

## **Item: 10**

**Pension Fund Sub-committee, together with Pension Fund:  
24 November 2021.**

### **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 24 November 2021.

## Minute

### **Pension Fund Sub-committee, together with Pension Board**

Wednesday, 24 November 2021, 09:30.

Microsoft Teams.



## **Present**

### **Pension Fund Sub-committee:**

Councillors W Leslie Manson, Alexander G Cowie, Steven B Heddle, Rachael A King, Stephen Sankey and James W Stockan.

### **Pension Board:**

### **Employer Representatives:**

Councillors J Harvey Johnston, Owen Tierney and Duncan A Tullock, Orkney Islands Council.

### **Trade Union Representatives:**

Karen Kent (Unison) and Eileen Swanney (Unison).

## **Clerk**

- Sandra Craigie, Committees Officer.

## **In Attendance**

- Gareth Waterson, Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.
- Colin Kemp, Interim Head of Finance.
- Shonagh Merriman, Interim Corporate Finance Senior Manager.
- Paul Maxton, Solicitor (for Items 3 to 10).

### **Audit Scotland:**

- Claire Gardiner, Senior Audit Manager.
- Colin Morrison, Senior Auditor.

## **Observing**

- Katie Gibson, Accounting Officer.
- Lorraine Stout, Press Officer (for Items 8 to 10).

## **Apology**

### **Pension Sub-committee:**

- Councillor Barbara Foulkes.

## **Not Present**

### **Pension Board:**

### **Trade Union Representatives:**

- Eoin Miller (Unite).
- Mark Vincent (GMB).

## **Declarations of Interest**

- No declarations of interest were intimated.

## **Chair**

- Councillor W Leslie Manson.

## **1. Form of Voting**

The Sub-committee resolved that, should a vote be required in respect of the matters to be considered at this meeting, notwithstanding Standing Order 21.4, the form of voting should be by calling the roll (recorded vote).

## **2. Disclosure of Exempt Information**

The Sub-committee noted the proposal that the public be excluded from the meeting for consideration of Items 8 and 9, 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.

## **3. Orkney Islands Council Pension Fund**

### **Audit Report to those charged with Governance**

After consideration of a report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, copies of which had been circulated, and after hearing a report from the Senior Audit Manager, Audit Scotland, the Sub-committee:

Noted:

**3.1.** That Audit Scotland, as the Council's external auditors, had concluded their audit of the Orkney Islands Council Pension Fund Annual Report and Accounts for the year ended 31 March 2021.

**3.2.** That Audit Scotland had provided an unmodified certificate on the Pension Fund Annual Report and Accounts for the year ended 31 March 2021.

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

**3.4.** 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.

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

**3.6.** Audit Scotland's covering letter in respect of the Orkney Islands Council Pension Fund Annual Audit Report, attached as Appendix 1 to the report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.

**3.7.** Orkney Island's Council's Letter of Representation to Audit Scotland in connection with their audit of the financial statements of Orkney Islands Council Pension Fund for the year ended 31 March 2021, attached as Appendix 2 to the report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.

**3.8.** The Annual Audit Report to Members of the Pension Fund Sub-committee and the Controller of Audit, in respect of the Orkney Islands Council Pension Fund, attached as Appendix 3 to the report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.

Karen Kent joined the meeting during discussion of this item.

#### **4. Pension Fund – Annual Accounts**

After consideration of a report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, copies of which had been circulated, and after hearing a report from the Interim Head of Finance, the Sub-committee:

Noted:

**4.1.** 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 related.

**4.2.** 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 2021 to 31 December 2021.

**4.3.** That, to enable Audit Scotland to manage competing priorities, a revised timetable had been agreed and the signed Annual Accounts, together with an appropriate audit certificate, would be published by 30 November 2021.

**4.4.** The Management Commentary, comprising pages 1 to 12 of the Annual Report and Accounts of the Orkney Islands Council Pension Fund, attached as Appendix 1 to the report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, which provided an overview of the most significant matters reported in the Annual Accounts for financial year ended 31 March 2021, with the key facts and figures summarised at section 4.3 of the report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.

The Sub-committee resolved, in terms of delegated powers:

**4.5.** That the Annual Report and Accounts of the Orkney Islands Council Pension Fund 2020/2021, attached as Appendix 1 to this Minute, be approved.

## **5. Revenue Expenditure Monitoring**

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

Noted:

**5.1.** 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 2021, attached as Annex 1 to the report by the Head of Finance, which indicated a budget surplus position of £35,123,900.

**5.2.** 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 2021, attached as Annex 2 to the report by the Head of Finance.

The Sub-committee scrutinised:

**5.3.** 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.

## **6. Pensions Administration – Performance**

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

Noted:

**6.1.** That the Orkney Islands Council Pension Fund invested and administered pensions on behalf of five current and former employers, including Scheduled Bodies brought into the Fund by legislation and Admitted Bodies who were permitted to join the Fund.

The Sub-committee scrutinised:

**6.2.** The main Pension Fund administration activities for the period 1 April to 30 September 2021, as detailed in sections 4 to 9 of the report by the Head of Finance, including the performance indicators detailed in section 6.3, and obtained assurance.

## **7. Exclusion of the Public**

On the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, the Sub-committee resolved that the public be excluded for the remainder of the meeting, as the business to be considered involved the disclosure of exempt information of the classes described in Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

Councillor James W Stockan and Karen Kent left the meeting at this point.

## **8. Statement of Managed Pension Funds**

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been 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 Act.

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

Noted:

**8.1.** 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 2021.

**8.2.** That the Pension Fund investments returned a gain of £300,000 which, after transfers into the Fund were taken into account, equated to a loss of 0.1% over the quarter to 30 September 2021, which was 1.5% behind benchmark and was considered poor.

**8.3.** That the value of the Pension Fund had increased by 16.9% over the 12-month period to 30 September 2021, which was considered exceptional, and was 2.5% ahead of the target.

**8.4.** That an average return of 12.0% per annum for the Pension Fund remained 2.6% ahead of the target over the five-year period.

**8.5.** The Governance Summary extracted from Baillie Gifford's performance report for the quarter ending 30 September 2021, attached as Appendix 2 to the report by the Head of Finance.

**8.6.** The Corporate Governance Summary extracted from Legal and General's investment report for the quarter ending 30 September 2021, attached as Appendix 3 to the report by the Head of Finance.

## **9. Review of Investment Strategy**

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraphs 6 and 9 of Part 1 of Schedule 7A of the Act.

