

**Shetland Islands Council  
Pension Fund  
Annual Report and Accounts  
2010/11**

## Contents

Foreword by the Head of Finance	2
Funds and Governance Overview	4
Administrative Arrangements	9
Annual Governance Statement	10
Governance Compliance Statement	15
Statement of Responsibilities for the Statement of Accounts	20
Pension Fund Account 2010/11	21
Net Assets Statement as at 31 March 2011	23
Note 1 Introduction	24
Note 2 Accounting Policies	24
Note 3 Accounting Treatment	24
Note 4 Administration, Operation, Management of the Fund	24
Note 5 Investments	25
Note 6 Contributions Receivable and Benefits Payable	26
Note 7 Purchases and Sales During the Year	27
Note 8 Fund Administration Costs	27
Note 9 Investment Return	27
Note 10 Debtors	27
Note 11 Creditors	28
Note 12 Statement of Investment Principles	28
Note 13 Funding Strategy Statement	28
Note 14 Additional Voluntary Contributions	28
Note 15 Risks	28
Shetland Islands Council Pension Fund ("the Fund") Actuarial Statement for 2010/11	29
Actuarial Present Value of Promised Retirement Benefits	31
Independent Auditor's Report	33
Contact Details	35

## Foreword by the Head of Finance

Welcome to the Annual Report for 2010/11 for the Shetland Islands Council Pension Fund, the first reported in this style.

The Local Government Pension Scheme (Scotland Regulation 31A of the Local Government Pension Scheme Amendment (Scotland) Regulations 2010) requires administering authorities to prepare a pension fund annual report for the year beginning 1 April 2010 and each subsequent year thereafter.

### Explanatory Note

The principal financial statements are the fund account and the net asset statement as explained below:

**The Fund Account** – is the revenue account of the Pension Fund. The Fund Account discloses the size and type of financial additions to, withdrawals from and changes to the value of the fund during the accounting period. This covers dealings with members, employers and others directly involved with the scheme. Also incorporated here are returns on investments; which includes both investment income and gains and losses on investments.

**The Net Assets Statement** – discloses the size and type of net assets of the scheme at the end of the financial year.

These statements do not take account of the obligations to pay pensions and benefits, which fall due after the end of the year. The actuarial position of the Fund does take account of such obligations and is revealed in the Actuarial Statement section of this report. The financial statements should therefore be read in conjunction with that information. As required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to the Accounts.

At 31 March 2011, the value of the fund stands at £251m, supporting 5,531 members, an increase of £24m on the previous year, despite the volatile economic situation and market conditions.

The Council is updating all the planning assumptions for the Fund, through the tri-annual actuarial valuation by the Council's appointed actuaries, Hymans Robertson LLP. The results of the valuation as at 31 March 2011 will be implemented from 1 April 2012. Part of this work will address the issue of the transfer in valuation of staff previously employed by Shetland Towage, where the estimated gap between scheme benefits and the cash transfer in stands at £8m. The Pension Fund will need to ensure that the Council addresses this gap, over a reasonable timeframe.

The Scottish Government has supported a project to look at the possibility of shared services across the Local Government Pension Scheme (LGPS) in Scotland to extract efficiencies. At the time of writing, the recommendations support a set of collaborative improvements, across fund management, systems and procurement, which the Shetland Islands Council Pension Fund supports. The Council's stance throughout the project that there should not be a presumption that a centralised approach would yield efficiency benefits has been justified in the conclusions of the Report.

This year has seen the introduction of separate reporting and audit for LGPS funds in Scotland and the adoption of International Financial Reporting Standards. The new guidance requires Pension Funds to consider their governance and management

arrangements as a service in its own right and to adopt systems which are in line with the Myners Principles of good governance. The elements include:

- effective decision-making
- clear objectives
- risk and liabilities
- performance assessment
- responsible ownership
- transparency and reporting

Part of the quality assurance process, in this first year, is for the Council to complete a Governance Compliance Statement against the tests of best practice. This has been done and is included at page 16.

The areas where the Shetland Islands Council Pension Fund could improve the current arrangements include:

- embedding the governance arrangements for the Pension Fund into the Council's new decision making structure
- improving the engagement of deferred members in the decision making process
- developing a competency based description of the role of committee members, with a focus on representing stakeholders
- induction and training for new representatives.

I take this opportunity to thank all the staff and advisers who contribute to the successful management of the Shetland Islands Council Pension Fund.

Hazel Sutherland CPFA  
Head of Finance  
25 August 2011

## **Funds and Governance Overview**

### **Background**

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (SSI 2008/228) requires administering authorities to prepare and publish a written statement setting out the terms of their current governance arrangements.

These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

### **How the Funds Work**

Shetland Islands Council administers one Pension Fund, known as the Shetland Islands Council Pension Fund. The Fund is predominantly administered for staff currently or previously employed by Shetland Islands Council, who participated in the pension scheme. The fund is not open to teaching staff, as a national scheme exists.

The Pension Fund is also open to staff of the Orkney and Shetland Valuation Joint Board and eighteen Admitted Bodies. Admitted bodies are organisations which meet the criteria of being able to offer their staff the opportunity to take up the pension arrangements of the Fund, such as being a body, which provides a public service otherwise for the purposes of gain and which has sufficient links with the Scheme Employer for the Body and the Scheme Employer to be regarded as having a community of interest.

