

Pension Fund Unaudited Annual Report and Accounts **2023/24**



SHETLAND
ISLANDS COUNCIL

Table of Contents

Management Commentary	1
Annual Governance Statement.....	13
Statement of Responsibilities for the Statement of Accounts	18
Pension Fund Account for year ended 31 March 2024	19
Net Assets Statement as at 31 March 2024.....	20
Note 1: Description of Pension Fund	21
Note 2: Basis of Preparation	23
Note 3: Accounting Standards Issued not Adopted.....	23
Note 4: Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty	24
Note 5: Critical judgements in Applying Accounting Policies	24
Note 6: Contributions Receivable	25
Note 7: Transfers in from Other Pension Funds.....	25
Note 8: Benefits Payable	25
Note 9: Payments to and on Account of Leavers	25
Note 10: Management Expenses.....	26
Note 10a – Investment Management Expenses	26
Note 11: External Audit Costs.....	27
Note 12: Investment Income	27
Note 13: Investments.....	27
Note 13a - Reconciliation of movements in investments	28
Note 13b - Analysis by Fund Manager.....	29
Note 14: Fair Value Hierarchy.....	30
Note 14a – Reconciliation of fair value measurements within Level 3.....	31
Note 15: Financial Instruments	31
Note 15b - Net gains and losses on financial instruments.....	33
Note 15c - Value of financial instruments.....	33
Note 16: Nature and Extent of Risks Arising from Financial Instruments	33
Note 17: Funding Arrangements.....	38
Note 18: Actuarial Present Value of Promised Retirement Benefits	40
Note 19: Changes in Actuarial Value of promised Retirement Benefits	40
Note 20: Current Assets	40
Note 20a: Long Term Debtor	40
Note 21: Unfunded Pension.....	40
Note 22: Current Liabilities	41
Note 23: Contingent Liabilities	41
Note 24: Additional Voluntary Contributions.....	42
Note 25: Related Party Transactions	42
Note 26: Events after the Reporting date.....	43
Note 27: Accounting Policies	43

Management Commentary

Management Structure

Administering Authority	Shetland Islands Council Town Hall Lerwick Shetland ZE1 0HB
Fund Custodian	The Northern Trust Company
Investment Advisor	Isio
Investment Managers	Blackrock Schroders KBI Global Investors Limited IFM Baillie Gifford Permira
Fund Actuary	Hymans Robertson LLP
Banker	Bank of Scotland
AVC Providers	Prudential Equitable Life (closed to new members)
Independent Auditor	Audit Scotland
Website	www.shetlandpensionfund.org

This is Shetland Islands Council Pension Fund’s (the ‘Pension Fund’) Annual Report and Accounts for the year ended 31 March 2024. The purpose of the Management Commentary is to present an overview of the Pension Fund’s performance during the financial year 2023/24 and to help readers understand the Pension Fund’s financial position at 31 March 2024. In addition, it outlines the main uncertainties facing the Pension Fund for the financial year 2023/24 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 dependants of a range of Scheduled and Admitted bodies within Shetland.

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

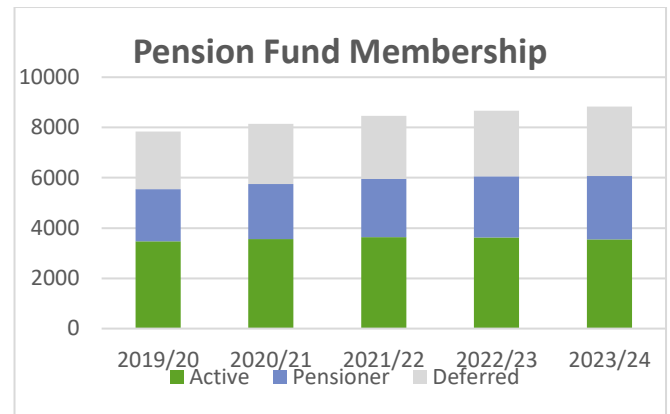
- the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended);
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

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

Membership

Membership of the Pension Fund comprises:

Active Members	are employees who currently contribute to the LGPS.
Retired Members	are in receipt of a pension, including spouses or dependants in receipt of a pension in respect of a former member.
Deferred Members	are former active members who have elected to retain their rights in the LGPS until they become payable



Employers with active members at 31 March 2024

Scheduled Bodies:

- Shetland Islands Council
- Orkney & Shetland Valuation Joint Board

Admitted Bodies:

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

Pension Fund Purpose and Objectives

The Pension Fund’s primary purpose is to provide for scheme members’ pension and lump sum benefits on their retirement, or for their dependants on death before or after retirement. The Pension Fund receives contributions from employees and employers which are invested in order to pay out defined benefits, in line with LGPS regulations. In order to achieve this, the Pension Fund seeks to:

- secure and maintain sufficient resources to meet all liabilities as they fall due,
- mitigate the risk of failing to meet these liabilities, through an Investment Strategy specifically tailored to the Pension Fund’s requirements,
- maximise investment returns within acceptable and reasonable parameters,
- provide stability in the level of employers’ contribution rates, and,

- become fully funded by 2027. This means that the Pension Fund would be able to pay all liabilities due at that time and at any time in the future.

The Pension Fund's Investment Strategy is therefore central to achieving these objectives.

Investment Strategy

The Pension Fund last reviewed its investment strategy in 2021/22. The Pension Fund Committee approved the Investment Strategy on 9 February 2022. <https://coins.shetland.gov.uk/agenda.asp?meetingid=7151>

The following table shows the approved Investment Strategy:

Asset Class	Fund Manager	Strategic Allocation	Performance Objective (Net of Fees)	Benchmark Indices
Passive Global Equity	BlackRock	30%	Benchmark	FTSE All World Developed
Active Global Equity	Baillie Gifford	25%	Benchmark +2.0%	MSCI All Countries World Index
Active Global Equity	KBI Global Investors	15%	Benchmark +3.0%	MSCI Developed World Index
Property	Schroders	10%	Benchmark +1.0%	IPD Pooled Property
Private Credit	Permira	10%	Fixed Benchmark Return	Fixed 6-7%
Infrastructure Equity	IFM	10%	Fixed Benchmark Return	Fixed 10%

The reorganisation of the investments into the new investment strategy has continued throughout 2023/24. By the end of 2023/24 all new investment mandates were fully funded except for the private credit mandate with Permira. The funding of the private credit mandate will continue throughout 2024/25 as investment opportunities arise within the asset class.

The results of the actuarial review undertaken by Hymans Robertson in 2023/24 saw significant, positive changes to the Pension Fund's funding level and an approved reduction to employer contributions. Due to these changes the Pension Fund's investment consultants were asked to undertake a 'Health Check' of the investment strategy. This will review if the investment strategy is still appropriate for the Pension Fund's situation, as per the actuarial review. The result of this 'Health Check' will be known during 2024.

The Pension Fund's current investment portfolio has a value of £767m as at 31 March 2024, compared to £652m at the start of the year. The composition of the current investment portfolio, along with a brief description of the investment class and the specific external fund managers who manage those investments on the Pension Fund's behalf are as follows:

Equities

Equities are the main investment asset class, and currently account for 78% of the Pension Fund's investment portfolio. Equity investments are shareholdings in companies which fund managers buy and sell. Income is generated in the form of dividend payments or capital gains when shares are sold.

The Fund spreads equity investment risk by investing with three fund managers, a passive equity fund manager and two active equity fund managers. Passive equity investment tracks a specific market index (such as the FTSE 100), and the proportion and value of shares held mirrors the same index, so if the markets rise or fall so too does the value of the investment. Active equity investment involves the identification of companies that fund managers think will outperform other companies within an index, and buying shares that are expected to deliver the best dividends or increase in value.

Property

The Fund invests in property assets throughout the UK, with investments in a range of different sectors such as retail units, shopping centres, industrial units, student accommodation and offices. Investments are made into a variety of property

unit trusts and funds, which spreads the investment over a greater number of properties.

Private Credit

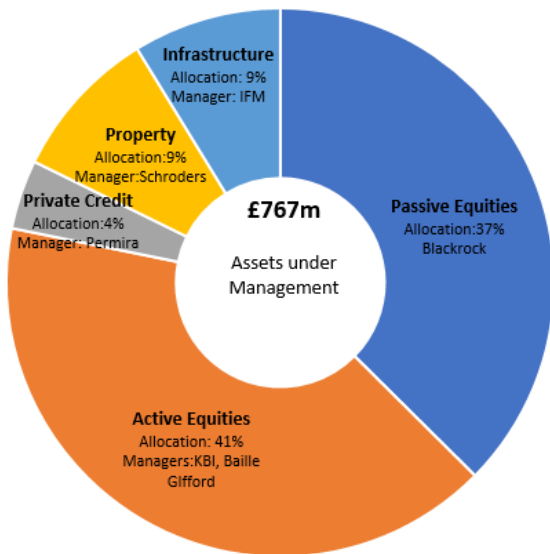
Private credit involves a fund manager giving loans to small medium sized private companies. Income is received as interest and is charged on the loans. The loans are structured with security over assets and rank very high against other company debt.

