Pension Fund Annual Report and Accounts **2018/19**

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	KPMG
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

Introduction

I am pleased to introduce the accounts of the Pension Fund.

This year, I am pleased to report that the Fund continued to grow in terms of value, and also of membership. The Fund is valued at £497m and total membership of the Fund increased to 7,499. The total membership figure is the equivalent to a third of the Shetland population.

As a Pension Fund we have worked hard in the past year, in a challenging environment. We saw the continuing challenging market conditions with some significant areas of uncertainty, Brexit and trade wars being two of these. We also have the increasingly complex nature of pension administration and governance. To provide the Pension Fund Committee and Pension Board with the necessary knowledge and skills to carry out their duties effectively, a formal Training Policy was adopted in March 2019.

Nationally the options of retaining the status quo (11 Scottish Funds), greater collaboration, merging or pooling of pension funds are subject to consultation. Our officers already work hard to learn and share best practice with their contemporaries in Scotland. As a Pension Committee, we responded to this consultation to promote the status quo and in doing so highlight the good performance of our fund and our desire to retain control of local decision-making.

Thank you

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 2019. The purpose of the Management Commentary is to present an overview of the Pension Fund's financial performance during the year 2018/19 and to help readers understand its financial position at 31 March 2019. In addition, it outlines the main uncertainties facing the Pension Fund for the financial year 2018/19 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:

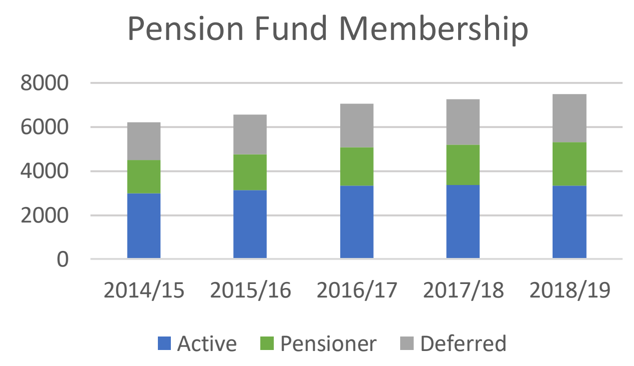
- the Local Government Pension Scheme (Scotland) Regulations 2018;
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014; and
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015;
- The LGPS (Management and Investment of Funds) Regulations 2010.

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.



Employers with active members at 31 March 2019

Scheduled Bodies:

Shetland Islands Council

Orkney & Shetland Valuation Joint Board

Admitted Bodies:

Lerwick Port Authority

Shetland Recreational Trust

Shetland Fisheries Training Centre Trust

Shetland Islands Tourism (Visit Scotland)

Shetland Amenity Trust

Shetland Seafood Quality Control

Shetland Charitable Trust

Shetland Arts Development Agency

Shetland Care Attendant Scheme (previously Crossroads)

Employers with no active members at 31 March 2019

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.

Valuation

The triennial valuation was carried out at 31 March 2017, resulting in an actuarial value of the Pension Fund of £450m, an increase of £117m on the previous valuation at March 2014. This increase is due to better than expected asset returns and lower actual pay growth than anticipated.

The triennial valuation showed that the Pension Fund is 90% funded, with a deficit of £51m. This compares unfavourably to the 2014 valuation, which was 92% funded, with a deficit of £30m. The fall in funding level is due to a fall in real gilt yields, which had the impact of increasing the value of the Pension Fund liabilities (i.e. pensions payable in the future). This was offset by better than expected asset returns and lower costs.

Investment Review

Global economic review

2018 was a year in which global markets experienced extreme volatility. Despite a positive start to the year following on from a buoyant performance throughout 2017, investor confidence was shaken by a range of factors in the year ended 31 March 2019, which included:

- signs of a global economic slowdown, particularly in China;
- concerns about the tightening of monetary policy and increased regulation of the technology sector;
- political dysfunction; and
- escalating tensions relating to trade tariffs between the United States and China, Canada, Mexico and the EU.

Throughout the year, tensions increased between the United States and China as the United States increased trade tariffs on a range of industrial and consumer items imported into the United States. In retaliation, China responded by increasing trade tariffs on a range of chemicals, coal and medical equipment. The fear of further tariffs being imposed hit stock markets mid-way through the year. The two sides agreed to talks in December, after months of increasing hostility, with a degree of optimism of a deal being reached to de-escalate the situation.

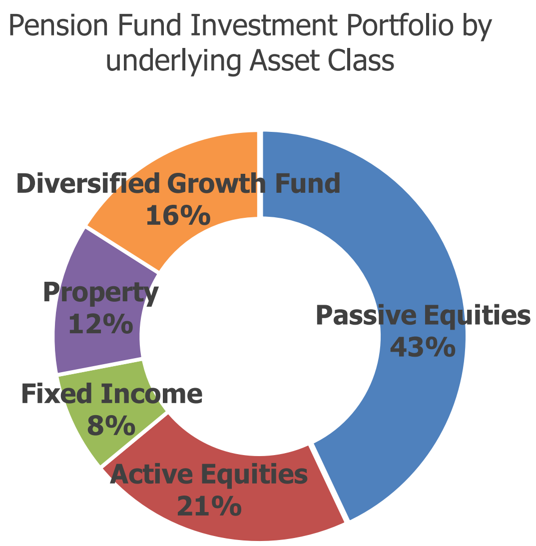
Monetary policy decisions by the US Federal Reserve and the European Central Bank created uncertainty in the markets and indicated a shift that investors had not anticipated. The US Federal Reserve rattled markets by increasing interest rates four times during 2018, with a further three increases planned for 2019. Markets suffered significant losses during December 2018, which were largely driven by concerns about trade tariffs, unconstrained growth in the technology sector, the decision to increase interest rates.

Closer to home, the lack of progress relating to the UK's withdrawal from the European Union and the development of post-Brexit trading relationships continued to suppress the value of sterling. In December, the European Central Bank announced the end of quantitative easing across the Eurozone. Tensions between the European Commission and the Italian Government and civil unrest in France also played a part in dampening investment returns on European holdings.

The volatility experienced in the third quarter (September – December 2018) meant that any gains made earlier in the year were generally wiped out by the end of the calendar year. In the final quarter (January – March 2019), stocks and markets have seen a strong recovery, as optimism with the United States reaching a trade deal with China allays trade war concerns and the US Federal Reserve revising its outlook for future interest rate increases.