The scheduled bodies are:

- Shetland Islands Council
- Orkney and Shetland Valuation Joint Board

The admitted bodies are:

- ABA Services
- Advocacy Shetland
- Atlantic Ferries (closed Agreement)
- Community Alcohol & Drugs Services Shetland
- Crossroads Shetland Care Attendant Scheme (January 2011)
- Disability Shetland
- Lerwick Port Authority
- Shetland Amenity Trust
- Shetland Arts Development Agency
- Shetland Charitable Trust
- Shetland Development Trust (until 20 December 2009)
- Shetland Enterprise Company
- Shetland Fisheries Training Centre Trust
- Shetland Islands Tourism
- Shetland Recreational Trust
- Shetland Seafood Quality Control Ltd
- Shetland Voluntary Care Forum
- Shetland Youth Information Service

The Local Government Pension Scheme (LGPS) sets pension benefits and regulations for members and employers within local government and associated bodies. The LGPS

builds up a fund from contributions made by employers, employees and investment returns. The money is invested to pay pensions, as they become due.

Every three years, a valuation is carried out by the Council's appointed actuaries, Hymans Robertson LLP, to work out the likely future pension liability for the fund. This work makes assumptions about likely retirement ages, longevity, long-term sickness trends and also what the likely returns from investments will be, given the economic climate. Depending on the likely gap between income and expenditure, in the longer term, recommendations will be made as to the amount each employer will have to make each year (as a percentage of staff costs).

The latest valuation, done in 2008, determined that the Pension Fund was 88% funded, which meant that the Fund's objective of holding sufficient assets to meet the estimated cost of providing members' past service benefits was not met at the 2008 Valuation date. The employers' average future service contribution rate as at 31 March 2008 (ignoring the past service shortfall) was 16.4% of pensionable pay. The next valuation date is 31 March 2011, with funding recommendations being implemented from 1 April 2012.

### **Decision Making**

The ultimate responsibility for the governance of Shetland Islands Council Pension Fund rests with the full Council. The Council takes specific decisions regarding the investment strategies and major funding policy decisions.

The overview of the financial performance of the Pension Fund rests with the Executive Committee. The Executive Committee is made up of the Convener, the Political Leader, the Chairs and Vice Chairs of each of the main committees and an independent Member. The councillors involved are:

Councillor A J Cluness, Convener  
Councillor J G Simpson, Political Leader  
Councillor A T J Cooper, Chair of Development Committee  
Councillor E J Fullerton, Chair of Education and Families Committee  
Councillor I J Hawkins, Chair of Environment and Transport Committee  
Councillor C Smith, Chair of Social Services Committee  
Councillor A T Doull, Vice Chair of Development Committee  
Councillor C H J Miller, Vice Chair of Education and Families Committee  
Councillor A Wishart, Vice Chair of Environment and Transport Committee  
Councillor A Duncan, Vice Chair of Social Services Committee  
Councillor G Robinson.

The Council has in place a Pension Fund Management Consultative Committee, to ensure that stakeholders have a representative role in the arrangements for overseeing the management of the Pension Fund.

Their overriding duty is to ensure the best possible outcomes for the Fund, its participating employers and scheme members. The purpose of the committee is to have stakeholder input in overseeing the proper management of the Pension Fund on behalf of contributors and beneficiaries, both employer and employee.

The members' knowledge is supplemented by professional advice from staff of the Council, professional advisers and external experts.

The Consultative Committee consists of:

Employers:

3 elected members of the Shetland Islands Council  
1 representative of Admitted Bodies employers, who shall not be an SIC Member or an employee of an Admitted Body or the Council

Employees:

3 employees (including at least 1 Unison representative and up to 1 Admitted Body employee representative)  
1 pensioner

The Chairman of the Consultative Committee is appointed by the Consultative Committee and shall alternate on an annual basis between Employer and Employee representatives.

The Head of Finance, Treasury Accountant, Expenditure Manager, Human Resources Manager, Legal Services Manager, Fund Managers, Independent Investment Consultant and the appointed Fund Actuary attend the Consultative Committee meetings as advisers.

The Consultative Committee meets at least twice a year. Additional meetings are called as appropriate.

The Audit and Standards Committee have a remit to provide assurance that the financial systems that the Council has in place are operating effectively, including having an oversight of the final accounts.

### **Staffing Arrangements**

The Council's Head of Finance is the Officer with responsibility to ensure proper administration of the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.

She is responsible for:

- a) the financial accounting of the Fund;
- b) the preparation of the Pension Fund Annual Report; and
- c) being the principal adviser on investment management to the Council in its capacity as Trustee to the Fund and as the Fund's Administering Authority.

The day-to-day management of the investment activities of the Fund is managed by the Treasury Section within Finance Service.

The day-to-day benefits administration for the Fund is managed by the Pensions and Payroll Sections within Finance Services.

### **Professional Advisers and External Service Providers**

Hymans Robertson LLP has been appointed to act as Actuary to the Fund. The services provided include advice on funding and actuarial valuations.

Hymans Robertson LLP is also the Independent Investment Consultant employed by the Council to advise the Consultative Committee and the Council on the investment strategy and performance.

The Fund has appointed investment managers who have responsibility for the selection, retention and realisation of individual investments. The Pension Fund's investments are managed by Black Rock Investment Management (UK) Limited and Schroder Property Investment Management Limited.

Northern Trust Company is the global custodian for the Fund and is responsible for the safekeeping of the assets including transaction processing and making tax claims.

WM Company has been appointed as the independent performance services company for the Fund. They have responsibility for measuring and reporting on the performance of individual portfolios and the overall Fund.

Prudential and Equitable Life (Equitable Life is now closed to new members) are appointed as the Fund's In-House Additional Voluntary Contributions providers.

### **Funding Strategy Statement (FSS)**

The Regulations on the management of the Pension Fund requires the administering authority to prepare, maintain and publish a written Funding Strategy Statement (the FSS). The FSS is normally reviewed every time the triennial actuarial valuation is undertaken. The next full review is due to be completed by 31 March 2012 and the current statement is available for viewing at Finance Services.