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

Resolved, in terms of delegated powers, what action should be taken with regard to a review of the investment strategy for the Pension Fund.

**The above constitutes the summary of the Minute in terms of the Local Government (Scotland) Act 1973 section 50C(2) as amended by the Local Government (Access to Information) Act 1985.**

Karen Kent rejoined the meeting during discussion of this item.

## **10. Conclusion of Meeting**

At 11:42 the Chair declared the meeting concluded.

Signed: W L Manson.





**ORKNEY**  
**ISLANDS COUNCIL**

**Annual Report and Accounts of the  
Orkney Islands Council Pension Fund  
2020/2021**



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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 2021.

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 2020-2021 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 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 2021 was £520.8 million (£376.6m at 31 March 2020).
An Operational and Investment Income Surplus of £144.2 million was incurred on the activities of the fund (compared to a loss of £14.2m for the year ended 31 March 2020).
The increase in fund value over the year was largely the result of a gain on market value of investments of £140.2m. Outflows, including benefits payable (£8.6m) and management expenses (£2.3m) were offset by investment income of £5.8m and contributions receivable of £10.5m. Overall, this represents a year on year increase of 38.3% in the value of the fund.
Performance of the Fund on a three year rolling average basis has been 12.0% p.a., giving a relative return above benchmark of 2.5%.
Fund membership increased by 119 to 4,167.
Employers contributed £7.7 million to the Fund (£7.6m to 31 March 2020).
Employees contributed £2.8 million (£2.7m to 31 March 2020).
Pension and other benefits paid out were £8.5 million (£8.9m to 31 March 2020).
Transfer values paid into the Fund because staff changed employers was £0.6 million (£1.1m to 31 March 2020).
Transfer values out of the Fund because staff changed employers was £2.1m (£0.4m to 31 March 2020), including group transfer totalling £0.9m (£0m to 31 March 2020).

Despite a turbulent and uncertain year, the Pension Fund's investments benefited from a strong recovery returning a gain of 38.3% over the 12 months to 31 March 2021, which was 14.1% ahead of the fund specific benchmark.

Driving this total return figure was Baillie Gifford's Global Alpha Fund which achieved a gain of 56.9% over the year, largely down to investments within the US technology sector.

The UK equity holding with Baillie Gifford lagged behind initially due to the sectoral composition of the UK market versus its global counterparts, the higher allocation to cyclical sectors like financials and oil & gas weighing on return. However, the rotation into more cyclical stocks on the back of positive vaccine programmes towards the end of 2020 and start of 2021 provided a boost to the UK market and a return to performance for the Baillie Gifford mandate. By 31 March 2021 it had returned 37.3%.

Performance from the two multi asset investments with Baillie Gifford, the Diversified Growth Fund and the Multi-asset Growth Fund had steadier return profiles, particularly in the first three quarters, which is as expected from strategies that invest across a range of asset classes. 12 month returns were still strong at 17.8% and 19.2% respectively.

The Fund's gilts holdings (fixed-interest and index-linked) were transferred to Legal and General Investment Management (LGIM) from Baillie Gifford in April 2020 as part of the transition to a revised investment strategy, and are now held as part of a pooled fund. Since inception, performance has been challenging as a result of the rising yield and uncertain inflation environment. 10-year UK gilt yields have risen from 0.3% to 0.9%. As a result, the mandate has fallen back over the period returning -5.7%.

Returns from the Fund as a whole have performed ahead of its benchmark over each of the previous 1, 3 and 5-year periods. The target is for the fund manager to outperform the aggregate benchmark over a rolling 5-year period.

The benchmark return of 21.2% generally reflects variable market conditions for investors over the 12 months to 31 March 2021.

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 increased by £144.2m or 38.3% in the financial year and totalled £520.8m at 31 March 2021.

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 £1.8m (2020: £0.067 gain) was offset by income from dividends and interest of £5.8m (2020: £8.2m). The Fund was further enhanced by a net capital gain of £140.2m (2020: £22.3m loss).

The Accounts are based on the market value of investments at 31 March 2021. 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 2021 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 gain of £140.2m in the year, £110.7m was an unrealised gain (2020: £42.1m loss) and £29.5m (2020: £19.8m) realised profit.

After allowing for projected liabilities on the fund, the funding level has increased to 146% at 31 March 2021 from its value of 118% last financial year end, calculated on an ongoing funding basis. This improvement has been largely driven by strong investment performance since March 2020.

We are pleased to report that the Fund maintains a position above its 100% funding target, being in surplus by £165m at the financial year end (2019-2020: £57m) according to the actuary's most recent funding update.

## **Economic and Market Background**

The global spread of the coronavirus had a dramatic effect on financial markets over the 2020/2021 financial year. Restrictions imposed to control the spread of COVID-19 saw global output reach a low point in Q2 2020. Global GDP rebounded strongly in the second half of 2020 (June to December) and, despite the quarterly pace of growth slowing at the end of 2020, the hit to activity from renewed restrictions at the start of 2021 has been less than initially feared. Consensus forecasts for global GDP growth have continued to improve, to 5.6% in 2021, following a 3.6% contraction in 2020.

As the global impact of the pandemic heavily weighed on markets, equity markets fell considerably during the end of the last financial year, Q1 2020. Due to the UK's exposure to oil and gas and material companies, UK equity markets took a harder and more prolonged hit than its global counterparts. Restrictions to curb rapidly rising COVID-19 cases continued to create uncertainty for equity markets until positive vaccine news in Q4 2020 provided some degree of assurance for markets and caused some moderate rotation within global equities as areas of the market most impacted by the pandemic outperformed. Having plummeted at the end of the previous financial year, oil prices recovered over the period in-line with the improvement in economic sentiment as prices rose 181% to \$64 per barrel, in-line with pre-pandemic levels.

Lockdowns placed downwards pressure on inflation with UK headline CPI inflation slowing to 0.7% year-on-year. Over the year, UK CPI inflation had a volatile journey with rates rising to 1.0% in July and falling to 0.2% in August, its lowest level since December 2015. Globally, every major economy saw its core inflation rate fall. However, a resumption of activity and deferred consumption alongside rising oil prices is expected to lead to higher inflation in the short-term.

Government bond yields fell to historic lows, in part buoyed by emergency government actions. Following the enormous central bank interventions at the end of March 2020, credit spreads trended lower over the 2020/21: global investment- and speculative-grade spreads were 1.8% p.a. and 5.4% p.a. below the end-March 2020 levels, respectively, and are more or less in-line with pre-pandemic levels. However, 10-year US and UK government bond yields increased 1.1% p.a. and 0.5% p.a. respectively over the year.

