

Shetland Islands Council



Pension Fund Annual Report and Accounts 2015-16

Securing the Best for Shetland



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Inside cover photograph by Kevin A Jones

Introduction

I am pleased to present the Annual Report and Accounts for the Shetland Islands Council Pension Fund for the year ended 31 March 2016.

This document contains the reporting obligations of the Pension Fund in respect of Regulation 55 (1) of The Local Government Pension Scheme (Scotland) Regulations 2014 that the Council, as administering authority of the Pension Fund, prepare an Annual Report and Annual Accounts.

It is my aim to ensure that the information contained in the document is as clear and understandable as possible in order to make them accessible to the widest audience possible.

In that regard I draw your attention to the Management Commentary and Investment Policy and Performance report, which are on pages 3 to 12, which will assist in understanding the financial performance during the year.

While the success of the Pension Fund in meeting its long term obligations will be measured by its long term investment returns and implementation of its Investment Strategy, it is encouraging that an annual return on investments was achieved (1%). This follows a major restructuring of the investment mandates and despite the extremely volatile global markets.

The triennial valuation of the Fund was last carried out as at 31 March 2014 and was used to determine the employer contribution rates for the period 1 April 2015 to 31 March 2018.

The production of the Annual Accounts is very much a team effort involving many staff from Finance and other services in the Council. I would like to take this opportunity to personally acknowledge the considerable efforts of all staff in the production of the 2015/16 Annual Report and Accounts



Jonathan Belford, CPFA
Executive Manager – Finance
September 2016

Management Commentary

The purpose of the Management Commentary is to inform all users of the accounts and help them understand the most significant aspects of the Pension Fund's financial performance during 2015/16 and year-end financial position as at 31 March 2016.

Background

The Shetland Islands Council Pension Fund is a contributory defined benefit pension scheme administered by Shetland Islands Council. The Pension Fund is governed by the Superannuation Act 1972, and is administered in accordance with the The Local Government Pension Scheme (Scotland) Regulations 2014, The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 and The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. It provides pensions and other benefits for pensionable employees of scheduled bodies and admitted bodies within Shetland, as shown below. Teachers are not included as they have a separate national pension scheme.

Employers with active members at 31 March 2016

Shetland Islands Council	Scheduled Body
Orkney & Shetland Valuation Joint Board	Scheduled Body
Lerwick Port Authority	Admitted Body
Shetland Recreational Trust	Admitted Body
Shetland Fisheries Training Centre Trust	Admitted Body
Shetland Islands Tourism	Admitted Body
Shetland Amenity Trust	Admitted Body
Shetland Seafood Quality Control	Admitted Body
Shetland Charitable Trust	Admitted Body
Shetland Arts Development Agency	Admitted Body
Crossroads Shetland Care Scheme	Admitted Body
Community Alcohol & Drugs Services Shetland (CADSS)	Admitted Body

Employers with no active members at 31 March 2016

Shetland Enterprise Co Ltd	Admitted Body
ABA Services Ltd	Admitted Body
Shetland Youth Information Services	Admitted Body
Advocacy Shetland	Admitted Body
Atlantic Ferries	Admitted Body

In general Employers pay regular monthly contributions to the Pension Fund based on the salary costs of those staff who are Pension Fund members (active members). Where there are no active members then a lump sum is calculated by the actuary to cover the cost of ongoing and future pension payments.

Until 31 March 2015 the defined benefits were calculated based upon a member's final salary, however this changed with the implementation of The Local Government Pension Scheme (Scotland) Regulations 2014.

From 1 April 2015, the Pension Scheme moved away from a final salary pension scheme to a career average related earnings scheme (CARE). The changes were introduced to ensure the Pension Scheme is sustainable and affordable for the future.

Administering Authority Arrangements

The Council's Executive Manager - 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.

The Council's Executive Manager - Finance has responsibility for:

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

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

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

The Pension and Payroll Sections ensure that members of the Scheme are kept up-to-date of Scheme changes by means of regular mail-shots which includes relevant information, for example, revised tiered employee contribution rates, revised Pension Scheme booklets/factsheets, Pension Fund Accounts, etc. Pension seminars, in conjunction with the Council's Additional Voluntary Contributions (AVC) provider, take place at least once a year. The Council's corporate induction training sessions ensure that new employees are made aware of the benefits of the Local Government Pension Scheme (LGPS).

Investment Managers - Appointed

Blackrock	Nov 2008
Schroders	Mar 2007
M & G Investments	Nov 2014
Kleinwort Benson	Nov 2014
Newton	Nov 2014

Investment Advisor

Hymans Robertson

AVC Providers

Prudential
Equitable Life (closed to new members)

Banker

Bank of Scotland

External Auditor

Audit Scotland

Custodian
Northern Trust

Performance Measurement
State Street

Fund Actuary
Hymans Robertson

The overview of the financial performance of the Pension Fund rests with the Pension Fund Committee. The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administrating authority for the Shetland Islands Council Pension Fund. This includes overseeing the administration of the Pension Scheme, managing the Pension Fund's investments and preparing and maintaining the Funding Strategy Statement, Statement of Investment Principles, Governance Compliance Statement and Pension Administration Strategy. The Pension Fund Committee is made up of the Councillors who currently sit on the Policy & Resources Committee.

The Pension Board is the body responsible for assisting the Scheme Manager (the Council) in relation to compliance with scheme regulations and the requirements of the Pensions Regulator. The Pension Board is made up of three Councillors, one Admitted Body employer and four union representatives.

At an operational level, the Global Custodian is responsible for the safekeeping of the Pension Fund's assets while the external fund managers are responsible for the management of those assets. The investment risk is managed, as set out in the Statement of Investment Principles below, through investing in a diversified range of asset classes, over a long-term investment horizon.

State Street provide independent fund manager performance analysis on a quarterly basis. The Pension Fund Committee and Pension Board receive quarterly investment performance reports covering all of the Pension Fund's investment managers. These reports are in addition to the statutory Annual Review and Mid Year Review.