Infrastructure Equity

This is a new asset class for the Pension Fund. Investing in infrastructure equity involves taking shareholdings in large scale public or private facilities which are essential for economic activity, e.g. gas & electric, water, pipelines, toll roads, airports and seaports. Income is return based from the operations of the underlying investments, and from any asset sales.

Pension Fund Investment Portfolio: Current Allocation

Pension Fund Investment Portfolio by underlying Asset Class at 31 March 2024

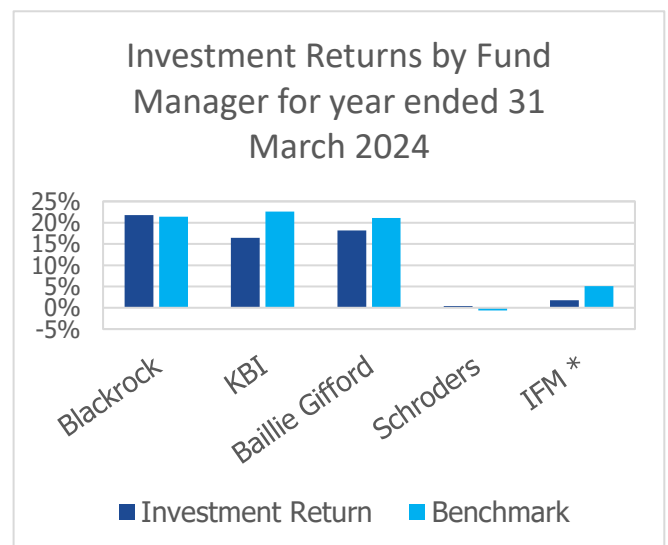
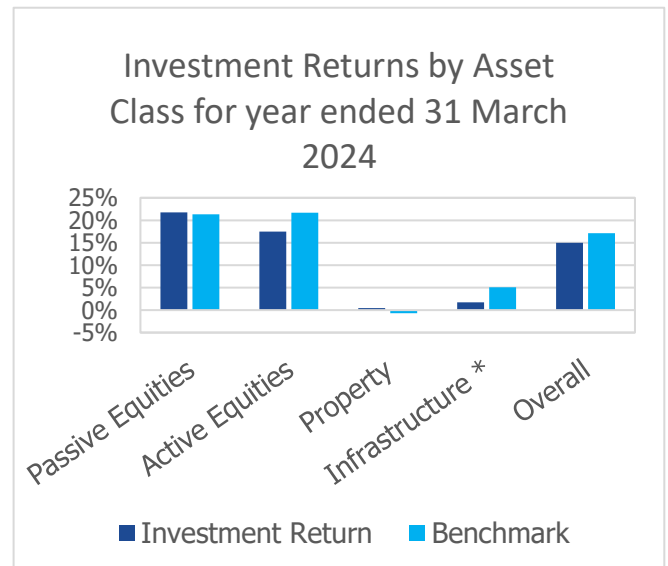
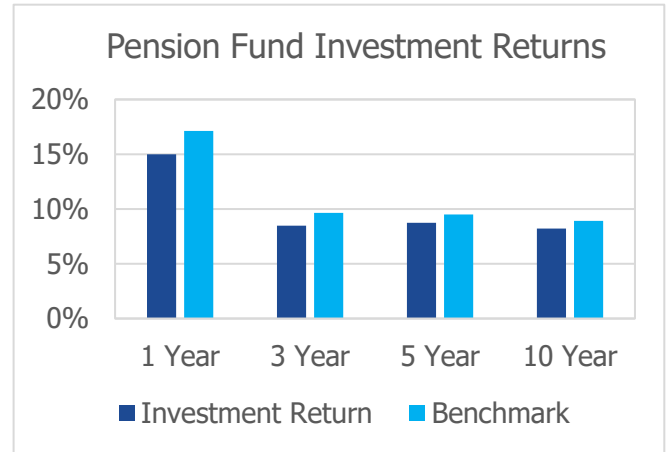


The investment markets were subdued over the first half of the financial year as inflation figures remained persistently high, and central banks tried to combat this by raising interest rates, which led to recession concerns. The ongoing conflict in Ukraine remained a global concern while also affecting energy and food supply costs

The second half of the financial year saw markets recover as inflation started falling, and central banks paused interest rate rises. Markets believed that interest rates had peaked and could possibly start easing in 2024. During October a conflict started between Gaza and Israel which is still ongoing, with

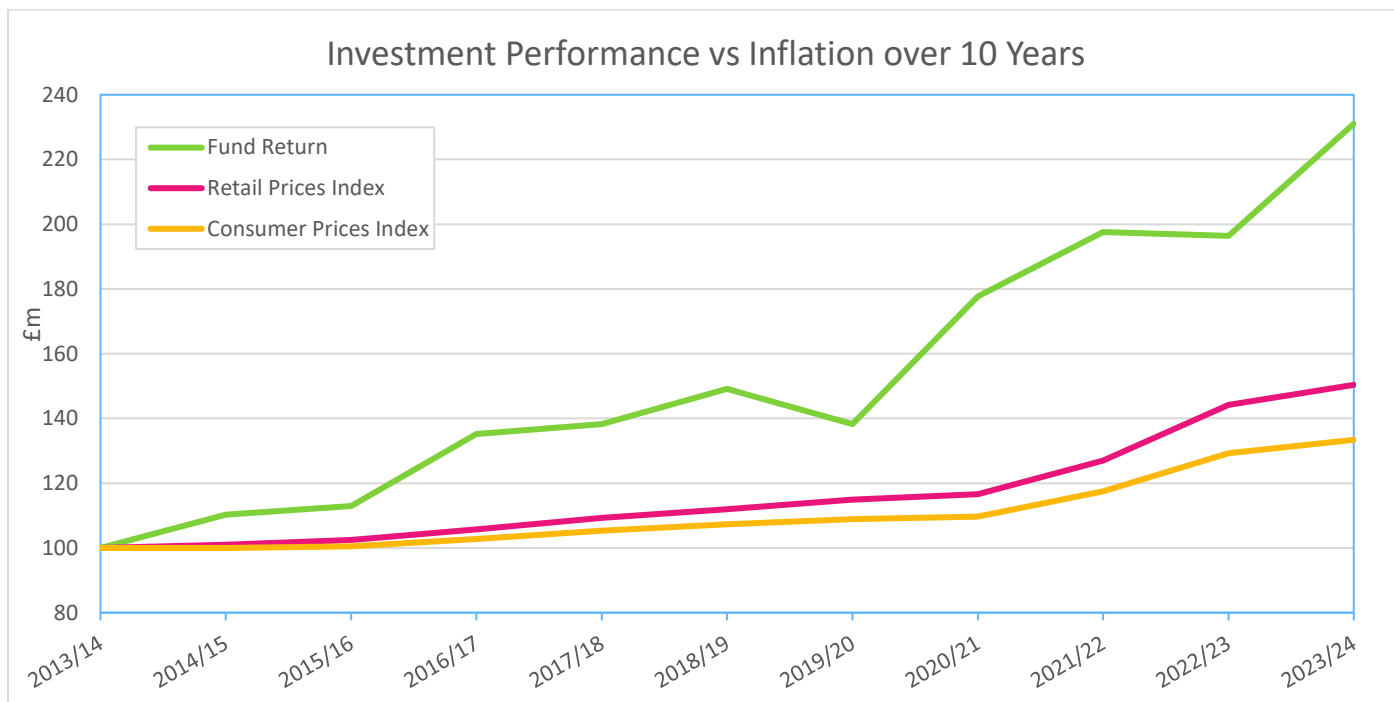
concern that it might spread to other countries. Property markets struggled due to the cost of finance for investors.

The first table shows the Pension Fund’s current short, medium and longer term investment returns. The following tables show the investment returns by asset class, and the investment returns by fund manager for the year ended 31 March 2024:



*IFM figures are for 6 months only. Figures for Permira were not available at year end.

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



Further detail about the performance of the current investment portfolio can be found in the annual investment performance report.

<https://coins.shetland.gov.uk/Agenda.asp?meetingid=7923>

Investment arrangements and policies

The Pension Fund has a mix of arrangements and policies in place to ensure the Council, as the administering authority, fulfils its fiduciary duty to maximise 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** was to achieve a 100% funding level whereby the Pension Fund’s incoming contributions equalled the benefits payable, by 2027. Beyond this point in time, the Pension Fund anticipates that benefit payments will not exceed the level of contributions made by employers and employees into the Pension Fund.