The purpose of the FSS is to:

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

### **The Statement of Investment Principles and Monitoring Arrangements**

The investment strategy is based on taking a long-term investment horizon, as the Pension Fund is currently cash positive (employee and employer contributions are greater than benefits paid out). This enables the Pension Fund to invest a large percentage into equities (currently 80%) with 10% in Bonds and 10% in Property. The equities and bonds are passive investments, which is currently a holding position due to the uncertainty over the Scottish Government's pathfinder project. Risk is spread through asset type, mix of investment products, use of different fund managers and by taking a long-term investment view.

The investment strategy which has been adopted is to invest in a portfolio that aims for a split along the following guidelines: U.K. Equities 40%; Overseas Equities 40%; Bonds 10% and Property 10%.

The fund managers are:

- Black Rock Investment Management (UK) Limited – responsible for equities and bond investments, taking a passive approach; and
- Schroder Property Investment Management Limited – responsible for property investments, and taking an active approach.

The fund managers give an annual presentation to the Council and the Pension Fund Management Consultative Committee in May each year. This is a performance review



meeting covering the previous financial year but allows the Council and Pension Committee to meet the fund managers, hear their presentations and ask them questions.

The Pension Fund Management Consultative Committee also receives a half yearly update on the Pension Fund investments. In future, that report will also be presented to the Executive Committee of the Council.

Visits are made every November to each fund manager to review the six monthly investment position. The Council also receive audited quarterly performance books from the fund managers, which are used to produce a quarterly performance review report. The fund managers also provide unaudited weekly fund values, which are used to inform Council officers, Councillors and the wider press of the general investment position.

Hymans Robertson LLP (investment consultants) continually monitor fund managers and report on key changes, which might impact the investment strategy, such as changes in key personnel or investment processes. Hymans Robertson LLP is consulted when reviewing fund managers, and is actively involved with investment strategy reviews.

WM Company are an external performance measurement company that the Pension Fund uses to analyse, check and report independently on fund managers performance and the Pension Fund's overall performance. They produce quarterly performance reviews and also attend the annual meeting in May each year where they report the fund managers' performance for the previous year to the Councillors and the Pension Fund Management Consultative Committee.

In 2010/11, the investment returns were as follows:

Black Rock – return 6.9% (benchmark return 7%)

Schroders – return 5.5% (benchmark return 8.8%)

The Statement of Investment Principles is available for viewing at Finance Services.

## **Administrative Arrangements**

### **Communication**

As well as reporting Scheme changes through the Pension Fund Management Consultative committee and the full Council, members of the scheme (active, deferred and pensioners) are kept up-to-date with changes through an annual Pensions Newsletter. The mail-shot also incorporates any other relevant information, for example, revised Pension Scheme booklets, Pension Fund Accounts, etc. Pension seminars, in conjunction with Prudential (the Council's in-house AVC provider) take place at least once a year. The Council's Corporate Induction training sessions ensure that new employees are aware of the benefits of the LGPS. The Council's later life training sessions are aimed at communicating the benefits of the scheme to members whose retirement is imminent.

### **Training**

Induction training and ongoing training opportunities are available for members of the consultative and main committees. This will be strengthened in future through a formal skills and competency framework, supported by a training needs assessment and personal and professional development plans.

### **Risk Management**

The Council has a risk management policy which has been adopted by Finance Services. This policy includes the maintenance and regular review of a risk register. The strategic and operational risks associated with the Pension Fund are included in the Finance Service Risk Register. The risks of the Pension Fund will be extracted and reported separately in future.

Risk awareness is embedded into the investment performance management process.

### **Access to Information**

The Committee papers and minutes are available via the Council committee management system website <http://www.shetland.gov.uk/coins/>.

This Annual Report and Accounts is available via the Council's website <http://www.shetland.gov.uk/council/>. A hard copy of the full version of this report is provided to the scheduled and active admitted bodies of the scheme and a summary of the review is provided to all Fund members.

# **Annual Governance Statement**

## **Introduction**

This Statement documents the governance arrangements for the pension scheme administered by Shetland Islands Council.

## **Administering Authority**

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

## **Regulatory Framework**

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

The LGPS scheme, administered by Shetland Islands Council, is open to all employees of scheduled bodies except for those whose employment entitles them to belong to another statutory pension scheme (e.g. teachers). Employees of admitted bodies can join the scheme subject to those bodies meeting the statutory requirements and on such terms and conditions as the Council (as Administering Authority) may require. A list of scheduled and admitted bodies is shown at page 5.

The Council manages the Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 2008. The Council discharges this duty partially directly and partially through the Executive Committee. For consultation purposes, the Council has in place a Pension Fund Management Consultative Committee comprising three councillors, one representative of the Admitted Bodies' employers, three employee representatives (one representing the Admitted Bodies' employees) and a retired beneficiary. The Committee is advised by relevant officers of the Council as appropriate and meets approximately twice a year.

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

The Funds are invested in compliance with the Council's Statement of Investment Principles.

## **Scope of Responsibility**

The Council is responsible for ensuring that::

- the business is conducted in accordance with the law and appropriate standards;
- the funds are safeguarded and properly accounted for; and
- the funds are used economically, efficiently and effectively.

In discharging the responsibilities, council members and staff are responsible for implementing effective arrangements for governing the affairs of the Funds. The management of the Pension Fund should be seen to be a service in its own right, governed by a suite of appropriate management arrangements, such as:

- appropriate strategic investment policies (such as the FSS and Statement of Investment Principles);
- service planning arrangements;
- staff time allocations, appropriate to the scale of the fund;
- performance management arrangements, especially for fund investments and customer responsiveness;
- good systems of internal control to safeguard assets and ensure best value;
- engagement with stakeholders and clear policy on representative roles and responsibilities;
- Governance Statement;
- Risk Register and Business Continuity Plans;
- support for Cash and Treasury Management;
- Training Plan; and
- independent and objective scrutiny.

To this end, the funds are managed within the overall governance arrangements of Shetland Islands Council. The Council has recently refreshed its decision-making arrangements and the governance of the Pension Fund is included within those arrangements. Following a period of operation, the Council intends to refresh the Code of Corporate Governance, to ensure compliance with best practice.

