Shetland Islands Council Pension Fund Unaudited Annual Report and Accounts

2024/25

SHETLAND
ISLANDS COUNCIL

Contents

Introduction

This is Shetland Islands Council Pension Fund's (the 'Pension Fund') Annual Report and Accounts for the year ended 31 March 2025.

The Shetland Island Council Pension Fund Annual Accounts satisfy the requirements of Regulation 55 (1) of the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended), to prepare a Pension Fund Annual Report for the financial year from 1 April 2024 to 31 March 2025. In addition, quarterly Management Accounts are presented to the Pension Fund Committee, which show the year-to-date position and the projected year-end outturn.

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

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

LGPS is a defined benefit scheme, with benefits based on final salary for all service to 31st March 2015, and on career average earnings for benefits after 1st April 2015.

At 31st March 2025 there were 8,930 members, 9 participating employers, and investment assets of £782 million.

Primary Financial Statements

The Annual Accounts summarise the Pension Fund's transactions for the year and its year-end position at 31 March 2025. The Annual Accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the Framework), as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The two primary statements, the Pension Fund Account and the Net Asset Statement, include a description of their purpose. Accompanying the two primary statements are notes to the accounts, which set out the accounting policies adopted by the Pension Fund and provide more detailed analysis of the figures disclosed in the primary financial statements.

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

The layout of the Pension Fund annual accounts has been changed this year in line with the advisory guidance from the Scheme Advisory Board produced in conjunction with the Department of Levelling up, Housing and Communities (DLUHC) and The Chartered Institute of Public Finance and Accountancy (CIPFA). This guidance is aimed at producing more consistent and comparable data across funds. While the format of the accounts has changed, the format of the notes to the accounts remain unchanged from previous years.

Remuneration Report

There is no requirement for a remuneration report for the Pension Fund, as the Pension Fund does not directly employ any staff. All staff are employed by Shetland Islands Council and its costs are reimbursed by the Pension Fund. The Councillors who are members of the Pension Fund Committee and Pension Board are also remunerated by Shetland Islands Council. They do not receive any additional allowance for being members of the Pension Fund Committee or Pension Board. Trade union and admitted and scheduled bodies members similarly do not receive any additional allowance for their role.

Details of Senior Councillors and Senior Employees remuneration can be found in the annual accounts of Shetland Islands Council, which are available on the Council's website. https://www.shetland.gov.uk/budget-finance/audited-annual-accounts

Management Commentary

Key Trends

Key Trends	2020/21	2021/22	2022/23	2023/24	2024/25
Membership					
Active Members	3,564	3,634	3,625	3,547	3,547
Deferred Members	2,387	2,503	2,608	2,755	2,731
Pensioners	2,190	2,321	2,429	2,528	2,652
Total Members	8,141	8,458	8,662	8,830	8,930
Member Bodies	10	10	10	10	9
Dealings with members					
Total Additions	(21,434)	(22,541)	(25,374)	(26,308)	(25,688)
Total Withdrawals	17,321	16,635	19,740	21,917	25,783
Net Pensions Cash flows	(4,113)	(5,906)	(5,634)	(4,391)	95
Fund Value					
Opening Net value	(460,700)	(589,951)	(659,948)	(660,467)	(767,986)
Investment Income	(3,733)	(3,959)	(6,336)	(8,019)	(9,936)
Investment Management Expenses	1,656	1,856	2,520	2,520	3,276
Administrative Costs	373	510	434	485	625
Oversight & Governance Costs	71	45	43	139	54
Dealings with members	(4,113)	(5,906)	(5,634)	(4,391)	95
Change in market value	(123,505)	(62,543)	8,454	(98,253)	(10,263)
Closing Fund Value	(589,951)	(659,948)	(660,467)	(767,986)	(784,135)

The purpose of the Management Commentary is to present an overview of the Pension Fund's performance during the financial year 2024/25 and to help readers understand the Pension Fund's financial position at 31 March 2025. In addition, it outlines the main uncertainties facing the Pension Fund for the financial year 2024/25 and beyond.

Review of the year

As highlighted in the key trends table above, the Pension Fund has shown positive growth over the year, with an increase in membership to 8930, and an increase in net assets of £16m to £784m. Transactions with members showed Payments of £25.783m. Total additions from contributions and transfers in totalled £25.688m giving a net outflow from dealings with members of £0.095m. The Pension Fund closed the year with 9 member bodies, a reduction in 1 from the previous year. (A list of participating employers is included at Section 4 under Scheme Administration).

Strategy and objectives

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

- secure and maintain sufficient resources to meet all liabilities as they fall due,
- mitigate the risk of failing to meet these liabilities, through an Investment Strategy specifically tailored to the Pension Fund's requirements,
- maximise investment returns within acceptable and reasonable parameters,
- provide stability in the level of employers' contribution rates, and,
- become fully funded by 2027, or if fully funded before 2027 to remain fully funded. This means that the Pension Fund would on an ongoing

basis be able to pay all liabilities due, at that time, and at any time in the future.

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

Investment performance

Following the results of the 2023 Triennial Valuation the Pension Fund's funding level increased from 92% in 2020 to 120% in 2023, and the main employer contributions reduced by 3%. Reflecting this ISIO were requested to carry out an Investment Strategy health check. The health check also involved a specific equity review as equities were the major asset class. From the health check the investment strategy will move from a strategy of growth to one of maintaining the funding position.

The main changes to the investment strategy were to the equity allocation: reducing active equities and increasing passive equities, while also increasing the allocations to more steadier returning asset classes of infrastructure equities and private credit. The new investment strategy allocations are:

Passive Equities	30%
Active Equities	30%
Infrastructure Equity	20%
Direct Lending	20%

ISIO were also asked to review the fund manager's management fees being paid and found these to be on the whole very competitive.

During 2024/25 investment performance has been variable with passive equities, infrastructure equity and direct lending returned positive figures, whereas the two active equity fund managers both underperformed their benchmarks and returned negative figures. The overall investment return for 2024/25 was 2%. The investments finished the year up £16m at £782m.

ESG and ethical considerations remain an important feature of the investment landscape, and we continue to engage with our fund managers on these issues. A specific engagement with fund managers is covered in section 3, with fund manager responses in the appendix.

Financial performance

The financial performance for the year reflects a position where the Pension Fund has exceeded its budget. This is due mainly to the number of retirements and lump sum payments being higher in value than budgeted and an increase in employee numbers, reflecting an increasingly onerous administrative environment.

The 2025/26 budget for the Pension Fund was approved on 12 February 2025. The budget anticipates the Pension Fund generating income of £25.6m and incurring total expenditure of £27.1m, resulting in net deficit of £1.5m. Any deficit exceeding current bank funds will initiate a withdrawal of money from the investments with the fund managers. A range of assumptions and historical trends are used to inform the development of the budget for the Pension Fund. Due to the level of individual choice involved in choosing when to retire, the budget represents the most reasonable estimates of income and expenditure at that time, but these estimates are liable to change throughout the year.

Administrative performance

The Administration Section of the Pension Fund continues to perform well this year, scoring consistently highly again in member satisfaction surveys. Key Performance indicators for administration were also favourable, with increases in all target areas, and 6 out of 9 areas receiving scores of 100%. The new Communication Policy approved this year, underpins the commitment of supporting clear and meaningful transfer of relevant information to members, stakeholders and employers.

Staffing increases during year, have resulted in the Pension Fund team increasing to 8.6 Full Time Equivalent members, with budgets increased for next year to increase this by a further 4 staff members. This should go some way to meet the increasing demands of digitisation and the demands of new legislative changes and regulation, such as the Pensions Dashboards Programme and the McCloud Remedy, once a period of training has taken place.

Governance

The Council, as a pension administering authority, is responsible for the good governance and management of the Shetland Islands Council Pension Fund. The Pension Regulator's new General Code of Practice (GCoP), which came into force on 28th March 2024, sets out the standards and expectations for the governance and management of occupational pension schemes in the UK, including the LGPS. This code consolidates and replaces 10 previous codes of practice into one new code.

In May 2025, Hymans gave a presentation to the Pension Fund Committee and the Pension Board on the Pensions Regulator to assist members in raising awareness and understanding of the standards and expectations of oversight. Work has commenced on identifying the changes required to ensure the Pension Fund's compliance with the new GCoP, and this will be reported to the Pension Fund Committee and Pension Fund Board in September 2025.

To assist the Shetland Islands Council, as a LGPS Administering Authority, in meeting the requirements of the Pension Regulator's new General Code of Practice, Pension Fund Committee and Pension Board members took part in the Hymans National Knowledge Assessment this year, assessing knowledge on the 8 topics of the CIPFA (Chartered Institute of Public Finance and Accountancy) knowledge and skills framework. This will be used to help identify and target future training needs during the coming year.

Risk

The risk register receives a full review each year and was presented for scrutiny to members on 13 May 2025.

The highest risks to the pension fund are from Loss of revenue of income:

- Adverse movement in bond yields, which could result in an increase in the Pension Fund's liabilities. Falling investment value due to negative or poor fund manager investment returns, global economic issues causing a widespread failure in the markets, possibility of failure of a fund manager or custodian, failure to monitor fund managers.

Regular reports are brought to members to ensure oversight of all aspects of investments. Regular reviews as described involving external input ensures an active view across investments.

Cessation of employers is listed as a high risk to the scheme in the current risk report. Cessation calculations are undertaken by the Pension Fund actuary to ensure the fund minimises its' risk. When an employer departs, they leave behind their liabilities, so it is important that the funds they leave behind are assessed as sufficient to cover those liabilities. One employer exited the Scheme this year but as the employer was in a surplus position at time of exit, no payment was due.

Looking Ahead

The Fund continues to invest for return and to increase the value of the investments, with an aim to maintain as a minimum the current fully funded level. Continued long term steady returns could also have the benefit of being able to consider further reductions to the burden on employers funding levels. A long-term investment view is consistent with the long-term nature of a Pension Fund and therefore investing in asset classes such as equities, infrastructure and private credit are appropriate for this type of strategy and are higher returning investments over the long term, than the low risk guaranteed return option available with cash.

Investing with different fund managers in various asset classes on a global basis does help to spread investment risk and protect the Pension Fund's investments. The long-term approach to investing also helps the Pension Fund to ride out short term volatility and economic or market shocks, such as geopolitical or economic issues.

Current geopolitical events such as the situation between Israel and Gaza and between Russia and Ukraine not only cause general concern but do affect global trade and investment. The current volatility seen with US economic policy is also affecting world trade and business. These events will affect and dampen certain asset class returns. The Pension Fund is not immune from these events but its long-term view and mix of investments will help over the short term to mitigate the risks on the Pension Fund's overall investment strategy.

The recent health check of the Pension Fund investment strategy has reduced investment risk by lowering the allocation to equities, and also the active equity allocation within equities. The new investment strategy will also reduce the future volatility of returns while securing consistent investment returns. This greater allocation to steadier, high returning investments in infrastructure and private credit, should help maintain acceptable levels of investment returns. The reorganisation of the investments into the new investment strategy is well under way, and by the end of 2025/26 should be complete, apart from certain property investments which by their nature can take several years to fully disinvest.

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Paul Fraser, CPFA
Executive Manager - Finance
23 June 2025

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Maggie Sandison
Chief Executive
23 June 2025

....
Emma Macdonald
Leader of the Council
Chair of the Pension Fund Committee
23 June 2025

Section 1 - Overall Fund Management

Scheme Management and Advisors

Administering Authority	Shetland Islands Council Town Hall Lerwick Shetland ZE1 0HB
Fund Custodian	The Northern Trust Company
Investment Advisor	ISIO
Investment Managers	Blackrock Schroders KBI Global Investors Limited IFM Baillie Gifford Permira
Fund Actuary	Hymans Robertson LLP
Banker	Bank of Scotland
AVC Providers	Prudential Utmost (Closed to new members)
Independent Auditor	Audit Scotland
Website	www.shetlandpensionfund.org
Legal Advisors	Shetland Islands Council
Executive Manager Finance	Paul Fraser

Risk Management

The Pension Fund maintains a risk register which is updated regularly. The latest iteration of the risk register, published in May 2025, contained a total of 5 risks, summarised by risk level in the following chart:

The risk register is considered at least annually. This year the presentation of the Risk Register to the committee took place on 13 May 2025.
Shetland Islands Council Committee Information - Meetings

Careful husbandry of pension resources remains the key focus and management of risks facing the Pension Fund are therefore the key consideration to ensure that mitigating steps are in place to protect and grow the net pension holding. The basic function is to ensure the Pension Fund can meet its commitments on an ongoing basis so there is consideration of the liabilities position but crucially the assets held which can be influenced by member decisions.

