



Executive Manager: Jan-Robert Riise
Director of Corporate Services: Christine Ferguson

Governance & Law
Corporate Services Department
8 North Ness Business Park
Lerwick
Shetland, ZE1 0LZ

Telephone: 01595 744550
committee.services@shetland.gov.uk
www.shetland.gov.uk

If calling please ask for
Lynne Geddes
Direct Dial: 01595 744592
Email: lynne.geddes@shetland.gov.uk

Date: 17 September 2020

Dear Sir/Madam

You are invited to the following meeting:

Special Pension Fund Committee / Pension Board
Wednesday 23 September 2020 at 11.30am

Please note that in accordance with the agreed terms of reference, this is a concurrent meeting of both the Pension Fund Committee and the Pension Board - SEE MEMBERSHIP OF BOTH BODIES OVERLEAF

Please note that because of the current COVID-19 (Coronavirus) emergency, and as permitted by legislation, this meeting will not be open to members of the public.

This meeting will take place by remote means, by video and teleconference, for Councillors, Employers and Trade Union Representatives and advising officers only. Joining details will be sent separately to those attending.

Public reports are available on the Council's website. The actions and decisions taken at the meeting will be published on the Council's website as soon as possible thereafter.

Apologies for absence should be notified to Lynne Geddes at the above number.

Yours faithfully

Executive Manager – Governance and Law

Chair: Steven Coutts

AGENDA

- (a) Hold circular calling meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest – Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.

ITEMS

1. Annual Audit Report on the 2019/20 Audit – Shetland Islands Council
Pension Fund
F-040

Pension Fund Committee	Pension Board	
A Cooper S Coutts S Leask E Macdonald R McGregor I Scott G Smith T Smith R Thomson	<u>Employers Representatives:</u> M Bell, SIC S Flaws, SIC J Fraser, SIC Vacancy <u>Joint Secretary</u> J Riise, Executive Manager – Governance and Law	<u>Trade Union Representatives:</u> I Arthur, Nautilus D Marsh, Unison A Taylor, Unison A Thompson, Nautilus <u>Substitutes:</u> <i>C Wiseman, Unison</i> <u>Joint Secretary</u> C Wiseman, Unison



Shetland Islands Council

Agenda Item

1

Meeting(s):	Pension Fund Committee Pension Board	23 September 2020
Report Title:	Annual Audit Report on the 2019/20 Audit – Shetland Islands Council Pension Fund	
Reference Number:	F-040-d	
Author / Job Title:	Jamie Manson, Executive Manager – Finance	

1.0 Decisions / Action required:

- 1.1 That the Pension Fund Committee and Pension Board:
 - a) NOTES the findings of the 2019/20 audit as contained in the External Auditor's annual report at Appendix 1;
 - b) CONSIDERS a verbal report by the External Auditor;
 - c) CONSIDERS the audited Annual Accounts for 2019/20 (Appendix 2) for Shetland Islands Council Pension Fund.
- 1.2 That the Pension Fund Committee RESOLVES to:
 - a) NOTE the findings of the 2019/20 audit as contained in the External Auditor's Annual report at Appendix 1; and
 - b) APPROVE the Audited Annual accounts for 2019/20 (Appendix 2) for Shetland Islands Council Pension Fund for signature.

2.0 High Level Summary:

- 2.1 The Local Authority Accounts (Scotland) Regulations 2014 require the Pension Fund to prepare and publish annual accounts that are subject to external audit. The appointed External Auditor is Deloitte LLP.
- 2.2 Section 10 of the Regulations requires the Committee/Board to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.
- 2.3 External auditors are required to comply with International Standards on Auditing (ISAs) throughout their audit. The standards include a specific standard, ISA 260 '*Communication with Those Charged with Governance*', which prescribes how auditors should communicate their findings which include:
 - results of work on key audit judgements;
 - the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
 - other matters which in the auditor's professional judgement, are significant to the oversight of the financial reporting process.
- 2.4 The External Auditor's findings, otherwise known as their ISA260 report, are included in the Annual Audit Report at Appendix 1. For the 2019/20 financial year, the External Auditor has confirmed an unmodified opinion, which means that the Pension Fund's annual accounts are free from material misstatements and present a true and fair view of the Funds financial position at 31 March 2020.

- 2.5 The unaudited accounts for the year to 31 March 2020 were approved by Pension Fund Committee on 15 July 2020 and there is no change to the accounting surplus or net assets in the audited annual accounts.

3.0 Corporate Priorities and Joint Working:

- 3.1 The preparation and presentation of the annual accounts is a key element of the Pension Fund's overall governance and reporting arrangements.

4.0 Key Issues:

- 4.1 The Local Authority Accounts (Scotland) Regulations 2014 require the Pension Fund to prepare and publish a set of unaudited accounts, including an annual governance statement, by 30 June each year. Due to the Coronavirus pandemic, and in line with Schedule 6 paragraph 8(2) of the Coronavirus (Scotland) Act 2020, the Pension Fund postponed the publication of the unaudited annual accounts to 20 July 2020.
- 4.2 The Pension Fund accounts for the year to 31 March 2020 were submitted to the External Auditor on 7 July 2020 within the revised statutory deadline.
- 4.3 In line with guidance issued by the Scottish Government, Local Government Finance Circular 10/2020, the Scottish Ministers consider it reasonable that the Pension Fund publishes its audited Annual Accounts no later than 30 November 2020.
- 4.4 The External Auditor was required to complete the audit by 30 November 2020 and to report on certain matters arising to those charged with governance.
- 4.5 The Audit Report (Appendix 1) highlights one significant risk and two areas of audit focus areas that were considered, as follows:
- Risk – Management override of controls;
 - Focus area – Completeness of investments;
 - Focus area – Accuracy and timeliness of contributions.
- 4.6 Pages 8 – 11 of the report at Appendix 1 presents how the result of the audit control testing was satisfactory for each of these three areas.
- 4.7 As well as reviewing the annual accounts, the scope of the audit includes wider audit dimensions such as governance, transparency and financial sustainability. Some of the key audit findings (detailed in Appendix 1) in these areas are:
- Financial sustainability – we are satisfied the Fund has sufficient plans in place to continue to be financially sustainable in the medium and long term.
 - Financial management – we are satisfied that appropriate financial reports are provided to both the Audit and Pension Fund Committee to challenge variances and underperformance and that this is performed.
 - Governance and transparency – from our testing performed we have no issues to note. The Annual Governance Statement and Governance Compliance Statement contains the required information.
 - Value for money – we are satisfied that there is sufficient scrutiny over expenditure of the Fund, in particular investment management fees.

5.0 Exempt and/or confidential information:		
5.1 None.		
6.0 Implications :		
6.1 Service Users, Patients and Communities:	None arising from this report.	
6.2 Human Resources and Organisational Development:	None arising from this report.	
6.3 Equality, Diversity and Human Rights:	None arising from this report.	
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 require the Pension Fund to approve the audited Annual Accounts for signature no later than 30 September each year.	
6.5 Finance:	None arising from this report.	
6.6 Assets and Property:	None arising from this report.	
6.7 ICT and new technologies:	None arising from this report.	
6.8 Environmental:	None arising from this report.	
6.9 Risk Management:	The Annual Audit Report includes the identification of key risks and internal control arrangements in place to manage those risks, together with any improvement actions required.	
6.10 Policy and Delegated Authority:	<p>The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland Islands Council Pension Fund (the Pension Fund) in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2013.</p> <p>The Pension Board is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.</p> <p>The preparation and presentation of the Annual Accounts is a key element of the Pension Fund's overall governance and reporting arrangements. Receiving the audited accounts of the Pension Fund and related certificates is a matter reserved by the Pension Fund Committee.</p>	
6.11 Previously considered by:	N/A	

Contact Details:

Jacqueline Johnson, Senior Assistant Accountant, jacqueline.johnson@shetland.gov.uk
10 September 2020

Appendices:

Appendix 1: Annual Audit Report 2019/20 for Shetland Islands Council Pension Fund

Appendix 2: Audited Accounts 2019/20 for Shetland Islands Council Pension Fund

Background Documents: *The Local Authority Accounts (Scotland) Regulations 2014*



Shetland Islands Council Pension Fund

Final report to the Pension Fund Committee and the Controller of Audit on the 2020 audit

Issued 11 September for the meeting on 23 September 2020

Contents

01 Planning Report	
Executive introduction	3
Responsibilities of the Pension Fund Committee	4
Materiality	5
Scoping	6
Significant audit risk	7
Audit focus areas	9
Wider scope requirements	12
Purpose of our report and responsibility statement	16

02 Appendices	
Fraud responsibilities and representations	18
Independence and fees	20
Audit adjustments	21
Outstanding items	22
Our approach to quality	23



Executive introduction

The key messages in this report:

We have pleasure in presenting our Final Report to the Pension Fund Committee for the 2020 audit of Shetland Islands Council Pension Fund (the 'Fund'). We would like to draw your attention to the key messages of this paper:

Status of the audit

We are currently progressing towards completion. We have detailed the procedures still to be completed in appendix 4. Subject to the satisfactory receipt and completions of the items in Appendix 4, we expect to issue an unmodified audit opinion on the financial statements of the Fund.

Significant audit risks

In our planning report, we identified management override of controls as our significant audit risk. Auditing standards require us to assume that management override of controls is an audit risk for all of our audits.

Further details of this significant risk, including our proposed testing can be found on page 8.

There has not been a change to our risk assessment.

Audit Quality

We have completed our audit in line with our planning report dated 14 February 2020.

We have committed to delivering a robust challenge of the key judgements taken in the preparation of the financial statements; to gain a strong understanding of your internal control environment; and to deliver a well planned audit that raises findings early with those charged with governance.

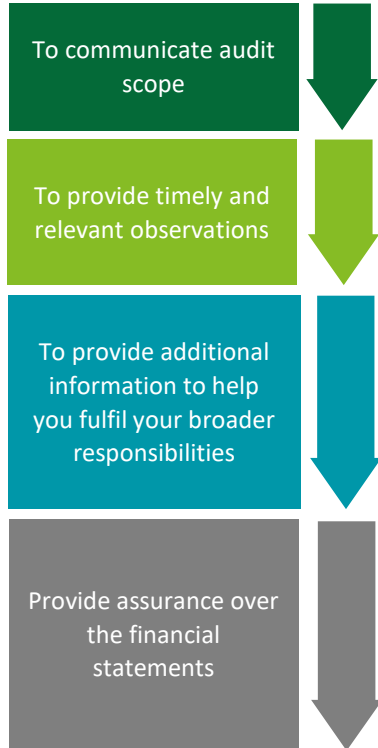
Details of the unadjusted misstatements can be found in appendix 3.

