

Pension Fund Audited Annual Report and Accounts **2020/21**



SHETLAND
ISLANDS COUNCIL

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Management Structure

Administering Authority

Shetland Islands Council
Town Hall
Lerwick
Shetland
ZE1 0HB

Fund Custodian

The Northern Trust Company

Investment Advisor

Isio

Investment Managers

Blackrock
Schroders
M & G Investments
KBI Global Investors Limited
Newton Investment Management Limited

Fund Actuary

Hymans Robertson LLP

Banker

Bank of Scotland

AVC Providers

Prudential
Equitable Life (closed to new members)

Independent Auditor

Deloitte LLP

Website

www.shetlandpensionfund.org

Introduction

I am pleased to introduce the accounts of the Shetland Islands Council Pension Fund.

This year, I am pleased to report that the Fund has increased in value to £590m and total membership of the Fund also increased to 8,141. The total membership figure is now equivalent to more than a third of the whole Shetland population.

At the beginning of the financial year, we were still in the early stages of the COVID-19 pandemic and it is positive to note the very quick development and roll out of the vaccine programme, and the easing of restrictions by the end of the financial year. There is still a lot of uncertainty in the market and the full lasting impact of COVID-19 will not be known for some time. It is however encouraging to see the increase in value of our Fund over the last 12 months.

With a long-term strategy and diversified investments in place, I have confidence that our Fund Managers will continue to manage our investments for the long-term benefit of our Members.

Our Pension Fund staff have continued their very high standards in what has been a very challenging year due to the COVID-19 restrictions. The general uncertainty around COVID-19 has resulted in Pension Fund members being more likely to be taking stock of their options in relation to employment and pension, and member enquiries have increased as a result. We also had the significant work associated with the triennial valuation and I would like to put on record my thanks for all the staff and actuaries involved in that process.

Thank you

Finally, I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers within the Council, our advisers, and our Investment Managers for their hard work during the year and their ongoing commitment to ensuring the Fund performs well, along with sound administration and governance of the Fund.

Steven Coutts

Chair, Pension Fund Committee



Management Commentary

Welcome to Shetland Islands Council Pension Fund's Annual Report and Accounts for the year ended 31 March 2021. The purpose of the Management Commentary is to present an overview of the Pension Fund's financial performance during the financial year 2020/21 and to help readers understand its financial position at 31 March 2021. In addition, it outlines the main uncertainties facing the Pension Fund for the financial year 2020/21 and beyond.

Background

The Shetland Islands Council Pension Fund is part of the Local Government Pension Scheme (LGPS). It is administered by Shetland Islands Council for the purposes of providing pensions and other benefits for current members, deferred members, retired members and dependents of a range of Scheduled and Admitted bodies within Shetland.

The Pension Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following legislation:

- the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended);
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014.

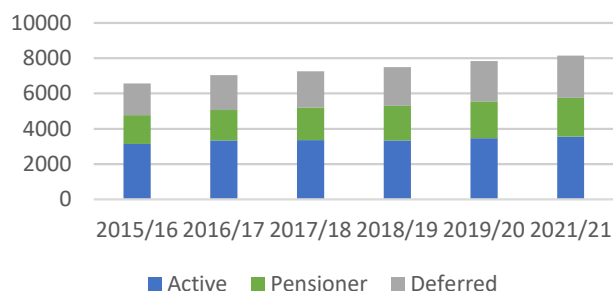
Teachers are not included as they are members of the Scottish Teachers' Pension Scheme.

Membership

The Pension Fund is made up of:

- **Active members** – are employees who currently contribute to the LGPS;
- **Retired members** – are in receipt of a pension, including spouses or dependents in receipt of a pension in respect of a former member; and
- **Deferred members** – are former active members who have elected to retain the rights in the LGPS until they become payable.

Pension Fund Membership



Employers with active members at 31 March 2021

Scheduled Bodies:

- Shetland Islands Council
- Orkney & Shetland Valuation Joint Board

Admitted Bodies:

- Lerwick Port Authority
- Shetland Recreational Trust
- Shetland Fisheries Training Centre Trust
- Shetland Amenity Trust
- Shetland Seafood Quality Control
- Shetland Charitable Trust
- Shetland Arts Development Agency
- Shetland Care Attendant Scheme (previously Crossroads)

On 31 December 2020, Shetland Islands Tourism (Visit Scotland) transferred out of the Pension Fund to Lothian Pension Fund. This resulted in a reduction of 1 active member, 5 deferred members and 4 pensioners.

Employers with no active members at 31 March 2021

Admitted Bodies:

- Shetland Enterprise Co Ltd (Highlands & Island Enterprise)

Employers pay regular monthly contributions to the Pension Fund, based on the salaries of active members. Where an employer has no active employees, but continues to participate in the Scheme, an annual monetary amount calculated by the actuary covers the cost of ongoing and future pension payments.

Formal Valuation

The Pension Fund has been subject to a formal statutory valuation during 2020. The valuation process was delayed as a result of the COVID-19 pandemic, but was completed by the statutory deadline of 31 March 2021. The valuation revealed that the Fund had £461m of assets and £498m of liabilities at 31 March 2020, leaving an overall pension deficit of £38m. The reported funding level of the Fund is 92%. This compares positively to the previous valuation undertaken in 2017, when the Fund had a deficit of £51m and reported funding level of 90%.

The improved funding position is due to a combination of different factors. In summary, the Fund's assets have increased from £450m to £461m and liabilities have reduced from £501m to £498m since 2017. The valuation uses a variety of assumptions and different factors affect the Fund's assets and liabilities in different ways. Investment performance in the last 3 years has not met the Pension Fund's expectations, however this has been tempered by net inflows of cash from employer contributions and the impact of changes in the assumed rate of inflation in the future.

The valuation report contains further detail and can be found here:

<https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=26265>

The Impact of COVID-19

COVID-19 has dominated much of 2020 and into 2021 as the Council responded to the emerging pandemic. The impact of COVID-19 on the Pension Fund specifically has been somewhat less acute than the impact felt across other Council services, but nonetheless the Pension Fund has needed to embrace changes to the way it delivered services and conducted business over the last year. The impacts can be summarised in three broad areas, as follows:

- Impact on operations and finances;
- Impact on governance arrangements; and
- Impact on the financial statements.

i) Impact on Operations and Finances

Shetland began to experience an outbreak of COVID-19 in early March 2020, which subsequently caused significant disruption and upheaval to the delivery of Council services, as it did elsewhere across Scotland and the rest of the UK. The Council quickly responded to nationally imposed restrictions, facilitating a large-scale shift to remote working, delivering services via alternative and digital means and prioritising the delivery of essential public services that could not be delivered remotely.

As the Pension Fund is administered by the Council, the same arrangements have been adopted by staff working on Pension Fund activity. Pensions administration and payroll were identified as business critical activities and some staff from those teams were identified as key workers to enable a limited physical presence in the office, despite the stay at home restrictions in force from 23 March 2020. This arrangement enabled routine and urgent business to continue, including the monthly pensioner payroll. The shift to remote working and increased use of technology to carry out Pension Fund business has resulted in some efficiencies in staff time (such as less travel to meetings), but also some inefficiencies (for example, some automated processes have taken longer to run remotely, rather than from within the office). Some Pension Fund work has taken longer to complete, or been subject to delays as a result of the changes made to how services are delivered. This includes preparatory work on the triennial valuation which took place much later than planned, although the valuation process was still able to conclude by the statutory deadline of 31 March 2021.

The Pensions Administration team has managed to deliver the vast majority of services during the year despite the disruption to normal working practices, including the issue of Annual Benefit Statements to all members by the statutory deadline. Face-to-face consultations have not been possible due to the restrictions in force, however consultations have taken place via telephone or video conferencing instead.

ii) Impact on Governance Arrangements

The Council initiated its emergency response at the start of the outbreak and was able to rely on the delegated emergency powers contained in the Council's Scheme of Administration and Delegations in order to manage the Council's immediate response. The Corporate Management Team, chaired by the Chief Executive, initially met daily to facilitate and monitor the Council's strategic response, with a particular focus on:

- Workforce planning and the safety of Council employees and contractors
- Maintaining delivery of business-critical services
- Implementing the Caring for People strategy
- Delivering national financial support schemes on behalf of the Scottish Government
- Implementing business continuity plans and improving digital resilience, enabling extensive remote working arrangements

On 22 April 2020, recommendations were made to a virtual Full Council to streamline the Council's decision-making structures to help Members and staff adhere to the UK and Scottish Government guidelines on social and physical distancing while enabling the better use of resources and allowing urgent business to be conducted. The recommendations, which were approved by Members, included:

- the cancellation of all Council and committee meetings;
- adoption of a common reporting format to summarise the decisions taken, under existing emergency powers that grant delegated authority to officers; and
- measures to allow remote attendance at Council and Community Council meetings.

Formal Council and committee meetings were gradually reintroduced from early July 2020, using a combination of physical and remote attendance due to the continued restrictions on social and physical distancing.

A further update was provided on 9 September 2020, at which the Council acknowledged the transition from emergency response to the recovery phase, in line with the scaling down of

activity at both a national and local level. The update provided a comprehensive summary of decisions taken by officers under delegated authority since the beginning of the outbreak. Both the Pension Fund Committee and Pension Board continued to meet during the year, in line with the protocol established by the Council to facilitate hybrid meetings. There has been no adverse impact on the ability of the Pension Fund to carry out essential business during the year as a result of COVID-19.

c) Impact on the financial statements

COVID-19 may impact on the financial statements in two ways:

- the valuation of assets and investments;
- whether the Pension Fund is still considered a going concern.

The value of externally managed investments have suffered uncertainty and volatility through the year. The impact on the Pension Fund's financial statements is not considered to be material in 2020/21. This is primarily because of valuations for certain asset categories, particularly for property, have been issued *without* a material uncertainty clause at the year-end. In January 2021, the Royal Institution of Chartered Surveyors withdrew the guidance that mandated the inclusion of a material uncertainty clause in property valuations, which required disclosure in 2019/20 sets of accounts. COVID-19 has also created a going concern challenge for many organisations. The Pension Fund collects contributions from participating employers, some of which are used to fund the day-to-day running costs associated with the administration, governance and investment activities that are all integral to Pension Fund operations. During the triennial valuation, discussions were held with all participating employers, including the largest employer – the Shetland Islands Council. The discussions provided the Pension Fund with assurances that most employers will continue to participate in the LGPS (the exception being an organisation involved with a planned merger and is unrelated to COVID-19). The Council itself is statutorily required to participate in the LGPS, and has short- and medium-term financial plans in place to ensure longer-term stability. The Pension Fund is not aware of any plans by central government to

enact primary legislation that transfer or restructure the local authority's functions. The Pension Fund considers it is still appropriate to prepare its financial statements on a going concern basis.

Investment Review

The Fund's investments have performed well during the year despite the turbulence and widespread disruption experienced in every other aspect of society. The financial markets proved to be more resilient than anticipated, with many asset categories rebounding from the initial shock experienced in February and March 2020. By April 2020, markets had started to recover, and that trend has continued through the financial year, despite a fair level of uncertainty with regard to non-COVID-19 aspects of the economy, namely:

- The negotiation of a free trade agreement between the EU and the UK; and
- The US election in November 2020.