The risk register currently contains:
2 low risks: Economic/Financial Risk & Risk of Professional errors and omissions

2 medium risks: Business continuity & political risk, and
1 high risk: Risk of Loss of revenue or income.

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

The highest rated risk to the Pension Fund is a loss of revenue or income which could result in greater liabilities than anticipated for the Pension Fund.

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

The Shetland Islands Council Pension Fund do not have cyber responsibilities defined, these being governed by arrangements at corporate level and therefore do not appear in the Pension Fund Risk Register. This includes council policies and procedures, risk management, and management and control of ICT infrastructure.

The Shetland Islands Council Pension fund received an internal audit against the 2018 Cyber Security Principles for Pension Schemes issued by the Pensions Regulator, which was presented to the audit committee in November 2023. This audit covered the categories of Governance, Incident response, Access Controls, Risk Management and Training, and concluded that a reasonable level of assurance could be placed on the control environment.
Shetland Islands Council Committee Information - View Committee Document

Section 2 – Financial Performance

Financial Performance 2024/25

The Pension Fund accounts present the full economic cost of providing Pension Fund services for 2024/25, this shows an increase in net assets of £16m. This differs from the draft outturn position, shown below. The draft outturn report was presented to the Pension Fund Committee and the Pension Board on 23 June 2025:

Operational income and expenditure	2024/25 Annual Budget £000	2024/25 Draft Outturn £000	2024/25 Variance under/(over) £000
Total Expenditure	23,654	27,954	(4,300)
Total Income	(24,856)	(25,692)	836
Net (Income)/Expenditure	**(1,202)**	**2,262**	**(3,464)**

The difference between the draft outturn of £2.262m, and the Net increase in the net assets available as per the Pension Fund Accounts on page 32 of £16.149m, is mainly due to movements in the value of investment Assets. These items are not included within the draft outturn which reports operational income and expenditure only.

The main differences between the two figures are:

- (Profits) and losses on disposal of investments and change in the market value of investments (£10.263m)
- Investment Income, excluding bank interest (£9.843m)
- Fund manager fees deducted at source £1.309m
- Unit Trust fees deducted at source £0.388m

Expenditure was higher than budgeted due to a greater number of lump sums paid out during the year and a higher number of individuals transferring out of the scheme than anticipated. More people than anticipated also retired during 2024/25 resulting in an increase in benefits payable. Employee costs were higher due to an additional post being filled to those budgeted and the pay rise awarded being higher than budget. Income was higher than budgeted mainly due to an increase in contributions because of the pay award being higher than budgeted.

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

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 and range from 5.5% to 12% of pensionable pay for the financial year ended 31 March 2025. Employee contributions are topped up by employers' contributions, which are set, based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2023 set these employers' contribution rates for the 2024/25 year, and these range from 19.0% to 31.6% of pensionable pay.

Benefits

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

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

There are a range of other benefits provided under the scheme including early retirement, ill health retirement and death benefits. For more details, please refer to https://pensions.gov.scot/local-government or contact Shetland Islands Council Pension Section on 01595 744644.
Benefits are index-linked each year in line with the consumer price index.

The Pension Fund takes several actions to deal with fraud. The Pension Fund participates in the National Fraud Initiative. This is a data matching exercise to assist in preventing and detecting fraud, which is carried out every two years. This was last carried out in October 2024. The Pension Fund also takes part in the 'Tell Us Once Service', where it receives automatic notification from the DWP when a death is registered. Additional steps taken to reduce risk are detailed in the current risk register.

Contingent liabilities of the Pension Fund are detailed at note 23. There have been no recoveries or amounts written off during the current year. There has been one overpayment in the year due to late notification of a date of death.

Section 3 - Investment Policy and Performance Report

Funding Strategy Statement

The regulations covering management of the LGPS Pension Funds require the administering authority to prepare, maintain and publish a written Funding Strategy Statement. The Funding Strategy Statement was reviewed and noted in March 2024 as part of the 2023 Triennial Valuation process. Details of the Funding Strategy Statement are found in Note 17: Funding Arrangements, on page 49.

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

The purpose of the Funding Strategy Statement is:

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

The most recent actuarial valuation was carried out as at 31 March 2023. It showed that the Pension Fund was valued at £660m and 120% funded, with a surplus of £111m. The triennial valuation includes setting the employer contribution rates for the next three years. The final contribution rates payable by individual employers vary from 19% to 31.6% depending on their specific circumstances with regards to membership and associated assets and liabilities.

Investment Strategy

The Pension Fund last reviewed its investment strategy in 2024/25. The Pension Fund Committee approved the Investment Strategy on 24 June 2024. https://coins.shetland.gov.uk/Agenda.asp?meetingid=7924

The following table shows information about the Pension Fund's investments along with the investment position as at the 31 March 2025:

Asset Class	Fund Manager	Investment Value	Investment %	Performance Objective (Net of Fees)	Benchmark Indices
Passive Global Equity	BlackRock	297	38%	Benchmark	FTSE All World Developed
Active Global Equity	Baillie Gifford	190	24%	Benchmark +2.0%	MSCI All Countries World Index
Active Global Equity	KBI Global Investors	111	14%	Benchmark +3.0%	MSCI Developed World Index
Infrastructure Equity	IFM	73	9%	Fixed Benchmark Return	Fixed 8-10%
Property	Schroders	67	9%	Benchmark +1.0%	IPD Pooled Property
Private Credit	Permira	44	6%	Fixed Benchmark Return	Fixed 6-7%

Health Check of Investment Strategy

The previous investment strategy review was conducted in 2021/22 and was set for a five year period. The results of the actuarial review undertaken by Hymans Robertson in 2023 saw significant, positive changes to the Pension Fund's funding level and an approved reduction to employer contributions. Due to these changes the Pension Fund's investment consultants were asked to undertake a 'Health Check' of the investment strategy. The results of the health check were presented and a new investment strategy approved by the Pension Fund Committee in June 2024. This resulted in a change from a strategy of growth, to one of maintaining the new funding position. This has led to a slight reduction in the equity allocation while increasing the steadier returning asset classes of Infrastructure Equity and Private Credit.

This table compares the new investment strategy after the health check to the previous investment strategy allocation set in 2021/22.

Asset Class	New Investment Allocation	Previous Investment Allocation
Passive Global Equity	30%	30%
Active Global Equity	30%	40%
Infrastructure Equity	20%	10%
Private Credit	20%	10%
Property	0%	10%

The reorganisation of the investments into the new investment strategy has continued throughout 2024/25. It is intended by the end of 2025/26 to have all asset allocations funded except for the disinvestment from property, which due to the nature of the asset class may take several years.

The Pension Fund's current investment portfolio has a value of £782m as at 31 March 2025, compared to £767m at the start of the year. The composition of the current investment portfolio, along with a brief description of the investment class and the specific external fund managers who manage those investments on the Pension Fund's behalf are as follows:

Equities

Equities are the main investment asset class, and at the end of March 2025 accounted for 76% of the Pension Fund's investment portfolio. Equity investments are shareholdings in companies which fund managers buy and sell. Income is generated in the form of dividend payments or capital gains when shares are sold.

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

Property

The Fund invests in property assets throughout the UK, with investments in a range of different sectors such as retail units, shopping centres, industrial units, student accommodation and offices. Investments are made into a variety of property unit trusts and funds, which spreads the investment over a greater number of properties.

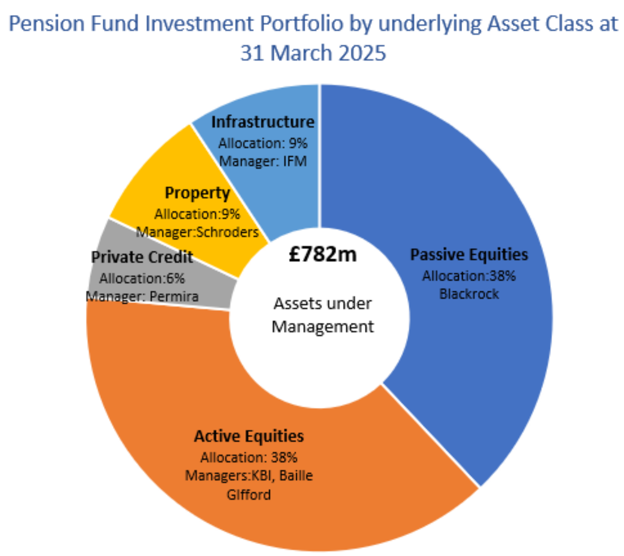
Private Credit

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

Infrastructure Equity

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

Pension Fund Investment Portfolio: Current Allocation



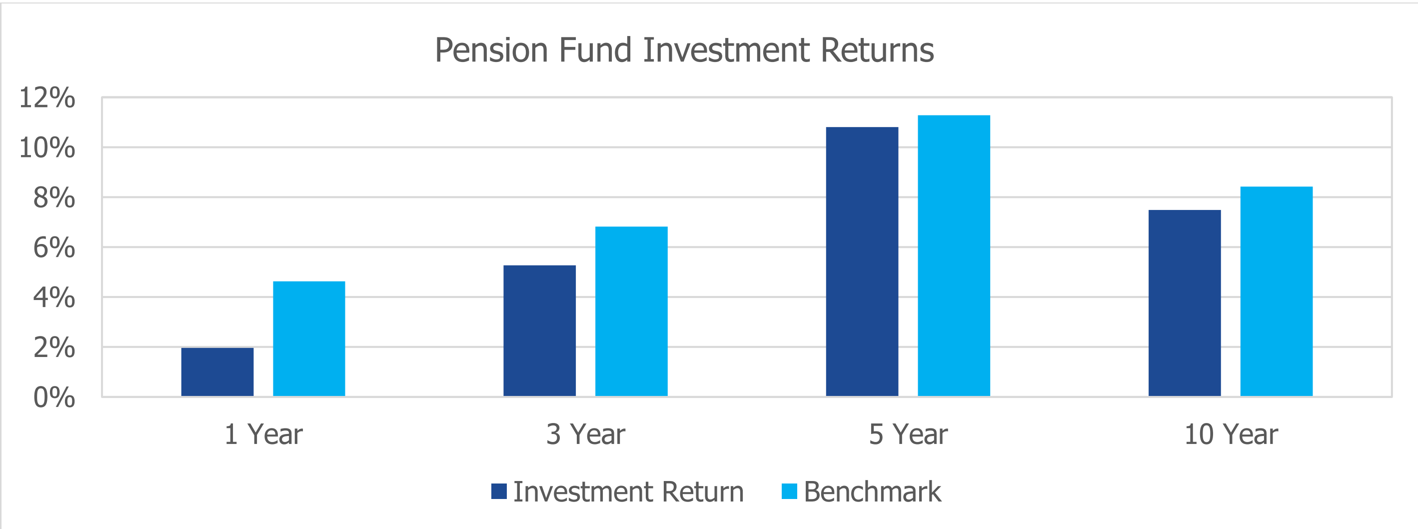
Investment Market Review

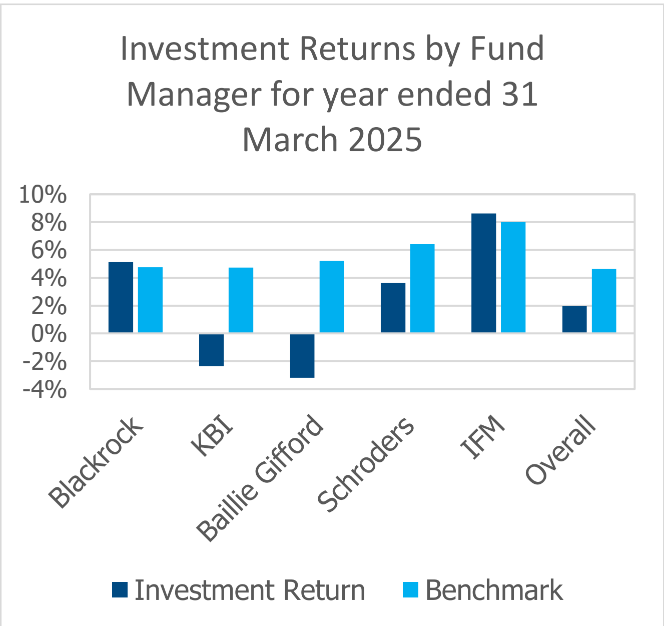
During the first half of the financial year the investment markets were higher on stronger earnings data, improving inflation figures and interest rate cuts in the UK and US. Equity markets were though still concerned over the ongoing conflict between Gaza and Israel, and the possibility that it could spread to other countries.

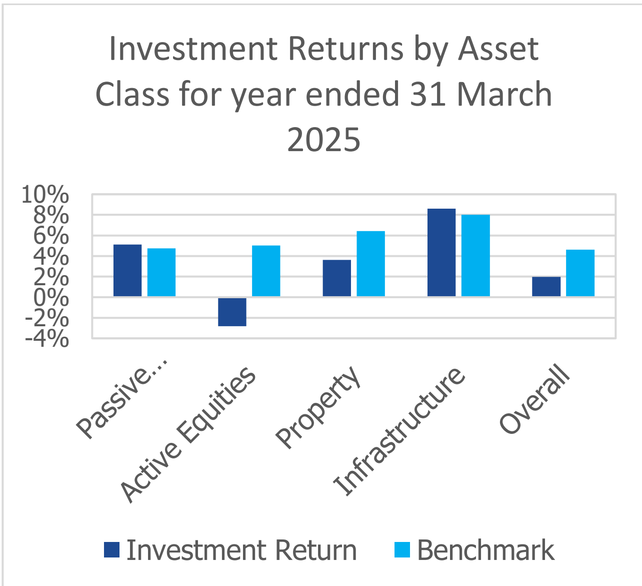
The second half of the financial year saw investment markets struggle in the quarter to December, due to worse than expected growth figures from China and projections of interest rates remaining higher for longer in the UK, although the US rose strongly on a decisive presidential election result which removed much uncertainty over the election. The quarter to March 2025 saw all markets fall due to increasing uncertainty about the impact of US economic policy on the global economy, along with US actions over the conflict between Gaza and Israel, and between Russia and Ukraine.

Pension Fund Investment Performance

The first table shows the Pension Fund's current short, medium and longer term investment returns. The following tables show the investment returns by asset class, and the investment returns by fund manager for the year ended 31 March 2025.





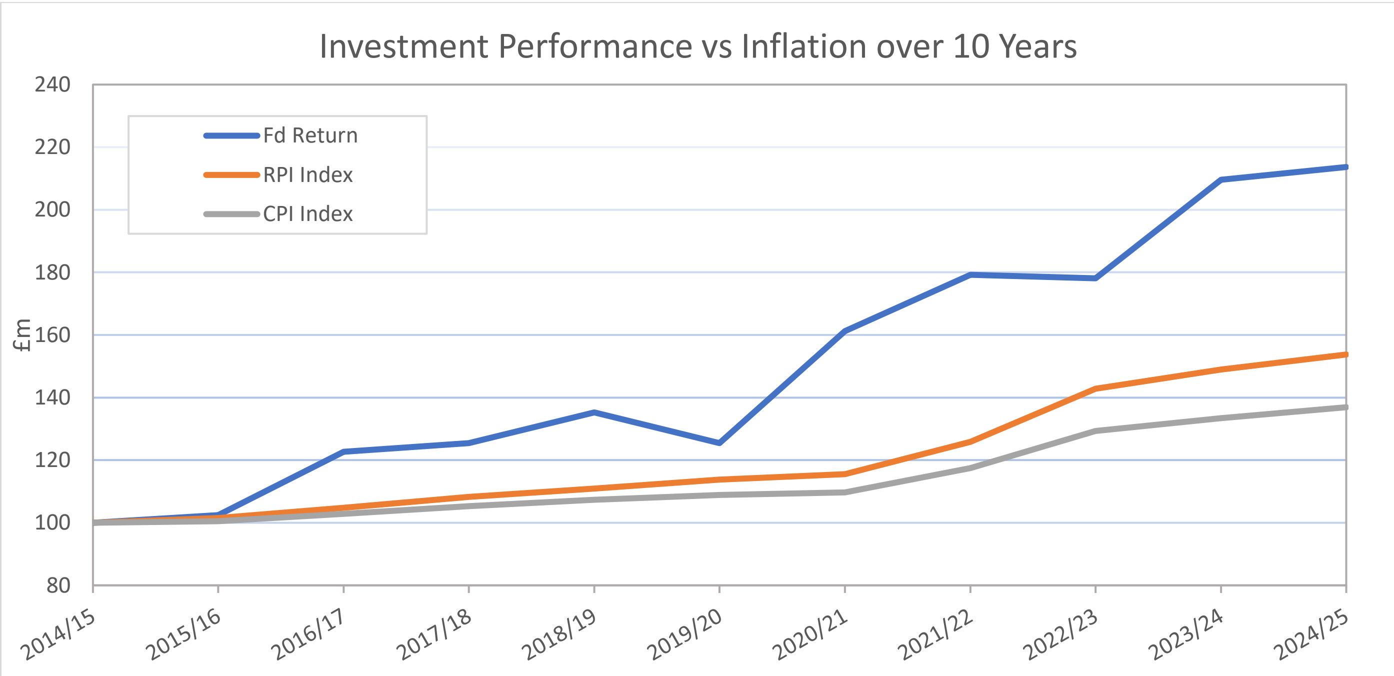


The Pension Fund achieved an overall investment return of 2.0% in 2024/25, from a combination of the fund managers returns. As can be seen from the above graph this return was below the overall benchmark return, due mainly to the underperformance of active equities.

The two fund managers that invest in active equities both produced negative investment returns, due to the concentrated nature of the equity markets, with a few very large companies dominating the main equity market.

Further detail about the performance of the current investment portfolio can be found in the annual investment performance report. https://coins.shetland.gov.uk/Agenda.asp?meetingid=8478

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



Investment arrangements and policies

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

The Fund utilises the service of fund managers, who have delegated powers for the acquisition and realisation of investments. As part of their internal investment decision-making processes, fund managers are expected to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long-term prospects of such companies.
All the fund managers have signed up to the United Nations Principles on Responsible Investment Management. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty.

The focus of the Pension Fund's **Investment Strategy** was to achieve a 100% funding level whereby the Pension Fund's incoming contributions equalled the benefits payable, by 2027. Beyond this point in time, the Pension Fund anticipates that benefit payments will exceed the level of contributions made by employers and employees into the Pension Fund.

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

A new investment strategy was approved in June 2024, and the main investment class was equities which was split between three fund managers to diversify equity risk. This equity allocation was balanced with diversification in the asset classes of infrastructure and private credit, in order to reduce the overall exposure to risk and dampen investment volatility.

Statement of Investment Principles

The Pension Fund's investment objectives have been set to ensure the Pension Fund meets its primary objective, these investment objectives are as follows:

- To secure and maintain sufficient assets to meet liabilities which fall due by the fund under the Local Government Pension Scheme.
- To minimise the risk of assets failing to meet these liabilities, through an investment strategy that is specifically tailored to the Pension Fund's requirements.
- To maximise investment returns within an acceptable level of risk, whilst at the same time providing stability in the level of employers' contribution rates.
- To reach a point by 2027 where the Pension Fund is fully funded. This date is deemed as when the Pension Fund's contributions and benefits will be equal. This would allow the Pension Fund to pay all liabilities due at the time and in the future.

The Pension Fund Committee and the Pension Board meetings on 31 August 2022 approved the current Shetland Islands Council Pension Fund Statement of Investment Principles. This statement includes administration details, the objective of the Pension Fund, types of investments, balance between different types of investment, risk, expected return on investments, realisation of investments, responsible investments, securities lending and compliance. The current portfolio of investments does not align with the specific allocations set out in the Statement of Investment Principles. This is because investments have been made on the basis of market conditions, which has resulted in a variation to the fixed allocation set out in the Statement of Investment Principles. The Statement of Investment Principles was updated in August 2022 to reflect a permissible range of asset allocations rather than a fixed percentage.

The Statement of Investment Principles as approved by the pension fund committee on 31 August 2022, can be found here:
https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=28075
The Pension Fund also complies with the six Myners Principles, which were contained in Appendix B to the Statement of Investment Principles.

A new investment strategy was approved by the Pension Fund Committee in June 2024, following the results of the actuarial valuation in 2023. The required changes to the investment strategy are currently in progress.

Due to the conclusion of the health check and the approval of a new investment strategy, the Statement of Investment Principles will be updated in 2025/26.

Responsible Investing

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

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

Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers are expected as part of their investment process to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long-term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities.

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

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

Pension Fund managers were recently surveyed, their responses detailed their organisation's strategic climate change plans, their practical approach to assessing and targeting change, and their future plans. They related this to the current portfolio/investments of the Pension Fund and set out the processes and tools (both qualitative and analytical) they have in place to review current/future investments and the key considerations they take account of. The Fund Manager responses are provided in Appendix 1.

Competition and Markets Authority Compliance

Isio are the Pension Fund's investment consultants, and in line with the requirements of the Competition and Markets Authority the Pension Fund Committee must assess their investment advisors on an annual basis. The Pension Fund Committee complied with this requirement at a Pension Fund Committee meeting on the 21 August 2024 when Isio achieved a satisfaction score of 91% based on an evaluation scoresheet.

Section 4 – Scheme Administration

Shetland Islands Council administers the Local Government Pension Scheme (LGPS) on behalf of employers participating in the Scheme. The requirement to compile a Pension Administration Strategy is contained within Regulation 57 of The Local Government Pension Scheme (Scotland) Regulations 2018.

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.
[Pension Administration Strategy Statement | Shetland Islands Pension Fund]

Employers must provide accurate information to the Pension Fund in a timely manner, to ensure that information provided to Fund members is also accurate and timely. The information received from employers to the Pension Fund, such as new starters, leavers, retirements and deaths was delivered in a timely manner during 2024/25.

In 2024/25 all employer contributions were received on time in 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.

Nine employer surveys were returned which indicated 78% of respondents rated the service received as excellent and 22% rated the service as good.

The chart above summarises the latest member satisfaction survey results, a total of 82 surveys were received. As well as administering employer contributions, retirements and pension payments, the Pension Section also processes the pensioners' payroll.

There were no formal complaints received in the year and no complaints referred to the Pensions Ombudsman.

The table below shows the summarised budget and spend for the Pension Fund's administration costs for 2024/25:

Administration Expenses	2024/25 Annual Budget £000	2024/25 Draft Outturn £000	2024/25 Variance under/(over) £000
Staff Time Allocations	415	461	(46)
Supplies, Services & Systems	167	115	52
Printing & Publications	6	6	0
Total	**588**	**582**	**6**

The Pension Administration KPI's for 2024/25 are:

Key Performance Indicator	Target	31 March 2025			31 March 2024		
		Number	Number within target	% within target	Number	Number within target	% within target
New starts	2 months from date of joining scheme	651	651	100%	603	588	98%
Leavers	2 months from leaving scheme	272	264	97%	437	426	97%
Transfer in quotes	2 months from date of transfer quotation	41	40	98%	50	44	88%
Transfer out quotes	3 months from date of request	20	19	95%	43	37	86%
Notifying members of benefits on retirement	1 month from date of retirement	177	177	100%	145	145	100%
Retirement estimates	2 months from date of request	159	159	100%	157	155	99%
Calculation of dependants benefits	2 months from notification	29	29	100%	28	28	100%
Annual Benefits statement - to all active and deferred members	by 31 August each year	5,971	5,971	100%	5,806	5,806	100%
Contributions from employers	by 19th of month following deduction	118	118	100%	120	120	100%

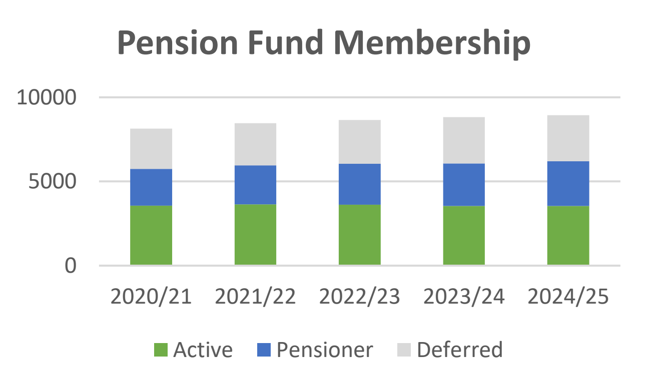
Performance Indicators 2024/25	
Resources	
Total number of admin staff (FTE) at 31 March 2025	8.6
Number of admin staff vacancies occurred in the year	2
Number of vacancies filled at 31 March 2025	2
Ratio of all admin staff to total number of scheme members	1:1026
Employer performance	
Percentage of employers set up to make monthly submissions	100%
Percentage who submitted data on time during the year	100%
Data	
Common data score*	100%
Conditional (scheme-Specific) Data**	97%

*Common Data - refers to essential information that the Pension Fund must hold for scheme members. This includes details such as National Insurance number, name, gender, date of birth, membership status, and address.
**Conditional (Scheme-Specific) Data is unique to each Pension Fund and depends on its structure and administration. It includes details such as remuneration, service history, contribution history, pension benefit calculations.

Fund Membership

Membership of the Pension Fund comprises:

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



Pension Fund membership has increased during 2024/25 by 1.1% to 8930. Active membership remains unchanged from 2023/24, with a small increase in pensioner members of 4.9%.

Employers with Active Members at 31 March 2025
Scheduled Bodies: 7885 members
Shetland Islands Council
Orkney & Shetland Valuation Joint Board
Admitted Bodies: 1045 Members
Lerwick Port Authority
Shetland Recreational Trust
Shetland Amenity Trust
Shetland Charitable Trust
Shetland Arts Development Agency
Shetland Care Attendant Scheme (previously Crossroads)
Shetland UHI

During the year, one Admitted Body (Shetland Seafood Quality Control) with 44 members, ceased membership in the Scheme.

Communications

During the scheme year 2024/25 the Shetland Islands Council Pension Fund

- Produced and mailed annual newsletters to all active, pensioner and deferred members. These are also available on the website at: https://www.shetlandpensionfund.org/news/2024-newsletters/
- Produced and mailed an annual benefit statement to all active and deferred members. These were all issued by the 31st August deadline.

New items have been added to the Pension Fund website, including: details of the Pensions Increase for 2025, the proposed increase in Normal Minimum Pension Age, webinars available to Scheme Members to get a better understanding of how the LGPS works and how the McCloud Court Case may affect them. Also added, was accounts and budget information and the new Communications Policy.

The Communications Policy for the Shetland Islands Council Pension Fund was approved by the Pension Fund Committee on 11 December 2024.
Shetland Islands Council Committee Information - Submission Documents
The key objectives of the Communications Policy are:

- To improve understanding of the Scheme and the Pension Fund.
- To promote the benefits of the Scheme.
- To keep members, employers and other stakeholders up to date with regulation changes.
- To allow members to make informed decisions.

In order to achieve these objectives, communications require to:

- Have a clear purpose.
- Have a clear message.
- Be factual and written in plain English.
- Be designed to meet the needs of each target audience.
- Use the most efficient and effective means of delivery.
- On request, make communications available in alternative formats.

Summary of Pension Administration Activity

During the year the Shetland Islands Council Pension Fund administration staff have been busy with:

1) Preparing for onboarding with Pensions Dashboards, which are a UK government initiative aimed at helping individuals access all their pension information in one secure, digital platform, for free. The main goal of the Pensions Dashboards is to make it easier for people to track and understand their various pension pots, including state pensions, workplace pensions, like the Local Government Pension Scheme, and private pensions, which can often be scattered across multiple providers. Pension trustees and providers must comply with new legal guidance, with a connection deadline for the Shetland Islands Council Pension Fund set for **31 October 2025**.

2) Introduction of Shared Cost Additional Voluntary Contributions (SCAVCs) – This allows LGPS members to use a salary sacrifice approach so that their contributions to their AVC do not attract either tax or National Insurance (NI) contributions. This creates a financial saving both for the scheme member and the employer as the employer NI contributions are also less.

3) McCloud Judgement – In 2015, the UK government introduced changes to public sector pensions to make them more sustainable and affordable. As part of this, new career average revalued earning (CARE) schemes replaced the older final salary schemes for many public sector workers. However, transitional protections were offered to older workers who were closer to retirement, allowing them to stay in the final salary schemes for a longer period or entirely. Younger workers, by contrast were moved to the new career average schemes. This difference in treatment was challenged on the basis that it discriminated against younger workers on the grounds of age, and the courts agreed this to be the case in 2018.

   The McCloud judgement has had a significant impact on public service pensions schemes, including the Local Government Pension Scheme (LGPS), creating a regulatory challenge for scheme administrators.

   McCloud remedy calculations are being performed for all new LGPS calculations, but backlogs of former calculations still require to be addressed.

4) Electronic Records Management - An action plan has been developed to move from manual to electronic storage of members records, through procurement of a new image module in the pension administration system. The aim being that all documents associated with a scheme member will be accessed directly from their electronic pension administration system record.

Shetland Islands Council Pension Fund ("the Fund") Actuarial Statement for 2024/25

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy (FSS), dated March 2024. In summary, the key funding principles are as follows:

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

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

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £660 million, were sufficient to meet 120% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £111 million. Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2024 to 31 March 2027 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2023 valuation report.

Method

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

Assumptions

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

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

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

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

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

*Currently aged 45

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

Experience over the period since 31 March 2023

Markets reflected wider volatility during 2023, impacting on investment returns achieved by the Fund's assets. However, asset performance improved in 2024 and early 2025. The recent increase in US tariffs on imports has caused significant market volatility. The peak of this market volatility was experienced immediately after 31 March 2025, however generally lower than expected asset returns were experienced in the month immediately prior to this.

Continued high levels of inflation in the UK also resulted in a higher than expected LGPS benefit increase of 6.7% in April 2024. However, inflation has reduced towards historical levels and the Bank of England's target (2% pa), with LGPS benefits increasing by 1.7% in April 2025.

Overall, the funding level of the Fund is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023.

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

Jamie Baxter FFA C.Act For and on
behalf of Hymans Robertson LLP
27 May 2025

Section 6 - Governance and Training

Under regulation 53(1) of the Local Government Pension Scheme (Scotland) Regulations 2018, the Shetland Islands Council delegates all of its functions as an administering authority to the Shetland Islands Council Pension Fund Committee.

Monitoring

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

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

In line with the Pension Fund's governance arrangements to monitor and review Fund Managers, the Pension Fund Committee and Pension Board invite Fund Managers to attend the quarterly meetings to give presentations on their mandates and investment performance. During the financial year-presentations have been received from KBI Global Investors, Baillie Gifford and Permira.

The Fund Managers supply a quarterly audited performance review report and monthly valuation report. Membership of the Pension Board consists of trade union representatives and employer representatives, drawn from Shetland Islands Council and scheduled or admitted bodies in membership of the Pension Fund.

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

Key management personnel

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

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

Pension Fund Committee Membership/ Meeting Attendance	16/04/2024	14/05/2024	24/06/2024	21/08/2024	23/09/2024	11/11/2024	12/02/2025
Emma Macdonald (Chair)	x	x	x	x		x	x
Davie Sandison			x	x	x		x
Moraig Lyall	x	x	x	x	x	x	x
John Fraser	x	x	x	x	x	x	x
Duncan Anderson					x	x	
Gary Robinson (Vice Chair)	x	x		x	x	x	
Dennis Leask	x	x	x		x	x	x
Catherine Hughson	x	x	x		x	x	x
Robbie McGregor	x	x	x			x	x
Liz Peterson	x	x	x		x	x	x
Robert Thomson	x	x	x	x	x	x	x

Pension Board Committee Membership/ Meeting Attendance	16/04/2024	14/05/2024	24/06/2024	21/08/2024	23/09/2024	11/11/2024	12/02/2025
Scheme member representatives:							
David Marsh - (Vice Chair)	x	x	x		x	x	x
Lyall Halcrow				x	x		
Ivor Arthur							
Andrew Thompson							
Employer representatives:							
H Sutherland (SAT)	x		x	x	x		x
Mark Robinson (SIC)(Chair)	x	x	x	x	x	x	
Andrew Hall (SIC)-elected 27/02/25							x
Bryan Peterson (SIC)	x	x	x	x	x	x	x
Substitutes:							
Austin Taylor	x		x				x
Ian Taylor							
Kerry Llewellyn		x					

Training

Members of the Pension Fund Committee and Pension Board took part in Knowledge Assessment provided by Hymans this year. The assessment covered the 8 topics of the CIPFA Knowledge and Skills framework and insight from this will be used to identify and tailor future training needs going forward for both the Pension Fund Committee and Pension Board.

Training completed by the Pension Fund Committee and the Pension Board during the year is detailed below:

Pension Fund Committee and Pension Board Training 2024/25						
	Presentation from IFM on their equity mandate		Presentation from Permira – direct lending		Presentation from ISIO - equities	
	14/05/2024		23/09/2024		12/02/2025	
	Attendees	%	Attendees	%	Attendees	%
Committee	9	82%	9	82%	9	82%
Board	4	50%	5	63%	5	63%

2 members of the Pension Fund Board also attended the Scottish Local Government Pension Scheme advisory board 'Good Governance seminar' on 26th February 2025.

Annual Governance Statement

Scope of responsibility

Shetland Islands Council has a statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in Shetland, both on its own behalf and in respect of 1 other scheduled body, and 7 admitted bodies.

As the administering authority for the Pension Fund, the Council is responsible for ensuring that its business, including that of the Pension Fund, is conducted in accordance with the law and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. As pension funds are not local authorities or separate bodies that fall within section 106 of the Local Government (Scotland) Act 1973, the statutory responsibility for securing best value for pension funds lies with the administering local authority, Shetland Islands Council.

In discharging these overall responsibilities, the Pension Fund Committee is responsible for establishing proper arrangements (known as the governance framework) for the governance of the Fund's affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council reviewed and updated its Code of Corporate Governance in December 2024 which sets out seven fundamental elements that govern how the Council conducts its business. The Code of Corporate Governance is consistent with the CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government*', which was published in 2016.

The Fund relies on Shetland Islands Council as Administering Authority to provide guidance on anticorruption, counter fraud and whistleblowing through their internal policies.

The Purpose of the Governance Framework

The governance framework consists of the systems, processes, culture and values by which the Administering Authority (including the Pension Fund) is directed and controlled. The Pension Fund complies with this framework ensuring that strategic objectives are monitored and to assess the effectiveness of services.

The Shetland Islands Council Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations 2018. These include requirements for the preparation and production of a number of key policy documents including a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Fund's objectives together with the main risks facing the Fund and the key controls in place to mitigate those risks.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. This system is an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's strategic priorities and outcomes, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Internal controls cannot eliminate risk of failure to achieve strategic priorities and outcomes and can therefore only provide reasonable and not absolute assurance of effectiveness.

A Risk Register is maintained to facilitate detailed risk monitoring, the latest update to the Register is available here.

The governance framework has been in place at Shetland Islands Council and Shetland Islands Council Pension Fund for the year ended 31 March 2025 and up to the date of approval of the annual accounts.

The Governance Framework

The governance framework adopted by the Administering Authority (including the Pension Fund) is consistent with the seven core principles of the CIPFA/SOLACE (Society of Local Authority Chief Executives and Senior Managers) framework illustrated below:

A	*Behaving with integrity, demonstrating a strong commitment to ethical values and respecting the rule of law.*
B	*Ensuring openness and comprehensive stakeholder engagement.*
C	*Defining outcomes in terms of sustainable economic, social and environmental benefits*
D	*Defining the interventions necessary to optimise achievement of intended outcomes.*

E	*Developing the entity's capacity, including the capability of its leadership and the individuals within it.*
F	*Managing risks and performance through robust internal control and strong public financial management.*
G	*Implementing good practices in transparency, reporting and audit to deliver effective accountability*

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

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

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

In addition to complying with the governance framework approved by the Council, LGPS regulations require each Administering Authority to publish a Governance Compliance Statement that sets out how their governance arrangements comply with best practice issued by the Scottish Ministers. The Pension Fund's Governance Compliance Statement can be found on page 29. 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 Local Government Pension Scheme (LGPS) regulations require LGPS Administering Authorities to assess their own governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their governance compliance statement.