Pat Kenny
Audit Director

Responsibilities of the Pension Fund Committee

Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Pension Fund Committee:



As a result of regulatory change in recent years, the role of the Pension Fund Committee has significantly expanded. We set out here a summary of the core areas of Pension Fund Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps those charged with governance in fulfilling their remit.

- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the Fund advisors where activities have been delegated by the Pension Fund Committee.
- Assess the completeness of disclosures, including consistency with disclosures required under the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Oversight of external audit

- At the start of each annual audit cycle, ensure the scope of the external audit is appropriate.

Integrity of reporting

Internal controls and risk

- Review the internal control reports and risk management systems for Fund advisors.
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether there is a need for an internal audit function and any testing to be performed over pension activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

We use this symbol throughout this document to highlight areas of our audit where the Pension Fund Committee needs to focus their attention.

Materiality

Our Approach to Materiality

Basis of our materiality benchmark

- We set materiality for our opinion on the individual financial statement as £4,607k (PY: £4,971k), based on professional judgement, the requirement of auditing standards, and the net assets of the Fund.
- We have used 1% of Fund net assets.

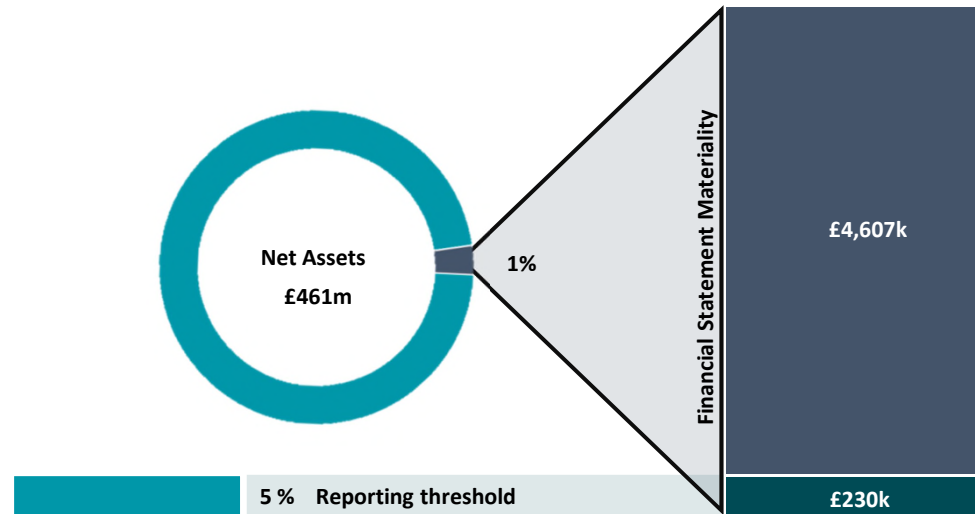
The basis for our materiality calculations is the same as the previous year.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of 5% of financial statement materiality. We report to you misstatements below this threshold if we consider them to be material by nature.

Materiality Calculation

Although materiality is the judgement of the audit director, the Pension Fund Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



Scoping

Risk dashboard



Risk Area	Risk Type	Fraud Risk	Judgement	Controls approach?	Approach to testing
Management override of controls				D&I	See page 8.
Accuracy and timeliness of contributions				D&I	See page 10.
Completeness of investments				D&I + OE	See page 11.

Significant risk: risk which require a tailored, elevated audit response in terms of the nature, timing and extent of audit testing. Significant risks are based on professional judgment and the results of the risk assessment procedures we have performed.

Audit focus areas: risks which require additional audit consideration beyond that of normal risks, but where the potential for material misstatement or the likelihood is lower than that of a significant risk.

D&I: Design and implementation of controls

OE: Operating effectiveness



Low levels of management judgement/involvement



Medium levels of management judgement/involvement



High degree of management judgement/involvement



Significant risk



Audit focus area



**Significant
audit risk**

Significant risks

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Response of those charged with governance

The Pension Fund Committee does not have access to the Fund accounting system and does not process any journals in respect of the Fund.

The financial reporting process in place has an adequate level of segregation of duties.

Findings

There are no issues arising from our testing performed to date that would indicate that there have been any instances of management override of controls during the year.

Deloitte response to significant risk identified

In order to address the significant risk our audit procedures consisted of the following:

- Used our Excel data analytics in our journals testing to interrogate 100% of journals posted across the Fund;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Reviewed the accounting estimates for bias, such as year-end creditor and debtor postings and the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management;
- Ensured that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- Reviewed related party transactions and balances to identify if any inappropriate transactions have taken place;
- Tested the design and implementation of controls around the investment and disinvestment of cash during the year; and
- Made enquiries of management in relation to the identification of related parties.



Audit focus areas

Audit focus areas

Accuracy and timeliness of contributions

Risk identified

The correct deduction and timely payment of contributions depends on system-based processing of membership data and salary details, together with a robust internal controls framework. Errors in processing contributions can lead to issues such as non-compliance with the Local Government Pension Scheme Regulations 2014 (“LGPS Regulations”) and the recommendations of the actuary, and deducting incorrect amounts from the active members’ payroll, which can be costly to rectify and cause reputational damage.

In addition, while no opinion is issued on timely payment of contributions, it remains an area of focus, as LGPS Regulations stipulate due dates for payment. Late payments could cause reputational damage.

There is a risk that contributions are not paid to the Fund accurately or in a timely manner.

Response of those charged with governance

The administration team monitors the due dates of contributions and that the correct amounts are received into the Fund bank account to ensure that payments are in accordance with the actuarial valuation.

Employers must also complete a contributions return confirming that the contributions paid during the year are accurate and complete.

Findings

We did not note any issues from our testing performed to date.

Deloitte response to risk identified

In order to address this area of audit focus, we performed the following audit procedures:

- Reviewed the design and implementation of key controls over the contribution process;
- Performed an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- For a sample of active members, we recalculated individual contribution deductions to ensure these are being calculated in accordance with the rates stipulated in the LGPS Regulations for employee contributions and the recommendations of the actuary for employer contributions;
- Tested that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions;
- Tested the reconciliation of the total number of active members between the membership records and the employer payroll records; and
- For a sample of monthly contributions paid, checked that they have been paid within the due dates per the LGPS Regulations.

Audit focus areas

Completeness of investments

Risk identified

The Fund holds a large and highly material portfolio of investments, which is diversified with several investment managers. As a result of this we consider the completeness of these investments to be an area of audit focus.

The Fund holds investments primarily in pooled funds, pooled property unit trusts and fixed income unit trusts with a range of investment managers.

Response of those charged with governance

The Fund appoints various investment managers and Northern Trust as custodian for these investments. These parties have strong control environments in place.

Findings

We have identified inconsistencies with the fair value hierarchy and related disclosures in the financial statements, and we understand that this is in the process of being addressed.

We are in the process of finalising our procedures and will report to the Pension Fund Committee if any further issues are identified.

Deloitte response to risk identified

In order to address this area of audit focus, we performed the following audit procedures:

- Reviewed the design and implementation of key controls over the valuation and completeness of investments by obtaining the investment manager internal controls reports and evaluating the implications for our audit of any exceptions noted. We reviewed the operating effectiveness of controls over the completeness of investments by obtaining the custodian internal controls report and evaluating the implications for our audit of any exceptions noted in respect of reconciliations and reporting of transactions;
- Independently requested confirmations from all investment managers and the global custodian for balances held per the financial statements;
- Agreed year end valuations, sales proceeds and purchases in the financial statements to the reports received directly from the investment managers;
- Performed a full unit reconciliation of investments held during the year;
- Performed valuation testing by using a range of techniques depending on the type of investment:
 - Where the investment was not directly quoted on an exchange, we confirmed if it is registered on the Financial Conduct Authority website and obtain an independent price, or used sales transactions close to the year end as an estimate of the price.
 - Where the investment was a unit linked insurance policy, we confirmed that the investment is held under the form of a unit linked insurance policy, that the insurance provider is authorised to provide insurance services and obtained confirmation that the provider would be willing to transact at the unit price stated on the confirmation received.
 - Where none of these options was available we obtained audited financial statements and assessed the year end price against the audited accounts, and benchmark movements where the date of the audited financial statements was not coterminous with the Fund's financial year.



**Wider scope
requirements**

Wider Scope Requirements

Audit Dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We have considered how the Pension Fund addresses these areas as part of our audit work as follows:

Audit dimension	Audit work completed	Audit conclusion
Financial sustainability looks forward to the medium and longer term to consider whether the Pension Fund is planning effectively to continue to deliver its services or the way in which they should be delivered.	<ul style="list-style-type: none">• We reviewed the financial planning systems in place by the Pension Fund to ensure that its services can continue to be delivered.• We also reviewed the arrangements in place to address any funding gaps.• We looked at the affordability and effectiveness of funding and investment decisions made. <p>This included:</p> <ul style="list-style-type: none">• a review of the latest actuarial valuation of the Pension Fund (dated 31 March 2017) and the plans in place to reduce the deficit over the shorter and medium term; and• A review of the funding policy as set out in the Shetland Islands Council Pension Fund Investment Strategy 2014-2027 ("Investment Strategy"), which aims to ensure the long-term solvency of the Pension Fund, so that there are sufficient funds available to meet all benefits as they fall due.	<p>From our work completed we are satisfied the Fund has sufficient plans in place to continue to be financially sustainable in the medium and long term. We did not identify any issues regarding non-payment of contributions due from the Scheduled and Admitted Bodies which would have an impact on the financial sustainability of the Fund.</p> <p>In addition from our review of the Investment Strategy 2014-2027, the Fund has taken investment advice on how best to use its resources appropriately to ensure future benefits can be settled when the liability arises and the Fund will be 100% funded by 2027.</p>