### **Governance Framework**

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

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

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

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

Within Shetland Islands Council, there is a need to focus on the controls required to ensure clear separation of duties, due to the small number of staff directly employed to work on the Pension Fund. The Pension Fund relies on the same systems of internal control as that which are in place for Shetland Islands Council (which have been assessed as fit for purpose).

The effective arrangements include:

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

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

### **Review of Effectiveness**

The Council has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control. The review of effectiveness is informed by:

- direct feedback from stakeholders;
- effective performance reporting arrangements and management information;
- financial and budget monitoring reports;
- performance indicators and benchmarking data, on cost and quality of service;
- specific internal audit reviews;
- self assessment exercises against performance standards;
- the annual report and accounts; and
- external audit observations, comments and recommendations for improvement.

The Council provides internal audit arrangements to the Fund both as a tool of management and with direct reporting to the Council's Audit and Standards Committee. The Internal Audit service operates in accordance with CIPFA's Code of Practice for Internal Audit and complies with the ISO 9001 / 2008 quality standard. The service works to an Annual Plan, based on the approved Audit Strategy and an annual assessment of the known and potential risks.

The Internal Audit service currently reports directly to the Council's Section 95 officer, the Head of Finance with direct access, as required, to the Chief Executive. In the new management arrangements, the Service Manager Internal Audit will report directly to the Chief Executive.

An audit of Treasury was done in 2010/11 and Payroll and Pensions in 2009/10. No key issues relating to the pension fund were identified from the work undertaken by Internal Audit.

The annual financial statement of the Council, including the Fund, is subject to external audit. The auditors are appointed by Audit Scotland, as part of the process to ensure that public funds are properly safeguarded and accounted for. The deadline for submission of separate unaudited accounts at 30 June was not achieved.

Each year, the external auditors undertake an assessment of the internal controls in operation in the Council, to determine whether they can place reliance on them in the preparation of the final accounts. Audit Scotland's overall assessment is that, "the pension fund has adequate systems of internal control".

Audit Scotland has highlighted the following four areas of weakness. The first three of which the Head of Finance has assessed as requiring action.

- AXISE – Member Data

There is a risk that members' information held on AXISE is inaccurate or out of date. This could potentially impact on members' benefit calculations.

- Statement of Investment Principles

There is a risk that the council's statement of investment principles does not comply with the necessary legislation.

- Governance Arrangements

There is a risk that the council has not given due consideration to the pension fund's required governance arrangements going forward.

- Pension Fund Investments

There is a risk that fund managers are not complying with legislation.

An Action Plan has been developed to ensure that these weaknesses are addressed over the next six months.

It is the Head of Finance's view that reasonable assurance can be placed upon the effectiveness of governance arrangements, including internal controls, for the business transacted to 31 March 2011.

There is a need for improvements to be carried out in the following areas of activity:

- data accuracy;
- regular financial and performance reporting arrangements through the new decision making structures;
- competency framework, training needs assessment and systematic induction and ongoing training for new committee members;
- maintaining the long term investment objectives in times of economic uncertainty;
- responding to improvement actions around shared services and joint procurement, at a national level; and

- consider further the representation arrangements for the consultative committee.

**Certification**

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

**Hazel Sutherland**



**Head of Finance**

Date

**Alistair Buchan**



**Chief Executive**

Date

## Governance Compliance Statement

The Local Government Pension Scheme (LGPS) regulations require LGPS administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their governance compliance statement. The regulations require that the first such statement must be published by 31 March 2011, but SPPA have agreed to change that date to 30 September 2011.

The Governance Compliance Statement set out below describes the extent to which the governance arrangements comply with best practice and any actions required to implement improvements.

Principle		Full Compliance	Comments and Action Plan
<b>Structure</b>	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Yes	<p>The Council retains responsibility for strategic policy decision, including the Investment Strategy.</p> <p>The Executive Committee will oversee the financial and service performance of the Pension Fund and advise the Council on key policy matters.</p> <p>The consultative committee will focus on stakeholder representation, as well as overseeing the pension service as a whole on behalf of all current and future beneficiaries.</p>
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Yes	<p>Fund Members and employers are represented on the consultative committee.</p> <p><b>Area for Improvement:</b> consider the representation arrangements for deferred members (Timescale: from May 2012)</p>
	That where a secondary committee or panel has been established, the structure ensures	Yes	<p>3 Members of the Consultative Committee are also Members of the Executive Committee.</p> <p>The Council Members of the</p>



	effective communication across both levels.		<p>Consultative Committee sit at the Full Council and participate in strategic policy matters on behalf of the Pension Fund.</p> <p>The consultative committee members are invited to attend Council meetings, for fund management presentations.</p>
	That 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.	Yes	3 Members of the Consultative Committee are also Members of the Executive Committee.
<b>Committee Membership and Representation</b>	<p>All key stakeholders are afforded the opportunity to be represented. Within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> <li>i) employing authorities (including non-scheme employers, e.g., admitted bodies);</li> <li>ii) scheme members (including deferred and pensioner scheme members),</li> <li>iii) where appropriate, independent professional observers; and</li> </ul> <p>expert advisors (on an ad-hoc basis).</p>	Yes	<p>All key stakeholder groups are represented on the consultative committee.</p> <p><b>Area for Improvement:</b> consider the representation arrangements for deferred members (Timescale: from May 2012).</p>

	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the consultative committee are given parity of esteem, in terms of access to information, training, professional advisers and for voting rights (within the remit of the terms of reference of the panel).  <b>Area for Improvement:</b> consider whether an independent professional adviser would add value to the current arrangements (timescale, from May 2012).
<b>Selection and role of lay members</b>	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	Induction and ongoing training available to all committee members.  <b>Areas for Improvement:</b> Formalise skills and competency framework for panel/committee members, undertake training needs assessment and formalise training arrangements including, where necessary, mandatory training to fulfil the role. (Timescale: from May 2012)
	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	The declaration of interests is now a standard item on all Shetland Islands Council agenda papers.
<b>Voting</b>	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.	Yes	The members of the consultative committee have parity of esteem in voting / decision making within the remit of the terms of reference.