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

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

i) Internal management

Administration of the Pension Fund is directly within the remit of the Director of Corporate Services and assurance has been sought from the Director in relation to the effectiveness of internal financial controls. This assurance provides the opportunity to highlight any weaknesses or areas of concern that should be considered. For 2024/25, no areas of weakness or concern were identified.

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

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

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

ii) Internal audit reviews

The Council provides internal audit arrangements to the Pension Fund both as a tool of management and with direct reporting to the Council's Audit Committee. The Internal Audit function operates in accordance with the CIPFA Statement on the *Role of the Head of Internal Audit*. Furthermore, internal audit reviews are conducted in accordance with the Public Sector Internal Audit Standards (PSIAS). From 1 April 2025, internal audit are working to new professional standards. These are a combination of the Global Internal Audit Standards (GIAS) and the Application Note 'Global Internal Audit Standards in the UK public Sector'.

Internal audit works to an approved annual internal audit plan, based on an approved audit strategy which takes into account the audit universe and an annual assessment of known and potential risks.

During 2024/25 audit undertook a review of data quality within the Pension Fund's pension administration system (Altair). Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The audit identified some scope for improvement in the existing arrangements and two recommendations.

The Chief Internal Auditor's opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2024/25 in the Council (the Administering Authority for the Pension Fund).

iii) External audit

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

External audit report to the Pension Fund Committee on the year end financial audit, setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

iv) Investment fund managers and the Custodian

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

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

v) Management and administration

The Pension Fund Committee receive regular monitoring reports allowing them to review the performance of the pension fund, which are presented on a quarterly basis. Members are also presented with quarterly investment review reports, and approve the Pension Fund Funding Strategy Statement, the Statement of Investment Principles, and updates to the current Risk Register.

Significant governance issues

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

There is a duty to report breaches of the law to the Pensions Regulator where there is a reasonable cause to believe that a legal duty relevant to the administration of the scheme hasn't or isn't being complied with, and this failure to comply is likely to be of material significance. There have been no such breaches to report in the year.

Governance Compliance Statement 2024/25

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). Meetings are held at least quarterly, with additional meetings scheduled if required.
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. Pension Fund Committee and Board meetings are recorded and made public on the Shetland Islands Council website for those unable to attend in person.
Selection and role of lay members		
Committee or board members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	✓	Committee and Board members induction training provided following the Scottish Local Government elections. Members of the Pension Fund Committee and Pension Board attended training events during the year relating to Fund administration and investment management.
At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	✓	'Declarations of Interest' is a standing item on all agendas.
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	✓	The Terms of Reference for both Pension Fund Committee and Pension Board sets out this principle.

Conclusion

Overall, it is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance arrangements and systems of internal control that operate across the Council as Administering Authority of the Pension Fund throughout 2024/25. We consider that the governance arrangements and internal control environment allows the identification of any significant risks which may impact on the achievement of the Pension Fund's principal objectives, and to take action (or actions) to avoid or mitigate the impact of any such risks.

....
Emma Macdonald
Leader of the Council
Chair of the Pension Fund Committee
23 June 2025

....
Maggie Sandison
Chief Executive
Shetland Islands Council
23 June 2025

Section 7 – Fund Account, Net Assets Statement and Notes

Statement of Responsibilities for the Statement of Accounts

The administering authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its Pension Fund and to ensure that the proper officer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Executive Manager – Finance;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the Annual Accounts for signature.

I certify the Annual Accounts have been approved for signature by the Pension Fund Committee at its meeting on 23 June 2025.

Signed on behalf of Shetland Islands Council.

....
Emma Macdonald
Leader of the Council
Chair of the Pension Fund Committee
23 June 2025

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 2025.

Paul Fraser

....
Paul Fraser, CPFA
Executive Manager - Finance
Shetland Islands Council
23 June 2025

Pension Fund Account for year ended 31 March 2025

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

2023/24 £000		Notes	2024/25 £000	2024/25 £000
	Dealings with members, employers and others directly involved in the scheme			
(24,769)	Contributions	6	(23,538)	
(1,539)	Transfers in from other pension funds	7	(2,149)	
0	Other income		(1)	
(26,308)	**Total Additions**			**(25,688)**
20,209	Benefits payable	8	22,677	
1,702	Payments to and on account of leavers	9	3,083	
6	Other payments		23	
21,917	**Total Withdrawals**			**25,783**
(4,391)	**Net (additions)/withdrawals from dealings with members**			**95**
3,144	Management expenses	10		3,955
(1,247)	**Net (additions)/withdrawals including Fund Management Expenses**			**4,050**
	Return on investments			
(8,019)	Investment income	12		(9,936)
(98,253)	(Profits) and losses on disposal of investments and changes in market value of investments	15b		(10,263)
(106,272)	**Net return on investments**			**(20,199)**
(107,519)	**Net (increase)/decrease in the net assets available for benefits during the year**			**(16,149)**
(660,467)	**Opening net assets of the scheme**			**(767,986)**
(767,986)	**Closing net assets of the scheme**			**(784,135)**

Net Assets Statement as at 31 March 2025

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 2024 £000		Notes	As at 31 March 2025 £000
	Investment Assets		
766,656	Investment Assets	13	782,229
766,656	**Total Investment Assets**		**782,229**
	Non-current Assets		
109	Long-term debtors	20a	100
109	**Total Non-current Assets**		**100**
	Current Assets		
2,130	Debtors	20	1,977
1,675	Bank current accounts	20	2,926
3,805	**Total Current Assets**		**4,903**
	Current Liabilities		
(593)	Sundry creditors	22	(798)
(1,991)	Benefits payable	22	(2,299)
(2,584)	**Total Current Liabilities**		**(3,097)**
767,986	**Net assets of the scheme available to fund benefits at the reporting year end**		**784,135**

The unaudited financial statement were issued on 23 June 2025.

Paul Fraser

Paul Fraser, CPFA
Executive Manager - Finance
Shetland Islands Council
23 June 2025

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

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

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

Membership

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

Organisations participating in the Shetland Islands Council Pension Fund include:

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

There are 9 employer organisations with active members within Shetland Islands Council Pension Fund including the Council itself; a summary of membership is shown below.

31 March 2024	Shetland Islands Council Pension Fund	31 March 2025
10	Number of employers with active members	9
	Number of employees in scheme:	
3,229	Shetland Islands Council	3,246
318	Other employers	301
3,547	Total	3,547
	Number of pensioners/dependants	
2,304	Shetland Islands Council	2,414
224	Other employers	238
2,528	Total	2,652
	Deferred pensioners	
2,259	Shetland Islands Council	2,225
496	Other employers	506
2,755	Total	2,731
8,830	Scheme Total	8,930

Note 2: Basis of Preparation

The Statement of Accounts summarises the Pension Fund's transactions for the 2024/25 financial year and its position at year-end as at 31 March 2025. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, 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 19 basis, is disclosed at Note 18.

The accounts have been prepared on a going concern basis.

Note 3: Accounting Standards Issued not Adopted

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

- Amendments to IAS21 (The Effects of Changes in Foreign Exchange Rate – Lack of Exchangeability). Applicable for periods beginning on or after 1 April 2024. The amendments:
    - clarify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking; and
    - require the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable.

  This amendment is not expected to have an impact on the Pension Fund's financial statements.

- Amendments to IFRS 17 (Insurance Contracts). Applicable for periods beginning on or after 1 April 2024. IFRS 17 replaces IFRS 4 and sets out principles for recognition, measurement, presentation and disclosure of insurance contracts.

  This amendment is not expected to have an impact on the Pension Fund's financial statements.

- Changes to the measurement of non-investment assets within the 2025/26 Code include adaptions and interpretations of IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. These include setting out three revaluation processes for operational property, plant and equipment, requiring indexation for tangible non-investment assets and a requirement to value intangible assets using the historical cost approach.

This amendment is not expected to have an impact on the Pension Fund's financial statements.

Note 4: Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

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

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

The following table highlights the approximate impact that a small change in the assumptions used would have on the Pension Fund:

Item	Uncertainties - Estimate	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. An actuary to the Fund is appointed to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, 0.1% decrease in the real discount rate assumption would result in a decrease in the pension liability of £10m. A 0.1% increase in salary increase rate would increase the value of liabilities by approximately £1m, and a 0.1% increase in CPI inflation would increase the liability £9m, and a 1 year increase in member life expectancy would increase the liability £22m.
Level 3 investments	Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.	The Pension Fund has investments in Property and Private Credit which are currently classified as level 3 investments. The value of these investments at 31 March 2025 is £174m. Changes to this value based on assessed volatility for these classes of assets, would give a value on increase of £197m and on decrease of £151m.

Note 5: Critical judgements in Applying Accounting Policies

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years, if required. The methodology used is in line with accepted guidelines and in accordance with IAS 19.
Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 17.

This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 6: Contributions Receivable

By category:

31 March 2024 £000		31 March 2025 £000
(19,399)	Employers - normal	(17,705)
(48)	Employers - augmentation	(252)
(5,322)	Members - normal	(5,581)
(24,769)	Total	(23,538)

By authority:

31 March 2024 £000		31 March 2025 £000
(21,561)	Administering authority	(20,318)
(216)	Scheduled bodies	(179)
(2,992)	Admitted bodies	(3,041)
(24,769)	Total	(23,538)

Note 7: Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 March 2024 £000		31 March 2025 £000
(1,539)	Individual transfers in	(2,149)
(1,539)	Total	(2,149)

The Pension Fund received 68 transfers in during 2024/25 with an average value of £31,611, compared to 55 transfers in during 2023/24 with an average value of £27,974.

Note 8: Benefits Payable

By category:

31 March 2024 £000		31 March 2025 £000
15,404	Pensions	17,006
4,031	Commutation and lump sum retirement benefits	4,824
774	Lump sum death benefits	847
20,209	Total	22,677

By authority:

31 March 2024 £000		31 March 2025 £000
17,932	Administering authority	20,019
257	Scheduled bodies	180
2,020	Admitted bodies	2,478
20,209	Total	22,677

Note 9: Payments to and on Account of Leavers

31 March 2024 £000		31 March 2025 £000
24	Refunds to members leaving service	88
1,676	Individual transfers	2,995
2	Group transfers	0
1,702	Total	3,083

Note 10: Management Expenses

31 March 2024 £000		31 March 2025 £000
485	Administration Expenses	625
139	Oversight and Governance Expenses	54
	Investment Management expenses	
2,440	Management Fees	3,181
45	Performance Fees	62
35	Custody Fees	33
3,144	Total	3,955

Note 10a: Investment Management Expenses

2024/25	Total £000	Management fees £000	Performance related fees £000
Managed Funds	1,351	1327	24
Unit Linked Insurance Policies	39	15	24
Private Credit	660	657	3
Infrastructure	1,047	1041	6
Diversified Growth Funds	0	0	0
Fixed Income Unit Trusts	0	0	0
Pooled Property Unit Trusts	120	116	4
Property Debt	12	12	0
Unitised Liquidity Fund	14	13	1
Cash Deposits	0	0	0
	3,243	3,181	62
Custody fees	33		
Total	3,276		

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

Note 11: External Audit Costs

31 March 2024 £000		31 March 2025 £000
37	Payable in respect of external audit	38
37	Total	38

Note 12: Investment Income

31 March 2024 £000		31 March 2025 £000
(2,466)	Private equity income	(4,311)
(2,461)	Pooled investment vehicles	(2,312)
(1,734)	Managed Funds	(1,602)
(796)	Infrastructure	(1,596)
(376)	Interest on cash deposits	(111)
(186)	Other	(4)
(8,019)	Total	(9,936)

Note 13: Investments

Fair Value As at 31 March 2024 £000		Fair Value As at 31 March 2025 £000
312,447	Managed Funds	301,052
286,895	Unit Linked Insurance Policies	296,759
27,661	Private Credit	40,002
67,147	Infrastructure	72,930
59,039	Pooled property unit trusts	55,498
3,081	Unitised Liquidity Fund	6,307
6,528	Property Debt	5,461
3,773	Cash deposits	4,220
85	Property income due	72
0	Diversified growth income due	(72)
0	Cash income due	0
766,656	Total investment assets	782,229

