 2021 £'000	31 March 2022 £'000
Sundry Creditors	463	401
Benefits Payable	79	41
Provision For Liabilities	1	1
Total Current Liabilities	**543**	**443**

19. Management Expenses

	2020-2021 £'000	2021-2022 £'000
Investment Management Expenses		
Investment managers fees	1,633	1,941
Custodian fees	62	27
Other Investment management expenses	80	186
Stamp Duty	24	7
Other Transaction Taxes and Levies	54	32
Broker Commission	52	38
Total Investment Management Expenses	**1,905**	**2,231**
Administration Costs		
Staff time and Support allocations	317	314
Total Administration Costs	**317**	**314**
Governance		
Audit costs	21	22
Professional fees	84	111
Total Governance Costs	**105**	**133**
Total	**2,327**	**2,678**

20. Code of Transparency

The Code of Transparency enables a greater understanding of the investment process and better cost management though the fund managers disclosure of transaction costs.

Total transaction costs for each asset class are detailed below:

2021-2022	Transaction Taxes £	Broker Commission £	Implicit Costs £	Indirect Transaction Costs £	Total Transaction Costs £
Equities	38,797	38,117	-80,864	0	-3,950
Bonds	0	0	0	0	0
Pooled Funds	0	0	93	447,553	447,646
Foreign Exchange	0	0	1,312	0	1,312
Cash Instruments	0	0	0	0	0
Total	**38,797**	**38,117**	**-79,459**	**447,553**	**445,008**

2020-2021	Transaction Taxes £	Broker Commission £	Implicit Costs £	Indirect Transaction Costs £	Total Transaction Costs £
Equities	78,455	51,613	114,866	(38)	**244,896**
Bonds	0	0	0	(3,621)	**(3,621)**
Pooled Funds	0	0	1,857	635,644	**637,501**
Foreign Exchange	0	0	5,486	0	**5,486**
Cash Instruments	0	0	0	(16)	**(16)**
Total	**78,455**	**51,613**	**122,209**	**631,969**	**884,246**

The nature of the transaction costs groups are as follows:

- Transaction Taxes – includes stamp duty and any other financial transaction taxes.
- Broker Commissions – payments for execution services, including exchange fees, settlement fees and clearing fees.
- Implicit Costs – indirect costs associated with buying and selling securities, being an estimate of market impact.
- Indirect Transaction Costs – transaction costs incurred within pooled funds when they buy and sell their underlying investments.

In addition to the transaction costs, the portfolio has incurred indirect fees of £281,014 (2020-2021: £338,513) paid from the Net Asset Value of the pooled funds.

21. Audit Fees

In 2021-2022 the agreed audit fee for the year was £22,090 (2020-2021: £21,490).

22. Agency Arrangements

The Orkney Islands Council Pension Fund pays discretionary pensions to former employees of Orkney Islands Council who were awarded compensatory added years in accordance with the Orkney Islands Council's Early Retirement and Severance Scheme, but subject to limitations set out in the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulation 1998. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the Council. The total amount of these payments was £245k in 2021-2022 (2020-2021: £252k).

Members of the Fund who elected before 1 April 2008 to purchase added years of membership can continue to do so unless the member elects to cease the contract. Administration of added years' contracts is carried out by the Orkney Islands Council Pension Fund on behalf of Orkney Islands Council. Costs borne by the fund relating to added years are incorporated into the overall administration cost and are immaterial in value.

23. Statement of Investment Principles and Funding Strategy Statement

The Council as Administering Authority approved its current Statement of Investment Principles in February 2020. The Statement defines the Fund's operational framework insofar as investments are concerned. It is reviewed periodically to ensure that it continues to reflect the needs of the Fund and the views of its stakeholders.

The Funding Strategy Statement defines how the Fund intends to meet its financial obligations and was effective from 10 May 2018.

Both these documents are available on the Council website under the related download section here, and are also available on request from the Council's Head of Finance.

24. Investment Management Arrangements

The Orkney Islands Council Pension Fund investments are managed on an active basis by external fund managers, with the exception of the Bonds which are allocated to a specialist passive manager.

From the 1 April 2017 the benchmark is a fund specific benchmark which means managed investment funds are measured against a range of indices reflecting the weighting or concentration of individual asset classes within the approved investment strategy. The target is to outperform the bespoke benchmark over rolling five-year periods.

25. Stock Lending

In accordance with the Statement of Investment Principles 2020, stock lending is not permitted within any of its segregated investment mandates. As at 31 March 2022 no stock had been released to a third party under a stock lending arrangement.

26. Related Party Transactions

Orkney Islands Council Pension Fund is administered by Orkney Islands Council. The Council incurred costs of £0.314m (2020-2021: £0.316m) in relation to administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £7.33m to the fund in 2021-2022 (2020-2021: £7.00m). With the exception of the year end creditor balance shown at Note 18 all monies owing to and from the Fund were paid in the year.

The Fund had a balance due from Orkney Islands Council of £0.79m as at 31 March 2022 (£0.06m 31 March 2021).

All the members of the Pensions Sub-committee and the members of the Pensions Board are active members of the pension scheme. Each Councillor is required to declare any financial or pecuniary interest related to specific matters on the agenda at each meeting.