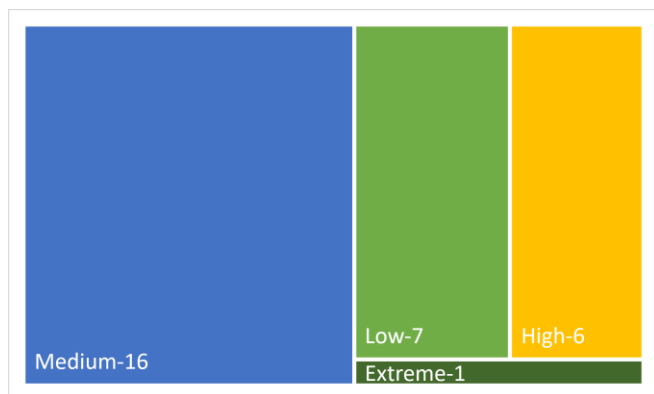
The recent 2023 Actuarial Valuation stated the Pension Fund had achieved a 120% funding level, up from 92% in 2020. This was mainly due to investment returns along with a reduced liability valuation. In light of this result employer contributions were reduced.

The current investment strategy was approved in 2022 and the main investment class was equities which was split between three fund managers to diversify equity risk. This strong equity allocation was balanced with diversification in investments such as property, infrastructure and private credit

asset categories in order to reduce the exposure to risk and volatility within acceptable parameters.

Risk

The Pension Fund maintains a risk register which is updated regularly. The latest iteration of the risk register, published in May 2023, contained a total of 30 risks, summarised by risk level in the following heat map:



<https://coins.shetland.gov.uk/Agenda.asp?meetingid=7760>

The risk register is considered at least annually and is due to be updated. On the last occasion 2 risks were removed and 2 risks were downgraded. This follows internal review processes by a range of Finance staff working with Risk Management staff within the Council. Careful husbandry of pension resources remain the key focus and management of risks facing the fund are therefore the key consideration to ensure that mitigating steps are in place to protect and grow the net pension holding. The basic function is to ensure the fund can meet its commitments on an ongoing basis so there is consideration of the liabilities position but crucially the assets held which can be influenced by member decisions.

The risk register currently contains:

- 8 low or medium operational risks,
- 11 financial risks including an extreme risk on adverse movement of bond yields, high risks on cessations and early retirement
- 5 investment risks with high risks on stock market volatility, underperformance of investments and actuarial assumptions.
- 6 Governance risk including one high risk on fund manager performance monitoring

Note 16 also details key elements of risk including market, price, interest rate, currency, credit, liquidity and refinancing risks.

The highest rated risk (extreme) to the Pension Fund is:

- adverse movement in bond yields, which could result in greater liabilities than anticipated.

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

Funding Strategy Statement

The regulations covering management of the LGPS Pension Funds require the administering authority to prepare, maintain and publish a written Funding Strategy Statement. A revised Funding Strategy Statement was adopted in March 2021, as part of the triennial valuation process. The Funding Strategy Statement was again reviewed and noted in March 2024 as part of the 2023 triennial valuation process. Details of the Funding Strategy Statement are found in Note 17: Funding Arrangements, on page 38.

The Funding Strategy Statement can be found here: <https://coins.shetland.gov.uk/Agenda.asp?meetingid=8219>

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 2023. It showed that the Pension Fund was valued at £660m and 120% funded, with a surplus of £111m. The triennial valuation includes setting the employer contribution rates for the next three years. The final contribution rates payable by individual employers vary from 19% to 31.6% depending on their specific circumstances with regards to membership and associated assets and liabilities.

Statement of Investment Principles

The Pension Fund Committee and the Pension Board meetings on 31 August 2022 approved the current

Shetland Islands Council Pension Fund Statement of Investment Principles. This statement includes administration details, the objective of the Pension Fund, types of investments, balance between different types of investment, risk, expected return on investments, realisation of investments, responsible investments, securities lending and compliance. The current portfolio of investments does not align with the specific allocations set out in the Statement of Investment Principles. This is because investments have been made on the basis of market conditions, which has resulted in a variation to the fixed allocation set out in the Statement of Investment Principles. The Pension Fund is currently carrying out a health check of its Investment Strategy following the latest results of the 2023 Actuarial Valuation which could result in changes to the allocation of asset categories within the investment portfolio. The Statement of Investment Principles was updated in August 2022 to reflect a permissible range of asset allocations rather than a fixed percentage.

The new statement of Investment Principles as approved by the pension fund committee on 31 August 2022, can be found here: <https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=28075>

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

Responsible investing

Shetland Islands Council approved a Climate Change Strategy and Action Plan in December 2023, <https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=29701>. This strategy and action plans sets out how Shetland Islands Council will work towards becoming a net zero organisation, adapt to a changing climate and influence and support the Shetland community and Pension Fund in the energy transition and in addressing climate change.

The strategy contains a number of actions outlining how the Council will align budget and spend with achieving net zero targets, which includes our investments.

Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers are expected as part of their investment process to consider all factors, including the social,

environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities.

Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle the Pension Fund will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised however that in practical terms this may not always be possible for overseas holdings. However for UK stocks all voting rights will be exercised in a positive fashion, i.e. no abstentions. The fund managers, who will act in accordance with this policy, will exercise voting.

All of the Pension Fund managers have signed up to the United Nations Principles on Responsible Investment. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and therefore must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and so better align their objectives with those of society at large.

Pension Fund managers were recently surveyed, their responses detailed their organisation's strategic climate change plans, their practical approach to assessing and targeting change, and their future plans. They related this to the current portfolio/investments of the Pension Fund and set out the processes and tools (both qualitative and analytical) they have in place to review current/future investments and the key considerations they take account of.

Competition and Markets Authority Compliance

As a result of the coming into force of the Occupational Pension Schemes (Governance and Registration)(Amendment) Regulations 2022, compliance with part 7 of the Investment Consultancy and Fiduciary Management Market

Investigation Order 2019 is now confirmed through the Annual Accounts. At the Pension Fund Committee meeting on 23 August 2023, the committee assessed their Pension Fund advisors recording a satisfaction score of 88%. The Council as the administering authority of the Shetland Islands Council Pension Fund has complied with part 7 of the investment Consultancy and Fiduciary Management Market Investigation Order 2019.

Performance Management

The Annual Accounts satisfy the requirements of 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 2023 to 31 March 2024. 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 2024. 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 the Net Asset Statement, 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 2023/24

The Pension Fund accounts present the full economic cost of providing Pension Fund services for 2023/24, this shows a net income of £108m. This differs from the draft outturn position, shown

below. The draft outturn report was presented to the Pension Fund Committee and the Pension Board on 24 June 2024:

	2023/24 Annual Budget	2023/24 Draft Outturn	2023/24 Variance under/(over)
Operational income and expenditure	£000	£000	£000
Total Expenditure	20,973	23,905	(2,932)
Total Income	(25,319)	(26,603)	1,284
Net Income	(4,346)	(2,698)	(1,648)

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 and a higher number of individuals transferring out of the scheme than anticipated. More people than anticipated also retired during 2023/24 resulting in an increase in benefits payable. Income was higher than budgeted due to an increase in contributions as a result of the pay award being higher than budgeted.

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

Administration Strategy

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

Employers must provide accurate information to the Pension Fund in a timely manner, to ensure that information provided to Fund members is also accurate and timely. The information received from employers to the Pension Fund, such as new

starters, leavers, retirements and deaths was delivered in a timely manner during 2023/24.

All employer's contributions in 2023/24 were received by the 19th of the month following deduction. One underpayment correction went through the bank after the 19th.

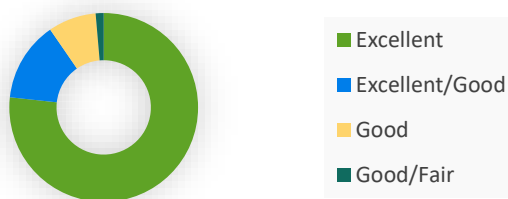
Administration Performance

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

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

Nine employer surveys were returned which indicated 92% of respondents rated the service received as excellent and 8% rated the service as good.