Note 13a: Reconciliation of movements in investments

	Market Value at 1 April 2024 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2025 £000
Investment Assets:					
Pooled funds - managed funds	312,447	1,601	(3,000)	(9,995)	301,053
Unit linked insurance policies	286,895	0	(4,619)	14,482	296,758
Private Credit	27,661	12,607	(10)	(256)	40,002
Infrastructure	67,147	3,967	(3,412)	5,228	72,930
Pooled property unit trusts	59,039	4,179	(8,648)	928	55,498
Unitised Liquidity Fund	3,081	6,783	(3,845)	288	6,307
Property Debt	6,528	0	(655)	(412)	5,461
Total Pooled Investment Vehicles	762,798	29,137	(24,189)	10,263	778,009
Other investment balances:					
Property income due	85				72
Property purchase due	0				(72)
Cash income due	3,773				4,220
Net investment assets	766,656				782,229

	Market Value at 1 April 2023 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2024 £000
Investment Assets:					
Pooled funds - managed funds	280,410	48,734	(63,529)	46,831	312,447
Unit linked insurance policies	283,434	245,327	(294,082)	52,217	286,895
Private Credit	19,907	7,701	4	50	27,661
Infrastructure	0	66,000	440	707	67,147
Pooled property unit trusts	57,726	4,616	(3,359)	56	59,039
Unitised Liquidity Fund	4,472	856	(2,436)	189	3,081
Property Debt	5,602	421	(153)	658	6,528
Total Pooled Investment Vehicles	651,551	373,655	(363,115)	100,708	762,798
Other investment balances:					
Diversified Growth income due	99				0
Property income due	11				85
Cash income due	645				3,773
Net investment assets	652,306				766,656

Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

Note 13b: Analysis by Fund Manager

Market Value 31 March 2024			Market Value 31 March 2025	
£000	%		£000	%
286,908	37	BlackRock	296,771	38
68,850	9	Schroders	67,328	9
116,300	15	KBI	110,655	14
196,147	26	Baillie Gifford	190,398	24
67,147	9	IFM	72,930	9
31,304	4	Permira	44,147	6
766,656	100	Total investment assets	782,229	100

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

Market Value 31 March 2024			Market Value 31 March 2025	
£000	%		£000	%
286,895	37	Aquila Life MSCI World Fund S1	296,759	38
116,300	15	KBI 1 Dividend Plus	110,655	14
67,147	9	IFM loan Fund	72,930	9
196,147	26	Ballie Gifford Global Alpha Fund	190,398	24
		Permira CR Solns V Senior GBP SCSP	40,002	5

Note 14: Fair Value Hierarchy

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

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

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

Level 3

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

The following table provides an analysis of the financial assets of the Pension Fund, grouped into Levels 1 and 2 and 3, based on the level at which the fair value is observable.

As at 31 March 2024 £000	Fair value through profit and loss	As at 31 March 2025 £000
6,855	Level 1	10,527
599,342	Level 2	597,811
160,459	Level 3	173,891
766,656	Net Investment Assets	782,229

Basis of Valuation

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

Description of Asset	Valuation hierarchy	Basis of valuation	Observable / unobservable inputs	Key sensitivities affecting valuations
Cash and cash equivalents	Level 1	carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Unquoted pooled fund investments	Level 2	Average of brokers prices	Evaluated price feeds	Not required
Pooled property funds where regular trading does not take place	Level 3	Valued by investment managers on a fair value basis each year using PRAG guidance	NAV-based pricing set on a forward pricing basis	Valuations are affected by any changes to the value of the financial instrument being hedged against
Other unquoted and private equities	Level 3	Comparable valuation of similar companies in accordance with international Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special valuation guidance (March 2020)	-EBITDA multiple -Revenue multiple -Discount for lack of marketability -Control premium	Valuations are affected by any changes to the value of the financial instrument being hedged against

Sensitivity of assets valued at level 3

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

	Assessed valuation range (+/-)	Value at 31 March 2025 £000	Value on increase £000	Value on decrease £000
Private Credit	7.6%	40,002	43,042	36,962
Infrastructure	14.5%	72,930	83,505	62,355
Pooled Property	15.2%	55,498	63,934	47,062
Real Estate Debt	15.2%	5,461	6,291	4,631
		173,891	196,772	151,010

For the year ending 31 March 2025 the value of level 3 assets was £174m (2023/24: £160m)

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

	Market value at 1 April 2024 restated £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Realised gains/ losses £000	Unrealised gains/ losses £000	Market value at 31 March 2025 £000
Private Credit	27,661	-	-	12,606	(10)	(17)	(238)	40,002
Infrastructure	67,147	-	-	3,967	(3,411)	2,605	2,622	72,930
Pooled Property	59,123	-	-	4,179	(8,647)	(1,942)	2,785	55,498
Real Estate Debt	6,528	-	-	-	(656)	61	(472)	5,461
	160,459	-	0	20,752	(12,724)	707	4,697	173,891

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 2024				As at 31 March 2025		
Fair value through profit and loss £000	Receivables £000	Financial liabilities £000		Fair value through profit and loss £000	Receivables £000	Financial liabilities £000
			Financial assets			
			Pooled funds			
312,447			- managed funds	301,053		
286,895			- unit linked insurance policies	296,758		
0			Fixed income unit trusts			
27,661			Private Credit	40,002		
67,147			Infrastructure	72,930		
59,039			Pooled property unit trusts	55,498		
3,081			Unitised liquidity funds	6,307		
6,528			Property debt	5,461		
0			Diversified growth			

3,773	1,675		Cash	4,220	2,926	
85			Property income due	72		
0			Property Purchase due	(72)		
0			Cash income due	0		
	2,130		Debtors		1,977	
766,656	**3,805**	**0**	**Total Financial assets**	**782,229**	**4,903**	**0**
			Financial liabilities			
0	0	(2,584)	Creditors	0		(3,097)
0	**0**	**(2,584)**	**Total Financial liabilities**	**0**	**0**	**(3,097)**
766,656	**3,805**	**(2,584)**	**Total**	**782,229**	**4,903**	**(3,097)**

Note 15b: Net gains and losses on financial instruments

As at 31 March 2024 £000	Financial assets	As at 31 March 2025 £000
(98,253)	Fair value through profit and loss	(10,263)
(98,253)	**Total**	**(10,263)**

Note 15c: Value of financial instruments

As at 31 March 2024			As at 31 March 2025	
Book value £000	Market value £000	Financial assets	Book value £000	Market value £000
623,327	766,656	Fair value through profit and loss	631,983	782,229
623,327	**766,656**	**Total**	**631,983**	**782,229**

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 Pension Fund price risk - sensitivity analysis

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

Asset Type	Potential market movements (+/-)
Global equities (ex UK)	18.6%
Infrastructure Equity	14.5%
Property	15.2%
Cash	0.3%
Private Credit	7.6%

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 Pension Fund managers to ensure it is within limits specified in the Pension Fund investment strategy.

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 2025 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Investment portfolio assets:				
Cash and cash equivalents	10,527	0.3%	10,559	10,495
Global Equities	597,811	18.6%	709,004	486,618
Property	60,959	15.2%	70,225	51,693
Infrastructure	72,930	14.5%	83,505	62,355
Private Credit	40,002	7.6%	43,042	36,962
Total assets	**782,229**		**916,335**	**648,123**

Asset Type	Value as at 31 March 2024 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Investment portfolio assets:			0	0
Cash and cash equivalents	6,854	0.30%	6,875	6,833
Global Equities	599,342	16.7%	699,432	499,252
Property	65,652	15.6%	75,893	55,409
Infrastructure	67,147	13.6%	76,279	58,015
Private Credit	27,661	8.8%	30,095	25,227
Total assets	766,656		888,574	644,736

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 2024 £000		As at 31 March 2025 £000
	Asset type	
6,854	Cash and cash equivalents	10,527
1,675	Cash balances	2,926
27,661	Private credit	40,002
36,190	Total	53,455

Interest rate risk sensitivity analysis

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

Asset exposed to interest rate risk:

Asset Type	Carrying amount as at 31 March 2025	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	10,527	105	(105)
Cash balances	2,926	29	(29)
Private credit	40,002	400	(400)
Total change in assets available	**53,455**	**534**	**(534)**

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

Currency risk

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

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

The following table summarises the Pension Fund's currency exposure as at 31 March 2025 and as at the previous period end.

As at 31 March 2024 £000		As at 31 March 2025 £000
	Asset type	
599,342	Pooled Funds - overseas equities	579,133
4	Pooled Property Unit Trusts - overseas	0
67,147	Infrastructure	64,689
27,661	Private Credit	31,786
694,154	**Total**	**675,608**

Currency risk - sensitivity analysis

Following analysis of data provided by the Pension Fund's performance analysts, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 9.1%.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 9.1% 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:

	Carrying amount as at 31 March 2025	Change to net assets available to pay benefits	
Asset Type	£000	+9.1% £000	-9.1% £000
Pooled Funds - overseas equities	579,133	631,834	526,432
Pooled Property Unit Trusts - overseas	0	0	0
Infrastructure	64,689	70,576	58,802
Private Credit	31,786	34,678	28,894
Total change in assets available	**675,608**	**737,088**	**614,128**

	Carrying amount as at 31 March 2024	Change to net assets available to pay benefits	
Asset Type	£000	+9.3% £000	-9.3% £000
Pooled Funds - overseas equities	599,342	655,081	543,603
Pooled Property Unit Trusts - overseas	4	4	4
Infrastructure	67,147	73,392	60,902
Private Credit	27,661	30,234	25,088
Total change in assets available	**694,154**	**758,711**	**629,598**

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 2025 was £7.146m (31 March 2024: £5.448m). This was held with the following institutions:

As at 31 March 2024 £000		As at 31 March 2025 £000
	Fund manager deposits	
117	Schroders cash	62
13	BlackRock cash	13
3,643	Permira cash	4,145
	Bank current accounts	
1,675	Bank of Scotland Plc	2,926
5,448	Total	7,146

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 2025, the value of illiquid assets was £173.9m, which represented 22.2% of the Pension Fund Investment assets (31 March 2024: £160.5m, which represented 20.9% of the Pension Fund assets).

Note 17: Funding Arrangements

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

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

The key elements of the funding policy are:

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

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

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2014 was at 31 March 2023. This valuation revealed that the Pension Fund's assets, which at 31 March 2023 were valued at £660m, were sufficient to meet 120% (£461m and 92% at 31 March 2020 valuation) of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £111m (2020 valuation: £38m deficit).

Copies of the 2023 Triennial 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 are available on request from Shetland Islands Council, the Administering Authority to the Pension Fund, at 8 North Ness Business Park, Lerwick.

Method

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

Assumptions

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

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

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

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

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

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

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

Mortality assumptions

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

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

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits.

50:50 Option assumption

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

Note 18: Actuarial Present Value of Promised Retirement Benefits

In addition to the Triennial Funding Valuation, the Actuary also undertakes a valuation of Pension Fund liabilities on an IAS19 basis every year using the same base data as the Valuation, rolled forward to the current financial year, taking account of changes in membership numbers and using updated assumptions. A statement prepared by the Actuary is included in Section 5. The IAS26 report is included at Appendix 2.

Note 19: Changes in Actuarial Value of promised Retirement Benefits

Actuarial Present Value of Promised Retirement Benefits	Vested Benefits £m	Total £m
Balance at 31 March 2025	546	546
Increase/Decrease in value during 2024/25	(71)	(71)
Balance at 31 March 2024	617	617
Increase/Decrease in value during 2023/24	68	68
Balance at 31 March 2023	549	549

The promised retirement benefits at 31 March 2025 have been projected using a roll forward approximation by the Pension Fund actuary from the latest formal funding valuation at 31 March 2023. It should be noted the figures are appropriate for the administering authority only for the preparation of the pension fund accounts and should not be used for any other purpose. These are included in Section 5.

