Item: 1

Pension Fund Sub-committee: 16 September 2026.

Orkney Islands Council Pension Fund.

Audit Report to those charged with Governance.

Report by Director of Enterprise and Resources.

1. Overview

1.1. This report presents the Audit Report to those charged with governance, together with Orkney Islands Council's Letter of Representation to KPMG in connection with their audit of the Pension Fund, for scrutiny and approval.

1.2. KPMG, as the Council's external auditors, have concluded their audit of the Orkney Islands Council Pension Fund's Annual Report and Accounts for the year ended 31 March 2026.

1.3. KPMG has provided an unqualified certificate on the Pension Fund's Annual Report and Accounts for the year ended 31 March 2026.

1.4. The draft audit certificate states that the financial statements have been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

1.5. During the course of the audit, no material weaknesses in the accounting and internal control systems relating to the Pension Fund were identified.

2. Recommendations

2.1. It is recommended that members of the Sub-committee:

i. Scrutinise the Audit Report for the year ended 31 March 2026, prepared by KPMG for members of the Pension Fund Sub-committee and the Controller of Audit, in respect of the Orkney Islands Council Pension Fund, attached as Appendix 1 to this report.
ii. Approve Orkney Islands Council's Letter of Representation to KPMG in connection with their audit of the financial statements of Orkney Islands Council Pension Fund for the year ended 31 March 2026, attached as Appendix 2 to this report.

For Further Information please contact:
Shonagh Merriman, Service Manager (Corporate Finance), extension 2105, Email shonagh.merriman@orkney.gov.uk.

Implications of Report

1. **Financial** The audit fee for the audit of the Pension Fund's annual report and accounts was £28,000 which is £1,400 more than the fee for the 2024/25 audit.
2. **Legal** The Local Government Pension Scheme is a funded defined benefit scheme, established under the Superannuation Act 1972, with pensioners receiving index-linked pensions. It is administered by Orkney Islands Council in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) and is contracted out of the State Second Pension. The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions.
   Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices.
   The Local Government Pension Scheme Amendment (Scotland) Regulation 2010 (SSI 2010/234) require a pension fund annual report and separate audit.
3. **Corporate Governance** In terms of the Scheme of Administration, review of the Annual Audit Report on the Orkney Islands Council Pension Fund to elected members, including the audit certificate, from External Audit, is a delegated function of the Pension Fund Sub-committee.
   The report at Appendix 1 is provided by KPMG on the basis that it is only for the information of the Pension Fund Sub-committee of the Pension Fund; that it will not be quoted or referred to, in whole or in part, without their prior written consent; and that they accept no responsibility to any third party in relation to it.
4. **Human Resources** N/A
5. **Equalities** An Equality Impact Assessment is not required for financial reporting.
6. **Island Communities Impact** An Island Communities Impact Assessment is not required for financial reporting.
7. **Links to Council Plan** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
   ☐ Growing our economy.
   ☐ Strengthening our communities.
   ☐ Developing our Infrastructure.
   ☐ Transforming our Council.
8. **Links to Local Outcomes Improvement Plan** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:

☐Cost of Living.

☐Sustainable Development.

☐Local Equality.

☐Improving Population Health.

9. **Environmental and Climate Risk** N/A.
10. **Risk** An annual audit provides reassurance that the Annual Pension Fund accounts have been prepared in accordance with International Financial Reporting Standards, and reduces the risk of material misstatement.
11. **Procurement** Any contractual arrangements require to comply with the Financial Regulations and Contract Standing Orders.
12. **Health and Safety** N/A.
13. **Property and Assets** N/A.
14. **Information Technology** N/A.
15. **Cost of Living** N/A

List of Background Papers

Orkney Islands Council Pension Fund Annual Audit Plan 2025/2026

Appendices

Appendix 1 - KPMG Annual Report to Members and the Controller of Audit of the Orkney Islands Council Pension Fund Annual Report and Accounts (ISA 260 Report).

Appendix 2 – Orkney Islands Council's Letter of Representation to KPMG in connection with their audit of the financial statements of Orkney Islands Council Pension Fund for the year ended 31 March 2026.

KPMG

Orkney Islands Council Pension Fund

Audit Report for the year ended 31 March 2026

Prepared on 3 September 2026

For presentation at the Orkney Islands Council Pension Fund Sub-committee Meeting on 16 September 2026

Introduction

To the Pension Fund Sub-committee of Orkney Islands Council Pension Fund

We are pleased to have the opportunity to meet with you on 16 September 2026 to discuss the results of our audit of the annual accounts of Orkney Islands Council Pension Fund, as at and for the year ended 31 March 2026.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 20 May 2026. We will be pleased to elaborate on the matters covered in this report when we meet.

Subject to the Pension Board's approval, we expect to be in a position to sign our audit opinion on accounts by 30 September 2026, provided that the outstanding matters noted on page 5 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy except the materiality numbers. Materiality in the audit plan was based on total assets as per the 31 March 2025 audited accounts; however, it was updated using total assets from the draft accounts as at 31 March 2026

	Planning materiality (based on 31 March 2025 audited accounts)	Final materiality (based on 31 March 2026 draft accounts)
Materiality	£5.3m	£5.7m
Performance Materiality	£4.5m	£4.8m
Reporting threshold	£266k	£285k

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on page 4 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,

Julie Radcliffe

Julie Radcliffe

Introduction

To the Pension Fund Sub-committee of Orkney Islands Council Pension Fund

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG, and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define ‘audit quality’ as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management; and,
- All our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Important notice

Audit Scotland (AS) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Board.

External auditors do not act as a substitute for the Board's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Purpose of this report

This Report has been prepared in connection with our audit of the annual accounts of Orkney Islands Council Pension Fund, prepared. in accordance with [International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, as at and for the year ended 31 March 2026.

This Report has been prepared for the Pension Fund Sub-committee of Orkney Islands Council Pension Fund, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Pension Fund's annual accounts, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is substantially complete; however, matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 5 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Pension Fund Sub-committee of the Pension Fund; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks	Page 7
Significant audit risks	Our findings
Management override of controls	We have found no issues in respect of management override of controls.

Key accounting estimate	Page 10-11
	Our findings
Valuation of pooled investment vehicles (level 3)	We agreed to investment manager confirmations and assessed as reliable the NAV statements provided by the investment managers as at 31 March 2026
Valuation of segregated financial instruments and pooled investment vehicles (level 1 and 2)	We have agreed the value to investment manager confirmations as at 31 March 2026.