COVID-19 has dominated much of 2020, with governments all over the world taking action in response to the pandemic as it took hold and continued to disrupt life. Interventions by national governments often resulted in direct impacts on economies across the world, which in turn affected market performance. The severe economic and social restrictions that were imposed in many countries resulted in lower economic output and created uncertainty for many industries. At the same time, the development of vaccines against COVID-19 provided some confidence to investors. Despite all this uncertainty, the markets have recovered through the year, with some stock market indices having gone on to report record highs by the end of the calendar year.

The development of effective vaccines against COVID-19 has also buoyed confidence in the economy, with the rollout of vaccination programmes across the world beginning in early December 2020. Vaccination programmes are likely to progress at pace throughout 2021, subject to any supply chain or manufacturing challenges, as many governments gradually place more prominence on vaccination instead of continuing to rely solely on severe economic and social restrictions to help reduce transmission

rates, hospitalisations and pressure on national health services.

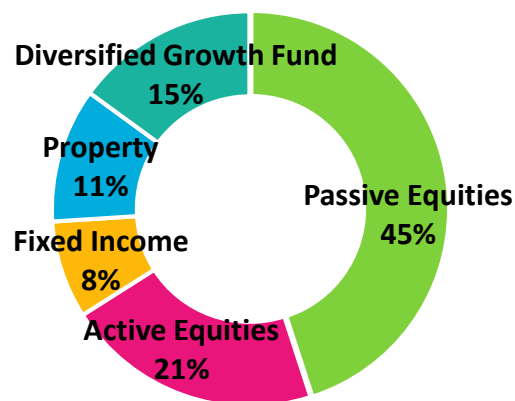
The longer-term impact of COVID-19 is largely unknown but investor confidence in the markets is relatively positive given the relative success of vaccination programmes to date.

Following the UK's withdrawal from the EU on 31 January 2020, there were doubts that the UK and EU would agree on the terms of its future trading relationship before the transition period came to an end on 31 December 2020. These doubts translated into uncertainty in the markets, until the Trade and Cooperation Agreement was announced on 24 December 2020. The agreement was subsequently signed on 30 December 2020, just before the transition period expired. Some uncertainty remains, as some teething issues have been experienced as a result of the new trading regime.

Investment Summary

What does the Pension Fund invest in?

Pension Fund Investment Portfolio by Asset Class



Equities

Almost two thirds of the Fund's investment portfolio is held as equity investments. An equity investment refers to the buying and holding of shares in a company which generates income in the form of dividends or capital gains when the shares are sold. The Fund uses the services of two investment fund managers to manage a large portfolio of equity investments in both UK-based and global companies:

- Blackrock manage the Fund's investments in UK and global equities; and
- KBI Global Investors manage the Fund's investments in global equities.

Fixed Income

Fixed income investments pay a steady rate of interest per year and are debt instruments issued by companies and governments. The Fund invests into a broad range of fixed income investments through an alternative credit mandate, which is managed by M & G Investments. The mandate is a multi-asset fund which invests in a mix of fixed income investments such as investment grade corporate bonds, leveraged loans, high yield bonds, asset backed securities and cash.

Property

The Fund invests in a range of real estate and property assets across the UK, with stakes in retail units, shopping centres, industrial units and offices. Investments are made through a variety of property unit trusts and funds, which are managed by Schroders on the Fund's behalf.

Diversified Growth Fund

A diversified growth fund is an asset class that seeks to achieve similar returns to an equity investment but without the same risk of volatility. The growth fund does this by investing across a wide range of assets. The Fund's investments are a combination of traditional assets, such as government bonds and listed equities, and fixed income, such as private equity and commodities. Newton Investment Management manage the Diversified Growth Fund investments on the Fund's behalf.

Investment Performance

Investment performance is monitored against an agreed benchmark return on a quarterly and annual basis, however, the performance of fund managers over the longer-term is the ultimate measure of achievement.

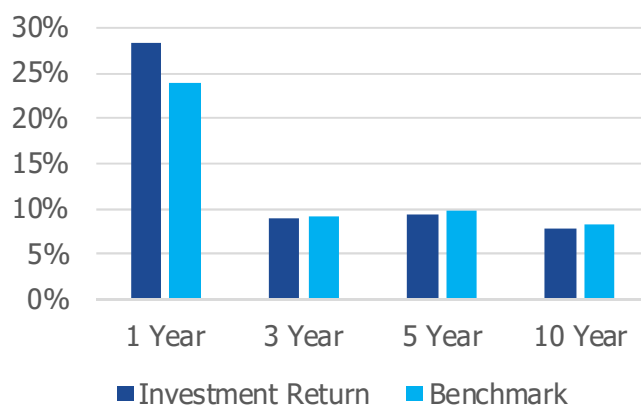
For the year to 31 March 2021, Pension Fund assets collectively generated a return of 28.4%, increasing the value of Pension Fund investments by £131m during the year. This compares against a combined benchmark return of 23.8%. The Fund

began to see signs of recovery at the start of the year, following on from the financial shock experienced earlier in 2020 that saw a contraction in asset values as reported in the 2019/20 accounts. The Fund's investments have performed strongly through the year, despite the widespread disruption many have encountered in society across the world.

Equity investments have again driven the strongest returns, no doubt in part due to the significant fiscal interventions made by national governments and central banking institutions (such as the UK's Coronavirus Job Retention Scheme). More recently, equity investment markets have been buoyant as the rollout of COVID-19 vaccines began from December 2020. Net Pension Fund assets at the end of the year totalled £590m, which is £129m more than the year before.

Investment performance across all asset categories has been positive during the year, driven by buoyant equities markets although performance has been more tempered in other, non-equity asset categories. Further information about the performance of Pension Fund investments during 2020/21 is available here: <http://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=26663>

Pension Fund Investment Returns



Investment performance across the different asset classes reflects a mixed picture and representative of the nature of the different types of investment.

The Fund's investments in equities, which are passively managed, returned 35.60%, against a benchmark of 35.25%. Active global equity

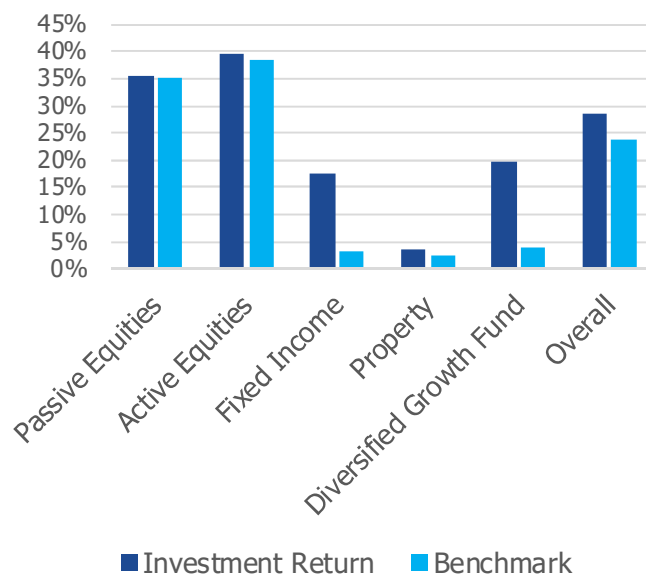
investments generated a return of 39.41% which was marginally higher than the benchmark set of 38.61%.

The Fund’s investments in fixed income returned 17.45%, which was considerably higher than the benchmark of 3.11%.

The diversified growth fund generated a return of 19.78%, which was well above the set benchmark of 4.06%.

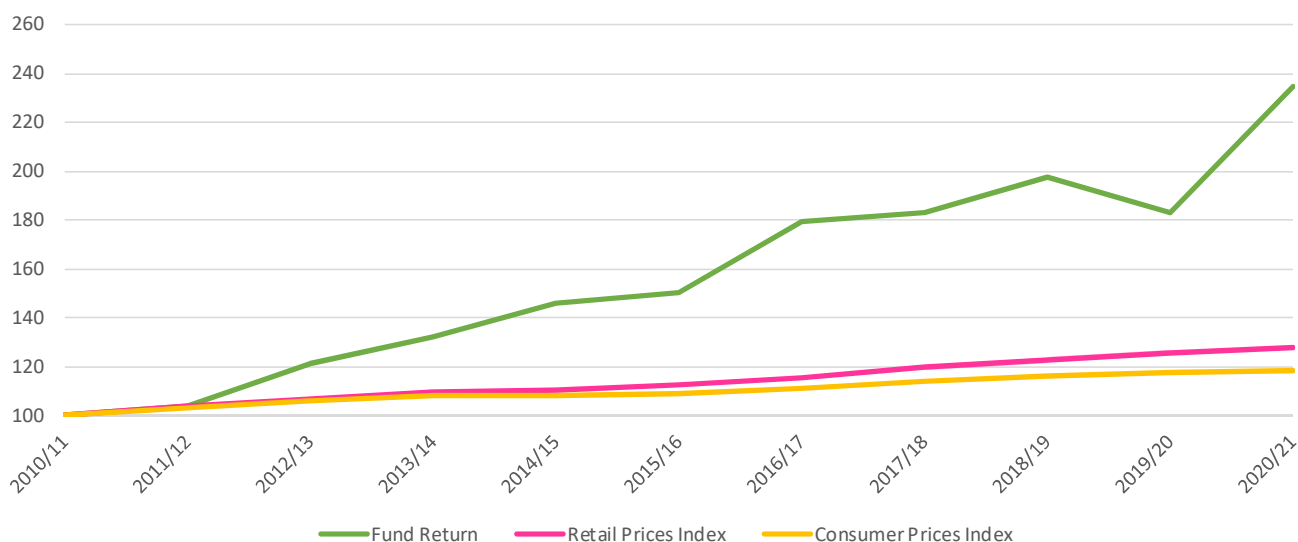
The Fund’s property investment portfolio delivered a return of 3.57%, which was slightly ahead of the agreed benchmark of 2.46%.

Investment Returns by Asset Class for year ended 31 March 2021



The chart below shows the Fund’s investment performance over the last ten years versus inflation. Over the longer term, the Fund’s assets have grown positively in value on an annualised basis. However, actual returns vary on an annual basis reflecting the volatile nature of the Fund’s investment portfolio.

Investment Performance vs Inflation over 10 Years



Investment arrangements and policies

The Pension Fund has a range of arrangements and policies in place to ensure the Council, as the administering authority, fulfils its fiduciary duty to scheme members in maximising the Funds’ investment returns balanced against an appropriate level of risk.

The Fund utilises the service of fund managers, who have delegated powers for the acquisition and realisation of investments. As part of their

internal investment decision-making processes, fund managers are expected 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. All the fund managers have signed up to the United Nations Principles on Responsible Investment Management. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and must

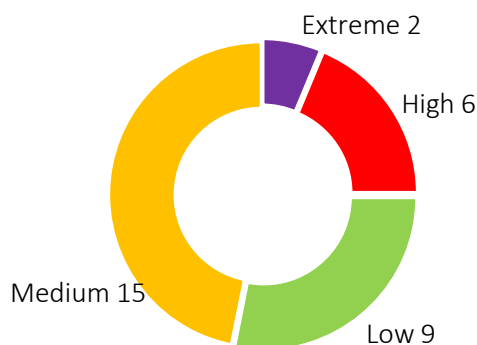
be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty.

The focus of the Pension Fund's **Investment Strategy** is to achieve a 100% funding level before the Pension Fund's incoming contributions equal the benefits payable, by 2027. Beyond this point, it is expected that benefit payments will exceed the level of contributions made by employers and employees into the Pension Fund. The investment strategy advocates a diversified approach to investments made across different asset categories in order to reduce the exposure to risk and volatility.