For the Pension Fund, this translates as:

Investment Summary



What does the Pension Fund invest in?

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.

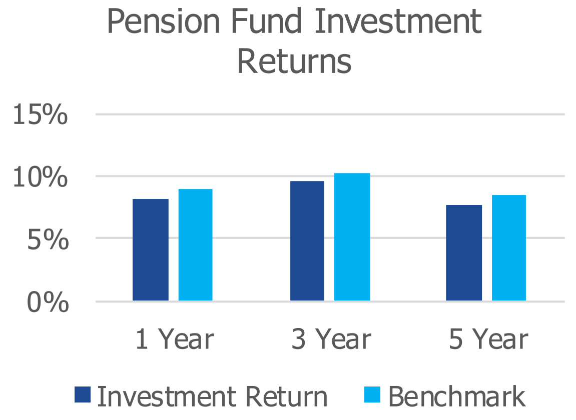
Property
The Fund invests in a range of real estate and property assets across the UK, with stakes in retail units, shopping centres, industrial units and offices. Investments are made through a variety of property unit trusts and funds, which are managed by Schroders on the Fund's behalf. During the year, the Pension Fund approved an amendment to the property investment mandate with Schroders allowing the diversification of the portfolio by investing in real estate debt funds. It is expected that investments in this sector would generate returns of up to 6-7% per annum.

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 2019, Pension Fund assets collectively generated a return of 8.1% compared to a combined benchmark return of 8.9%. The Fund faced a volatile investment market throughout 2018/19 with a strong performance from equity investments driving returns. The value of Pension Fund net assets at the end of the year totalled £497m.



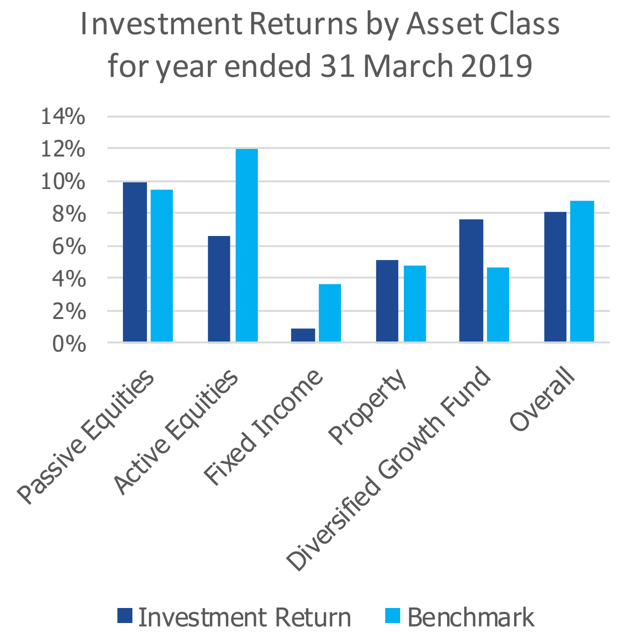
Investment performance across the different asset classes reflects a mixed picture and representative of the nature of the different types of investment.

The Fund's investments in equities, which are passively managed, returned 9.9%, which was above the agreed benchmark by 0.4%. Active global equity investments generated a positive return of 6.6% but this was below the set benchmark of 12%.

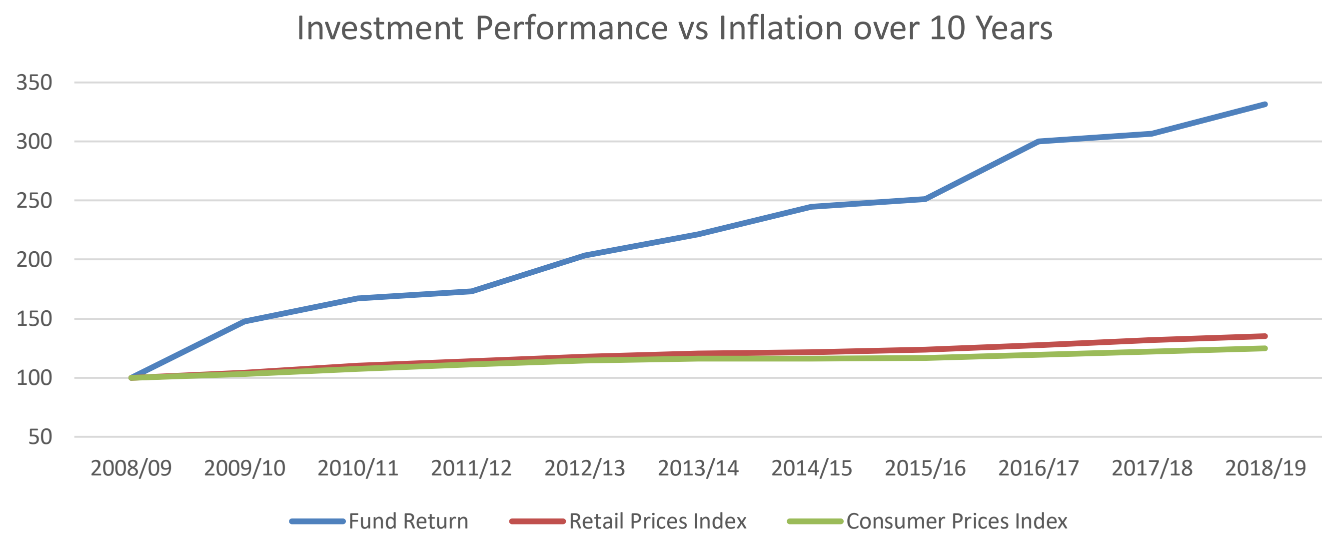
The Fund's investments in fixed income returned a positive 0.9%, which was below the benchmark of 3.6%.

The diversified growth fund generated a positive a return of 7.6%, outperforming the agreed benchmark by 2.9%.

The Fund's property investment portfolio delivered a return of 5.1%, which was slightly ahead of the agreed benchmark of 4.8%.



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 by 10.3% on an annualised basis. However, actual returns vary on an annual basis reflecting the volatile nature of the Fund's investment portfolio.



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.