On a regional basis, the US market led performance rankings with its high exposure to technology, whereas, the UK markedly underperformed, weighed down by its above average exposure to financials and energy, and the impact of sterling strength on the overseas earnings in the index. Brexit talks caused volatility in Sterling over the period, however, the agreement of a Brexit deal helped Sterling rise 5.8% in trade-weighted terms. US dollar and Japanese Yen fell 7.5% and 7.9% in trade-weighted terms respectively, as their safe haven appeal diminished.

The pandemic resulted in additional pressure to UK commercial property markets. The rolling 12-month total return on the MSCI UK Monthly Property Index was 2.6% to the end of March 2021. Capital values, in aggregate, fell 2.9% over the period (driven by a 12.4% decline in retail sector), however aggregate monthly capital returns have been positive since November.

Looking ahead, expectations of strong growth seem well-founded amid significant progress in vaccine rollouts, fiscal support on a massive scale in the US and potential deferred consumption once restrictions are eased. However, the balance of risks may be slightly to the downside. A rise in inflation is likely to be temporary, but there is a risk it persists. Following the rise in bond yields in the first quarter of 2021, the market-implied path of interest rates over the next few years looks reasonable because central banks are expected to be very cautious about tightening. However, longer-term nominal yields provide inadequate compensation for inflation risk and real yields still look very low. Equity markets are more directly exposed to the benefits of economic recovery and, while valuations remain high, they seem less stretched than those in credit markets against a backdrop of low real yields. The outlook for UK commercial property fundamentals has improved slightly, as the pace of rental declines has eased, but yields remain low versus history and the retail and office sectors remain subject to significant uncertainty, even assuming a smooth re-opening. The recovery in growth and inflation expected over the rest of 2021 has seen global sovereign bond yields rise substantially in the first quarter of 2021. An environment of strong growth and rising inflation is perhaps still a less supportive backdrop for gilt markets.



## 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, and 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 were 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 2021.

Asset Class	Asset Allocation at 31/03/2021	Range Guideline	Fund Specific Benchmark
	%	%	%
<b>Growth</b>			
UK Equities	11.6	41-61	8.0
Overseas Equities	54.9		43.0
Global Pooled - Diversified/Multi-Asset Growth	21.1	14-34	24.0
<b>Income</b>			
Infrastructure Credit	0.0	0-20	5.0
Private Debt	3.0		5.0
<b>Protection</b>			
UK Gilts	4.3	5-25	7.5
UK Indexe-Linked Gilts	4.1		7.5
Cash	1.0	0-10	0.0
<b>Total</b>	<b>100.00</b>		<b>100.0</b>

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 66.5%, with indirect holdings in Diversified Growth and Multi-Asset Growth pooled funds accounting for a further 21.1% of the Fund's portfolio as at 31 March 2021. The remaining 12.4% is held in Private Debt, Bonds and Cash at 3.0%, 8.4% and 1.0% 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 2021 were:

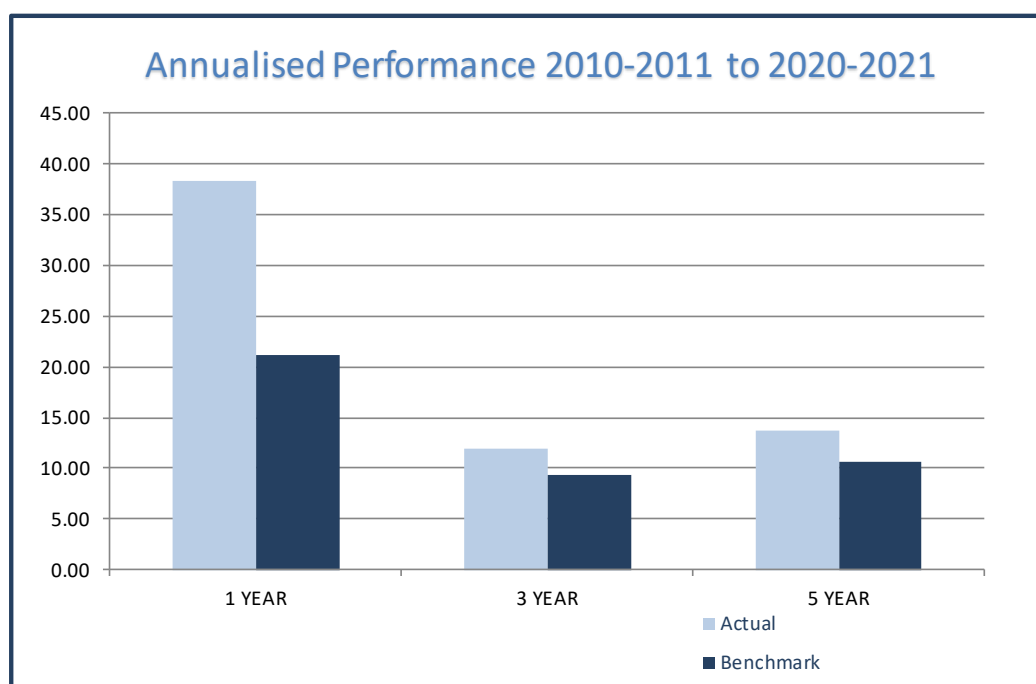
Company	Market Value of Holding
	£ m
Baillie Gifford Multi Asset Growth Fund C Acc*	61.6
Baillie Gifford Diversified Growth Fund C Acc*	48.1
Naspers	10.8
Prudential	8.6
Amazon.com	8.1
Moody's	7.3
TSMC ADR	6.6
Alphabet Inc Class C	6.5
Ryanair	6.5
BHP Group PLC	6.5

\* 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 13.7% remains ahead of the benchmark of 10.6%.

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 Chief Executive's Service.