Risk

The Pension Fund maintains a risk register which is updated regularly. The latest iteration of the register contained a total of 32 risks, summarised by risk level in the following chart.

Pension Fund Risks Ratings:



The key risks to the Fund are:

- increases in bond values resulting in increased Pension liabilities due to Pension liabilities being linked to bond values; and
- employers leaving scheme/closing to new members due to cost or cessation.

The full risk register can be found at: <http://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=26665>

The Pension Fund Committee and Pension Board are made aware of any changes, so that action can be taken to mitigate the risks.

Funding Strategy

The Net Assets Statement shows an increase in net assets of the Pension Fund from £461m in 2019/20 to £590m in 2020/21. The Fund's investment strategy aims to achieve a fully funded Pension Scheme by 2027. The Funding Strategy and Investment Strategy are inextricably linked, in order for the Fund to meet all benefit payments as and when they fall due. Other objectives of the Pension Fund are:

- to secure and maintain sufficient assets to meet liabilities which fall due by the Pension Fund;
- to minimise the risk of assets failing to meet these liabilities, through an investment strategy, specifically tailored to the Pension Fund's requirements; and
- to maximise investment returns within an acceptable level of risk and providing stability in the level of employers' contribution rates.

Funding Strategy Statement

The regulations covering management of the Pension Funds require the administering authority to prepare, maintain and publish a written Funding Strategy Statement. A revised Funding Strategy Statement was adopted in March 2021, as part of the triennial valuation process. Details of the Funding Strategy Statement are found in Note 17: Funding Arrangements, on page 41.

The Funding Strategy Statement can be found here:

<http://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=26265>

The purpose of the Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employee contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The most recent actuarial valuation was carried out as at 31 March 2020. It showed that the Pension Fund is valued at £461m and 92% funded, with a deficit of £38m. The triennial valuation includes setting the employer contribution rates for the next three years. The primary employer contribution rate across the whole fund is 22.3%, with additional secondary rates that make up the final contribution rates payable by individual employers.

Statement of Investment Principles

The Pension Fund Committee and the Pension Board meetings on 26 October 2015 approved the current Shetland Islands Council Pension Fund Statement of Investment Principles. This statement includes administration details, the objective of the Pension Fund, types of investments, balance between different types of investment, risk, expected return on investments, realisation of investments, responsible investments, securities lending and compliance. The current portfolio of investments does not align with the specific allocations set out in the Statement of Investment Principles. This is because investments have been made on the basis of market conditions, which has resulted in a variation to the fixed allocation set out in the Statement of Investment Principles. The Pension Fund is currently reviewing its Investment Strategy following the latest formal valuation which may result in changes to the allocation of asset categories within the investment portfolio. The Statement of Investment Principles will be updated to reflect a permissible range of asset allocations rather than a fixed percentage.

The Pension Fund also complies with the six Myners Principles, which were contained in a schedule to the Statement of Investment Principles.

The Statement of Investment Principles can be found here:
<https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=18529%20>

Performance Management

The Annual Accounts satisfy the requirements of the Local Government Pension Scheme (Scotland)

Regulation 55 (1) of the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended), to prepare a Pension Fund Annual Report for the financial year from 1 April 2020 to 31 March 2021. In addition, quarterly Management Accounts are presented to the Pension Fund Committee, which shows the year to date position and the projected year-end outturn.

Primary Financial Statements

The Annual Accounts summarise the Pension Fund's transactions for the year and its year-end position at 31 March 2021. The Annual Accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB) Framework as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The two primary statements, the Pension Fund Account and Net Assets Statement, as at 31 March 2021, include a description of their purpose. Accompanying the two primary statements, are notes to the accounts, which set out the accounting policies adopted by the Pension Fund and provide more detailed analysis of the figures disclosed in the Primary Financial Statements.

The primary financial statements and notes to the accounts, including the accounting policies, form the relevant Annual Accounts for the purpose of the auditor's certificate and opinion.

Financial Performance 2020/21

The Pension Fund accounts present the full economic cost of providing Pension Fund services for 2020/21 and this shows a net income of £129m. This differs from the draft outturn

Description	2020/21 Annual Budget £000	2020/21 Draft Outturn £000	2020/21 Variance £000
Total Expenditure	17,822	19,423	(1,601)
Total Income	(23,552)	(25,168)	1,616
Net Income	(5,730)	(5,745)	15

The main difference between the draft outturn and the final accounts is that the Pension Fund Account includes the value of the growth of the Fund and income automatically reinvested into the Fund. This income is not included in the table above.

Expenditure was higher than budgeted due to a greater number of lump sums paid out during the year than had been estimated. More people than anticipated retired during 2020/21 resulting in an increase in benefits payable. Transfers out was also greater than budgeted due to the bulk transfer out of Visit Scotland. Income was greater than anticipated due to higher investment returns with the upturn in the market. Contributions received was higher as was transfers in, due to more, higher value transfers than projected.

Budgets were set for lump sums, transfers in and out, death benefits and all other income and expenditure. This was based on five-year averages. It is difficult to estimate these items accurately as there is a huge amount of personal choice or life events involved in what is received and paid out, and therefore these transactions cannot be fully predicted. Expenditure, such as lump sums and transfers are based on a number of variables and will be different for each individual transaction.

Administration Strategy

The Pension Fund's Pension Administration Strategy highlights the duties of, and sets the performance for, both the Fund and all of the participating employers.

position, shown below. The [draft outturn report](#) was presented to the Pension Fund Committee and the Pension Board on 23 June 2021.

Employers must provide accurate information to the Pension Fund in a timely manner, to ensure that information provided to Fund members is also accurate and timely. The information received from employers to the Pension Fund, such as new starters, leavers, retirements and deaths was delivered in a timely manner during 2020/21.

All but one employer's contributions in 2020/21 were received by the 19th of the month following deduction.

Administration Performance

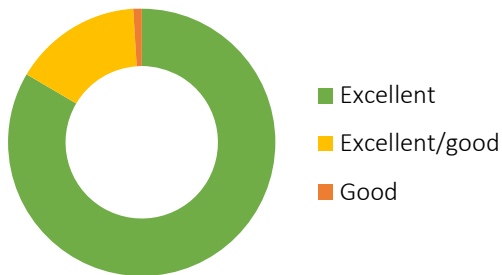
Shetland Islands Council, as administering authority, is also committed to providing a high quality service to both members and employers and to ensure members receive their correct pension benefit entitlement.

To ensure excellent customer care is provided, retiring members and employers participating in the Fund are invited to complete a customer satisfaction survey.

Nine employer surveys were returned which indicated 94% of respondents rated the service received as excellent and 6% rated the service as good.

The chart below shows the latest member satisfaction survey results, a total of 97 surveys were received.

Member Satisfaction Survey



As well as administering employer contributions, retirements and pension payments, the Pension Section also processes the pensioners' payroll.

The table below shows the summarised budget and spend for the Pension Fund's administration costs for 2020/21:

Administration Expenses	2020/21 Annual Budget £000	2020/21 Draft Outturn £000	2020/21 Variance £000
Staff Time Allocations	289	273	16
Supplies, Services & Systems	121	98	23
Printing & Publications	3	1	2
Total	413	372	41

Staff Time Allocations were underspent due to a vacancy. Supplies, services and systems was underspent due to less travel costs, postage and computer licence costs. Printing was underspent, due to using the website and emails for correspondence.

The Pension Administration KPI's for 2020/21 are:

KPI's	Target	31 March 2021			31 March 2020		
		Number	Number within target	% within target	Number	Number within target	% within target
New starts	2 months from date of joining scheme	559	559	100%	711	707	99%
Leavers	2 months from leaving scheme	200	196	98%	166	157	95%
Transfer in quotes	2 months from date of transfer quotation	31	21	68%	36	36	100%
Transfer out quotes	3 months from date of request	24	21	88%	29	29	100%
Notifying members of benefits on retirement	1 month from date of retirement	136	134	99%	130	130	100%

KPI's (cont.)	Target	31 March 2021			31 March 2020		
		Number	Number within target	% within target	Number	Number within target	% within target
Retirement estimates	2 months from date of request	101	93	92%	102	101	99%
Calculation of dependants benefits	2 months from notification	29	29	100%	35	35	100%
Annual Benefits statement - to all active and deferred members	by 31 August each year	5,597	5,597	100%	5,368	5,368	100%
Contributions from employers	by 19th of month following deduction	129	128	99%	120	120	100%

Due to remote working and limited access to records, some of the KPIs are not as good as they were for 2019/20. In addition, COVID-19 has caused extra workload on the Pension team.

Monitoring Arrangements

The Pension Fund Committee and Pension Board receive regular updates on performance and the Committee papers and minutes are available via the Council's committee management system website: <http://www.shetland.gov.uk/coins/>.

Reports are prepared on a quarterly basis for the Pension Fund Committee and Pension Board that give an overview of the position of the Pension Fund's external investments and present a summary of each Fund Manager's performance for the quarter and over a three-year period.

In line with the Pension Fund's governance arrangements to monitor and review Fund Managers, the Pension Fund Committee and Pension Board invite Fund Managers to attend the quarterly meetings to give presentations on their mandates and investment performance. At the meeting of 18 November 2020, Schroders Investment Management gave a presentation to the Pension Fund Committee and Pension Board. The presentation was to inform members and employers about the business overview, research and markets and the impact of COVID-19.

The Fund Managers supply a quarterly audited performance review report and monthly valuation report.

Remuneration Report

There is no requirement for a remuneration report for the Pension Fund, as the Pension Fund does not directly employ any staff.

All staff are employed by Shetland Islands Council and its costs are reimbursed by the Pension Fund. The Councillors who are members of the Pension Fund Committee and Pension Board are also remunerated by Shetland Islands Council. They do not receive any additional allowance for being members of the Pension Fund Committee or Pension Board.

Details of Senior Councillors and Senior Employees remuneration can be found in the annual accounts of Shetland Islands Council, which are available on the Council's website.

Looking Ahead

Impact of COVID-19 in 2021/22

As alluded to earlier in this commentary, COVID-19 has necessitated changes to way the various teams involved in Pensions administration, governance and investment have had to work. Staff have demonstrated a great deal of flexibility and resilience despite the disruption experienced, and have continued to deliver high quality services which reflected in the latest satisfaction survey scores. As restrictions ease, plans are currently being considered to allow a phased

return to work in offices as the wider Council prepares to embrace an element of remote or home working as part of a new normal. Any new arrangements will fit around the continued provision of high quality services.

Pension Fund Investment Strategy

The Pension Fund investment strategy is due for review and work is currently under way to assess whether any changes are required to the current investment portfolio, in order to maximise the investment returns, at an appropriate level of risk, in advance of the Fund moving to the next phase of its lifecycle, when more pension benefits are paid out than are received from employer contributions.

Consultation on the Future of Scottish LGPS Funds

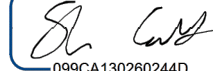
The consultation about the structure of the Scottish LGPS, commissioned by the Scottish Scheme Advisory Board (SAB) during 2018/19 is still ongoing. The results of the initial consultation were 68% in favour of status quo or collaboration, 2% for pooling and 30% for merger. Since the initial results were reported, the SAB have commissioned further work to explore the benefits of a fully-merged model. Work is expected to commence in Spring 2021 and to be carried out over the summer. It is unclear when Scottish Pension Funds can expect a final response and preferred option from the SAB.