The employees who hold key positions in the financial management of the Pension Fund; and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below:

	Accrued pension benefits 2020-2021		Accrued pension benefits 2021-2022	
	Pension £	Lump Sum £	Pension £	Lump Sum £
Corporate Director of Enterprise & Sustainable Regeneration / (Section 95 Officer)	39,681	54,350	43,148	56,035
Interim Head of Finance*	-	-	43,442	78,399

*With effect from 16-8-2021.

27. Membership Details

Under the Local Government Pension Scheme (LGPS), member contributions are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier.

Eligibility to join the scheme

Orkney Islands Council employees with a contract for 3 months duration or more are automatically entered into the LGPS. Employees with a contract of less than 3 months duration will be automatically enrolled into the LGPS if they satisfy the automatic enrolment criteria, however they can opt in if they do not meet the automatic enrolment criteria.

A person employed by a community admission body, or a person employed by a transferee admission body is eligible to be a member if the person, or class of employees to which the person belongs, is designated in the admission agreement by the body as being eligible for membership of the Scheme.

If they satisfy the above statement, they should be automatically entered into the LGPS if they have a contract for 3 months or more otherwise, they can opt in if they have a contract for less than 3 months.

Employees of community admission bodies and transferee admission bodies are also enrolled into the Local Government Pension Scheme if they satisfy the auto enrolment criteria.

The following table gives details of the various bodies' membership.

Membership Details at 31/03/2022	Active	Deferred	Pensioner	Dependant	Total
Orkney Islands Council	1,962	957	961	149	**4,029**
Orkney Islands Property Development	3	4	4	0	**11**
Pickaquoy Centre Trust	55	41	9	0	**105**
Orkney Enterprise	4	4	3	0	**11**
Orkney Ferries Limited	102	46	29	6	**183**
Summary of Members					
OIC	1,962	957	961	149	**4,029**
Admitted Bodies	164	95	45	6	**310**
Totals	**2,126**	**1,052**	**1,006**	**155**	**4,339**

28. Scheme Arrangements

Career Average Revalued Earnings Scheme (CARE) – LGPS 2015

A number of important changes have been made to the LGPS from 1 April 2015. The changes, which have been agreed between the Trade Unions, COSLA and the Scottish Government, ensure that the Scheme complies with the terms of the Public Pensions Act 2013.

From 1 April 2015 the pension Scheme moved away from a final salary to a career average revalued earnings scheme (CARE).

The main changes of this scheme were:

- A move towards benefits being worked out using career average revalued earnings (CARE) rather than final salary.
- Pensions being built up at a rate of 1/49th of annual pensionable pay.
- Member's normal retirement age being linked to their own State Pension Age. Members may still be able to retire from age 60 but a reduction for early payment may apply.
- Protection of benefits for members aged 55 and over at 1 April 2012 who will be guaranteed that their benefits will not be less than they would have been if the 2015 scheme had never been introduced, and
- Benefits built up before April 2015 will continue to be calculated using actual final pensionable pay at date of leaving.

29. Funding and Valuation Note

In line with the Local Government Pension Scheme (Scotland) Regulations 2018, the Fund's actuary undertakes a funding valuation every three years. The actuarial valuation assesses the health of the fund and provides a check that the funding strategy and assumptions used are appropriate. It also sets the future rates of contributions payable by employers. The most recent full actuarial valuation by the Fund's actuaries Hymans Robertson was to 31 March 2020. The next valuation will take place as at 31 March 2023.

The key elements of the funding policy are:

- To ensure the long-term solvency of the Fund, i.e., that sufficient funds are available to meet all pension liabilities as they fall due for payment.
- To ensure that employer contribution rates are as stable as possible.
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return.
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.
- To use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to maintain 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns, and contributions are sufficient to meet expected future pension benefits payable.

At the 2020 actuarial valuation, the Fund was assessed as 118.0% funded (112.7% at the March 2017 valuation). This corresponded to a surplus of £58m (2017 valuation: surplus of £38m) at that time.

The assessed Primary contribution rate for 1 April 2021 – 31 March 2024 at March 2020 was 24.0%. On applying a Secondary contribution rate of -7.0% to give a required minimum contribution, against the background of increased uncertainty over the future impacting on actuarial assumptions the employer contribution rate will be maintained at 17.0% for the three-year period 2021 to 2024.

In accordance with the Funding Strategy Statement the administering authority has adopted employer contributions of 17.0% for 2021-2022. The valuation of the Fund has been undertaken using a ‘risk based’ approach which considers how each employer’s assets and liabilities may evolve over the future. The principal assumptions were:

	31 March 2017	31 March 2020
Financial Assumptions:		
Salary and Benefit Increases & Investment Return		
Benefit Increases & CARE Revaluation (CPI)	2.40%	1.70%
Salary Increases	2.80%	2.20%
Investment Return ('Discount Rate')	3.10%	2.90%
Demographic Assumptions:		
Longevity		
Baseline Longevity	Club Vita	Club Vita
Future Improvements	CMI 2016, Peaked, 1.25% p.a. long term	CMI 2019, Smoothed, 1.5% p.a. long term

Mortality assumptions

The mortality assumptions used and applied to all members are based on the Self-Administered Pension Schemes year of birth tables with no further improvements in lifespans estimated from 2020.