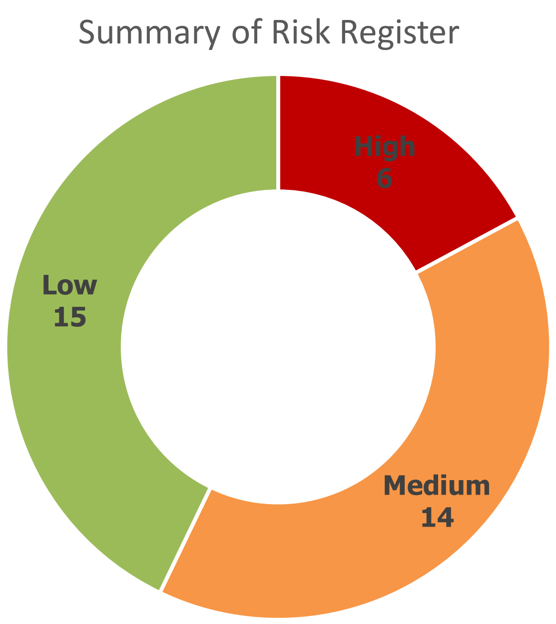
The Fund utilises the service of fund managers, who have delegated powers for the acquisition and realisation of investments. As part of their internal investment decision-making processes, fund managers are expected to consider all factors, including the social, environmental and ethical policies of 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 35 risks, summarised by risk level in the following chart.



The key risks to the Fund are:

- staff unable to access workplace leading to staff downtime and loss of service delivery;

- fund investments fail to deliver returns in line with anticipated returns required to meet the valuation of the long term liabilities;
- fall in bond yields, leading to risk in value placed on liabilities;
- employers leaving scheme/closing to new members due to cost or cessation;
- failure in world stock markets; and
- underperformance by active fund managers.

The full risk register can be found at: https://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=23778

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

The proposed exit of the United Kingdom from the European Union may impact the Pension Fund in various ways for example constraints on withdrawal of funding, political and economic uncertainty, legislative and regulatory uncertainty, impact on investments and uncertainty of non-UK EU nationals employed in Shetland. The Pension Fund will continue to monitor this, regularly reviewing and updating its risk register, having in place contingency plans and reporting to the Pension Fund Committee and Pension Board.

Funding Strategy

The Net Assets Statement shows an increase in net assets of the Pension Fund from £460m in 2017/18 to £497m in 2018/19. 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 2018, as part of the triennial valuation process. Details of the Funding Strategy Statement are found in Note 16: Funding Arrangements, on page 32.

The Funding Strategy Statement can be found here: https://www.shetlandpensionfund.org/media/4480/funding-strategy-statement.pdf

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 2017. It showed that the Pension Fund is valued at £450m and 90% funded, with a deficit of £51m. The triennial valuation includes setting the employer contribution rates for the next three years. The primary employer contribution rate across the whole fund is 22.1%, 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 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: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18529 – Appendix A.

The Statement of Investment Principles is due to be updated following the conclusion of the Investment Strategy Review, which will be undertaken during the first half of 2019/20.

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 2018 to 31 March 2019. 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 2019. 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 2019, 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 2018/19

The Pension Fund accounts present the full economic cost of providing Pension Fund services for 2018/19 and this shows a net income of £36.9m. This differs from the draft outturn position, shown below. The draft outturn was reported to the Pension Fund Committee and the Pension Board on 9 May 2019.

The report can be found on Shetland Islands Council's website here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24024

Description	2018/19 Annual Budget £000	2018/19 Draft Outturn £000	2018/19 Variance £000
Total Expenditure	15,322	17,056	(1,734)
Total Income	(22,063)	(22,806)	743
Net Income	**(6,741)**	**(5,750)**	**(991)**

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 2018/19 resulting in an increase in benefits payable. Income was higher than budgeted due to a number of high value transfers in to the Fund.

Budgets were set for lump sums, transfers in and out, death benefits and all other income and expenditure. 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.

Employers must provide accurate information to the Pension Fund in a timely manner, to ensure that information provided to Scheme members is also accurate and timely. The information received by employers to the Pension Fund, such as new starts, leavers, retirements and deaths was delivered in a timely manner during 2018/19.

All employer contributions were received by the 19th of the month following deduction.

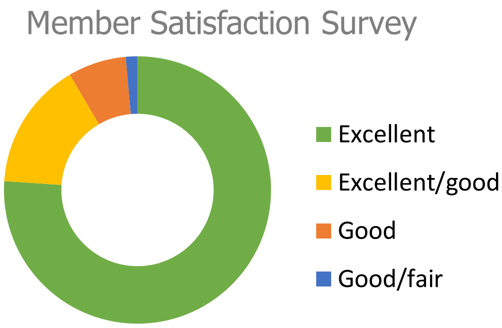
Administration Performance

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 are invited to complete a customer satisfaction survey.

Eight employer surveys were returned which indicated 100% of respondents rated the service received as either excellent or good.

The chart shows the latest satisfaction survey results.



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 2018/19.

Administration Expenses	2018/19 Annual Budget £000	2018/19 Draft Outturn £000	2018/19 Variance £000
Staff Time Allocations	264	255	9
Supplies, Services & Systems	93	103	(10)
Printing & Publications	5	2	3
Consultancy Costs	30	25	5
Total	**392**	**385**	**7**

Staff Time Allocations were underspent due to a flexible working request being granted. An overspend on supplies, services & systems relates to costs associated with tax charged on benefits that exceed HMRC's Life Time Allowance. An underspend on printing & publications is due to fewer paper mail shots being issued than anticipated, and the underspend on consultancy costs relates to the Pension Fund investment strategy which is still in process.

Several Key Performance Indicators (KPI's) have been introduced in 2018/19 with reference to recent CIPFA Pensions Panel guidance. Of the nine KPI's established, four have not been met in 2018/19. Reasons for not meeting these were primarily due to staff sickness and requiring advice on how to calculate the benefit in question.

The KPI's for 2018/19 are:

KPI's	Target	Number	Number within target	% within target
New starts	2 months from date of joining scheme	564	547	97%
Leavers	2 months from leaving scheme	195	191	98%
Transfer in quotes	2 months from date of transfer quotation	25	24	96%
Transfer out quotes	3 months from date of request	24	24	100%
Notifying members of benefits on retirement	1 month from date of retirement	139	139	100%

KPI's (cont.)	Target	Number	Number within target	% within target
Retirement estimates	2 months from date of request	58	54	93%
Calculation of dependants benefits	2 months from notification	21	21	100%
Annual Benefits statement - to all active and deferred members	by 31st August each year	5,532	5,532	100%
Contributions from employers	by 19th of month following deduction	120	120	100%

There are no 2017/18 comparator KPI's since the collation of data for these commenced in 2018/19.