2021/22 Budget

The 2021/22 budget for the Pension Fund was approved on 10 March 2021. It shows a net income of £6.047m. A number of assumptions and historical trends are used to develop the budget for the Pension Fund. Due to the level of individual choice involved in choosing when to retire, the budget represents the most reasonable estimates of income and expenditure.

Pension Fund	2021/22 Approved Budget £000
Employee Costs	317
Operating Costs	202
Investment Expenses	2,052
Benefits Payable	12,241
Transfer Out	450
Lump Sums	2,831
AVC Out	600
Total Expenditure	18,693
Contributions Received	(20,186)
Investment Income	(3,504)
Transfer In	(450)
AVC In	(600)
Total Income	(24,740)
Net Income	(6,047)

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Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
29 September 2021

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Maggie Sandison
Chief Executive
29 September 2021

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Jamie Manson CPFA
Executive Manager - Finance
29 September 2021

Annual Governance Statement

Scope of Responsibility

Shetland Islands Council is the Administering Authority for the Shetland Islands Council Pension Fund. The Council is responsible for ensuring that the Pension Fund:

- Conducts business in accordance with the law and proper standards;
- Safeguards and properly accounts for public money and assets under its control; and
- Utilises public money economically, efficiently and effectively.

In discharging these responsibilities, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk. The arrangements put in place by the Council therefore apply equally to the activities of the Pension Fund.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. The Code is available on the Shetland Islands Council website. The Council's financial and management arrangements comply with the CIPFA Statement on the role of the Chief Financial Officer in local government. Furthermore, the Council has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

The Local Code of Corporate Governance demonstrates the Council's commitment to achieving good governance and provides examples of how it complies with the governance standards recommended by CIPFA and SOLACE. The document is reviewed regularly and was last updated in June 2019. Due to the COVID-19 pandemic, the annual review of the Local Code of Corporate Governance did not take place during the year as had been planned. Elected Members approved the introduction of temporary governance arrangements in April 2020 to ensure

key Council and Pension Fund business was transacted despite the restrictions governing public meetings. A further report presented to Elected Members provided a comprehensive summary of decisions taken by officers using delegated authority. The temporary governance arrangements came to an end in September 2020 when Elected Members approved the reinstatement of regular committee cycles, as the Council moved from an emergency response to focus on the recovery and renewal effort.

Purpose of the Governance Framework

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

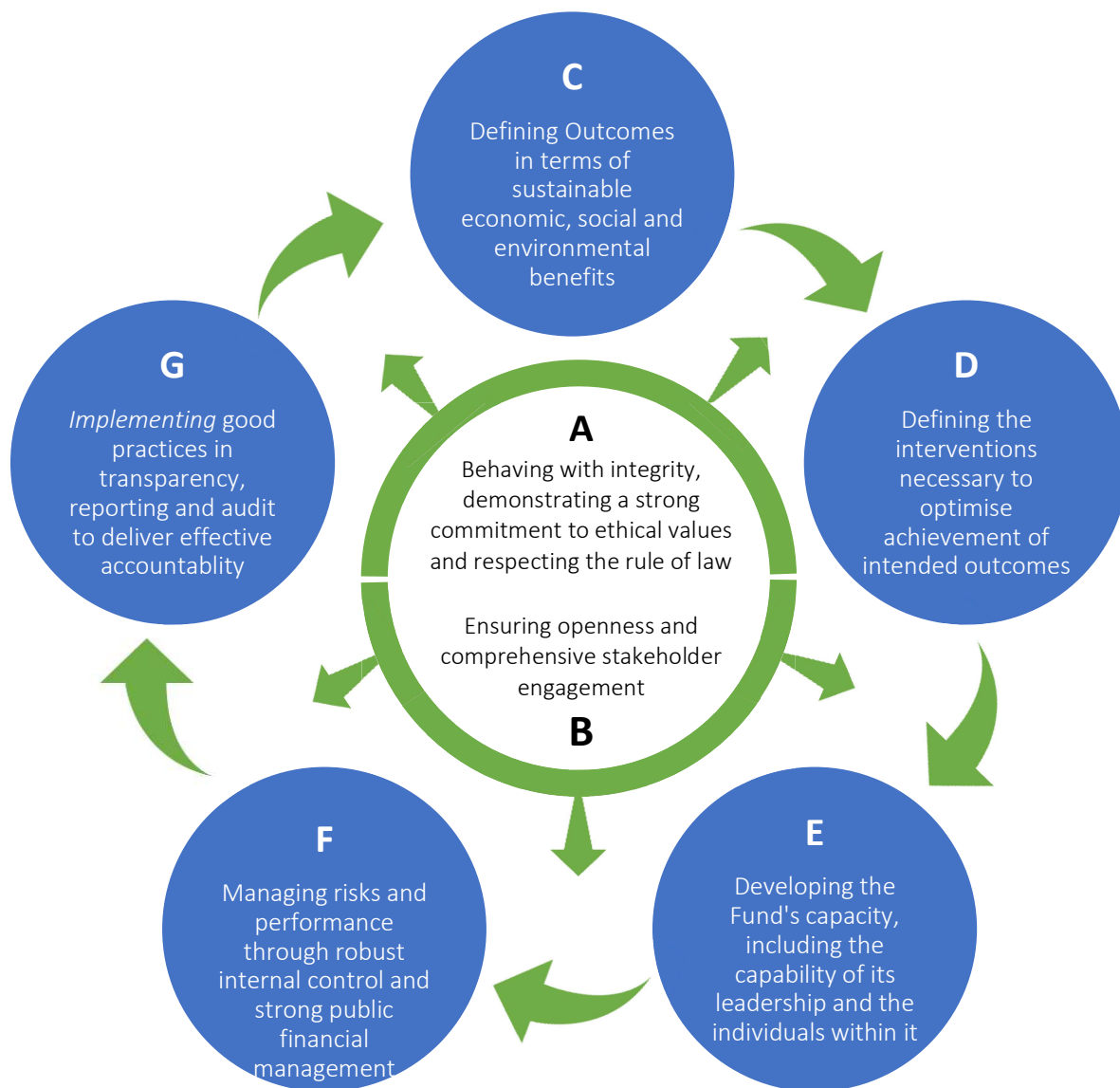
The system of internal control is a significant part of the governance framework and is designed to manage risk at acceptable levels, and provide reasonable, but not absolute, assurance that policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process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

The governance framework has been in place for the year ended 31 March 2021 and up to the date of approval of the Annual Accounts.

The Governance Framework

The governance framework adopted by the Council is consistent with the with the seven core principles of the revised 2016 CIPFA/SOLACE framework and is pictured below, showing each of the seven principles and how they interact with one another.

Principles A and B contain the overarching principles of good governance which percolate down through the remaining principles.



In addition to complying with the governance framework approved by the Council, the regulations that govern the administration of LGPS Funds in Scotland require each Administering Authority to publish a Governance Compliance Statement that sets out how their governance arrangements comply with best practice issued by the Scottish Ministers. The Pension Fund's Governance Compliance Statement can be found on page 20. Where compliance does not meet the required standard, there is a requirement for Administering Authorities to set out any reasons for non-compliance in their Governance Compliance Statement.

Review of effectiveness

The Pension Fund has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control.

The review of the adequacy and effectiveness of the governance arrangements is informed by evidence from different sources:

- i) Internal management;
- ii) Internal audit reviews;
- iii) External audit reports; and
- iv) Custodian services and Investment Fund Managers.

i) Internal Management

Administration of the Pension Fund is directly within the remit of the Director of Corporate Services and assurance has been sought from the Director in relation to the effectiveness of internal financial controls. This assurance provides the

opportunity to highlight any weaknesses or areas of concern that should be considered. For 2020/21, no areas of weakness or concern were identified.

In relation to the effectiveness of the Council's arrangements with regard to its statutory officers, both the Executive Manager – Finance (Chief Financial Officer) and Executive Manager – Governance & Law (Monitoring Officer) are full members of the Corporate Management Team and are in attendance at the Council, Audit Committee and Policy and Resources Committee to advise as appropriate.

The Council Committee structure supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout. The Pension Fund Committee oversees the business of the Pension Fund and the Administering Authority is supported by the Pension Board. The Audit Committee remains responsible for ensuring the effectiveness of the internal audit function and considering all reports prepared by the external auditor.

The Audit Committee's remit ensures that the work of the Council, from both a control and performance perspective, is scrutinised robustly. As well as an annual audit plan, the Committee can request one-off reviews to investigate particular issues if necessary. The role of Chief Internal Auditor is fulfilled by the Head of Audit and Inspection at Glasgow City Council, under an arrangement with Audit Glasgow that provides internal audit services to the Council.

ii) Internal Audit Reviews

The Council provides internal audit arrangements to the Pension Fund both as a tool of management and with direct reporting to the Council's Audit Committee. The Internal Audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS). The service works to an approved annual internal audit plan, based on an approved audit strategy which takes into account the audit universe and an annual assessment of known and potential risks.

iii) External Audit Reports

External auditors assess the design and implementation of key internal controls across the most important cycles in operation within the Council as part of their annual audit work.

The Local Government Pension Scheme (LGPS) regulations require LGPS Administering Authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their governance compliance statement.

iv) Custodian Services and Investment Fund Managers

The Custodian for the Pension Fund is the Northern Trust Company, who provide a global custody service. The custodian holds for safekeeping the Pension Fund's investment assets such as electronic certificates. The custodian also provides secure settlement of any global transactions that a Fund Manager may undertake, ensuring that all money and legal rights transfer to the appropriate customer as per the transaction in the correct timeframe. The custodian also provides other services such as reclaiming tax, short term cash investment, securities lending, collection of dividends and valuation reports.

All Fund Managers must be registered with, and comply with the Financial Conduct Authority. At the outset of any investment, the mandate details are agreed by the fund management and the Pension Fund, and documented in an Investment Management Agreement or an Application Form depending on the type of investment. These initial documents cover all aspects of the operation of the mandate, such as investment objectives and restrictions, custody and banking, fees and charges, reporting and communication and dealing arrangements. Any changes to the mandate must be agreed by both the fund management company and the Pension Fund.

Significant governance issues

The system of governance aims to provide reasonable, *but not absolute*, assurance that

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

Impact of COVID-19

COVID-19 dominated much of 2020 and continues to have a significant impact on the Council's activities and ability to deliver services.

The impact of the COVID-19 pandemic on the Pension Fund can be summarised under 4 areas:

- Service delivery & administration;
- Governance arrangements;
- Assets and investments; and
- Longer-term consequences.

Service Delivery & Administration

The Council activated business continuity arrangements and put a range of measures in place to facilitate the continuity of service and to protect the wellbeing of staff and Pension Fund customers in March 2020. Payment of pensions, retirement lump sums and death gratuity grants were prioritised as business-critical services which the Fund has been able to manage with a combination of remote working and limited numbers of staff physically present in the office. These arrangements have continued beyond 31 March 2021, in line with the restrictions in force. Engagement with investment fund managers has continued from the outset of the pandemic, which gives assurance that the Fund's assets are being managed effectively.

Governance Arrangements

As set out in the earlier commentary, the Council introduced temporary measures to help staff and members adhere to national guidance on social and physical distancing, while enabling core business to be conducted safely. Council meetings took place virtually between April and July 2020. Since July 2020, the Council adopted a hybrid arrangement with limited numbers of

Elected Members being able to attend Council and committee meetings in person at the Town Hall, with other Elected Members, officers and external advisors attending via remote means. These arrangements were extended to cover both the Pension Fund Committee and Pension Board, and enabled routine business to be conducted through the year without any adverse impact on governance of the Pension Fund's activities.