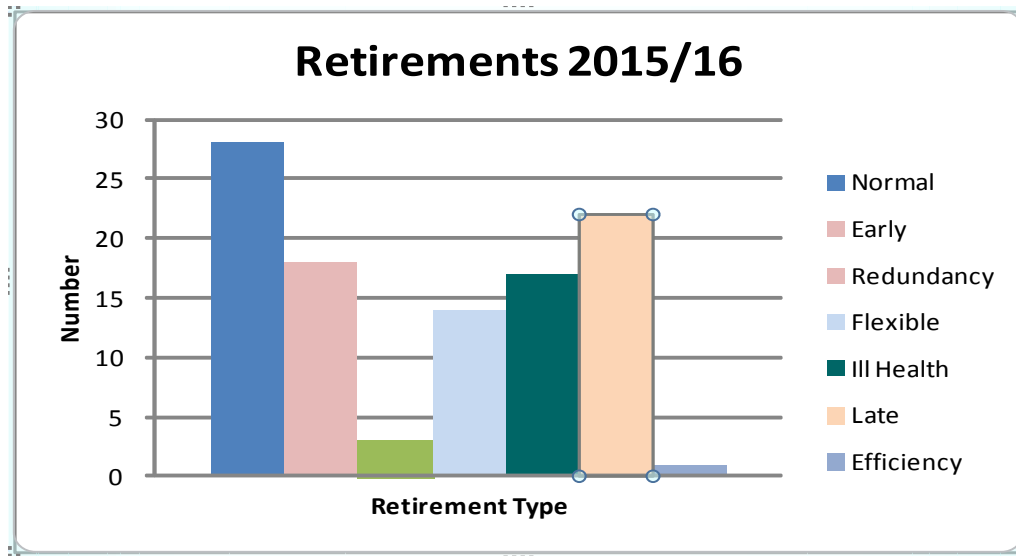
Valuation and Membership

At 31 March 2016, the value of the Pension Fund stood at £376m, an increase of £8m on the previous year. The increase in the value of the Pension Fund is due to investment gains and an excess of employer and employee contributions over benefits payable.

The Pension Fund membership increased during the financial year by 345 to 6,567 members, this includes active members (147), deferred members (95) and pensioners (103).

The increase in active members was primarily due to an increase in part time-employees in the Council. There was also an increase in deferred members. A deferred pensioner is someone who has paid into the Pension Scheme for a period of greater than two years. They either cease employment with one of the Pension Fund employers and do not transfer their pension value into a new employment, or they opt out of the Pension Scheme and cease paying contributions. The pension value that is built up during the time a member was paying into the Pension Scheme is held until they reach normal retirement age, or the pension value can be transferred out into another pension scheme.

The table below shows the breakdown of the 103 new pensioners following retirement during the year:



Risk

As part of improving governance of the Pension Fund, a separate risk register was produced for the Pension Fund during 2015/16. The risk register identified a total of 35 risks. The key risks are summarised below:

- Fund's investments fail to deliver returns in line with anticipated returns required to meet the valuation of the long term liabilities;
- Fall in bond yields, leading to risk in value placed on liabilities;
- Employers leaving scheme/closing to new members due to cost/going into liquidation;
- Failure to recover unfunded payments from employers, cross subsidy by other employers;
- Failure in world stock markets;
- Under performance by active fund managers.

All risk cannot be eliminated, however every effort is made to mitigate the impact that risks present the Pension Fund, whether it be by active administration, diversification of investment mandates, engagement with employers, or implementation of policies and procedures.

Funding Strategy

The Net Assets Statement shows an increase in net assets of the Pension Fund to £376m. The Pension Fund investment strategy aims to achieve a fully funded Pension Scheme by 2027. Other objectives of the Pension Fund are:

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

Funding Strategy Statement

The Regulations on the management of the Pension Fund require the administering authority to prepare, maintain and publish a written Funding Strategy Statement. Details of the Funding Strategy Statement are found in note 16.

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;
- support the regulatory requirement to maintain as near constant employer contribution rates as possible; and
- take a prudent longer term view of funding those liabilities.

The triennial valuation of the Pension Fund was carried out at 31 March 2014. It showed that the Pension Fund is 92% funded, with a deficit of £30m. The deficit has increased since the previous valuation in 2011 due to adverse market conditions, in particular the decrease in the real gilt yield. The triennial valuation sets the employer contribution rates for the next three years. The total employer contribution rate, which is an average across the whole fund, has increased from 18.8% to 20.7%. The increased liability, recognising the value of future pension benefits, is the primary driver for this increase.

The Statement of Investment Principles

The Pension Fund Committee and the Pension Board meetings of 26 October 2015 approved the Shetland Islands Council Pension Fund Statement of Investment Principles. This Statement includes an introduction, administration details, objective of the Pension Fund, types of investments, balance between different types of investment, risk, expected return on investments, realisation of investments, responsible investment, securities lending and compliance. The Council also complied with the six Myners Principles, which were contained in a schedule to the Statement of Investment Principles.

The Statement of Investment Principles is available for viewing at the Finance Service, 8 North Ness, Lerwick, during normal working hours. It can also be found here: <http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18529> – Appendix A.

Performance Management

The Annual Accounts summarises the Pension Fund's transactions for the year and satisfies the requirement of the Local Government Pension Scheme (Scotland) Regulation 55 (1) of The Local Government Pension Scheme (Scotland) Regulations 2014) to prepare a Pension Fund Annual Report for the financial year from 1 April 2015 to 31 March 2016.

Primary Financial Statements

The Annual Accounts summarise the Pension Fund's transactions for the year and its year-end position at 31 March 2016. 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 two primary statements; the Pension Fund Account and Net Assets Statement as at 31 March 2016 include a description of their purpose. These statements are accompanied by Notes to The Accounts which set out the Accounting Policies adopted by the Pension Fund and provide more detailed analysis of the figures disclosed on the face of 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 in 2015/16

The Pension Fund Account presents the full economic cost of providing Pension Fund services in 2015/16. This shows a net income of £7.869m. This differs from the draft outturn position, shown below, which was reported to the Pension Fund Committee and Pension Board on 24 May 2016, and which is on Shetland Islands Council's website.

The reason for the difference is that income and expenditure relating to the Pension Fund investment is included in the Net Assets Statement, rather than in the Pension Fund Account, whereas the table below includes all income and expenditure.

The table below shows the variance of actual against budget as shown in the draft outturn report.

Description	2015-16 Annual Budget	2015-16 Draft Outturn	2015-16 Draft Outturn Variance Under/(Over)
	£'000	£'000	£'000
Total Expenditure	10,460	13,760	(3,300)
Total Income	(17,756)	(21,632)	3,876
Net Income	(7,296)	(7,872)	576

Expenditure was higher than budgeted due to Death Benefits, Lump Sums and Transfers Out. Due to lack of prior year information and their unpredictable nature, no budgets were set for these costs. There was also an increase in benefit payments to pensioners, due to an increase in retirements. Income was higher than budgeted due to better than expected results for investment income, aided by the financial markets picking up at the end of the year. As with the Death Benefits, Lump Sums and Transfers Out, no budgets were set for Transfers In. Contributions Received were higher than expected, primarily due an increase in employer contribution rates, and full employer contributions now being required on reduced pay due to sickness absence.