Member Satisfaction Survey



The chart opposite summarise the latest member satisfaction survey results, a total of 73 surveys were received. 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 2023/24:

	2023/24 Annual Budget	2023/24 Draft Outturn	2023/24 Variance under/(over)
Administration Expenses	£000	£000	£000
Staff Time Allocations	381	369	12
Supplies, Services & Systems	106	109	(3)
Printing & Publications	3	6	(3)
Total	490	484	6

The Pension Administration KPI's for 2023/24 are:

Key Performance Indicator	Target	31 March 2024			31 March 2023		
		Number	Number within target	% within target	Number	Number within target	% within target
New starts	2 months from date of joining scheme	603	588	98%	614	614	100%
Leavers	2 months from leaving scheme	437	426	97%	403	399	99%
Transfer in quotes	2 months from date of transfer quotation	50	44	88%	52	52	100%
Transfer out quotes	3 months from date of request	43	37	86%	42	42	100%
Notifying members of benefits on retirement	1 month from date of retirement	145	145	100%	157	157	100%
Retirement estimates	2 months from date of request	157	155	99%	98	94	96%
Calculation of dependants benefits	2 months from notification	28	28	100%	31	31	100%
Annual Benefits statement - to all active and deferred members	by 31 August each year	5,806	5,806	100%	5,788	5,788	100%
Contributions from employers	by 19th of month following deduction	120	120	100%	120	120	100%

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.

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. During the financial year-presentations have been received from KBI Global Investors, Baillie Gifford and Permira.

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

Membership of the Pension Board consists of trade union representatives and employer representatives, drawn from Shetland Islands Council and scheduled or admitted bodies in membership of the Pension Fund.

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. Trade union, and admitted and scheduled bodies members similarly do not receive any additional allowance for their role.

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

Looking Ahead

Triennial Valuation

The positive results from the 2023 triennial valuation which saw a new funding level of 120% has allowed a cautious 3% reduction in the Council's employer contributions for 2024/25. Due to these results the Pension Fund has initiated a "Health Check" of the investment strategy, to ensure it is still appropriate after the triennial valuation results. The results of this "Health Check" will be presented to the Pension Fund Committee and Pension Board on 24 June 2024.

The Council is also seeing a steady level of flexible retirements. This can be seen as a positive as individuals who may previously have fully retired, remain on a part time basis, and continue to contribute to their pensions, but such changes in patterns of pension uptake have to be carefully monitored.

The Fund continues to intend to invest for return and drive up the value in the funds held, with a possibility of a further lightening of the burden on employers funding levels. Increased interest rates provide a welcome level of guaranteed return, without risk, in cash holdings, but it is recognized that interest rates are expected to fall over the medium term, so investment remains the long term solution.

2024/25 Budget

The 2024/25 budget for the Pension Fund was approved on 16 April 2024. The budget anticipates the Pension Fund generating income of £24.9m and incurring total expenditure of £23.7m, resulting in net income of £1.2m. A range of assumptions and historical trends are used to inform the development of 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 at that time, but as an estimate it is liable to change throughout the year.

.....
Maggie Sandison
Chief Executive
24 June 2024

.....
Paul Fraser, CPFA
Executive Manager - Finance
24 June 2024

.....
Emma Macdonald
Leader of the Council
Chair of the Pension Fund Committee
24 June 2024

Annual Governance Statement

Introduction

This Annual Governance Statement explains how the Council, as the Administering Authority for the Shetland Islands Council Pension Fund, has complied with the principles of the CIPFA/SOLACE Framework ‘*Delivering Good Governance in Local Government*’ for the year ended 31 March 2024. It sets out the Council’s governance arrangements and systems of internal control, and concludes on their effectiveness. The arrangements put in place by the Council apply equally to the activities of the Pension Fund

Scope of responsibility

Shetland Islands Council is responsible for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council has a statutory duty to make arrangements to secure Best Value under the Local Government in Scotland Act 2003.

In discharging these overall responsibilities, the Council is responsible for establishing proper arrangements for the governance of its affairs, including the stewardship of resources at its disposal and arrangements for the management of risk.

The Council reviewed and updated its Code of Corporate Governance in August 2018 which sets out seven fundamental elements that govern how the Council conducts its business. The Code of Corporate Governance is consistent with the CIPFA/SOLACE Framework ‘*Delivering Good Governance in Local Government*’, which was published in 2016.

The Council has a system of internal controls in place designed to manage risk to a reasonable level. Internal controls cannot completely eliminate the risk of failure to achieve strategic priorities and outcomes, but they can provide a reasonable level of assurance.

The system of internal controls is regularly reviewed to identify and prioritise the risks to the achievement of the Council’s strategic priorities and outcomes, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Purpose of the Governance Framework

The governance framework consists of the systems, processes, culture and values by which the Council is directed and controlled. It enables the Council, and therefore the Pension Fund, to monitor the achievement of its strategic priorities and to consider whether those priorities have led to the delivery of appropriate, cost-effective services.

The Governance Framework

The governance framework adopted by the Council is consistent with the seven core principles of the CIPFA/SOLACE framework illustrated below:

A	<i>Behaving with integrity, demonstrating a strong commitment to ethical values and respecting the rule of law.</i>
B	<i>Ensuring openness and comprehensive stakeholder engagement.</i>
C	<i>Defining outcomes in terms of sustainable economic, social and environmental benefits</i>
D	<i>Defining the interventions necessary to optimise achievement of intended outcomes.</i>
E	<i>Developing the entity’s capacity, including the capability of its leadership and the individuals within it.</i>
F	<i>Managing risks and performance through robust internal control and strong public financial management.</i>
G	<i>Implementing good practices in transparency, reporting and audit to deliver effective accountability</i>

The governance framework has been in place for the year ended 31 March 2024 and up to the date of approval of the annual accounts.

The key elements of the Council’s governance framework include:

- the **legal powers, duties and functions** of the Council, and roles and responsibilities of the

people who take decisions on behalf of the community;

- **Scheme of Administration and Delegations**, which detail the functions that the Council has asked officers to carry out on its behalf, and the conditions they must comply with in doing so;
- **Standing Orders**, which set out the rules around how committees are run and decisions are made;
- **Financial Regulations**, setting out how the Council manages its financial affairs in accordance with good practice and statute;
- **Contract Standing Orders**, which set out the principles and rules about contracting with other parties;
- the Council's **Performance Management Framework**, which sets out how the Council sets its objectives, monitors and reports on its performance against those objectives and identifies areas for improvement;
- **Compliance** with CIPFA codes of practice, including Code of Practice on Local Authority Accounting, Treasury Management in the Public Services, and with the CIPFA code of practice on Managing the risk of Fraud and Corruption, and the Statements on the role of the head of internal audit, and on *the Role of the CFO in the Local Government Pension Scheme*.
- A **comprehensive programme of internal audit reviews** across different service areas, which provides assurance about the effectiveness of the system of internal controls and identifies areas of improvement.

The Council's suite of governance documents, including the Scheme of Administration and Delegation, Financial Regulations, Contract Standing Orders and Code of Corporate Governance can be found on the Council's [website](#).

In addition to complying with the governance framework approved by the Council, LGPS regulations require each Administering Authority to publish a Governance Compliance Statement that sets out how their governance arrangements comply with best practice issued by the Scottish Ministers. The Pension Fund's Governance Compliance Statement can be found on page 15. Where compliance does not meet the required standard, there is a requirement for Administering Authorities to set out any reasons for non-compliance in their Governance Compliance Statement.

Review of Effectiveness

The Pension Fund is responsible for ensuring the governance framework and systems of internal control remains effective. The Pension Fund conducts an annual review of the effectiveness of the overall governance framework. The review is informed by evidence from different sources:

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

i) Internal management

Administration of the Pension Fund is directly within the remit of the Director of Corporate Services and assurance has been sought from the Director in relation to the effectiveness of internal financial controls. This assurance provides the opportunity to highlight any weaknesses or areas of concern that should be considered. For 2023/24, no areas of weakness or concern were identified.

In relation to the effectiveness of the Council's arrangements with regard to its statutory officers, both the Executive Manager – Finance (Chief Financial Officer) and Executive Manager – Governance & Law (Monitoring Officer) are full members of the Council's Corporate Management Team and are in attendance at the Pension Fund Committee and Pension Board meetings to provide advice as required.

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

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

ii) Internal audit reviews

The Council provides internal audit arrangements to the Pension Fund both as a tool of management and with direct reporting to the Council's Audit Committee. The Internal Audit function operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Statement on the *Role of the Chief Internal Auditor*. Internal audit works to an approved annual internal audit plan, based on an approved audit strategy which takes into account the audit universe and an annual assessment of known and potential risks. During the year, an internal audit review of compliance with cyber security principles concluded that a reasonable level of assurance could be placed on the control environment.

iii) External audit reports

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

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

iv) Investment fund managers and the Custodian

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

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

communication and dealing arrangements. Any changes to the mandate must be agreed by both the fund management company and the Pension Fund.