30. Additional Voluntary Contributions

Under Inland Revenue rules, scheme members are permitted to make contributions towards retirement and death in service benefits in addition to those which they are required to make as members of the Local Government Pension Scheme. These contributions are known as Additional Voluntary Contributions and are treated separately from the scheme's assets under arrangement with Prudential Assurance Company Limited.

During the year 2021-2022 member contributions amounted to £0.517m (2020-2021: £0.462m).

Member’s contributions are invested in a “with profits” Fund or a “deposit” Fund. During the year the value of AVC investments decreased by £1.642m to £1.173m as at 31 March 2021 (2020.21: £0.312m) excluding the final bonus.

31. Contingent Liabilities and Contractual Commitments

In recognition of legal judgements, the funding valuation position included an allowance for full Guaranteed Minimum Pension equalisation (indexation) treatment since 31 March 2020. A further ruling on Guaranteed Minimum Pension historical transfers is unlikely to be significant in terms of impact on the pension obligations. An allowance for the estimated impact of the McCloud judgement is also included within the funding valuation position noted above. Whilst there is still uncertainty surrounding the potential remedy to the Goodwin judgement the approximate impact is likely to be minimal, therefore there has been no adjustment applied to the valuation.

The results of the 2017 cost cap will be finalised in 2021/22 and are not anticipated to impact on the employer contribution rates recently certified and put in place by the LGPS administering authority from 1 April 2021.

As at the 31 March 2022, as part of the transitioning arrangements to the revised investment strategy, the Fund had contractual commitments to invest up to £2.6m and £32.0m across two new mandates to Private Debt. The drawdowns of these commitments are expected to continue over the next two years and will be funded from within the Fund's portfolio of investments.

Independent Auditor’s Report

Independent auditor’s report to the members of Orkney Islands Council as administering authority for Orkney Islands 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 Orkney Islands Council Pension Fund (the fund) for the year ended 31 March 2022 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 annual accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted, and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the financial transactions of the fund during the year ended 31 March 2022 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 2021/22 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 10 April 2017. The period of total uninterrupted appointment is six years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council’s Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. 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 Corporate Director of Enterprise and Sustainable Regeneration and Orkney Islands Council Pension Fund Sub Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Corporate Director of Enterprise and Sustainable Regeneration 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 Corporate Director of Enterprise and Sustainable Regeneration 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 Corporate Director of Enterprise and Sustainable Regeneration is responsible for assessing the fund 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 Orkney Islands Council Pension Fund Sub Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the fund is complying with that framework;

- identifying which laws and regulations are significant in the context of the fund;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

Reporting on other requirements

Other information

The Corporate Director of Enterprise and Sustainable Regeneration is responsible for other information in the annual report. The other information comprises the Management Commentary, Statement of Responsibilities for the Annual Accounts, Remuneration Report Annual Governance Statement, Governance Compliance Statement and other reports included in the annual report other than the financial statements and my auditor's report thereon.

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

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

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

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, 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 120 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.

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

Annex 1 - Scheduled and Admitted Bodies

Orkney Islands Council Pension Fund

Scheduled Bodies

- Orkney Islands Council

Admitted Bodies - Active

- Orkney Ferries Limited
- Orkney Enterprise
- Pickaquoy Centre Trust
- Orkney Islands Property Development Limited

Annex 2 – Actuarial Statement for 2021-2022

Orkney Islands Council Pension Fund (the Fund)

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 March 2021. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% 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 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £377 million, were sufficient to meet 118% of the liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £58 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

Financial assumptions	31-Mar-20
Discount rate	2.9%
Pay increases	2.2%
Price inflation/Pension increases	1.7%

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

	Males	Females
Current Pensioners	21.5 years	23.9 years
Future Pensioners*	23.2 years	26.1 years

*Currently aged 45.

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

Experience over the period since 31 March 2020

Markets were severely disrupted by COVID-19 at the 31 March funding valuation date resulting in depressed asset values but recovered very strongly in 2020 and 2021. Due to the war in Ukraine, early 2022 resulted in volatile markets, which affects values at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be significantly better than that reported at the previous formal valuation as at 31 March 2020.

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

Tom Hoare FFA
For and on behalf of Hymans Robertson LLP
30 May 2022
Hymans Robertson LLP
20 Waterloo Street, Glasgow G2 6DB

Annex 3 - Glossary of Terms

Active Management

An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or asset allocation. Compare this with Passive Management.

Asset Allocation

The division of the Fund's assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund's strategic financial objectives. In the short-term tactical changes might be made to achieve short- term advantage.

Balanced Management

An arrangement under which investments are spread over a range of asset classes at the manager's discretion. The manager controls investments over as many classes as are available under the Fund's overall strategy. Compare this with specialist management.

Growth Manager

An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with value manager.

Mandate

An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

Passive Management

A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with active management.

Pooled Fund

A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with segregated fund.

Return

The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall "Return" would be negative.

Risk

The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

Segregated Fund

The management of a particular fund’s assets independently of those of other funds managed by the same investment house. Compare this with a pooled fund.

Specialist Management

The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

Value Manager

A manager who selects stocks that he believes to have potential that is not reflected in the price. This is sometimes caricatured as buying stock because it is cheap. Compare this with growth manager.

Vested/Non- Vested Obligations

Vested obligations refer to employee benefits that are not conditional on future employment. Non- vested obligations refer to employee benefits that are conditional on future employment.