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 22 May 2018, Newton Investment Management gave a presentation on the management of their diversified growth fund and on 5 March 2019, KBI Global Investors and BlackRock both gave presentations on their equity funds.

A group that includes Pension Fund Committee, Pension Board and officer representation undertakes an annual visit to each Fund Manager in April each year. The Fund Managers also 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 Councillor and Senior Employee remuneration can be found in the accounts of Shetland Islands Council.

Pension Fund Outlook

The investment strategy review is well underway and will be concluded during 2019/20. The investment strategy review will assess and quantify the risk and identify whether any refinements could better align the investment strategy with the Pension Fund's objectives.

A Shetland Islands Council Pension Fund website has been created and is now live. This is an off-the-shelf package supplied by Hymans Robertson and tailored to suit the Shetland Islands Council Pension Fund. Several of the other 11 Scottish Pension Funds are also using this package.

The website can be found at www.shetlandpensionfund.org

During 2018/19, the Scottish Scheme Advisory Board commissioned a national consultation about the structure of the Scottish LGPS, which was put before the Pension Fund Committee and the Pension Board. The consultation aimed to establish the views of employer and employee representatives on whether the SLGPS can be improved by altering the structure of the scheme. Four options were proposed:

- to retain the current structure with 11 Local Authority Pension Funds;
- to promote co-operation in investing and administration among the 11 funds;
- to pool investments among the 11 funds; and

- to merge the 11 funds into one or more funds.

Shetland Islands Council Pension Fund responded to the consultation with a view to retain the current structure of 11 funds.

Following the end of contracted out employment on 5 April 2016, all registered pension schemes who permitted members to opt out of the State Pension Scheme required to participate in a national reconciliation exercise with HMRC. This exercise is now near completion with Shetland Islands Council Pension Fund having reconciled some 7,000 member records.

On 5 March 2019, The Pension Fund Committee and Pension Board approved the introduction of a training policy for all members of the Pension Fund Committee and Pension Board, and the senior management team. This is to ensure that those responsible for governance have the appropriate levels of knowledge and skills. Failure to comply with the training policy could result in removal of individuals from the relevant committee/board.

The 2019/20 budget for the Pension Fund was approved on 5 March 2019. It shows a net income of £6.167m. 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	**2019/20 Approved Budget £000**
Employee Costs	270
Operating Costs	184
Investment Expenses	1,711
Benefits Payable	10,602
Transfer Out	550
Lump Sums	2,520
AVC Out	650
Total Expenditure	**16,487**
Contibutions Received	(18,778)
Investment Income	(2,776)
Transfer In	(450)
AVC In	(650)
Total Income	**(22,654)**
Net Income	**(6,167)**

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Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
25 September 2019

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Jamie Manson, CPFA
Executive Manager – Finance
25 September 2019

....
Maggie Sandison
Chief Executive
25 September 2019

Annual Governance Statement

Introduction

This Statement sets out the governance arrangements for the Shetland Islands Council Pension Fund.

Administering Authority

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

Regulatory Framework

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

The Council manages the Pension Fund under the terms of The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended). The objectives of the Pension Fund are discharged through the Pension Fund Committee. The Administering Authority is assisted in its duties by the Pension Board.

Financial transactions are conducted in compliance with the Council's Financial Regulations.

The Pension Fund is invested in compliance with the Council's Statement of Investment Principles.

Scope of Responsibility

The Council is responsible for ensuring that the Pension Fund:

- conducts business in accordance with the law and appropriate standards;
- is safeguarded and properly accounted for; and
- is invested and utilised economically, efficiently and effectively.

In discharging these responsibilities, Council members and staff are responsible for implementing effective arrangements for governing the affairs of the Pension Fund. Considerable work has been undertaken in relation to improving the financial governance framework and ensuring that the Council's arrangements comply with the regulations and the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The management of the Pension Fund is a service in its own right, governed by a suite of appropriate management arrangements, such as:

- appropriate strategic investment policies (such as the Funding Strategy Statement and Statement of Investment Principles);
- service planning arrangements;
- staff time allocations, appropriate to the scale of the Pension Fund;
- performance management arrangements, especially for Pension Fund investments and customer responsiveness;
- systems of internal control to safeguard assets and ensure best value;
- engagement with stakeholders and clear policy on representative roles and responsibilities;
- the Annual Governance Statement, reviewed regularly;
- maintaining a risk register and business continuity plans;
- support for cash and treasury management;
- training plans; and
- independent and objective scrutiny.

To this end, the Pension Fund is managed within the overall governance arrangements of Shetland Islands Council.

Governance Framework

The governance framework consists of the systems, processes, cultures and values by which the Pension Fund is directed and controlled. It describes the way in which staff and representatives inform all the stakeholders and ask for their views on any key issues. It is important to monitor the achievements of the Pension Fund, particularly with regard to the long-term investment strategy. From a service perspective, as with other service areas, there is a need to ensure that the service is delivered efficiently and effectively and in line with best practice.

Critical to the success of a well-managed Pension Fund is appropriate internal control arrangements. The systems of internal financial control are intended to ensure that:

- assets are safeguarded;

- transactions are authorised and properly recorded; and
- material errors or irregularities are either prevented or detected within a reasonable timescale.

The system is based on a framework of skilled staff who are aware of their responsibilities, good management information, financial regulations and effective systems and procedures.

Within Shetland Islands Council, there is a need to focus on the controls required to ensure clear separation of duties, due to the small number of staff directly employed to work on the Pension Fund. The Pension Fund relies on the same systems of internal control as those in place for Shetland Islands Council (which are internally audited and assessed on an annual basis).

The effective arrangements include:

- an appropriate level of knowledge for Pension Fund Committee and Pension Board members to ensure that they have adequate knowledge to oversee the governance of the Pension Fund business;
- clear objectives, good decision making at committee level, clear delegations to committee and staff, with appropriate, independent scrutiny of decision making and performance;
- a clear set of objectives for the Pension Fund, as described in the Funding Strategy Statement and Investment Principles;
- good performance monitoring arrangements, with committee members being able to directly question those responsible for all aspects of the business on a regular basis;
- a clear statement of risk (risk register), combined with effective risk management arrangements;
- an annual review of compliance against regulation, guidance and best practice arrangements;
- the Monitoring Officer ensuring compliance with regulation and guidance;
- clear monitoring arrangements;
- compliance with LGPS Investment Regulations;
- compliance with the CIPFA / Myners investment principles;
- appropriate custodian arrangements for investments;
- codes of conduct to support good relationships between committee members and staff who support the work of the Pension Fund;
- a demonstrable best value service, including good use of benchmarking data on the cost and quality of service provided; and
- effective internal control arrangements, including appropriate segregation of duties for the Pension Fund staff.