<b>Training/Facility time/Expenses</b>	<p>That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p>	<p>Yes</p>	<p>There are necessarily separate training policies in place for employer representatives and staff representatives.</p>
	<p>That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</p>	<p>No</p>	<p>The policies for employer representatives and staff representatives are necessarily different and cannot be equally applied.</p>
	<p>That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.</p>	<p>No</p>	<p>The arrangements are present are ad-hoc. An area for improvement will be to develop much more systematic arrangements for training needs assessment, through to formalised training plans.</p> <p><b>Area for Improvement:</b></p> <p>Develop Annual Training Plans to identify personal and professional training needs, including mandatory training to fulfil role (Timescale: from May 2012).</p>
<b>Meetings (frequency/quarter)</b>	<p>That an administering authority's main committee or committees meet at least quarterly.</p>	<p>Yes</p>	<p>The Executive Committee meets at least six times per annum.</p>
	<p>That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main</p>	<p>Yes</p>	<p>The consultative committee is scheduled to meet each year in May and September.</p>

	committee sits.		
	That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	
<b>Access</b>	That subject to any rules in the councils' constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes	All papers are circulated to all members of each committee.  Reports to the Executive Committee and Full Council are available through the Council's agenda management system.
<b>Scope</b>	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Council has recently revised its decision-making structures to clarify the roles and responsibilities and level of delegation to each decision-making forum.
<b>Publicity</b>	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	The Annual Newsletter is available to all Members.  The Annual Report and Accounts will be made available on-line.

## Statement of Responsibilities for the Statement of Accounts

### The Administering Authority's Responsibility

The Authority is required to:

- make arrangements for the proper administration of its Pension Fund and to secure that the proper officer has the responsibility for the administration of those affairs; in this Authority the proper officer is the Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- approve the Financial Statements within two months of receipt of the audit certificate.

### The Head of Finances' Responsibilities

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

It is the responsibility of the Head of Finance to sign, date and submit the un-audited statement of accounts to the authority and Controller of Audit by 30 June.

In preparing this Statement of Accounts, the Head of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Head of Finance has also:

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

The Statement of Accounts presents a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31 March 2011.



.....  
**Hazel Sutherland CPFA**

**Head of Finance**

## Pension Fund Account 2010/11

2009/10 £000		Notes	2010/11 £000	2010/11 £000
	<b>Dealings with members, employers and others directly involved in the scheme</b>			
	<b>Contributions</b>			
	From Employers			
(9,687)	Normal	6	(10,782)	
0	Augmentation		(740)	
<u>(9,687)</u>				(11,522)
	From Members			
<u>(3,984)</u>	Normal	6		(4,132)
	<b>Transfers in</b>			
(1,776)	Group transfers in from other schemes		0	
<u>(1,330)</u>	Individual transfers in from other schemes		<u>(1,901)</u>	
<u>(3,106)</u>				(1,901)
	<b>Other income</b>			
<u>(26)</u>	Other income			(26)
	<b>Benefits Payable</b>			
5,209	Pensions	6	5,371	
946	Commutation of pension and lump sum retirement benefit	6	2,766	
43	Lump sum death benefits	6	<u>195</u>	
<u>6,198</u>				8,332
	<b>Payments to and on account of leavers</b>			
25	Refunds of contributions		31	
18	State Scheme Premiums		40	
700	Individual transfer out to other schemes		<u>175</u>	
<u>743</u>				246
	<b>Administrative expenses</b>			
<u>196</u>	Administrative expenses	8		182
	<b>Other Payments</b>			
0	Audit Fees		35	
6	Tax on Refunds		<u>8</u>	
<u>6</u>				43
<u><u>(9,660)</u></u>	<b>NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS</b>			<u><u>(8,778)</u></u>

## Pension Fund Account 2010/11

2009/10 £000	Notes	2010/11 £000	2010/11 £000
<b>RETURNS ON INVESTMENTS</b>			
<b>Investment income</b>			
(8)	Quoted UK - dividends from equities	0	
(218)	Unquoted UK - income from pooled investment vehicles	(405)	
(88)	Unquoted overseas - income pooled investment vehicles	(123)	
(132)	Interest on cash deposits	(105)	
(15)	Other	(36)	
<u>(461)</u>			(669)
(59,511)	<b>Change in market value of investments</b>		(14,921)
305	<b>Investment management expenses</b>	8	427
<u>(59,667)</u>	<b>Net returns on investments</b>		<u>(15,163)</u>
(69,327)	<b>Net (increase)/decrease in the fund during the year</b>		(23,941)
(158,100)	Add : Opening net assets of the scheme		(227,427)
<u><u>(227,427)</u></u>	<b>Closing net assets of the scheme</b>		<u><u>(251,368)</u></u>

## Net Assets Statement as at 31 March 2011

2009/10 £000		Notes	2010/11 £000	2010/11 £000
	<b>INVESTMENT ASSETS</b>			
(193,666)	Pooled Investment Vehicles (Unit Trusts)		(221,745)	
(14,976)	Pooled Investment Vehicles (Property Unit Trusts)		(18,215)	
(7,383)	Cash Deposits		(9,361)	
(2,143)	Other investment		0	
<u>(218,168)</u>		5	<u>(249,321)</u>	
	Other investment balances			
(6)	Dividends receivable		0	
(148)	Tax recoverable		(24)	
			<u>(24)</u>	
(218,322)	Total investment assets			(249,345)
	Net current assets and liabilities			
(3,051)	Bank and cash - external		(1,273)	
(5,595)	Bank and cash - internal		(669)	
(1,167)	Debtors	10	(2,091)	
708	Creditors	11	<u>2,010</u>	
(9,105)	Net current assets			(2,023)
<u><u>(227,427)</u></u>	<b>Net Assets</b>			<u><u>(251,368)</u></u>

These financial statements summarise the transactions and net assets of the Fund and do not take account of liabilities to pay pension and other benefits in the future.