Administration Strategy

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

It is vital that employers provide prompt information to the Pension Fund so that timely and accurate information can be provided to the Scheme members. Performance is monitored on a regular basis. The information that the Pension Fund received during the year was delivered in a timely manner by all employers. This included information on new starts, leavers, normal retirements, early retirements and deaths in service. With the exception of

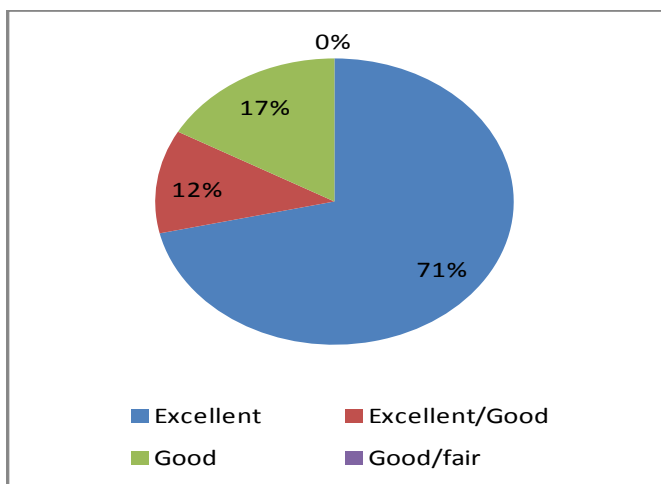
a few occasions, all employer contributions were received by the 19th of the month following deduction.

Administration Performance

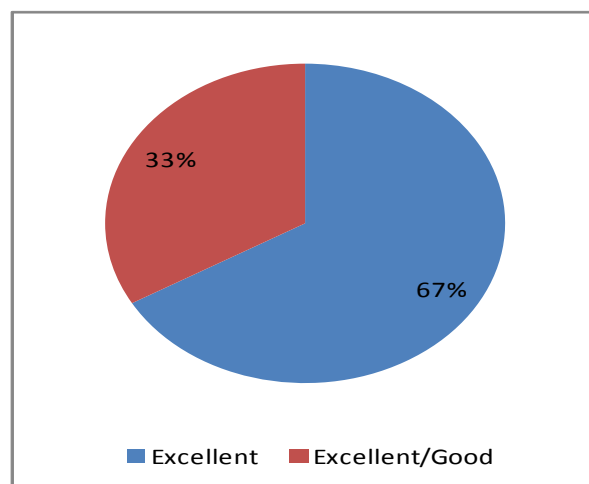
Shetland Islands Council as a Pension Administering Authority, is also committed to providing a high quality pension service to both members and employers and to ensure members receive their correct pension benefit entitlement.

To ensure excellent customer care is provided, retiring members and employers are requested to complete a customer satisfaction survey. Details of this survey are summarised below.

Member Satisfaction Survey 2015/16
Number of surveys received 77



Employer Satisfaction Survey 2015/16
Number of surveys received 6



The customer feedback is very positive for the year and specific comments received will form a basis for identifying and implementing improvement.

Monitoring Arrangements

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

Reports are prepared on a quarterly basis giving an overview of the position of the Pension Fund's external investments and present a summary of each fund manager's performance for the quarter and over a three year period.

In order to increase awareness and understanding of performance a greater amount of time has been made available at the Committee meetings. This means that fund managers are now invited to attend to present their performance information face to face. As a new fund manager for the Pension Fund Newton attended a meeting on 2 March 2016 to give a presentation on their first year performance, and Kleinwort Benson and M&G attended a meeting on 24 May 2016 to do the same.

Visits were made in December 2015 to each fund manager to review the six monthly investment positions. The Council also received audited quarterly performance review reports.

This Annual Report and Accounts is available via the Council's website http://www.shetland.gov.uk/about_finances. A 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 Pension Fund members.

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 their costs are reimbursed by the Pension Fund. The Councillors who are members of the Pension Fund Committee and the Pension Fund Board are also remunerated by Shetland Islands Council.


Details of Councillor and Senior Employee remuneration can be found in the accounts of Shetland Islands Council on the Council's website <http://www.shetland.gov.uk/>.

Pension Fund Outlook

Administrative: Pension auto enrolment commenced for some of the Pension Fund employers from 1 May 2013. The Council (being the largest employer) utilised the "transitional delay period" to defer auto-enrolment for existing eligible jobholders, who were not members of the Local Government Pension Scheme on 1 May 2013, until 30 September 2017.

Investment: The Pension Fund is a little under two years into a new investment strategy and undertook to make a considerable investment in creating mandates for three new fund managers on the basis of managing risk while investing to achieve the Funding Strategy of having a fully funded Pension Scheme by 2027. With current global economic climate being substantially affected by low interest rates and low growth forecasts there is cause to remain vigilant and regularly review the investment returns to ensure that the Strategy is being met.

The Pension Fund remains cash positive, with income from contributions and investment returns exceeding pensions and administrative costs. While this remains the case the Pension Fund seeks to take advantage of this and grow the assets, while taking an appropriate view on the risks. As the Fund matures and expenditure begins to exceed income then work will have to be undertaken to address the requirement for cash to be achieved from the assets so that the cost of pensions can be met for the long term. It is estimated that the Pension fund will remain cash positive until 2027, which is the basis for the Funding Strategy.



.....
Gary Robinson
Leader of the Council
Chair of the Pension Fund
Committee

21 September 2016



.....
Mark Boden
Chief Executive

21 September 2016



.....
Jonathan Belford, CPFA
Executive Manager –
Finance

21 September 2016

Investment Policy and Performance Report

Investment Policy

The investment policy, along with the Council's approach to the management of risk for the Pension Fund as a whole and in respect of the investment managers, is outlined in the Statement of Investment Principles.

The Council has a fiduciary duty to obtain the best possible financial return on the Pension Fund investments against a suitable degree of risk. The Fund Managers, acting in the best financial interests of the Pension Fund, have delegated powers for the acquisition and realisation of investments, but as part of their investment process they 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. The Fund Managers have all 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.

A new investment strategy was approved by the Council on 26 March 2014. The strategy's focus is on achieving a 100% funding level before the Pension Fund's contributions equal benefits payable, which is expected to be 2027. Beyond this point, it is expected that payments will exceed contributions made into the Pension Fund. The new strategy proposes a less volatile approach with a more diversified asset base. It is estimated that the new strategy will improve the level of return, and be protected against the full negative impact of volatile and falling markets due to its increased diversity.