The Pensions team within the Payroll and Pensions section has 4.0 full time equivalents, consisting of one full time Pensions Manager, two 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 Chief Executive's Service, providing additional governance, payments, investment and accounting expertise. In addition, the Human Resources and Performance section, within Orkney Islands Council's Corporate Services 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 2020-2021, 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	216	0	100.0%	100.0%
Leaver Information	10	113	0	100.0%	100.0%
Deferred Benefit Information	1 Month	66	3	95.7%	95.4%
Pension Estimates	10	90	7	92.8%	99.0%
Retirements	5	84	0	100.0%	100.0%
Transfers In	10	47	0	100.0%	97.7%
Transfers Out	10	18	0	100.0%	100.0%
Refunds	5	16	1	94.1%	100.0%

## Fund Update

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

Membership	2019-2020	2020-2021
Contributing members	2,017	2,071
Pensioners	1,041	1,103
Deferred members	990	993
<b>Total</b>	<b>4,048</b>	<b>4,167</b>

Contributing Member	Someone who is currently employed by a scheduled or admitted body and is making contributions from 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 6 current and former employers during financial year 2020-2021. 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 2020-2021 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, revealed 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 also makes an allowance for expected future salary growth to retirement.

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.

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 2021 indicates that the funding surplus had increased from 118% to 146% since the last full valuation. This can be attributed to a gain in asset returns during the year. A summary of these results is shown below:

Pension Fund Annual Report and Accounts 2020/2021

	31 March 2020	31 March 2021
Assumed Future Investment Return (Based on a 75% Likelihood of Success)	2.9% p.a.	3.2% p.a.
Salary Increase Assumption	2.2% p.a.	3.0% p.a.
Pension Increase Assumption	1.7% p.a.	2.5% p.a.
Assets	£377m	£520m
Past Service Liabilities	£319m	£355m
<b>Surplus/ (Deficit)</b>	<b>£57m</b>	<b>£165m</b>
<b>Funding Level</b>	<b>118%</b>	<b>146%</b>
Future Investment Return Required to be 100% Funded	2.0% p.a.	1.4% p.a.
Likelihood of Achieving This Return	83%	90%
Likelihood of Primary Rate of 24% of Pay Meeting the Cost of Future Benefit Accrual	70%	61%

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.

The results are sensitive to market conditions, in particular the future investment return assumption and future inflation. The approximate impact of a 0.1% change in either assumption (i.e. lower investment returns or higher inflation) is as follows:

<b>0.1% Change in Future Investment Return (or inflation) Assumption</b>	
Increase in Liabilities (%)	2%
Impact on Funding Position	£7m

## 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 28 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, the Pension Fund Sub-committee and Pensions Board are now fully established and, in accordance with the respective terms of reference which were agreed at the first meeting, the group have met concurrently on four occasions during 2020-2021.

Training activity for the members of the Pension Fund Sub-committee and Pension Board was undertaken during the financial year 2020-2021, 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 Chief Executive's Services 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

Section 95 Officer

24 November 2021

Councillor James Stockan

Leader

24 November 2021

John W Mundell, OBE

Interim Chief Executive

24 November 2021



## **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 Head of Finance.
- 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

24 November 2021

### **The Interim Executive Director of Finance, Regulatory, Marine and Transportation Services responsibilities**

The Interim Executive Director of Finance, Regulatory, Marine and Transportation Services 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 Head of Finance 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 Interim Executive Director of Finance, Regulatory, Marine and Transportation Services 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 2021, and of its transactions for the year ended 31 March 2021.

Gareth Waterson, BAcc, CA

Section 95 Officer

24 November 2021

## **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](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 2021 and up to the date of approval of the Annual Accounts.

### Purpose of the 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 given 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 an effective system of arrangements for governance control.

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 (the 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.

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 Head of Finance 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 Head of Finance is responsible for:

- The financial accounting of the Fund.
- The preparation of the Pension Fund Annual Report.
- 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 Chief Executive's Service.

The pension benefits policy oversight and day-to-day administration for the Fund is administered by the Pensions Team within the Chief Executive's 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.

Following an independent review of the Fund's investment strategy undertaken in financial year 2018-2019 by Hymans Robertson, progress continues to be made in the transition to the revised investment strategy. The process of diversification commenced in financial year 2019-2020 with Fund Manager appointments to new Infrastructure Equity, Private Debt and Bonds mandates. The Bonds mandate was fully funded in May 2020, while the drawdown to the Private Debt mandate has continued throughout the financial year. The commitment to Infrastructure Equity is yet to be drawn down.

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 Head of Finance (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 given 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 Executive Director of Corporate Services. 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 24 February 2021. 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.

Some of the main risks identified in the last review of the risk register were as follow:

- New pension access reforms, including 'Freedom and Choice' and any early transfers of pension entitlement, could lead to a change in liability profile of the Pension Fund. Although the number of transfers is increasing slightly, it is not having a material impact on the Pension Fund.
- Climate risk has the potential to significantly affect the value of the Pension Fund's investments. All Fund Managers are now required to be signatories to the United Nations Principles of Responsible Investing which means they should increasingly be taking climate risk into consideration when making investment decisions.

In addition, the following risks have also been added to the risk register at the recommendation of the Pensions Regulator:

- The COVID-19 pandemic could have short and long-term impacts on the investment returns of the Pension Fund. The Fund has already experienced large market fluctuations in the value of investments but should be protected by a robust investment strategy.
- Government COVID-19 mitigation measures recommend working from home whenever possible resulting in changes to working practices and delays in information being received from outside bodies. The workforce are largely already working from home and having to deal with this impact on a daily basis.
- Closure of facilities due to a pandemic resulting in the loss of income for an employer which could lead to an inability to pay contributions having an adverse impact on cashflows. There would be limited impact on the Pension Fund due to the low number of admitted bodies.

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.

The following issues were highlighted in the Audit Report for financial year 2019-2020:

- The revised whistle blowing policy, approved by the Human Resources Sub Committee, listed out of date contact information for Audit Scotland. This has since been amended with the correct details now listed.
- Although the minutes of all Pension Fund Sub-committees are published on the Orkney Island Council website, there is scope to improve transparency by including access to audio casting. It was recommended that the Fund considers using audio casting for meetings of the Pension Fund Sub-committee to improve openness and transparency. There are resource implications to increasing audio casting and it is not presently planned to extend audio casting to sub-committees.

- 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.
- 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. No additional work is carried out to validate the valuation of this pooled fund, but additional assurances were taken from the actions of the fund manager to outsource this work to an external valuer during the year.
- Access rights to the Altair system are generic and the same for all those within the pensions team such that a risk of fraud or error arising from inappropriate user permissions exists. A review of access rights has been undertaken with the appropriate access rights allocated to each user.
- The pensions and payroll systems are not reconciled on a regular basis, with a risk that payments made to pensioners via payroll are not in line with the calculated amounts on the pension system. Monthly reconciliations between the payroll and pension systems have now been implemented.
- Although, the Fund has procedures for identifying deceased pensioners living in the UK, there are no such procedures for pensioners who live abroad. Work is ongoing to develop a proof of life procedure for pensioners living abroad.