The unaudited accounts were issued on 22 July 2011 and the audited accounts were authorised for issue on 30 November 2011.



.....  
**Hazel Sutherland CPFA**

**Head of Finance**



## **Notes to the Accounts**

### **1. Introduction**

The Pension Fund is a pool into which employees' and employers' contributions and income from investments are paid in and from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) Regulations.

The Council is Trustee for a Pension Fund covering 3084 active members (2009/10 3,067) including 326 (2009/10 330) who are members of other admitted bodies and 10 (2009/10 11) who are members of a scheduled body, 890 (2009/10 832) pensioners, 162 (2009/10 159) dependants and 1221 (2009/10 1,177) deferred members. These figures do not include teachers, who are covered by the Scottish Public Pension Agency.

The Council manages the Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 2008.

### **2. Accounting Policies**

The transactions of the Fund are accounted for on an accruals basis, thereby taking into account all known and determinable amounts due by and due to the Fund in 2011.

The custodian, the Northern Trust Company, has valued all investments at fair value. In accordance with the Code of Practice, valuations at 31 March 2011 are at bid market values. Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2011.

The Financial Statements summarise the transactions of the fund during the year and the net assets at the year-end.

IAS 26 requires the 'actuarial present value of promised retirement benefits' to be disclosed. The Council has chosen to represent this in the form of a report from the Council's actuaries, Hymans Robertson LLP and this included at page 31.

### **3. Accounting Treatment**

The accounts have been prepared with regard to statute and the Code of Practice on Local Authority Accounting in the United Kingdom.

### **4. Administration, Operation, Management of the Fund**

The Pension Fund is funded by contributions from employees and employers, as well as investment income, and pays pensions and lump sum benefits to members. From 1 April 2009 tiered employee contribution rates have been introduced in respect of all scheme members. The tiers ranging from 5.5% to 12% depending on the member's rate of pensionable pay. Shetland Islands Council as an employer contributed, during 2010/11, an additional 16.6% of pensionable pay with admitted bodies paying between 15.7% and 21.9% of pensionable pay.

The last actuarial valuation of the Fund carried out as at 31 March 2008 indicated a funding level of 88%. As a result, the rate of employer's contribution for Shetland Islands Council is 15.5%, 16.6% and 17.7% for years 2009/10, 2010/11 and 2011/12 and the rate of employer's contribution for admitted bodies will vary according to certain circumstances peculiar to the individual employers (in line with the Funding Strategy Statement). The

method of calculating the employer's rate of contribution is known as the "Projected Unit" method.

This method determines the future contribution rate required by considering the benefits accruing over the following three years. The employer's contribution rate is set to ensure that the assets of the Fund are sufficient to cover the expected benefits. In order to determine the contribution rate, a number of assumptions are made based on the historical performance of the Fund and on forecasts for the future.

These assumptions were:

Investment returns	4.5% p.a.
Salary increases	5.1% p.a.
Pension increases	3.6% p.a.
Price Inflation	3.6% p.a.

Actuarial valuations and fund management advice are provided by Hymans Robertson LLP. At the date of the last actuarial valuation (31 March 2008) the market value of the Scheme's assets was £199.8m.

## 5. Investments

The Pension Fund's investments are managed by Black Rock Investment Management (UK) Limited and Schroder Property Investment Management Limited. The Shetland Islands Council Pension Fund terminated Record Currency Management's mandate during 2010/11 due to under performance. In addition to making presentations to the Management Committee at least annually they provide detailed quarterly reports and weekly valuations of all assets to the Finance Service, which are used to monitor Fund activity and performance on an ongoing basis.

The investment strategy which has been adopted is to invest in a portfolio that aims for a split along the following guidelines: U.K. Equities 40%; Overseas Equities 40%; Bonds 10% and Property 10%. The Fund also uses the services of a custodian, The Northern Trust Company.

a) The table below gives details of investments held:

Market Value at 31 March 2010 £000		Market Value at 31 March 2011 £000
	<b>Pooled Investment Vehicles (Unit Trusts)</b>	
(103,079)	Unquoted - UK	(121,558)
(90,587)	Unquoted - Overseas	(100,187)
	<b>Pooled Investment Vehicles (Property Unit Trusts)</b>	
(10,839)	Unquoted - UK	(14,195)
(4,137)	Unquoted - Overseas	(4,020)
	<b>Cash Deposits</b>	
(7,383)	UK	(9,361)
	<b>Other Investments</b>	
(2,143)	UK	0
<u>(218,168)</u>		<u>(249,321)</u>

b) The reconciliation below shows the opening and closing value of investments analysed by investment managers, as reported by the Fund's custodian at 31 March 2011:

	<b>Black Rock £000</b>	<b>Schroders £000</b>	<b>Record £000</b>	<b>Total £000</b>
<b>Opening balance at 1 April 2010</b>	<b>203,672</b>	<b>15,558</b>	<b>2,143</b>	<b>221,373</b>
Net Gain/(Loss) from short-term and long-term investments	1,324	197	(700)	821
Payment for investing activities	(158)	(190)	(26)	(374)
Withdrawals	0	0	(1,627)	(1,627)
Other receipts from investing activities	65	585	0	650
Injections	12,000	3,675		15,675
Unrealised Gain/(Loss) change	13,690	200	210	14,100
<b>Closing balance at 31 March 2011</b>	<b>230,593</b>	<b>20,025</b>	<b>0</b>	<b>250,618</b>