Significant governance issues

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

Conclusion

Overall, it is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance arrangements and systems of internal control that operate across the Council and, by extension, the Pension Fund throughout 2023/24. We consider that the governance arrangements and internal control environment allows the identification of any significant risks which may impact on the achievement of the Pension Fund's principal objectives, and to take action (or actions) to avoid or mitigate the impact of any such risks.

Governance Compliance Statement 2023/24

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

Principle	Compliance	Comments
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	✓	The Pension Fund Committee has delegated responsibility for overseeing the management and administration of the LGPS and managing the investments of the Pension Fund.
Representatives of participating LGPS employers (scheduled and admitted bodies) and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	✓	The Pension Board, which meets concurrently with the Pension Fund Committee, includes representatives from employers (Councillors), admitted bodies (a Board Member) and scheme members (Trade Unions).
Where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	✓	The Pension Fund Committee and Pension Board meet concurrently to aid easy and open communication.
Where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	✓	The Pension Board is not a secondary committee, both the Pension Fund Committee and Pension Board meet concurrently and have access to the same agenda papers. There is therefore no need for a Pension Board member to be on the Committee.
Committee Membership and Representation		
All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
i) employing authorities (including non-scheme employers, e.g., admitted bodies); and	i) style="text-align: center;">✓	i) Representation on both Pension Fund Committee and Pension Board.
ii) scheme members (including deferred and pensioner scheme members);	ii) style="text-align: center;">✓	ii) Representation on the Pension Board.
iii) where appropriate, independent professional observers; and expert advisors (on an ad-hoc basis).	iii) style="text-align: center;">✓	iii) Professional advisors (investment fund managers, investment advisors, actuary etc.) are regularly invited to attend Pension Committee and Board meetings.
Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given opportunities to contribute to the decision-making process, with or without voting rights.	✓	Pension Board members have the same access to information, papers and training as Pension Fund Committee members. Pension Fund Committee and Board meetings are recorded and made public on the Shetland Islands Council website for those unable to attend in person.

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 following the Scottish Local Government elections. Members of the Pension Fund Committee and Pension Board attended training events during the year relating to Fund administration and investment management.
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.

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 2014), 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 certify the Annual Accounts have been approved for signature by the Pension Fund Committee at its meeting on 24 June 2024.

Signed on behalf of Shetland Islands Council.

.....
Emma Macdonald
Leader of the Council
Chair of the Pension Fund Committee
24 June 2024

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 the Annual Accounts have been approved for signature by the Pension Fund Committee at its meeting on 24 June 2024.



.....
Paul Fraser, CPFA
Executive Manager - Finance
Shetland Islands Council
24 June 2024

Pension Fund Account for year ended 31 March 2024

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

2022/23 £000		Notes	2023/24 £000	2023/24 £000
	Dealings with members, employers and others directly involved in the scheme			
(23,024)	Contributions	6	(24,769)	
(2,346)	Transfers in from other pension funds	7	(1,539)	
(4)	Other income		0	
(25,374)	Total Additions			(26,308)
17,543	Benefits payable	8	20,209	
2,188	Payments to and on account of leavers	9	1,702	
9	Other payments		6	
19,740	Total Withdrawals			21,917
(5,634)	Net (additions)/withdrawals from dealings with members			(4,391)
2,997	Management expenses	10		3,144
(2,637)	Net additions including Fund Management Expenses			(1,247)
	Return on investments			
(6,336)	Investment income	12		(8,019)
8,454	(Profits) and losses on disposal of investments and changes in market value of investments	15b		(98,253)
2,118	Net return on investments			(106,272)
(519)	Net (increase)/decrease in the net assets available for benefits during the year			(107,519)
(659,948)	Opening net assets of the scheme			(660,467)
(660,467)	Closing net assets of the scheme			(767,986)

Net Assets Statement as at 31 March 2024

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

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

As at 31 March 2023 £000	Notes	As at 31 March 2024 £000
	Investment Assets	
652,306	Investment Assets	766,656
652,306	Total Investment Assets	766,656
	Non-current Assets	
116	Long-term debtors	109
116	Total Non-current Assets	109
	Current Assets	
1,925	Debtors	2,130
8,451	Bank current accounts	1,675
10,376	Total Current Assets	3,805
	Current Liabilities	
(697)	Sundry creditors	(593)
(1,634)	Benefits payable	(1,991)
(2,331)	Total Current Liabilities	(2,584)
660,467	Net assets of the scheme available to fund benefits at the reporting year end	767,986



Paul Fraser, CPFA
Executive Manager - Finance
Shetland Islands Council
24 June 2024

Notes to the Accounts

Note 1: Description of Pension Fund

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

General

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

- the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended);
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014; and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

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

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

Membership

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

Organisations participating in the Shetland Islands Council Pension Fund include:

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

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

31 March 2023	Shetland Islands Council Pension Fund	31 March 2024
10	Number of employers with active members	10
	Number of employees in scheme:	
3,275	Shetland Islands Council	3,229
350	Other employers	318
3,625	Total	3,547
	Number of pensioners/dependants	
2,217	Shetland Islands Council	2,304
212	Other employers	224
2,429	Total	2,528
	Deferred pensioners	
2,146	Shetland Islands Council	2,259
462	Other employers	496
2,608	Total	2,755
8,662	Scheme Total	8,830

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 ended 31 March 2024. Employee contributions are topped

up by employers' contributions, which are set, based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2023 set these employers' contribution rates, which range from 19.0% to 31.6% 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 <https://pensions.gov.scot/local-government> 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 2023/24 financial year and its position at year-end as at 31 March 2024. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The accounts have been prepared on a going concern basis.

Note 3: Accounting Standards Issued not Adopted

At the date of authorisation of these financial statements, the Pension Fund has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IAS 1 (Presentation of Financial Statements) – classification of Liabilities as Current or Non-Current. Applicable for periods beginning on or after 1 April 2024. The amendments:
 - specify that an entity's right to defer settlement must exist as the end of the reporting period;
 - clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;
 - clarify how lending conditions affect classification; and
 - clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.
- Amendments to IFRS 16 (Leases) – the amendments add subsequent measurement requirements for sale and leaseback transactions. Applicable for periods beginning on or after 1 April 2024;
- Amendments to IAS 1 (Presentation of Financial Statements) – the amendments improved the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants. Applicable for periods beginning on or after 1 April 2024.
- Amendments to IAS 12 (Income Taxes) – International Tax Reform: Pillar Two Model Rules. Pillar two applies to multinational groups with a minimum level of turnover. Applicable for periods beginning on or after 1 April 2024. The amendments introduced:
 - a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and
 - targeted disclosure requirements for affected entities.
- Amendments to IAS 7 (Statement of Cash Flows) and IFRS 7 (Financial Instruments: Disclosures) - the amendments require an entity to provide additional disclosures about its supplier finance arrangements. The IASB developed the new requirements to provide users of financial statements with information to enable them to:
 - assess how supplier finance arrangements affect an entity's liabilities and cash flows; and
 - understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.
- IFRS 16 – Leases – Applicable for periods beginning on or after 1 April 2024

The Pension Fund does not expect that the adoption of the Standards listed above will have a

material impact on the financial statements in future periods.

Note 4: 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.

Assumptions are made by the Pension Fund actuary in order to calculate the Pension Fund liability. These are referenced at note 5, and summarised in note 17.

The following table highlights the approximate impact that a small change in the assumptions used would have on 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, 0.1% decrease in the real discount rate assumption would result in a decrease in the pension liability of £11m, and a 0.1% increase in salary increase rate would increase the value of liabilities by approximately £1m. A 0.1% increase in CPI inflation would increase the liability £11m, and a 1 year increase in member life expectancy would increase the liability £25m.
Level 3 investments	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 Pension Fund has investments which are currently classified as level 3 investments. The value of these investments at 31 March 2024 is £160m. Changes to this value based on assessed volatility for these classes of assets, would give a value on increase of £182m and on decrease of £139m.

Note 5: Critical judgements in Applying Accounting Policies

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years, if required. The methodology used is in line with accepted guidelines and in accordance with IAS 19.

Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 17. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 6: Contributions Receivable

By category:

31 March 2023 £000		31 March 2024 £000
(18,001)	Employers - normal	(19,399)
0	Employers - augmentation	(48)
(5,023)	Members - normal	(5,322)
(23,024)	Total	(24,769)

By authority:

31 March 2023 £000		31 March 2024 £000
(19,828)	Administering authority	(21,561)
(213)	Scheduled bodies	(216)
(2,983)	Admitted bodies	(2,992)
(23,024)	Total	(24,769)

Note 7: Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 March 2023 £000		31 March 2024 £000
(2,346)	Individual transfers in	(1,539)
(2,346)	Total	(1,539)

The Pension Fund received 55 transfers in during 2023/24 with an average value of £29,974, compared to 75 transfers in during 2022/23 with an average value of £31,285.