The governance framework cannot eliminate all risks of failure to meet policy objectives. An effective framework can, however, provide a reasonable (but not absolute) assurance of effectiveness.

Review of Effectiveness

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

The Pension Fund approaches this with reference to the Council and its approach. This considers different layers of assurance, namely management assurance both internally through the Council and externally through the group entities; the assurance and recommendations provided by internal audit; external audit and other external scrutiny reports; and self-evaluation compliance.

Management Assurance

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 2018/19, no areas of weakness or concern were raised.

In relation to the effectiveness of the Council's arrangements 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; the Administering Authority being supported by the Pension Board. The Audit Committee remains responsible for ensuring the effectiveness of the internal audit function and also 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 checked and scrutinised. As well as an annual audit plan, the Committee can request one-off reviews to investigate a particular issue if necessary. The Council's Chief Internal Auditor reports directly to the Council.

Assurance from Internal Audit

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 Plan, based on the approved Audit Strategy, based on the Audit Universe and an annual assessment of the known and potential risks.

External Audit and Other External Scrutiny

Each year, the external auditors assess the design and implementation of relevant internal controls in operation within the Council.

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.

Investments

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 company 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.

Self-Evaluation of Compliance

The Governance Compliance Statement set out below describes the extent to which the Pension Fund's governance arrangements comply with best practice 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)	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 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.	✓	Committee and Board members induction training provided during 2017/18, following the Scottish Local Government elections.
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.

Significant Governance Issues

The system of governance can provide only reasonable (and not absolute) assurance that assets are safeguarded, transactions are authorised and properly recorded, material errors or irregularities are either prevented or would be detected within a timely period and all the significant risks impacting on the achievement of our objectives have been mitigated.

Following a review of the effectiveness of the code of governance there are no significant governance issues that require to be reported.

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.

....

Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
25 September 2019

....

Maggie Sandison
Chief Executive
Shetland Islands Council
25 September 2019

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 25 September 2019.

Signed on behalf of Shetland Islands Council.

Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
25 September 2019

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 2019.

J. Manson

Jamie Manson, CPFA
Executive Manager – Finance
Shetland Islands Council
25 September 2019

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 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of 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 2018/19 (the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the fund during the year ended 31 March 2019 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 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 three 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 nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Manager – Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Executive Manager – Finance and Shetland Islands Council Pension Fund 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 Pension Fund 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.

Other information in the annual report

The Executive Manager – Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and, in doing so, consider whether the 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 there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters 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 accounts, 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.

P. Kenny

Pat Kenny, CPFA (for and on behalf of Deloitte LLP)

110 Queen Street

Glasgow

G1 3BX

United Kingdom

25 September 2019

Pension Fund Account 2018/19

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

2017/18 £000		Notes	2018/19 £000	2018/19 £000
	Dealings with members, employers and others directly involved in the scheme			
(16,917)	Contributions	6	(17,694)	
(1,422)	Transfers in from other pension funds	7	(1,503)	
(28)	Other income		(1)	
(18,367)	**Total Additions**			**(19,198)**
13,194	Benefits payable	8	14,509	
567	Payments to and on account of leavers	9	525	
49	Other payments		170	
13,810	**Total Withdrawals**			**15,204**
(4,557)	**Net (additions)/withdrawals from dealings with members**			**(3,994)**
1,876	Management expenses	10		1,917
(2,681)	**Net additions including Fund Management Expenses**			**(2,077)**
	Return on investments			
(3,407)	Investment income	11	(3,417)	
(4,232)	(Profits) and losses on disposal of investments and changes in market value of investments	14b	(31,419)	
(7,639)	**Net return on investments**			**(34,836)**
(10,320)	**Net increase in the net assets available for benefits during the year**			**(36,913)**
(449,899)	**Opening net assets of the scheme**			**(460,219)**
(460,219)	**Closing net assets of the scheme**			**(497,132)**

Net Assets Statement as at 31 March 2019

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.

2017/18 £000		Notes	2018/19 £000
	Investment Assets		
459,420	Investment Assets	12	495,465
459,420	**Total Investment Assets**		**495,465**
	Current Assets		
0	Long-term debtors	18a	54
1,647	Debtors	18	1,916
735	Bank current accounts	18	1,788
2,382	**Total Current Assets**		**3,758**
	Current Liabilities		
(470)	Sundry creditors	20	(495)
(1,113)	Benefits payable	20	(1,596)
(1,583)	**Total Current Liabilities**		**(2,091)**
460,219	**Net assets of the scheme available to fund benefits at the reporting period end**		**497,132**

J. Manson

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Jamie Manson, CPFA
Executive Manager – Finance
25 September 2019

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 (Governance) (Scotland) Regulations 2015; and
- The LGPS (Management and Investment of Funds) Regulations 2010.

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

31 March 2018	Shetland Islands Council Pension Fund	31 March 2019
11	**Number of employers with active members**	**11**
	Number of employees in scheme:	
2,976	Shetland Islands Council	2,984
382	Other employers	355
3,358	**Total**	**3,339**
	Number of pensioners/dependants	
1,702	Shetland Islands Council	1,801
149	Other employers	166
1,851	**Total**	**1,967**
	Deferred pensioners	
1,710	Shetland Islands Council	1,826
334	Other employers	367
2,044	**Total**	**2,193**
7,253	**Scheme Total**	**7,499**

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 2019. Employee contributions are topped up by employers' contributions, which are set, based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2017 set these employers' contribution rates, which range from 18.8% to 40.6% 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 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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 17.

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 2018/19 Code:

- IFRS 9: Financial Instruments;
- IFRS 15: Revenue from Contracts with Customers, including amendments and clarifications;
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses; and
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.

The Code required implementation in the financial statements from 1 April 2018. There has not been any significant impact on the Pension Fund.