The Pension Fund asset allocation is diversified between equities, bonds, property and cash and is measured against a customised benchmark as follows:

Asset Class	Allocation	Allocation
	% to 31/12/2014	% from 01/01/2015
UK Equities	40	18
Global Equities	40	40
UK Gilts	5	0
UK Corporate Bonds	5	0
Property	10	12
Alternative Bonds	0	10
Diversified Growth Fund	0	20
Total	100	100

The Pension Fund has five Fund Managers as follows:

Manager	Mandate	% of Pension Fund at March 2016 %
Blackrock	Passive UK Global Equities	39
Schroders	Active Property	13
Newton	Diversified Growth Fund	19
M & G	Alternative Bonds	9
Kleinwort Benson	Active Global Equities	20
Total		100

Investment Performance

Investment performance is monitored against this benchmark return on a quarterly and annual basis, however the longer term performance of the Fund Managers is the ultimate measure of achievement.

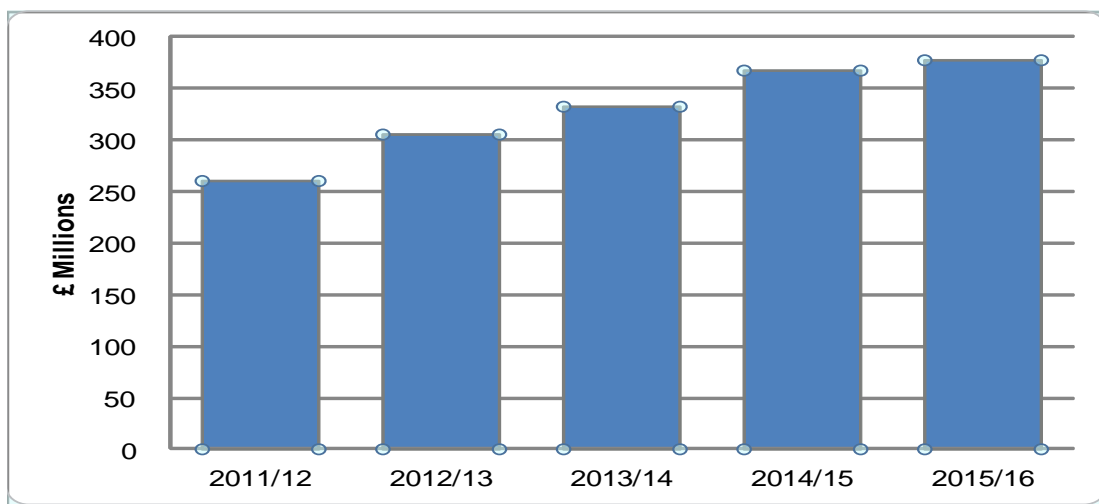
For the year to 31 March 2016 the Pension Fund had a return of 1% compared to the benchmark return of 2%.

The table below shows the Pension Fund performance over the last five years, and the annualised return over three and five years:

	2011/12	2012/13	2013/14	2014/15	2015/16	3 Year Annualised	5 Year
	%	%	%	%	%	%	%
Fund Return	0.9	15.0	6.5	8.8	1.0	5.4	6.3
Benchmark	1.3	14.6	6.7	9.5	2.0	6.0	6.7
Performance	-0.4	0.4	-0.2	-0.7	-1.0	-0.6	-0.4

Over the longer term the Pension Fund assets have continued to grow at a healthy rate, over 5% annually. The table above does reveal a slowing down of the returns which are substantially affected by the 2012/13 gains and this is not unexpected in light of the global economic conditions and also the change in Investment Strategy put in place last year.

The graph below shows the market value of the Pension Fund over the last five years:



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 Islands geographic area.

Regulatory Framework

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

The Council manages the Pension Fund in terms of The Local Government Pension Scheme (Scotland) Regulations 2014. The objectives are discharged through the Pension Fund Committee. The Administering Authority is assisted in its duties by the Pension Board.

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

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

Scope of Responsibility

The Council is responsible for ensuring that the Pension Fund:

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

In discharging these responsibilities, Council members and staff are responsible for implementing effective arrangements for governing the affairs of the Pension Fund. Considerable work has been undertaken in relation to improving the financial governance framework and ensuring that the Council's arrangements comply with the regulations of CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The management of the Pension Fund is a service in its own right, governed by a suite of appropriate management arrangements, such as:

- appropriate strategic investment policies (such as the Funding Strategy Statement and Statement of Investment Principles);
- service planning arrangements;
- staff time allocations, appropriate to the scale of the Pension Fund;
- performance management arrangements, especially for Pension Fund investments and customer responsiveness;
- systems of internal control to safeguard assets and ensure best value;

- engagement with stakeholders and clear policy on representative roles and responsibilities;
- 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 Pension Fund is 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. The Shetland Islands Council meeting of 20 September 2012 refreshed 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 Pension Fund is directed and controlled. It describes the way in which staff and representatives inform all the stakeholders and ask for their views on any key issues. It is important to monitor the achievements of the Pension Fund, particularly with regard to the long-term investment strategy. From a service 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 those which are in place for Shetland Islands Council (which are internally and externally audited and assessed on an annual basis).

The effective arrangements include:

- an appropriate level of knowledge for Pension Fund Committee and Pension Board members to ensure that they have adequate knowledge to oversee the governance of the Pension Fund business;
- clear objectives, good decision making at committee level, clear delegations to committee and staff, with appropriate, independent scrutiny of decision making and performance;
- a clear set of objectives for the Pension Fund, as described in the Funding Strategy Statement and Investment Principles;

- good performance monitoring arrangements, with committee members being able to directly question those responsible for all aspects of the business on a regular basis;
- a clear statement of risk (risk register), combined with effective risk management arrangements;
- an annual review of compliance against regulation, guidance and best practice arrangements;
- the Monitoring Officer ensuring compliance with regulation and guidance;
- clear monitoring arrangements;
- compliance with LGPS Investment Regulations;
- compliance with the CIPFA / Myners investment principles;
- appropriate custodian arrangements for investments;
- codes of conduct to support good relationships between committee members and staff who support the work of the Pension Fund;
- a demonstrable best value service, including good use of benchmarking data on the cost and quality of service provided; and
- effective internal control arrangements.

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

Review of Effectiveness

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

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

Management Assurance:

As the administration of the Pension Fund is directly within the remit of the Director of Corporate Services, assurance has been sought from her in relation to the effectiveness of internal financial controls to the Executive Manager – Finance. This assurance provides the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2015/16 no areas of weakness or concern were raised.

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

The Council Committee structure supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout. The Pension Fund Committee was created for 2015/16 to oversee the business of the Pension Fund, the Administering Authority being supported by the Pension Board. The Audit Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering all reports prepared by the external auditor.

The Audit Committee's remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised. As well as an annual plan, the

Committee can call for one-off reviews to investigate a particular issue. The Council's Executive Manager - Audit, Risk & Performance reports directly to the Audit Committee.