Note 8: Benefits Payable

By category:

31 March 2023 £000		31 March 2024 £000
13,655	Pensions	15,404
3,337	Commutation and lump sum retirement benefits	4,031
551	Lump sum death benefits	774
17,543	Total	20,209

By authority:

31 March 2023 £000		31 March 2024 £000
15,766	Administering authority	17,932
124	Scheduled bodies	257
1,653	Admitted bodies	2,020
17,543	Total	20,209

Note 9: Payments to and on Account of Leavers

31 March 2023 £000		31 March 2024 £000
35	Refunds to members leaving service	24
1,039	Individual transfers	1,676
1,114	Group transfers	2
2,188	Total	1,702

Note 10: Management Expenses

31 March 2023		31 March 2024
£000		£000
434	Administration Expenses	485
43	Oversight and Governance Expenses	139
	Investment Management expenses	
2,443	Management Fees	2,440
42	Performance Fees	45
35	Custody Fees	35
2,997	Total	3,144

Note 10a – Investment Management Expenses

2023/24	Total	Management fees	Performance related fees
	£000	£000	£000
Managed Funds	1,204	1186	18
Unit linked insurance policies	31	14	17
Private Credit	553	551	2
Infrastructure	360	356	4
Diversified growth funds	187	187	0
Fixed income unit trusts	0	0	0
Pooled Property Unit Trusts	126	122	4
Property Debt	14	14	0
Unitised Liquidity Fund	6	6	0
Cash Deposits	4	4	0
	2,485	2,440	45
Custody fees	35		
Total	2,520		

2022/23	Total	Management fees	Performance related fees
	£000	£000	£000
Managed Funds	713	699	14
Diversified growth funds	531	527	4
Fixed income unit trusts	137	137	0
Private Credit	188	187	1
Unit linked insurance policies	33	15	18
Pooled Property Unit Trusts	745	741	4
Property Debt	73	72	1
Unitised Liquidity Fund	57	57	0
Cash Deposits	8	8	0
	2,485	2,443	42
Custody fees	35		
Total	2,520		

Note 11: External Audit Costs

31 March 2023		31 March 2024
£000		£000
35	Payable in respect of external audit	37
35	Total	37

Note 12: Investment Income

31 March 2023		31 March 2024
£000		£000
(1,982)	Private equity income	(2,466)
(3,489)	Pooled investment vehicles	(2,461)
0	Managed Funds	(1,734)
0	Infrastructure	(796)
(201)	Interest on cash deposits	(376)
(664)	Other	(186)
(6,336)	Total	(8,019)

Note 13: Investments

Fair Value As at 31 March 2023		Fair Value As at 31 March 2024
£000		£000
280,410	Managed Funds	312,447
283,434	Unit Linked Insurance Policies	286,895
19,907	Private Credit	27,661
0	Infrastructure	67,147
57,726	Pooled property unit trusts	59,039
4,472	Unitised Liquidity Fund	3,081
5,602	Property Debt	6,528
634	Cash deposits	3,773
11	Property income due	85
99	Diversified growth income due	0
11	Cash income due	0
652,306	Total investment assets	766,656

Note 13a - Reconciliation of movements in investments

	Market Value at 1 April 2023 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2024 £000
Investment Assets:					
Pooled funds - managed funds	280,410	48,734	(63,529)	46,832	312,447
Unit linked insurance policies	283,434	657,572	(706,328)	52,217	286,895
Fixed income unit trusts	0	0	0	0	0
Private Credit	19,907	7,701	4	49	27,661
Infrastructure	0	66,000	440	707	67,147
Pooled property unit trusts	57,726	4,616	(3,359)	56	59,039
Unitised Liquidity Fund	4,472	856	(2,436)	189	3,081
Property Debt	5,602	421	(153)	658	6,528
Total Pooled Investment Vehicles	651,551	785,900	(775,361)	100,708	762,798
Other investment balances:					
Diversified Growth income due	99				0
Fixed income due	0				0
Property income due	11				85
Cash income due	645				3,773
Net investment assets	652,306				766,656

	Market Value at 1 April 2022 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2023 £000
Investment Assets:					
Pooled funds - managed funds	233,198	117,000	(70,000)	212	280,410
- unit linked insurance policies	301,945	0	(19,220)	709	283,434
Fixed income unit trusts	45,070	1,278	(46,682)	334	0
Private Credit	0	20,065	16	(174)	19,907
Pooled property unit trusts	65,403	4,970	(3,425)	(9,222)	57,726
Unitised Liquidity Fund	3,690	2,938	(2,191)	35	4,472
Property Debt	5,933	538	(522)	(347)	5,602
Total Pooled Investment Vehicles	655,239	146,789	(142,024)	(8,453)	651,551
Other investment balances:					
Diversified Growth income due	153				99
Fixed income due	240				0
Property income due	10				11
Cash income due	130				645
Net investment assets	655,772				652,306

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 13b - Analysis by Fund Manager

Market Value 31 March 2023			Market Value 31 March 2024	
£000	%		£000	%
283,447	44	BlackRock	286,908	37
67,928	10	Schroders	68,850	9
61,064	9	Newton Asset Management	0	0
102,774	16	KBI	116,300	15
4	0	M & G Investments	0	0
116,678	18	Baillie Gifford	196,147	26
0	0	IFM	67,147	9
20,411	3	Permira	31,304	4
652,306	100	Total investment assets	766,656	100

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

Market Value 31 March 2023			Market Value 31 March 2024	
£000	%		£000	%
104,546	16	Aquila Life UK Equity Index Fund Ser1	0	0
178,887	9	Aquila Life World EX UK Fund Series 1	0	0
0	0	Aquila Life MSCI World Fund S1	286,895	37
60,963	16	Newton Real Rtrn X ACC NAV	0	0
102,770	18	KBI 1 Dividend Plus	116,300	15
0	0	IFM loan Fund	67,147	9
116,676	27	Ballie Gifford Global Alpha Fund	196,147	26

Note 14: Fair Value Hierarchy

Asset and liability valuations have been classified into three levels according to the quality and reliability of information used to determine their fair values. Transfers between levels are recognized 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.

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
Cash and cash equivalents	Level 1	carrying value is deemed to be fair value because of the short term nature of these financial instruments	Not required	Not required
Unquoted pooled fund investments	Level 2	Average of brokers prices	Evaluated price feeds	Not required
Pooled property funds where regular trading does not take place	Level 3	Valued by investment managers on a fair value basis each year using PRAG guidance	NAV-based pricing set on a forward pricing basis	Valuations are affected by any changes to the value of the financial instrument being hedged against

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 and 3, based on the level at which the fair value is observable.

As at 31 March 2023 £000	Fair value through profit and loss	As at 31 March 2024 £000
5,117	Level 1	6,855
571,874	Level 2	599,342
75,315	Level 3	160,459
652,306	Net Investment Assets	766,656

Other unquoted and private equities	Level 3	Comparable valuation of similar companies in accordance with international Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special valuation guidance (March 2020)	-EBITDA multiple - Revenue multiple -Discount for lack of marketability - Control premium	Valuations are affected by any changes to the value of the financial instrument being hedged against
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Sensitivity of assets valued at level 3

In order to give a clearer picture of the impact on the Fund's results or financial position of potential changes and assumptions, a sensitivity analysis is shown below. This sensitivity is based on assumptions and conditions prevailing at the year-end and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because the Fund's actual exposure are constantly changing.

	Assessed valuation range (+/-)	Value at 31 March 2024 £000	Value on increase £000	Value on decrease £000
Private Credit	8.8%	27,661	30,095	25,227
Infrastructure	13.6%	67,147	76,279	58,015
Pooled Property	15.6%	59,123	68,346	49,900
Real Estate Debt	15.6%	6,528	7,546	5,510
		160,459	182,266	138,652

For there year ending 31 March 2024 the value of level 3 assets was £160m (2022/23: £75m)

Note 14a – Reconciliation of fair value measurements within Level 3

	Market value at 1 April 2023 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Realised gain £000	Unrealised gains/(losses) £000	Market value at 31 March 2024 £000
Private Credit	19,907	-	-	7,701	4	(4)	53	27,661
Infrastructure	-	-	-	66,000	440	(430)	1,137	67,147
Pooled Property	55,408	7,931	-	5,110	(3,512)	377	337	65,651
	75,315	7,931	-	78,811	(3,068)	(57)	1,527	160,459

The transfer into level 3 in the year is due to fund manager reclassification of the investment.