### **Access to Information**

Pension Fund Sub-committee papers, minutes and the Funds Annual 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 Head of Finance (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 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 2021.

Pension Fund Annual Report and Accounts 2020/2021

Councillor James Stockan  
Leader  
24 November 2021

John W Mundell, OBE  
Interim Chief Executive  
24 November 2021

## 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
<b>1. Structure</b>	
<p>The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council.</p>	<p>Compliance in Full: Yes</p> <p>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.</p>
<p>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.</p>	<p>Compliance in Full: Yes</p> <p>There are no admitted bodies or deferred members represented on the PRC or PSC.</p> <p>Orkney Ferries Limited, an admitted body, currently has a representative on the PB.</p> <p>The existing membership of the PSC includes both active and pensioner members of the Orkney Island Council Pension Fund.</p>
<p>That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>Compliance in Full: Yes</p> <p>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.</p>
<p>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.</p>	<p>Compliance in Full: Yes</p> <p>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.</p>

<b>2. Representation</b>	
<p>That all key stakeholders are afforded the opportunity to be represented within the Pensions Board. These include:</p> <ul style="list-style-type: none"> <li>• Employing authorities including non-scheme employers, e.g. admitted bodies;</li> <li>• Scheme members including deferred and pensioner scheme members                             <ul style="list-style-type: none"> <li>• Where appropriate, independent professional observers, and</li> </ul> </li> <li>• Expert advisors (on an ad-hoc basis).</li> </ul>	<p>Compliance in Full: Yes</p> <p>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.</p> <p>Input from Hymans Robertson as expert advisors to the Pension Fund is routinely sought on policy matters.</p>
<p>b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.</p>	<p>Compliance in Full: Yes</p> <p>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.</p>
<b>3. Selection and Role of Lay Members</b>	
<p>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.</p>	<p>Compliance in Full: Yes</p> <p>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 to new members following the local elections in May 2017.</p> <p>Members participated in the Scottish LGPS Conference 2020 training.</p>
<p>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.</p>	<p>Compliance in Full: Yes</p> <p>The declaration of Member's interests is a standard item on the agenda of the PSC and PB.</p>
<b>4. Voting</b>	
<p>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.</p>	<p>Compliance in Full: Yes</p> <p>Full voting rights are given to all members of the PSC.</p>

<b>5. Training/ Facility Time/ Expenses</b>	
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliance in Full: Yes
	<p>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.</p> <p>The training policy was approved in 2015/16 and is aligned to CIPFA's Knowledge and Skills Framework.</p>
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 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
	<p>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.</p> <p>The annual training plan for 2020-21 was approved by the PSC at its meeting of 26 February 2020.</p>
<b>6. Meeting Frequency</b>	
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.

<p>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.</p>	<p>Compliance in Full: Yes</p> <p>On 17 February 2015, the PSC agreed to establish a Pensions Board (PB), with representatives from Trade Unions and admitted bodies.</p>
<p><b>7. Access</b></p>	
<p>That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</p>	<p>Compliance in Full: Yes</p> <p>All members are treated equally.</p>
<p><b>8. Scope</b></p>	
<p>That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</p>	<p>Compliance in Full: Yes.</p> <p>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.</p>
<p><b>9. Publicity</b></p>	
<p>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.</p>	<p>Compliance in Full: Yes.</p> <p>The Orkney Islands Council Pension Fund governance documents are available upon request.</p> <p>The Council as administering authority communicates regularly with employers and scheme members.</p>

Gareth Waterson, BAcc, CA  
 Section 95 Officer  
 24 November 2021

Councillor James Stockan  
 Leader  
 24 November 2021

John W Mundell, OBE  
 Interim Chief Executive  
 24 November 2021

## Annual Accounts 2020-2021

### Pension Fund Account

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

2019-2020 £'000		2020-2021 £'000	Notes
	<b>Dealings with members, employers and others directly involved in the scheme</b>		
10,332	Contributions Receivable	10,557	5
1,096	Transfers In	623	7
11,428		11,180	
(8,851)	Benefits Payable	(8,553)	6
(439)	Payments to and on account of leavers	(2,147)	8
(9,290)		(10,700)	
<b>2,138</b>	<b>Net additions from dealings with members</b>	<b>480</b>	
(2,071)	Management Costs	(2,327)	19
<b>67</b>	<b>Net additions including management expenses</b>	<b>(1,847)</b>	
	<b>Return on Investments</b>		
8,232	Investment Income	5,847	9
(22,289)	Profits/(losses) on disposal of investments and changes in the market value of investments	140,222	10,13
(132)	Taxes on Income	42	
<b>(14,189)</b>	<b>Net Return/(Loss) on Investments</b>	<b>146,111</b>	
<b>(14,122)</b>	<b>Net increase/(decrease) in the net assets available for benefits during the year</b>	<b>144,264</b>	
390,706	Opening Net Assets of the Scheme	376,584	
<b>376,584</b>	<b>Closing Net Assets of the Scheme</b>	<b>520,848</b>	



## Net Assets Statement as at 31 March 2021

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 2021.

31 March 2020 £'000		31 March 2021 £'000	Notes
	<b>Managed Funds</b>		
230,515	Equities	345,942	
43,443	Fixed Income	0	
99,282	Pooled Investment Vehicles	169,037	
3,329	Cash Equivalents	5,321	
376,569		520,300	11
	<b>Current Assets</b>		
6	Cash Balances	6	
71	Contributions due	87	
1,139	Current Debtors	998	
1,216		1,091	17
	<b>Current Liabilities</b>		
(1,201)	Current Creditors	(543)	18
<b>15</b>	<b>Net Current Assets/(Liabilities)</b>	<b>548</b>	
<b>376,584</b>	<b>Net Assets of the Scheme available to fund benefits at the year end</b>	<b>520,848</b>	

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 24 November 2021.

Gareth Waterson, BAcc, CA

Section 95 Officer

24 November 2021

## 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 2020-2021 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.
- 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 accrual 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 2021 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 £15.366m - There is a risk that this investment maybe 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 2021	Approximate % increase to Employer Liability	Approximate monetary amount £'000
0.5% decrease in Real Discount Rate	10%	47,154
0.5% increase in the Salary Increase Rate	1%	5,069
0.5% increase in the Pension Increase Rate	9%	41,064

### 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 Head of Finance on 28 June 2021. 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 2021 was £496m (2020: £353m).