Uncorrected Audit Misstatements	Appendix 5
Understatement/ (overstatement)	
None	

Misstatements in respect of Disclosures	Appendix 5
Misstatement in respect of Disclosures	Our findings
None	

Number of Control deficiencies	Appendix 6
We note that there are no further current year control observations	0
Significant control deficiencies	0
Other control deficiencies	1
Prior year control deficiencies remediated	2

Regulatory breaches

Clearly inconsequential

We noted that employer contributions from The Pickaquoy Centre for July 2026 were received three days after the due date, this is mainly due to staff absence and lack of cover arrangements. As the payment delay was minimal, no reporting obligation arose and there was no impact on scheme members.   We consider this breach to be inconsequential in relation to the audit work.

Outstanding matters

- Completion of internal review and file documentation
- Completion of our post balance sheet events review up to the date of sign off
- Receipt of signed letter of representation and approved and signed financial statements

Significant risks and other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which Orkney Islands Council Pension Fund operates.

We also use our regular meetings with senior management to update our understanding and internal audit reports.

During our audit we identified risks of material misstatement as highlighted on the graph below.

See the following pages for the cross-referenced risks identified on this slide.

Significant risks

1 Management override of controls

Other audit risks

2 Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded

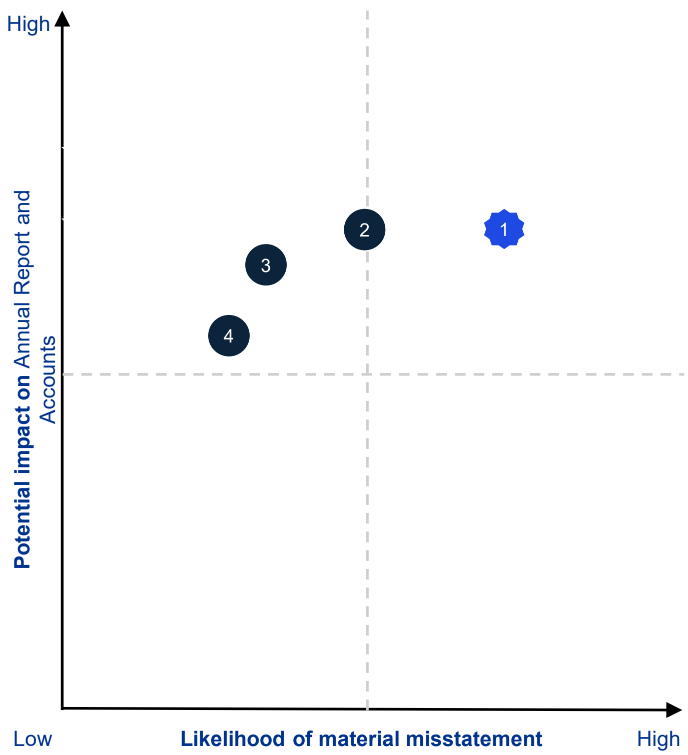
3 Valuation of Level 1, 2 and Level 3 investments is misstated

4 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule

KEY

1 Presumed significant risk

2 Other audit risks



Audit risks and our audit approach

1 Management override of controls (a)

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent accounts by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our response

Our audit methodology incorporates the risk of management override as a default significant risk.

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies.
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We evaluated the design and implementation of automated controls used in the financial reporting process, where automated controls are in place.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the component's normal course of business or are otherwise unusual.
- We performed the following over journal entries and other adjustments:
  - Evaluated the completeness of the population of journal entries.
  - We determined high risk criteria and select journals based on this criteria for testing.

Audit risks and our audit approach

1

Management override of controls (cont.)

Fraud risk related to unpredictable way management override of controls may occur

Our findings

As part of our audit work, we may seek to identify controls over significant account balances and transactions within the annual report and accounts, evaluate their design and implementation and in some but not necessarily all circumstances test the operating effectiveness of these controls. Alternatively, if we can obtain sufficient appropriate audit evidence through substantive procedures we may choose not to identify, evaluate and test controls as part of our audit.

We did not identify any high-risk journal entries as part of our screening – our examination did not identify unauthorised, unsupported or inappropriate entries. We considered all post closing journal entries and no matters to note.

- We evaluated the segregated and pooled investment vehicles as estimates and did not identify any indicators of management bias.
- Our procedures did not identify any significant unusual transactions.

Audit risks and our audit approach (cont.)

2 Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded

Other risks

- Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded.
- Investments are held to pay benefits of the Fund. They are held with 5 investment managers across the number of asset classes. The investments are material to the accounts (99% of the Statement of Net Assets) and therefore there is a risk of material misstatement.

Planned response

- We gained an understanding of the processes over the completeness, existence and accuracy of Level 1, 2 and 3 investments. This included gaining an understanding of the control environment at all the investment managers and custodian (BNYM) by reviewing their internal controls reports to identify any control deficiencies that would impact our audit approach (where available).
- We obtained direct confirmations from your custodian and all your investment managers to vouch the holdings and valuation of assets at the year end.
- We vouched purchases and sales to investment manager and custodian reports (where available).
- We recalculated change in market value and compared this to the overall investment return stated in the year end investment performance monitoring report provided to the Pension Fund Sub-committee for consistency with the amounts reported in the annual accounts. We investigated any material deviations.

Our findings

- We obtained direct confirmations from custodian and noted minor holdings differences between BNYM and Baillie Gifford holdings. The accounts have been prepared from the information provided by the investment manager. The differences were due to timing of transactions and not material.
- No other matters to note in relation to the audit procedures performed.

Audit risks and our audit approach (cont.)

3 Valuation of Level 1, 2 and other Level 3 investments is misstated

Other risks

- Investments are held to pay benefits of the Fund. They are largely held as pooled investment vehicles with around 5 investment managers across a number of asset classes. The investments are material to the accounts (99% of the Statement of Net Assets) and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to fair values of level 1 and 2 pooled investments, due to the estimation uncertainty resulting from the pricing of these investments.
- There is an elevated risk of material misstatement relating to fair values of level 3 pooled investments, due to the estimation uncertainty resulting from unobservable inputs to these investments.