Note 4: Accounting Standards Issued not 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 2019/20 Code:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- IFRIC23: Uncertainty over Income Tax Treatments
- Amendments to IFRS9 Financial Instruments: Prepayment Features with Negative Compensation

The Code requires implementation in the accounts from 1 April 2019 and there is therefore no impact on the 2018/19 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 £81m. A 0.5% increase in salary increase rate assumption would increase the value of liabilities by approximately £13m, and a 0.5% increase in pension increase rate assumption would increase the liability by approximately £62m.

Note 6: Contributions Receivable

By category:

31 March 2018 £000		31 March 2019 £000
(12,941)	Employers - normal	(13,481)
(86)	Employers - augmentation	(203)
(3,890)	Members - normal	(4,010)
(16,917)	**Total**	**(17,694)**

By authority:

31 March 2018 £000		31 March 2019 £000
(14,495)	Administering authority	(15,356)
(135)	Scheduled bodies	(128)
(2,287)	Admitted bodies	(2,210)
(16,917)	**Total**	**(17,694)**

Note 7: Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 March 2018 £000		31 March 2019 £000
(1,422)	Individual transfers in	(1,503)
(1,422)	**Total**	**(1,503)**

The Pension Fund received 42 transfers in during 2018/19 with an average value of £35,781, compared to 46 transfers in during 2017/18 with an average value of £30,903.

Note 8: Benefits Payable

By category:

31 March 2018 £000		31 March 2019 £000
10,006	Pensions	10,807
2,965	Commutation and lump sum retirement benefits	3,093
223	Lump sum death benefits	609
13,194	**Total**	**14,509**

By authority:

31 March 2018 £000		31 March 2019 £000
12,029	Administering authority	12,889
191	Scheduled bodies	129
974	Admitted bodies	1,491
13,194	**Total**	**14,509**

Note 9: Payments to and on Account of Leavers

31 March 2018 £000		31 March 2019 £000
40	Refunds to members leaving service	32
527	Individual transfers	493
567	**Total**	**525**

Note 10: Management Expenses

31 March 2018 £000		31 March 2019 £000
310	Administration Expenses	386
83	Oversight and Governance Expenses	38
	Investment Management	
1,418	Management Fees	1,425
33	Performance Fees	33
32	Custody Fees	35
1,876	**Total**	**1,917**

Note 10a: External Audit Costs

31 March 2018 £000		31 March 2019 £000
29	Payable in respect of external audit	29
29	**Total**	**29**

Note 11: Investment Income

31 March 2018 £000		31 March 2019 £000
(3,042)	Pooled investment vehicles	(2,759)
(5)	Interest on cash deposits	(9)
(360)	Other	(649)
(3,407)	**Total**	**(3,417)**

Note 12: Investments

31 March 2018 Restated £000		Fair Value As at 31 March 2019 £000
171,580	Managed Funds	183,335
197,989	Unit Linked Insurance Policies	214,098
39,157	Fixed income unit trusts	39,425
48,267	Pooled property unit trusts	52,367
203	Unitised Liquidity Fund	1,952
0	Property Debt	205
2,116	Cash deposits	4,076
108	Property income due	7
459,420	**Total investment assets**	**495,465**

The 31 March 2018 Investments notes were restated to reflect the correct categorisation of the Unitised Liquidity Fund. The overall totals of the investments have not changed.

Note 12a - Reconciliation of movements in investments

	Market Value at 1 April 2018 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2019 £000
Investment Assets:					
Pooled funds - managed funds	171,290	0	(1)	11,655	182,944
- unit linked insurance policies	197,989	0	(2,992)	19,101	214,098
Fixed income unit trusts	39,157	764	0	(496)	39,425
Pooled property unit trusts	48,267	5,360	(2,417)	1,157	52,367
Unitised Liquidity Fund	203	0	0	2	205
Property Debt	0	1,952	0	0	1,952
Total Pooled Investment Vehicles	**456,906**	**8,076**	**(5,410)**	**31,419**	**490,991**
Other investment balances:					
Diversified Growth income due	121				126
Fixed income due	169				265
Property income due	108				7
Cash income due	2,116				4,076
Net investment assets	**459,420**				**495,465**

Comparative movements in 2017/18 Restated	Market Value at 1 April 2017 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2018 £000
Investment Assets:					
Pooled funds - managed funds	172,375	78,941	(77,744)	-2,282	171,290
- unit linked insurance policies	194,032	0	(37)	3,994	197,989
Fixed income unit trusts	38,019	701	0	437	39,157
Pooled property unit trusts	42,889	4,646	(1,347)	2,079	48,267
Unitised Liquidity Fund	1,172	0	(973)	4	203
Property Debt	0				
Total Pooled Investment Vehicles	**448,487**	**84,288**	**(80,101)**	**4,232**	**456,906**
Other investment balances					
Diversified Growth income due	0				121
Fixed income due	187				169
Property income due	237				108
Cash income due	46				2,116
Net investment assets	**448,957**				**459,420**

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.

Note 12b - Analysis of Pooled Investment Vehicles

As at 31 March 2018 £000	Additional analysis	As at 31 March 2019 £000
95,995	Managed Funds	102,381
197,989	Unit Linked Insurance Polices	214,098
75,295	Diversified Growth	80,562
39,157	Alternative Credit	39,425
47,770	Pooled property unit trust (UK)	52,004
498	Pooled property unit trust (Overseas)	364
0	Unitised Liquidity Fund	205
0	Property Debt	1,952
456,704	**Total Pooled Investment Vehicles**	**490,991**

Note 12c - Analysis by Fund Manager

Market Value 31 March 2018			Market Value 31 March 2019	
£000	%		£000	%
192,386	42	BlackRock	211,314	43
56,297	12	Schroders	61,391	12
75,417	16	Newton Asset Management	80,689	16
95,994	21	Kleinwort Benson	102,381	21
39,326	9	M & G Investments	39,690	8
459,420	**100**	**Total investment assets**	**495,465**	**100**

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

Market Value 31 March 2018			Market Value 31 March 2019	
£000	%		£000	%
83,049	18	Aquila Life UK equity index	88,389	18
39,157	9	M & G Alpha Opp Fd AGBP	39,425	8
95,994	21	KBI 1 Dividend Plus	102,381	21
75,295	16	Newton Real Rtrn X ACC NAV	80,562	16
109,327	24	Aquila Life World EX UK Fund Series 1	122,914	25

Note 13: 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 following table 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. The Pension Fund has no Level 3 investments.