Pension Fund Strain

The cost to employers of the early release of pension benefits.

Operating Surplus/Deficit

The surplus/deficit arising from dealing with members, employers and others directly involved in the scheme.

Additional Information

Key Documents Online

You can find further information on our website:

Pension Fund Annual Reports (orkney.gov.uk), Including the following documents:

- Annual Report and Accounts

Auditors	Audit Scotland
Fund Actuaries	Hymans Robertson
Bankers	Royal Bank of Scotland
Investment Advisors:	Hymans Robertson
Investment Custodians:	Bank of New York Mellon
Performance Measurement:	Hymans Robertson
Additional Voluntary Contributions (AVC) Managers:	Prudential
Investment Managers:	Baillie Gifford & Co
	Barings
	LGIM
	IFM

Contact Details

For further information and advice on administration, benefits and scheme membership please contact:

Bryan Hay	Telephone: 01856 873535.	Extension: 2108.
Pensions Manager	Email: bryan.hay@orkney.gov.uk	

Scheme members should have a copy of the "Employees' Guide to the Local Government Pension Scheme Administered by the Orkney Islands Council" and can obtain their own copy of an Annual Report on request or visit Orkney Islands Council Pension Fund website at: https://www.orkney.gov.uk/.

For further information on the Fund's Investments, please contact:

Gareth Waterson	Telephone: 01856 873535.	Extension: 2103.
Corporate Director of Enterprise & Sustainable Regeneration	Email: gareth.waterson@orkney.gov.uk	
Erik Knight	Telephone: 01856 873535.	Extension: 2127.
Head of Finance	Email: erik.knight@orkney.gov.uk	

Statement of Investment Principles

This is the Statement of Investment Principles (the “Statement”) required by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (the “2010 Regulations”). The Statement adheres to the requirements set out in the these regulations, in line with best practice.

The Statement has been adopted by the Pension Fund Sub Committee (the “Committee”), which acts on the delegated authority of the Orkney Islands Council, the administering authority for the Orkney Islands Council Pension Fund (“the Fund”). The Statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the Committee has consulted with the administrating authority and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (details of which are set out in the Fund’s CIPFA Adherence document, attached to this Statement). The strategic benchmark is reflected in the investment structure adopted by the Committee; this comprises a mix of segregated and pooled investments. The Fund benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

Limits on Investments

In 2010, the Committee agreed to increase the limit on investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body, from 25% to 35% (the upper limit specified in Schedule 1 of the 2010 Regulations). Before taking this decision, the Committee took appropriate advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The Committee made this decision on the basis that investment in the pooled funds concerned was effective both in terms of cost and in terms of broader portfolio diversification within the pooled funds concerned.

This decision was reviewed as part of the 2018/2019 investment strategy review which proposed changes to the Fund structure and the exposure to underlying pooled funds. The investment strategy review carried out in 2021 concluded the strategy remained appropriate. The Committee continues to believe the upper limit is appropriate and has also taken written advice on this matter. Note, under the new target investment strategy the Fund is expected to fall within this 35% limit, however, this is a gradual process and therefore the position will be reviewed on a regular basis and at least on a triennial basis.

Types of investment to be held

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, corporate bonds, alternative credit, cash, property, infrastructure and commodities, either directly or through pooled funds.

The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

Balance between different kinds of investments

The Committee has appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business in respect of various different asset classes.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that it is consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of appropriate investments which reflect their views relative to their respective benchmark. Within each major market and asset class, each manager will maintain appropriately diversified portfolios through direct investment or pooled vehicles.

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

Funding risks:

- **Financial mismatch**
    - The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities.
    - The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- **Changing demographics** –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- **Systemic risk** - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee will also consider rebalancing the asset allocation if it is deemed to deviate significantly from the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- **Concentration** - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- **Illiquidity** - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- **Manager underperformance** - The failure by any of the Fund's managers to achieve the rate of investment return assumed in setting its mandate.

- **Currency risk** – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- **Environmental, Social and Governance (ESG)** - The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision-making, leading to underperformance relative to expectations.

- **Climate** - The extent to which climate change causes material deterioration in asset value due to factors including, but not limited to: policy change, physical impacts, and the expected transition to a low-carbon economy.

The Committee manages asset risks as follows:

- It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment approaches each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committees' expected parameters.

- By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. The Committee previously diversified its manager underperformance risk following amendments to the Fund strategy and structure. This helped to reduce the concentration risk the Fund was previously exposed to.

- By investing across a number of investment managers, the Fund has reduced their risk exposure to the underperformance of one manager.

- The Committee's approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- **Transition risk** - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.

- **Custody risk** - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- **Credit default** - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund.

Realisation of investments

The majority of assets held by the Fund may be realised quickly if required.

Environmental, Social and Governance (ESG) Considerations

The Committee recognises that ESG issues are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The managers have produced statements setting out their policies in this regard. The managers have been delegated by the Committee to act accordingly. The Committee requires all managers appointed to manage assets for the Fund to be signatories to the United Nations Principles for Responsible Investment (UN PRI). The principles are set out in the appendix to this document.

Financially material considerations

The Committee recognises that the consideration of financially material factors, including ESG factors and climate risk, are relevant to the development, selection and monitoring of the Fund’s investment options.

Exercise of Voting Rights

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by it with the objective of preserving and enhancing long term shareholder value alongside ensuring that investments meet the ESG considerations outlined in their policy statements in this regard. Papers to Committee will include information on voting, engagement and disinvestment activity which seeks to effect change on ESG considerations. Accordingly, where applicable each manager is required to produce written guidelines of its process and practice in this regard. Each manager is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Committee, which includes both pooled and segregated holdings.

Within segregated mandates, the Committee has absolute discretion over whether stock lending is permitted. The Committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Committee has decided not to permit stock lending within any of its segregated investment mandates.

Managers may undertake a certain amount of stock lending on behalf of unitholders within its pooled fund holdings. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. The Committee has no direct control over stock lending in pooled funds; nevertheless, it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

The Committee reviews its policy on stock lending (including the amount and type of collateral used) on a regular basis.

Additional Voluntary Contributions (AVCs)

The Committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

CIPFA Compliance

The Committee has set out details of the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy’s publication, ‘Investment Decision Making and Disclosure in the Local Government Pension Scheme – a guide to the application of the Myners Principles' in the Fund's CIPFA Adherence document which is attached to this Statement.

Signed For and on Behalf of the Pension Fund Sub Committee of the Orkney Islands Council as Administering Authority for the Orkney Islands Council Pension Fund

Position	Position

Appendix – UN Principles for Responsible Investment

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, investors publicly commit to adopt and implement them, where consistent with their fiduciary responsibilities. They also commit to evaluate the effectiveness and improve the content of the Principles over time. They believe this will improve the ability to meet commitments to beneficiaries as well as better align investment activities with the broader interests of society.

The six principles are as follows:

Principle 1
We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2
We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3
We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4
We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5
We will work together to enhance our effectiveness in implementing the Principles.

Principle 6
We will each report on our activities and progress towards implementing the Principles.

Orkney Islands Council Pension Fund

Statement of Compliance with the CIPFA Principles

November 2022 Version 2022 V11

Prepared by the Pension Fund Sub Committee of Orkney Islands Council

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CIPFA Principles of Investment Practice

This document forms the Statement of Compliance with the Principles of Investment Practice as set out by CIPFA, the Chartered Institute of Public Finance Accountancy. It is maintained by Hymans Robertson LLP and the Head of Finance on behalf of the Pension Fund Sub Committee ("the Sub Committee") of Orkney Islands Council.

This document was brought into force on 30 June 2003. The practices described within this document form the basis for investment decision making by the Sub Committee. This document is reviewed from time to time, and is made available to members on request. Details of version control and changes are provided in the Appendix to this document.

The document also provides information on all of the Fund's investment service providers (investment manager(s), custodian(s), adviser(s), etc.) along with details of the nature of the services they provide and how their performance in these roles is assessed.

This is current version of the document (2022 V11) and was agreed by the Committee Members in November 2022.

Signed:

Chairman of the Pension Fund Sub Committee

Orkney Islands Council Pension Fund

November 2022

1 Effective decision making

Principle

Administering authorities should ensure:

- That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Orkney Islands Council

The Council is responsible for the following activities.

- The Council will determine the allocation of new money to the managers. Similarly, in the event that assets need to be realised in order to meet the Fund's liabilities, the Council will determine the source of this funding.
- The Council will be responsible for any changes to the terms of the mandates of existing managers.
- The Council will be responsible for the appointment and termination of managers.
- The Council is responsible for socially responsible investment, corporate governance and shareholder activism. It has delegated these tasks to the Fund's managers, who conduct the delegated tasks in line with the Council's policies.
- The Council will be responsible for the appointment and termination of AVC providers.
- The Council is responsible for maintenance of the Statement of Investment Principles (SIP) and the document setting out the Fund's CIPFA Principles of Investment Practice disclosure.

The Council has delegated the Fund's monitoring responsibilities to the Pension Fund Sub Committee.

Pension Fund Sub Committee Terms of Reference

The Sub Committee is responsible for monitoring all aspects relating to the investment of the assets of the Fund. Their specific responsibilities are as follows:

- The Sub Committee will formally review the Fund's asset allocation at least annually, taking account of any changes in the profile of Fund liabilities and any guidance regarding tolerance of risk. They will recommend changes in asset allocation to the Council.
- The Sub Committee will consider and monitor the Quarterly Reports produced by their Investment Manager and investment Consultant. In addition to managers' portfolio and performance reporting, the Sub Committee will also receive and review information from the managers on risk analysis, transaction costs, and details of corporate governance (including ESG matters).
- The Sub Committee will formally review annually each mandate, and its adherence to its expected investment process and style. The Sub Committee will ensure that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale.
- The Sub Committee will consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) at least annually.
- In the event of a proposed change of managers, the Sub Committee will evaluate the credentials of potential managers.

- The Sub Committee will monitor the Fund's approach to Environmental, Social and Governance (ESG) issues.
- The Sub Committee will regularly review the Fund's AVC arrangements. If they consider a change is appropriate, they will make recommendations to the Council.
- The Sub Committee will monitor the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually. The Sub Committee will be responsible for the appointment and termination of providers.
- The Sub Committee will conduct and conclude the negotiation of formal agreements with managers, custodians and other investment service providers.
- In order to fulfil their roles, the members of the Sub Committee will be provided with appropriate training, initially and on an ongoing basis.
- The Sub Committee is able to take such professional advice as it considers necessary.
- The Sub Committee will keep Minutes and other appropriate records of its proceedings, and circulate these Minutes to the Council.
- The Sub Committee may also carry out any additional tasks delegated to it by the Council.