Note 15: Financial Instruments

Note 15a - Classification of financial instruments

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

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

As at 31 March 2023				As at 31 March 2024		
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			
280,410			- managed funds	312,447		
283,434			- unit linked insurance policies	286,895		
0			Fixed income unit trusts	0		
19,907			Private Credit	27,661		
0			Infrastructure	67,147		
57,726			Pooled property unit trusts	59,039		
4,472			Unitised liquidity funds	3,081		
5,602			Property debt	6,528		
99			Diversified growth	0		
634	8,451		Cash	3,773	1,675	
11			Property income due	85		
11			Cash income due	0		
	1,925		Debtors		2,130	
652,306	10,376	0	Total Financial assets	766,656	3,805	0
			Financial liabilities			
0	0	(2,331)	Creditors	0	0	(2,584)
0	0	(2,331)	Total Financial liabilities	0	0	(2,584)
652,306	10,376	(2,331)	Total	766,656	3,805	(2,584)

Note 15b - Net gains and losses on financial instruments

As at 31 March 2023	Financial assets	As at 31 March 2024
£000		£000
8,454	Fair value through profit and loss	(98,253)
8,454	Total	(98,253)

Note 15c - Value of financial instruments

As at 31 March 2023		Financial assets	As at 31 March 2024	
Book value £000	Market value £000		Book value £000	Market value £000
411,437	652,306	Fair value through profit and loss	623,327	766,656
411,437	652,306	Total	623,327	766,656

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

Risk and risk management

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

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

Market risk

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

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

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

Other price risk

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

or factors affecting all such instruments in the market.

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

Other Pension Fund price risk - sensitivity analysis

In agreement with the Pension Fund's performance analyst and following analysis of historical data and expected investment return during the financial year, the Pension Fund has determined that the following movements in market price risk are deemed reasonably possible for the financial year 2024/25 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	16.0%
Global equities (ex UK)	16.7%
Infrastructure Equity	13.6%
Property	15.6%
Cash	0.3%
Diversified Growth	7.9%
Private Credit	8.8%

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 2024 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Investment portfolio assets:				
Cash and cash equivalents	6,854	0.30%	6,875	6,833
UK Equities	0	16.0%	0	0
Global Equities	599,342	16.7%	699,432	499,252
Property	65,652	15.6%	75,893	55,409
Diversified Growth	0	7.9%	0	0
Infrastructure	67,147	13.6%	76,279	58,015
Private Credit	27,661	8.8%	30,095	25,227
Total assets	766,656		888,574	644,736

Asset Type	Value as at 31 March 2023 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Investment portfolio assets:				
Cash and cash equivalents	5,117	0.30%	5,132	5,102
UK Equities	104,546	18.2%	123,573	85,519
Global Equities	398,334	19.0%	474,017	322,651
Property	63,339	15.5%	73,157	53,521
Diversified Growth	61,063	8.9%	66,498	55,628
Private Credit	19,907	9.6%	21,818	17,996
Total assets	652,306		764,195	540,417

Interest rate risk

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

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

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

As at 31 March 2023 £000		As at 31 March 2024 £000
	Asset type	
5,117	Cash and cash equivalents	6,854
8,451	Cash balances	1,675
0	Private credit	27,661
13,568	Total	36,190

Interest rate risk sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates. The analysis demonstrates that a 1% (100 BPS) increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Asset exposed to interest rate risk:

Asset Type	Carrying amount as at 31 March 2024 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £000
Cash and cash equivalents	6,854	69	(69)
Cash balances	1,675	17	(17)
Private credit	27,661	277	(277)
Total change in assets available	36,190	363	(363)

Asset Type	Carrying amount as at 31 March 2023 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £000
Cash and cash equivalents	5,117	51	(51)
Cash balances	8,451	85	(85)
Total change in assets available	13,568	136	(136)

Currency risk

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

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

The following table summarises the Pension Fund's currency exposure as at 31 March 2024 and as at the previous period end.

As at 31 March 2023 £000	Asset type	As at 31 March 2024 £000
398,334	Pooled Funds - overseas equities	599,342
0	Pooled Property Unit Trusts - overseas	4
153	Diversified Growth Fund	0
0	Infrastructure	67,147
0	Private Credit	27,661
398,487	Total	694,154

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 9.3%.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 9.3% 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 2024 £000	Change to net assets available to pay benefits	
		+9.3% £000	-9.3% £000
Pooled Funds - overseas equities	599,342	655,081	543,603
Pooled Property Unit Trusts - overseas	4	4	4
Infrastructure	67,147	73,392	60,902
Private Credit	27,661	30,234	25,088
Total change in assets available	694,154	758,711	629,598

Asset Type	Carrying amount as at 31 March 2023 £000	Change to net assets available to pay benefits	
		+9.9% £000	-9.9% £000
Pooled Funds - overseas equities	398,334	437,769	358,899
Diversified Growth Fund	153	168	138
Total change in assets available	398,487	437,937	359,037

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 2024 was £5,448m (31 March 2023: £9.096m). This was held with the following institutions:

As at 31 March 2023 £000		As at 31 March 2024 £000
	Fund manager deposits	
117	Schroders cash	117
13	BlackRock cash	13
2	Newton cash	0
504	Permira cash	3,643
2	Baillie Gifford cash	0
3	M&G cash	0
4	KBI cash	0
	Bank current accounts	
8,451	Bank of Scotland Plc	1,675
9,096	Total	5,448

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 2024, the value of illiquid assets was £160.5m, which represented 20.9% of the Pension Fund Investment assets (31 March 2023: £63m, which represented 9.7% of the Pension Fund assets).

Refinancing risk

The key risk is that the Pension Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest

rates. The Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies

Note 17: Funding Arrangements

In line with the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended), the Pension Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation for the current accounting period took place as at 31 March 2023.

The funding policy is set out in the Pension Fund's Funding Strategy Statement (FSS), dated March 2024.

The key elements of the funding policy are:

- to take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants;
- To use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency;
- To where appropriate, ensure stable employer contribution rates;
- To reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy;
- 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 2023. This valuation revealed that the Pension Fund's assets, which at 31 March 2023 were valued at £660m, were sufficient to meet 120% (£461m and 92% at 31 March 2020 valuation) of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £111m (2020 valuation: £38m deficit).

Copies of the 2023 Valuation Report and Funding Strategy Statement are available on request from Shetland Islands Council, the Administering Authority to the Pension Fund.

Principal actuarial assumptions and method used in the valuation

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

Method

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

Assumptions

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

The primary rate of contribution payable by each employing authority under regulation 32(4)(a) of the 2014 Regulations for the period 1 April 2024 to 31 March 2027 is between 26.3% and 31.6% of pensionable pay.

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

The employers' rate due by Shetland Islands Council is 19.0% per annum for 2024/25, 2025/26 and 2026/27.

A market-related approach was taken when valuing the liabilities, for consistency with the valuation of the Fund assets at their 31 March 2023 market value.

The key financial assumptions adopted for the 2023 valuation were as follows:

Financial assumptions	% per annum
Discount rate	4.6%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	2.3%

Mortality assumptions

The key demographic assumption was the allowance made for longevity. The expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2022 model with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Mortality assumption at age 65	Males	Females
Current Pensioners	20.9%	23.3%
Future Pensioners	22.0%	25.2%

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.

50:50 Option assumption

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

Note 18: Actuarial Present Value of Promised Retirement Benefits

In addition to the Triennial Funding Valuation, the Actuary also undertakes a valuation of pension fund liabilities on an IAS19 basis every year using the same base data as the Valuation, rolled forward to the current financial year, taking account of changes in membership numbers and using updated assumptions. A statement prepared by the Actuary is attached at Appendix 1. The IAS26 report is included at Appendix 2.

Note 19: Changes in Actuarial Value of promised Retirement Benefits

Actuarial Present Value of Promised Retirement Benefits	Vested Benefits £m	Total £m
Balance at 31 March 2024	617	617
Increase/(Decrease) in value during 2023/24	68	68
Balance at 31 March 2023	549	549
Increase/(Decrease) in value during 2022/23	(279)	(279)
Balance at 31 March 2022	828	828

The promised retirement benefits at 31 March 2024 have been projected using a roll forward approximation by the fund actuary from the latest formal funding valuation at 31 March 2023. It should be noted the figures are appropriate for the administering authority only for the preparation of the pension fund accounts and should not be used for any other purpose. These are attached at Appendix 2.