Our response

- **Segregated financial instruments:** Our in-house investment team, iRADAR, were engaged to independently re-value the segregated securities and identify stale price issues of directly held financial instruments within the investment portfolio as well as any exposures to hard to value assets.
- **Pooled Investment Vehicles (Level 1 and 2):** We re-calculated the value of level 1 and 2 pooled investment vehicles using published pricing at the year end (where available), We also reconciled the closing unit holdings based on audited prior period position and purchases and sales transactions reported by the investment managers.
- **Pooled Investment Vehicles (Level 3):** For each Level 3 investment manager, we obtained the unaudited Net Asset Value ('NAV') Statement at (or closest to) the measurement date and vouched the valuation to this. For all of level 3 pooled investments vehicles, we further assessed the reliability of the NAV statement by:
  - Obtaining and inspecting the latest audited accounts for the underlying funds where available;
  - Inspecting the audit report to confirm that it is unqualified and that the audit has been carried out by a reputable audit firm; and
  - Comparing the unaudited pricing information at the year end to the audited accounts valuation. Where the audited accounts are not as at the Fund year end date, we agreed them to unaudited pricing information at that date and reconciled significant movements to the Fund year end date agreeing movements to quarterly NAV/transaction statements.

Audit risks and our audit approach (cont.)

3

Valuation of Level 1, 2 and other Level 3 investments is misstated

Our findings

Investment portfolio valuation summary

Detailed below is an analysis of investments by investment manager and by type of securities and details the pricing risks associated with each type of investment:

Fund manager	Classification	Economic exposure	Level 1 (£'m)	Level 2 (£'m)	Level 3 (£'m)
Baillie Gifford & Co	Directly held equities	Equity - UK quoted	50		
Baillie Gifford & Co	Directly held equities	Equity – Overseas quoted	261		
LGIM	Pooled Investment Vehicle (PIV)	Fixed Income Fund		161	
IFM	Pooled Investment Vehicle (PIV)	Infrastructure Fund			48
Barings	Pooled Investment Vehicle (PIV)	Private Debt Fund			45
Baillie Gifford & Co	Directly held cash	Cash & Deposits	4		
Total			315	161	93

We note the following as part of our work:

- The overall out of tolerance variance difference between the iRADAR valuation and reported valuation is £43.2k, which is not considered material for the purpose of our audit.
- The pooled funds held with LGIM are unit linked insurance policies and are not externally quoted. Our testing involved by reviewing news reports for any internal control issues, confirming that the fund managers are FCA registered and confirming that they would be willing to transact at the price quoted at the year end.
- We note that the mid price has been used rather than the bid price for the LGIM pooled funds, the difference is £(125k). This difference is not material.
- The net difference of the matters noted above is an overstatement of £81.8k of the net assets. .
- No other matters to note from our work over the valuation of the investments.

Audit risks and our audit approach (cont.)

4 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund’s Rates and Adjustments Schedule

Other risks

- Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund’s Rates and Adjustments Schedule due to the volume of admitted bodies and scheduled bodies

Planned response

- We gained the understanding of the processes over the contribution payment arrangements between the admitted and scheduled bodies and administering authority, and also the effectiveness of the Fund’s contribution monitoring arrangements.
- As part of risk assessment procedures, we performed trend analysis over normal employee contributions and employer contributions to identify any unusual movements during the year.
- Our audit procedures over contributions included:
  - We inspected whether contributions from the administering authority and a selection of other bodies are received into the Fund on a timely basis in accordance with the Regulations and the Fund’s rates and adjustments schedule by vouching contributions received to employer returns and to bank statements;
  - We developed an expectation of the normal employer and employee contributions receivable in the year reflecting changes in active members in the year, increases in pensionable salary and any changes in the contributions rates in the year and compare these to actual employer and employee contributions received in the year; and
  - We inspected that there are 12 months of receipts in the year.

Our findings

We note that employer returns are provided by Orkney Ferries Limited and Pickaquoy Centre Trust and we have agreed the contributions to those employer returns. Employer returns are not provided for the other entities.

There are no matters arising from our work over this risk area.

Wider Scope

Wider Scope

Orkney Islands Council Pension Fund

The Code of Audit Practice (2021) refreshed the framework used to define the wider scope of public audit in Scotland. Under the previous 2016 Code, the wider scope was assessed across four audit dimensions: financial management, financial sustainability, governance and transparency, and value for money.

The 2021 Code no longer refers to these as audit dimensions but continues to focus on four key areas. While financial management and financial sustainability have been retained (with updated definitions), the remaining areas have been revised as follows:

- Governance and transparency has been replaced by Vision, Leadership and Governance.
- Value for Money has been replaced by Use of Resources to Improve Outcomes.

Accordingly, the wider scope of public audit under the Code of Audit Practice (2021) is assessed across the following four areas:

- Financial Management
- Financial Sustainability
- Vision, Leadership and Governance
- Use of Resources to Improve Outcomes

The following pages set out the results of our assessment against each of these areas.

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

Scope

Financial management is concerned with financial capacity. and has a sound budgetary processes.

Audited bodies should understand the financial environment and whether internal controls are operating effectively; as well as having sound budgetary processes.

Areas of Focus

- the arrangements to ensure effective systems of internal control, to ensure public money is applied within the relevant financial rules;
- the effectiveness of the budget control system to communicate accurate and timely financial performance to meet the needs of the user.
- the accuracy and embeddedness of financial forecasting within financial management and financial reporting arrangements, including achievement of financial targets;
- the arrangements taken to link budget setting, savings plans to the priorities and risks of the Board;
- the capacity and skills of the Board's finance team.

In summary

- There is a clear budgetary process in place and monitoring against budget.
- The Committee members and the Finance team are provided with a clear training programme and attendance at training is monitored. A training plan is set annually.
- The Fund relies on the Council's arrangements for the prevention and detection of fraud and corruption.

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

The Fund has appropriate and effective financial management arrangements in place

Orkney Islands Council is the administering authority for the Fund.

The Director of Enterprise and Resources has overall responsibility for the financial administration and governance of the Fund, including:

- the financial accounting of the Fund;
- the preparation of the Pension Fund Annual Report and Accounts; and
- acting as the principal adviser to the Council, in its capacity as Trustee and Administering Authority, on matters relating to the management of the Fund's investments.

Day-to-day investment management activities are administered by the Corporate Finance Team within the Enterprise and Resources.

Administration of the Scheme is carried out in-house and undertaken by the Payroll and Pensions section within Orkney Islands Enterprise and Resources and Infrastructure and Organisational Development., ensuring the efficient delivery of services and compliance with regulatory requirements.

The staff resources detailed above are supplemented by shared staff resources within the Enterprise and Resources and Infrastructure and Organisational Development. providing additional governance payments, investment, and accounting expertise. In addition, the Human Resources and Organisational Development section, within Orkney Islands Council's Strategy, Performance & Business Solutions Service also supports the work of the Pension section by arranging pre-retirement workshops for scheme members who are within two years of retirement.

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

Effectiveness of the system of internal controls

The Pension Fund does not maintain a separate internal audit function; instead, internal audit services are provided by the Orkney Islands Council Internal Audit team, which conducts reviews and issues audit reports covering relevant Pension Fund activities.

Internal audits of the Fund administration and investment activities are undertaken on a cyclical basis, with resulting reports presented to the Monitoring and Audit Committee of the Council, as well as reporting to the Pensions Board and Pension Fund Sub-committee. The scope of each audit is agreed with Finance management before the annual audit plan is submitted to members for approval.

An internal audit was conducted during 2025/26 to consider the effectiveness and robustness of the procedures in place for the management of the pension fund assets. The work was concluded on 17 July 2025 and the audit opinion concluded that the framework of governance, risk management and control were found to be comprehensive and effective.

The scope of the internal audit covered the following:

- That funds are invested in accordance with statutory requirements and approved policy;
- Acquisitions and disposals are properly controlled and recorded;
- All income earned is received and properly recorded;
- Investment performance is reviewed; and
- Training provided to trustees.

Areas of good practice noted:

- Effective governance in place due to Sub-committee and policies.
- Training is regularly provided and monitored.
- Good attitude toward risk management with the risk register being regularly reviewed.
- Investment performance is monitored.
- Reconciliations are completed periodically.

There were no significant recommendations arising from the report.

Our audit procedures are substantive in nature and do not rely on the internal controls. In addition, our audit procedures did not extend to assessing whether public funds had been applied in accordance with all relevant financial regulations and policies, except in relation to contribution arrangements where specific audit consideration was performed

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

Skills and capacity of the Board and the Finance Team

The financial management of the Fund is the responsibility of the Pension Fund Sub-committee and Pension Board. The administration of the Pension Fund is delivered in-house by the Payroll and Pensions Section of Orkney Islands Council. The Pensions Team comprises 3.7 full-time equivalent posts, including a Service Manager, a full-time Team Manager, two part-time Senior Assistants and an Administrative Assistant.

Training activity for the members of the Pension Fund Sub-committee and Pension Board was undertaken during the financial year 2025/2026, in accordance with the agreed training plan, to enable them to execute their role effectively.

In recognition of the complex and ever-changing environment of Local Government Pension Scheme finance, and specifically to address the governance requirements, the Chartered Institute of Public Finance and Accountancy Code of Practice on Public Sector Pensions Finance Knowledge and Skills has been adopted and accordingly training is provided to members and officers involved in Pension Fund financial matters. The training policy was approved in 2015/16 and is aligned to CIPFA's Knowledge and Skills Framework.

A log has been established of all training provided to members and this is monitored and reported as appropriate. The annual training plan for 2025/2026 was approved by the PSC at its meeting of 26 February 2026.

All members of the Pension Fund Sub-committee and the Pension Board have, over the 12-month period to 31 December 2025, achieved the minimum requirement of participation in at least one training event, or equivalent to five hours training.

The 2026 Training Plan has been formulated using a self assessment questionnaire identifying where members may benefit from further training and this will be built into the plan.

The Scheme is administered in-house by the Payroll and Pensions Section, which forms part of Orkney Islands Council's Enterprise and Resources.

The Corporate Finance Team also attend the training session provided to the Committee members, as well as representatives from this Team attending the quarterly Scottish LGPS Meetings and the annual LGPS Investment Seminar. This year all Committee members and staff members were asked to complete the self-assessment questionnaire to inform the training plan for 2025/26. In addition, all staff members complete all the mandatory training provided by the Council.

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

Effectiveness of the budgetary control process

The establishment of an annual service budget in advance of the financial year forms a key component of the Pension Fund's governance framework. Budgetary performance is monitored through monthly reports prepared by officers and quarterly budget reports presented to the Pension Fund Sub-committee.

The budget encompasses four principal areas: Orkney Islands Council member benefits and contributions, admitted and scheduled body member benefits and contributions, pension administration costs, and investment-related activities.

On 4 March 2025, the Council set its overall revenue budget for financial year 2025/26. On 17 June 2025, the Policy and Resources Committee recommended approval of the detailed revenue budgets for 2025/26

The Head of Finance provides a **Revenue Expenditure Monitoring Report** at each committee meeting. Individual revenue expenditure monitoring reports are circulated every month to inform elected members of the up-to-date financial position. Quarterly revenue expenditure monitoring reports are presented to individual service committees.

In terms of revenue spending, at an individual cost centre level, budget holders are required to provide an explanation of the causes of each material variance and to identify appropriate corrective actions to remedy the situation.

Budget holders have access to their own budgets at all times through the finance system and are required to explain any material variances.

In addition, the Sub-Committee receives an annual **Revenue Expenditure Outturn** report, which includes a reconciliation between the budgetary outturn and the figures reported in the Pension Fund annual report and accounts.

We understand that no specific savings targets have been applied in recent years, reflecting the challenging economic environment and associated financial uncertainties.

Going forward we note that the 2026/27 draft budget was presented to the Pension Fund Sub-committee on 25 February 2026. The 2026/27 Pension Fund budget was developed using the 2025/26 baseline budget as a starting point and incorporates the following key assumptions:

- 3.8% increase in pension payments;
- 3.5% increase in salaries; and
- 3.5% increase in apportioned costs.

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

Arrangements for prevention and detection of fraud and error

Effective counter-fraud and anti-corruption measures are in place and are maintained in line with the Code of Practice on Managing the Risk of Fraud and Corruption. These arrangements are supported by robust internal controls and security procedures, clear segregation of duties, supervisory checks of key calculations and comprehensive audit and monitoring activities.

Measures to mitigate the increasing risk of fraud and scams continue to be actively monitored and enhanced. Ongoing initiatives include targeted staff support, regular communication of emerging fraud risks and scam trends, and close oversight of transfer activity. These controls are further strengthened through a mandatory online fraud awareness training programme for all Finance staff.

The risk register specifically considers the risk of fraud by internal staff members and by the investment manager and has identified specific controls to mitigate the risk of fraud in these areas. The responsibility for monitoring these controls is the Head of Finance/Pensions Manager/Internal Audit and Pension Fund Sub-committee.

Risk awareness is embedded throughout the Fund's investment performance management framework, enabling effective oversight, ongoing monitoring and informed decision-making.

The Fund follows the Corporate Anti Fraud Policy (updated November 2024), which sets out the expectations of staff in relation to fraud. The policy is communicated to all employees, elected members and stakeholders.

In addition, the Fund follows the Council's Whistleblowing Policy and Procedure (April 2019).

Wider Scope

Orkney Islands Council Pension Fund

Financial Sustainability

Scope

Financial sustainability considers how the Fund is able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Areas of Focus

- Are arrangements in place to balance any short-term financial challenges and cashflow requirements and longer-term financial sustainability?
- Are investment decisions informed by clear business cases?
- Is it clear how investments will be funded and how success will be measured?
- Are the benefits of investment clearly articulated at the outset and how is success measured?

Our findings in summary:

- The Fund has several arrangements in place, in relation to financial sustainability, including a medium-term financial strategy, monitoring performance against the plan and reserves strategy.

Wider Scope

Orkney Islands Council Pension Fund

Financial Sustainability

Financial planning arrangements

Funding policy

The funding policy is set out in the Administering Authority's Funding Strategy, detailing the key funding principles.

The Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production of several key policy documents including a Valuation Report, a Funding Strategy Statement and Statement of Investment Principles.

The latest **Statement of Investment Principles (SIP)** is dated November 2022. The SIP has been reviewed regularly since it was initially created in 2003 with the most recent version being approved by the Pension Fund Sub-committee in November 2022.

Triennial valuation and annual update

The Pension Fund prepares a triennial valuation looking forward and following each triennial valuation, the Pension Fund reviews and revises its funding strategy. The funding strategy is a summary of the Fund's approach to funding liabilities. The investment strategy outlines the types of investment to be held and the balances between the different types of investment.

The Actuary provides an **Annual Funding Statement** to monitor the financial position of the Fund against its liabilities and reports accordingly to the Pension Fund Sub-committee.

Investment decision making

The Pension Fund does not maintain a separate governance framework for decision-making, financial regulations or standing orders. Instead, it adopts and operates in accordance with the governance and financial management framework of Orkney Islands Council, acting in its capacity as the Fund's Administering Authority.

This framework sets out a comprehensive range of policies and procedures, including the roles and responsibilities of the Section 95 Officer, arrangements for reporting breaches of regulations, financial planning and administration requirements, budgetary control processes, and financial monitoring responsibilities.

Wider Scope

Orkney Islands Council Pension Fund

Financial Sustainability

An investment strategy has been in place and there have been no updates since October 2023; this will be updated following the forthcoming actuarial valuation.

Given the Fund's significant allocation to equities, relative investment performance against the benchmark may be subject to short-term volatility. However, the Fund remains in a strong funding position and continues to benefit from positive net cash inflows from member and employer contributions. This financial strength enables the Fund to maintain a long-term investment perspective and to manage its investment strategy effectively across multiple market cycles.

Investment Funding and performance monitoring

Funding update

The results of the 2023 full triennial valuation of the Orkney Islands Council Pension Fund as at 31 March 2023 showed a funding level of 164%, an improvement over the 2020 level of 118%; the surplus at this time was £188m. This meant that, overall, the Fund had a surplus of assets over liabilities and that the fund assets were sufficient to meet 164% of its liabilities.

The Fund receives an annual Funding Update Report from the Actuary and at 31 March 2026 this shows a funding level of 175% with a surplus of £244m; this uses the same base as the triennial funding valuation, rolled forward to take account of changes in membership and updated assumptions.

The Actuary also provided an Actuarial Statement for 2025/26 which considers the Fund's compliance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2013. The policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated October 2023. 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.

The next actuarial valuation will be carried out as at 31 March 2026 and will be finalised by 31 March 2027. The FSS will also be reviewed during the valuation, and a revised version will come into effect from 1 April 2027.

Responsible Investment

On 28 February 2024, the Pension Fund Sub-committee approved a Responsible Investment Policy (January 2024), to define beliefs for Responsible Investment and to integrate Environmental, Social and Governance considerations into investment management processes and practices.

Hymans Robertson were appointed during the year to provide a Climate Transition Action Plan which was presented to Pension Fund Sub-committee on 19 February 2025. It sets out the current position, the targets set by the Committee, as well as the detail on the approaches that will be taken to support their net zero ambition by 2050.

Wider Scope

Orkney Islands Council Pension Fund

Financial Sustainability

Contribution income

Employee contributions are determined by the Scottish Government, and the guidance is updated annually and applies to active members of the Local Government Pension Scheme (LGPS)

Following the triennial valuation in 2023, the Actuary assessed the contributions that should be paid into the Fund by participating employers for the period 1 April 2024 to 31 March 2027 to maintain the solvency of the Fund. According to **Rates and Adjustments Certificate (March 2024)** the contribution rate is 15% from 2024/25 to 2026/27.

The employer contribution rate will be considered again following the next actuarial valuation as at 31 March 2026.

Cash flows

Cash flows from dealings with members continue to be negative because the amount paid out in benefits exceed the contributions received in year.

The continued growth in pensioner numbers within the Fund's membership makes funding pension payments increasingly challenging. The Fund has considered this as part of its investment strategy and is further diversifying its investment structure to increase investment in income generating assets.

Membership update

Membership of the Fund increased by 422 to 5,199 members at 31 March 2026; an increase in membership of 1.98%. The impact of auto-enrolment continues to contribute to the increase in employee members.

During 2025-26, the number of pensioners (including dependents) receiving a pension from Orkney Islands Council Pension Fund increased by 287 members and the number of pensioner members continues to increase steadily each year. The number of active members continues to outweigh the number of pensioners but the ratio of active members to pensioners has reduced over the past five years.

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Wider Scope

Orkney Islands Council Pension Fund

Financial Sustainability

Investment – benefits and performance

At each quarterly meeting, the Head of Finance presents a Statement of Managed Funds report. The performance of the Pension Fund investments, which are managed by appointed external fund managers, is measured over a rolling five-year period with a target to outperform the aggregate benchmark.

The performance of the Pension Fund managed investment funds is measured against a range of indices reflecting the weighting or concentration of individual asset classes within the approved investment strategy.

It is supported by reports from Hymans Robertson. This is supplemented by quarterly reporting from the investment managers (where available).

The investment strategy (as mentioned in the statement of investment principles) of the Fund is to invest monies in a prudent and diversified manner, in accordance with the Fund regulations and in recognition of the inherent risks that accompany any investment in the respective asset classes.

The revised asset allocation and range guidelines have been regularly reviewed with the most recent review in February 2024. The agreed interim and long-term target allocations are shown in the Asset Allocation table below together with the actual asset allocation at 31 March 2026:

	Asset allocation at 31/03/2026	Range	Revised Long-Term target
	%	%	%
Growth	54.6	46.0 – 56.0	50.0
Income	16.3	00.0 – 12.5	20.0
Protection	29.1	02.5 – 12.5	30.0
Overall	**100.0**		**100.0**

Source: Orkney Islands Council Pension Fund 2025/26 unaudited annual report and accounts

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

Scope

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Areas of Focus

- the vision and strategy of the Pension Fund Sub-committee, to ensure it includes a clear set of priorities which reflects the pace and depth of improvement that is needed to realise the Pension Fund's priorities and long-term sustainability of services to meet the needs of the members
- the governance arrangements are appropriate and operating.
- assess the evidence that demonstrates leaders are adaptive to the changing environment
- the culture of the Board and how it operates with partners to understand their roles and responsibilities to help deliver the priorities of all partners.

In summary we note that

- The framework of governance, risk management and control were found to be comprehensive and effective.
- the Pension Fund has effective strategic planning in place
- Governance arrangements are appropriate and operated effectively; and
- Arrangements are in place in relation to security, challenge and transparency

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

Governance arrangements

Orkney Islands Council acts as the Administering Authority for the Orkney Islands Council Pension Fund and is responsible for ensuring that the Fund's affairs are conducted in accordance with applicable legislation, regulations, and recognised standards of good governance. This includes safeguarding public funds, ensuring proper stewardship of resources, and promoting economy, efficiency, and effectiveness in the use of public money. The Council also has a statutory duty under the Local Government in Scotland Act 2003 to secure Best Value in the delivery of its functions.

The Council has established an appropriate governance framework, supported by management and reporting arrangements designed to provide assurance that corporate governance arrangements operate effectively in practice. These arrangements include access to specialist advice on governance matters, the provision of training to members of the Pension Fund Sub-committee and Pension Board, the maintenance of robust administrative and financial records, and effective controls and procedures to support the governance of the Fund.

The Council has established a **Local Code of Corporate Governance**, adopted on 10 October 2017 and revised and approved on 4 October 2022 and again in April 2026, which clearly sets out the governance framework, noting the Council's Good Governance Principles. It is aligned with the principles of the CIPFA/SOLACE *Delivering Good Governance in Local Government framework*. In addition, the Council's financial management arrangements are consistent with the governance requirements set out in CIPFA's Statement on the Role of the *Chief Financial Officer in Local Government.*

Orkney Islands Council, as the administering authority, has delegated responsibility for the governance of the Fund to the Pension Fund Sub-committee. The Pension Fund Sub-committee is supported by the Pension Board, which operates in accordance with relevant legislation and the requirements of The Pensions Regulator.

The **Scheme of Administration** document has been updated on several occasions; most recently in November 2025. It sets out the terms of reference of the business of the Council, its Committees and Sub-committees, as well as defining the decisions which Committees and Sub-committees can make without any further reference to Committees or the Council.

The Fund's basis of conduct of the financial affairs of the Fund is set out in the Council's **Financial Regulations (June 2024),** which are subject to periodic review and update. Investments are managed in line with the Fund's **Investment Strategy Statement**.

The governance arrangements are reviewed regularly to ensure that they remain appropriate as the Fund changes and takes account of any changes in the regulatory framework in which it operates.

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

Pension Board and Pension Fund Sub-committee

Responsibility for the management of the Fund's investments has been delegated to the Pension Fund Sub-committee, which fulfils the role of Scheme Manager.

The Council has also established a Pension Board to assist the Scheme Manager in ensuring compliance with the Local Government Pension Scheme Regulations and the requirements of The Pensions Regulator.

A Terms of Reference is in place for the Pension Board, defining its role in supporting the Scheme Manager with regulatory compliance, governance, and oversight in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014. It also outlines the Board's membership structure, meeting arrangements, dispute resolution process, training requirements, and access to information, ensuring effective governance and transparent oversight of the Pension Fund.

In line with scheme regulations, Pension Fund Sub-committee and Pension Board, met concurrently on six occasions during 2025/2026.

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

Annual Governance Compliance Statement

The **Annual Governance Statement**, as well as the **Governance Compliance Statement** is set out in the annual accounts

The Council's annual review of the effectiveness of its governance framework has not identified any significant governance deficiencies or control weaknesses within the Fund's governance arrangements, as reported in the draft annual report and accounts.

Risk Management

The Fund's Risk Register was last reviewed and updated at the concurrent meetings of the Pension Fund Sub-committee together with the Pension Board on 26 February 2026.

The risk register incorporates a risk matrix to clearly demonstrate the Pension Fund's current threats relative to the individual risks anticipated, and a summary and prioritisation of risks to indicate the descriptive risks ranking.

Regular review of the risk register ensures that it is up to date and fit for purpose in a changing regulatory environment.

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

Interaction with partners and advisers

The basis of communications arrangements with other advisers is set out in those terms of engagement with those advisers such as the investment managers, custodian, actuary and investment advisers.

The partners refers to members and admitted bodies and members of the Pension Fund.

The Fund has an external website that helps members understand its governance and operation; how it is run including multiple standard tools such lump sum calculator, contribution calculator, annual allowance details etc. In addition, annual benefit statements are shared with them, and the Annual Report and Accounts along with the pension fund newsletter are available on the website.

In line with scheme regulations, Pension Fund Sub-committee and Pension Board met concurrently on four occasions during 2025/2026 These meetings are recorded and available for stakeholders on the Council website, providing transparency over the matters of the Fund.

There are union representatives and employer representatives at all committee meetings.

Information in the Annual Accounts

In addition, the Annual Report and Accounts include a Management Commentary, which provides stakeholders with an overview of the Fund’s objectives, activities, financial performance, and key risks. The commentary is intended to present a fair, balanced, and understandable assessment of the Fund’s performance and financial position, thereby enhancing the transparency and accessibility of the annual report and accounts.

We found the 2025/26 Management Commentary to be of a high standard. It is clearly written, stakeholder focused, and effectively explains complex matters in an accessible manner, supporting transparency and accountability in financial reporting.