Any changes to the membership of the Sub Committee require the approval of the Council.

Membership of the Sub Committee consists of a minimum of seven members with a quorum of three members. All Sub Committee members are expected to have or, for new members, to develop sufficient expertise in investment matters to be able to conduct their Sub Committee responsibilities and to interpret the advice which they receive.

Other Delegated Investment Decisions

Delegation to Officers

Preparation of annual budgets and business plan for the Fund.

Delegation to Investment Managers

Day to day management of the Fund's investment portfolios and related activities has been delegated to the Fund's investment managers. This includes:

- Investment of the Fund's assets.
- Tactical asset allocation around each mandate's benchmark within agreed guidelines.
- Preparation of quarterly reporting including a review of investment performance and where relevant, voting, and engagement activity in relation to ESG considerations and the purchase, retention and disinvestment of assets.
- Attending meetings of the Investment Sub Committee.
- Providing Fund accounting data concerning the investment portfolio and transactions.

Details of the appointed managers can be found in Section 2.

Delegation to Custodian

The appointed Custodian, where necessary, is responsible for settlement of all investment transactions, collection of income, tax reclaims and corporate action administration. However, the Fund also directly invests in a range of pooled funds which have their own underlying custody arrangements.

Actuary to the Fund

The Actuary is responsible for

- Undertaking a triennial valuation of the Fund’s assets and liabilities.
- Setting the Fund’s contribution rate.
- Providing advice on the funding level and maturity of the Fund which the Pension Fund Sub Committee can take into consideration when balancing the Fund’s investment and funding objectives.

Expert Advice

- The Sub Committee receives investment and actuarial advice from Hymans Robertson LLP.
- At the time of appointment of consultants, the Sub Committee did not invite tenders for actuarial and investment advice separately. The Sub Committee will arrange for separate competition when it next tenders either activity.
- At present there are no separate contracts in place.

Other Advice

- In addition to the investment consultant, the Sub Committee also seeks advice (where relevant) from the Fund’s Actuary and the Council’s Head of Finance.
- There are no independent advisers appointed to the Pension Fund Sub Committee.

Assessment of Advice

All advice is assessed as described in Section 4.

2 Investment objective

Principle

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.

Fund Objective

The Fund is a Local Government Pension Scheme (LGPS).

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. Benefits for active members increase in line with salaries. Benefits for preserved members are subject to statutory increases.

The Council aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer (Orkney Islands Council) to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

Basis of Evaluation

An actuarial valuation of the Fund is conducted at least every three years in accordance with the LGPS regulations. The last actuarial valuation was conducted as at 31 March 2020. The results disclosed an ongoing funding level of 118%.

The position of the Fund is monitored each year in consultation with the employers and the Actuary.

Strategic Asset Allocation and Manager Structure

The Fund's investment strategy and manager structure was formally reviewed in 2021 following the completion of the 2020 actuarial valuation.

The strategy review provided assurance that the interim and long-term strategies remained appropriate in the context of the Fund's long-term objectives.

The Fund's investment manager arrangements are summarised in Table 2.1 below:

Table 2.1

Manager	Appointed	Brief	Interim Target %	Long-term target %
Baillie Gifford	April 1995	Multi-asset	75	60
Barings	October 2019	Private Debt	5	10
IFM	October 2019	Infrastructure	5	10
Legal and General	May 2020	Bonds	15	20

Custody

The Fund's custodian is the Bank of New York Mellon.

Baillie Gifford

Baillie Gifford's mandate was formally reviewed as part of the 2018/19 exercise with a new strategy and structure implemented during Q4 2019 and Q1 2020 and subsequently reviewed in 2021. Previously responsible for managing all assets within the Fund across a multi-asset mandate, under the new arrangement Baillie Gifford will focus solely on managing the Fund's growth mandates i.e. UK equities, global equities and diversified growth funds. The target allocation was reduced from 90% to 75% following the implementation of the bond mandate in May 2020 with a further reduction planned to move to a long term target of 60%.

Barings

Following the 2018/19 investment strategy review and a subsequent procurement exercise, Barings were appointed as the Fund's Private Debt manager in October 2019. The manager continues to build towards the new target allocation as commitments are drawn down by the underlying private debt fund. A further commitment to the manager was agreed in 2021 to bring them towards their 19% long-term target.

IFM

Following the 2018/19 investment strategy review and a subsequent procurement exercise, IFM was appointed as the Fund's infrastructure manager in October 2019. The commitment was drawn down in December 2021 and represented c5% of total assets. The Fund has a long-term strategic allocation of 10% to infrastructure. The Committee explored potential options to increase the infrastructure allocation in the first half of 2022. In September 2022, the Committee held a manager selection meeting with short-listed managers, and it was agreed to invest in the IFM Net Zero Infrastructure Fund to move the Fund towards the 10% long-term target.

Legal and General

Following the procurement exercise, through the National Passive Framework, Legal and General were appointed as the passive bond specialist for the Fund. The manager was appointed in Q1 2020 with an initial target allocation of 15%. Timing of a move towards the long-term target of 20% is still to be agreed.

The target allocations and ranges that currently apply to each of these mandates are shown in Table 2.2. The associated benchmarks for the Scheme and mandates are addressed in Table 2.3.

Table 2.2

Asset Class	Interim Target (%)	Range (%)	Long-term target %
UK Equities	*8.0*	46-56	7.0
Overseas Equities	*43.0*		36.0
Diversified Growth Funds	24.0	19 - 29	17.0
Total Growth	**75.0**	**65-85**	**60.0**
Infrastructure	5.0	N/A	10.0
Private Debt	5.0	N/A	10.0
Total Income	**10.0**	**N/A**	**20.0**
UK Gilts	7.5	2.5 – 12.5	10.0
Index-linked gilts	7.5	2.5 – 12.5	10.0
Cash	0.0	0 - 10	0.0
Total Protection	**15.0**	**5-25**	**20.0**
Total	100		100

The managers oversee their respective mandates in line with the LGPS regulations. There are no restrictions in place with manager agreements which prevents them from investing in any financial instrument permitted in these regulations, except to the extent that derivative instruments may only be used on a segregated basis for the purposes of risk reduction and efficient portfolio management.

The Sub Committee recognises that the pursuit of superior performance through active management also carries the risk of underperformance. However, they believe and the relevant manager(s) accept that the guidelines set will contain risk within the tolerance that the Sub Committee deems acceptable.

The Sub Committee has considered the extent to which their managers expect to achieve outperformance through stock and sector selection and asset allocation. They have considered the risks associated with stock and sector concentration in each of the markets in which they invest.

For the relevant mandates the managers will provide details on the levels of turnover and commission levels on a quarterly basis. Furthermore, it is the expectation that all managers will provide transparent cost information to enable the Sub Committee to monitor transaction costs (in line with the transaction cost reporting framework of the Fund Management Association).

As part of the provision of transparent information, the Fund requires managers, where relevant, to disclose the use of soft commission arrangements.

The Sub Committee takes advice from its investment consultant relating to manager's transaction costs.

Benchmarks

Each manager is assigned an appropriate benchmark with a composite benchmark constructed to assess the Fund's performance at Scheme level.

The benchmark is used

- To evaluate each manager's relative performance
- To monitor the extent of each manager's deviations from benchmark performance

At the asset class level, the manager's activity is assessed relative to specific stock market indices (e.g. the FTSE All-Share index for UK equities).

The use of benchmarks for assessing managers, providers, officers and the Sub Committee is discussed in Section 4.

Benchmark Indices

The Sub Committee discusses the appropriateness of the asset class indices with its investment managers and investment consultant on an annual basis. The review takes account of changes in the constituency of indices, their degree of concentration, changes made by index providers, new classes of assets, and changes in the profile of liabilities which may affect the duration of bond indices. The benchmarks currently in place are set out in the table below. Please note the Fund will be gradually moving to the long-term target as the private debt and infrastructure mandates draw down capital where the same benchmark indices will apply:

Table 2.3

Asset Class	Interim Target (%)	Benchmark
UK Equities	8	FTSE All Share
Overseas Equities	43	MSCI All Countries World
Alternatives	24	UK base rate +3.5% p.a.
Infrastructure	5	Absolute 8.0% p.a.
Private Debt	5	Absolute 8.0% p.a.
UK Gilts	7.5	FTSE UK Gilts All Stocks
Index-linked gilts	7.5	FTSE Over 5 years index-linked gilts
Total	100	Composite

The Sub Committee recognises that the setting of index benchmark targets can encourage managers to closet index, i.e. to hug the index too closely to be able to deliver the performance target set. The Sub Committee has discussed this subject where relevant with its managers and investment consultant. In setting tracking error guidelines, the Sub Committee has indicated limits to its manager so that the risk it takes is consistent (i.e. neither too little or too great) in relation to its performance target. The Sub Committee monitors the manager's tracking error (see Section 4).

Investment Structure

The Sub Committee has considered its investment structure, the choice between active and passive management, the number of managers it might employ, and where risk might best be exploited.

The Sub Committee has appointed specialist managers for each asset class within the benchmark allocation, thereby diversifying the manager risk.

Baillie Gifford are the active manager responsible for all growth assets. Legal and General were appointed to passively manage the Fund's bond allocation whilst IFM and Barings manage the infrastructure and private debt allocations respectively.

As the active growth manager within the Fund, Baillie Gifford are responsible for managing each of their growth mandates around their assigned benchmarks within the guideline set.

In choosing to diversifying by number of managers and style in the form noted above, the Sub Committee has considered, and is prepared to tolerate the potential risks associated with the Funds overall pursuit of outperformance.

3 Risk and liabilities

Principle

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Basis for Determining Fund Benchmark

The Benchmark of the Fund is bespoke and reflects the objectives and circumstances of the fund.

The asset mix takes account of diversification between asset classes.

The Investment Managers have their own individual benchmarks as outlined in Section 2. The individual manager benchmarks are subsequently used to construct an aggregate Scheme benchmark.

Risk

The return assumptions required to achieve and maintain the Fund Objective are set out in the Actuarial Valuation. The benchmark adopted by the Sub Committee for the Fund is designed to achieve that return over the long term. The Sub Committee recognises that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.