Assurance from Internal Audit:

The Council provides internal audit arrangements to the Pension Fund both as a tool of management and with direct reporting to the Council's Audit Committee. The Internal Audit service operates in accordance with CIPFA's Code of Practice for Internal Audit. 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 work programme has been completed, with a minor carry forward of work into the 2016/17 financial year. During the year there were no specific internal audits carried out for the Pension Fund, and the controls work undertaken across the Council systems by internal audit were found to be adequate.

External Audit and Other External Scrutiny:

The external auditor, Audit Scotland, regularly reports to the Audit Committee and their reports cover a wide range of year end financial audits that are required at a local and national level.

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. Recent reports by Audit Scotland identified a limited number of minor recommendations in the area of internal control and these are being addressed by management in order to ensure weaknesses are strengthened.

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.

Self Evaluation of Compliance

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	Compliance and 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.	Yes, the Pension Fund Committee has been delegated responsibility for overseeing the management and administration of the LGPS and managing the investments of the Pension Fund.
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, 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).
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes, the Pension Fund Committee and Pension Board meet concurrently to aid easy and open communication.
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.	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 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); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate, independent professional observers; and expert advisors (on an ad-hoc basis).	i) Yes - Pension Fund Committee and Pension Board ii) Yes, Pension Board iii) Yes, e.g. engaging with an actuary or investment manager when professional advice required.
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, Pension Board members have the same access to information, papers and training
Selection and role of lay members	
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, training provided during 2015/16

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, 'Declarations of Interest' is a standing item on all agendas.
Principle	Compliance and Comments
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.	Yes, these are contained in the Terms of Reference for both Pension Fund Committee and Pension Board.
Training/Facility time/Expenses	
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.	Yes A Member Development Programme is in place. The Constitution clearly sets out the scope of approved duties. There is supplementary guidance to ensure Members' expenses are reimbursed in line with regulatory requirements.
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.	No The policies for employer representatives and staff representatives are necessarily different and cannot be equally applied.
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes A Member Development Programme is being implemented. All member development is being monitored and logged centrally. Personal development plans are in place for 18 out of 22 Members.
Meetings (frequency/quorum)	
That an administering authority's main committee or committees meet at least quarterly.	Yes, the Pension Fund Committee and Pension Board meets at least four times per annum and is wholly focused on Pension Fund business.
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Yes, the Pension Board sits concurrently with the Pension Fund Committee.
That an administering authority that 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.	Lay members are included in formal governance arrangements.

Principle	Compliance and Comments
Access	
That subject to any rules in the Council's 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, committee papers are sent out to all Pension Fund Committee and Pension Board members, and all agenda items and subsequent minutes are available on the Shetland Islands Council Committee Information Pages (COINS).
Scope	
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes, full scope of the Pension Fund Committee and Pension Board are found in their Terms of Reference
Publicity	
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.

Significant Governance Issues

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

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

Certification

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



Gary Robinson
Leader of the Council
Chair of the Pension Fund Committee



Mark Boden
Chief Executive

21 September 2016

21 September 2016

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 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 can confirm that these Annual Accounts were approved for signature by the Council on 21 September 2016.

Signed on behalf of Shetland Islands Council

A handwritten signature in black ink, appearing to read 'Gary Robinson', written over a horizontal dotted line.

21 September 2016

Gary Robinson
Leader of the Council
Chair of the Pension Fund Committee

The Executive Manager – Finance’s Responsibilities

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

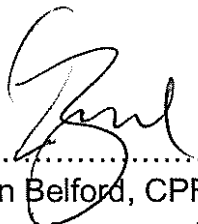
In preparing the Annual Accounts, the Executive Manager - Finance has:

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

The Executive Manager - Finance has also:

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2016.



.....
Jonathan Belford, CPFA
Executive Manager – Finance

21 September 2016

Pension Fund Account 2015/16

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

2014/15 £000		Notes	2015/16 £000	2015/16 £000
Dealings with members, employers and others directly involved in the scheme				
(16,800)	Contributions	7	(16,627)	
(353)	Transfers in from other pension funds	8	(529)	
(28)	Other income		(886)	
<u>(17,181)</u>				<u>(18,042)</u>
10,689	Benefits payable	9	11,890	
579	Payments to and on account of leavers	10	133	
1,313	Management expenses	11	1,736	
4	Other payments		946	
<u>12,585</u>				<u>14,705</u>
(4,596)	Net (additions)/withdrawals from dealing with members			(3,337)
Returns on investments				
(2,358)	Investment income	12	(2,887)	
(27,985)	(Profits) and losses on disposal of investments and change in market value of investments	14b	(1,645)	
(30,343)	Net returns on investments			(4,532)
(34,939)	Net (increase)/decrease in the net assets available for benefits during the year			(7,869)
(332,899)	Opening net assets of the scheme			(367,838)
(367,838)	Closing net assets of the scheme			(375,707)

Net Assets Statement as at 31 March 2016

The Net Assets Statement sets out the value, as at the Statement date, of all assets and 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 which 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.

2014/15 £000		Notes	2015/16 £000	2015/16 £000
365,677	Investment Assets	13	375,105	
511	Cash Deposits	13	44	
366,188				375,149
	Current Assets	18		
1,471	Debtors		1,102	
1,832	Bank current accounts		1,178	
3,303				2,280
	Current Liabilities	19		
(614)	Sundry creditors		(1,497)	
(1,039)	Benefits payable		(225)	
(1,653)				(1,722)
367,838	Net assets of the fund available to fund benefits at the period end			375,707

The audited accounts were issued on 21 September 2016.



Jonathan Belford, CPFA
Executive Manager – Finance

21 September 2016

Notes to the Accounts

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.

The following description of the Pension Fund is a summary.

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

It is a contributory defined benefit pension scheme administered by Shetland Islands Council to provide pensions and other benefits for pensionable employees of scheduled bodies, Shetland Islands Council, Orkney and Shetland Valuation Joint Board and admitted bodies within Shetland. Teachers are not included as they have a separate national pension scheme.