Note 20: Current Assets

As at 31 March 2024 £000		As at 31 March 2025 £000
	Debtors:	
451	Contributions due - employees	468
1,661	Contributions due - employers	1,489
18	Sundry debtors	20
1,675	Bank current accounts	2,926
3,805	Total	4,903

Note 20a: Long Term Debtor

As at 31 March 2024 £000		As at 31 March 2025 £000
	Long Term Debtors	
109	Reimbursement of lifetime tax allowance	100
109	Total	100

Note 21: Unfunded Pension

As at 31 March 2024 £000		As at 31 March 2025 £000
767	Added years pension	800

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

Note 22: Current Liabilities

As at 31 March 2024 £000		As at 31 March 2025 £000
(593)	Sundry creditors	(798)
(1,991)	Benefits payable	(2,299)
(2,584)	Total	(3,097)

Note 23: Contingent 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. Further guidance is still awaited on how to deal with the sex inequalities which will persist for a minority of LGPS scheme members.

Survivors Benefits

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

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

Cost Cap Valuation

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

Valuations of the Local Government Pension Scheme (Scotland) must be undertaken every four years to measure the costs of benefits being provided. Each valuation follows HM Treasury directions and regulations and are carried out by the Government Actuary's Department (GAD) on behalf of the Scottish Government based on scheme data held at March of the relevant year.

The most recent valuation of the Local Government Pension Scheme (Scotland) under these arrangements was carried out by the Government Actuary's Department on behalf of the Scottish Government based on scheme data at 31 March 2020.

The valuation has set the rate payable for the scheme for the period 1 April 2024 to 31 March 2027. In addition, the valuation also measured the movement in the employer cost cap.

Under existing legislation, the next valuation will be based on scheme data as at 31st March 2024 and will set the employer contribution rate for the period 1 April 2027 to 31 March 2031.

Note 24: Additional Voluntary Contributions

As at 31 March 2024 £000		As at 31 March 2025 £000
4,248	Prudential	6,246
30	Equitable Life	32
4,278	Total	6,278

AVC contributions of £0.955m were paid directly to Prudential during the year (2023/24: £0.780m).

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

Note 25: Related Party Transactions

Shetland Islands Council

The Shetland Islands Council Pension Fund is administered by Shetland Islands Council. Consequently, there is a strong relationship between the Council and the Pension Fund. The Council incurred costs of £0.642m (2023/24 £0.587m) in relation to the administration of the fund and was subsequently reimbursed by the Pension Fund for these expenses.

The investments of the Pension Fund are overseen by the Council's Treasury Section: their costs are levied by staff time allocations. Costs incurred were £0.062m (2023/24 £0.045m) in relation to administering investments of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses.

The Council incurred costs of £17.006m (2023/24 £15.404m) in relation to pensioner payments. Such payments are reimbursed by the Fund.

In addition, the Council is the single largest employer of Pension Fund members and contributed £15.371m to the Fund (2023/24 £16.856m).

Governance

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

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

Note 26: Events after the Reporting Date

The unaudited annual accounts were authorised for issue on 23 June 2025. 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 2025, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 27: Accounting Policies

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 which is based upon International 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 any obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of the promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed at Note 19 of these accounts.

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

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

Management's assessment of the above factors has determined that it is still appropriate to prepare the Pension Fund's accounts on a going concern basis, as required by the Code of Practice on Local Authority Accounting 2024/25.

Pension Fund account - revenue recognition

A Contribution income

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

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

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

B Transfers to and from other schemes

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

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (Note 7).

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

C Investment income

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

Pension Fund account - expense items

D Benefits payable

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

E Management Expenses

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

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

F Taxation

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

Net assets statement

G Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 13a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and

IFRS 13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

H Foreign currency transactions

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

I Cash and cash equivalents

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

J Loans and receivables

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

K Financial Liabilities

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The Pension Fund recognises financial liabilities relating to investment trading at fair value and any gains and losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the Pension Fund accounts as part of the change in the value of investments.

L Actuarial present value of promised retirement benefits

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

M Additional voluntary contributions

Shetland Islands Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Pension Fund has appointed Prudential and Utmost (formerly Equitable Life, which is closed to new members) as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 24).

N Contingent Liabilities

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

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

Appendix 1

Collated Responses from Fund Managers

SIC wishes to promote environmental responsibility through its investment activities. As an initial mechanism to capture the environmental overview of our investments in 2023/24 accounts, each fund manager was approached to outline how they operate with an environmental focus.

This was seen as an initial step and our intent in 2024/25 has been to build on this initial work activity to develop a stronger emphasis on this important area in all aspects of investment activities.

Schroders

Can you describe your organisations strategic and practical approach, and future plans, in relation to climate change?

Schroders Capital Sustainable Investment Policy for real estate sets out our commitments.

Transition Risk
At Schroders Group level, we have set a target to achieve Net Zero Carbon ('NZC') by 2050 or sooner under the Net Zero Asset Managers (NZAM) initiative. Schroders Capital Real Estate ('SCRE') signed the Better Buildings Partnership Members Climate Change Commitment in 2019[1] [1], and developed a Net Zero Carbon Pathway in 2020[2].

For direct investments, NZC pathways have been developed[3] to present the decarbonisation requirements needed to achieve NZC by 2050 or sooner; aligned with a 'Paris Proof' decarbonisation trajectory to pursue efforts to limit global warming to 1.5°C. For our third-party managed fund investments, where our ability to influence performance is more limited, we require managers to complete our ESG Manager Survey which includes climate-related topics including utility and carbon emissions performance and existence of science-based NZC pathways. In 2025, for direct investments we aim to utilise NZC audits and desk-based NZC analysis to implement decarbonisation action plans at asset and fund level, and for indirect investments improve our understanding of support external managers decarbonisation goals.

Regulatory risk assessment is supported by regulatory updates from a third-party database, and monitoring of energy and carbon-related national and local policy mechanisms (e.g., EPCs in the UK). We apply shadow internal carbon pricing in our asset business plans, based on operational carbon emissions, to assess potential exposure to future carbon taxes or regulatory drivers.

Physical Risk
We consider locations' vulnerability to physical risk hazards using a third-party physical risk database, which includes assessment of exposure to potential financial losses, with additional flood risk reports provided by our insurer. We seek to integrate climate-related risks and opportunities into decision-making, management and reporting. During 2025, we aim to enhance our adaptation and resilience plans at asset and fund level.

Can you reflect these points in relation to our portfolio / investment that we have an active interest in?

The Shetland Islands Council Pension Fund portfolio is a multi-manager segregated mandate managed by the Schroders Capital Real Estate Solutions Team (SCRES). SCRES monitors environmental, social and governance credentials for the funds on its investment platform. Our ability to influence and implement NZC pathways, initiatives and ESG standards across the portfolio differs between:

- **Schroders managed and advised funds** (17% of the portfolio at 31st Dec '24): These investments are managed in-house by Schroders, we have direct control over the management of assets and we adopt the approach for our direct holdings as described above. Shetland Islands' portfolio is invested in in-house funds that include the flagship Schroders Capital UK Real Estate Fund, Future Workplace Property Unit Trust and Schroders Capital Real Estate Senior Debt Fund and Schroders Capital UK Operating Hotels Fund.
- **Schroders Partnership Funds** (45% of the portfolio at 31st Dec '24): Schroders has direct control over the management of the buildings in these funds and these funds have adopted the principles of the SCRE Sustainable Investment Policy. These funds undertake screening of sustainability factors during acquisition, refurbishment, development and active asset management.
- **Third Party Fund Investments** (26% of the portfolio at 31st Dec '24): Our approach to investing in externally managed funds follows the philosophy and general principles of the SCRE Sustainable Investment Policy. However, as SCRES does not have operational control over the assets of externally managed fund investments, our role is primarily engagement and collaboration with managers, including through the collection of annual ESG questionnaires. Our engagement aim with managers is to align their ambitions with the targets that we have set out in our policy and engagement blueprint.

What standards, frameworks, metrics and report outputs do you utilise for climate change reporting?

For GHG accounting and disclosure of emissions-related climate data, we follow the principles as set out in the GHG Protocol and the Partnership for Carbon Accounting Principles ('PCAF')[4]. Where we share carbon emissions and related performance data with clients directly, we typically provide the below metrics, in line with the recommendations of the TCFD:
- Scope 1, 2 and 3 carbon emissions (absolute)
- Estimated emissions

- Carbon footprint (tCO_2e/£M invested)
- Carbon intensity (tCO_2e/m_2)
- Binary target climate alignment metrics

For direct real estate target setting and Net Zero Carbon alignment analysis, we utilise the Carbon Risk Real Estate Monitor ('CRREM') framework5, which is the leading global initiative for establishing targets for operational ("in-use") carbon emissions for standing real estate investments consistent with the ambitions of the Paris agreement, to assess alignment of assets and portfolios against 1.5C science-based pathways to NZC by 2050. For our indirect investments, we review alignment with this framework by third-party managers through our Manager ESG questionnaire.

- For physical risk reporting, we follow the principles of TCFD in our assessment and disclosure of risk. During 2025, SCRE will seek to evaluate 'Estimated Annual Losses' across our direct real estate portfolio as a proxy for Climate Value at Risk (CvaR).

KBI Global Investors

Can you describe your organisations strategic and practical approach, and future plans, in relation to climate change?

KBIGI are committed to the implementation of responsible practices across all areas of our business activity and to providing absolute transparency to our stakeholders in this regard, particularly regarding climate change action.

KBIGI has a long-standing commitment to responsible investing, going back to the early 1980s when we started working with our clients to construct portfolios that excluded companies engaged in certain controversial activities. Over time, we have strengthened and deepened our approach with regard to climate change, for example, by launching a clean energy strategy more than twenty years ago and investing only in companies addressing the global shortage of clean energy. Further, climate change considerations are now a key factor in stock selection and are fully integrated into all our investment decisions. We have an active engagement programme on climate change issues.
Importantly, we strongly believe that our focus leads to better long-term investment outcomes for our clients. Climate change is a business and economic issue with profound implications for investors. In terms of climate engagement, we engage constructively with the management of companies through direct conversations, collaborative initiatives with other investors and industry groups where it is merited, and active use of our proxy voting.

We have identified climate change (and disclosure of related data) as the strategic priority for our firm in carrying out engagement. We also are members of or signatories to industry initiatives and organisations such as the Ceres Investor Network on Climate Risk, the UN PRI, the CDP, Climate Action 100+, the Institutional Investors Group on Climate Change, and the Net Zero Investment Manager Initiative. On a corporate level, we have an active climate action programme to reduce the impact of our firm's carbon footprint.

Can you reflect these points in relation to our portfolio / investment that we have an active interest in?

Decarbonisation is a core element of the Global Equity Teams' investment approach, and we are fully aligned with the UN Paris Agreement on Climate Change. In practice, this means reallocating capital from fossil-fuel intensive activities to low-carbon alternatives at a pace consistent with lowering global carbon emissions by 40-50% by 2030 and reaching a net zero global economy by 2050.

In 2019, a United Nations Environmental Programme (UNEP) report warned that unless emissions fell by 7.6% a year from 2020 to 2030, the 1.5° target would not be reached. Therefore, our commitment is to reduce the carbon intensity of all of our AUM by 7.6% a year on average between 2019 and 2030, taking in scope 1 and 2 (direct and indirect GHG) emissions.

We are members of the Net Zero Asset Managers Initiative, and we used the Net Zero Investment Framework (NZIF) methodology to set our targets in 2021, which was deemed sufficiently rigorous and consistent with the Net Zero Asset Managers net zero commitment statement.

What standards, frameworks, metrics and report outputs do you utilise for climate change reporting?

Annually, we conducted climate change scenario testing on all our strategies, using the Paris Aligned Capital Transition Assessment tool provided by the Two Degree Investing Initiative and the PRI. We use the Paris Agreement Capital Transition Assessment ("PACTA") tool, developed by the Two Degrees Investing Initiative and the PRI, to measure the alignment of the portfolio with various climate scenarios. PACTA aggregates global forward-looking asset-level data (such as the production plans of a manufacturing plant over the next five years) up to the parent company level. The tool then produces a customised report that allows us to assess the overall alignment of the portfolio with various climate scenarios and the Paris Agreement. In addition to enabling us to measure the alignment of our portfolios, PACTA also helps us to implement the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD.

For companies which are particularly large emitters of carbon, we have additional tools that we use to assess climate performance, including the Climate Action 100+ Net Zero Company Benchmark score (produced by CA100+ with input from the Transition Pathway Initiative, Carbon Tracker and the Two Degrees Investing Initiative).
At the portfolio level, we measure and report on the carbon footprint and related metrics of the portfolio, using the services of MSCI ESG Research and covering Scope 1, 2 and 3 (upstream and downstream) emissions. We also use the Net Zero Investment Framework to determine the degree of Net Zero alignment for a company.