Wider Scope Requirements

Audit Dimensions

Audit dimension	Audit work completed	Audit conclusion
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	<ul style="list-style-type: none">• We reviewed the budget and monitoring reporting by the Pension Fund during the year to assess whether financial management and budget setting is effective;• We ensured that there is a proper officer who have sufficient status to be able to deliver good financial management, that monitoring reports contain information linked to performance as well as financial data, and that members have the opportunity to provide a sufficient level of challenge around variances and under-performance; and• We reviewed the design and implementation of the Pension Fund and third party advisers controls in place to ensure they were operating effectively.	<p>From our testing completed we can confirm that an Executive Manager – Finance has been appointed who has the appropriate status to act in that role and complies with the five principles outlined in the CIPFA guidance.</p> <p>From our review of the budget process we are satisfied that appropriate financial reports are provided to both the Audit and Pension Fund Committee to challenge variances and underperformance and that this is performed.</p> <p>Although for our audit purposes, we did not perform operating effectiveness testing, our implementation walkthroughs of controls in place did not show evidence of failing controls. In addition, our review of the investment managers' published controls reports did not raise any matters.</p>

Wider Scope Requirements

Audit Dimensions

Audit dimension	Audit work completed	Audit conclusion
<p>Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<ul style="list-style-type: none"> • We reviewed the Pension Fund Committee meeting minutes to assess the effectiveness and scrutiny of governance arrangements. • We reviewed other aspects of governance around the Pension Fund including Codes of Conduct for officers and members, fraud and corruption arrangements, and arrangements for reporting regulatory breaches to the Pensions Regulator. • In addition we reviewed the Annual Governance Statement and Governance Compliance Statement to confirm the governance arrangements observe the guidance issued by Scottish Ministers. 	<p>From our testing performed we have no issues to note. The Annual Governance Statement and Governance Compliance Statement contains the required information.</p> <p>The procedures and policies around governance, Codes of Conduct, etc. are clear and transparent and available for all Members to read on the Shetland Island Council website.</p>
<p>Value for money is concerned with using resources effectively and continually improving services.</p>	<ul style="list-style-type: none"> • We gained an understanding of how the Pension Fund demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered. • We reviewed the scrutiny that is in place to challenge the Pension Fund's investment managers on fees and performance. 	<p>From our review of the budget process we are satisfied that there is sufficient scrutiny over expenditure of the Fund, in particular investment management fees.</p> <p>In addition the Investment Strategy document outlines how the Fund will achieve value for money in where the assets are invested, ultimately aiming for 100% funding by 2027.</p>

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Pension Fund Committee and the Controller of Audit discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the Fund financial statements.

We described the scope of our work in our proposed audit plan circulated to you on 14 February 2020.

The audit insights and other control findings of this report provide details of additional work we have performed alongside the audit of the Fund financial statements.

This report has been prepared for the Pension Fund Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Pension Fund Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and Fund risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the Fund financial statements and the other procedures performed in fulfilling our audit plan.


We welcome the opportunity to discuss our report with you and receive your feedback.



Pat Kenny

for and on behalf of Deloitte LLP

Glasgow | 11 September 2020



Appendices

Key audit matters

Appendix 1: Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the Pension Fund Committee, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified management override of controls as a key audit risk for the Fund.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Pension Fund Committee:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.



Appendix 1: Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to the Pension Fund Committee regarding its processes for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- We plan to involve management from outside the finance function in our inquiries.



Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Fund, and to obtain its views about the risks of fraud.



The Pension Fund Committee

- How the Pension Fund Committee exercises oversight of management's processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks.
- Whether the Pension Fund Committee has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- The views of the Pension Fund Committee on the most significant fraud risk factors affecting the Fund.



Appendix 2: Independence and fees

A Fair and Transparent Fee



As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund for the year ended 31 March 2020.
Fees	<p>The fee for the 2019/20 audit has been agreed as:</p> <p>Auditor remuneration: £24,387 Pooled costs: £2,510 Contributions to Audit Scotland costs: £1,550 Total: £28,447</p> <p>There are no non-audit services fees proposed for the period.</p>
Non audit services	<p>In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy.</p> <p>We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.</p>
Relationships	We have no other relationships with the Fund, the Pension Fund Committee, or management, and have not supplied any services to other known connected parties.

Appendix 3: Audit adjustments

Unadjusted misstatements and disclosure deficiencies

We have identified the following misstatements and disclosure deficiencies from our audit work to date, most of which have been corrected by management but we nonetheless bring to your attention.

	Debit/ (credit) in Fund Account £	Debit/ (credit) in net assets £	If applicable, control deficiency identified
Uncorrected misstatements			
None			
Corrected misstatements			
None			
Total	-	-	

Disclosure deficiencies

Auditing standards require us to highlight significant disclosure misstatements to enable Pension Fund Committees to evaluate the impact of those matters on the financial statements. The table below highlights those areas of disclosure that we consider require consideration by the Audit and Pension Fund Committee.

- 1) There are currently discrepancies in the disclosure of the fair value hierarchy of the investments, where there is currently no funds categorised as level 3, and no further level 3 disclosures have therefore been made in the financial statements. We understand that this is currently being looked into.
- 2) Further disclosures are required to explain the gating/ suspension and/or material uncertainty attached to the valuation of the pooled property funds held.

Appendix 4: Outstanding items

Items outstanding at the date of draft report and still being worked on

Our final opinion is subject to completion of these items.

-
- Pension payroll controls testing
-
- Going concern review
-
- Finalisation of substantive analytical procedures on investment movements over the year
-
- Receipt of final version of the financial statements for our review
-
- Finalisation of our internal quality control procedures
-
- Final partner and technical review clearance
-
- Receipt of signed management representations letter
-
- Satisfactory completion of our post year-end events review
-

Appendix 5: Our approach to quality

AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm-wide quality control systems, a key aspect of evaluating our audit quality.

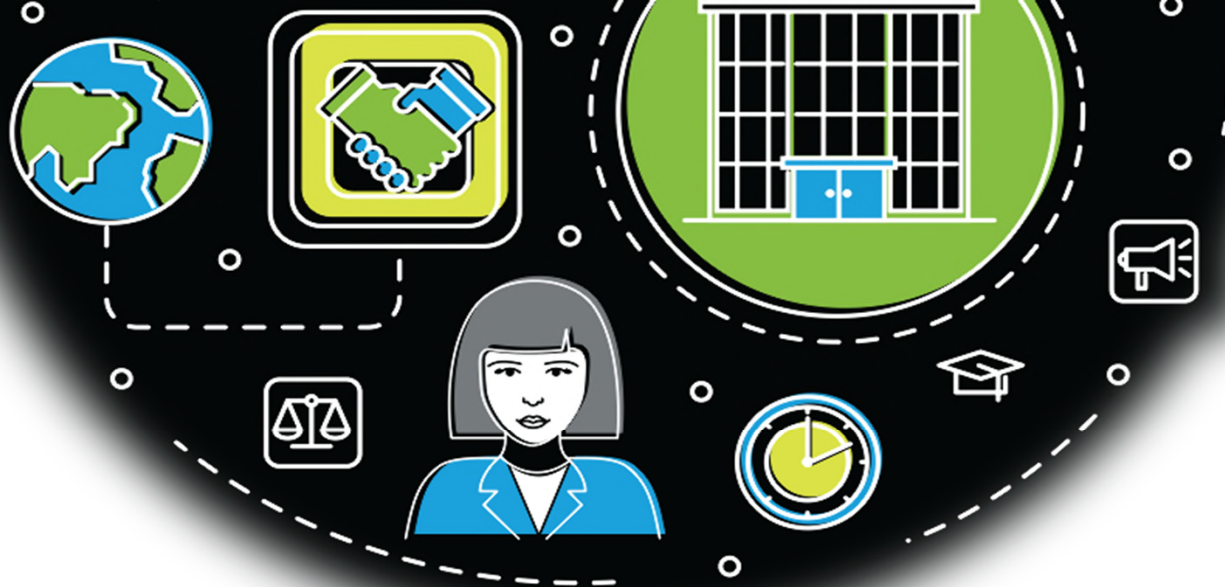
We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm-wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm-wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>



Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Pension Fund Annual Report and Accounts **2019/20**



Table of Contents

Management Structure	1
Introduction	2
Management Commentary	3
Annual Governance Statement	12
Statement of Responsibilities for the Statement of Accounts.....	21
Independent Auditor's Report	22
Pension Fund Account 2019/20	25
Net Assets Statement as at 31 March 2020	26
Note 1: Description of Pension Fund	27
Note 2: Basis of Preparation	28
Note 3: Accounting Standards Issued and Adopted in year	26
Note 4: Accounting Standards Issued not Adopted	26
Note 5: Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty	26
Note 6: Contributions Receivable	27
Note 7: Transfers in from Other Pension Funds	27
Note 8: Benefits Payable	27
Note 9: Payments to and on Account of Leavers.....	28
Note 10: Management Expenses.....	28
Note 11: External Audit Costs.....	28
Note 12: Investment Income.....	28
Note 13: Investments	28
Note 14: Fair Value Hierarchy.....	31
Note 15: Financial Instruments	32
Note 16: Nature and Extent of Risks Arising from Financial Instruments	34
Note 17: Funding Arrangements	39
Note 18: Actuarial Present Value of Promised Retirement Benefits	40
Note 19: Current Assets	41
Note 19a: Long Term Debtor.....	41
Note 20: Unfunded Pension	41
Note 21: Current Liabilities.....	42
Note 22: Contingent Liabilities	42
Note 23: Additional Voluntary Contributions	42
Note 24: Related Party Transactions	43
Note 25: Changes in Actuarial Present Value of Promised Retirement Benefits	43
Note 26: Critical Judgements in Applying Accounting Policies	44
Note 27: Events after the Balance Sheet Date	44
Note 28: Accounting Policies	44
Actuarial Statement for 2019/20.....	48

Management Structure

Administering Authority

Shetland Islands Council
Town Hall
Lerwick
Shetland
ZE1 0HB

Fund Custodian

The Northern Trust Company

Investment Advisor

Isio

Investment Managers

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

Fund Actuary

Hymans Robertson LLP

Banker

Bank of Scotland

AVC Providers

Prudential
Equitable Life (closed to new members)

Independent Auditor

Deloitte LLP

Website

www.shetlandpensionfund.org

Introduction

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

This year, I am pleased to report that the Fund is valued at £461m and total membership of the Fund increased to 7,842. The total membership figure is the equivalent to a third of the Shetland population.

As a Pension Fund we have worked hard in the past year.

It continues to be a challenging and uncertain environment. We saw the continuing impact of a lack of progress on Brexit negotiations culminating in a change of UK Prime Minister and a General Election in December 2019; the second General Election to be held since the 2016 referendum. Beyond uncertainty at the domestic level, the Fund has seen increased geopolitical uncertainties and more recently, we have seen the very significant impact of the Covid-19 pandemic on the Pension Fund in the first quarter of 2020. It is likely the Covid-19 pandemic will have a lasting impact going forward.