The Annual Report and Accounts also include information on the performance of both the Pension Administration Team and the Fund’s investment managers, providing stakeholders with a comprehensive overview of operational and investment outcomes. Furthermore, the report contains an Annual Governance Statement, which outlines the Fund’s governance framework and the processes in place to maintain effective oversight and control.

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

The Pensions Regulator's General Code of Practice

In March 2024, the Pensions Regulator combined various codes of practice into a single General Code of Practice which is applicable to most public and private occupational pension schemes, including the LGPS. There are elements of the code which do not apply to the LGPS and not all requirements carry the same weight. Administering Authorities of LGPS funds must comply with the sections relevant to them.

The five main areas of the Code include:

- Administration.
- Funding and Investment.
- Governing Bodies.
- Communication and Disclosure.
- Reporting to The Pensions Regulator.

In October 2025, the Fund prepared a General Code of Practice – Assessment Summary, which considered how the Fund officers view compliance with the Code.

The report was broken down into each specific area of the Code and clearly noted:

- Risk rating for each requirement – fully met, partially met or not completed
- The evidence taken into account when assessing compliance
- The owner of that particular strand
- The steps which need to be taken to ensure compliance or continued compliance
- The suggested immediate actions

An initial assessment against the Code was carried out in 2024, with the above follow up in 2025. It si planned to annually review compliance against the code.

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Wider Scope

Orkney Islands Council Pension Fund

Use of Resources to Improve Outcomes

Scope

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Areas of Focus

- The arrangements in place to demonstrate that there is a clear link between money spent and outputs and the outcomes delivered
- The arrangements to evaluate service delivery and quality and whether the user needs and views are included in any such evaluation

.

In Summary we note:

The Pension Fund Sub-committee

- meets on a quarterly basis and receives regular reports on both fund administration and investment performance.
- Monitors administration performance against targets.
- Monitors financial performance against targets and other benchmarks.
- Use advisers in decision making; and
- Evaluates investment managers' performances

Wider Scope

Orkney Islands Council Pension Fund

Use of Resources to Improve Outcomes

Orkney Islands Council act as administering authority for the Fund.

Arrangements in place to evaluate service delivery

The Local Government Pension Scheme (Scotland) Regulations 2018 state that an administering authority may prepare a written pension administration strategy, setting out:

- The roles and responsibilities of the administering authority and scheme employers.
- Performance levels which the administering authority and scheme employers are expected to achieve in carrying out their functions.

The Pensions Administration Strategy (October 2023) document outlines key objectives of the Council as the administering body for the Fund, as well as setting performance standards for both the Council and its Employer as administering authority and the Admitted Bodies. The document sets out the roles and responsibilities of both the Administering Authority and Fund Employers. The administration strategy includes several key tasks which are benchmarked against expected timescales, with the results included in the Pension Fund Accounts.

The Pension Fund Sub-committee meets on a quarterly basis and receives a Pensions Administration Performance Report biannually. This is prepared by the Head of Finance; it covers fund administration, in particular employer contributions, auto enrolment, administrative performance, voluntary severance and early retirement payments and Fund membership.

Service level standards for the Administering Authority's performance are based on national Performance Indicators

Performance measurement for pensions administration includes both member experience and statutory compliance.

Appendices

No.	Contents
1	Mandatory communications
2	Draft auditor’s report
3	Draft letter of representation
4	Confirmation of Independence
5	Significant audit misstatements
6	Detailed status report on prior year control deficiencies
7	KPMG’s Audit quality framework
8	ISA (UK) 240 Revised
9	Audit quality, evidence & the timeline of completion activities

Appendix 1

Mandatory communications

Type		Statement
Our draft management representation letter		We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2026.
Adjusted audit differences		There were no adjusted audit differences.
Unadjusted audit differences		There were no unadjusted audit adjustments to note.
Related parties		There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Pension Board		There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies		We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing. See Appendix 6 for current year control observations and Appendix 7 for prior year control observations.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts		No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the accounts was identified during the audit.
Significant difficulties		No significant difficulties were encountered during the audit.
Modifications to auditor's report		None.

Appendix 1

Mandatory communications (cont.)

Type		Statement
Disagreements with management or scope limitations		The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information		Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.
Breaches of independence		No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices		Over the course of our audit, we have evaluated the appropriateness of the Orkney Islands Council Pension Fund's accounting policies, accounting estimates and annual disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management		The were no significant matters arising from the audit that were discussed, or subject to correspondence with management.

Appendix 2

Draft auditor's report

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

Reporting on the audit of the annual accounts

Opinion on annual accounts

We certify that we have audited the annual accounts in the Annual Report and Accounts of the Orkney Islands Council Pension Fund (the "Fund") for the year ended 31 March 2026 under Part VII of the Local Government (Scotland) Act 1973. The annual accounts comprise the Pension Fund Account, the Net Assets Statement, and notes to the annual accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 (the "2025/26 Code").

In our opinion the accompanying annual accounts:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2025/26 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) ("ISAs (UK)"), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the annual accounts section of our report. We were appointed by the Accounts Commission on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to Orkney Islands Council as administering authority for the Fund. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Appendix 2

Draft auditor's report (cont.)

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the annual accounts are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the Fund's current or future financial sustainability. However, we report on the Fund's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

We report on page x the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Director of Enterprise and Resources and Orkney Islands Council Pension Fund Sub-committee for the annual accounts

As explained more fully in the Statement of Responsibilities, the Director of Enterprise and Resources is responsible for the preparation of annual accounts that give a true and fair view in accordance with the financial reporting framework. The Director of Enterprise and Resources is also responsible for such internal control as the Director of Enterprise and Resources determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Director of Enterprise and Resources is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the Fund's operations.

The Orkney Islands Council Pension Fund Sub-committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the annual accounts

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

Appendix 2

Draft auditor's report (cont.)

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the Fund;
- inquiring of the Director of Enterprise and Resources as to other laws or regulations that may be expected to have a fundamental effect on the operations of the Fund;
- inquiring of the Director of Enterprise and Resources concerning the Fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the annual accounts to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Reporting on other requirements

Other information

The Director of Enterprise and Resources is responsible for the other information in the Annual Report and Accounts. The other information comprises the information included in the Annual Report and Accounts other than the annual accounts and our auditor's report.

Appendix 2

Draft auditor's report (cont.)

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

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Appendix 2

Draft auditor's report (cont.)