Asset Classes

In setting the Scheme benchmark, the Sub Committee considered all the principal asset classes listed in the CIPFA Guidance.

Periodic Review

The Sub Committee most recently reviewed the Fund benchmark at their meeting in April 2021.

4 Performance assessment

Principle

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Investment managers

Managers provide summaries and detailed portfolio valuations, consolidated transaction reports and balance sheet and income statements on a regular basis. They also provide details of performance. The Sub Committee obtains regular performance and manager monitoring from Hymans Robertson LLP with effect from 1 April 2017.

Manager Monitoring Activity

The Sub Committee monitors the relative and absolute performance of its investment managers on a quarterly basis. However, more formal reviews also take place with the Fund undertaking more formal reviews of each manager annually.

These reviews consider not only investment returns but also an assessment of the managers' adherence to its mandate requirements including the full range of activities delegated to them. The Sub Committee also considers the manager's investment process, stability of key personnel, market position and Environmental, Social and Governance considerations.

Investment Consultant Monitoring Activity

The Sub Committee monitors performance of its investment consultant, Hymans Robertson, at regular intervals (usually annually) against the CMA investment consultant objectives in place. The consultant provides guidance on asset allocation, benchmark setting, risk and goal setting of the investment managers, manager monitoring, manager selection and general information on legislation, industry background and securities markets (all from an investment perspective).

Sub Committee and Officers

The Sub Committee reviews the investment decisions undertaken by officers and by the Sub Committee, to check their appropriateness and whether outcomes might have been improved. This includes:

- How the overall Fund benchmark has performed relative to liabilities and relative to its comparable LGPS peers.
- How the Sub Committee interpreted advice provided by the investment consultant.
- Sub Committee recommendations and Council decisions undertaken over year concerning service provider and manager changes, benchmark changes, mandate changes, and transitions between mandates.
- How the managers performed on voting rights and engagement to address ESG concerns.

5 Responsible ownership

Principle

Administering authorities should

- adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- include a statement of their policy on responsible ownership in the Statement of Investment Principles.
- report periodically to scheme members on the discharge of such responsibilities.

Governance and Voting

The Council has delegated the following tasks to the investment managers.

- Engaging with companies in which the Fund invests concerning ESG matters.
- The exercises of voting rights on the basis that voting power will be exercised by the manager with the objective of preserving and enhancing long term shareholder value and exposure to the risks associated with poor ESG records.

Accordingly, managers at the request of the Fund have produced written guidelines of its process and practice in both matters where relevant to the mandate.

Managers are encouraged to vote in line with these guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Engagement and Activism

As the Fund's active growth asset manager, Baillie Gifford has disclosed its own policy on ESG, engagement and activism which it exercises on behalf of client's investment mandates when the client has delegated responsibility for these activities to Baillie Gifford. It votes proxies on behalf of the Fund and engages with the companies in which it invests. Baillie Gifford reports its voting activity to the Sub Committee on a regular basis.

UN Principles for Responsible Investment (PRI)

The Sub Committee have made it a requirement that all managers appointed to manage assets on behalf of the Fund are signatories to the UN PRI. All managers appointed are a signatory under UN PRI and therefore meet this requirement.

6 Transparency and reporting

Principle

Administering authorities should

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- should provide regular communication to scheme members in the form they consider most appropriate.

Approach

This document should be read in conjunction with the Fund's Statement of Investment Principles. Taken together, these documents provide the framework for the Fund's investment operations.

Section 1 of this document describes the structure for making investment decisions for the Fund, the split of responsibilities among the Council, Pension Fund Sub Committee, Investment Manager, Custodian, Scheme Actuary, Investment Consultant and other providers.

Sections 2 describes the roles and mandates of external providers (consultant, investment managers, etc).

Other Advice

In addition to the investment consultant, the Sub Committee also seeks advice (where relevant) from the Fund's Actuary and the Council's Head of Finance.

There are no independent advisers appointed to the Pension Fund Sub Committee.

Assessment of Advice and Decision Making

All advice and decision making is assessed as described in Section 4.

Regular reporting

The Council makes the following documents available to Fund members on request.

- The Statement of Investment Principles.
- Details of the Fund's adoption of the CIPFA Principles of Investment Practice (i.e. this document).

Both documents are revised periodically, in any event, and when changes occur.

Appendix A - Version control record

Table of Amendments

The attached Table records changes to this document.

Version	Nature of Change	Implemented
2003 V1	Initial Creation	30 June 2003
2004 V2	Final Document	31 October 2004
2007 V3	Benchmark change	10 July 2007
2009 V4	Review document	30 June 2009
2010 V5	Update following structure change and consolidation on principles from 10 to 6	21 December 2010
2011 V6	Increase range limit on cash holding from 0-5% to 0-10%	27 September 2011
2013 V7	Regular review and update following valuation and proposal on pooled funds	28 February 2013
2017 V8	Review and update following completion of strategic review, discussions on ESG and adopting and implementation of new Fund specific benchmark	22 November 2017
2018 V9	Regular review and update following valuation	September 2018
2020 V10	Regular review and update following investment strategy review, including mandate and manager changes	February 2020
2022 V11	Regular review, including mandate and manager changes reflecting move to long term target allocations	November 2022