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

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Shetland Islands Council Pension Fund include:

- Scheduled bodies, which are local authorities and similar 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 12 employer organisations with active members within Shetland Islands Council Pension Fund including the Council itself, as detailed below:

31 March 2015	Shetland Islands Council Pension Fund	31 March 2016
19	Number of employers with active members	12
Number of employees in scheme:		
2,614	Shetland Islands Council	2,763
384	Other employers	382
2,998	Total	3,145
Number of pensioners/dependants		
1,410	Shetland Islands Council	1,493
106	Other employers	126
1,516	Total	1,619
Deferred pensioners		
1,465	Shetland Islands Council	1,538
243	Other employers	265
1,708	Total	1,803
6,222	Scheme Total	6,567

c) 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 2014 and range from 5.5% to 12% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2014 set these employers' contribution rates which range from 17.2% to 33.8% of pensionable pay.

d) 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 pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 x final pensionable salary.
Automatic lump sum of 3 x salary.	No automatic lump sum.	No automatic lump sum
In addition, part of annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Pension Fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, 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 which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 17 of these accounts.

a) Accounting Standards Issued, not Adopted

Accounting standards issued but not adopted by the code in 2015/16 are:

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions);
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2012-2014 Cycle;
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis;
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 financial statements.

3. Summary of Significant Accounting Policies

Pension Fund account - revenue recognition

a) Contribution income

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

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

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Pension Fund during the financial year and are

calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

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

c) Investment income

- **Interest income**
Interest income is recognised in the Pension Fund account as it accrues.
- **Distributions from pooled funds**
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.
- **Movement in the net market value of investments**
Changes in the net market 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.

e) Taxation

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

f) Administrative expenses

All administrative expenses are accounted for on an accruals basis. All costs relating to staff of the pensions administration team are charged direct to the Pension Fund. Management, accommodation and other overheads are apportioned to the Pension Fund in accordance with Council policy.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

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

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

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

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

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

Net assets statement

h) Financial assets

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

The values of investments shown in the net assets statement are determined as follows:

i) Pooled investment vehicles

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

j) Foreign currency transactions

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

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

l) Actuarial present value of promised retirement benefits

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

As permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the net assets statement (Note 17).

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(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 21).

4. 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. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 16. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The items in the net assets statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	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. A firm of consulting actuaries is engaged 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, 0.5% decrease in the discount rate assumption would result in a decrease in the pension liability of £60m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £22m, and a one-year increase in assumed life expectancy would increase the liability by approximately £16m.

6. Events after the Balance Sheet Date

There have been no events since 31 March 2016, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions Receivable

By category:

31 Mar 2015 £000		31 Mar 2016 £000
(12,801)	Employers - normal	(12,781)
(366)	Employers - augmentation	(186)
(3,633)	Members - normal	(3,660)
(16,800)	Total	(16,627)

By authority:

31 Mar 2015 £000		31 Mar 2016 £000
(14,473)	Administering authority	(14,160)
(119)	Scheduled bodies	(129)
(2,208)	Admitted bodies	(2,338)
(16,800)	Total	(16,627)

8. Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 Mar 2015 £000		31 Mar 2016 £000
(353)	Individual transfers in	(529)
(353)	Total	(529)

The Pension Fund received 35 transfers in during 2015/16 with an average value of £15,100 compared to 23 transfers in during 2014/15 with an average value of £15,300.

9. Benefits Payable

By category:

31 Mar 2015 £000		31 Mar 2016 £000
8,430	Pensions	8,920
1,682	Commutation and lump sum retirement benefits	2,690
577	Lump sum death benefits	280
10,689	Total	11,890

By authority:

31 Mar 2015 £000		31 Mar 2016 £000
9,501	Administering authority	10,353
78	Scheduled bodies	191
1,110	Admitted bodies	1,346
10,689	Total	11,890

10. Payments to and on Account of Leavers

31 Mar 2015 £000		31 Mar 2016 £000
18	Refunds to members leaving service	20
18	Payments for members joining state scheme	31
543	Individual transfers	82
579	Total	133

11. Management Expenses

31 Mar 2015 £000		31 Mar 2016 £000
198	Staff time allocations	170
185	Support services and system costs	81
5	Printing and publications	5
0	Governance costs	4
871	Investment management expenses	1,442
21	Actuarial fees	1
33	External audit fees	33
1,313	Total	1,736

Investment management expenses have been included here, and are no longer subject to a separate note.

12. Investment income

31 Mar 2015 £000		31 Mar 2016 £000
(369)	Fixed Income Unit Trusts	(925)
(1,130)	Pooled property unit trusts - UK	(1,277)
(737)	Pooled property unit trusts - Overseas	(527)
(44)	Interest on cash deposits	(6)
(78)	Other	(152)
(2,358)	Total	(2,887)

13. Investments

Market Value 31 Mar 2015 £000		Market Value 31 Mar 2016 £000
293,336	Pooled funds	294,476
34,059	Fixed income unit trusts	33,926
38,277	Pooled property unit trusts	46,668
511	Cash deposits	44
5	Property income due	35
0	Cash income due	0
366,188	Total investment assets	375,149

13a. Reconciliation of movements in investments

	Market Value 01/04/2015 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31/3/2016 £000
Investment assets					
Pooled funds	293,166	2,000	(1,000)	41	294,207
Fixed income unit trusts	34,059	825	0	(958)	33,926
Pooled property unit trusts	38,277	7,263	(1,435)	2,562	46,667
	<u>365,502</u>	<u>10,088</u>	<u>(2,435)</u>	<u>1,645</u>	<u>374,800</u>
Investment Income Due					
Fixed income income due	170				270
Property income due	<u>5</u>				<u>35</u>
	<u>365,677</u>				<u>375,105</u>
Other investment balances:					
Cash deposits	511				44
Cash income due	0				0
Net investment assets	366,188	10,088	(2,435)	1,645	375,149

	Market Value 01/04/2014 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31/3/2015 £000
Investment assets					
Pooled funds	267,813	208,642	(202,035)	18,746	293,166
Fixed income unit trusts	29,575	34,199	(29,575)	(140)	34,059
Pooled property unit trusts	21,431	16,269	(1,177)	1,754	38,277
	<u>318,819</u>	<u>259,110</u>	<u>(232,787)</u>	<u>20,360</u>	<u>365,502</u>
Investment Income Due					
Fixed income due	0				170
Property income due	21				5
	<u>318,840</u>				<u>365,677</u>
Other investment balances:					
Cash deposits	13,135				511
Cash income due	4				0
Net investment assets	331,979	259,110	(232,787)	20,360	366,188

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

13b. Analysis of investments

31 Mar 2015 £000		31 Mar 2016 £000
	Additional analysis	
70,161	Pooled funds (UK)	67,159
152,441	Pooled funds (Overseas)	153,482
70,564	Diversified Growth	73,565
34,059	Alternative Credit	33,926
36,522	Pooled property unit trust (UK)	45,021
1,755	Pooled property unit trust (Overseas)	1,647
365,502	Total investment assets	374,800