Note 20: Current Assets

As at 31 March 2023 £000		As at 31 March 2024 £000
414	Debtors: Contributions due - employees	451
1,471	Contributions due - employers	1,661
40	Sundry debtors	18
8,451	Bank current accounts	1,675
10,376	Total	3,805

Note 20a: Long Term Debtor

As at 31 March 2023 £000		As at 31 March 2024 £000
116	Long Term Debtors Reimbursement of lifetime tax allowance	109
116	Total	109

Note 21: Unfunded Pension

As at 31 March 2023 £000		As at 31 March 2024 £000
714	Added years pension	767

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 22: Current Liabilities

As at 31 March 2023 £000		As at 31 March 2024 £000
(697)	Sundry creditors	(593)
(1,634)	Benefits payable	(1,991)
(2,331)	Total	(2,584)

Note 23: Contingent Liabilities

McCloud Judgement

The LGPS benefit structure has been reviewed following the Government's loss of the right to appeal two Court of Appeal judgements in December 2018, collectively referred to as the 'McCloud' judgement. The courts have ruled that the 'transitional protections' awarded to members who were within 10 years of normal retirement age in 2012 when the scheme was reformed on 1 April 2015 were unlawful on the grounds of age discrimination. On 1 October 2023 the retrospective remedy to address these age inequalities came into force.

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

GMP Indexation

On 23 March 2021 HMT responded to its consultation on the indexation of Guaranteed Minimum Pensions (GMPs) in Public Service Pension Schemes. In summary, HMT has discounted conversion (of GMP into main scheme benefits) as their long-term policy solution and instead will make full GMP indexation the

permanent solution for public service pension schemes.

Initially members whose State Pension Age was between 5 April 2016 and 6 April 2021 had their GMP pensions fully uprated by their scheme in line with CPI. The new policy has extended this to be the permanent solution for all members whose State Pension Age (SPA) is on or after 6 April 2021.

GMP Equalisation

Following a High Court ruling from 26 October 2016, all defined benefit pension schemes must equalise guaranteed minimum pension (GMP) for men and women. Further guidance is still awaited on how to deal with the sex inequalities which will persist for a minority of scheme members.

Survivors Benefits

Regulations have now been made which change the rules for calculating pre-April 15 survivor pensions in response to two court cases: namely Walker v Innospec and Goodwin v Department for Education. Principally, for deaths on or after 5 December 2005, the amendments place surviving same-sex civil partners, survivors of married same-sex couples and male survivors of female married members in a similar position to female survivors of male married members.

The Regulations were made on 29 April 2022 and came into force on 1 June 2022. As calculations still require to be performed, there is insufficient data available to estimate reliably the impact this will have on scheme liabilities however the impact is thought to be minimal.

Cost Cap Valuation

When the Local Government Pension Scheme was reformed in 2015, a mechanism, called the Cost Cap, was put in place to protect employers from significant increases in future pension costs. The mechanism is symmetrical in its design – following a Cost Cap valuation carried out by the Government Actuary's Department (GAD). If the cost changes and falls outside a three percent corridor above/below the rate, action must be taken to bring the cost back to the rate. This means if the scheme is calculated to have a lower/(higher) than intended cost to employers, then action will be taken: improvements/(reductions) in future benefit

accrual and/or increases/(reductions) in employee contribution rates.

The employer cost cap rate for LGPS (Scotland) is 15.2 percent. The results of the valuation as at 2020 showed that the cost was 2.8 % below the cost cap rate. This showed the cost had remained within a three per cent corridor which means no changes to benefits or member contributions are needed. The result of the 2023 GAD valuation is still outstanding, therefore it is not yet known if the cost changes will fall outside the 3% corridor.

Note 24: Additional Voluntary Contributions

As at 31 March 2023 £000		As at 31 March 2024 £000
5,703	Prudential	4,248
52	Equitable Life	30
5,755	Total	4,278

AVC contributions of £0.78m were paid directly to Prudential during the year (2022/23: £0.620m).

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 25: 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 £0.587m (2022/23 £0.442m) in relation to the administration of the fund and was subsequently reimbursed by the Fund for these expenses.

The investments of the Fund are overseen by the Council's Treasury Section: their costs are levied by staff time allocations. Costs incurred were

£0.045m (2022/23 £0.042m) in relation to investment of the Fund and was subsequently reimbursed by the Fund for these expenses.

The Council incurred costs of £15.404m (2022/23 £13.663m) in relation to pensioner payments. Such payments are reimbursed by the Fund.

In addition the Council is the single largest employer of Pension Fund members, and contributed £16.856m to the Fund (2022/23 £15.459m).

Governance

Four members of the Pension Fund Committee receive pension benefits from the Shetland Islands Council 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.

The membership of the Pension committee consists of all members of the policy and resources committee appointed by Shetland Islands Council. Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, drawn from Shetland Islands Council and scheduled or admitted bodies in membership of the fund. The term of appointment to the pension board is concurrent with the council election cycle. The membership is as follows:

Pension Fund Committee Membership

Emma Macdonald (Chair)
Davie Sandison
Moraig Lyall
John Fraser
Duncan Anderson
Gary Robinson
Dennis Leask
Catherine Hughson
Robbie McGregor
Liz Peterson
Robert Thomson

Pension Board Membership

Bryan Peterson
Tom Morton
Mark Robinson

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

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

Management's assessment of the above factors has determined that it is still appropriate to prepare the Pension Fund's accounts on a going concern basis, as required by the Code of Practice on Local Authority Accounting 2023/24.

Pension Fund account - revenue recognition

A Contribution income

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

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay: and
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

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

B Transfers to and from other schemes

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

Individual transfers in/out are accounted for when received or paid. Transfers in from members

Note 26: Events after the Reporting date

The audited annual accounts were authorised for issue on 24 June 2024. 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 2024, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 27: Accounting Policies

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 which is based upon International Reporting Standards (IFRS) as amended for the UK public sector.

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

wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (Note 7).

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

C Investment income

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

Pension Fund account - expense items

D Benefits payable

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

E Management Expenses

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

- **Administrative Expenses** – all staff costs relating to the pensions administration team are charged direct to the fund. Council recharges for management, accommodation and other overhead costs

are also accounted for as administrative expenses of the fund;

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

F Taxation

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

Net assets statement

G Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March

each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 13a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

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

H Foreign currency transactions

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

I Cash and cash equivalents

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

J Loans and receivables

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

K Financial Liabilities

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains and losses arising from

changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in the value of investments.

L Actuarial present value of promised retirement benefits

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

M 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 24).

N Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Pension Fund a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Pension Fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the

amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Shetland Islands Council Pension Fund (“the Fund”) Actuarial Statement for 2023/24

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 2024. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers’ characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 80% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2023. This valuation revealed that the Fund’s assets, which at 31 March 2023 were valued at £660 million, were sufficient to meet 120% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £111 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 2024 to 31 March 2027 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 2023 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 2023 valuation were as follows:

Financial assumptions	31 March 2023
Discount rate	4.6%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.9 years	23.3 years
Future Pensioners*	22.0 years	25.2 years

*Currently aged 45

Copies of the 2023 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2023

Markets reflected wider volatility during 2023, impacting on investment returns achieved by the Fund's assets. Continued high levels of inflation in the UK also resulted in a higher than expected LGPS benefit increase of 6.7% in April 2024. However, asset performance has improved towards the end of 2023 and into 2024 and inflation has begun to return towards historical levels and the Bank of England's target (2% pa). Overall, the funding level of the Fund is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026. The Funding Strategy Statement will also be reviewed at that time.

Peter MacRae FFA

For and on behalf of Hymans Robertson LLP

10 May 2024

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2023/24 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Shetland Islands Council Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2024	31 March 2023
Active members (£m)	282	278
Deferred members (£m)	113	94
Pensioners (£m)	222	177
Total (£m)	617	549

The promised retirement benefits at 31 March 2024 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2023. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2024 and 31 March 2023. I estimate that the impact of the change in financial assumptions to 31 March 2024 is to decrease the actuarial present value by £33m. I estimate that the impact of the change in demographic assumptions is to increase the actuarial present value by £7m.

Financial assumptions

Year ended	31 March 2024	31 March 2023
	% p.a.	% p.a.
Pension Increase Rate (CPI)	2.75%	2.95%
Salary Increase Rate	2.75%	2.95%
Discount Rate	4.85%	4.75%

Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	20.8 years	23.3 years
Future pensioners (assumed to be aged 45 at the latest valuation date)	22.0 years	25.2 years

All other demographic assumptions have been updated since last year and are as per the latest funding valuation of the Fund.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the obligations are set out below:

Change in assumption at 31 March 2024	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2%	11
1 year increase in member life expectancy	4%	25
0.1% p.a. increase in the Salary Increase Rate	0%	1
0.1% p.a. increase in the Rate of CPI Inflation	2%	11

Professional notes

This paper accompanies the 'Accounting Covering Report – 31 March 2024' which identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Peter MacRae FFA

27 June 2024

For and on behalf of Hymans Robertson LLP

May 2024