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 2020	31 March 2021
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	1.90%	2.85%
Salary Increase Rate	2.20%	3.35%
Discount Rate	2.30%	2.00%

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

#### Longevity Assumptions

	31 March 2020		31 March 2021	
	Males	Females	Males	Females
Current Pensioners	21.7 years	23.8 years	21.4 years	23.9 years
Future Pensioners*	23.3 years	26.2 years	23.1 years	26.1 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

	2019-2020			2020-2021		
	Orkney Islands Council £000	Admitted Bodies £000		Orkney Islands Council £000	Admitted Bodies £000	
Employee Contributions	2,384	291	2,675	2,500	291	2,791
Employer Contributions	6,854	788	7,642	6,906	763	7,669
Strain Costs	15	0	15	97	0	97
<b>Total</b>	<b>9,253</b>	<b>1,079</b>	<b>10,332</b>	<b>9,503</b>	<b>1,054</b>	<b>10,557</b>

### 6. Analysis of Benefits Payable

	2019-2020			2020-2021		
	Orkney Islands Council £000	Admitted Bodies £000		Orkney Islands Council £000	Admitted Bodies £000	
Pensions Paid	5,519	189	5,708	6,041	237	6,278
Dependants Pensions	436	21	457	476	19	495
Lump Sums Paid	2,368	76	2,444	1,253	215	1,468
Death Grants Paid	242	0	242	312	0	312
<b>Total</b>	<b>8,565</b>	<b>286</b>	<b>8,851</b>	<b>8,082</b>	<b>471</b>	<b>8,553</b>

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

### 7. Transfers In

Transfers in to the scheme during 2020-2021 were £0.6m (2019-2020: £1.1m). This represents the total of transfer values in respect of individual members joining the scheme.

### 8. Payments to and on Account of Leavers

2019-2020 £'000		2020-2021 £'000
(23)	Contributions Returned	(10)
(416)	Individual Transfers to other Schemes	(1,212)
0	Group Transfers *	(925)
0	State Scheme Premiums	0
<b>(439)</b>		<b>(2,147)</b>

\* Visit Scotland transferred out during 2020/21

## 9. Investment income

	2019-2020 £'000	2020-2021 £'000
<b>Equities</b>		
Equities UK	1,599	1,380
Equities Global	2,872	1,858
<b>Total Equities</b>	<b>4,471</b>	<b>3,238</b>
<b>Fixed Income</b>		
UK Bonds	541	0
Overseas Bonds	0	0
Index Linked	288	0
<b>Total Fixed Income</b>	<b>829</b>	<b>0</b>
<b>Pooled Investment Vehicle - Multi-Asset Growth</b>	<b>1,384</b>	<b>1,101</b>
<b>Pooled Investment Vehicle - Diversified Growth</b>	<b>1,306</b>	<b>904</b>
<b>Pooled Investment Vehicle - Private Debt</b>	<b>230</b>	<b>606</b>
<b>Interest on Cash and Deposits</b>	<b>12</b>	<b>(2)</b>
<b>Totals</b>	<b>8,232</b>	<b>5,847</b>

## 10. Change in the Market Value of Investments

	2019-2020 £'000	2020-2021 £'000
Realised	19,760	29,522
Unrealised	(42,049)	110,700
<b>Total</b>	<b>(22,289)</b>	<b>140,222</b>



## 11. Analysis of Investments

As at 31 March 2021 the market value of the assets under management is as follows:

	31 March 2020	31 March 2021
	£'000	£'000
<b><u>Equities</u></b>		
<b>UK</b>		
Quoted	34,226	60,104
<b>Overseas</b>		
Quoted	196,289	285,838
<b>Total Equities</b>	<b>230,515</b>	<b>345,942</b>
<b><u>Fixed Income</u></b>		
UK Bonds	23,178	0
UK Government Gilts	20,265	0
<b>Total Fixed Income</b>	<b>43,443</b>	<b>0</b>
<b>Pooled Fund - Multi-Asset Growth</b>	<b>52,023</b>	<b>61,641</b>
<b>Pooled Fund - Diversified Growth</b>	<b>40,710</b>	<b>48,139</b>
<b>Pooled Fund - Private Debt</b>	<b>6,549</b>	<b>15,366</b>
<b>Pooled Fund - Fixed Income</b>	<b>0</b>	<b>43,891</b>
<b>Cash and Deposits</b>	<b>3,329</b>	<b>5,321</b>
<b>Totals</b>	<b>376,569</b>	<b>520,300</b>

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

	31 March 2020		31 March 2021	
	£'000	%	£'000	%
Baillie Gifford	370,020	98.3	461,043	88.6
Barings	6,549	1.7	15,366	3.0
LGIM	0	0.0	43,891	8.4
<b>Totals</b>	<b>376,569</b>	<b>100.0</b>	<b>520,300</b>	<b>100.0</b>

## 12. Reconciliation of Movements in Investments

Investments increased in value to £520.3m as at 31 March 2021 (2020: £376.6m) a movement of £143.7m.

During 2020-2021, sales of investments totalled £116.1m and purchases totalled £117.6m, including £54.2m and £54.7m 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 2021.

	31 March 2020	31 March 2021
	£'000	£'000
Baillie Gifford & Company - (Multi Asset Growth)	52,023	61,642
Baillie Gifford & Company - (Diversified Growth)	40,710	48,139

**13. Investment Transactions**

<b>2020-2021</b>	<b>Opening Market Value</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in Market Value</b>	<b>Closing Market Value</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Investment Assets</b>	0	0	0	0	0
<b>Managed Fund Investments</b>					
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
<b>Total Transactions</b>	<b>373,240</b>	<b>117,640</b>	<b>(116,123)</b>	<b>140,222</b>	<b>514,979</b>
<b>Cash Deposits</b>	<b>3,329</b>				<b>5,321</b>
<b>Internal Net Current Assets / (Liabilities)</b>	<b>15</b>				<b>548</b>
<b>Total</b>	<b>376,584</b>				<b>520,848</b>