As at 31 March 2018 £000	Fair value through profit and loss	As at 31 March 2019 £000
2,515	Level 1	4,474
456,905	Level 2	490,991
459,420	**Net Investment assets**	**495,465**

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.

Description of Asset	Valuation hierarchy	Basis of valuation	Observable / unobservable inputs	Key sensitivities affecting valuations
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled investments - overseas unit trusts and property funds	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

Note 14: Financial Instruments

Note 14a - 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 2018 (restated)				As at 31 March 2019		
Fair value through profit and loss £000	Receivables £000	Financial liabilities £000		Fair value through profit and loss £000	Receivables £000	Financial liabilities £000
			Financial assets			
			Pooled funds			
171,580	0	0	- managed funds	183,209	0	0
197,989	0	0	- unit linked insurance policies	214,098	0	0
39,157	0	0	Fixed income unit trusts	39,425	0	0
48,267	0	0	Pooled property unit trusts	52,367	0	0
203	0	0	Unitised liquidity funds	204	0	0
0	0	0	Property debt	1,952	0	0
0	0	0	Diversified growth	127	0	0
2,116	735	0	Cash	4,076	1,788	0
108	0	0	Property income due	7	0	0
0	1,647	0	Debtors	0	1,916	0
459,420	**2,382**	**0**	**Total Financial assets**	**495,465**	**3,704**	**0**
			Financial liabilities			
0	0	(1,583)	Creditors	0	0	(2,091)
0	**0**	**(1,583)**	**Total Financial liabilities**	**0**	**0**	**(2,091)**
459,420	**2,382**	**(1,583)**	**Total**	**495,465**	**3,704**	**(2,091)**

Note 14b - Net gains and losses on financial instruments

As at 31 March 2018 Restated £000	Financial assets	As at 31 March 2019 £000
(4,232)	Fair value through profit and loss	(31,419)
(4,232)	**Total**	**(31,419)**

Note 14c - Value of financial instruments

As at 31 March 2018 Restated		Financial assets	As at 31 March 2019	
Book value £000	Market value £000		Book value £000	Market value £000
339,527	457,304	Fair value through profit and loss	344,170	491,389
339,527	**457,304**	**Total**	**344,170**	**491,389**

Note 15: 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 2018/19 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	16.6%
Overseas Equities	16.9%
Property	14.3%
Cash	0.5%
Diversified Growth	12.5%
Alternative Credit	7.3%

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 2019 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	4,281	0.50%	4,302	4,260
Investment portfolio assets:				
UK Equities	88,389	16.6%	103,062	73,716
Global Equities (ex UK)	225,294	16.9%	263,369	187,219
Property	57,122	14.3%	65,290	48,954
Diversified Growth	80,689	12.5%	90,775	70,603
Alternative Credit	39,690	7.3%	42,587	36,793
Total assets	**495,465**		**569,385**	**421,545**

Asset Type (Restated)	Value as at 31 March 2018 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	2,319	0.50%	2,331	2,307
Investment portfolio assets:				
UK Equities	83,049	16.8%	97,001	69,097
Global Equities (ex UK)	205,321	17.9%	242,073	168,569
Property	53,988	14.3%	61,708	46,268
Diversified Growth	75,417	12.6%	84,920	65,914
Alternative Credit	39,326	6.7%	41,961	36,691
Total assets	**459,420**		**529,994**	**388,846**

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

31 March 2018 Restated £000		31 March 2019 £000
	Asset type	
2,319	Cash and cash equivalents	4,281
735	Cash balances	1,788
39,157	Fixed income unit trusts	39,425
42,211	**Total**	**45,494**

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 2019 £000	Change in year in the net assets available to pay benefits +100 BPS £000	-100 BPS £000
Cash and cash equivalents	4,281	43	-43
Cash balances	1,788	18	-18
Fixed income unit trusts	39,425	394	-394
Total change in assets available	**45,494**	**455**	**-455**

Asset Type	Carrying amount as at 31 March 2018 £000	Change in year in the net assets available to pay benefits +100 BPS £000	-100 BPS £000
Cash and cash equivalents	2,319	23	-23
Cash balances	735	7	-7
Fixed income unit trusts	39,157	392	-392
Total change in assets available	**42,211**	**422**	**-422**

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.

The following table summarises the Pension Fund's currency exposure as at 31 March 2019 and as at the previous period end.

31 March 2018 £000		31 March 2019 £000
	Asset type	
205,321	Pooled Funds - overseas equities	225,294
39,326	Pooled Property Unit Trusts - overseas	39,690
0	Diversified Growth Fund	127
244,647	**Total**	**265,111**

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 2019 £000	Change to net assets available to pay benefits +10.0% £000	-10.0% £000
Pooled Funds - overseas equities	225,294	247,823	202,765
Pooled Property Unit Trusts - overseas	39,690	43,659	35,721
Diversified Growth Fund	127	140	114
Total change in assets available	**265,111**	**291,482**	**238,486**

Asset Type	Carrying amount as at 31 March 2018 £000	Change to net assets available to pay benefits +10.0% £000	-10.0% £000
Pooled Funds - overseas equities	205,321	225,853	184,789
Pooled Property Unit Trusts - overseas	39,326	43,259	35,393
Total change in assets available	**244,647**	**269,112**	**220,182**

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 2019 was £6.069m (31 March 2018: £3.054m). This was held with the following institutions:

31 March 2018 Restated £000		31 March 2019 £000
	Fund manager deposits	
2,309	Schroders cash	4,270
10	BlackRock cash	11
	Bank current accounts	
735	Bank of Scotland Plc	1,788
3,054	**Total**	**6,069**

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 2019, the value of illiquid assets was £57.1m, which represented 11.5% of the Pension Fund assets (31 March 2018: £54.0m, which represented 11.8% 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 16: Funding Arrangements

In line with the Local Government Pension Scheme (Scotland) Regulations 2014 (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 2017.

The funding policy is set out in the Pension Fund's Funding Strategy Statement (FSS), dated February 2018.

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 2017. This valuation revealed that the Pension Fund's assets, which at 31 March 2017 were valued at £450m, were sufficient to meet 90% (£333m and 92% at 31 March 2014 valuation) of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £51m (2014 valuation: £30m).

The common rate of contribution payable by each employing authority under regulation 32(4)(a) of the 2014 Regulations for the period 1 April 2018 to 31 March 2021 is 22.1% 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 2018 to 31 March 2021 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 each of the three years.