13c. Analysis by Fund Manager

Market Value 31 Mar 2015 £000			Market Value 31 Mar 2016 £000	
	%			%
150,247	41	BlackRock	147,159	39
38,821	11	Schroders	46,774	12
70,564	19	Newton Asset Management	73,566	20
72,327	20	Kleinwort Benson	73,454	20
34,229	9	M & G Investments	34,196	9
366,188	100	Total investment assets	375,149	100

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

Market Value 31 Mar 2015 £000			Market Value 31 Mar 2016 £000	
	%			%
70,131	19	Aquila Life UK equity index	67,128	18
34,059	9	M & G Alpha Opp Fd AGBP	33,926	9
72,327	20	Kleinwort Benson 1 Dividend Plus	73,454	20
70,564	19	Newton Real Rtrn X ACC NAV	73,566	20
80,113	22	Aquila Life World EX UK Fund Series 1	80,028	21

14. Financial Instruments

14a. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 Mar 2015			31 Mar 2016		
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					
293,336	-		294,476	-	
34,059	-		33,927	-	
38,277	-		46,667	-	
-	2,343		-	1,222	
5	-		35	-	
-	1,471		-	1,102	
365,677	3,814	0	375,105	2,324	0
Financial liabilities					
-	-	(1,653)	-	-	(1,722)
0	0	(1,653)	0	0	(1,722)
365,677	3,814	(1,653)	375,105	2,324	(1,722)

14b. Net gains and losses on financial instruments

31 Mar 2015 £000		31 Mar 2016 £000
	Financial assets	
(27,985)	Fair value through profit and loss	(1,645)
(27,985)	Total	(1,645)

14c. Value of financial instruments

31 Mar 2015			31 Mar 2016	
Book value £000	Market value £000		Book value £000	Market value £000
		Financial assets		
314,903	365,677	Fair value through profit and loss	323,479	375,105
314,903	365,677	Total	323,479	375,105

15. Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

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

Other Council 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 Council has determined that the following movements in market price risk are deemed reasonably possible for the financial year 2015/16 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	10.61%
Overseas Equities	9.43%
Total Bonds & Index Linked	4.77%
Cash	0.01%
UK Property	1.98%
Overseas Property	20.37%

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 follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2016 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	44	0.01%	44	44
Investment portfolio assets:				
UK Equities	67,159	10.61%	74,285	60,033
Overseas Equities	227,047	9.43%	248,458	205,636
Total Bonds & Index Linked	34,196	4.77%	35,827	32,565
UK Property	45,048	1.98%	45,940	44,156
Overseas Property	1,655	20.37%	1,992	1,318
Total assets	375,149		406,546	343,752

Asset Type	Value as at 31 March 2015 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	511	0.01%	511	511
Investment portfolio assets:				
UK Equities	70,161	10.18%	77,303	63,019
Overseas Equities	223,004	9.47%	244,122	201,886
Total Bonds & Index Linked	34,229	4.77%	35,862	32,596
UK Property	36,528	2.53%	37,452	35,604
Overseas Property	1,755	11.18%	1,951	1,559
Total assets	366,188		397,201	335,175

Interest rate risk

The Pension Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Pension Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2016 are set out below:

31 Mar 2015 £000		31 Mar 2016 £000
	Asset type	
511	Cash and cash equivalents	44
1,832	Cash balances	1,178
2,343	Total	1,222

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Pension Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is viewed as a reasonable level of risk sensitivity for the Pension Fund under current interest rate circumstances. The Pension Fund's performance analyst has also agreed that the long-term average rates are expected to

move less than 110 basis points (hence 100 basis points used in the examples below) from one year to the next and experience suggests that such movements are possible.

The analysis that follows assumes 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 BPS change in interest rates:

Asset Type	Carrying amount as at 31 March 2016 £000	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
		£000	£000
Cash and cash equivalents	44	0	0
Cash balances	1,178	12	(12)
Total change in assets available	1,222	12	(12)

Asset Type	Carrying amount as at 31 March 2015 £000	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
		£000	£000
Cash and cash equivalents	511	5	(5)
Cash balances	1,832	18	(18)
Total change in assets available	2,343	23	(23)

Currency risk

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

The following table summarises the Pension Fund's currency exposure as at 31 March 2016 and as at the previous period end:

31 Mar 2015 £000		31 Mar 2016 £000
	Asset type	
223,004	Pooled Funds - overseas equities	227,047
1,755	Pooled Property Unit Trusts - overseas	1,655
224,759	Total	228,702

Currency risk - sensitivity analysis

Following analysis of data provided by the Council's performance analysts, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.15%.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 6.15% 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 2016 £000	Change to net assets available to pay benefits	
		+6.15% £000	-6.15% £000
Pooled Funds - overseas equities	227,047	241,010	213,084
Pooled Property Unit Trusts - overseas	1,655	1,757	1,553
Total change in assets available	228,702	242,767	214,637

Asset Type	Carrying amount as at 31 March 2015 £000	Change to net assets available to pay benefits	
		+5.76% £000	-5.76% £000
Pooled Funds - overseas equities	223,004	235,849	210,159
Pooled Property Unit Trusts - overseas	1,755	1,856	1,654
Total change in assets available	224,759	237,705	211,813

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 2016 was £1.222m (31 March 2015: £2.343m). This was held with the following institutions:

31 Mar 2015 £000		31 Mar 2016 £000
	Fund manager deposits	
509	Schroders cash	42
2	BlackRock cash	2
	Bank current accounts	
1,832	Bank of Scotland Plc	1,178
2,343	Total	1,222

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 Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to all its Pension Fund 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 which will take longer than three months to convert into cash. As at 31 March 2016 the value of illiquid assets was £46.7m, which represented 12.4% of the Pension Fund assets (31 March 2015: £38.3m, which represented 10.5% of the Pension Fund assets).

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

16. Funding Arrangements

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

The funding policy is set out in the Shetland Islands Council Funding Strategy Statement (FSS), dated March 2015.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Pension Fund and the solvency of individual employers' share of the Pension Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;

- not to restrain unnecessarily the investment strategy of the Pension Fund, so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to inform employers of the risks and potential costs associated with pension funding;
- to minimise the degree of short-term change in the level of each employer's contributions 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 ceasing participation or defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

The Funding Strategy Statement sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Pension 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 Pension 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 at 31 March 2014. This valuation revealed that the Pension Fund's assets, which at 31 March 2014 were valued at £333 million, were sufficient to meet 92% (91% at 31 March 2011 valuation) of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £30 million (2011 valuation: £25 million).

The common rate of contribution payable by each employing authority under regulation 32(4)(a) of the Administration Regulations for the period 1 April 2015 to 31 March 2018 is 20.7% of pensionable pay, (i.e. the rate which all employers in the Pension Fund pay).