<b>2019-2020</b>	<b>Opening Market Value</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in Market Value</b>	<b>Closing Market Value</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Investment Assets</b>	0	0	0	0	0
<b>Managed Fund Investments</b>					
Equities	239,524	38,437	(36,215)	(12,293)	229,453
UK Bonds	21,021	2,074	(1,379)	1,462	23,178
Index Linked Bonds	0	21,487	0	(1,222)	20,265
Pooled Investment – British Small Companies	1,275	17	0	(230)	1,062
Pooled Investment - Private Equity	0	6,889	0	(340)	6,549
Pooled Investment – Fixed Income	20,988	288	(22,666)	1,390	0
Pooled Investment – Multi-Asset Growth	56,731	1,384	0	(6,092)	52,023
Pooled Investment – Diversified Growth	44,368	1,306	0	(4,964)	40,710
<b>Total Transactions</b>	<b>383,907</b>	<b>71,882</b>	<b>(60,260)</b>	<b>(22,289)</b>	<b>373,240</b>
<b>Cash Deposits</b>	<b>6,482</b>				<b>3,329</b>
<b>Internal Net Current Assets / (Liabilities)</b>	<b>317</b>				<b>15</b>
<b>Total</b>	<b>390,706</b>				<b>376,584</b>

## 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 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.

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 2020 £'000	31 March 2021 £'000
Level 1: Quoted Market Price	276,225	349,353
Level 2: Using Observable Inputs	93,795	155,581
Level 3: With Significant Unobservable Inputs	6,549	15,366
<b>Net Investment Assets</b>	<b>376,569</b>	<b>520,300</b>

### Transfers Between Levels 1 and 2

£46.5m of UK Government Gilts were transferred from Level 1 to Level 2 in May 2021 as a result of the movement of units into pooled funds as part of the Fund's transitioning to the revised investment strategy. All transfers between levels are recognised in the month in which they occur.

### 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 2020 £'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 2021 £'000
Private Debt	6,549	0	0	8,321	0	496	0	15,366

## 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 2021.

Asset Type	Assessed Valuation Range (+/-)	Value at 31 March 2021	Value on Increase	Value on Decrease
		£'000	£'000	£'000
Private Debt (i)	4.6%	15,366	16,073	14,659

- i. The underlying assets are a series of privately originated loans. 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 +/- 4.6% 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 2020	31 March 2021
	£'000	£'000
<b>Investments</b>		
Financial Assets at fair value through profit/loss	373,240	514,979
Loans and receivables - cash and cash equivalents	3,329	5,321
<b>Total Investments</b>	<b>376,569</b>	<b>520,300</b>
<b>Current Assets and Liabilities</b>		
Debtors	1,216	1,091
Financial liabilities at amortised cost	(1,201)	(543)
<b>Total Current Assets and Liabilities</b>	<b>15</b>	<b>548</b>

## Income, Expenses, Gains and Losses

Financial Instruments Gains/Losses	31 March 2020	31 March 2021
	Financial Assets £'000	Financial Assets £'000
Net gains/(losses) on financial assets at fair value through profit and loss	(22,289)	140,222
Investment Income	8,232	5,847
Investment management expenses including taxation	(2,203)	(2,285)
<b>Total Investment Gains and Losses</b>	<b>(16,260)</b>	<b>143,784</b>

## 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 2020.

### 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	16.7
Global Equities	17.4
UK Index-Linked Gilts (long term)	9.5
UK Fixed Interest Gilts (medium term)	7.3
Diversified Growth	11.9
Private Debt	4.6
Cash	0.3
<b>Total Fund Volatility</b>	<b>12.6</b>

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
UK Equities	60,104	16.7%	70,141	50,067
Global Equities	285,838	17.4%	335,574	236,102
UK Index-Linked Gilts (long term)	22,415	9.5%	24,544	20,286
UK Fixed Interest Gilts (medium term)	21,476	7.3%	23,044	19,908
Diversified Growth and Multi Asset Growth	109,780	11.9%	122,844	96,716
Private Debt	15,366	4.6%	16,073	14,659
Cash	5,321	0.3%	5,337	5,305
<b>Total Fund Volatility</b>	<b>520,300</b>	<b>12.6%</b>	<b>585,858</b>	<b>454,742</b>

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.

### 16.2 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 2021 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2020 £'000	31 March 2021 £'000
Cash and cash equivalents	3,329	5,321

### 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 2021 £'000	Potential change in year in the net assets available to pay benefits	
		1% Interest Movement £'000	-1% Interest Movement £'000
Cash and Cash Equivalents	5,321	53.2	(53.2)
<b>Total Change in Assets Available</b>	<b>5,321</b>	<b>53.2</b>	<b>(53.2)</b>

### 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 2021:

Currency exposure - asset type	Asset value 31 March 2020 £'000	Asset value 31 March 2021 £'000
Overseas Quoted Equities	192,106	281,465
Pooled Funds - Global Basket	10,733	19,740
<b>Total</b>	<b>202,839</b>	<b>301,205</b>

### 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 9.8%.



A 9.8% fluctuation is considered reasonable based on Hymans analysis of long-term historical movements. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 9.8% 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 values as at 31 March 2021 £	Potential % movement	Value on Increase £	Value on Decrease £
Overseas Quoted Equities	281,465	9.8%	309,049	253,881
<b>Total Change in Assets Available to Pay Benefits</b>	<b>281,465</b>	<b>9.8%</b>	<b>309,049</b>	<b>253,881</b>

#### 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 2021, including current account cash, was £0.006m. (31 March 2020: £0.006m). The Fund also held cash under its investment management arrangement. This was held with the following institutions:

	Rating (Fitch)	Balance 31 March 2021 £'000
<b>Bank current accounts</b>		
Royal Bank of Scotland	A+	6
<b>Cash held in Portfolio</b>		
Bank of New York Mellon (BNY)	AA	3,889

#### 16.5 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 2021, the Fund had illiquid assets of £15.366m (2019-2020: £6.549m).