The impact of the pandemic is clearly seen in the fund valuation at the end of the year. It is a sharp decline but one that we expect to be reversed over the longer-term.

The national discussions on pension administration are still unresolved and continue to provide a degree of uncertainty. Our officers continue to engage with other LGPS schemes and promote a culture of continuous improvement and sharing of best practice.

As a Pension Committee, we continue to promote the status quo and in doing so highlight the good performance of our fund and our desire to retain control of local decision-making.

Thank you

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

Steven Coutts
Chair, Pension Fund Committee



Management Commentary

Welcome to Shetland Islands Council Pension Fund's Annual Report and Accounts for the year ended 31 March 2020. The purpose of the Management Commentary is to present an overview of the Pension Fund's financial performance during the year 2019/20 and to help readers understand its financial position at 31 March 2020. In addition, it outlines the main uncertainties facing the Pension Fund for the financial year 2019/20 and beyond.

Background

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

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

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

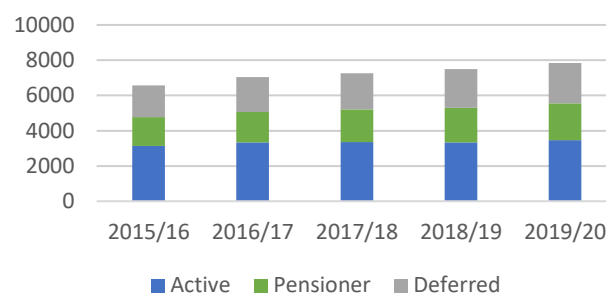
Teachers are not included as they are members of the Scottish Teachers' Pension Scheme.

Membership

The Pension Fund is made up of:

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

Pension Fund Membership



Employers with active members at 31 March 2020

Scheduled Bodies:

Shetland Islands Council
Orkney & Shetland Valuation Joint Board

Admitted Bodies:

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

Employers with no active members at 31 March 2020

Admitted Bodies:

Shetland Enterprise Co Ltd (Highlands & Island Enterprise)

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

Valuation

The triennial valuation was carried out at 31 March 2017, resulting in an actuarial value of the Pension Fund of £450m, an increase of £117m on the previous valuation at March 2014. This increase is due to better than expected asset returns and lower actual pay growth than anticipated. The triennial valuation at 31 March 2020 is currently underway.

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

Investment Review

Global economic review

Global markets experienced a largely positive 2019 following particularly poor performance in 2018. Markets returned positive returns throughout 2019, despite experiencing volatility arising from:

- ongoing trade tension between the US and China;
- uncertainty surrounding the UK's withdrawal from the European Union;
- political protests in Hong Kong; and
- political uncertainty in Italy and the UK.

The result of the UK general election provided clarity over the UK's position with regard to Europe, improving market confidence.

Throughout the year, the trade war continued between the United States and China. However, following talks and months of increasing hostility, the two nations signed the first phase of a long-awaited trade deal that covers a range of goods and services, including food and agriculture, technology, financial services, and matters relating to intellectual property. The signing of the deal de-escalated the significant tensions that existed and paved the way for further

negotiations that cover a much broader range of goods and services.

Closer to home, progress to agree the terms of the UK's withdrawal from the European Union stalled and led to a change in Prime Minister in July 2019. Following a period of further constitutional frustration, a General Election was held in December 2019, returning the Conservative Party to power with a working majority. The election result provided clarity over the UK's position on Europe and the markets responded positively to this clarity of direction. The UK proceeded to formally leave the European Union on 31 January 2020 and entered a Transitional Period, during which time the UK will abide by all existing EU laws, regulations and directives until 31 December 2020. There remains significant uncertainty about what kind of trading relationship the UK will have with the EU beyond December 2020, which is expected to be clarified through negotiations and a formal agreement before December 2020.

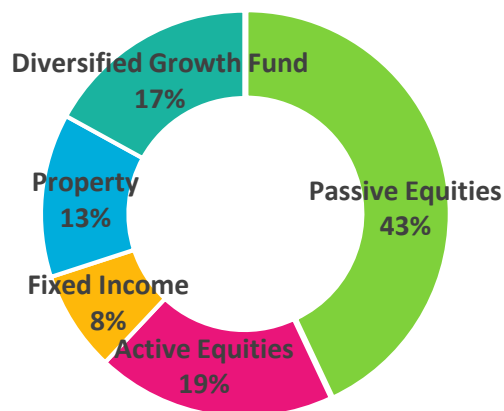
In the last quarter of 2019/20 between January and March 2020, the world began to experience the greatest public health emergency in recent history, caused by a coronavirus known as Covid-19, which has since been declared a pandemic and global health emergency of international concern. In response, national governments began to impose severe restrictions on normal economic activity, otherwise known as a 'lockdown', to suppress the transmission of the virus. Such restrictions have inevitably led to a severe scaling back, or complete closure of much economic activity across the world, which has had significant impact on market returns.

By 31 March 2020, all asset categories had suffered a serious and sharp fall in value of assets as a direct result of the uncertainty caused by the Covid-19 pandemic. The value of Pension Fund assets reached their lowest point in early April, before markets began to stabilise.

Investment Summary

What does the Pension Fund invest in?

Pension Fund Investment Portfolio by Asset Class



Equities

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

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

Fixed Income

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

Property

The Fund invests in a range of real estate and property assets across the UK, with stakes in retail units, shopping centres, industrial units and offices. Investments are made through a variety

of property unit trusts and funds, which are managed by Schroders on the Fund's behalf.

Diversified Growth Fund

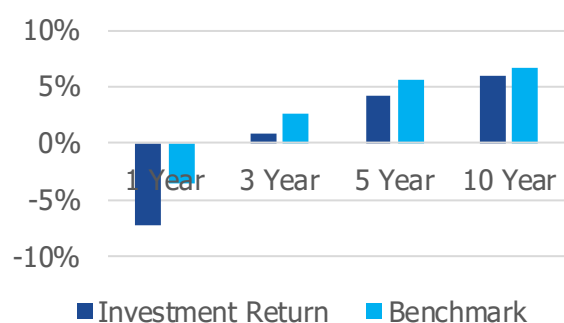
A diversified growth fund is an asset class that seeks to achieve similar returns to an equity investment but without the same risk of volatility. The growth fund does this by investing across a wide range of assets. The Fund's investments are a combination of traditional assets, such as government bonds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

Investment Performance

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

For the year to 31 March 2020, Pension Fund assets collectively generated a return of -7.3%, a negative return that resulted in the contraction of the value of Pension Fund assets. This compares against a combined benchmark return of -3.6%. The Fund experienced significant volatility towards the end of the year, despite strong investment returns during the first 11 months of the year, with equity investments driving the strongest returns. Net Pension Fund assets at the end of the year totalled £460m, which is £36.4m less than the year before.

Pension Fund Investment Returns



Investment performance across the different asset classes reflects a mixed picture and

representative of the nature of the different types of investment.

The Fund's investments in equities, which are passively managed, returned -10.1%, which matched the agreed benchmark. Active global equity investments generated a negative return of -14.7% but this was well below the set benchmark of -5.8%.

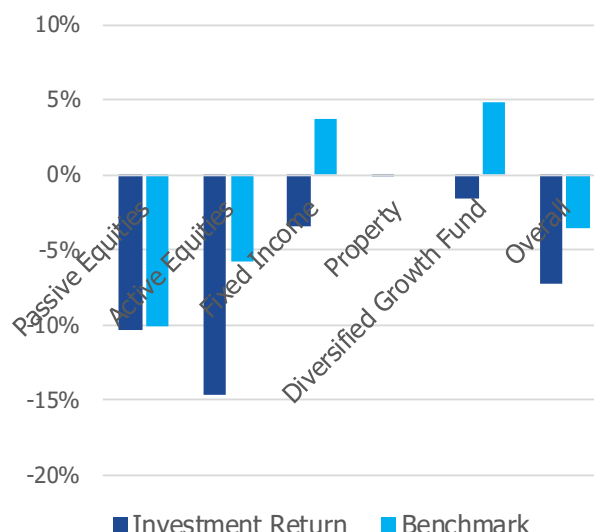
The Fund's investments in fixed income returned -3.5%, which was below the benchmark of 3.7%.

The diversified growth fund generated a return of -1.6%, which was below the set benchmark of 4.8%.

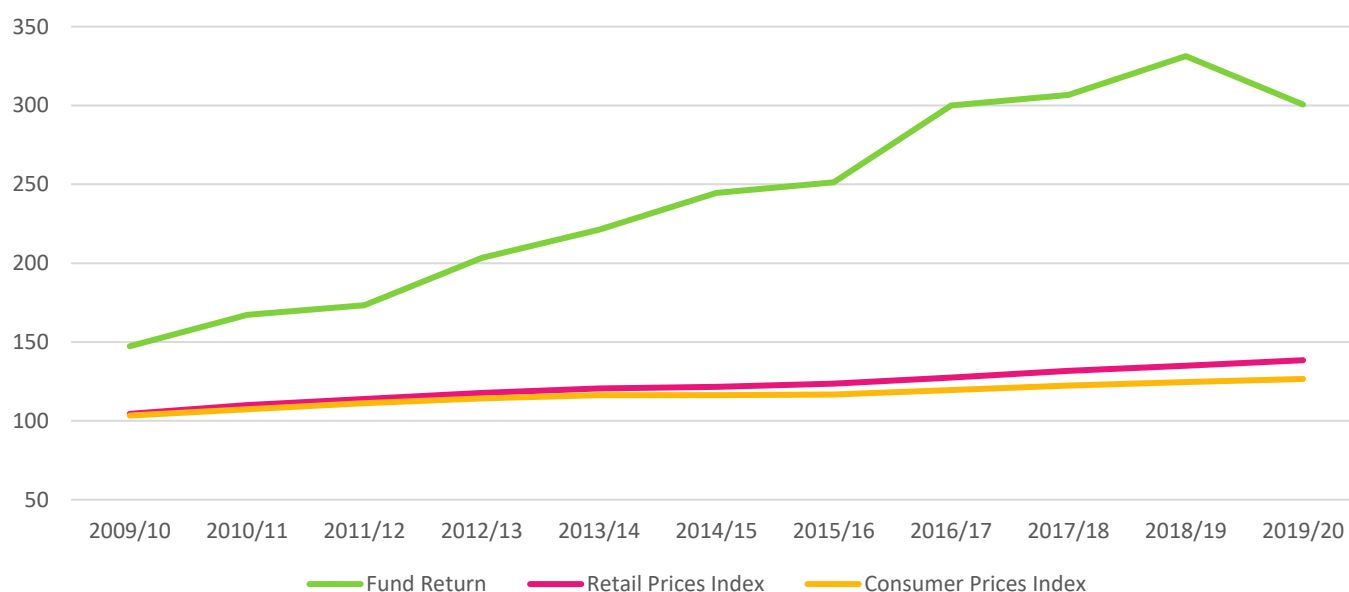
The Fund's property investment portfolio delivered a return of -0.1%, which was slightly behind of the agreed benchmark of 0%.