Baillie Gifford – updated for 2425

Can you describe your organisations strategic and practical approach, and future plans, in relation to climate change?

Changes to the climate and the evolution of technologies, behaviours and policies have the potential to be materially relevant to our objective of delivering great returns for our clients over the long run. We believe that a successful transition that limits the global average temperature increase and manages impacts on societies worldwide offers our clients better opportunities for investment returns. However, we recognise that the pathway to achieving this is not predetermined and will continue to evolve.

Holding-level research

We integrate the identification and assessment of investment-relevant climate-related risks into our bottom-up investment research process, through two separate frameworks – Climate Assessments and Scenario Analysis.

Firm-level oversight

We have two formal processes to enhance our oversight of investment-related climate risks across portfolios and the firm's operations. The first involves the integration of climate metrics into investment risk reports. These metrics are intended to help challenge investment managers to identify emerging climate-related risks across the portfolio. A second process, reporting metrics by exception, helps provide firmwide oversight of potential climate-related risks for listed securities across all our main investment strategies.

Going forwards

As the climate and energy transitions unfold, we aim to continue improving our understanding and capabilities in this area. This includes drawing on a wide variety of external experts from academia and beyond. Focus areas in 2025 include the development of our physical risk framework and thinking through more reference pathways, against which to judge company alignment.

More detail on our approach can be found https://www.bailliegifford.com/en/uk/individual-investors/literature-library/corporate-governance/baillie-gifford-co-tcfd-climate-report/

Can you reflect these points in relation to our portfolio / investment that we have an active interest in?

We have undertaken scenario analysis for your Global Alpha portfolio. As discussed above, the results of the work cannot be distilled to simple numbers or data points. The purpose of the exercise is to equip the team to invest through the transition and be better able to understand the climate-related sensitivities of the portfolio they manage. The results are broken down over time frame – short term risk and opportunities (0-3 years), medium term (3-10 years) and long term (10 years +). Please see here (page 4) for further detail.
https://www.bailliegifford.com/en/uk/individual-investors/literature-library/funds/oeics/global-alpha-growth-fund/global-alpha-growth-fund-tcfd-climate-report/

What standards, frameworks, metrics and report outputs do you utilise for climate change reporting?

Reporting & Metrics
We produce TCFD-aligned climate reports for all relevant funds. We also produce a whole entity Baillie Gifford report. This report explains how we address the risks and opportunities associated with climate change in our investment activities, client relationships and operations. It is produced per UK regulations on climate reporting for UK asset managers.

The key metrics that we provide include Total Carbon Emissions, Carbon Footprint, Weighted Average Carbon Intensity, Emissions Availability, Exposure to 'Climate Material' Sectors, Exposure to Fossil Fuel Companies and Percentage of Companies Disclosing to CDP Annually. Amongst others. We believe that Implied Temperature Rise (ITR) and Climate Value-at-Risk (CVaR) metrics are still at an early stage of development. We do not think they can currently be relied upon, given that the methodologies struggle to incorporate the complexities and knock-on effects of climate change and the transition.

Frameworks
As discussed above, our Climate Assessments are qualitative, and rest on our own fundamental research. But they make use of the guidance of bodies such as the Science Based Targets initiative (SBTi), the Transition Pathway Initiative (TPI) and the Institutional Investors Group on Climate Change (IIGCC).

IFM Investors

Can you describe your organisations strategic and practical approach, and future plans, in relation to climate change?

IFM has committed to net zero across asset classes by 2050 and has set a 2030 interim target of 1.97m tCO_2e reduction by 2030 across our infrastructure portfolios. IFM as an organisation will also become net zero by 2050.
The following principles underpin IFM's philosophy to tackling the effects of climate change:
Climate change poses economy wide risks with the potential to negatively impact the environmental, social and economic stability of nations;

Climate change presents significant risks and opportunities that can alter the risk return profile of assets we invest in. We have a fiduciary duty to protect the value of our investments over the short-, medium- and long-term;

The Paris Agreement helps map a pathway to a safer climate which will help to maintain economic prosperity. We support the Paris Agreement goal to keep the increase in global average temperature to well below 2 °C above pre-industrial levels; and to pursue efforts to limit the increase to 1.5 °C;

We must explicitly consider the impact of our investments on climate change and vice versa to support markets' long-term growth and prosperity;

We will leverage our rights as an active manager to engage and support companies we invest in to transition toward a low carbon economy;

We recognise the importance of accelerating climate action over the next decade. We are committed to working with investors and other stakeholders globally to do this. Climate change management will continue to be a critical thematic for IFM in the coming decades as we focus on our purpose to protect and grow the long-term retirement savings of working people globally.

Can you reflect these points in relation to our portfolio / investment that we have an active interest in?

We assess exposure of assets to climate risk from a physical and transition perspective during the acquisition and asset management process.
During due diligence, IFM ensures that target assets have an emission reduction pathway consistent with our portfolio-wide target to achieve net zero by 2050. Each target asset must also demonstrate robust returns under credible, generally accepted 1.5C reference scenario. IFM's Investment Committee papers require transition sensitivities, including the impact of unforeseen regulatory changes and roll-out of disruptive technologies to be explored and documented. Examples include:
Potential reduction in traffic volumes for airports, toll roads and seaports
Faster EV penetration and accelerated adoption of hydrogen for pipelines and midstream energy assets;
Impact of increased carbon prices at various levels for gas generation assets.

IFM assesses each asset's physical risk exposure and ensures that an adaptation plan and appropriate insurance policies are in place. For example:
Resilience to extreme weather events (e.g. hurricanes and severe rains).

Post acquisition, IFM assesses asset level emissions reduction plans, including the timeline for implementation and ensures each asset's targets are in line with IFM's own 2030 and 2050 emissions targets. We periodically review asset performance against these. Where assets do not meet specified targets, IFM appointed directors develop an engagement plan to work with other shareholders to close any gaps, focusing on the most material emitters first.

What standards, frameworks, metrics and report outputs do you utilise for climate change reporting?

Climate data currently reported under IFM's existing climate reporting framework includes the first and second metrics, namely "Absolute Emissions Metric" and "Emissions Intensity Metric" under DWP's guidance. In 2023, the infrastructure equity portfolio team developed an in-house maturity framework to assess progress of transition planning. This framework utilises international guidance across five pillars: climate governance, decarbonisation, transition risks, physical risks, and integration of climate work within the wider portfolio company processes.

We have developed a transition planning playbook tailored for infrastructure equity portfolio companies which incorporates best practice from internationally recognised frameworks such as the Transition Plan Taskforce (TPT), Taskforce on Climate Related Financial Disclosures (TCFD) and Carbon Disclosure Project (CDP).

Permira

Permira recognises that climate change presents potential risks and opportunities for investors and businesses. In seeking to be a responsible investor, we aim to identify, assess and manage those risks and opportunities:

a) Transition opportunities – Resource efficiency, products and services, markets, business resilience and energy sourcing options
b) Transition risks – Policy and legal, technology, market and reputational risks
c) Physical risks – The potential business impacts from physical climate change, either acute (e.g. cyclones, floods) or chronic (e.g. long-term rising mean temperature, rising sea level)

Climate-related risks and opportunities can impact Permira from two perspectives: directly as a business or indirectly by impacting underlying investments and the Permira funds' investment returns. Permira has considered both and acknowledges the latter is likely to present far greater exposure, given the scale of investment activities relative to the size of direct business operations. Permira has identified climate-related risks and opportunities that may be relevant to its private equity and credit strategies, using a combination of internal and external specialists, portfolio data collection and analysis. Permira considers short-term (0-5 years), medium-term (5-15 years), and long-term (2050 horizon) timeframes.

Further details of the example of the climate risks and opportunities for the Permira Credit strategies, and an overview of Permira's metrics and targets, can be found in the Permira 2023 TCFD Report publicly available on the Permira website.

Permira's Own Operations:
Permira has assessed the physical and transition climate risks related to its own operations using the same approaches outlined for its portfolio analyses, with a business overlay to reflect the asset location, occupation type and business continuity plans in place.
Permira has set greenhouse gas (GHG) emissions reductions targets, aligned with a 1.5°C pathway and considered in alignment with net zero commitments made by jurisdictions that Permira and its portfolio companies operate in. This is a key pillar of the climate strategy, ensuring Permira's climate activities are robust and credible. The targets were iterated with, and approved by, Permira's PE Executive Committee and validated by the Science-Based Targets initiative (SBTi). The targets apply to Permira's firm operations (scope 1 and 2) and its eligible private equity and listed equity portfolio (scope 3).
Permira have measured our operational emissions since 2017, based on the GHG Protocol and good practice. We reduced our scope 1 and 2 emissions by 77% since 2022 (as of 31 December 2023), surpassing our commitment to reduce these emissions by 70% by 2030, as part of our Science-Based Targets.

Blackrock

Can you describe your organisations strategic and practical approach, and future plans, in relation to climate change?

BlackRock's role is to offer choice to help meet our clients' objectives, transparency into how those choices could impact portfolios, and our research-based perspective on how structural trends could impact asset prices and investments over time. We continue to innovate for and with clients. As a result, our policy is to work with clients to help them meet their unique investment goals and objectives. Our approach to managing climate-related risks and opportunities is outlined in our 2024 Climate Report. To read more, please see the full report here.

Can you reflect these points in relation to our portfolio / investment that we have an active interest in?

Shetland Islands Council Pension Fund is currently invested in two index funds, which track standard market capitalization indices that don't have any climate related screens or objective. For both iShares Developed World Index Fund (IE) Flex Acc GBP and iShares EM Index Fund (IE) Flex Acc GBP the investment objective is to track the performance of their benchmark indices. Therefore, in order to achieve this investment objective, the investment policy of the Fund is to invest in a portfolio of equity securities that so far as possible and practicable consists of the component securities of the Benchmark Index. No additional ESG/climate investment screening is undertaken in the portfolio because index portfolio managers do not have discretion to add securities outside of those in the benchmark index nor remove securities that continue to be held in the relevant index.

What standards, frameworks, metrics and report outputs do you utilise for climate change reporting?

At the firmwide level, the 2024 Climate Report provides a comprehensive overview of our approach to managing climate risk. Find further details on our sustainable and transition investing platform, the investment strategies we offer to help our clients meet their goals, and our latest research here.

Clients can request annual TCFD reports to meet their own climate-related financial disclosure obligations including climate metrics reporting and climate scenario analysis, for their accounts managed by the following BlackRock UK entities of BlackRock Investment UK Management, BlackRock Advisors UK Ltd and where they are invested in BlackRock Life Limited unit-linked policies. Please note that these client on-demand reports are not synonymous with public fund disclosures.

Appendix 2:

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2024/25 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Shetland Islands Council Pension Fund ("the Fund").

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

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

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

Present value of promised retirement benefits

Year ended	31 March 2025	31 March 2024
Active members (£m)	256	282
Deferred members (£m)	95	113
Pensioners (£m)	195	222
Total (£m)	**546**	**617**

The promised retirement benefits at 31 March 2025 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2023. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2025 and 31 March 2024. I estimate that the impact of the change in financial assumptions to 31 March 2025 is to decrease the actuarial present value by £101m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £1m.

Financial assumptions

Year ended	31 March 2025 % p.a.	31 March 2024 % p.a.
Pension Increase Rate (CPI)	2.75%	2.75%
Salary Increase Rate	2.75%	2.75%
Discount Rate	5.80%	4.85%

Demographic assumptions

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

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2023 model, with a 15% weighting of 2023 (and 2022) data, 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	20.8 years	23.3 years
Future pensioners (assumed to be aged 45 at the latest valuation date)	21.9 years	25.2 years

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

Sensitivity Analysis

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

Change in assumption at 31 March 2025	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2%	10
1 year increase in member life expectancy	4%	22
0.1% p.a. increase in the Salary Increase Rate	0%	1
0.1% p.a. increase in the Rate of CPI Inflation	2%	9

Professional notes

This paper accompanies the 'Accounting Covering Report – 31 March 2025' which identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Steven Scott FFA C.Act

27 May 2025

For and on behalf of Hymans Robertson LLP