## 17. Current Assets

	31 March 2020 £'000	31 March 2021 £'000
Income Due	613	651
Recoverable Tax	360	251
Cash Balances	6	6
Transfer Values Receivable	129	18
Contributions Due - Employers	51	63
Contributions Due - Employees	20	24
Orkney Islands Council	0	60
Sundry Debtors	37	18
<b>Total Current Assets</b>	<b>1,216</b>	<b>1,091</b>

## 18. Current Liabilities

	31 March 2020 £'000	31 March 2021 £'000
Orkney Islands Council	626	0
Sundry Creditors	432	463
Transfer Values Payable	87	0
Benefits Payable	56	79
Provision For Liabilities	0	1
<b>Total Current Liabilities</b>	<b>1,201</b>	<b>543</b>

## 19. Management Expenses

	2019-2020 £'000	2020-2021 £'000
<b>Investment Management Expenses</b>		
Investment managers fees	1,408	1,633
Custodian fees	60	62
Other Investment management expenses	133	80
Stamp Duty	15	24
Other Transaction Taxes and Levies	17	54
Broker Commission	30	52
<b>Total Investment Management Expenses</b>	<b>1,663</b>	<b>1,905</b>
<b>Administration Costs</b>		
Staff time and Support allocations	309	317
<b>Total Administration Costs</b>	<b>309</b>	<b>317</b>
<b>Governance</b>		
Audit costs	21	21
Professional fees	78	84
<b>Total Governance Costs</b>	<b>99</b>	<b>105</b>
<b>Total</b>	<b>2,071</b>	<b>2,327</b>

## 20. Code of Transparency

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

Total transaction costs for each asset class are detailed below:

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

2019-2020	Transaction Taxes £	Broker Commission £	Implicit Costs £	Indirect Transaction Costs £	Total Transaction Costs £
Equities	31,837	29,829	31,189	0	<b>92,855</b>
Bonds	0	0	1,599	0	<b>1,599</b>
Pooled Funds	0	0	0	699,512	<b>699,512</b>
Foreign Exchange	0	0	3,058	0	<b>3,058</b>
Cash Instruments	0	0	0	0	<b>0</b>
<b>Total</b>	<b>31,837</b>	<b>29,829</b>	<b>35,846</b>	<b>699,512</b>	<b>797,024</b>

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 £338,513 (2019-2020: £255,831) paid from the Net Asset Value of the pooled funds.

## **21. Audit Fees**

In 2020-2021 the agreed audit fee for the year was £21,490 (2019-2020: £21,000).

## **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 £252k in 2020-2021 (2019-2020: £254k).

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 2021 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 £0.316m (2019-2020: £0.309m) 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 £7.00m to the fund in 2020-2021 (2019-2020: £6.87m). 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 £0.060m as at 31 March 2021 (The fund had a balance due to Orkney Islands Council of £0.626m as at 31 March 2020).

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 2019-2020		Accrued pension 2020-2021	
	Pension £	Lump Sum £	Pension £	Lump Sum £
Chief Executive*	61,884	84,045	0	0
Head of Finance / Section 95 Officer	37,276	54,080	39,681	54,350

\*until 20 Nov 2019.

## 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.

<b>Membership Details at 31/03/2021</b>	<b>Active</b>	<b>Deferred</b>	<b>Pensioner</b>	<b>Dependant</b>
Orkney Islands Council	1,917	907	911	144
Orkney Islands Property Development	2	4	4	0
Pickaquoy Centre Trust	55	32	9	0
Orkney Enterprise	4	4	3	0
Orkney Ferries Limited	93	46	29	3
<b>Summary of Members</b>				
OIC	1,917	907	911	144
Admitted Bodies	154	86	45	3
<b>Totals</b>	<b>2,071</b>	<b>993</b>	<b>956</b>	<b>147</b>

During the year to 31 March 2021 one admitted body, Visit Scotland, transferred out of the fund.

## 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 tax payer 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 2020-2021. 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
<b>Financial Assumptions:</b>		
<i>Salary and Benefit Increases &amp; Investment Return</i>		
Benefit Increases & CARE Revaluation (CPI)	2.40%	1.70%
Salary Increases	2.80%	2.20%
Investment Return ('Discount Rate')	3.10%	2.90%
<b>Demographic Assumptions:</b>		
<i>Longevity</i>		
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, member contributions amounted to £0.462m (2019-2020: £0.490m).

Members contributions are invested in a “with profits” Fund or a “deposit” Fund. During the year the value of AVC investments decreased by £0.312m to £2.815m as at 31 March 2021 (2019.20: £3.127m) excluding the final bonus.

### **31. Contingent Liabilities and Contractual Commitments**

Following recent legal judgements, the funding valuation position as at 31 March 2020 and 31 March 2021 include an allowance for full Guaranteed Minimum Pension equalisation (indexation) treatment. 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 2021, as part of the transitioning arrangements to the revised investment strategy, the Fund had contractual commitments to invest up to £20m and £5.0m in each of the new mandates to Infrastructure Equity and Private Debt respectively. The drawdowns of these commitments are expected to take place 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

#### Report on the audit of the financial statements

##### Opinion on financial statements

I certify that I have audited the financial statements in the annual report Orkney Islands Council Pension Fund (the fund) for the year ended 31 March 2021 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 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 under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is five 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.



### **Risks of material misstatement**

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my judgements thereon.

### **Responsibilities of the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services and Orkney Islands Council Pension Fund Sub Committee for the financial statements**

As explained more fully in the Statement of Responsibilities, the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services 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 Interim Executive Director of Finance, Regulatory, Marine and Transportation Services 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 Interim Executive Director of Finance, Regulatory, Marine and Transportation Services is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

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 economic 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## Reporting on other requirements

### Statutory other information

The Interim Executive Director of Finance, Regulatory, Marine and Transportation Services is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and my auditor's report thereon.

My responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements or my knowledge obtained in 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 statutory 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 statutory other information and I do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

### Opinions prescribed by the Accounts Commission

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

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

### Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

### **Conclusions on wider scope responsibilities**

In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, 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

4<sup>th</sup> Floor

102 West Port

Edinburgh

EH3 9DN

## Pension Fund Annual Report and Accounts 2020/2021

### Annex 1 - Scheduled and Admitted Bodies

#### Orkney Islands Council Pension Fund

##### Scheduled Bodies

- Orkney Islands Council.

##### Admitted Bodies

##### Active Admitted Bodies

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

## **Annex 2 – Actuarial Statement for 2020-2021**

### **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 Tax payers).
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years.
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% chance that the Fund will be full funded in 20 years time.

#### **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	23.9
Future Pensioners*	23.2	26.1

\*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. However, the Fund's assets have recovered strongly in 2020/21. Although the value placed of the obligations will also have increased due to changes in underlying market conditions, the funding level of the Fund as at 31 March 2021 is likely to be significantly improved compared to that reported 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

25 May 2021

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 \(orkney.gov.uk\)](https://www.orkney.gov.uk/pension-fund-annual-reports), Including the following documents:

- Annual Report and Accounts

#### Auditors

Audit Scotland

#### Fund Advisers:

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](mailto: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:

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Telephone: 01856 873535.

Extension:  
2103.

Interim Executive Director of Finance,  
Regulatory, Marine and Transportation

Email: [gareth.waterson@orkney.gov.uk](mailto:gareth.waterson@orkney.gov.uk)

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