The chart below shows the Fund's investment performance over the last ten years versus inflation. Over the longer term, the Fund's assets have grown positively in value by 5.9% on an annualised basis. However, actual returns vary on an annual basis reflecting the volatile nature of the Fund's investment portfolio.

Investment Returns by Asset Class for year ended 31 March 2020



Investment Performance vs Inflation over 10 Years



Investment arrangements and policies

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

The Fund utilises the service of fund managers, who have delegated powers for the acquisition and realisation of investments. As part of their internal investment decision-making processes, fund managers are expected to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long-term prospects of such companies.

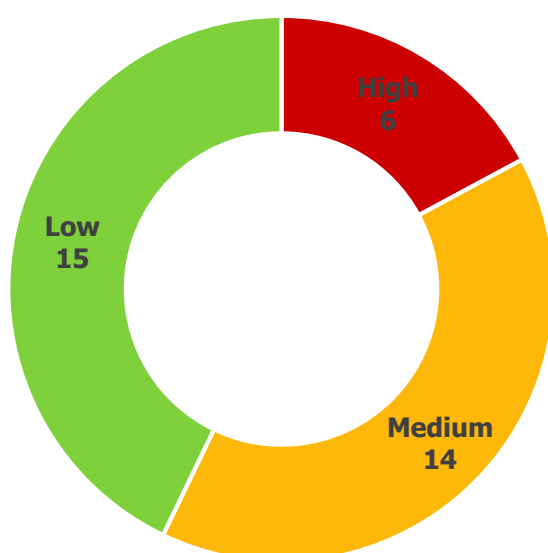
All the fund managers have signed up to the United Nations Principles on Responsible Investment Management. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty.

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

Risk

The Pension Fund maintains a risk register which is updated regularly. The latest iteration of the register contained a total of 35 risks, summarised by risk level in the following chart.

Summary of Risk Register



The key risks to the Fund are:

- staff unable to access workplace leading to staff downtime and loss of service delivery;
- fund investments fail to deliver returns in line with anticipated returns required to

meet the valuation of the long term liabilities;

- fall in bond yields, leading to risk in value placed on liabilities;
- employers leaving scheme/closing to new members due to cost or cessation;
- failure in world stock markets; and
- underperformance by active fund managers.

The full risk register can be found at:

<https://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=23778>

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

Funding Strategy

The Net Assets Statement shows an decrease in net assets of the Pension Fund from £497m in 2018/19 to £461m in 2019/20. The Fund's investment strategy aims to achieve a fully funded Pension Scheme by 2027. The Funding Strategy and Investment Strategy are inextricably linked, in order for the Fund to meet all benefit payments as and when they fall due. Other objectives of the Pension Fund are:

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

Funding Strategy Statement

The regulations covering management of the Pension Funds require the administering authority to prepare, maintain and publish a written Funding Strategy Statement. A revised Funding Strategy Statement was adopted in March 2018,

as part of the triennial valuation process. Details of the Funding Strategy Statement are found in Note 17: Funding Arrangements, on page 38.

The Funding Strategy Statement can be found here:

<https://www.shetlandpensionfund.org/media/4480/funding-strategy-statement.pdf>

The purpose of the Funding Strategy Statement is:

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

The most recent actuarial valuation was carried out as at 31 March 2017. It showed that the Pension Fund is valued at £450m and 90% funded, with a deficit of £51m. The triennial valuation includes setting the employer contribution rates for the next three years. The primary employer contribution rate across the whole fund is 22.1%, with additional secondary rates that make up the final contribution rates payable by individual employers.

Statement of Investment Principles

The Pension Fund Committee and the Pension Board meetings on 26 October 2015 approved the current Shetland Islands Council Pension Fund Statement of Investment Principles. This statement includes administration details, the objective of the Pension Fund, types of investments, balance between different types of investment, risk, expected return on investments, realisation of investments, responsible investments, securities lending and compliance.

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

The Statement of Investment Principles can be found here:

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18529> – Appendix A.

The Statement of Investment Principles is due to be updated following the conclusion of the Investment Strategy Review.

Performance Management

The Annual Accounts satisfy the requirements of the Local Government Pension Scheme (Scotland) Regulation 55 (1) of the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended), to prepare a Pension Fund Annual Report for the financial year from 1 April 2019 to 31 March 2020. In addition, quarterly Management Accounts are presented to the Pension Fund Committee, which shows the year to date position and the projected year-end outturn.

Primary Financial Statements

The Annual Accounts summarise the Pension Fund's transactions for the year and its year-end position at 31 March 2020. The Annual Accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB) Framework as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The two primary statements, the Pension Fund Account and Net Assets Statement, as at 31 March 2020, include a description of their purpose. Accompanying the two primary statements, are notes to the accounts, which set out the accounting policies adopted by the Pension Fund and provide more detailed analysis of the figures disclosed in the Primary Financial Statements.

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

Financial Performance 2019/20

The Pension Fund accounts present the full economic cost of providing Pension Fund services for 2019/20 and this shows a net expenditure of £36.4m. This differs from the draft outturn position, shown below. The draft outturn was

reported to the Pension Fund Committee and the Pension Board on 15 July 2020.

The report can be found on Shetland Islands Council's website.

Description	2019/20 Annual Budget £000	2019/20 Draft Outturn £000	2019/20 Variance £000
Total Expenditure	16,487	18,107	(1,620)
Total Income	(22,654)	(24,075)	1,421
Net Income	(6,167)	(5,968)	(199)

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

Expenditure was higher than budgeted due to a greater number of lump sums paid out during the year than had been estimated. More people than anticipated retired during 2019/20 resulting in an increase in benefits payable. Income was higher than budgeted due to greater investment income than budgeted. Income was received from the overseas pooled property fund investment that was unbudgeted. The overseas property fund is in the process of being liquidated and the income is the proceeds of the sale of the property. The proceeds from the overseas property sale will be reinvested by the property manager.

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

Administration Strategy

The Pension Fund's Pension Administration Strategy highlights the duties of, and sets the

performance for, both the Fund and all of the participating employers.

Employers must provide accurate information to the Pension Fund in a timely manner, to ensure that information provided to Scheme members is also accurate and timely. The information received from employers to the Pension Fund, such as new starts, leavers, retirements and deaths was delivered in a timely manner during 2019/20.

All employer contributions in 2019/20 were received by the 19th of the month following deduction.

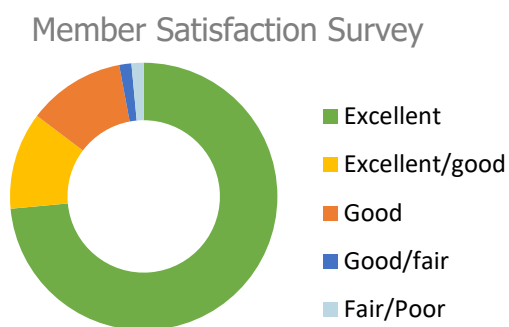
Administration Performance

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

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

Ten employer surveys were returned which indicated 95% of respondents rated the service received as excellent and 5% rated the service as good.

The chart below shows the latest member satisfaction survey results.



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

The table below shows the summarised budget and spend for the Pension Fund's administration costs for 2019/20.

Administration Expenses	2019/20 Annual Budget £000	2019/20 Draft Outturn £000	2019/20 Variance £000
Staff Time Allocations	270	230	40
Supplies, Services & Systems	131	107	24
Printing & Publications	3	3	0
Total	404	340	64

Staff Time Allocations were underspent due to vacancies. A computer module was not purchased as anticipated, this led to the underspend on supplies services & systems.

The Pension Administration KPI's for 2019/20 are:

KPI's	Target	31 March 2020			31 March 2019		
		Number	Number within target	% within target	Number	Number within target	% within target
New starts	2 months from date of joining scheme	711	707	99%	564	547	97%
Leavers	2 months from leaving scheme	166	157	95%	195	191	98%
Transfer in quotes	2 months from date of transfer quotation	36	36	100%	25	24	96%
Transfer out quotes	3 months from date of request	29	29	100%	24	24	100%
Notifying members of benefits on retirement	1 month from date of retirement	130	130	100%	139	139	100%

KPI's (cont.)	Target	31 March 2020			31 March 2019		
		Number	Number within target	% within target	Number	Number within target	% within target
Retirement estimates	2 months from date of request	102	101	99%	58	54	93%
Calculation of dependants benefits	2 months from notification	35	35	100%	21	21	100%
Annual Benefits statement - to all active and deferred members	by 31 August each year	5,368	5,368	100%	5,532	5,532	100%
Contributions from employers	by 19th of month following deduction	120	120	100%	120	120	100%

Monitoring Arrangements

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

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

In line with the Pension Fund's governance arrangements to monitor and review Fund Managers, the Pension Fund Committee and Pension Board invite Fund Managers to attend the quarterly meetings to give presentations on their mandates and investment performance. At the meeting of 21 November 2019, the Custodian, Northern Trust, and Fund Manager, Schroders Investment Management both gave presentations to the Pension Fund Committee and Pension Board. Northern Trust's presentation was to inform the members and employers of the work they undertake on behalf of the Pension Fund. Schroder's presentation was to inform members and employers about the Pension Fund's property investment and its investment performance.

A group that includes Pension Fund Committee, Pension Board and officer representation undertakes an annual visit to each Fund Manager in April each year. The Fund Managers also supply

a quarterly audited performance review report and monthly valuation report.

Remuneration Report

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

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

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

Looking Ahead

Consultation on the future of Scottish LGPS Funds

The consultation about the structure of the Scottish LGPS, commissioned by the Scottish Scheme Advisory Board (SAB) during 2018/19 is still not concluded. The SAB have commissioned further work to explore the benefits of a fully-merged model. The results of the consultation were 68% in favour of status quo or collaboration, 2% for pooling and 30% for merger.