Figures include investment assets and external cash.

c) The following investments exceed 5% of the net assets available for investment:

	<b>Share/ Par Value £000</b>	<b>Fair Value £000</b>	<b>%</b>
Black Rock AM (IE) IDX Selection Euro EX UK AC	2,423	32,973	13.2
Black Rock AM (IE) Index Selection Japan IDX	3,560	20,313	8.1
Black Rock AM (IE) BGI North America IDXNAV	2,640	23,576	9.4
Black Rock AM (IE) BGI Pacific Rim Index Acc	929	23,324	9.3
Aquila Life UK Equity Index Fund Ser1	15,842	98,332	39.2

## 6. Contributions Receivable and Benefits Payable

The total contributions receivable and benefits payable during the year are as follows:

	<b>Administering Authority</b>		<b>Scheduled Body</b>		<b>Admitted Bodies</b>		<b>Total</b>	
	<b>£000</b>		<b>£000</b>		<b>£000</b>		<b>£000</b>	
	<b>2009/10</b>	<b>2010/11</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2009/10</b>	<b>2010/11</b>
Contributions Receivable:								
employers	(8,284)	(9,139)	(63)	(70)	(1,340)	(1,573)	(9,687)	(10,782)
members	(3,447)	(3,594)	(20)	(23)	(517)	(515)	(3,984)	(4,132)
Benefits payable:								
pensions	4,802	4,847	52	52	355	472	5,209	5,371
lump sums	891	2,740	0	0	55	26	946	2,766
lump sum death benefits	7	84	0	0	36	111	43	195

## 7. Purchases and Sales During the Year

The value of purchases and sales in 2010/11 £24.951m and £8.672m as compared to 2009/10 were £22.406m and £11.990m respectively.

	Purchases		Sales (incl Gains and Losses)	
	2009/10	2010/11	2009/10	2010/11
	£000	£000	£000	£000
Fixed interest securities - Govt				
Quoted - UK	0	0	0	0
Unit Trusts				
Unquoted - UK	2,392	3,340	0	0
Unquoted - Other	0	900	0	0
Equities				
Quoted - UK	0	0	0	0
Quoted - Other	0	0	10	0
Quoted Pref Shares - Other	0	0	0	0
Unit Trusts				
Unquoted - UK	3,895	8,343	5,137	3,050
Unquoted - Other	7,082	6,535	3,738	2,983
Unquoted - Property UK	4,764	3,855	751	1,012
Unquoted - Property Other	386	0	0	0
Currency - UK	2,354	0	2,354	1,627
Cash				
Deposits	1,533	1,978	0	0
<b>TOTAL</b>	<b>22,406</b>	<b>24,951</b>	<b>11,990</b>	<b>8,672</b>

The Funds are all invested within pooled funds therefore there are no direct trading costs.

## 8. Administrative and Investment Management Expenses

Includes an administration charge from the Council of £0.155m (2009/10 £0.174m). Which represents the time spent by staff of the Council (principally in Finance) in administering the Fund.

Management fees for Black Rock are £0.152m (2009/10 £0.133m), Record Currency Management Limited £0.026m (2009/10 £0.049) and for Schrodgers £0.031m (2009/10 £0.030m).

Schrodgers is a fund of funds and additional charges levied by Unit Trust managers amounted to £0.154m (2009/10 £0.038m).

There are also management fees to be paid to The Northern Trust Company as the Fund's custodian. The total paid to them in 2010/11 amounted to £0.027m (2009/10 £0.017m). This is calculated by a set minimum charge.

There are other miscellaneous costs of £0.064m (2009/10 £0.060m) charged to the Fund.

## 9. Investment Return

Black Rock achieved a return for 2010/11 of +6.9% versus the benchmark return of +7%. Schrodgers achieved a return of +5.5% versus the benchmark of +8.8%.

## **10. Debtors**

The debtors figure includes employee contributions of £0.349m (2009/10 £0.324m) and employer contributions of £1.314 (2009/10 £0.782m). These amounts contain Shetland Islands Council contributions of £0.304m (2009/10 £0.281m) and £1.193m (2009/10 £0.675m) respectively. Also enclosed in the debtors balance is £0.365 relating to transfers for retiring members from their AVC products, which increased their lump sum payments.

## **11. Creditors**

The figure for creditors includes an amount due to Shetland Islands Council for administration recharge costs of £0.155m (2009/10 £0.097m), pensioners' payroll of £0.453m (2009/10 £0.480m) and there are unpaid lump sum payments of £1.250m (2009/10 £0.025m).

## **12. Statement of Investment Principles**

The Council has prepared and approved a Statement of Investment Principles in relation to investments made by its fund managers for the Pension Fund. The Statement is made available to Pension Fund members in a Pension Fund report sent to them.

## **13. Funding Strategy Statement**

The Council has approved a Funding Strategy Statement, which is a summary of the Pension Fund's approach to funding liabilities.

## **14. Additional Voluntary Contributions**

Prudential and Equitable Life manage the Additional Voluntary Contributions investments. The market value of these investments at 31 March 2011 was £4.624m (2009/10 £4.059m) and total purchases for 2010/11 were £0.752m (2009/10 £0.694m). The amounts are not included in the Pension Fund Accounts in accordance with regulation 5 (2) (c) of the Pension Scheme (Management and Investment of Funds) regulations 1998 (SI 1998 No. 1831).

## **15. Risks**

There is a financial risk to the Fund in respect of a liability to meet any funding shortfall arising from the transfer of pension benefits accruing until February 2006 to staff of Shetland Towage. The assets of Shetland Towage's Pension Scheme that were intended to fund these benefits were also transferred to the Fund.

The latest interim actuarial valuation provided by Hymans Robertson LLP to 31 March 2011 indicated a funding shortfall of £8.091m. The Council has agreed to fully fund this shortfall and will make specific and appropriate provision to meet its obligation in this regard after receiving the Fund Interim Valuation in the Autumn 2011. This provision will take full account of the scale and likely timing of the liability and will ensure relevant service accountability for this funding.