Assets & Investments

COVID-19 resulted in a significant economic slowdown far greater than that of the global financial crash of 2008, which resulted in adverse movements of Fund assets in the last quarter of 2019/20. The Pension Fund's investments continue to be impacted by uncertainty associated with the pandemic, however, all asset categories have recovered since the nadir in asset values experienced in March 2020.

Despite the volatility and uncertainty encountered during the year, the Fund remains in a strong financial position and is currently in the growth phase of the Fund's lifecycle, meaning the Fund brings in more income than it pays out in member benefits. The Fund's cash-flow positive position means it does not need to consider selling assets to meet its liabilities. The Fund retains a diversified investment portfolio held under management by different fund managers that are well placed to respond to investment opportunities as and when they arise. Different asset categories have responded to market conditions created by the pandemic in different ways, but all asset categories have rebounded well in the 12 month period to 31 March 2021 as summarised in the commentary above.

The Fund's current Funding Strategy aims to maintain stable employer contribution rates while ensuring the long-term solvency of the Pension Fund and achieving a fully-funded position by 2027. The Fund was subject to the statutory triennial valuation process, which took stock of all the Fund's assets and likely pension liabilities that will need to be paid out in the future and determined that an overall deficit still exists. The overall funding position of the Fund showed an improvement since the last valuation undertaken in 2017, at 92% (compared to 90% in 2017). The valuation determined an overall funding deficit

still exists and contribution rates would need to be adjusted upwards to resolve the expected deficit over time. The Pension Fund Committee, officers and Fund Actuary took a pragmatic approach to the valuation of Fund assets and liabilities, using asset valuation data as of 30 September 2020 instead of 31 March 2020, recognising the adverse fall in asset values leading up to 31 March 2020 as exceptional. Using information and data from September 2020, when asset valuations had partially recovered, allowed the Fund to set prudent employer contribution rates for the next 3 years that were not solely impacted by poor investment performance in February and March 2020. An investment strategy review will also be finalised by the end of December 2021, and will take into account any amendments required to ensure the Fund's long-term solvency and be well placed to meet pension liabilities as they fall due.

Longer-term consequences

It is becoming clearer that the world will be living with COVID-19 for the foreseeable future. The consequences arising from the pandemic, from both a health and an economic perspective will be felt for years. While the Pension Fund's investments have recovered the value lost in March 2020, there remains uncertainty over the longer-term impact of COVID-19 on public sector funding, especially as UK public sector net debt reaches new historic levels.

Long-term health implications arising from COVID-19 are not yet fully known, which may have consequences on the wider global economy and temper any efforts for societies across the world to resume 'normal' life. The longer-term impact of COVID-19 on mortality, considered from a Pension Fund's perspective is also unknown at this stage. A variety of factors have the potential to impact how long pension benefits may be paid out in both positive and negative ways (for example, public health measures such as wearing masks, physical distancing and better hand hygiene may become regular habits and lead to improved life expectancy, which in turn means pension benefits are paid out for longer). It is too early to tell what impact COVID-19 may have on the Pension Fund's valuation in the future until further research and evidence is available to inform the assumptions used as part of the next formal valuation process, which is currently scheduled for 2023.

Certification

It is our opinion that the governance and internal control environment provides reasonable and objective assurance that any significant risks impacting on the achievement of the principal objectives of the Pension Fund will be identified and actions taken to avoid or mitigate their impact.

Governance Compliance Statement 2020/21

The Local Government Pension Scheme (Scotland) Regulations 2018 require each Administering Authority to publish a Governance Compliance Statement that sets out how their governance arrangements comply with best practice issued by the Scottish Ministers. The table below contains a self-assessment of the Fund's compliance with these principles and highlights any actions required to implement improvements.

Principle	Compliance	Comments
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	✓	The Pension Fund Committee has delegated responsibility for overseeing the management and administration of the LGPS and managing the investments of the Pension Fund.
Representatives of participating LGPS employers (scheduled and admitted bodies) and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	✓	The Pension Board, which meets concurrently with the Pension Fund Committee, includes representatives from employers (Councillors), admitted bodies (a Board Member) and scheme members (Trade Unions).
Where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	✓	The Pension Fund Committee and Pension Board meet concurrently to aid easy and open communication.
Where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	✓	The Pension Board is not a secondary committee, both the Pension Fund Committee and Pension Board meet concurrently and have access to the same agenda papers. There is therefore no need for a Pension Board member to be on the Committee.
Committee Membership and Representation		
All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
i) employing authorities (including non-scheme employers, e.g., admitted bodies); and	i) ✓	i) Representation on both Pension Fund Committee and Pension Board.
ii) scheme members (including deferred and pensioner scheme members);	ii) ✓	ii) Representation on the Pension Board.
iii) where appropriate, independent professional observers; and expert advisors (on an ad-hoc basis).	iii) ✓	iii) Professional advisors (investment fund managers, investment advisors, actuary etc.) are regularly invited to attend Pension Committee and Board meetings.

Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given opportunities to contribute to the decision-making process, with or without voting rights.	✓	Pension Board members have the same access to information, papers and training as Pension Fund Committee members.
Selection and role of lay members		
Committee or board members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	✓	<p>Committee and Board members induction training provided during 2017/18, following the Scottish Local Government elections.</p> <p>Members have been encouraged to identify individual training needs in a personal development plan, and are being supported by the Improvement Service to do so.</p> <p>Training seminars are held to refresh Members' knowledge and awareness of specific subject matter.</p>
At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	✓	'Declarations of Interest' is a standing item on all agendas.
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	✓	The Terms of Reference for both Pension Fund Committee and Pension Board sets out this principle.

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Steven Coutts
 Leader of the Council
 Chair of the Pension Fund Committee
 29 September 2021

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Maggie Sandison
 Chief Executive
 Shetland Islands Council
 29 September 2021

Statement of Responsibilities for the Statement of Accounts

The administering authority's responsibilities


The Authority is required to:

- make arrangements for the proper administration of its Pension Fund and to ensure that the proper officer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Executive Manager – Finance;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2018), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the Annual Accounts for signature.

I can confirm that these Annual Accounts were approved for signature by the Council on 29 September 2021.

Signed on behalf of Shetland Islands Council.

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Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
29 September 2021

The Executive Manager – Finance's responsibilities

The Executive Manager - Finance is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the Executive Manager - Finance has:

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

The Executive Manager - Finance has also:

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2021.

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Jamie Manson, CPFA
Executive Manager – Finance
Shetland Islands Council
29 September 2021

Independent Auditor's Report to the Members of Shetland Islands Council as Administering Authority for Shetland Islands Council Pension Fund and the Accounts Commission

Report on the Audit of the Financial Statements

Opinion on Financial Statements

We certify that we have audited the financial statements in the annual report of Shetland Islands Council Pension Fund (the fund) for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account and Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is 5 years. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

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

Responsibilities of the Executive Manager - Finance and Shetland Islands Council for the financial statements

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

In preparing the financial statements, the Executive Manager - Finance is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Shetland Islands Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

- considering the nature of the fund's control environment and reviewing the fund's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired with management, internal audit and those charged with governance about their own identification and assessment of the risks of irregularities;
- obtaining an understanding of the applicable legal and regulatory framework and how the fund is complying with that framework;
- identifying which laws and regulations are significant in the context of the fund;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory framework that the body operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. This included the Superannuation Act 1972.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the body's ability to operate or to avoid a material penalty. These included the Data Protection Act 2018 and relevant employment legislation.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and internal legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

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

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

Reporting on other requirements

Statutory other information

The Executive Manager - Finance is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and our auditor's report thereon.

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

Our opinion on the financial statements does not cover the statutory other information and we do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission

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

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

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

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

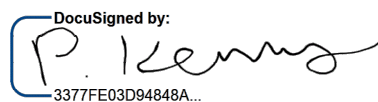
We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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Pat Kenny, CPFA (for and on behalf of Deloitte LLP)
110 Queen Street
Glasgow
G1 3BX
United Kingdom
29 September 2021

Pension Fund Account for year ended 31 March 2021

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

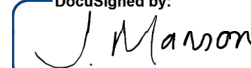
2019/20 £000		Notes	2020/21 £000	2020/21 £000
	Dealings with members, employers and others directly involved in the scheme			
(18,573)	Contributions	6	(19,507)	
(1,371)	Transfers in from other pension funds	7	(1,922)	
0	Other income		(5)	
(19,944)	Total Additions			(21,434)
15,427	Benefits payable	8	16,347	
719	Payments to and on account of leavers	9	969	
31	Other payments		5	
16,177	Total Withdrawals			17,321
(3,767)	Net (additions) from dealings with members			(4,113)
1,929	Management expenses	10		2,100
(1,838)	Net additions including Fund Management Expenses			(2,013)
	Return on investments			
(4,130)	Investment income	12		(3,733)
42,400	(Profits) and losses on disposal of investments and changes in market value of investments	15b		(123,505)
38,270	Net return on investments			(127,238)
36,432	Net (increase)/decrease in the net assets available for benefits during the year			(129,251)
(497,132)	Opening net assets of the scheme			(460,700)
(460,700)	Closing net assets of the scheme			(589,951)

Net Assets Statement as at 31 March 2021

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

The financial statements summarise the transactions of the Pension Fund during the year and its net assets at the year-end. It should be noted, however, that they do not take account of the obligations to pay pensions and benefits that fall due after the end of the year. The actuarial position of the Pension Fund, which does take account of such obligations, is discussed in the Actuarial Statement. These financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

As at 31 March 2020 £000	Notes	As at 31 March 2021 £000
	Investment Assets	
459,360	Investment Assets 13	590,218
459,360	Total Investment Assets	590,218
	Current Assets	
89	Long-term debtors 19a	130
1,633	Debtors 19	1,721
1,572	Bank current accounts 19	335
3,294	Total Current Assets	2,186
	Current Liabilities	
(468)	Sundry creditors 21	(834)
(1,486)	Benefits payable 21	(1,619)
(1,954)	Total Current Liabilities	(2,453)
460,700	Net assets of the scheme available to fund benefits at the reporting period end	589,951

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.....
 Jamie Manson, CPFA
 Executive Manager – Finance
 29 September 2021

Notes to the Accounts

Note 1: Description of Pension Fund

The Shetland Islands Council Pension Fund is part of the Local Government Pension Scheme and is administered by Shetland Islands Council. The Council is the reporting entity for this Pension Fund.

General

The Pension Fund is governed by the Superannuation Act 1972 and by the Public Service Pensions Act 2013. The Pension Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended);
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (as amended); and
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014.

It is a contributory defined benefit pension scheme administered by Shetland Islands Council to provide pensions and other benefits for pensionable employees of scheduled bodies,

Shetland Islands Council, Orkney and Shetland Valuation Joint Board and admitted bodies within Shetland. Teachers are not included as they are members of the Scottish Teachers' Pension Scheme.

The Pension Fund is overseen by the Pension Fund Committee and Pension Board.

Membership

Membership of the LGPS is automatic, but employees are free to choose to opt out of the Scheme and make their own personal pension arrangements outside the Scheme.