Copies of the 2017 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 valuation approach recognises the uncertainties inherent in the valuation process. The actual cost of future benefits is unknown, due to the long time period. The first process in calculating the valuation is to set a funding target, which defines the target amount of assets to be held to meet future cashflows. Next, a time horizon is set over which the funding target is to be reached. Finally, a contribution is set to give a sufficiently high likelihood to meet the funding target over the time horizon. The calculations separately identify past service and future service costs.

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 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 2017 market value.

The key financial assumptions adopted for the 2017 valuation were as follows:

Financial assumptions	% per annum
Discount rate	3.5%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.4%

Mortality assumptions

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were based on the Fund's VitaCurves. An allowance for future improvements in mortality based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% per annum. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Mortality assumption at age 65	Males	Females
Current Pensioners	22.1 yrs	24.0 yrs
Future Pensioners	23.9 yrs	26.1 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 17: 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 16). 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 2019 was £710m (31 March 2018: £622m). 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 2017.

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:

31 March 2018 % p.a.	Year ended	31 March 2019 % p.a.
2.4	Inflation/pension increase rate	2.5
3.0	Salary increase rate	3.1
2.7	Discount rate	2.4

Note 18: Current Assets

31 March 2018 £000		31 March 2019 £000
	Debtors:	
324	Contributions due - employees	452
1,104	Contributions due - employers	1,463
163	Transfer values receivable	0
3	Sundry debtors	1
53	Prepayments	0
735	Bank current accounts	1,788
2,382	**Total**	**3,704**

Note 18a: Long Term Debtor

31 March 2018 £000		31 March 2019 £000
	Long Term Debtors	
0	Reimbursement of lifetime tax allowance	54
0	**Total**	**54**

Note 19: Unfunded Pension

31 March 2018 £000		31 March 2019 £000
695	Added years pension	718

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 20: Current Liabilities

31 March 2018 £000		31 March 2019 £000
(470)	Sundry creditors	(495)
(1,113)	Benefits payable	(1,596)
(1,583)	**Total**	**(2,091)**

Note 21: Contingent Liabilities

McCloud Judgement

There is still uncertainty over the impact of the McCloud judgement which came about after two employment tribunal cases were brought against the government in relation to the reformed 2015 public service pension schemes.

In the unfunded schemes, transitional protection enabled some members to remain in the pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The Court of Appeal ruled that the transitional protections gave rise to unlawful discrimination. The legal process is ongoing with the Government currently seeking permission to appeal the ruling of the Court of Appeal. It is therefore not possible to quantify at this stage the impact that this may have.

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. There is insufficient data at present to estimate reliably the impact this will have on scheme liabiltiies.

Note 22: Additional Voluntary Contributions

31 March 2018 £000		31 March 2019 £000
5,317	Prudential	5,268
45	Equitable Life	47
5,362	**Total**	**5,315**

AVC contributions of £0.649m were paid directly to Prudential during the year (2017/18: £0.708m).

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 23: 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 £0.395m (2017/18: £0.363m) 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 £0.033m (2017/18: £0.033m) 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 £10.807m (2017/18: £10.006m). 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 £11.903m to the Pension Fund (2017/18: £11.185m).

Governance

Four 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
Allison Duncan (until 28 June 2018)
Stephen Leask
Robbie McGregor
George Smith
Theodore G C Smith
Ryan Thomson
Emma Louise MacDonald
Ian Scott
Pension Board Membership
Malcolm Bell
John Fraser
Amanda Hawick

All Committee and Board members are remunerated by Shetland Islands Council.

Key management personnel also includes the Section 95 Officer of Shetland Islands Council; the Executive Manager – Finance. A recharge is made to the Pension Fund each year to reflect the cost of time spent. For 2018/19 this amounted to £0.021m (2017/18: £0.021m).

Note 24: 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 2019	**710**	**710**
Decrease in value during 2018/19	88	88
Balance at 31 March 2018	**622**	**622**
Increase in value during 2017/18	(71)	(71)
Balance at 31 March 2017	**693**	**693**

Note 25: 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 16. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 26: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 25 September 2019. 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 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

On 10 April 2019 EU leaders agreed to an extension of article 50 which may delay the date the UK will exit the EU until 31 October 2019. Whilst there is little agreement on the terms of a final exit deal it is likely that there will be long-term and short-term ramifications of the decision. The Trustees continue to monitor progress carefully and are taking appropriate professional advice on the expected impact to the investment portfolio.

Note 27: Accounting Policies

Pension Fund account - revenue recognition

A Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accrual basis at the percentage rate recommended by the Pension Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain costs are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid will be classed as current financial assets. Amounts not due until future years are classed as long-term financial assets.

B Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Pension Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 7 and 9).

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

C Investment income

- **Interest income** is recognised in the Pension Fund account as it accrues.
- **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.

The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the Council's costs, representing management time spent by officers on investment management, is charged to the Pension Fund in accordance with Council policy.

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.

E Taxation

The Pension 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 the investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Pension Fund expense as it arises.

F Management expenses

All costs relating to staff of the pension administration team are charged direct to the Pension Fund. Associated management, accommodation and other overheads are apportioned to the Pension Fund in accordance with Council policy.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

One of the investment managers invests using a fund of funds approach and within these unit trusts, managers levy charges.

Any fees due but unpaid are disclosed in the net assets statement as current liabilities.

Net assets statement

G Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Pension Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the value of the asset are recognised by the Pension Fund.

The values of investments shown in the net assets statement are outlined in the following paragraphs.

H Pooled investment vehicles

These are valued at closing bid price if both bid and offer prices are published; or if single priced, at closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income, which is reinvested in the Pension Fund, net of applicable withholding tax.

I Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the market rates at the date of transaction. End-of-year market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchase and sales outstanding at the end of the reporting period.

J Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

K Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual/ a triennial basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, 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 17).

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 22)

M Contingent Liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

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

Appendix 1:

Actuarial Statement for 2018/19

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 (FSS), dated March 2018. 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. Asset-liability modelling has been carried out which demonstrates 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 14 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £450 million, were sufficient to meet 90% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £51 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 2018 to 31 March 2021 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 2017 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 2017 valuation were as follows:

Financial assumptions	31 March 2017
Discount rate	3.5%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.4%

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 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.0 years
Future Pensioners*	23.9 years	26.1years

*Currently aged 45

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been positive asset returns over the 2 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green FFA
For and on behalf of Hymans Robertson LLP
14 May 2019

Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB