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Date: 26 February 2019

Dear Sir/Madam

You are invited to the following meeting:

**Pension Fund Committee / Pension Board**  
**Council Chamber, Town Hall, Lerwick**  
**Tuesday 5 March 2019 at 1.30 p.m.**

Note the change of time for this meeting.

**Please note that in accordance with the agreed terms of reference, this is a concurrent meeting of both the Pension Fund Committee and the Pension Board - SEE MEMBERSHIP OF BOTH BODIES OVERLEAF**

Apologies for absence should be notified to Louise Adamson at the above number.

Yours faithfully

Executive Manager – Governance and Law

Chair: Steven Coutts

## **AGENDA**

- (a) Hold circular calling meeting as read.
- (b) Apologies for absence, if any.

- (c) Declarations of Interest – Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.
- (d) Confirm the minutes of the meeting held on 5 December 2018 enclosed.

## ITEMS

1. Presentation by KBI Global Investors
2. Presentation by BlackRock
3. Management Accounts for Pension Fund Committee: 2018/19 – Projected Outturn at Quarter 3  
*F-013*
4. Pension Fund – Quarter to December 2018 Investment Review Report  
*F-021*
5. Annual Audit Plan 2018/19  
*F-018*
6. 2019/20 Budget Proposal – Pension Fund  
*F-014*
7. Shetland Islands Council Pension Fund – Training Policy  
*F-024*
8. Pension Fund Risk Register  
*F-026*
9. Pension Fund Committee and Pension Board Business Programme 2019-20  
*F-025*

Pension Fund Committee
A Cooper S Coutts S Leask E Macdonald R McGregor I Scott G Smith T Smith R Thomson

Pension Board	
<u><b>Employers Representatives:</b></u> M Bell, SIC J Fraser, SIC A Hawick, SIC J Johnston, SRT  <u>Joint Secretary</u> J Riise, Executive Manager – Governance and Law	<u><b>Trade Union Representatives:</b></u> D Marsh, Unison A Goudie, Unite R Williamson, GMB A Taylor, Unison  <u>Substitutes:</u> C Wiseman, Unison  <u>Joint Secretary</u> C Wiseman, Unison



## MINUTES

## A&B – Public

<b>Special Pension Fund Committee</b> <b>Council Chamber, Town Hall, Lerwick</b> <b>Wednesday 5 December 2018 at 10 am</b>  <b>Present - Members:</b> A Cooper                      S Coutts S Leask                        R McGregor I Scott                         T Smith  <b><u>Apologies:</u></b> E Macdonald                G Smith R Thomson	<b>Special Pension Board</b> <b>Council Chamber, Town Hall, Lerwick</b> <b>Wednesday 5 December 2018 at 10 am</b>  <b>Present - Members:</b> J Fraser                        A Hawick J Johnston                    D Marsh A Taylor                       C Wiseman  <b><u>Apologies:</u></b> M Bell                         A Goudie
<b>In Attendance:</b> J Manson, Executive Manager – Finance J Riise, Executive Manager – Governance and Law M Smith, Team Leader – Expenditure L Chapman, Pensions Supervisor C Bain, Treasury Accountant S Brown, Senior Assistant Accountant A MacIver, Assistant Accountant L Malcolmson, Committee Officer	

### **Chair**

Mr Coutts, Chair of the Pension Fund Committee, presided.

### **Circular**

The circular calling the meeting was held as read.

### **Declarations of Interest**

None

### **Minutes**

The minutes of the meeting held on 28 August 2018 were confirmed on the motion of Mr Cooper, seconded by Mr Leask.

The minutes of the meeting held on 19 September 2018 were confirmed on the motion of Mr Cooper, seconded by Mr Leask.

The minutes of the meeting held on 8 October 2018 were confirmed on the motion of Mr Scott, seconded by Mr Leask.

20/18

**Membership of the Pension Fund Committee**

The Committee and Board considered a report by the Executive Manager – Governance and Law (GL-20-18-F) which advised of the resignation of Mr Cecil Smith from the Pension Fund Committee, from 1 October 2018.

The Executive Manager – Governance and Law introduced the report and the Committee and Board noted its content.

**Decision:**

The Pension Fund Committee and Pension Board NOTED the resignation of Mr Cecil Smith from the Pension Fund Committee.

21/18

**Pension Fund – 2018/19 Mid-Year Performance Review**

The Committee and Board considered a report by the Executive Manager – Finance (F-085-F) that allowed the Pension Fund Committee and Board to review the mid-year investment position and performance of the Pension Fund's external investments, managed on their behalf by Fund Managers.

The Treasury Accountant introduced the report and advised on the performance of investments for the first 6 months of the year. He also advised on the performance of Fund Managers against benchmark as set out in paragraph 2.2 in Appendix 1.

In responding to questions the Treasury Accountant advised Members that the information provided was over the short term and that when looking at the performance of Fund Managers it would tend to be over a longer 5 year term. He informed the Committee and Board that a review process was now underway to see if any changes to the Investment Strategy is needed and that would be reported to the Committee and Board by the end of this financial year.

Reference was made to the recent drop in the equity market and the forum were advised that the audited figures would be provided in March. The Committee and Board acknowledged that the equity market is currently volatile.

The Committee and Board noted the report.

**Decision:**

The Pension Fund Committee and Pension Board reviewed the Pension Fund's external investments over the first six months of the 2018/19 financial year, and as such the Pension Fund Committee and Pension Board considered and commented on the outcome of this Mid-Year review.

22/18

**Management Accounts for Pension Fund Committee – Projected Outturn at Quarter 2**

The Committee and Board considered a report by the Executive Manager – Finance (F-080-F) that enabled the Pension Fund Committee and Pension Board to monitor the financial performance of the Pension Fund to ensure that Members are aware of the forecast income and expenditure position and its impact on delivery of the approved budget.

The Executive Manager – Finance introduced the report and highlighted the key variances as set out in the Appendix to the report. The Pension Fund Committee and Board noted the report.

**Decision:**

The Pension Fund Committee and Pension Board NOTED the Management Accounts showing the projected outturn position at Quarter 2.

23/18

**Scottish LGPS Restructure Review – Consultation Final Response**

The Committee and Board considered a report by the Executive Manager – Finance (F-088-F) that enabled the Pension Fund Committee and Pension Board to consider the consultation response to the Scottish LGPS restructure review.

The Committee and Board were introduced to Mr Douglas Green of Hymans Robertson who was present to provide an overview of the consultation process and this would be followed by the Treasury Accountant's presentation of the consultation response.

Mr Green explained the process undertaken by England and Wales which had provided the benefit of knowledge, experience and lessons learned. He explained that the Local Government Pension Scheme (LGPS) was unusual in that money is put aside where most other pension funds do not. The Committee and Board heard that there are 11 branches of the LGPS and Shetland is one of those and although there is a lot of autonomy there are parts of the scheme that have to be the same in order that the same pension payment and contributions are paid by those 11 branches.

Mr Green informed the Committee and Board on how individual schemes are structured with governance arrangements, employee contributions, investment strategy, fund manager selection and the choice of whether to enter into collaboration within another fund on a voluntary basis. He advised that in deciding to look at the LGPS structure again, the Council had four options to consider and he took Members through each of those in more detail. In responding to a question Mr Green said that the level of impact on the Council would depend on the option chosen.

The Treasury Accountant then took the Committee and Board through each point of the consultation response that concluded on page 21 of the Appendix with a statement that Shetland Islands Council Pension Fund would prefer to retain the current structure of 11 funds. He advised that the response was circulated to all admitted bodies, by the Pension Board Chair and the response was to be submitted to the Pensions Institute by 7 December 2018. The Executive Manager – Governance and Law added that the Treasury Accountant had sought an extension for the Council to respond separately by 12 December 2018 to allow the Council time to consider their response at its meeting on the same date.

Mr Green was asked if there had been any strong or positive feedback from England and Wales in terms of whether cost of investing had decreased or returns improved. Mr Green explained that costs were down on most funds but it was too early to say if there was an improvement in returns as

investments were now only starting. He advised therefore that the impact on contributions was nil so far but that a material change could not be expected for many years.

Concern was expressed around the impact any change would have on existing or new employees in the pension scheme through an admitted body or any future employees through an existing or new admitted body, Mr Green explained that a new or substantially changed admitted body would be considered by the merged fund committee but may be subject to a different decision than that of a locally controlled Committee and Board. In light of this a request was made for the response to include a comment on the obligation to existing and new staff either through the Local Authority or an admitted body.

Comment was made on the centralisation of a number of activities and Mr Green was asked what benefit would there be to the Local Authority if it were to lose the status quo. Mr Green advised that there would be benefit in collaboration to reduce costs and management time. In terms of option three the pooling of funds would see a reduction in investment fees. He explained however that there were already examples of Fund Managers reducing their fees as they know there is a political drive for that. By reducing their fees they are indicating that there is no need to pool investments to make savings. Mr Green said that the benefits would be around consistency and reduction of identifiable costs. Mr Green added that it was important for Local Authorities to understand the real objectives for the review and if the Scottish Government articulate that it would be important to look at options that would address those objectives.

In terms of the timing of the review, the Committee and Board were informed that there was a review 8-9 years ago on whether a merged option was preferable and the question should be asked what had changed since then to make this a pertinent time to seek an answer again.

During further discussion the Committee and Board considered the speculation around the need for England and Wales to fund higher profile infrastructure projects.

In terms of representation on the merged committee Mr Green confirmed that there would be no explicit representation for admitted bodies, nor would there be employee representation. He advised however that there would be representation from each fund but that would not necessarily be an employer.

In response to further questions, Mr Green said that there was three things that any fund should do whether a decision is made to merge or remain with the status quo:

1. It should not give infrastructure any different treatment than any other asset class, as some projects could be better options in terms of good quality, and long term steady income. All investments should be considered seriously and if they are too risky then do not proceed.

2. Infrastructure investments can be considered under the current arrangement.

3. If considering direct investment in infrastructure, it could be carried out collaboratively if it is not too risky.

In terms of risk and whether the Pension fund is playing it safe using fund managers, Mr Green said there was no right or wrong answer in pension fund investments. Member also spoke of other initiatives such as Social Housing and were advised that would be a feasible asset class to consider.

In terms of Fund Manager's fees the Treasury Accountant commented that an approach can be made but that may not be easy where Managers are performing well but there would be more leverage where performance is not as good.

In terms of the views across Scottish Local Authorities, the Leader advised that CoSLA are supportive of Council and the funds providing their views on the 11 funds. He advised that the majority of funds are in favour of the status quo as the best option but with greater collaboration for investment in infrastructure and social housing.

Mr Green was thanked for his attendance at the meeting.

There followed some debate where Mr James Johnson advised on the discussion from an investment seminar he attended in October. It was noted that all 11 funds were represented with a mix of Officers and Members. He explained that at the beginning of the meeting pooling had been ruled out and the status quo did not exist with 65% present preferring collaboration and 35% preferring merger. He reported that there was a clear drive from the government for investment in infrastructure and that 11 individual pension pots were not large enough for that and by merging it would make a better option. He noted that following discussion the poll had changed to 35% collaboration preferred and 65% merger. Mr Johnson advised that from that meeting he had taken the Council's draft consultation response to union and staff representatives. He said that he would be interested to see more around collaboration and if that can drive down costs there would be support for the Council's response.

As debate progressed the Executive Manager – Governance and Law reminded those present of their fiduciary duties and advised that this should not be confused with political views.

The Board expressed their support for the Council's response with the inclusion of wording that addressed the concern regarding the status of existing and new employees of admitted bodies to the pension fund. Mr Coutts moved that the Committee approve the recommendations contained in the report with the addition as expressed by Board Members. Mr Cooper seconded.

**Decision:**

The Pension Fund Committee and Pension Board RESOLVED to approve that the consultation response be sent on behalf of the Shetland Islands Council Pension Fund to the Pensions Institute.

The meeting concluded at 11.20am.

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Chair



	<b>Shetland Islands Council</b>	Agenda Item <b>3</b>
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<b>Meeting(s):</b>	Pension Fund Committee Pension Board	5 March 2019
<b>Report Title:</b>	Management Accounts for Pension Fund Committee: 2018/19 - Projected Outturn at Quarter 3	
<b>Reference Number:</b>	F-013-F	
<b>Author / Job Title:</b>	Jamie Manson, Executive Manager - Finance	

<b>1.0 Decisions / Action required:</b>
1.1 That the Pension Fund Committee and Pension Board RESOLVE to review the Management Accounts showing the projected outturn position at Quarter 3.
<b>2.0 High Level Summary:</b>
2.1 The purpose of this report is to enable the Pension Fund Committee and Pension Board to monitor the financial performance of the Pension Fund to ensure that Members are aware of the forecast income and expenditure position and its impact on delivery of the approved budget.
2.2 The report presents the projected outturn position for 2018/19 as at 31 December 2018. The forecasts have been determined by the relevant budget responsible officers within Finance Services.
2.3 The projected revenue outturn position at Quarter 3 for the Pension Fund is an under-achievement of £569k (8.4%), which means that the Pension Fund is projected to spend more than budgeted.
2.4 Further detail on the projected outturn position can be found in Appendix 1.
<b>3.0 Corporate Priorities and Joint Working:</b>
3.1 There is a specific objective in the Corporate Plan that the Council will have excellent financial management arrangements to ensure that it maintains a balanced and sustainable budget and lives within its means; and that it continues to pursue a range of measures that enable effective and successful management of its finances over the medium to long term.
3.2 The investment strategy of the Pension Fund is aiming at achieving a 100% funding position by 2027, in order to ensure that the scheme remains affordable and sustainable in the future.
<b>4.0 Key Issues:</b>
4.1 On 6 March 2018 (Min Ref 03/18) the Pension Fund Committee approved the 2018/19 Pension Fund Budget. It is vital to the economic wellbeing of the Pension Fund that its financial resources are managed effectively and that net income is

delivered in line with the budget, as any overspends or under-achievements of income could result in a reduction in the net contribution to the Pension Fund.	
<p>4.2 This report forms part of the financial governance and stewardship framework, which ensures that the financial position of the Pension Fund is acknowledged, understood and quantified on a regular basis. It provides assurance to the Corporate Management Team and the Committee/Board that resources are being managed effectively and it allows corrective action to be taken, where applicable.</p> <p>4.3 At Quarter 3, the Pension Fund is projected to have a year-end under-achievement of net income of £569k (8.4%). This year has seen greater fluctuations from the 5-year average which the budget is based and is expected to continue over the last quarter of the year. Predicting individual choice is difficult and has a significant impact on achieving or not achieving the approved budget.</p>	
<b>5.0 Exempt and/or confidential information:</b>	
5.1 None.	
<b>6.0 Implications :</b>	
<b>6.1 Service Users, Patients and Communities:</b>	None arising from this report.
<b>6.2 Human Resources and Organisational Development:</b>	None arising from this report.
<b>6.3 Equality, Diversity and Human Rights:</b>	None arising from this report.
<b>6.4 Legal:</b>	None arising from this report.
<b>6.5 Finance:</b>	<p>The Pension Fund Investment Strategy, approved in 2015/16 is currently under review with KPMG the Pension Fund's investment consultants. The aim of the existing strategy is to ensure that the Pension Fund is 100% funded within 20 years.</p> <p>It is vital that the Pension Fund continues to receive a surplus of income over expenditure to ensure that the Fund can become fully funded and to keep the employers contributions at a manageable level. There are many factors within the Pension Fund transactions that can cause the actual outturn to differ significantly from budget.</p>

	Individual pension choices can significantly impact on the budget, eg lump sums and timing of retirement etc.
<b>6.6 Assets and Property:</b>	None arising from this report.
<b>6.7 ICT and new technologies:</b>	None arising from this report.
<b>6.8 Environmental:</b>	None arising from this report.
<b>6.9 Risk Management:</b>	<p>There are numerous risks involved in the delivery of the Pension Fund and awareness of these risks is critical to successful financial management.</p> <p>From a financial perspective, risks are an integral part of planning for the future, as assumptions and estimates are involved. These assumptions can be affected by many internal and external factors, such as supply and demand, which could have an adverse impact.</p> <p>The main financial risks for the Pension Fund are:</p> <ul style="list-style-type: none"> <li>• That the Fund's investments fail to deliver returns in line with those required to meet the valuation of long-term liabilities;</li> <li>• That bond yields fall, leading to a rise in value placed on liabilities;</li> <li>• That employers leave the scheme or the scheme closes to new members, which could lead to any residual liabilities falling to other scheme employers;</li> <li>• That a failure to recover unfunded payments from employers occurs, potentially leading to other employers having to increase their employer contributions to subsidise;</li> <li>• That a global stock market failure occurs;</li> <li>• That active fund managers under-perform against expectations.</li> </ul>
<b>6.10 Policy and Delegated Authority:</b>	The Pension Fund Committee has been delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland Islands Council Pension Fund in terms of the Local Government (Scotland) Act 1994, the

	<p>Superannuation Act 1972 and the Public Service Pensions Act 2013.</p> <p>The Pension Board is the body responsible for assisting the Scheme Manager in relation to compliance with the scheme regulations and the requirements of the Pension Regulator.</p>
<p><b>6.11</b> <b>Previously considered by:</b></p>	n/a

**Contact Details:**

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**Appendices:**

*Appendix 1 – Projected Revenue Outturn Position 2018/19*

**Background Documents:**

*Pension Fund Budget Proposals 2018/19, Pension Fund Committee/Pension Board, 6 March 2018*  
<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=22165>

## Pension Fund Committee / Pension Board

## 1. Revenue Outturn Position 2018/19 (Quarter 3)

Budget v Projected Outturn variance at Q2 (Adv) / Pos £000	Pension Fund	Revised Annual Budget £000	Projected Annual Outturn £000	Budget v Projected Outturn variance at Q3 (Adv) / Pos £000	Actual expenditure and income to 31 December 2018 £000
9	Employee Costs	264	258	6	163
(99)	Operating Costs	145	263	(118)	150
(26)	Investment Expenses	1,573	1,599	(26)	779
0	Benefits Payable	10,557	10,353	204	6,902
(320)	Transfers Out	300	740	(440)	295
(73)	Lump Sums	2,003	2,517	(514)	2,241
0	AVC Out	480	814	(334)	714
<b>(509)</b>	<b>Total Expenditure</b>	<b>15,322</b>	<b>16,544</b>	<b>(1,222)</b>	<b>11,244</b>
110	Contributions Received	(17,569)	(17,691)	122	(11,395)
204	Investment Income	(3,394)	(3,600)	206	(2,074)
103	Transfers In	(300)	(477)	177	(468)
0	AVC In	(800)	(948)	148	(838)
<b>417</b>	<b>Total Income</b>	<b>(22,063)</b>	<b>(22,716)</b>	<b>653</b>	<b>(14,775)</b>
<b>(92)</b>	<b>Net Income</b>	<b>(6,741)</b>	<b>(6,172)</b>	<b>(569)</b>	<b>(3,531)</b>

An explanation of the significant variances to budget for the Pension Fund at Quarter 3 is set out below. At this stage it is difficult to predict some items of expenditure and income, owing to their demand-led nature.

## 1.1 Operating Costs – overspend of £118k (81.4%)

This overspend is related to tax on lifetime allowances, which occurs when retirees have accumulated more in their pension pot than is allowed by HMRC. Provision exists for the Pension Fund to pay the tax due with an adjustment being made to retirees retirement benefits.

## 1.2 Transfers Out - £440k (146.7%)

The value of transfers out varies, due to a number of factors including length of service and salary. The budget is based on an average over 5 years and doesn't take account of any large single transfers out. The projected outturn anticipates large transfers out resulting in the projected adverse outturn.

## 1.3 Lump Sums – overspend of £514k (25.7%)

The value of lump sums payable to retirees varies greatly depending on a number of factors including length of service, salary guaranteed lump sum entitlement, commutation of pension to lump sum, etc. The year-to-date position represents 86 retirees, analysed as follows:

- 51 normal retirements (£792k);
- 11 late retirements (over 65) (£238k);
- 13 ill-health retirements (£451k);
- 7 flexible / phased retirement lump sums (£190k)
- 4 redundancy/efficiency retirements (£171k).

A flexible or phased retirement is where the employee accesses their retirement benefits and is still employed on reduced hours and/or reduced grade.

Death-in-Service benefit lump sums are paid out at the rate of three times salary. Seven payments in this regard have been made so far this year, amounting to £374k.

The amount of lump sums as stated above has been greater this year to date than the 5-year average budgeted for.

#### **1.4 Additional Voluntary Contribution (AVC) Out – overspend of £334k (69.6%)**

The budget is based on an average over 5 years, with an assumption that most people receiving AVC would only take a proportion as a lump sum. The experience this year is that many of the scheme members have taken all or most of the AVC as a lump sum.

#### **1.5 Investment Income – over-achievement of £206k (6.1%)**

The outturn figure was calculated based on the year to date income and extrapolated for the remaining quarter of 2018/19. Investments have produced higher than anticipated returns due to property investments, which have performed well this year.

#### **1.6 Transfers in – over-achievement of £177k (59.0%)**

This is due to more, higher value transfers being received than budgeted. Income from transfers into the Pension Fund is based on the value of a new employee's previous pension benefits; transfers in from other local authority Pension Funds are often higher value than those from private Pension Funds. The budget is based on a five-year rolling average of 15 transfers at £20k each. The year-to-date position has exceeded the budget, consisting of 12 transfers in at an average of £39k.

#### **1.7 Additional Voluntary Contribution (AVC) in – over-achievement of £148k (18.5%)**

This budget is based on an average over 5 years. It is difficult to predict as the value of AVCs received is dependent on how many scheme members have an AVC fund, how much they pay into their AVC fund and for how long. Twenty AVC's have been received to date, which has exceeded the budget, and all but one have been used either fully or partially for a lump sum.







<b>Meeting(s):</b>	<b>Pension Fund Committee Pension Board</b>	<b>5 March 2019 5 March 2019</b>
<b>Report Title:</b>	<b>Pension Fund - Quarter to December 2018 Investment Review Report</b>	
<b>Reference Number:</b>	<b>F-021-F</b>	
<b>Author / Job Title:</b>	<b>Jamie Manson, Executive Manager - Finance</b>	

<b>1.0</b>	<b>Decisions / Action required:</b>
1.1	That the Pension Fund Committee and Pension Board consider the outcome of this quarterly review.
<b>2.0</b>	<b>High Level Summary:</b>
2.1	This report will allow the Pension Fund Committee and Board to review the investment position and performance of the Pension Fund's external investments, managed on their behalf by fund managers, for the quarter to December 2018.
2.2	The Pension Fund's investments decreased in value by £36 million over the quarter and now have an overall value at the end of December of £467 million.
2.3	Over the quarter to December 2018, BlackRock were close to their benchmark, KBI Global Investors were above their benchmark, Newton were below their benchmark, Schroders were equal to their benchmark and M&G underperformed their benchmark. The combined investment return for the Pension Fund over the three month period was -7.0% which was 0.6% below the benchmark return. See additional information in Appendix 1.
2.4	The conclusion of the quarterly review is that Fund Manager performance has been mixed individually but in absolute terms negative overall against the benchmark. Performance of the investments, was dominated by the falls seen in the equity markets, and this has hit the Pension Fund's value but this type of volatility in the markets can happen over short time periods, so there is no immediate reason to investigate further the Pension Fund making changes.
2.5	The Pension Committee and Pension Board meeting in August 2018 (Min. Ref. 17/18) stated the intention for the Pension Fund's two equity fund managers to attend the December Pension meeting to give presentations. Due to pressure on the meeting timetable in December the two fund manager presentations were held over to this meeting. Representatives from KBI Global Investors and BlackRock will attend this meeting and give presentations.
2.6	A review of the Pension Fund Investment Strategy is currently underway with KPMG the Pension Fund's investment consultants. The findings and recommendations from the review will be reported at a later date.

<b>3.0 Corporate Priorities and Joint Working:</b>	
3.1	The report links to the Council's corporate priorities, defined in its Corporate Plan, specifically in relation to assisting the Council in ensuring that financial resources are managed.
<b>4.0 Key Issues:</b>	
4.1	This report is only a three month snapshot of how the markets and fund managers have performed. Over the remainder of the financial year the performance of the Pension Fund's investments could easily increase or decrease depending on economic and investment circumstances.
<b>5.0 Exempt and/or confidential information:</b>	
5.1	<i>None</i>

<b>6.0 Implications :</b>	
<b>6.1 Service Users, Patients and Communities:</b>	The monitoring of fund manager performance is a means of providing reassurance to members and employers that the fund is being managed appropriately for the long term sustainability objectives and to ensure that monies will be available to fund future pension benefits.
<b>6.2 Human Resources and Organisational Development:</b>	<i>None</i>
<b>6.3 Equality, Diversity and Human Rights:</b>	<i>None</i>
<b>6.4 Legal:</b>	As required by The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, where investment managers have been appointed their performance must be kept under review.
<b>6.5 Finance:</b>	<p>The long term investments and their performance are important to the Pension Fund and the achievements of its outcomes and objectives.</p> <p>It is recognised that the actual investment performance each year will be different to what is expected or required however over the long term this will be monitored and reviewed to ensure that the Pension Fund is working towards meeting its long term investment objectives.</p> <p>It is not likely that the Pension Fund can expect a positive investment return from its investments every year but having robust governance and monitoring in place, alongside a</p>

	diversified investment strategy, mitigates the financial risks and enables the Pension Fund to take action at appropriate times to address poor performance by the fund managers. This report is part of that governance and monitoring framework.
<b>6.6 Assets and Property:</b>	Long term investments are assets of the Pension Fund and represent money given to fund managers to manage on its behalf for long term benefit. The Pension Fund relies upon each fund manager's fiduciary duty and to buy and sell appropriate assets in accordance with the mandate awarded to them and to report regularly on the value and performance of the fund in which Pension Fund money is invested. The value of long term investments under these mandates can go down as well as up.
<b>6.7 ICT and new technologies:</b>	<i>None</i>
<b>6.8 Environmental:</b>	<p>Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers are expected as part of their investment process to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities.</p> <p>Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle the Pension Fund will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised however that in practical terms this may not always be possible for overseas holdings. However for UK stocks all voting rights will be exercised in a positive fashion, i.e. no abstentions.</p> <p>The fund managers, who will act in accordance with this policy, will exercise voting.</p> <p>All of the Pension fund managers have signed up to the United Nations Principles on Responsible Investment. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and therefore must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and so better align their objectives with those of society at large.</p>
<b>6.9 Risk Management:</b>	All investments carry risk. Risks, such as market risk are mitigated and actively managed through diversification of fund managers, asset classes, markets, size of holdings and through

	performance monitoring against benchmarks.	
<b>6.10 Policy and Delegated Authority:</b>	<p>The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland Islands Council Pension Fund (the Pension Fund) in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2013.</p> <p>The Pension Board is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator. The Pension Board will determine the areas they wish to consider.</p>	
<b>6.11 Previously considered by:</b>	None	

**Contact Details:**

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**Appendices:**

Appendix 1 - Quarter to December 2018 Performance Review

**Background Documents:**

None

## Quarter to December 2018 Performance Review

### 1.0 Investment Position and Market Performance

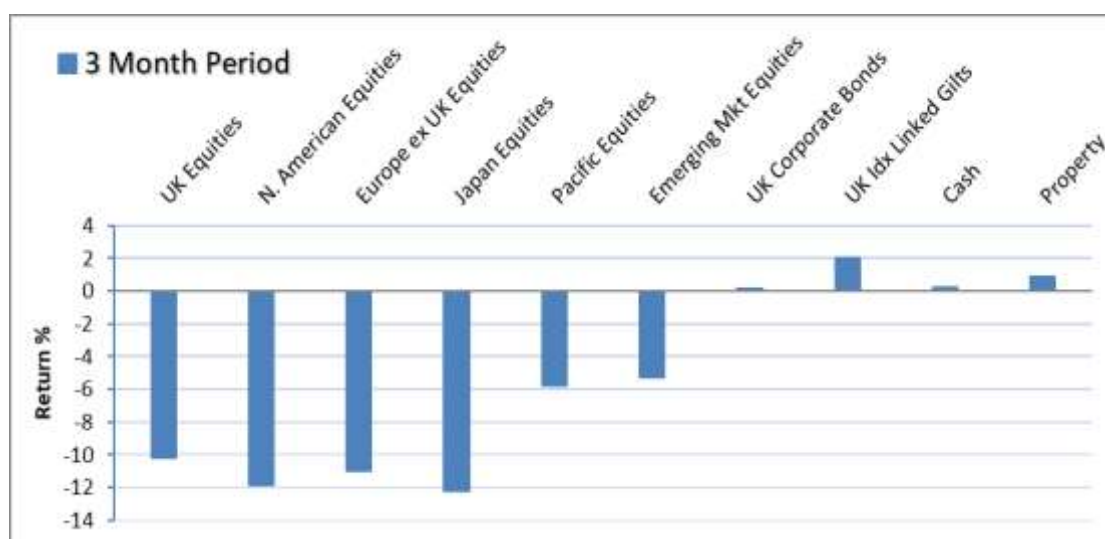
- 1.1 This quarterly report forms part of the Pension Fund's governance arrangements where the Pension Fund Committee and Board receive a quarterly investment report on the external investments.
- 1.2 This report concentrates on the three month period from October to December 2018. The report looks at the performance of the Pension Fund's managers, the overall investment performance relative to the markets, the physical movement of funds, any changes from the investment strategy, and any other relevant issues relating to the investments over the period.
- 1.3 The Pension Fund has five fund managers with total investments under management at the end of December 2018 of £467 million. The funds, type of mandate and market values at the end of December 2018 are as follows:

Manager	Mandate	% of Reserves	Market Value (£m)
BlackRock	Passive Equity	41%	193
KBI Global Investors	Active Equity	21%	96
Newton	Diversified Growth	17%	77
Schroders	Property	13%	63
M&G	Alternative Credit	8%	38

- 1.4 Individual fund manager performance is detailed later but there is the need to consider the effect of the markets themselves, and of any cash withdrawals or injections into the funds. The following table shows the effect on the overall investments of these factors during the three month period.

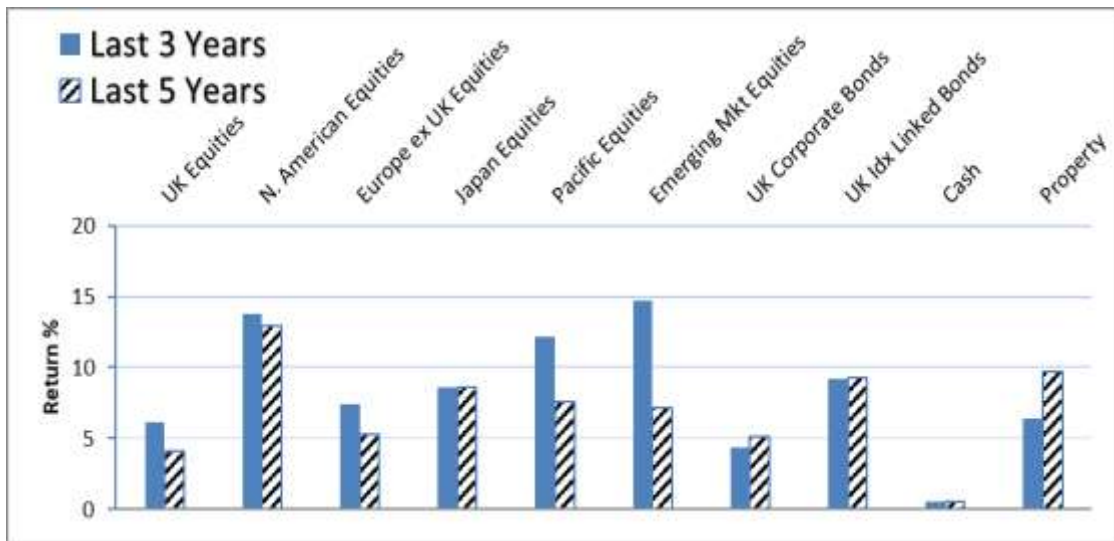
	<b>3 Months Oct – Dec</b>	<b>9 Months Apr – Dec</b>
	<b>£m</b>	<b>£m</b>
Opening Market Value	503	459
Additions / (Withdrawals)	2	2
Investment Return	<u>(38)</u>	<u>6</u>
<b>Market Value Dec 2018</b>	<b><u>467</u></b>	<b><u>467</u></b>

- 1.5 The figures show a £38 million negative investment return over the three month period. The decrease in investment returns is due mainly to the fall in equity markets over the period.
- 1.6 Over the three month period to December 2018 equities had a difficult time with all of the major equity markets falling, and in some cases wiping out all of the gains made in 2018. In the UK the Brexit talks continued to dominate the news with no conclusion, and the Prime Minister delaying a vote on a proposed agreement until January 2019. This added to the markets concern that a trade deal may not be agreed before the March deadline. Trade war issues between America and China continued while concerns about interest rate rises remained. There were also concerns about America's future economic growth and the Government shut down situation. Corporate bonds struggled over the quarter but Government Bonds fared better, bond markets faced challenges due to the political uncertainty in Europe, falling oil prices and trade tensions between the US and China.
- 1.7 From the start of the financial year the nine month period to December 2018 has seen the Pension Fund investments increase by £6 million. Over the first six months of the financial year the equity markets were rising due to reduced concerns over US China trade talks, good company earnings and strong economic data, which boosted the Pension Fund's investments, but the last three months to December saw the markets change direction and fall, almost cancelling out the gains made over the first six months.
- 1.8 The investment markets performance, over the main asset classes the Pension Fund invests into, over the three month period looks like this:



- 1.9 This is only a three month snapshot of how the various investment classes and sectors have performed and it shows how, in the short term, values do fall as well as rise. History shows that investments in these asset classes over the long term are usually positive, which is the reason the investment strategy is based on a long term investment horizon. As an example of the differences in market returns over a slightly longer time period, the following graph shows

the same asset classes but with returns per annum over the last three and five years.



- 1.10 The fund manager has negligible influence over the market return but they may be required by the mandate agreement to invest into these markets. The main constituent of a fund's performance is the market return, where the fund is invested. A fund manager with an active mandate is asked to outperform the market return by a certain percentage, or cash plus a percentage return, whereas a fund manager with a passive mandate is aiming to match the market return.

## 2.0 Fund Manager Performance

- 2.1 The Pension Fund invests in various asset classes for the long term, generally five years or more. This report just looks at the performance of the fund managers, and the investment return over a three month period.
- 2.2 In this environment the Pension Fund's managers have, over the three month period to end December 2018, performed as follows:

Manager	Mandate	Fund Return	Benchmark Return	% Return Compared to Benchmark
BlackRock	Passive Equity	-10.8%	-10.9%	0.1%
KBI Global Investors	Active Equity	-11.2%	-11.3%	0.1%
Newton	Diversified Growth	-1.4%	1.2%	-2.6%
Schroders	Property	0.9%	0.9%	0.0%
M&G	Alternative Credit	-1.7%	0.9%	-2.6%

- 2.3 The fund with BlackRock is invested passively in equities, this means that BlackRock is trying to track the market return, which is the benchmark for the fund. BlackRock will therefore follow the market return whether up or down, so when markets fall as has happened in the quarter to December 2018, BlackRock will also fall in value along with the market.
- 2.4 The fund with BlackRock is split between UK equities 45% and global ex UK equities 55%. Both of the funds were very close to their respective benchmarks over the three month period with the global ex UK investment returning -11.3% and UK equities returning -10.2%. This gave an overall return to the Fund of -10.8% over the three month period, which is a reflection of the mixture of returns from the various markets the fund invests into.
- 2.5 The fund with KBI Global Investors is in active global equities. They invest using a strategy based on selecting income generating shares. Over the three month period the fund returned -11.2% and outperformed the benchmark by 0.1%. The fund had mixed fortunes during the quarter, performing well in capital goods, pharmaceuticals and technology hardware sectors while struggling in software, materials and financial sectors.
- 2.6 Newton has a diversified growth fund mandate, which over the three month period delivered a negative 1.4% return which was below the cash plus benchmark return. The diversified growth fund invests in various asset classes to spread risk and smooth returns. During the quarter Newton reduced their exposure to equities and increased certain fixed income investments which boosted capital protection, and although the return was negative it was nowhere near the negative returns seen from equities over the quarter.
- 2.7 Newton continues to believe that a determined focus on the longer-term trends, rather than short-term market news, is in the best interests of their clients. The portfolio is therefore maintaining a cautious investment position.
- 2.8 Schroders invests into property via a fund of funds approach where they invest in various different property funds to spread investment risk. The fund is mainly invested in the UK with a small holding in Europe. Over the three month period Schroders equalled the benchmark with a return of 0.9%, The UK investments outperformed the benchmark with a return of 1.1%, but the European investment underperformed. The industrial sector, regional offices, industrials and alternatives performed well while the retail sector and central London offices struggled. During the previous quarter Schroders made an initial investment into a real estate debt fund which the Pension Committee approved, this investment is now about £1.2 million in value and around 2% of the overall Schroders fund.
- 2.9 The fund with M&G is an alternative credit fund that invests in fixed income products such as corporate bonds, high yield bonds, asset backed securities etc. The fund underperformed the cash plus benchmark over the three month period by 2.6% with an investment return of -1.7%. During the quarter the



bond markets also fell due to heightened economic and political risks but government bonds rose slightly as investors sought more safety. The fund is currently maintaining a defensive position but is seeing an increase in opportunities.

- 2.10 This investment quarter saw equities fall considerably while bonds and property just managed to return positive numbers. Schrodgers property fund produced the best investment return over the period with a 0.9% return. The overall Pension Fund investment return for the three month period to the end of December 2018 was -7.0%, which was 0.6% below the benchmark return.

### **3.0 Fund Manager Presentations**

- 3.1 Representatives from the Pension fund's two equity fund managers, KBI Global Investors (active equities) and BlackRock (passive equities), will attend the meeting and give presentations. They will both give handouts at the meeting to go along with their presentations.
- 3.2 The fund manager presentations along with this report is intended to inform the members and employers about the Pension Fund's equity investments along with their investment performance, as part of the Pension Fund's governance arrangements.

#### **KBI Global Investors**

- 3.3 The first presentation is from KBI Global Investors and they were awarded a £68 million global active equity mandate in November 2014, with management of that mandate commencing in January 2015.
- 3.4 KBI Global Investors was originally formed in 1980 and their headquarters is in Dublin with offices in Boston and New York. They are owned by Amundi, a large European asset manager.
- 3.5 KBI invests via a set systematic investment process, which uses a strategy that believes financially robust higher dividend paying stocks will outperform over the long term. It is an actively managed equity mandate.
- 3.6 The performance target for this fund is to beat a specific benchmark by 2.0% per annum.
- 3.7 The Pension Fund's investment with KBI Global Investors had a value of £96 million at the end of December 2018, which is about 21% of the Pension Fund's total investments.

#### **BlackRock**

- 3.8 BlackRock was initially a large US fund management business but after acquiring Merrill Lynch and BGI, they are now one of the largest global fund managers in the world.

- 3.9 BlackRock have managed a passive equity mandate on behalf of the Pension Fund since December 2009. BlackRock's passive mandate was reorganised in 2014 as part of the new Pension Fund investment strategy with performance monitoring starting in January 2015.
- 3.10 The fund is passively invested which removes the fund manager risk, as it is a computer driven process. The fund manager is therefore aiming to copy the market return where they are asked to invest, which is their benchmark for performance purposes. The fund with BlackRock is split between UK equities 45% and global ex UK equities 55%.
- 3.11 The Pension Fund's investment with BlackRock had a value of £193 million at the end of December 2018, which is about 41% of the Pension Fund's total investments.

#### **4.0 After the end of December 2018**

- 4.1 The equity markets have risen throughout January recovering some of the falls from the quarter to December 2018. This is due to reduced concerns about trade between America and China.
- 4.2 The most up to date Pension Fund investment value is £481 million (unaudited) at the end of January 2019.
- 4.3 The current investment strategy is at present under review. KPMG the Pension Fund's investment consultants are conducting the investment strategy review. The review is looking over the current strategy and will propose any changes to ensure the investment strategy remains fit for purpose over the next few years.

	<b>Shetland Islands Council</b>	Agenda Item <b>5</b>
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<b>Meeting(s):</b>	Pension Fund Committee Pension Board	5 March 2019
<b>Report Title:</b>	Annual Audit Plan 2018/19	
<b>Reference Number:</b>	F-018-F	
<b>Author / Job Title:</b>	Jamie Manson, Executive Manager - Finance	

<b>1.0</b>	<b>Decisions / Action required:</b>
1.1	That the Pension Fund Committee and Pension Board NOTES the contents of the Audit Plan 2018/19 for Shetland Islands Council Pension Fund (Appendix 1) from external auditors, Deloitte LLP.
<b>2.0</b>	<b>High Level Summary:</b>
2.1	The Annual Audit Plan detailed at Appendix 1 provides information on the work that external auditors will undertake to review and assess the governance and performance of the Pension Fund in 2018/19.
<b>3.0</b>	<b>Corporate Priorities and Joint Working:</b>
3.1	The audit process plays a key role in helping the Pension Fund to maintain good governance, accountability and provides assurance around financial stewardship.
3.2	The current strategy for the Pension Fund is to achieve a 100% funding position to ensure that the scheme remains affordable and sustainable in the future.
<b>4.0</b>	<b>Key Issues:</b>
4.1	<p>The Annual Audit Plan presents the planned audit work for the 2018/19 financial year by the Pension Fund's external auditors, Deloitte LLP, for the 2018/19 financial year; the third year of a five-year appointment. Their core audit work includes:</p> <ul style="list-style-type: none"> <li>• Providing the <b>Independent Auditor's Report</b> on the annual accounts;</li> <li>• Providing the <b>annual report</b> on the audit addressed to the Pension Fund Audit Committee;</li> <li>• Communicating <b>audit plans</b> to the Audit Committee;</li> <li>• Providing <b>reports to management</b>, as appropriate, in respect of the auditor's responsibilities in the Code;</li> <li>• Identifying <b>significant matters arising from the audit</b>, alert the Controller of Audit and support Audit Scotland in producing statutory reports as required;</li> <li>• Undertaking work requested by Audit Scotland or local performance audit work.</li> </ul>

<b>5.0</b>	<b>Exempt and/or confidential information:</b>
5.1	None.
<b>6.0</b>	<b>Implications :</b>
<b>6.1 Service Users, Patients and Communities:</b>	None arising from this report.
<b>6.2 Human Resources and Organisational Development:</b>	None arising from this report.
<b>6.3 Equality, Diversity and Human Rights:</b>	None arising from this report.
<b>6.4 Legal:</b>	The Shetland Islands Council Pension Fund is required to prepare accounts in accordance with the Local Government (Scotland) Act 1973, the Code of Practice on Local Authority Accounting 2018/19 and the Local Government Pension Scheme (Scotland) Regulations 2014 (as amended).
<b>6.5 Finance:</b>	The audit fee for 2018/19 is £29,100.
<b>6.6 Assets and Property:</b>	None arising from this report.
<b>6.7 ICT and new technologies:</b>	None arising from this report.
<b>6.8 Environmental:</b>	None arising from this report.
<b>6.9 Risk Management:</b>	The annual audit work is focused on identifying and assessing the key challenges and risks to the Pension Fund in order to mitigate future risk.
<b>6.10 Policy and Delegated Authority:</b>	The Pension Fund Committee has responsibility for governance arrangements including regulatory compliance and implementation of audit recommendations in respect of the Pension Fund.

<b>6.11</b> <b>Previously considered</b> <b>by:</b>	n/a
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**Appendices:**

*Appendix 1 – Shetland Islands Council Pension Fund Annual Audit Plan for 2018/19*





## **Shetland Islands Council Pension Fund**

Planning report to the Audit Committee on the audit for the year ending 31 March 2019

Issued 8 February 2019 for the meeting on 5 March 2019

# Contents

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# Introduction

## The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our draft planning report to the Audit Committee of Shetland Islands Council Pension Fund (the "Fund") for audit of the year ending 31 March 2019. We would like to draw your attention to the key messages of this draft audit plan:

<b>Fund changes</b>	<p>Following discussions with the Fund's finance team, we have not identified any significant changes to the Fund itself during the year, other than changes to sponsoring employer rates of contribution as outlined in the latest triennial valuation. We will continue to liaise with the finance team to identify any changes between the date of this report and the Fund's year end, and will update our audit plan accordingly should any occur.</p> <p>There have been no significant regulatory changes to the accounting of the Fund in the current year. The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the 2018/19 Code") applies in the current year.</p>
<b>Significant audit risk</b>	<p>We have identified management override of controls as our significant audit risk. Auditing standards require us to assume that management override of controls is an audit risk for all of our audits.</p> <p>Further details of this significant risk, including our proposed testing can be found on page 12.</p>
<b>Areas of audit focus</b>	<p>The following areas of audit focus have not been identified as significant risks, but will be considered as part of the audit:</p> <ol style="list-style-type: none"><li>1. Accuracy and timeliness of contributions payable to the Fund</li><li>2. Existence of investments</li></ol> <p>Further details of the areas of audit focus, including our proposed testing, are outlined on pages 13 and 14.</p>

# Introduction (continued)

## The key messages in this report (continued):

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### Audit dimensions

The Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work will consider how the Fund is addressing these and report our conclusions in our annual report to the Members and Controller of Audit in September 2019. In particular, our work will focus on:

- **Financial sustainability** – we will monitor the Fund’s actions in respect of its medium and longer term financial plan to assess whether short term financial balance can be achieved, whether there is a long-term financial strategy and if the investments are in line with the 2014-2027 investment strategy.
- **Financial management** – we will review the budget and monitoring reports of the Fund during the year to assess whether financial management and budget setting is in line with good practice.
- **Governance and transparency** – from our review of the Fund’s Audit Committee papers and attendance at Audit Committee meetings, we will assess the effectiveness and scrutiny of governance arrangements. We will also share best practice examples, where it is deemed appropriate.
- **Value for money** – we will gain an understanding of the Fund’s self-evaluation arrangements to assess how it demonstrated value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered.

### Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

### Adding value

Our aim is to add value to the Fund through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Fund promote improved standards of governance, better management and decision making and more effective use of resources.

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Yours Faithfully,

**Pat Kenny**  
Audit Director

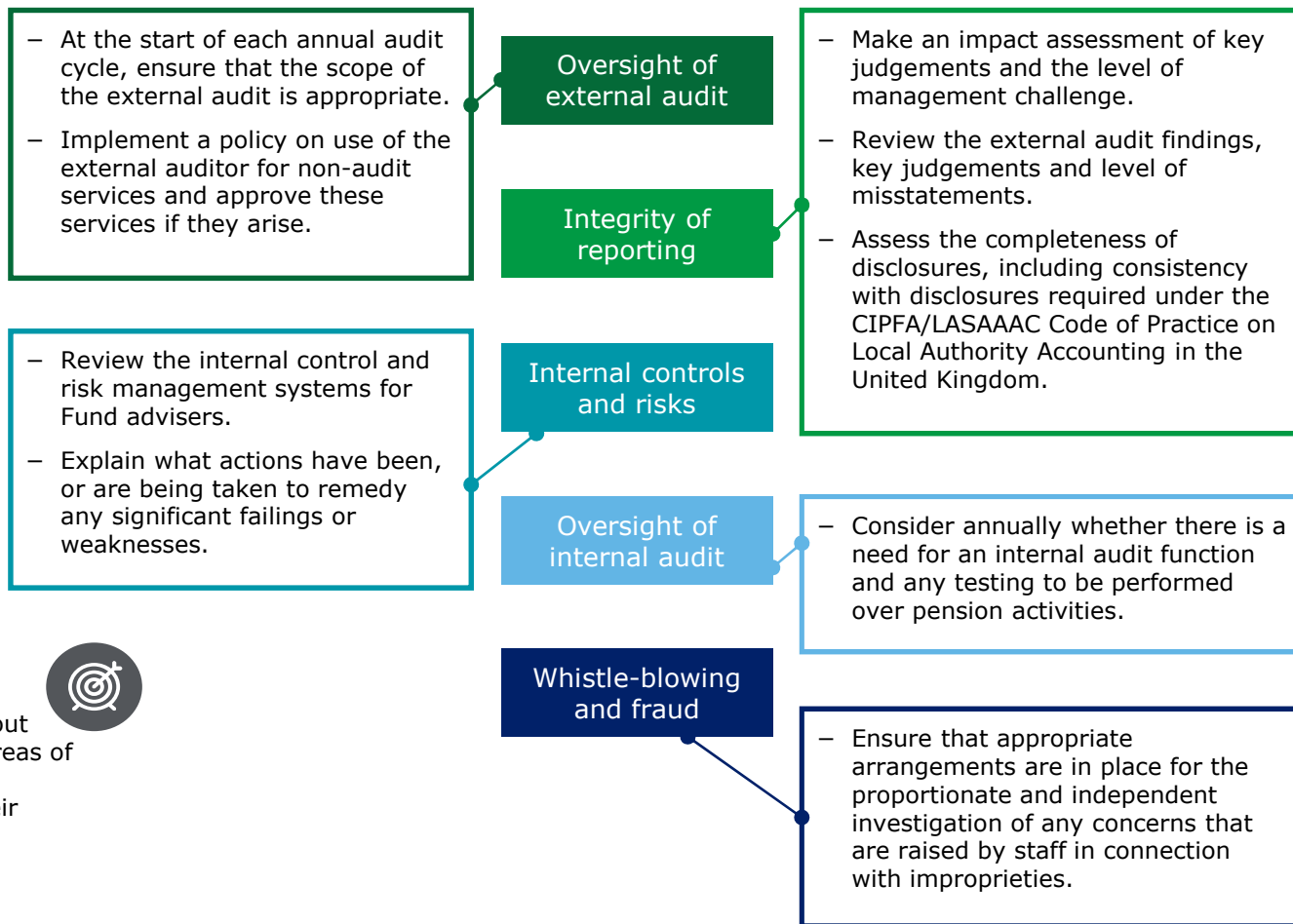
# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Audit Committee:

- Provide assurance over the financial statements;
- Provide timely observations arising from the audit that are significant and relevant to the Audit Committee's responsibility to oversee the financial reporting process; and
- In addition, we seek to provide the Audit Committee with additional information to help fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



We use this symbol throughout this document to highlight areas of our audit where the Audit Committee need to focus their attentions.

# Our audit explained

## We tailor our audit to your Fund and your strategy

### Identify changes in your Fund and environment

We have not identified any significant changes to the Fund during the year, with the exception of changes to the sponsoring employer rates of contribution as outlined in the latest triennial valuation. The 2018/19 Code is applicable in the current year.

### Scoping

We have performed our initial scoping based on current requirements and Audit Scotland planning guidance. More details are given on page 8.

### In our final report

In our final report to you we will conclude on the significant risk and areas of audit focus identified in this paper, including how we have assessed them together with any misstatements or control observations identified.



### Determine materiality

Financial statement materiality will be based on 1% of net assets (2017/18: 1% of net assets or £4,602,000). We will report to you any misstatements above 5% of financial statement materiality (2017/18: 5% of financial statement materiality or £230,000). Further information around our materiality calculation can be found on page 7.

### Significant risk assessment

We have identified the significant audit risk and areas of audit focus in relation to the Fund, based on our knowledge of the Fund. More detail is given on pages 12 to 14. These risk areas are consistent with those identified in our prior year audit.

### Quality and Independence

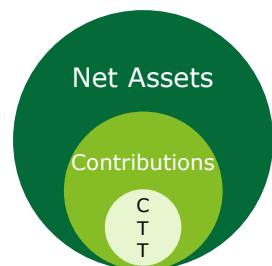
We confirm all Deloitte network firms are independent of the Fund. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

# Materiality

## Approach to materiality



### Basis of materiality - benchmark



We set materiality for our opinion on the financial statements at 1% (2017/18: 1%) of the Net Assets of the Fund and performance materiality at 90% of our materiality based on professional judgement, the requirements of auditing standards and the financial measures most relevant to the users of the financial statements.

As a reference our materiality and performance materiality for the 2017/18 Annual Report and Accounts was determined as £4,602,000 and £4,141,800 respectively.

We will update our materiality assessment following receipt of the draft 2018/19 financial statements and will communicate this to the Audit Committee in our final report.

### Reporting to the Audit Committee

We report to the Audit Committee any unadjusted misstatements greater than 5% of materiality ("reporting threshold") and other adjustments we consider to be qualitatively material. Based on the 2017/18 Annual Report and Accounts, we determined reporting threshold ("RT") to be £230,000.

Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250,000.

We will report to you misstatements below this threshold if we consider them to be material in nature.

### Our audit report

The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.



Although materiality is the judgement of the Audit Director, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

# Scope of work and approach

## Our key areas of responsibility under the Code of Audit Practice



### Core audit

Our core audit work as defined by Audit Scotland comprises:

- Providing the **Independent Auditor's Report** on the annual accounts;
- Providing the **annual report** on the audit addressed to the Pension Fund Audit Committee;
- Communicating **audit plans** to the Audit Committee;
- Providing **reports to management**, as appropriate, in respect of the auditor's responsibilities in the Code;
- Identifying **significant matters arising from the audit**, alert the Controller of Audit and support Audit Scotland in producing statutory reports as required; and
- Undertaking work requested by Audit Scotland or local performance audit work.

### Wider scope requirements

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland:

- **Financial sustainability** – looking forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver its services or the way in which they should be delivered.
- **Financial management** – financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and transparency** – the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
- **Value for money** – using resources effectively and continually improving services.

# Wider Scope Requirements

## Audit Dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We will consider how the Fund addresses these areas, including any risks to their achievement, as part of our audit work as follows:

Audit dimension	Areas to be considered	Impact on the 2018/19 Audit
<b>Financial sustainability</b> looks forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver its services or the way in which they should be delivered.	<ul style="list-style-type: none"> <li>• The financial planning systems in place across the shorter and longer terms.</li> <li>• The arrangements to address any identified funding gaps.</li> <li>• The affordability and effectiveness of funding and investment decisions made.</li> </ul>	<p>We will review arrangements and financial planning systems in place by the Fund regarding investments to ensure that its services can continue to be delivered. This will include a review of the latest actuarial valuation of the Fund and the plans in place to reduce the deficit over the shorter and medium term. In addition, we will review the funding policy as set out in the Shetland Islands Council Pension Fund Investment Strategy 2014-2027, which aims to secure the long term solvency of the Fund, so that there are sufficient funds available to meet all benefits as they fall due.</p> <p><b>Audit Risk:</b> The Fund's investment strategy is inconsistent with the long term solvency of the Fund.</p>
<b>Financial management</b> is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	<ul style="list-style-type: none"> <li>• Systems of internal control.</li> <li>• Budgetary control system.</li> <li>• Financial capacity and skills.</li> <li>• Arrangements for the prevention and detection of fraud.</li> </ul>	<p>We will review the budget and monitoring reporting by the Fund during the year to assess whether financial management and budget setting is in line with good practice.</p> <p>In addition, we will also review whether there is a proper officer and fund manager who have sufficient status to be able to deliver good financial management, that monitoring reports contain information linked to performance as well as financial data, and that members have the opportunity to provide a sufficient level of challenge around variances and under-performance.</p> <p><b>Audit Risk:</b> The underlying financial performance of the Fund is not transparently reported.</p> <p>Our fraud responsibilities and representations are detailed on pages 19 and 20.</p>

# Wider Scope Requirements (continued)

## Audit Dimensions (continued)










The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We will consider how the Fund addresses these areas, including any risks to their achievement, as part of our audit work as follows:

Audit dimension	Areas to be considered	Impact on the 2018/19 Audit
<p><b>Governance and transparency</b> is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<ul style="list-style-type: none"> <li>• Governance arrangements.</li> <li>• Scrutiny, challenge and transparency on decision making and financial and performance reports.</li> <li>• Quality and timeliness of financial and performance reporting.</li> </ul>	<p>We will review the Fund's papers and use our attendance at Audit Committee meetings to assess the effectiveness and scrutiny of governance arrangements.</p> <p>We will also review other aspects of governance around the Fund including Codes of Conduct for officers and members, fraud and corruption arrangements for reporting regulatory breaches to the Pensions Regulator.</p> <p>In addition, we will review the Annual Governance Statement and Governance Compliance Statement to confirm the governance arrangements observe the guidance issues by Scottish Ministers.</p> <p><b>Audit Risk:</b> The Fund's approach is not keeping pace with good practice.</p>
<p><b>Value for money</b> is concerned with using resources effectively and continually improving services.</p>	<ul style="list-style-type: none"> <li>• Value for money in the use of resources.</li> <li>• Link between money spent and outputs and the outcomes delivered.</li> <li>• Improvement of outcomes.</li> <li>• Focus and pace of improvement.</li> </ul>	<p>We will gain an understanding of the Fund's self-evaluation arrangements to assess how it demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered.</p> <p>We will also review the scrutiny that is in place to challenge the Fund's investment managers on fees and performance.</p> <p><b>Audit Risk:</b> The Fund does not have sufficient scrutiny over the expenditure of the Fund.</p>



# Significant audit risk and areas of focus dashboard

We welcome the Audit Committee's input into this risk assessment to ensure that any new or emerging risks or focus areas are considered for inclusion as a significant audit risk or area of audit focus.

Risk	Material?	Fraud risk identified?	Planned approach to controls testing	Level of management judgement	Page no.
<b>Significant audit risk</b>					
<b>Management override of controls</b>			Design and implementation		12
<b>Areas of audit focus</b>					
Accuracy and timeliness of contributions payable to the Fund			Design and implementation		13
Existence of investments			Operating effectiveness		14



Moderate management judgement



Low management judgement

# Significant audit risk

## Management override of controls



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### **Risk identified**

In accordance with ISA 240 (UK) management override of controls is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

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### **Deloitte response**

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

#### **Journal testing**

- We will make enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- We will test the design and implementation of controls surrounding the financial reporting process and the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of the financial statements. As part of our work in this area, we will perform an analysis of the journal entries, which will enable us to focus on journals meeting specific pre-determined parameters determined during our audit planning;
- We will test the design and implementation of controls surrounding the segregation of duties over processing journal entries to the financial statements throughout the year.

#### **Accounting estimates**

- We will test the design and implementation of controls over key accounting estimates and judgements.
- We will review the financial statements for any accounting estimates which could contain management bias, and assess the judgements taken against supporting evidence.

#### **Significant and unusual transactions**

- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of the Fund's operations, or that otherwise appear to be unusual, given our understanding of the Fund and its environment.
  - We will make enquiries of management in relation to the identification of related parties.
-

# Areas of audit focus

## Accuracy and timeliness of contributions



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### Risk identified

The correct deduction and timely payment of contributions depends on system-based processing of membership data and salary details, together with a robust internal controls framework. Errors in processing contributions can lead to issues such as non-compliance with the Local Government Pension Scheme Regulations 2014 (“LGPS Regulations”) and the recommendations of the actuary. Deducting incorrect amounts from the active members’ payroll can be costly to rectify and cause reputational damage.

In addition, while no opinion is issued on the timely payment of contributions, it remains an area of focus, as LGPS Regulations stipulate due dates for payment. Late payments could cause reputational damage.

Due to the changes in employer primary contribution rates in the current year, there is a risk that contributions are not paid to the Fund accurately or in a timely manner.

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### Deloitte response

In order to address this area of audit focus, we will perform the following audit procedures:

- Review the design and implementation of key controls over the contribution process;
  - Perform an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
  - For a sample of active members, we will recalculate individual contribution deductions to ensure these are being calculated in accordance with the rates stipulated in the LGPS Regulations for employee contributions and the recommendations of the actuary for employer contributions;
  - Test that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions;
  - Test the reconciliation of the total number of active members between the membership records and the employer payroll records; and
  - For a sample of monthly contributions paid, check that they have been paid within the due dates per the LGPS Regulations.
-

# Areas of audit focus (continued)

## Valuation and existence of investments



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**Risk identified**

There is a risk that investments do not exist or are not valued accurately in the Fund's financial statements due to the potential levels of judgement involved in pricing such investments.

The Fund holds investments primarily in pooled funds, pooled property unit trusts and fixed income unit trusts with a range of investment managers.

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**Deloitte response**

In order to address this area of audit focus, we will perform the following audit procedures:

- Review the design and implementation and operating effectiveness of key controls over the valuation of investments by obtaining the investment manager internal controls reports and evaluating the implications for our audit of any exceptions noted;
- Independently request confirmations from all investment managers for balances held per the financial statements;
- Agree year end valuations, sales proceeds and purchases in the financial statements to the reports received directly from the investment managers;
- Perform a full unit reconciliation of investments held during the year;
- Agree a sample of investment sales and purchases to cash movements and/or transfers between funds where possible.
- Perform valuation testing by using a range of techniques depending on the type of investment:
  - Where the investment held is directly quoted on an exchange, we will obtain an independent price of the investment asset using our own internal pricing systems e.g. Bloomberg.
  - Where the investment is not directly quoted on an exchange, we will confirm if it is registered on the Financial Conduct Authority website and obtain an independent price, or use sales transactions close to the year end as an estimate of the price.
  - Where the investment is a unit linked insurance policy, we will confirm that the investment is held under the form of a unit linked insurance policy, that the insurance provider is authorised to provide insurance services and obtain confirmation that the provider would be willing to transact at the unit price stated on the confirmation received.
  - Where none of these options are available we will obtain audited financial statements and assess the year end price against the audited accounts, and benchmark movements where the date of the audited financial statements is not coterminous with the Fund's financial year.

# Audit quality

## Our commitment to audit quality

We set out below a summary of our commitments to both the Audit Committee and Fund management in key areas and we will actively seek feedback on how we have performed against them.



### AUDIT QUALITY PROMISE

The quality and distinctiveness of our audit delivery is of great importance to us.

**Key aspects of this delivery are:**

- how we ensure that the team is delivering the best quality audit at every level;
- how we continue to be insightful; and
- how we use technology to improve the quality of our audit and the insight we bring to you.



### INSIGHT

We will continue to use specialists in the audit of areas of audit interest. Our audit procedures and use of technology are designed to provide the Audit Committee with an insightful audit.

We will report our insights and results of the testing performed to the Audit Committee in our final paper following the completion of the audit.



### CULTURAL FIT

**We commit to:**

- giving you the best team with the right mix of industry knowledge and experience - the audit team consists of pension audit specialists, led by Pat Kenny (audit Director) and Graeme McCrum (Pensions accredited Director) with over 20 years of experience in the pensions industry;
- Pat is committed to meeting with the Audit Committee on a regular basis; and
- embedding Specialists into the audit team in order to provide you with the best advice in a timely manner and constructive audit challenge.



### PROFESSIONAL STANDARDS REVIEW

Our dedicated Professional Standards Review ("PSR") function will provide a 'hot' review before any audit or other opinion is signed.

PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope;
- Key regulatory and corporate governance updates, relevant to you.

### What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Fund.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Pat Kenny, CPFA**

for and on behalf of Deloitte LLP

Glasgow

8 February 2019

# Appendices



# Prior year audit adjustments

## Uncorrected and disclosure misstatements

We identified the following uncorrected and disclosure misstatements from our prior year audit work.

	Debit/ (credit) in Fund Account £'000	Debit/ (credit) in net assets £'000	If applicable, control deficiency identified
<b>Uncorrected misstatements</b>			
None			
<b>Corrected misstatements</b>			
None			
<b>Total</b>			

### Disclosure misstatements

[1] The Schroder Liquidity Fund was disclosed under Cash income due in note 11a of the financial statements. As this is a Pooled Investment Vehicle, it should have been disclosed under that heading. The result of the current classification is that £973,000 of sales were not presented in note 11a.



# Fraud responsibilities and representations

## Responsibilities explained



### **Your responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



### **Our responsibilities:**

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of management override of controls as a key audit risk for your Fund.



### **Fraud characteristics:**

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

### **We will request the following to be stated in the representation letter signed on behalf of the Fund:**

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud that affects the Fund and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

# Fraud responsibilities and representations

## Inquiries

We will make the following inquiries regarding fraud:



### **Management**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.



### **Internal audit and local counter fraud specialist**

- Whether internal audit and the Fund's local counter fraud specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain their views about the risks of fraud.



### **Those charged with governance**

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

# Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2019 in our final report to the Audit Committee.
Fees	<p>The fee for the 2018/19 audit has been agreed as £29,100 (2017/18: £29,486).</p> <p>There are no non-audit services fees proposed for the period.</p>
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Fund, the Audit Committee, or management, and have not supplied any services to other known connected parties.



# Our approach to quality

## AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website. <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

### The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

#### The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

#### Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

#### Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.



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<b>Meeting(s):</b>	Pension Fund Committee Pension Board	5 March 2019
<b>Report Title:</b>	2019/20 Budget Proposal – Pension Fund	
<b>Reference Number:</b>	F-014-F	
<b>Author / Job Title:</b>	Jamie Manson Executive Manager - Finance	

### 1.0 Decisions / Action required:

- 1.1 The Pension Fund Committee RESOLVE to approve the budget proposals for 2019/20 included within this report.
- 1.2 The Pension Board NOTE the report.

### 2.0 High Level Summary:

- 2.1 The proposed Pension Fund budget for 2019/20 is detailed in Appendix 1.
- 2.2 The net impact of the 2019/20 budget is a £6.167m contribution to the Pension Fund, a decrease of £0.005m on the projected 2018/19 outturn.
- 2.3 The overall Pension Fund budget strategy is to return a surplus of income over expenditure, whilst delivering a high quality service to all scheme members, ensuring that pension benefits are paid accurately and on time.
- 2.4 The Local Government Pension Scheme (Scotland) Regulations 2014 require administering authorities to ensure strong governance arrangements, which includes budget setting.

### 3.0 Corporate Priorities and Joint Working:

- 3.1 There is a specific objective within the Corporate Plan to ensure that the Council is “living within our means”. The key aim for the Pension Fund is to ensure that any deficits are recovered over less than a 20-year period. This means that the Pension Fund would be able to pay all liabilities as they fall due into the future.

### 4.0 Key Issues:

- 4.1 The following assumptions have been made in preparation of the 2019/20 budget proposals:
  - That the actuarial valuation following the triennial valuation will be applied to employer and employee contributions;
  - That the number and values of lump sums will follow a similar trend as the previous three and five year averages;

- That the number of retirees will follow a similar trend as the previous three and five year averages;
- That the admitted bodies will continue to pay employee and employer contributions on a similar number of staff as 2018/19;
- That, in line with Shetland Islands Council, the admitted bodies will incur a pay award of 3% for all staff, increasing the employee and employer contributions received;
- That investment income and fees will be broadly in line with 2018/19 projected income and expenditure, accounting for a different mix of investment types;
- That the Pensions team will be fully staffed for 2019/20.

## **5.0 Exempt and/or confidential information:**

5.1 None

## **6.0 Implications :**

<b>6.1 Service Users, Patients and Communities:</b>	Failure to set a sustainable budget could result in increased contributions for employees and employers of the scheduled and admitted bodies in order to achieve its strategy of any deficits being recovered within 20 years.
<b>6.2 Human Resources and Organisational Development:</b>	None arising from this report.
<b>6.3 Equality, Diversity and Human Rights:</b>	None arising from this report.
<b>6.4 Legal:</b>	The budget detailed in this report will allow the Council to meet its statutory and regulatory requirements in being a Pension Administering Authority.
<b>6.5 Finance:</b>	There is an estimated net income to the Pension Fund of £6.167m in 2019/20. This represents a decrease in net income of £0.005m over the 2018/19 projected outturn.
<b>6.6 Assets and Property:</b>	None arising from this report.
<b>6.7 ICT and new technologies:</b>	None arising from this report.
<b>6.8 Environmental:</b>	None arising from this report.



<p><b>6.9</b></p> <p><b>Risk Management:</b></p>	<p>There are numerous risks involved in the operation of the Pension Fund.</p> <p>From a financial perspective, risks are an integral part of planning for the future, as assumptions are made, internal and external factors and demand and supply all have an impact throughout the financial year. These can lead to unplanned or unexpected costs, and may arise without warning.</p> <p>Awareness of risks is critical to successful financial management. This report is part of the framework that provides assurance and provides the opportunity to correct any deviation from budget that may place the Board in a financially challenging position.</p> <p>Going forward, as the fund reaches maturity, there could be a risk where contributions receivable are less than benefits payable.</p> <p>To mitigate this risk, a new investment strategy was approved, with the aim for all deficits to be recovered within a 20-year period. This strategy of diversification of fund managers is a significant element of mitigating the risk of investing for growth and income.</p> <p>Pension legislation now allows a great deal of choice for its members when they retire. Members can now opt to retire between the ages of 55 and 75 (between 55 and 59 requires employers consent, and members must draw their pension benefits before their 75<sup>th</sup> birthday). Members can also opt to take some of their pension as a tax-free lump sum, up to 25% of the capital value of the pension benefit. As well as lump sums on retirement, the Pension Fund pays out ill-health benefits and death benefits. It is difficult to accurately predict the number of retirements or the value of the lump sums due to individual choice.</p> <p>It should be noted that there is the potential for more uncertainty in investment markets e.g. Brexit, which may affect investment income rates of return.</p>
<p><b>6.10</b></p> <p><b>Policy and Delegated Authority:</b></p>	<p>The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland Islands Council Pension Fund (the Pension Fund) in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2014.</p> <p>The Pension Board is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pension Regulator.</p>
<p><b>6.11</b></p>	<p>This report has not previously been presented to any formal meeting.</p>

<b>Previously considered by:</b>	
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**Contact Details:**

Jacqueline Johnson, [Jacqueline.johnson@shetland.gov.uk](mailto:Jacqueline.johnson@shetland.gov.uk)

**Appendices:**

*Appendix 1: Proposed Pension Fund Budget 2019/20*

**Background Documents:**

*None*

## Pension Fund Committee / Pension Board

## 1. Budget Estimates 2019/20

Pension Fund	2017/18 Actual Outturn £000	2018/19 Projected Outturn £000	2019/20 Proposed Budget £000	Movement between 2018/19 outturn and 2019/20 budget £000
Employee Costs	221	258	270	(12)
Operating Costs	220	263	184	79
Investment Expenses	1,482	1,599	1,711	(112)
Benefits Payable	10,006	10,353	10,602	(249)
Transfer Out	527	740	550	190
Lump Sums	2,736	2,517	2,520	(3)
AVC Out	458	814	650	164
<b>Total Expenditure</b>	<b>15,650</b>	<b>16,544</b>	<b>16,487</b>	<b>57</b>
Contributions Received	(16,918)	(17,691)	(18,778)	1,087
Other Income	(28)	0	0	0
Investment Income	(3,407)	(3,600)	(2,776)	(824)
Transfer In	(740)	(477)	(450)	(27)
AVC In	(682)	(948)	(650)	(298)
<b>Total Income</b>	<b>(21,775)</b>	<b>(22,716)</b>	<b>(22,654)</b>	<b>(62)</b>
<b>Net Income</b>	<b>(6,125)</b>	<b>(6,172)</b>	<b>(6,167)</b>	<b>(5)</b>

The estimated expenditure for 2019/20 has been arrived at using an assessment of three and five year averages and the 2018/19 outturn, and considering the composition of members/pensioners in the coming year.

## 1.1 Employee costs

The budget for employee costs is based on an establishment of 5.9 full time equivalents (FTEs). All staff salary budgets have been uplifted by a pay award of 3% for 2019/20 (plus 0.5% anticipated shortfall in 2018/19).

## 1.2 Operating costs

The budget for operating costs is made up of printing, computer licence fees, postage, actuarial and audit fees. The budget is based, where possible, on known costs for 2019/20, such as the audit fee.

### **1.3 Investment expenses**

The budget for investment expenses is based on the known fees for the existing fund managers, assuming growth in investments of 7.3%, resulting in corresponding increase in fees. A review of the Pension Fund Investment Strategy is currently being carried out to ensure that the aim of a fully funded scheme (as a minimum) is achievable in the next 20 years. Included is the budget for consultancy costs relating to the production and implementation of the new investment strategy.

### **1.4 Benefits payable**

This budget relates to pension benefits when a member retires. Members have the option to retire between the ages of 55 and 75. The budget includes a Consumer Price Index (CPI) increase of 2.4% on the 2018/19 projected outturn.

### **1.5 Transfer out**

Transfer out occurs when a member leaves the Council or one of the other admitted bodies that participate in the Shetland Islands Council Pension Fund and transfers the value of their pension pot out to another fund. The value of the transfers depends on a number of factors, including salary and length of service. The budget is estimated on an assessment of three and five year rolling averages, taking account of the 2018/19 outturn figures as well.

### **1.6 Lump sums**

The value of lump sums payable to retirees varies greatly depending on a number of factors including length of service, salary, whether there is automatic entitlement to a lump sum and whether a member elects for commutation of pension to lump sum. The budget is estimated on an assessment of three and five year rolling averages, taking account of the 2018/19 outturn figures as well.

### **1.7 Contributions Received**

This budget includes income from active members and their employers paying into the Pension fund. Contribution rates have been amended, following the triennial actuarial valuation that came into force from 1 April 2018. An increase for pay awards has also been factored in.

### **1.8 Investment income**

This budget includes interest or dividends received. This is dependent on market conditions making it highly variable. The budget is based on the income received during 2018/19, adjusted for any known changes in the investment mix. The reduction in income for the 2019/20 budget is due to the

property fund manager moving some of their investments into more growth orientated funds instead of income generating assets.

## **1.9 Transfer In**

This budget is based on the transfers into the Pension Fund from other pension schemes. The value of the transfers depends on a number of factors including salary and length of service. The budget is estimated on an assessment of three and five year rolling averages, taking account of the 2018/19 outturn figures as well.

## **1.10 AVCs In/Out**

Staff can choose to pay an Additional Voluntary Contribution (AVC) on top of their normal LGPS contribution. AVCs are cashed in when someone retires, and the value of the AVC can be used to purchase annuity, or as a lump sum. AVCs are separate from the Pension Fund and the value of a member's AVC in is dependent on how much and for how long it has been paid into. The budgets for AVC in and AVC out are estimated on an assessment of three and five year rolling averages, taking account of the 2018/19 outturn figures as well.





<b>Meeting(s):</b>	Pension Fund Committee and Pension Board	5 March 2019
<b>Report Title:</b>	Shetland Islands Council Pension Fund – Training Policy	
<b>Reference Number:</b>	F-024-F	
<b>Author / Job Title:</b>	Jamie Manson, Executive Manager – Finance	

## 1.0 Decisions / Action required:

- 1.1 That the Pension Fund Committee and the Pension Board RESOLVES to approve the Training Policy attached as Appendix 1 to this report.

## 2.0 High Level Summary:

- 2.1 The Training Policy has been established to assist Committee and Board members and senior officers in performing their respective roles with the ultimate aim of ensuring that the Fund is governed by individuals who have the appropriate levels of knowledge and skills.
- 2.2 The Training Policy also sets out a requirement for all newly appointed Pension Fund Committee and Board members to complete an induction training session.

## 3.0 Corporate Priorities and Joint Working:

- 3.1 Our Plan 2016-2020, in its 20 by 20 states that:-  
“High standards of governance, that is, the rules on how we are governed, will mean that the Council is operating effectively and the decisions we take are based on evidence and supported by effective assessments of options and potential effects”.

## 4.0 Key Issues:

- 4.1 The Training Policy has been prepared as the Pension Fund recognises the importance of training Committee and Board members and officers in relation to Pension Fund matters.
- 4.2 Guidance on governance matters and training has been issued by the Pensions Regulator (TPR), CIPFA, the knowledge and skills elements of the Public Service Pensions Act 2013 and the Scottish Public Pensions Agency. This training policy has been compiled in line with this collective guidance.
- 4.3 The Pension Fund supports the principles set out in both the CIPFA Knowledge and Skills Frameworks and the TPR’s Code of Practice and will strive to meet these requirements by providing a rolling programme of training with regular monitoring and reporting.

4.4	Failure to comply with the training policy may result in individuals being unable to continue as members of the Pension Committee or Board.
4.5	The training policy will be reviewed and updated at least every three years or sooner if the training arrangements or other matters included within the policy require further consideration.
<b>5.0 Exempt and/or confidential information:</b>	
5.1	None
<b>6.0 Implications :</b>	
<b>6.1 Service Users, Patients and Communities:</b>	One of the aims of the training policy is to provide scheme members with assurance that those responsible for investment and management of the Pension Fund have the necessary knowledge and skills to carry out their duties effectively.
<b>6.2 Human Resources and Organisational Development:</b>	The use of e-learning and video conference facilities for training will be encouraged wherever possible. Training needs for senior officers will be identified and recorded through the Council's Personal Development Plan process.
<b>6.3 Equality, Diversity and Human Rights:</b>	It is anticipated there is no adverse impact as the training policy applies to all Pension Committee and Board members equally.
<b>6.4 Legal:</b>	None
<b>6.5 Finance:</b>	All costs relating to the training policy will be met directly by the Pension Fund.
<b>6.6 Assets and Property:</b>	None
<b>6.7 ICT and new technologies:</b>	Some of the training requiring to be undertaken requires Video Conference and online training facilities to be available.
<b>6.8 Environmental:</b>	None
<b>6.9 Risk Management:</b>	<p>The key risks to delivering the aims of this Policy are:</p> <ul style="list-style-type: none"> <li>➤ Changes in Committee and Board could dilute knowledge and understanding.</li> <li>➤ Changes in Senior Management could dilute knowledge and understanding.</li> <li>➤ Poor attendance/engagement by Committee and Board members at training sessions could result in poor decision making.</li> <li>➤ Insufficient resources being made available to deliver or arrange the required training.</li> <li>➤ Training being delivered is of a poor standard.</li> </ul>



<b>6.10 Policy and Delegated Authority:</b>	<p>The Pension Fund Committee has responsibility for governance arrangements including implementation of a training policy in respect of the Pension Fund.</p> <p>In accordance with Section 6.2 of its terms of reference, the Pension Board is required to agree policies and arrangements for the acquisition and retention of knowledge and understanding for Pension Board members.</p>	
<b>Previously considered by:</b>	N/A	

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21 February 2019

**Appendices:**

Appendix 1 – Shetland Islands Council Pension Fund – Training Policy



# Shetland Islands Council Pension Fund

## Training Policy

Document Information			
Document Name/Description		Shetland Islands Council Pension Fund – Training Policy	
Version Number e.g. V1.1		V1	
Author		Mary Smith – Team Leader Expenditure	
Lead Officer/Manager		Jamie Manson – Executive Manager Finance	
Final Approval Date		5 March 2019	
Approved by – <i>Council/Committee/Group/Manager</i>		Pension Fund Committee and Board	
Review Frequency		3 yearly	
Date of next planned review start		March 2022	
Summary of changes to document			
Date	Version updated	New version number	Brief description of changes

## **1. Introduction**

- 1.1 This is the Training Policy of Shetland Islands Council Pension Fund (“the Fund”).
- 1.2 The Policy details the training strategy for members of the Pension Fund Committee and Pension Board, and senior officers responsible for the management of the Fund.
- 1.3 The Training Policy has been established to assist Committee and Board members and senior officers in performing their respective roles with the ultimate aim of ensuring that the Fund is managed by individuals who have the appropriate levels of knowledge and skills.

## **2. Aims and Objectives**

- 2.1 Shetland Islands Council recognises the significance of its role as Administering Authority to the Fund on behalf of its stakeholders who include:
  - 7,250 current and former members of the Fund, and their dependants, and
  - 12 employers who participate in the Fund.
- 2.2 The aims and objectives of the policy are to:
  - ensure that those responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and recognise any potential conflicts of interests
  - ensure that the Fund is appropriately managed and that its services are delivered by people who have the requisite knowledge and expertise
  - ensure that levels of knowledge and expertise are maintained within the changing pensions landscape
  - ensure that knowledge and expertise is consistent with the objective of having a culture of risk awareness, financial governance, and a desire to provide high quality services
- 2.3 All Committee members, Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensure that these objectives are met.
- 2.4 To assist in achieving these objectives, the Fund will aim to comply with:
  - the CIPFA Knowledge and Skills Frameworks
  - the knowledge and skills elements of the Public Service Pensions Act 2013 and
  - the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

### **3. To Whom This Policy Applies**

- 3.1 This Training Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to the Executive Manager - Finance and the Executive Manager Governance and Law ("Senior Management Team").
- 3.2 Less senior officers involved in the daily management of the Pension Fund will also be required to have appropriate knowledge and skills relating to their roles. Advisers to the Fund are also expected to be able to meet the objectives of this Policy.
- 3.3 Officers of employers participating in the Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and the Fund will provide training as and when considered appropriate by the Team Leader – Expenditure.

### **4. CIPFA and TPR Knowledge and Skills Requirements**

#### **4.1 CIPFA Knowledge and Skills Framework**

In 2010, CIPFA launched a knowledge and skills framework for Pension Fund Committee members. This was supplemented in 2015 with guidance for Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements:

- Pensions legislation
- Public sector pensions governance
- Pensions administration
- Pension accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

CIPFA's Code of Practice recommends that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Frameworks
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks
- report how these arrangements have been put into practice each year.

#### **4.2 The Pensions Act 2004 and The Pension Regulator's (TPR) Code of Practice**

Section 248a of the Pensions Act 2004, as amended by The Public Service Pensions Act 2013, requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate to enable individuals to properly exercise their functions as a member of the Pension Board. The requirements have been incorporated within the TPR Code of Practice.

#### **4.3 Application to the Shetland Islands Council Pension Fund**

The Fund supports the principles set out in both the CIPFA Knowledge and Skills Frameworks and the TPR's Code of Practice and will strive to meet these requirements by providing a rolling programme of training with regular monitoring and reporting.

### **5. Training Arrangements**

- 5.1 The Fund recognises that training is a key element in Committee, Board and senior officers having the necessary knowledge and skills.
- 5.2 Training will be delivered through a variety of methods including:
- in-house training sessions provided by officers and/or external providers
  - training as part of meetings (e.g. Committee) provided by external advisers
  - external training events
  - circulation of reading material
  - seminars and conferences offered by industry-wide bodies
  - online training
  - VC training
- 5.3 In order to maintain knowledge and skills at an appropriate level (and as evidence of the commitment to good scheme governance), Committee and Board members are expected:
- to attend at least three out of the four formal joint meetings annually.
  - to attend at least two training events annually
  - to prioritise attendance at any training events highlighted as being essential by the Executive Manager - Finance or Executive Manager, Governance & Law
  - to work towards completion of the TPR's Trustee Toolkit
- 5.4 Failure to comply with this training policy may result in individuals being unable to continue as members of the Pension Fund Committee or Pension Board.

## **6. Initial Information and Induction Process**

- 6.1 On joining the Committee, Board or Senior Management Team, the individual(s) will be provided with the following documentation (or links to the documentation) to assist in providing them with a basic understanding of the Fund:
- The members' guide to the Local Government Pension Scheme
  - The latest Annual Report and Accounts
  - The latest Actuarial Valuation Report
  - The Funding Strategy Statement
  - The Governance Policy and Compliance Statement
  - The Fund Risk Register
  - The Investment Strategy Statement
  - The Administration Authority Discretionary Policy Statement
  - This Training Policy
- 6.2 An induction/refresher training session will be held for all Committee and Board members following every set of Local Government elections. Members appointed out with the electoral cycle will attend an individual induction training session.

## **7. Monitoring Knowledge and Skills**

- 7.1 In order to determine whether policy objectives are being met, the Fund will:
- ask Committee and Board to complete a knowledge and skills questionnaire annually
  - provide an annual report on the governance of the Fund each year, focussing on delivery of the requirements of this Policy
  - record attendance at meetings and at training year on year

## **8. Reporting and Key Risks**

- 8.1 A report will be presented to the Committee and Board on an annual basis setting out:
- the training provided / attended in the previous year at an individual level
  - proposals for training in the year ahead
- 8.2 Attendance at meetings and training events will be included in the Pension Fund's Annual Report and Accounts.
- 8.3 At each joint meeting, Committee and Board members will be provided with details of forthcoming seminars, conferences and other training events of relevance to their roles.
- 8.4 The key risks to delivering the aims of this Policy are:
- changes in Committee and Board diluting knowledge and understanding
  - changes in Senior Management diluting knowledge and understanding

- poor attendance/engagement by Committee or Board members at training sessions or formal meetings resulting in a poor decision making or monitoring
- insufficient resources being available to deliver or arrange the required training
- costs/time associated with attending training events out with Shetland
- training is of a poor standard

## **9. Costs**

All costs related to this Training Policy will be met directly by the Fund.

## **10. Approval, Review and Consultation**

The Training Policy requires to be approved by the Pension Fund Committee and the Pension Fund Board. Once approved it will be formally reviewed and updated at least every three years or sooner if the training arrangements or other matters included within it require further consideration.

**END OF POLICY**





<b>Meeting(s):</b>	Pension Fund Committee / Pension Board	5 March 2019
<b>Report Title:</b>	Pension Fund – Risk Register	
<b>Reference Number:</b>	F-026-F	
<b>Author / Job Title:</b>	Executive Manager - Finance	

<b>1.0</b>	<b>Decisions / Action required:</b>
1.1	That Pension Fund Committee and Pension Board NOTE the contents of the report and the current Risk Register.
<b>2.0</b>	<b>High Level Summary:</b>
2.1	This report presents the current Pension Fund Risk Register, and highlights any recent changes.
<b>3.0</b>	<b>Corporate Priorities and Joint Working:</b>
3.1	Management of risk is a fundamental aspect of good governance. The risk register is an integral part of effectively managing and administering of the Pension Fund on behalf of its members.
<b>4.0</b>	<b>Key Issues:</b>
4.1	The Council is responsible for the good governance and administration of the Shetlands Islands Council Pension Fund.
4.2	In addition to the complex regulation and legislation that surrounds the administration Pension Funds, there are range of other risks that the Pension Fund faces and manages
4.3	The current Pension Fund Risk Register is attached at Appendix 1. The Register sets out each risk and the associated likelihood and impact of each risk identified
	For reference purposes, the risk matrix used by the Council is also included in the Appendix as this is used to determine the score for each risk. Scores allow each risk to be categorised as High, Medium and Low.
4.5	The right-hand column of the register identifies any change since the last report and the “are controls operating effectively” column provides comments reflecting current issues / actions in relation to the mitigation of the risks.
4.6	The register records 35 risks, of which:

- 6 are considered as high risk (6 last reported)
- 14 are considered a medium risk (14 last reported), *and*
- 15 are considered as low risks.

These classifications reflect current control measures and mitigations in place.

- 4.7 Since the last review, the level of risk remains broadly the same. Two risks have changed scores but remain in the same category:
- Risk 1 – Pension Administration system failure: A systems development officer post has been appointed in the finance team and will ensure greater resilience in the event of a systems failure (Score reduced from 6 to 3)
  - Risk 9 – Fund Investment Performance – A review of Pension Fund investments is currently underway in order to ensure the investment strategy is appropriate and that investments are structured to facilitate the objective of a fully-funded scheme by 2027.
- 4.8 The risk register will be reviewed regularly and reported to the Pension Fund Committee and Pension Board as part of the performance reporting arrangements.

## **5.0 Exempt and/or confidential information:**

5.1 None.

## **6.0 Implications :**

<b>6.1 Service Users, Patients and Communities:</b>	Effectively managing risk safeguards the benefits payable to members of the Pension Fund through sound governance.
<b>6.2 Human Resources and Organisational Development:</b>	None.
<b>6.3 Equality, Diversity and Human Rights:</b>	None.
<b>6.4 Legal:</b>	There are no direct legal implications arising from this report however, legal advice and legal remedies will be sought and used whenever deemed appropriate.
<b>6.5 Finance:</b>	There are no direct financial implications arising from this report. Where risks materialise they may result in financial implications for the Pension Fund, the Administering Authority (Shetland Islands Council) and/or the scheme employers.
<b>6.6 Assets and Property:</b>	Managing risks in relation to the governance and control of the assets held by the Pension Fund for the effective long-term benefit of its members is crucial. Identification of the key risks and the controls is the basis of this report.
<b>6.7</b>	None.

<b>ICT and new technologies:</b>	
<b>6.8 Environmental:</b>	<p>Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers are expected as part of their investment process to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long-term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities.</p> <p>Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle, the Pension Fund will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised however that in practical terms this may not always be possible for overseas holdings. However, for UK stocks all voting rights will be exercised in a positive fashion, i.e. no abstentions. BlackRock, Newton, Kleinwort Benson, Schroders and M&amp;G have all signed up to the United Nations Principles on Responsible Investment.</p> <p>The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and therefore must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or equivalent) duty. The principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and so better align their objectives with those of society at large.</p>
<b>6.9 Risk Management:</b>	There are many risks involved in the administration of the Pension Fund. These are set out in Appendix 1 of this report.
<b>6.10 Policy and Delegated Authority:</b>	<p>All functions and responsibilities relating to the Council's role as administering authority for Shetland Islands Council Pension Fund are now discharged by the Pension Fund Committee.</p> <p>The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland Islands Council Pension Fund (the Pension Fund) in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2013.</p> <p>The Pension Board is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator. The Pension Board will determine the areas they wish to consider.</p>
<b>6.11</b>	Last reported to the Pension Committee

<b>Previously considered by:</b>	/ Pension Board on 28 August 2018.	
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 22 February 2019

**Appendices:**

Appendix 1 – Pension Fund Risk Register

**Background Documents:**

None

## Shetland Islands Council Pension Fund: Risk Register

## Risk Assessment – February 2019

Ref	Risk Description	Scope/potential consequences of risk	Risk Control Measures	Are controls operating effectively?	Assessment of Residual Risk (Likelihood x Impact)			
					Likelihood	Impact	Risk Score	Change since last report
1.	<b>Operational</b> – Pension Administration system failure	Staff downtime, loss of service delivery	System is hosted externally with back-up in separate location; budget approved appointment of a Systems Administrator & Development Officer post which will add to technological resilience	Y	(Rare) 1	(Significant) 3	3 Low	<b>Low to Low</b> (6 to 3) Now recruited to the Systems Development Officer post.
2.	<b>Operational</b> – Unable to access workplace	Staff downtime, loss of service delivery	Disaster recovery policy in place which is incorporated within SIC overall policy	Y	(Certain) 5	3	15 High	No change
3.	<b>Operational</b> – Overpayment of pension benefits	Audit criticism, legal challenge, reputational damage, cost and potential non-recovery	All pension payments signed off by a senior pensions officer – segregation of duties for staff processing lump sums	Y	(Unlikely) 2	(Minor) 2	4 Low	No change
4.	<b>Operational</b> – Failure to carry out annual check of member records	Incorrect pension payments, incorrect assessment of actuarial liabilities	All employers required to submit annual data, which is checked	Y	1	2	2 Low	No change
5.	<b>Operational</b> – Failure to carry out effective member tracing	Incorrect pension payments, incorrect assessment of actuarial liabilities	Tracing service in place – Faraday Tracing Service. Using national “Tell us once” scheme.	Y	1	2	2 Low	No change
6.	<b>Operational</b> –	Overpayment,	All pension payments signed	Y	2	2	4	No change

## Shetland Islands Council Pension Fund: Risk Register

## Risk Assessment – February 2019

	Fraud/Negligence	unauthorised payments, system corruption, audit criticism, reputational damage	off by a senior pensions officer – segregation of duties for staff processing lump sums				Low	
7.	<b>Operational</b> – Failure to recruit, retain and develop staff	Reduction in service delivery, poor operation of risk management controls	On-going review of staffing requirements and training. Pension officers in the process of completing specific pensions exams	Y	2	3	6 Low	Staffing now at full establishment
8.	<b>Operational</b> – Poor record keeping	Undermines service delivery, incorrect assessment of actuarial liabilities	Annual check of all member records undertaken	Y	2	3	6 Low	No change Service agreement with Heywoods to provide common and conditional data reporting
9.	<b>Funding</b> – Fund's investments fail to deliver returns in line with actuarial assumptions required to meet the valuation of the long term liabilities	Increase in employer contributions	Quarterly assessment of investment performance of fund, triennial actuarial valuation and quarterly funding updates reported to pensions committee. Triennial investment strategy review.	Y	(Possible) 3	(Extreme) 5	15 High	<b>High to High</b> (20 to 15) During 2017 valuation, investment returns were exceeding actuarial assumptions. A review of the investment strategy is to be carried out to

## Shetland Islands Council Pension Fund: Risk Register

## Risk Assessment – February 2019

								provide assurance that it remains appropriately structured. Investment review is to be carried out later this year.
10.	<b>Funding</b> – Fall in bond yields, leading to risk in value placed on liabilities	Increase in employer contributions	Consider impact with actuary once initial results are known from the triennial valuation that is currently being prepared.	Y	5	5	25 High	No change
11.	<b>Funding</b> - Pay and price inflation valuation assumptions, either higher or lower	Increase in employer contributions	Consider impact with actuary once initial results are known from the triennial valuation that is currently being prepared.	Y	3	3	9 Med.	No change Public sector pay cap was lifted by the Cabinet Secretary for Finance in Dec 2017 to apply from 2018/19, price inflation rising generally.
12.	<b>Funding</b> – information on longevity changes	Increase in employer contributions	Actuarial assessment every three years undertake scheme specific analysis	Y	2	3	6 Low	No change
13.	<b>Funding</b> – Employers leaving scheme/closing to new members due to	Residual liabilities could fall to other scheme employers	Monitor scheme employers, maintain regular dialogue and report as necessary	Y	5	(Major) 4	20 High	No change

## Shetland Islands Council Pension Fund: Risk Register

## Risk Assessment – February 2019

	cost or cessation							
14.	<b>Funding</b> – Failure to recover unfunded payments from employers, e.g. compensatory added years; cessation debt	Residual liabilities could fall to other scheme employers	Pensions team monitor payments received and will escalate failed employer payments to Executive Manager - Finance	Y	2	3	6 Low	No change
15.	<b>Funding</b> – Employee contributions incorrectly deducted	Increase in employer contributions to meet unfunded position	Annual check of active member records	Y	3	2	6 Low	No change
16.	<b>Funding</b> – delay in funding investment managers	Loss of investment return and impact on employer contribution rates	Control of Pension Fund cash management; Reporting quarterly to Pensions Committee	Y	2	5	10 Med.	No change
17.	<b>Financial</b> – Failure in world stock markets	Increase in employer contribution rates	Diversification of scheme assets, global approach, multiple fund managers, investment strategy review following outcome of triennial valuation	Y	(Likely) 4	5	20 High	No change
18.	<b>Financial</b> – Under performance by active managers	Increase in employer contribution rates	Quarterly assessment of investment performance of fund, triennial actuarial valuation and quarterly funding updates reported to Pensions Committee	Y	3	5	15 High	No change
19.	<b>Financial</b> – Early retirement strategies by scheme employers	Pressure on cash flow	On-going discussions with scheme employers about Funding issues and organisational plans	Y	3	4	12 Med.	No change



## Shetland Islands Council Pension Fund: Risk Register

## Risk Assessment – February 2019

20.	<b>Financial</b> – Negligence, fraud, default by investment managers	Loss of value of the Fund, reputational damage	Fund management monitoring, SAS 70 reports and appropriate clauses in all scheme documentation	Y	2	5	10 Med.	No change
21.	<b>Financial</b> – Failure of Global Custodian	Loss of investments or control of investment	Regular meetings with global custodian, receipt of SAS 70 reports and monitoring, through Global Custodian magazines. To be included in annual report to Pensions Committee on service providers	Y	2	5	10 Med.	No change Intention to invite the Global Custodian to the Committee Meeting to better understand their role.
22.	<b>Financial</b> – Non-compliance with regulations	Error, audit criticism, legal challenge, reputational damage	Review of compliance with regulations – ongoing.  Implementation of GDPR requirements.	Y	3	4	12 Med.	No change
23.	<b>Financial</b> –VAT breach	Loss of Council partial exemption	Ongoing discussion with SIC on exemption.	Y	1	3	3 Low	No change
24.	<b>Financial</b> –Failure to monitor investment managers and assets	Audit criticism, legal challenge, reputational damage	Monthly reports from managers, quarterly assessment of investment performance of fund, triennial actuarial valuation, meetings and face to face presentations from managers and quarterly funding updates reported to Pensions Committee.	Y	1	3	3 Low	No change
25.	<b>Financial</b> – Failure of internal control of	Audit criticism, legal challenge,	Sign off by a senior officer for all purchases of goods,	Y	3	3	9 Med.	No change

## Shetland Islands Council Pension Fund: Risk Register

## Risk Assessment – February 2019

	fund suppliers	reputational damage	monitoring of supplier costs. Budget monitoring reports to Pensions Committee					
26.	<b>Regulatory and Compliance</b> – Failure to comply with LGPS Regulations	Error, audit criticism, legal challenge, reputational damage	Review of compliance with regulations - ongoing	Y	3	3	9 Med.	No change
27.	<b>Regulatory and Compliance</b> - Failure to comply with Pensions Act disclosure requirements	Audit criticism, legal challenge, reputational damage	Review of compliance with regulations - ongoing	Y	3	3	9 Med.	No change
28.	<b>Regulatory and Compliance</b> – Failure to comply with HMRC and other overriding regulations	Audit criticism, legal challenge, reputational damage	Review of compliance with regulations - ongoing	Y	3	3	9 Med.	No change
29.	<b>Governance</b> – Potential risks and conflicts of interest between SIC and SIC Pension Fund	Audit criticism, legal challenge, reputational damage	Advice provided by EM – Governance & Law (Monitoring Officer)	Y	3	3	9 Med.	No change
30.	<b>Governance</b> - Breach of Data Protection – theft or loss of data	Audit criticism, legal challenge, reputational damage	Internal control and procedures for management of data. Management of records is the subject of further work regarding new general Data Protection Regulations (GDPR).	Y	3	3	9 Med.	No change Privacy Notices issued to scheme members Aug 2018
31.	<b>Governance</b> – Failure	Audit criticism,	Expenditure Team Leader /	Y	2	2	4	No change

## Shetland Islands Council Pension Fund: Risk Register

## Risk Assessment – February 2019

	to comply with FOI requests	legal challenge, reputational damage	Treasury Accountant responsible for FOI requests and meeting deadline for information requests				Low	
32.	<b>Governance</b> – Failure to meet annual audit deadlines	Audit criticism, legal challenge, reputational damage	EM – Finance responsible for all internal and external audit requirements	Y	2	3	6 Low	No change
33.	<b>Governance</b> – Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputational damage	Maintain regular contact with AVC provider	Y	2	2	4 Low	No change
34.	<b>Governance</b> – Failure to monitor and assess advisors	Poor investment decisions leading to reduced investment returns	Regular contact with advisors, compare and contrast feedback from other specialists	Y	2	5	10 Med.	No change
35.	<b>Governance</b> – Failure to monitor employer covenants	Residual liabilities could fall to other scheme employers	On-going discussions with scheme employer of funding issues	N EM-Finance not in a position to influence the actions of a scheme employer despite discussions and understanding of the situations	2	5	10 Med.	No change

Shetland Islands Council Pension Fund: Risk Register

Risk Assessment – February 2019

## Shetland Islands Council Pension Fund: Risk Register

### Risk Assessment – February 2019

Estimating risk likelihood and severity: Shetland Islands Council Risk Matrix

**Step One** - Look at the text in the box below and decide which descriptor of likelihood best matches your estimation of this particular risk/event.

Descriptor	Description
<b>5 Almost certain</b>	I would not be at all surprised if this happened within the next twelve months; I would expect this to happen
<b>4 Likely</b>	It is probable that this will occur sometime in the coming year
<b>3 Possible</b>	I think this could maybe occur in the next year
<b>2 Unlikely</b>	I would be mildly surprised if this occurred in the next year; it is unlikely to happen
<b>1 Rare</b>	I would be very surprised to see this happen in the next twelve months; it is very unlikely to happen

**Step Two** - Find the most realistic outcome for the risk you have identified and move down the left hand column to establish its value. Most risks will have potential impacts under more than one column.

HAZARD	Personal Safety	Property loss or damage	Failure to provide Statutory Service or breach of legal requirements	Financial Loss or Increased cost of Working	Personal Privacy Infringement	Environmental	Community / stakeholders / organisation	Reputation
<b>Insignificant 1</b>	Minor injury or discomfort to an individual	Negligible property damage	Reported to HSE, Stage 2 complaint	<£10k	Isolated personal detail revealed	Licensable activity occurring without authorisation but not causing pollution	Inconvenience to an individual or small group	Contained within Service Unit
<b>Minor 2</b>	Minor injury or discomfort to several people	Minor damage to one property	HSE investigation Complaint requiring investigation	£10k to £100k	Isolated sensitive data revealed	Death of invertebrates/ >10 fish, minor visible pollution, minor damage to commercial activity	Impact on an individual or small group	Contained within Service

## Shetland Islands Council Pension Fund: Risk Register

## Risk Assessment – February 2019

HAZARD	Personal Safety	Property loss or damage	Failure to provide Statutory Service or breach of legal requirements	Financial Loss or Increased cost of Working	Personal Privacy Infringement	Environmental	Community / stakeholders / organisation	Reputation
<b>Significant 3</b>	Major injury to an individual/ range of moderate injuries to more than one person	Significant damage to small building or minor damage to several properties from one source	Litigation, claim or fine to £250k HSE Improvement Notice served Complaint referred to Ombudsman	£100k to £500k	Several persons details revealed	Environmental damage to > 1km <sup>2</sup> Death of 10-100 fish, long term localised harm/ widespread short-term harm to environment, Significant visible pollution/ damage to commercial activity	Impact on a local community. Impact on Council Service	Local public or press interested
<b>Major 4</b>	Major injury to several people or death of an individual	Major damage to critical building or serious damage to several properties from one source	Litigation, claim or fine £250k to £1m imposed HSE Prohibition Notice served Adverse report from External Advisor	£500k to £1m	Several persons' sensitive /personal details revealed	Death of animals, substantial harm to human health, wide-spread/ long-term harm, loss/ closure of shellfish/drinkin g// bathing water, extensive damage/ closure of agriculture/ commercial	Impact on several communities. Impact on whole organisation	National public or press interest,

## Shetland Islands Council Pension Fund: Risk Register

## Risk Assessment – February 2019

HAZARD	Personal Safety	Property loss or damage	Failure to provide Statutory Service or breach of legal requirements	Financial Loss or Increased cost of Working	Personal Privacy Infringement	Environmental	Community / stakeholders / organisation	Reputation
						activities		
<b>Extreme 5</b>	Death of several people	Total loss of critical building(s)	Multiple civil or criminal actions. Litigation, claim or fine above £1m or custodial sentence	>£1m	All personal details revealed for many	Permanent damage to a nationally significant population/ to site of special interest	Impact on the whole of Shetland	Senior officer(s) and /or members dismissed/ disqualified. Central takeover of authority

Overall Risk Score

Low = Score of 1 to 6    Medium = Score of 8 to 12    High = Score of 15 to 25

		Likelihood				
		1	2	3	4	5
Impact	1	1	2	3	4	5
	2	2	4	6	8	10
	3	3	6	9	12	15
	4	4	8	12	16	20
	5	5	10	15	20	25







<b>Meeting(s):</b>	Pension Fund Committee and Pension Board	5 March 2019
<b>Report Title:</b>	Pension Fund Committee and Pension Board Business Programme – 2019/20	
<b>Reference Number:</b>	F-025-F	
<b>Author / Job Title:</b>	Executive Manager – Finance	

## **1.0 Decisions / Action required:**

- 1.1 That the Pension Fund Committee and Pension Board consider its business planned for the current financial year (1 April 2019 to 31 March 2020), and the Pension Fund Committee RESOLVES to approve any changes or additions to the business programme.

## **2.0 High Level Summary:**

- 2.1 The purpose of this report is to inform the Committee and Board of the planned business to be presented to the Committee and Board for the remaining quarters of the financial year 1 April 2019 to 31 March 2020, and discuss with Officers any changes or additions required to that programme.
- 2.2 The presentation of the Business Programme 2019/20 on a quarterly basis provides a focussed approach to the business of the Committee and Board, and allows senior Officers an opportunity to update the Committee and Board on changes and/or additions required to the Business Programme in a planned and measured way.

## **3.0 Corporate Priorities and Joint Working:**

- 3.1 Our Plan 2016-2020, in its 20 by 20 states that:-  
“High standards of governance, that is, the rules on how we are governed, will mean that the Council is operating effectively and the decisions we take are based on evidence and supported by effective assessments of options and potential effects”.

## **4.0 Key Issues:**

- 4.1 This report has been prepared in order to assist in the management of the Pension Fund Committee / Board and in particular to identify the planned business and critical decision points during the year.
- 4.2 This programme will be reviewed and presented to the Pension Fund Committee / Board on regular basis.
- 4.3 The Council approved a revised agenda management programme from 2019 (GL-01). The manner in which meetings have been scheduled is described below:

- Ordinary meetings have been scheduled on a quarterly basis throughout the year which enable members to consider performance monitoring, finance and risk management, alongside any other Pension Fund business or training requirements.
- Special meetings have been scheduled to allow members to consider the prior year's financial accounts. Unaudited accounts will be considered in June, and final, audited versions will be considered in September.
- Budget-setting meeting scheduled in February to consider proposal for the 2020/21 Budget. Other agenda items can be added, if time permits, or if required as part of the budget-setting process; and
- In consultation with the Chair and relevant Members and Officers, and if required according to the circumstances, the time, date, venue and location of any meeting may be changed, or special meetings added.

## **5.0 Exempt and/or confidential information:**

5.1 None

## **6.0 Implications :**

<b>6.1 Service Users, Patients and Communities:</b>	The Business Programme provides the community and other stakeholders with important information, on the planned business for the current financial year.
<b>6.2 Human Resources and Organisational Development:</b>	None
<b>6.3 Equality, Diversity and Human Rights:</b>	None
<b>6.4 Legal:</b>	None
<b>6.5 Finance:</b>	There are no direct financial implications in this report, but indirect costs may be avoided by optimising Member and officer time.
<b>6.6 Assets and Property:</b>	None
<b>6.7 ICT and new technologies:</b>	None
<b>6.8 Environmental:</b>	None

<b>6.9 Risk Management:</b>	The risks associated with setting the Business Programme are around the challenges for officers meeting the timescales required, and any part of the business programme slipping and causing reputational damage to the Council. Equally, not applying the Business Programme would result in decision making being unplanned and haphazard and aligning the Council's Business Programme with the objectives set out in the Pension Fund's Funding Strategy Statement.	
<b>6.10 Policy and Delegated Authority:</b>	Maintaining a Business Programme ensures the effectiveness of the Council's planning and performance management framework. The Business Programme supports each Committee/Board's role, as set out in paragraph 2.3 of the Council's Scheme of Administration and Delegations.	
<b>Previously considered by:</b>	N/A	

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22 February 2019

**Appendices:**

Appendix 1 – Pension Fund Committee and Pension Board Meeting Dates and Business Programme 2019/20

**Background Documents:**

Report GL-01: SIC Diary of Meetings 2019/20  
<http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5903>





**Pension Fund Committee / Pension Board - Meeting Dates and Business Programme 2018/19  
as at Monday, 25 February 2019**

<b>Pension Fund Committee / Pension Board</b>			
<b>Quarter 1 1 April 2019 to 30 June 2019</b>	<b>Date of Meeting</b>	<b>Business</b>	<b>Comments</b>
	9 May 2019 10 a.m.	Management Accounts for Pension Fund Committee: 2018/19 - Draft Outturn	JJ
		Pension Fund Management Annual Review 2018/19	CB
		Training by Hymans Robertson LLP - for Pension Committee and Board Members	MSM
	26 June 2019 11.30 a.m.	Pension Fund Investment Review Report – Quarter 1 2019/20	CB
		Management Accounts for Pension Fund Committee – Quarter 1 2019/20	JJ
		Unaudited Annual Accounts 2018/19 for Shetland Islands Council Pension Fund	JJ
<b>Quarter 2 1 July 2019 to 30 September 2019</b>	<b>Date of Meeting</b>	<b>Business</b>	
	5 September 2019 10 a.m.	Pension Fund Investment Review Report – Quarter 1 2019	CB
		Pension Fund – Risk Register	EM-Finance
		Pension Fund – Business Programme 2019/20	EM-Finance
	25 September 2019 11.30 a.m.	Management Accounts for Pension Fund Committee – Quarter 2 2019/20	JJ
		Shetland Islands Council Pension Fund – Deloitte LLP Annual Report 2018/19 and Final Audited Accounts 2018/19	JJ
<b>Quarter 3 1 October 2019 to 31 December 2019</b>	<b>Date of Meeting</b>	<b>Business</b>	
	21 November 2019 10 a.m.	Management Accounts for Pension Fund Committee – Quarter 3 2019/20	JJ
		2019/20 Mid-Year Investment Performance Review report	CB



**Pension Fund Committee / Pension Board - Meeting Dates and Business Programme 2018/19  
as at Monday, 25 February 2019**

<b>Quarter 4 1 January 2020 to 31 March 2020</b>	<b>Date of Meeting</b>	<b>Business</b>	
	5 February 2020 2 p.m.	Pension Fund – Budget Proposals 2019/20	JJ
		Management Accounts for Pension Fund Committee – Quarter 4 2018/19	JJ
	12 March 2020 10 a.m.	Pension Fund Risk Register	EM-Finance
		Pension Fund Business Programme 2019/20	EM-Finance
		Pension Fund Investment Review Report – Quarter 4 2018/19	CB
	Training Event Date - TBC	Asset Classes Fund Managers	MSM
	Training Event Date - TBC	The Pension Regulator - Online Training Toolkit	MSM

END OF BUSINESS PROGRAMME as at Monday, 25 February 2019