2020/21 Budget

The 2020/21 budget for the Pension Fund was approved on 12 March 2020. It shows a net income of £5.730m. A number of assumptions and historical trends are used to develop the budget for the Pension Fund. Due to the level of individual choice involved in choosing when to retire, the budget represents the most reasonable estimates of income and expenditure.

Pension Fund	2020/21 Approved Budget £000
Employee Costs	289
Operating Costs	212
Investment Expenses	1,583
Benefits Payable	11,548
Transfer Out	850
Lump Sums	2,250
AVC Out	600
Total Expenditure	17,332
Contributions Received	(18,406)
Investment Income	(3,606)
Transfer In	(450)
AVC In	(600)
Total Income	(23,062)
Net Income	(5,730)

Triennial Valuation

The Pension Fund will be subject to a triennial valuation in 2020, in line with LGPS regulations. The purpose of the valuation is to review the financial position of the Fund and set employer contribution rates for the next 3 years. The Fund's actuary will carry out a comprehensive valuation of the of the assets and liabilities of each individual employer and the Fund as a whole, as at 31 March 2020. Employer contribution rates can then be set that will allow each employer's liabilities to become fully funded over an agreed recovery period. The valuation is currently underway, and the outcome will be reported to the Pension Committee later in 2020.

Covid-19

Covid-19 is a new strain of coronavirus that has quickly spread across the globe and created a

public health emergency in almost every corner of the globe. Shetland has not been protected, despite an element of geographic isolation. The Covid-19 pandemic has significantly impacted the Council and the residents of Shetland, resulting in changes to the way services are delivered across the Isles.

From late March 2020, the Council enacted its business continuity plans in response to the restrictions that were imposed by the UK Government and Scottish Government. As a result, pensions administration, including payment of pensions, retirement lump sums and death gratuity grants have all been managed remotely with a minimal presence in the office to maintain workflow.

On 22 April, recommendations were made to a virtual meeting of the Full Council including reports that would ordinarily be presented to a number of the Council's committees. This adjustment to the Council's decision-making structure was introduced as a temporary measure to help Members and staff adhere to the UK and Scottish Government guidelines on social and physical distancing. The recommendations, which were approved by Members, included:

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

The recommendations made to the full Council apply equally to the Pension Fund Committee and Board. The temporary arrangements are kept under active review and may be extended or revoked as circumstances permit.

The Covid-19 pandemic resulted in the sudden and sharp deterioration in the valuation of Pension Fund assets due to the economic slowdown experienced as a result of restrictions and lockdowns across the world, and the uncertainty around how long restrictions would continue to constrain economic activity. Since early April, markets have begun to stabilise and

Pension Fund investments had recovered to £506m at the end of July 2020.

The deterioration in asset valuations is significant, but not catastrophic for the Fund. The timing however is noteworthy as the Fund is subject to a triennial valuation in 2020, as set out in the preceding section. The Fund's actuary is obliged to use asset valuations as at 31 March 2020, which coincides almost perfectly with the lowest asset valuations recorded. The setting of employer contributions will be influenced by the reduced asset valuations as at 31 March, although the actuary will also consider other actuarial assumptions, elements of the Funding Strategy and will of course take a long-term view that aligns with the long-term nature of the Pension Fund.

Although the Fund's investments have seen signs of recovery between April and June, there is the potential for a longer-term impact on the UK and global economies which is currently unknown, and may only be felt when nationally-funded economic support packages (such as job retention schemes, business grants and loans for example) come to an end later in the year.

.....
Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
23 September 2020

.....
Maggie Sandison
Chief Executive
23 September 2020

.....
Jamie Manson
Executive Manager - Finance
23 September 2020

Annual Governance Statement

Scope of responsibility

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

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

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

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

The Local Code of Corporate Governance demonstrates the Council's commitment to achieving good governance and provides examples of how it complies with the governance standards recommended by CIPFA and SOLACE. The document is regularly reviewed and was last updated in June 2019.

Purpose of the governance framework

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

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

The governance framework has been in place for the year ended 31 March 2020 and up to the date of approval of the Annual Accounts.

The governance framework

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

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



In addition to complying with the governance framework approved by the Council, the regulations that govern the administration of LGPS Funds in Scotland require each Administering Authority to publish a Governance Compliance Statement that sets out how their governance arrangements comply with best practice issued by the Scottish Ministers. The Pension Fund's Governance Compliance Statement can be found on page 19. Where compliance does not meet the required standard, there is a requirement for Administering Authorities to set out any reasons for non-compliance in their Governance Compliance Statement.

Review of effectiveness

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

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

- Internal management;
- Internal audit reviews;
- External audit reports; and
- Investment Fund Managers and the Custodian.

Internal management

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

financial controls. This assurance provides the opportunity to highlight any weaknesses or areas of concern that should be considered. For 2019/20, no areas of weakness or concern were identified.

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

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

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

Internal audit reviews

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

External audit reports

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

The Local Government Pension Scheme (LGPS) regulations require LGPS Administering Authorities to 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.

Investment fund managers and the Custodian

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

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

Significant governance issues

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

COVID-19

Covid-19 is a new strain of coronavirus that has quickly spread across the globe, prompting the World Health Organisation, on 11 March 2020, to declare the outbreak a pandemic and a public health emergency of international concern. The Covid-19 pandemic has significantly impacted the Council and the residents of Shetland, resulting in changes to the way services are delivered across the Isles.

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

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

Service Delivery & Administration

The Council activated business continuity arrangements and put a range of measures in place to facilitate the continuity of service and to protect the wellbeing of staff and Pension Fund customers. Payment of pensions, retirement lump sums and death gratuity grants were prioritised as business-critical services which the Fund has been able to manage on a remote basis. Engagement with investment fund managers has continued from the outset of the pandemic, which gives assurance that the Fund's assets are being managed effectively.

Governance Arrangements

As set out in the earlier commentary, the Council introduced temporary measures to help staff and members adhere to national guidance on social and physical distancing, while enabling core business to be conducted safely. Council meetings have taken place virtually since April. The arrangements have been extended to allow the Pension Committee/Board to meet virtually.

Assets & Investments

The Covid-19 pandemic has resulted in a significant economic slowdown far greater than that of the global financial crash of 2008. The impact on the Pension Fund's investments has been significant, with all asset categories experiencing a contraction in value by 31 March 2020.

Despite the sudden and sharp falls in asset valuations, the Fund remains in a strong financial position. It remains in the growth phase of the Fund's lifecycle, meaning the Fund brings in more income than it pays out in member benefits. The Fund's cash-flow positive position means it does not need to consider selling assets to meet its liabilities. The Fund retains a diversified investment portfolio, held under management by different fund managers that are well placed to respond to investment opportunities as and when they arise.

The Fund's current Funding Strategy aims to maintain stable employer contribution rates while ensuring the long-term solvency of the Pension Fund and achieving a fully-funded position by 2027. The impact of the pandemic on asset valuations is unfortunate timing, especially as the Fund's asset valuations at year end coincide with the Fund's Triennial Valuation. As the valuation progresses, officers and the Pension Fund committee will engage with the actuary to ensure a balanced approach is taken when it comes to setting future employer contribution rates. An investment strategy review is also due to be finalised in 2020 and will take into account any amendments required to protect the Fund's long-term solvency.

Longer-term consequences

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

Long-term health implications arising from Covid-19 are not yet fully known, which may have








consequences on the wider global economy and temper any efforts for societies across the world to resume 'normal' life.





Certification

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

Governance Compliance Statement 2019/20

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

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

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

.....
Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
23 September 2020

.....
Maggie Sandison
Chief Executive
Shetland Islands Council
23 September 2020

Statement of Responsibilities for the
Statement of Accounts

The administering authority’s
responsibilities

The Authority is required to:

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

I can confirm that these Annual Accounts were approved for signature by the Council on 23 September 2020.

Signed on behalf of Shetland Islands Council.

.....
Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
23 September 2020

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 2020.

.....
Jamie Manson, CPFA
Executive Manager – Finance
Shetland Islands Council
23 September 2020

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

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Shetland Islands Council Pension Fund (the fund) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the fund during the year ended 31 March 2020 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 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Risks of material misstatement

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Other information in the annual report

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

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

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

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

110 Queen Street

Glasgow

G1 3BX

United Kingdom

23 September 2020

Pension Fund Account for year ended 31 March 2020

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

2018/19 £000	Notes	2019/20 £000	2019/20 £000
	Dealings with members, employers and others directly involved in the scheme		
(17,694)	Contributions 6	(18,573)	
(1,503)	Transfers in from other pension funds 7	(1,371)	
(1)	Other income	0	
(19,198)	Total Additions		(19,944)
14,509	Benefits payable 8	15,427	
525	Payments to and on account of leavers 9	719	
170	Other payments	31	
15,204	Total Withdrawals		16,177
(3,994)	Net (additions)/withdrawals from dealings with members		(3,767)
1,917	Management expenses 10		1,929
(2,077)	Net additions including Fund Management Expenses		(1,838)
	Return on investments		
(3,417)	Investment income 11	(4,130)	
(31,419)	(Profits) and losses on disposal of investments and changes in market value of investments 14b	42,400	
(34,836)	Net return on investments		38,270
(36,913)	Net (increase)/decrease in the net assets available for benefits during the year		36,432
(460,219)	Opening net assets of the scheme		(497,132)
(497,132)	Closing net assets of the scheme		(460,700)

Net Assets Statement as at 31 March 2020

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

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

As at 31 March 2019 £000		Notes	As at 31 March 2020 £000
	Investment Assets		
495,465	Investment Assets	12	459,360
495,465	Total Investment Assets		459,360
	Current Assets		
54	Long-term debtors	18a	89
1,916	Debtors	18	1,633
1,788	Bank current accounts	18	1,572
3,758	Total Current Assets		3,294
	Current Liabilities		
(495)	Sundry creditors	20	(468)
(1,596)	Benefits payable	20	(1,486)
(2,091)	Total Current Liabilities		(1,954)
497,132	Net assets of the scheme available to fund benefits at the reporting period end		460,700

.....
 Jamie Manson, CPFA
 Executive Manager – Finance
 23 September 2020

Notes to the Accounts

Note 1: Description of Pension Fund

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

General

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

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

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

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

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

Membership

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

Organisations participating in the Shetland Islands Council Pension Fund include:

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

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

31 March 2019	Shetland Islands Council Pension Fund	31 March 2020
11	Number of employers with active members	11
	Number of employees in scheme:	
2,984	Shetland Islands Council	3,101
355	Other employers	371
3,339	Total	3,472
	Number of pensioners/dependants	
1,801	Shetland Islands Council	1,901
166	Other employers	176
1,967	Total	2,077
	Deferred pensioners	
1,826	Shetland Islands Council	1,907
367	Other employers	386
2,193	Total	2,293
7,499	Scheme Total	7,842

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Pension Fund in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) and range from 5.5% to 12% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are topped

up by employers' contributions, which are set, based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2017 set these employers' contribution rates, which range from 17.2% to 40.6% of pensionable pay.