Individual employers' rates are adjusted under regulation 32(4) (b) from the common contribution rate. The contribution rates payable for the period 1 April 2015 to 31 March 2018 were set in accordance with the Pension Fund's funding policy as set out in its Funding Strategy Statement.

The payment due by the Shetland Islands Council during this period includes an employer's rate of 18.7%, 19.8% and 20.8% per annum for each of the three years and £1.6 million in 2015/16 to meet a funding shortfall arising from the transfer of pension benefits associated with former Shetland Towage employees.

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from the Shetland Islands Council, Administering Authority to the Pension Fund.

Principal actuarial assumptions and method used to value the liabilities

Full details of the method used is described in a valuation report from the actuaries, Hymans Robertson LLP, available on request from the Shetland Islands Council, Administering Authority to the Pension Fund.

Method

The liabilities were assessed using an accrued benefits method which take 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.

Assumptions

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

The key financial assumptions adopted for the 2014 valuation were as follows:

Financial assumptions	31 March 2014	
	% p.a. Nominal	% p.a. Real
Discount rate	5.2%	2.5%
Pay increases *	4.5%	1.8%
Price inflation/Pension increases	2.7%	0.0%

*plus an allowance for promotional increases. Short term pay growth was assumed to be 1% p.a. for 2012/13, reverting to 5.1% p.a. thereafter.

Mortality assumptions

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2008. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Mortality assumption at age 65	Males	Females
Current Pensioners	22.8 years	23.8 years
Future Pensioners	24.9 years	26.7 years

Historic mortality assumptions

Life expectancies for the prior year-end are based on the PFA92 and PMA92 tables. The allowances for future life expectancies are shown in the table below:

Year Ended	Prospective Pensioners	Pensioners
31 March 2014	year of birth, medium cohort and 1% p.a. minimum improvements from 2008	year of birth, medium cohort and 1% p.a. minimum improvements from 2008

Mortality loadings were applied to the PFA92 and PMA92 tables based on membership class.

Commutation assumption

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 post-April 2009 service.

17. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Pension Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 16). The actuary has also used ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2016 was £517 million (31 March 2015: £551 million). The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2014.

Assumptions used

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

31 March 2015 % p.a.	Year ended	31 March 2016 % p.a.
2.4%	Inflation/pension increase rate	2.2%
4.3%	Salary increase rate	4.2%
3.2%	Discount rate	3.5%

18. Current Assets

31 Mar 2015 £000		31 Mar 2016 £000
	Debtors:	
301	• Contributions due - employees	25
1,096	• Contributions due - employers	1,038
57	• Transfer values receivable	27
5	• Sundry debtors	2
2	Prepayments	0
10	Accrued Income	10
1,832	Bank current accounts	1,178
3,303	Total	2,280

Analysis of debtors

31 Mar 2015 £000		31 Mar 2016 £000
8	Central government bodies	0
1,207	Other local authorities	38
1	Public corporations & trading funds	1
255	Other entities and individuals	1,063
1,471	Total	1,102

19. Current Liabilities

31 Mar 2015 £000		31 Mar 2016 £000
(614)	Sundry creditors	(1,497)
(1,039)	Benefits payable	(225)
(1,653)	Total	(1,722)

Analysis of creditors

31 Mar 2015 £000		31 Mar 2016 £000
(1)	Central government bodies	(1)
(875)	Other local authorities	(484)
(22)	Public corporations and trading funds	(36)
(755)	Other entities and individuals	(1,201)
(1,653)	Total	(1,722)

20. Unfunded Pension

31 Mar 2015 £000		31 Mar 2016 £000
702	Added years pension	702

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows local authorities 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.

21. Additional Voluntary Contributions

31 Mar 2015 £000		31 Mar 2016 £000
4,406	Prudential	4,704
91	Equitable Life	91
4,497	Total	4,795

AVC contributions of £0.582m were paid directly to Prudential during the year (2014/15 £0.470m).

22. 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 £0.261m (2014/15 £0.409m) in relation to the administration of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses.

The investments of the Pension Fund are overseen by the Council's Treasury Section; their costs are levied by staff time allocations. Costs incurred were £0.051m (2014/15 £0.058m) in relation to investment of the Pension Fund and the Council was subsequently reimbursed by the Pension Fund for these expenses.

The Council incurred costs of £8.920m (2014/15 £8.429m) in relation to pensioner payments, which was subsequently reimbursed by the Pension Fund.

In addition the Council is the single largest employer of Pension Fund members, and contributed £11.077m to the Pension Fund (2014/15 £11.423m).

All monies owed to the Council, and due from the Pension Fund to the Council, were paid in the year.

Governance

There are two members of the Pension Fund Committee who are in receipt of pension benefits from the Shetland Islands Council Pension Fund. In addition there are other committee members who are active members of the Pension Fund.

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

Shetland Islands Council meetings include all Council Members, and every Councillor is required to declare their interests at each meeting.

Key management personnel

The disclosure requirements for key management personnel can be found in the accounts of the Shetland Islands Council.

23. Impairment Losses

During the year, the Pension Fund has recognised an impairment loss of £0.941m for possible non recovery of cessation values where the employer is not backed by a guarantee.

Actuarial Statement for 2015/16

This statement has been prepared in accordance with Regulation 55(1) (d) of the Local Government Pension Scheme (Scotland) Regulations 2014. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2015. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

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

Individual employers' contributions for the period 1 April 2015 to 31 March 2018 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 valuation report dated 31 March 2015.

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.

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 2014 valuation were as follows:

Financial Assumptions	31 March 2014	
	% p.a. Nominal	% p.a. Real
Discount rate	5.2%	2.5%
Pay increases	4.5%	1.8%
Price inflation/Pension increases	2.7%	-

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 2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.8 years	23.8 years
Future pensioners*	24.9 years	26.7 years

*Future pensioners are assumed to be currently aged 45 as at 31 March 2014.

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from Shetland Islands Council, the Administering Authority to the Fund.

Experience over the period since April 2014

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time.



Douglas Green
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
5 May 2016

Hymans Robertson LLP
20 Waterloo Street,
Glasgow
G2 6DB

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 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension 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 2015/16 (the 2015/16 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 125 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 Executive Manager - Finance and auditor

As explained more fully in the Statement of Responsibilities, the Executive Manager - Finance is responsible for the preparation of the 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 Executive Manager - Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2015/16 Code of the financial transactions of the fund during the year ended 31 March 2016, 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 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matter

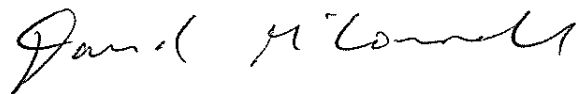
In my opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government.

I have nothing to report in respect of these matters.



David McConnell, MA, CPFA
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22 September 2016

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