# Shetland Islands Council Pension Fund ("the Fund") Actuarial Statement for 2010/11

SHETLAND ISLANDS COUNCIL PENSION FUND

001

HYMANS ROBERTSON LLP

## Shetland Islands Council Pension Fund ("the Fund") Actuarial Statement for 2010/11

This statement has been prepared in accordance with Regulation 31A of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 8 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

### Description of Funding Policy

The funding policy is set out in the Shetland Islands Council Funding Strategy Statement (FSS), dated 9 April 2009. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The 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 below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out.

### 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 2008 was as at 31 March 2008. This valuation revealed that the Fund's assets, which at 31 March 2008 were valued at £200 million, were sufficient to meet 88% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2008 valuation was £26 million.

Individual employers' contributions for the period 1 April 2009 to 31 March 2012 were set in accordance with the Fund's funding policy as set out in its FSS.

Copies of the 2008 valuation report and Funding Strategy Statement are available on request from Shetland Islands Council, administering authority to the Fund.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 10 February 2009.

### 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 to retirement or expected earlier date of leaving pensionable membership.

May 2011

HYMANS ROBERTSON LLP

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 2008 valuation were as follows:

Financial assumptions	31 March 2008	
	% p.a. Nominal	% p.a. Real
Discount rate	6.2%	2.6%
Pay increases *	5.1%	1.5%
Price inflation/Pension increases	3.6%	-

\* plus an allowance for promotional pay increases

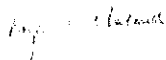
The key demographic assumption was the allowance made for longevity. The longevity assumptions adopted at this valuation were in line with standard PXA92 year of birth mortality tables. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.7 years	23.8 years
Future Pensioners	22.0 years	25.0 years

Experience over the 3 years since April 2008

Total investment returns have been significantly lower than the long term assumption made at the 2008 valuation. As a result, the value of assets will not have grown as anticipated. Liabilities will not have grown as anticipated following the Government announcement in June 2010 that increases to pensions in payment from 1 April 2011 will be linked to the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI). This change will be formally adopted in the actuarial valuation at 31 March 2011 and will serve to increase the real discount rate, reducing the value placed on the liabilities. The net effect is likely to result in a slight reduction in the funding level.

The next actuarial valuation will be carried out as at 31 March 2011. The Funding Strategy Statement will also be reviewed at that time.



Bryan T Chalmers  
 Fellow of the Institute and Faculty of Actuaries  
 For and on behalf of Hymans Robertson LLP  
 20 May 2011

Hymans Robertson LLP  
 20 Waterloo Street  
 Glasgow

# Actuarial Present Value of Promised Retirement Benefits

## Pension Fund Accounts Reporting Requirement

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2010/11 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. This change is one of many which are being adopted by employers reporting under CIPFA guidance in the financial year 2010/11.

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 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 Pension Fund's funding assumptions.

In order for the Administering Authority to comply, I have provided the information required below.

### Assumptions

The assumptions used are those adopted for the Administering Authority's FRS17/IAS19 reports at each year end as required by the Code of Practice. These can be found at the end of this report.

### Balance sheet

Year ended	31 March 2011	31 March 2010
	£m	£m
Present Value of Promised Retirement Benefits	289	345

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2008. I estimate this liability at 31 March 2011 comprises £203m in respect of employee members, £31m in respect of deferred pensioners and £65m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. 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 accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).



Financial assumptions

My recommended financial assumptions are summarised below:

Year Ended:	31 Mar 2011 % p.a.	31 Mar 2010 % p.a.
Inflation / Pension Increase Rate	2.8%	3.8%
Salary Increase Rate	5.1%	5.3%
Discount Rate	5.5%	5.5%

Please note that the salary increase assumption for 31 March 2011 is 1.0% p.a. for the first 2 years

Mortality

As discussed in the accompanying report, life expectancy is based on the PMA92/PFA92 year of birth tables, with improvements from 2007 in line with the medium cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.5 years	24.9 years
Future Pensioners	23.5 years	27.0 years

\*Future pensioners are assumed to be currently aged 45

Historic mortality

Life expectancy for the below year ends is based on the PFA92 and PMA92 tables. The allowance for future life expectancy is shown in the table below.

Year Ended	Prospective Pensioners	Pensioners
31 March 2010	year of birth, medium cohort and 1% p.a. minimum improvements from 2007	year of birth, medium cohort and 1% p.a. minimum improvements from 2007


Age ratings and loadings are applied to the above tables based on membership profile.

Commutation

An allowance is included for future retirements to elect to take 70% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 85% of the maximum tax-free cash 2009 service.

Professional Issues

This paper accompanies my covering report titled "Actuarial Valuation as at 31 March 2011 for the purposes of International Accounting Standard 19" dated June 2011. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the assumptions.



Douglas Green FFA  
16 June 2011

# Independent Auditor's Report

## Independent auditor's report to the members of Shetland Islands Council as administering body for Shetland Islands Council Pension Fund and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Shetland Islands Council Pension Fund for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 20, the Responsible Financial Officer is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the financial transactions of the fund during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

### **Opinion on other prescribed matters**

In my opinion the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers

I have nothing to report in respect of these matters.



Fiona Mitchell-Knight FCA  
Assistant Director of Audit  
Audit Scotland  
7th Floor, Plaza Tower  
East Kilbride  
G74 1LW

**30 November 2011**

## Contact Details

For more information relating to this Report, please contact:

Finance Services  
Shetland Islands Council  
Montfield Offices  
26 Burgh Road  
Lerwick  
ZE1 OTY

Telephone: 01595 744681

Email: [finance@sic.shetland.gov.uk](mailto:finance@sic.shetland.gov.uk)