Organisations participating in the Shetland Islands Council Pension Fund include:

- Scheduled bodies, which are local authorities and similar statutory bodies whose staff are automatically entitled to be members of the Pension Fund; and
- Admitted bodies, which are other organisations that participate in the Pension Fund under an admission agreement between the Pension Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 10 employer organisations with active members within Shetland Islands Council Pension Fund including the Council itself; a summary of membership is shown below.

31 March 2020	Shetland Islands Council Pension Fund	31 March 2021
11	Number of employers with active members	10
	Number of employees in scheme:	
3,101	Shetland Islands Council	3,240
371	Other employers	324
3,472	Total	3,564
	Number of pensioners/dependants	
1,901	Shetland Islands Council	2,008
176	Other employers	182
2,077	Total	2,190
	Deferred pensioners	
1,907	Shetland Islands Council	1,972
386	Other employers	415
2,293	Total	2,387
7,842	Scheme Total	8,141

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Pension Fund in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) and range from 5.5% to 12% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are topped

up by employers' contributions, which are set based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2020 set these employers' contribution rates, which range from 17.2% to 36.0% of pensionable pay.

Benefits

Pension benefits under the LGPS are calculated as per the table below:

Service pre 1 April 2009	Service post 31 March 2009	Service Post 31 March 2015
Each year worked is worth 1/80 x final FTE pensionable salary	Each year worked is worth 1/60 x final FTE pensionable salary	Each year worked is worth 1/49 x actual pensionable salary
Automatic lump sum of 3 x salary	No automatic lump sum	No automatic lump sum
In addition, part of annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

There are a range of other benefits provided under the scheme including early retirement, ill health retirement and death benefits. For more details, please refer to <http://www.scotlgps2015.org/> or contact Shetland Islands Council Pension Section on 01595 744644.

Benefits are index-linked in line with the consumer price index.

Note 2: Basis of Preparation

The Statement of Accounts summarises the Pension Fund's transactions for the 2020/21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom

2020/21, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Pension Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS 26 basis, is disclosed at Note 18.

The accounts have been prepared on a going concern basis.

Note 3: Accounting Standards Issued and Adopted in year

The following accounting standards were new or amended in the 2020/21 Code:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures;
- Amendment to IFRS 9: Applying IFRS 9 with IFRS 4 Amendments to IAS 19 Employee Benefits: Plan amendment, curtailment or settlement;
- Amendment to IFRS 3: Definition of a Business;
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Amendments to IAS 39, IFRS 4, IFRS 7 and IFRS 9: Interest Rate Benchmark Reform (Phase 1); and
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

The Code required implementation in the financial statements from 1 April 2020. There has not been any significant impact on the Pension Fund.

Note 4: Accounting Standards Issued but Not Yet Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted. This applies to the adoption of the following new or amended standards within the 2021/22 Code:

- IFRS 16: Leases. HM Treasury have agreed to defer implementation until 1 April 2022;
- IFRS 17: Insurance Contracts. Applicable for periods beginning on or after 1 January 2023;
- Amendment to IAS 1: Classification of Liabilities as Current or Non-Current. Applicable for periods beginning on or after 1 January 2023;
- Amendment to IAS 1: Disclosure of Accounting Policies. Applicable for periods beginning on or after 1 January 2023;
- Amendment to IAS 8: Definition of Accounting Estimates. Applicable for periods beginning on or after 1 January 2023;
- Amendments to IAS 16: Property, Plant and Equipment proceeds before intended use. Applicable for periods beginning on or after 1 January 2022;
- Amendments to IAS 37: Onerous Contracts, cost of fulfilling a contract. Applicable for periods beginning on or after 1 January 2022;
- Amendments to IAS 39, IFRS 4, IFRS 7 and IFRS 9: Interest Rate Benchmark Reform (Phase 2). Applicable for periods beginning on or after 1 January 2021; and
- Annual Improvements to IFRS Standards 2018-2020 Cycle. Applicable for periods beginning on or after 1 January 2022.

The Code requires implementation in the accounts from 1 April 2021 and there is therefore no impact on the Pension Fund.

Note 5: Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty,

actual results could be materially different from assumptions and estimates.

The table below highlights the approximate impact that a small change in the assumptions used would have on the liabilities of the fund:

Item	Uncertainties - Estimate	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. An actuary to the Fund is appointed to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the real discount rate assumption would result in an increase in the pension liability of £92m. A 0.5% increase in salary increase rate assumption would increase the value of liabilities by approximately £10m, and a 0.5% increase in pension increase rate assumption would increase the liability by approximately £80m.

Note 6: Contributions Receivable

By category:

31 March 2020 £000		31 March 2021 £000
(14,229)	Employers - normal	(14,984)
(103)	Employers - augmentation	(37)
(4,241)	Members - normal	(4,486)
(18,573)	Total	(19,507)

By authority:

31 March 2020 £000		31 March 2021 £000
(16,072)	Administering authority	(17,193)
(131)	Scheduled bodies	(123)
(2,370)	Admitted bodies	(2,191)
(18,573)	Total	(19,507)

Note 7: Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 March 2020 £000		31 March 2021 £000
(1,371)	Individual transfers in	(1,922)
(1,371)	Total	(1,922)

The Pension Fund received 98 transfers in during 2020/21 with an average value of £33,606, compared to 53 transfers in during 2019/20 with an average value of £25,876.

Note 8: Benefits Payable**By category:**

31 March 2020 £000		31 March 2021 £000
11,486	Pensions	12,292
3,682	Commutation and lump sum retirement	3,359
259	Lump sum death benefits	696
15,427	Total	16,347

By authority:

31 March 2020 £000		31 March 2021 £000
13,529	Administering authority	14,506
118	Scheduled bodies	120
1,780	Admitted bodies	1,721
15,427	Total	16,347

Note 9: Payments to and on Account of Leavers

31 March 2020 £000		31 March 2021 £000
88	Refunds to members leaving service	20
631	Individual transfers	140
0	Group transfers	809
719	Total	969

Note 10: Management Expenses

31 March 2020 £000		31 March 2021 £000
340	Administration Expenses	373
35	Oversight and Governance Expenses	71
	Investment	
1,488	Management Fees	1,591
34	Performance Fees	35
32	Custody Fees	30
1,929	Total	2,100

Note 10a – Investment Management Expenses

2020/21	Total £000	Management fees £000	Performance related fees £000
Managed Funds	563	556	7
Diversified growth funds	581	575	6
Fixed income unit trusts	152	149	3
Unit linked insurance policies	37	21	16
Pooled Property Unit Trusts	249	246	3
Property Debt	34	34	0
Unitised Liquidity Fund	9	9	0
Cash Deposits	1	1	0
	1,626	1,591	35
Custody fees	30		
Total	1,656		

2019/20	Total £000	Management fees £000	Performance related fees £000
Managed Funds	529	522	7
Diversified growth funds	556	550	6
Fixed income unit trusts	145	142	3
Unit linked insurance policies	35	21	14
Pooled Property Unit Trusts	229	225	4
Property Debt	17	17	0
Unitised Liquidity Fund	0	0	0
Cash Deposits	11	11	0
	1,522	1,488	34
Custody fees	32		
Total	1,554		

Note 11: External Audit Costs

31 March 2020 £000		31 March 2021 £000
25	Payable in respect of external audit	33
25	Total	33

Note 12: Investment Income

31 March 2020 £000		31 March 2021 £000
(3,416)	Pooled investment vehicles	(3,009)
(21)	Interest on cash deposits	0
(693)	Other	(724)
(4,130)	Total	(3,733)

Note 13: Investments

Fair Value As at 31 March 2020 £000		Fair Value As at 31 March 2021 £000
167,042	Managed Funds	216,957
192,030	Unit Linked Insurance Policies	267,242
38,023	Fixed income unit trusts	44,701
51,401	Pooled property unit trusts	53,871
206	Unitised Liquidity Fund	4,238
2,243	Property Debt	2,719
7,882	Cash deposits	60
133	Property income due	12
138	Diversified growth income due	150
262	Fixed income due	268
459,360	Total investment assets	590,218

Note 13a - Reconciliation of movements in investments

	Market Value at 1 April 2020 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2021 £000
Investment Assets:					
Pooled funds - managed funds	167,042	0	0	49,915	216,957
- unit linked insurance policies	192,030	7,500	(20)	67,732	267,242
Fixed income unit trusts	38,023	1,136	0	5,542	44,701
Pooled property unit trusts	51,401	2,217	(63)	316	53,871
Unitised Liquidity Fund	206	5,689	(1,660)	3	4,238
Property Debt	2,243	826	(347)	(3)	2,719
Total Pooled Investment	450,945	17,368	(2,090)	123,505	589,728
Other investment balances:					
Diversified Growth income due	138				150
Fixed income due	262				268
Property income due	133				12
Cash income due	7,882				60
Net investment assets	459,360				590,218

	Market Value at 1 April 2019 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2020 £000
Investment Assets:					
Pooled funds - managed funds	182,944	0	(2)	(15,900)	167,042
- unit linked insurance policies	214,098	0	(21)	(22,047)	192,030
Fixed income unit trusts	39,425	1,005	0	(2,407)	38,023
Pooled property unit trusts	52,367	4,092	(3,036)	(2,022)	51,401
Unitised Liquidity Fund	205	0	0	1	206
Property Debt	1,952	316	0	(25)	2,243
Total Pooled Investment	490,991	5,413	(3,059)	(42,400)	450,945
Other investment balances					
Diversified Growth income due	126				138
Fixed income due	265				262
Property income due	7				133
Cash income due	4,076				7,882
Net investment assets	495,465				459,360

Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme. There are no direct transaction costs.

Note 13b - Analysis of Pooled Investment Vehicles

As at 31 March 2020 £000		Additional analysis	As at 31 March 2021 £000	
88,272		Managed Funds	122,995	
192,030		Unit Linked Insurance Policies	267,242	
78,770		Diversified Growth	93,962	
38,023		Alternative Credit	44,701	
51,306		Pooled property unit trust (UK)	53,779	
95		Pooled property unit trust (Overseas)	92	
206		Unitised Liquidity Fund	4,238	
2,243		Property Debt	2,719	
450,945		Total Pooled Investment Vehicles	589,728	

Note 13c - Analysis by Fund Manager

Market Value 31 March 2020			Market Value 31 March 2021	
£000	%		£000	%
192,248	43	BlackRock	264,410	45
61,647	13	Schroders	63,733	11
78,908	17	Newton Asset Management	94,112	15
88,272	19	Kleinwort Benson	122,995	21
38,285	8	M & G Investments	44,968	8
459,360	100	Total investment assets	590,218	100

The following investments represent more than 5% of the net assets of the scheme:

Market Value 31 March 2020			Market Value 31 March 2021	
£000	%		£000	%
71,923	16	Aquila Life UK equity index	99,841	17
38,023	8	M & G Alpha Opp Fd AGBP	44,701	8
88,272	19	KBI 1 Dividend Plus	122,995	21
78,770	17	Newton Real Rtrn X ACC NAV	93,962	16
117,313	26	Aquila Life World EX UK Fund Series 1	164,557	28

Note 14: Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

The table on the right provides an analysis of the financial assets of the pension fund, grouped into Levels 1 and 2, based on the level at which the fair value is observable. A number of property investments have been transferred to Level 3, due to uncertainties caused by the current pandemic.

As at 31 March 2020 £000	Fair value through profit and loss	As at 31 March 2021 £000
8,415	Level 1	4,728
394,507	Level 2	585,490
56,438	Level 3	0
459,360	Net Investment assets	590,218

Basis of Valuation

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

Valuation hierarchy	Basis of valuation	Observable / unobservable inputs	Key sensitivities affecting valuations
Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Level 1	Closing bid value on published exchanges	Not required	Not required
Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

Table continued overleaf

Level 3	Valued at fair value	The preparation of financial statements requires the Trustees to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates	A key source of estimation uncertainty that has a significant risk of causing a material adjustment to the carrying amount of assets is in relation to the valuation of pooled property funds, particularly in light of the current ongoing impact of the COVID-19 pandemic as valuations are more subjective.
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Assets valued at level 3

There are no level 3 assets for 2020/21. The assets categorised at level 3 for 2019/20 were property assets whose value, due to the COVID-19 outbreak, were subject to material valuation uncertainty. The value of the properties with material uncertainty was £53m, which was 94% of the total property holding at 31 March 2020.

Note 15: Financial Instruments

Note 15a - Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including gains and losses, are recognised.

The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2020				As at 31 March 2021		
Fair value through profit £000	Receivables £000	Financial liabilities £000		Fair value through profit £000	Receivables £000	Financial liabilities £000
			Financial assets			
			Pooled funds			
167,304			- managed funds	217,225		
192,030			- unit linked insurance policies	267,242		
38,023			Fixed income unit trusts	44,701		
51,401			Pooled property unit trusts	53,871		
206			Unitised liquidity funds	4,238		
2,243			Property debt	2,719		
138			Diversified growth	150		
7,882	1,572		Cash	60	335	
133			Property income due	12		
	1,633		Debtors		1,721	
459,360	3,205	0	Total Financial assets	590,218	2,056	0
			Financial liabilities			
0	0	(1,954)	Creditors	0	0	(2,453)
0	0	(1,954)	Total Financial liabilities	0	0	(2,453)
459,360	3,205	(1,954)	Total	590,218	2,056	(2,453)

Note 15b - Net gains and losses on financial instruments

As at 31 March 2020 £000	Financial assets	As at 31 March 2021 £000
42,400	Fair value through profit and loss	(123,505)
42,400	Total	(123,505)

Note 15c - Value of financial instruments

As at 31 March 2020		Financial assets	As at 31 March 2021	
Book value £000	Market value £000		Book value £000	Market value £000
355,696	459,360	Fair value through profit and loss	363,060	590,218
355,696	459,360	Total	363,060	590,218

Note 16: Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

The Pension Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Pension Fund and to maximise the opportunity for gains across the whole Pension Fund portfolio. The Pension Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Pension Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Pension Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Pension Fund's risk management strategy rests with the Council. Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed regularly to reflect changes in activity and market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity, bond and property prices, interest and foreign exchange rates and credit spreads. The Pension Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market condition, expectations of future price and yield movements and the asset mix.

The objective of the Pension Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industrial sectors and individual securities. To mitigate market risk, the Pension Fund and its investment

advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

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

The Pension Fund's investment managers mitigate this price risk through diversification and the selection of investments, which is monitored by the Council, as the administering authority, and the Fund Managers to ensure it is within limits specified in the Pension Fund investment strategy.

Other Pension Fund price risk - sensitivity analysis

In agreement with the Pension Fund's performance analyst and following analysis of historical data and expected investment return during the financial year, the Pension Fund has determined that the following movements in market price risk are deemed reasonably possible for the financial year 2020/21 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	16.7%
Global Equities	17.4%
Property	14.2%
Cash	0.3%
Diversified Growth	11.9%
Alternative Credit	5.9%

The potential price changes disclosed above are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on Pension Funds' asset allocations. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix.

Had the market price of the Pension Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the following table (the prior year comparator is shown below).

Asset Type	Value as at 31 March 2021 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	4,299	0.30%	4,312	4,286
Investment portfolio assets:				
UK Equities	99,841	16.7%	116,514	83,168
Global Equities (ex UK)	287,552	17.4%	337,586	237,518
Property	59,446	14.2%	67,887	51,005
Diversified Growth	94,112	11.9%	105,311	82,913
Alternative Credit	44,968	5.9%	47,621	42,315
Total assets	590,218		679,231	501,205

Asset Type (Restated)	Value as at 31 March 2020 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	7,882	0.30%	7,906	7,858
Investment portfolio assets:				
UK Equities	71,923	27.5%	91,702	52,144
Global Equities (ex UK)	205,585	28.0%	263,149	148,021
Property	56,777	14.2%	64,839	48,715
Diversified Growth	78,908	13.8%	89,797	68,019
Alternative Credit	38,285	8.7%	41,616	34,954
Total assets	459,360		559,009	359,711

Interest rate risk

The Pension Fund invests in financial assets for the primary purpose of obtaining a return on investments.

These investments are subject to interest rate risks, which represent the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Pension Fund has a diversified portfolio, managed by different Fund Managers who have the flexibility to hold cash and cash-equivalent balances in order to make investments at short notice. These balances are exposed to interest rate risk, however Fund Managers are expected to maintain such balances at a minimal level, whilst retaining the agility to invest in line with their respective investment mandates.

The Pension Fund's direct exposure to interest rate movements are set out below:

As at 31 March 2020 £000		As at 31 March 2021 £000
7,882	Asset type Cash and cash equivalents	4,299
1,572	Cash balances	335
38,023	Fixed income unit trusts	44,701
47,477	Total	49,335

Interest rate risk sensitivity analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Pension Fund and the value of the net assets

available to pay benefits. A 110 basis point (BPS) movement in interest rates is viewed as a reasonable level of risk sensitivity for the Pension Fund under current interest rate circumstances. The Pension Fund's performance analyst has also agreed that the long-term average rates are expected to move less than 110 basis points (hence 100 basis points used in the examples below) from one year to the next and experience suggests that such movements are possible.

The analysis that follows assumes the total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

Asset Type	Carrying amount as at 31 March 2021 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £000
Cash and cash equivalents	4,299	43	(43)
Cash balances	335	3	(3)
Fixed income unit trusts	44,701	447	(447)
Total change in assets available	49,335	493	(493)

Asset Type	Carrying amount as at 31 March 2020 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £000
Cash and cash equivalents	7,882	79	(79)
Cash balances	1,572	16	(16)
Fixed income unit trusts	38,023	380	(380)
Total change in assets available	47,477	475	(475)

Currency risk

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

The Pension Fund holds both monetary and non-monetary assets denominated in currencies other than £ sterling. Fund Managers are expected to manage currency risk. Fund Managers also routinely report the performance of their respective portfolios to the Pension Fund, including the level of exposure to currency risk.

The following table summarises the Pension Fund's currency exposure as at 31 March 2021 and as at the previous period end.

As at 31 March 2020 £000		As at 31 March 2021 £000
	Asset type	
205,585	Pooled Funds - overseas equities	287,552
38,285	Alternative credit - overseas	44,968
138	Diversified Growth Fund	150
244,008	Total	332,670

Currency risk - sensitivity analysis

Following analysis of data provided by the Pension Fund's performance analysts, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 10% strengthening/weakening of the pound against the various currencies in which the Pension Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Carrying amount as at 31 March 2021 £000	Change to net assets available to pay benefits	
		+10.0% £000	-10.0% £000
Pooled Funds - overseas equities	287,552	316,307	258,797
Alternative credit - overseas	44,968	49,465	40,471
Diversified Growth Fund	150	165	135
Total change in assets available	332,670	365,937	299,403
Asset Type	Carrying amount as at 31 March 2020 £000	Change to net assets available to pay benefits	
		+10.0% £000	-10.0% £000
Pooled Funds - overseas equities	205,585	226,144	185,026
Alternative credit - overseas	38,285	42,114	34,456
Diversified Growth Fund	138	152	124
Total change in assets available	244,008	268,410	219,606

Credit risk

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

In essence, the Pension Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Deposits are not made with banks and financial institutions unless they meet the Council's credit criteria. The Council has also set limits on the value of these deposits, which can be placed with any bank or financial institution, apart from the bank the Council uses for its daily operations.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years.

The Pension Fund's cash holding under its treasury management arrangements at 31 March 2021 was £0.395m (31 March 2020: £9.454m). This was held with the following institutions:

As at 31 March 2020 £000		As at 31 March 2021 £000
	Fund manager	
4,869	Schroders cash	48
3,013	BlackRock cash	12
	Bank current	
1,572	Bank of Scotland Plc	335
9,454	Total	395

Liquidity risk

Liquidity risk represents the risk that the Pension Fund will not be able to meet its financial obligations as they fall due. The Pension Fund takes steps to ensure that it has adequate cash resources to meet its commitments.

The Pension Fund has immediate access to all its cash holdings. The Pension Fund also has an overdraft facility to cover any unexpected short-term cash needs. The overdraft facility has not been used over the past five years and therefore the Pension Fund's exposure to liquidity risk is considered negligible.

The Pension Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert into cash. As at 31 March 2021, there were no illiquid assets (31 March 2020: £56.8m, which represented 12.4% of the Pension Fund assets).

Refinancing risk

The key risk is that the Pension Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Pension Fund does not have any

financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Note 17: Funding Arrangements

In line with the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended), the Pension Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation for the current accounting period took place as at 31 March 2020.

The funding policy is set out in the Pension Fund's Funding Strategy Statement (FSS), dated March 2021.

The key elements of the funding policy are:

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

Employee benefits are guaranteed and employee contributions are fixed, so employers need to pay the balance of the cost of delivering the benefits

to members and dependants. The Funding Strategy Statement sets out how the Administering Authority has balanced the conflicting aims of affordability and stability of employer contributions and prudence in the funding basis with regard to employer liabilities.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2014 was at 31 March 2020. This valuation revealed that the Pension Fund's assets, which at 31 March 2020 were valued at £461m, were sufficient to meet 92% (£450m and 90% at 31 March 2017 valuation) of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at

Copies of the 2020 Valuation Report and Funding Strategy Statement are available on request from Shetland Islands Council, the Administering Authority to the Pension Fund.

Principal actuarial assumptions and method used in the valuation

Full details of the method used are described in a valuation report from the actuaries, Hymans Robertson LLP, available on request from Shetland Islands Council, the Administering Authority to the Pension Fund, at 8 North Ness Business Park, Lerwick.

Method

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

Assumptions

The assumptions are required to place value on the benefits earned to date and the benefits that will be earned in the future. To this end, the

the 2020 valuation was £38m (2017 valuation: £51m).

The common rate of contribution payable by each employing authority under regulation 32(4)(a) of the 2014 Regulations for the period 1 April 2021 to 31 March 2024 is 22.3% of pensionable pay, (i.e. the rate which all employers in the Pension Fund pay).

Individual employers' rates are adjusted under regulation 32(4) (b) from the common contribution rate. The contribution rates payable for the period 1 April 2021 to 31 March 2024 were set in accordance with the Pension Fund's funding policy as set out in its Funding Strategy Statement.

During this period, the employers' rate due by Shetland Islands Council is 20.8% per annum for 2021/22 then 22.0% for 2022/23 and 2023/24. assumptions fall broadly into two categories; financial assumptions and demographic assumptions. Financial assumptions relate to the size of members' benefits, and information affecting these assumptions are discount rate, price inflation, which affects benefit increases, and salary increases. Demographic assumptions relate to longevity of current pensioners and future pensioners.

A market-related approach was taken when valuing the liabilities, for consistency with the valuation of the Fund assets at their 31 March 2020 market value.

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

Financial assumptions	% per annum
Discount rate	3.5%
Salary increase assumption	1.7%
Benefit increase assumption (CPI)	1.7%

Mortality assumptions

The key demographic assumption was the allowance made for longevity. The expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate

of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Mortality assumption at age 65	Males	Females
Current Pensioners	20.9 yrs	23.1 yrs
Future Pensioners	22.4 yrs	25.3 yrs

Commutation assumption

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

50:50 Option assumption

It is assumed that 1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option. This is where members pay 50% of contributions in return for 50% of benefits. Employers still pay the full contribution.

Note 18: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Pension Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 26 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 17). The actuary has also used ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2021 was £852m (31 March 2020: £639m). The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS 19 report as required by the Code of Practice. These are given below:

As at 31 March 2020 % p.a.	Year ended	As at 31 March 2021 % p.a.
1.9	Inflation/pension increase rate	2.85
2.4	Salary increase rate	2.85
2.3	Discount rate	2.00

Note 19: Current Assets

As at 31 March 2020 £000		As at 31 March 2021 £000
366	Debtors: Contributions due - employees	378
1,209	Contributions due - employers	1,283
58	Prepayments	60
1,572	Bank current accounts	335
3,205	Total	2,056

Note 19a: Long Term Debtor

As at 31 March 2020 £000		As at 31 March 2021 £000
89	Long Term Debtors Reimbursement of lifetime tax allowance	130
89	Total	130

Note 20: Unfunded Pension

As at 31 March 2020 £000		As at 31 March 2021 £000
734	Added years pension	739

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows local authorities and admitted bodies to pay additional pension on a voluntary basis. Additional pension in respect of added years' enhancement is awarded from the body or service where the employee retired and costs are paid directly by the employer and not the Pension Fund.

Note 21: Current Liabilities

As at 31 March 2020 £000		As at 31 March 2021 £000
(468)	Sundry creditors	(834)
(1,486)	Benefits payable	(1,619)
(1,954)	Total	(2,453)

Note 22: Contingent Liabilities

McCloud Judgement

The LGPS benefit structure is currently under review following the Government's loss of the right to appeal two Court of Appeal judgements in December 2018, collectively referred to as the 'McCloud' judgement. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2015 in the case of the LGPS in Scotland) were unlawful on the grounds of age discrimination. The exact details of the solution to the McCloud judgement have yet to be confirmed. A consultation on this closed on 23 October 2020 and is currently under consideration by the Scottish Public Pensions Agency (SPPA).

In May 2020, the SPPA set out their expectations for how funds should allow for this uncertainty in the benefit structure as part of their 2020 valuations. The Fund Actuary has included an allowance in the Fund's liabilities in line with SPPA's instructions.

GMP Indexation

On 23 March 2021, the Government responded to its consultation on the indexation of Guaranteed Minimum Pensions (GMPs) in public service pension schemes. The Government has discounted 'conversion' (of GMP into main scheme benefits) as a long-term policy solution and instead will make full GMP indexation the permanent solution for public service pension schemes. This approach had been used as interim solution since April 2016 when the Government introduced the new State Pension.

Currently, all members whose State Pension Age is between 5 April 2016 and 6 April 2021 have their GMP pensions fully uprated by their scheme in line with CPI. The new policy will extend this to members whose State Pension Age (SPA) is on or after 6 April 2021.

GMP Equalisation

Following a High Court ruling from 26 October 2016, all defined benefit pension schemes must equalise Guaranteed Minimum Pension (GMP) for men and women. For public service pension schemes, indexation formed part of the solution for equalising (meeting the legal requirement to remove any differences between) the GMP earned by men and women between 17 May 1990 and April 1997. A further High Court ruling on 20 November 2020 confirmed the need for private pension schemes to review individual historical transfers made since 17 May 1990 to check whether any additional pension benefit is due as a result of GMP equalisation. This ruling could potentially affect members of the LGPS, mainly those members with a GMP who transferred out of the pension scheme after 1990. The Government are currently considering if this judgment to equalise historic GMPs applies to all historic transfers made by all public service pension schemes (including the LGPS). Further guidance is expected before the Fund can take

any action, once the Government has made a decision.

Goodwin – male survivor benefits

A recent employment tribunal case (Mrs Goodwin v Department for Education) has concluded that a female member in an opposite sex marriage is treated less favourably than a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. Where schemes contain provisions deemed discriminatory, those provisions must be dis-applied as being contrary to the non-discrimination rule set out in section 61 of the Equality Act 2010.

Same-sex survivors were originally entitled to survivor benefits taking into account the member's service from April 1988, however retrospective amendments remain to be made post Walker with effect from 5 December 2005 (the date when civil partnerships became possible), such that those survivor benefits now take into account the member's service from 6 April 1978.

Following the Goodwin Tribunal, regulatory amendments now require to be made with effect from the same date to extend that entitlement to male survivors of female members. There is insufficient data at present to estimate reliably the impact this will have on scheme liabilities as the amended regulations are still awaited. Therefore no estimate has been included in Fund's liabilities in 2020/21.

Paused Cost Cap Valuation

As part of the public sector pension scheme reforms in the first half of the 2010s, a mechanism was put in place to protect employers from significant increases in future pension costs. The mechanism is symmetrical in its design – following a Cost Cap valuation carried out by the Government Actuary's Department (GAD), if the scheme is calculated to have a lower/(higher) than intended cost to employers, then action will be taken: improvements/(reductions) in future benefit accrual and/or increases/(reductions) in employee contribution rates.

The first Cost Cap mechanism for LGPS Scotland was as at 31 March 2017, and the results of this cost cap will be finalised in 2021/22 and are not anticipated to impact on the employer contribution rates recently certified and put in place by the Fund from 1 April 2021.

Note 23: Additional Voluntary Contributions

As at 31 March 2020 £000		As at 31 March 2021 £000
5,069	Prudential	5,571
46	Equitable Life	52
5,115	Total	5,623

AVC contributions of £0.502m were paid directly to Prudential during the year (2019/20: £0.560m).

Prudential were unable to provide a year-end valuation, and therefore the prior year valuation, adjusted for known movements, has been taken.

In accordance with regulation 4 (2) (b) of the Local Authority Government Pension Scheme (Management of Funds) (Scotland) Regulations 2010, AVCs are not included in the Pension Fund financial statements.

Note 24: Related Party Transactions Shetland Islands Council

The Shetland Islands Council Pension Fund is administered by Shetland Islands Council. Consequently, there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.412m (2019/20: £0.350m) in relation to the administration of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses.

The investments of the Pension Fund are overseen by the Council's Treasury Section; their costs are levied by staff time allocations. Costs incurred were £0.035m (2019/20: £0.034m) in relation to investment of the Pension Fund and

the Council was subsequently reimbursed by the Pension Fund for these expenses.

The Council processed pensioner payments of £12.291m (2019/20: £11.486m). Such payments are reimbursed in full by the Pension Fund.

In addition, the Council is the single largest employer of Pension Fund members, and contributed £13.250m to the Pension Fund (2019/20: £12.394m).

Governance

Three members of the Pension Fund Committee receive pension benefits from the Shetland Islands Council Pension Fund. These and other committee members are active members of the Pension Fund.

Each member of the Pension Fund Committee and Pension Board is required to declare their interests at each meeting.

Key management personnel

Key management personnel for the Pension Fund include the Shetland Islands Council Councillors, who sit on the Pension Fund Committee and Pension Board.

Membership is as follows:

Pension Fund Committee Membership
Steven Coutts (Chair)
Alistair Cooper
Stephen Leask
Robbie McGregor
George Smith
Theodore G C Smith
Ryan Thomson
Emma Louise Macdonald
Ian Scott (resigned 25/11/2020)
David A Sandison (appointed 25/11/2020)
Pension Board Membership
Malcolm Bell
John Fraser
Stephen Flaws

Note 25: Changes in Actuarial Present Value of Promised Retirement Benefits

Actuarial Present Value of Promised Retirement Benefits	Vested Benefits £000	Total £000
Balance at 31 March 2021	852	852
Increase in value during 2020/21	213	213
Balance at 31 March 2020	639	639
Decrease in value during 2019/20	(71)	(71)
31 March 2019	710	710

Note 26: Critical Judgements in Applying Accounting Policies

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years, if required. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 17. This estimate is subject to significant

variances based on changes to the underlying assumptions.

Note 27: Events after the Balance Sheet Date

The audited annual accounts were authorised for issue on 29 September 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been

adjusted in all material respects to reflect the impact of this information.

Note 28: Accounting Policies

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is based upon International Reporting Standards (IFRS) as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of any obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of the promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed at Note 18 of these accounts.

Management has considered a range of factors that may influence the ability of the Pension Fund to continue as a going concern, including:

- the regulatory and legislative framework governing Pension Funds;
- the Council's governance arrangements;
- the Council's current and medium-term financial position, and
- the impact of COVID-19.

Management's assessment of the above factors has determined that it is still appropriate to prepare the Pension Fund's accounts on a going concern basis, as required by the Code of Practice on Local Authority Accounting 2020/21.

Pension Fund account - revenue recognition

A Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.

- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employer's contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

B Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (Note 7).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

C Investment income

- **Interest income** is recognised in the Pension Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
- **Distributions from pooled funds** are recognised on the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- **Changes in the value of investments** (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Pension Fund account - expense items

D Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

E Management Expenses

The Pension Fund discloses its management expenses in line with CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016)*, as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows:

- Administrative Expenses – all staff costs relating to the pensions administration team are charged direct to the fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the fund.
- Oversight and governance – all costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the fund.
- Investment management expenses – investment fees are charged directly to the Fund as part of management expenses and are not included in or netted off from the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in value of investments. Fees charged by external investment managers and custodians are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The costs of the Council's in-house fund management team are also charged to the fund as well as a proportion of the time spent by

officers on investment management activity.

F Taxation

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

Net assets statement

G Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 13a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

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

H Cash and cash equivalents

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

I Loans and receivables

Financial assets classed as amortised cost are carried in the net assets statement at the value of outstanding principal receivable at the year-end plus accrued interest.

J Financial Liabilities

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains and losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in the value of investments.

K Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Pension Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the net assets statement (Note 18).

L Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with section 4(1) (b) of the Local

Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

M Contingent Liabilities

A contingent asset arises when an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise when it is not possible at the Balance Sheet date to measure the value of the financial obligation reliably.

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

Appendix 1:

Shetland Islands Council Pension Fund (“the Fund”) Actuarial Statement for 2020/21

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

Description of Funding Policy

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

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 66% likelihood that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund’s assets, which at 31 March 2020 were valued at £461 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2020 valuation was £38 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

Financial assumptions	31 March 2020
Discount rate	3.4%
Salary increase assumption	1.7%
Benefit increase assumption (CPI)	1.7%

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

	Males	Females
Current Pensioners	20.9 years	23.1 years
Future Pensioners*	22.4 years	25.3 years

* Currently aged 45

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

Experience over the period since 31 March 2020

Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but have recovered strongly in 2020/21. Although the value placed of the obligations will also have increased due to changes in underlying market conditions, the funding level of the Fund as at 31 March 2021 is likely to be significantly improved compared to that reported as at 31 March 2020.

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



Douglas Green FFA
For and on behalf of Hymans Robertson LLP
18 May 2021

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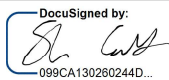
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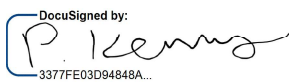
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