Benefits

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

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

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

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

Note 2: Basis of Preparation

The Statement of Accounts summarises the Pension Fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is based upon International

Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The accounts have been prepared on a going concern basis.

Note 3: Accounting Standards Issued and Adopted in year

The following accounting standards were new or amended in the 2019/20 Code:

- Amendments to IAS40 Investment Property: Transfers of Investment Property;
- Annual improvements to IFRS Standards 2014-2016 Cycle. IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of the Standard. IAS 28 Investments in Associates and Joint Ventures: Measuring an Associate or Joint Venture at Fair Value;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments; and
- Amendments to IFRS 9 Financial Instruments: Prepayment features with negative compensation.

The Code required implementation in the financial statements from 1 April 2019. There has not been any significant impact on the Pension Fund.

Note 4: Accounting Standards Issued not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted. This applies to the adoption of the following new or amended standards within the 2020/21 Code:

- Amendments to IAS28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015-2017 Cycle; and
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

The Code requires implementation in the accounts from 1 April 2020 and there is therefore no impact on the Pension Fund.

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

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

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

Item	Uncertainties - Estimate	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. An actuary to the Fund is appointed to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the real discount rate assumption would result in an increase in the pension liability of £75m. A 0.5% increase in salary increase rate assumption would increase the value of liabilities by approximately £11m, and a 0.5% increase in pension increase rate assumption would increase the liability by approximately £64m.

Note 6: Contributions Receivable

By category:

31 March 2019 £000		31 March 2020 £000
(13,481)	Employers - normal	(14,229)
(203)	Employers - augmentation	(103)
(4,010)	Members - normal	(4,241)
(17,694)	Total	(18,573)

By authority:

31 March 2019 £000		31 March 2020 £000
(15,356)	Administering authority	(16,072)
(128)	Scheduled bodies	(131)
(2,210)	Admitted bodies	(2,370)
(17,694)	Total	(18,573)

Note 7: Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 March 2019 £000		31 March 2020 £000
(1,503)	Individual transfers in	(1,371)
(1,503)	Total	(1,371)

The Pension Fund received 53 transfers in during 2019/20 with an average value of £25,876, compared to 42 transfers in during 2018/19 with an average value of £35,781.

Note 8: Benefits Payable

By category:

31 March 2019 £000		31 March 2020 £000
10,807	Pensions	11,486
3,093	Commutation and lump sum retirement	3,682
609	Lump sum death benefits	259
14,509	Total	15,427

By authority:

31 March 2019 £000		31 March 2020 £000
12,889	Administering authority	13,529
129	Scheduled bodies	118
1,491	Admitted bodies	1,780
14,509	Total	15,427

Note 9: Payments to and on Account of Leavers

31 March 2019 £000		31 March 2020 £000
32	Refunds to members leaving service	88
493	Individual transfers	631
525	Total	719

Note 10: Management Expenses

31 March 2019 £000		31 March 2020 £000
386	Administration Expenses	340
38	Oversight and Governance Expenses	35
	Investment	
1,425	Management Fees	1,488
33	Performance Fees	34
35	Custody Fees	32
1,917	Total	1,929

Note 11: External Audit Costs

31 March 2019 £000		31 March 2020 £000
29	Payable in respect of external audit	25
29	Total	25

Note 12: Investment Income

31 March 2019 £000		31 March 2020 £000
(2,759)	Pooled investment vehicles	(3,416)
(9)	Interest on cash deposits	(21)
(649)	Other	(693)
(3,417)	Total	(4,130)

Note 13: Investments

Fair Value As at 31 March 2019 £000		Fair Value As at 31 March 2020 £000
182,944	Managed Funds	167,042
214,098	Unit Linked Insurance Policies	192,030
39,425	Fixed income unit trusts	38,023
52,367	Pooled property unit trusts	51,401
205	Unitised Liquidity Fund	206
1,952	Property Debt	2,243
4,076	Cash deposits	7,882
7	Property income due	133
126	Diversified growth income due	138
265	Fixed income due	262
495,465	Total investment assets	459,360

Note 13a - Reconciliation of movements in investments

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

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

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

Note 13b - Analysis of Pooled Investment Vehicles

As at 31 March 2019 £000	Additional analysis	As at 31 March 2020 £000
102,381	Managed Funds	88,272
214,098	Unit Linked Insurance Policies	192,030
80,562	Diversified Growth	78,770
39,425	Alternative Credit	38,023
52,004	Pooled property unit trust (UK)	51,306
364	Pooled property unit trust (Overseas)	95
205	Unitised Liquidity Fund	206
1,952	Property Debt	2,243
490,991	Total Pooled Investment Vehicles	450,945

Note 13c - Analysis by Fund Manager

Market Value 31 March 2019			Market Value 31 March 2020	
£000	%		£000	%
211,314	43	BlackRock	192,248	43
61,391	12	Schroders	61,647	13
80,689	16	Newton Asset Management	78,908	17
102,381	21	Kleinwort Benson	88,272	19
39,690	8	M & G Investments	38,285	8
495,465	100	Total investment assets	459,360	100

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

Market Value 31 March 2019			Market Value 31 March 2020	
£000	%		£000	%
88,389	18	Aquila Life UK equity index	71,923	16
39,425	8	M & G Alpha Opp Fd AGBP	38,023	8
102,381	21	KBI 1 Dividend Plus	88,272	19
80,562	16	Newton Real Rtrn X ACC NAV	78,770	17
122,914	25	Aquila Life World EX UK Fund Series 1	117,313	26

Note 14: Fair Value Hierarchy

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

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1

comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

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

where valuation techniques are used to determine fair value.

Level 3

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

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

As at 31 March 2019 £000	Fair value through profit and loss	As at 31 March 2020 £000
4,475	Level 1	8,415
490,990	Level 2	417,824
0	Level 3	33,121
495,465	Net Investment assets	459,360

Basis of Valuation

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

Description of Asset	Valuation hierarchy	Basis of valuation	Observable / unobservable inputs	Key sensitivities affecting valuations
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

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

Sensitivity of assets valued at level 3

In order to give a clearer picture of the impact on the Fund's results or financial position of potential changes and assumptions, a sensitivity to assess the impact of a change of 10% in value of pooled property funds is shown below. This sensitivity is based on assumptions and conditions prevailing at the year-end and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because the Fund's actual exposure are constantly changing.

	Assessed valuation range (+/-)	Value at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Property	10%	33,121	36,433	29,809
		33,121	36,433	29,809

As a result of the COVID-19 outbreak, which has caused extensive disruption to businesses and economic activities on a global level in all sectors, the pooled property funds were suspended indefinitely and the property managers have reported their valuation on the basis of 'material valuation uncertainty'. The declaration does not mean that the valuation cannot be relied upon but it does mean that less certainty, and a higher degree of caution, should be attached to the valuation of the property than would normally be the case. A number of the property investments held have a material uncertainty at 31 March 2020. The value of the properties with material uncertainty was £53m, which is 94% of the total property holding.

Note 15: Financial Instruments

Note 15a - Classification of financial instruments

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

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

As at 31 March 2019				As at 31 March 2020		
Fair value through profit £000	Receivables £000	Financial liabilities £000		Fair value through profit £000	Receivables £000	Financial liabilities £000
			Financial assets			
			Pooled funds			
183,209	0	0	- managed funds	167,304		
214,098	0	0	- unit linked insurance policies	192,030		
39,425	0	0	Fixed income unit trusts	38,023		
52,367	0	0	Pooled property unit trusts	51,401		
204	0	0	Unitised liquidity funds	206		
1,952	0	0	Property debt	2,243		
127	0	0	Diversified growth	138		
4,076	1,788	0	Cash	7,882	1,572	
7	0	0	Property income due	133		
0	1,916	0	Debtors		1,633	
495,465	3,704	0	Total Financial assets	459,360	3,205	0
			Financial liabilities			
0	0	(2,091)	Creditors	0	0	(1,954)
0	0	(2,091)	Total Financial liabilities	0	0	(1,954)
495,465	3,704	(2,091)	Total	459,360	3,205	(1,954)

Note 15b - Net gains and losses on financial instruments

As at 31 March 2019 £000	Financial assets	As at 31 March 2020 £000
(31,419)	Fair value through profit and loss	42,400
(31,419)	Total	42,400

Note 15c - Value of financial instruments

As at 31 March 2019		Financial assets	As at 31 March 2020	
Book value £000	Market value £000		Book value £000	Market value £000
344,170	491,389	Fair value through profit and loss	355,696	459,360
344,170	491,389	Total	355,696	459,360

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

Risk and risk management

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

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

Market risk

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

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

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

Other price risk

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

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

Other Pension Fund price risk - sensitivity analysis

In agreement with the Pension Fund's performance analyst and following analysis of historical data and expected investment return during the financial year, the Pension Fund has determined that the following movements in market price risk are deemed reasonably possible for the financial year 2019/20 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	27.5%
Overseas Equities	28.0%
Property	14.2%
Cash	0.3%
Diversified Growth	13.8%
Alternative Credit	8.7%

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

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

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

Asset Type (Restated)	Value as at 31 March 2019 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	4,281	0.50%	4,302	4,260
Investment portfolio assets:				
UK Equities	88,389	16.6%	103,062	73,716
Global Equities (ex UK)	225,294	16.9%	263,369	187,219
Property	57,122	14.3%	65,290	48,954
Diversified Growth	80,689	12.5%	90,775	70,603
Alternative Credit	39,690	7.3%	42,587	36,793
Total assets	495,465		569,385	421,545

Interest rate risk

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

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

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

As at 31 March 2019 £000		As at 31 March 2020 £000
	Asset type	
4,281	Cash and cash equivalents	7,882
1,788	Cash balances	1,572
39,425	Fixed income unit trusts	38,023
45,494	Total	47,477

Interest rate risk sensitivity analysis

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

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

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

Asset Type	Carrying amount as at 31 March 2019 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £000
Cash and cash equivalents	4,281	43	-43
Cash balances	1,788	18	-18
Fixed income unit trusts	39,425	394	-394
Total change in assets available	45,494	455	-455

Currency risk

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

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

The following table summarises the Pension Fund's currency exposure as at 31 March 2020 and as at the previous period end.

As at 31 March 2019 £000		As at 31 March 2020 £000
	Asset type	
225,294	Pooled Funds - overseas equities	205,585
39,690	Pooled Property Unit Trusts - overseas	38,285
127	Diversified Growth Fund	138
265,111	Total	244,008

Currency risk - sensitivity analysis

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

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

Asset Type	Carrying amount as at 31 March 2020 £000	Change to net assets available to pay benefits	
		+10.0% £000	-10.0% £000
Pooled Funds - overseas equities	205,585	226,144	185,026
Pooled Property Unit Trusts - overseas	38,285	42,114	34,456
Diversified Growth Fund	138	152	124
Total change in assets available	244,008	268,410	219,606

Asset Type	Carrying amount as at 31 March 2019 £000	Change to net assets available to pay benefits	
		+10.0% £000	-10.0% £000
Pooled Funds - overseas equities	225,294	247,823	202,765
Pooled Property Unit Trusts - overseas	39,690	43,659	35,721
Diversified Growth Fund	127	140	114
Total change in assets available	265,111	291,622	238,600

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 2020 was £9.454m (31 March 2019: £6.069m). This was held with the following institutions:

As at 31 March 2019 £000		As at 31 March 2020 £000
4,270	Fund manager	
11	Schroders cash	4,869
	BlackRock cash	3,013
1,788	Bank current	
	Bank of Scotland Plc	1,572
6,069	Total	9,454

Liquidity risk

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

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

The Pension Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert into cash. As at 31 March 2020, the value of illiquid assets was £56.8m, which represented 12.4% of the Pension Fund assets (31 March 2019: £57.1m, which represented 11.5% of the Pension Fund assets).

Refinancing risk

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

Note 17: Funding Arrangements

In line with the Local Government Pension Scheme (Scotland) Regulations 2014 (as amended), the Pension Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation for the current accounting period took place as at 31 March 2017.

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

The key elements of the funding policy are:

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

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

Employee benefits are guaranteed and employee contributions are fixed, so employers need to pay the balance of the cost of delivering the benefits to members and dependants. The Funding Strategy Statement sets out how the Administering Authority has balanced the conflicting aims of affordability and stability of employer contributions and prudence in the funding basis with regard to employer liabilities.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2014 was at 31 March 2017. This valuation revealed that the Pension Fund's assets, which at 31 March 2017 were valued at £450m, were sufficient to meet 90% (£333m and 92% at 31 March 2014 valuation) of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £51m (2014 valuation: £30m).

The common rate of contribution payable by each employing authority under regulation 32(4)(a) of the 2014 Regulations for the period 1 April 2018 to 31 March 2021 is 22.1% of pensionable pay, (i.e. the rate which all employers in the Pension Fund pay).

Individual employers' rates are adjusted under regulation 32(4) (b) from the common contribution rate. The contribution rates payable for the period 1 April 2018 to 31 March 2021 were set in accordance with the Pension Fund's funding policy as set out in its Funding Strategy Statement.

During this period, the employers' rate due by Shetland Islands Council is 20.8% per annum for each of the three years.

Copies of the 2017 Valuation Report and Funding Strategy Statement are available on request from Shetland Islands Council, the Administering Authority to the Pension Fund.

Principal actuarial assumptions and method used in the valuation

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

Method

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

Assumptions

The assumptions are required to place value on the benefits earned to date and the benefits that will be earned in the future. To this end, the assumptions fall broadly into two categories; financial assumptions and demographic assumptions. Financial assumptions relate to the size of members' benefits, and information affecting these assumptions are discount rate, price inflation, which affects benefit increases, and salary increases. Demographic assumptions relate to longevity of current pensioners and future pensioners.

A market-related approach was taken when valuing the liabilities, for consistency with the valuation of the Fund assets at their 31 March 2017 market value. valuation of the Pension Fund liabilities, on an IAS

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

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

Mortality assumptions

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

Mortality assumption at age 65	Males	Females
Current Pensioners	21.4 yrs	23.2 yrs
Future Pensioners	22.7 yrs	25.0 yrs

Commutation assumption

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

50:50 Option assumption

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

Note 18: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Pension Fund's actuary also undertakes a

26 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

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

The actuarial present value of promised retirement benefits at 31 March 2020 was £639m (31 March 2019: £710m). The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2017.

Assumptions

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

As at 31 March 2019 % p.a.	Year ended	As at 31 March 2020 % p.a.
2.5	Inflation/pension increase rate	1.9
3.1	Salary increase rate	2.4
2.4	Discount rate	2.3

Note 19: Current Assets

As at 31 March 2019 £000		As at 31 March 2020 £000
	Debtors:	
452	Contributions due - employees	366
1,463	Contributions due - employers	1,209
0	Transfer values receivable	0
1	Sundry debtors	0
0	Prepayments	58
1,788	Bank current accounts	1,572
3,704	Total	3,205

Note 19a: Long Term Debtor

As at 31 March 2019 £000		As at 31 March 2020 £000
	Long Term Debtors	
54	Reimbursement of lifetime tax allowance	89
54	Total	89

Note 20: Unfunded Pension

As at 31 March 2019 £000		As at 31 March 2020 £000
718	Added years pension	734

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

Note 21: Current Liabilities

As at 31 March 2019 £000		As at 31 March 2020 £000
(495)	Sundry creditors	(468)
(1,596)	Benefits payable	(1,486)
(2,091)	Total	(1,954)

Note 22: Contingent Liabilities

McCloud Judgement

When the LGPS changed from a final salary to a career average pension scheme in 2015, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes had been discriminated against because the protections did not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. This ruling is often called the 'McCloud judgment'.

The Government is still considering exactly what changes need to be made to remove the discrimination from the LGPS. This means there is insufficient data at present to estimate reliably the impact this will have on scheme liabilities.

GMP Equalisation

Following a High Court ruling from 26 October 2016, all defined benefit pension schemes must equalise guaranteed minimum pension (GMP) for men and women. There is insufficient data at present to estimate reliably the impact this will have on scheme liabilities.

Bad Debt

A provision of £0.133m for a bad debt for non recovery of contributions was created. The employer is not backed by a guarantee.

Goodwin – male survivor benefits

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

Changes required

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

Following the Goodwin Tribunal, regulatory amendments now require to be made with effect from the same date to extend that entitlement to male survivors of female members. There is insufficient data at present to estimate reliably the impact this will have on scheme liabilities.

Note 23: Additional Voluntary Contributions

As at 31 March 2019 £000		As at 31 March 2020 £000
5,268	Prudential	5,069
47	Equitable Life	46
5,315	Total	5,115

AVC contributions of £0.560m were paid directly to Prudential during the year (2018/19: £0.649m).

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

Note 24: Related Party Transactions

Shetland Islands Council

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

The Council incurred costs of £0.350m (2018/19: £0.395m) in relation to the administration of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses.

employer of Pension Fund members, and contributed £12.394m to the Pension Fund (2018/19: £11.903m).

Governance

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

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

Key management personnel

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

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 £0.034m (2018/19: £0.033m) in relation to investment of the Pension Fund and the Council was subsequently reimbursed by the Pension Fund for these expenses.

The Council processed pensioner payments of £11.486m (2018/19: £10.807m). Such payments are reimbursed in full by the Pension Fund.

In addition, the Council is the single largest

Membership is as follows.

Pension Fund Committee Membership
Steven Coutts (Chair)
Alistair Cooper
Stephen Leask
Robbie McGregor
George Smith
Theodore G C Smith
Ryan Thomson
Emma Louise Macdonald
Ian Scott
Pension Board Membership
Malcolm Bell
John Fraser
Amanda Hawick (resigned 27/11/2019)
Stephen Flaws (appointed 21/01/2020)

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

Actuarial Present Value of Promised Retirement Benefits	Vested Benefits £000	Total £000
Balance at 31 March 2020	639	639
Decrease in value during 2019/20	(71)	(71)
Balance at 31 March 2019	710	710
Increase in value during 2018/19	88	88
31 March 2018	622	622

Note 26: Critical Judgements in Applying Accounting Policies

Pension Fund liability

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

Note 27: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 23 September 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The Covid-19 pandemic has had a substantial impact on the Pension Fund's investments, reducing to a value of £461m at 31 March, before recovering to £506m at the end of July 2020. Further details of the impact of Covid-19 are detailed within the Management Commentary.

As a direct consequence of the Covid-19 pandemic, a number of the property investments still had a material uncertainty post year-end. The value of these properties was £42m.

Note 28: Accounting Policies

Pension Fund account - revenue recognition

A Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an

accrual basis at the percentage rate recommended by the Pension Fund actuary in the payroll period to which they relate.

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

B Transfers to and from other schemes

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

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

C Investment income

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

Pension Fund account - expense items

D Benefits payable

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

E Taxation

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

F Management expenses

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

Net assets statement

G Financial assets

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

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

H Pooled investment vehicles

accommodation and other overheads are apportioned to the Pension Fund in accordance with Council policy.

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

Where fees are netted off quarterly valuations by investment managers, these expenses are shown in Note 10 and grossed up to increase the change in value of investments.

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

I Foreign currency transactions

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

J Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

K Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual and triennial basis by the Fund actuary in accordance

with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the net assets statement (Note 18).

L Additional voluntary contributions

Shetland Islands Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The

Pension Fund has appointed Prudential and Equitable Life (closed to new members) as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

M Contingent Liabilities

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

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

Appendix 1:

Actuarial Statement for 2019/20

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy (FSS), dated March 2018. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 66% likelihood that the Fund will return to full funding over 14 years.

Funding Position as at the last formal funding valuation

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

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2018 to 31 March 2021 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 valuation report.

Method

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

Assumptions

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

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

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

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

*Currently aged 45

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

Experience over the period since 31 March 2017

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the 2019/20 financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported at the previous formal valuation.

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



Douglas Green FFA
For and on behalf of Hymans Robertson LLP
2 June 2020

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