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out from page x to x.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Julie Radcliffe,

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 St Peter's Square

Manchester

M2 3AE

DATE

Appendix 3

Draft letter of representation

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

Dear Julie

This representation letter is provided in connection with your audit of the Pension Fund annual accounts of Orkney Islands Council Pension Fund ("the Pension Fund"), for the year ended 31 March 2026, for the purpose of expressing an opinion:

- as to whether these annual accounts give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities.
- whether the Pension Fund's annual accounts have been properly prepared in accordance with the UK adopted international accounting standards, as interpreted, and adapted by the 2025/26 Code; and
- whether the annual accounts have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003

These annual accounts comprise the Pension Fund account, the Net Assets Statement and the related notes to the annual accounts, comprising material accounting policies and other explanatory information.

The Pension Fund confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Pension Fund confirms that, to the best of its knowledge and belief, having made such inquiries as it is considered necessary for the purpose of appropriately informing itself.

Appendix 3

Draft letter of representation (cont.)

Annual Accounts

The Pension Fund has fulfilled its responsibilities, as set out in the terms of the audit engagement letter dated 18 May 2022, for the preparation of annual accounts that:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted, and adapted by the 2025/26 Code; and
- have been properly prepared in accordance with the requirement of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

The annual accounts have been prepared on a going concern basis.

The methods, the data and the significant assumptions used in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

All events subsequent to the date of the annual accounts and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.

Information provided

The Pension Fund has provided you with:

- access to all information of which it is aware, that is relevant to the preparation of the annual accounts, such as records, documentation and other matters;
- additional information that you have requested from the Pension Fund for the purpose of the audit; and
- unrestricted access to persons within the Pension Fund from whom you determined it necessary to obtain audit evidence.

All transactions have been recorded in the accounting records and are reflected in the annual accounts.

Appendix 3

Draft letter of representation (cont.)

The Pension Fund confirms the following:

The Pension Fund has disclosed to you the results of its assessment of the risk that the annual accounts may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

The Pension Fund has disclosed to you all information in relation to:

There have been no instances of fraud or suspected fraud that the Pension Fund is aware of and that affect the Pension Fund and involves:

- management;
- members;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the annual accounts; and

There have been no allegations of fraud, or suspected fraud, affecting the Pension Fund's annual accounts communicated by employees, former employees, members, analysts, regulators or others.

In respect of the above, the Pension Fund acknowledges its responsibility for such internal control as it determines necessary for the preparation of annual accounts that are free from material misstatement, whether due to fraud or error. In particular, the Pension Fund acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error, and we believe we have appropriately fulfilled those responsibilities.

The Pension Fund has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the annual accounts.

The Pension Fund has disclosed to you and has appropriately accounted for and/or disclosed in the annual accounts, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the annual accounts.

The Pension Fund has disclosed to you the identity of the Pension Fund's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 Related Party Disclosures.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in IAS 24 and the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26.

Appendix 3

Draft letter of representation (cont.)

The Pension Fund confirms that:

- The annual accounts disclose all of the matters that are relevant to the Pension Fund's ability to continue as a going concern, including the key risk factors, assumptions made and uncertainties surrounding the Pension Fund's ability to continue as a going concern as required to provide a true and fair view and to comply with IAS 1 Presentation of Financial Statements.
- No material uncertainties related to events or conditions exist that may cast significant doubt upon the ability of the Pension Fund to continue as a going concern.

On the basis of the process established by the Pension Fund and having made appropriate enquiries, the Pension Fund is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans.

This letter was tabled and agreed at the meeting of the Pension Fund Sub-committee on

DATE

Yours faithfully,

Gareth Waterson, BAcc, CA

Section 95 Officer

DATE

Appendix 3

Draft letter of representation (cont.)

Appendix to the Pension Fund Representation Letter of Orkney Islands Council Pension Fund: Definitions

Annual Accounts

A complete set of annual accounts comprises:

- Pension Fund Account;
- Net Assets Statement;
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- information regarding a material item, transaction or other event is scattered throughout the financial statements;
- dissimilar items, transactions or other events are inappropriately aggregated;
- similar items, transactions or other events are inappropriately disaggregated; and
- the understandability of financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Appendix 3

Draft letter of representation (cont.)

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were authorised for issue; and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

personnel of the reporting entity or of a parent of the reporting entity.

Appendix 3

Draft letter of representation (cont.)

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 Related Party Disclosures as the “reporting entity”).

A person or a close member of that person’s family is related to a reporting entity if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management

An entity is related to a reporting entity if any of the following conditions applies:

- The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity, and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- The entity is controlled or jointly controlled by a person identified in (a).
- A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a government that has control or joint control of, or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Appendix 4

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.

To the Pensions Board and Pension Fund Sub-committee

Assessment of our objectivity and independence as auditor of the Orkney Islands Council Pension Fund

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result, we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 4

Confirmation of Independence (cont.)

Summary of Fees

	2025/26
	£'000
Auditor Remuneration	46.9
Pooled cost	1.6
Sectoral cap adjustment	(20.5)
TOTAL	28.0

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements, and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of Pensions Board and Pension Fund Sub-committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Appendix 5

Significant audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Pension Board with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the annual report and accounts. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Pension Board, details of all adjustments greater than £285K are noted below

We note that there are no significant corrected misstatements

There are no unadjusted audit differences.

Types of misstatement

Factual: Misstatements about which there is no doubt

Projected: Our best estimate of misstatements in the audited populations

Judgemental: Differences arising from judgements of management that we consider unreasonable or inappropriate

Appendix 6

Detailed status report on prior year control deficiencies

Matter previously raised	Status Current Year	Remaining issues
Membership reconciliation (Priority two - 2023)		Steps have been taken to reconcile members numbers and full membership reconciliation is prepared to identify the members' movements during the year. However, no reconciliation is prepared to reconcile the active and pensioner members to payroll records and explain any differences. The risk of incorrect membership data is minimised. This issue remains in current year.
Climate Strategy (Priority two - 2024)		The Fund has implemented and approved a formal Responsible Investment Policy, which includes specific provisions relating to the consideration, management and monitoring of climate-related risks and opportunities. As a result, this point has now been closed.
Nominal Ledger headings for Baillie Gifford portfolio (Priority two – 2025)		Whilst no separate nominal code has been set up, the movement in the investments table has been correctly accounted for and does not impact on the current year's annual accounts. As a result, this point has now been closed.

Priority rating for recommendations

❶ **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

❷ **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.

❸ **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Note:
- Little or no change.
- Some action taken but not fully implemented.
- Satisfactorily dealt with.

Appendix 7

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

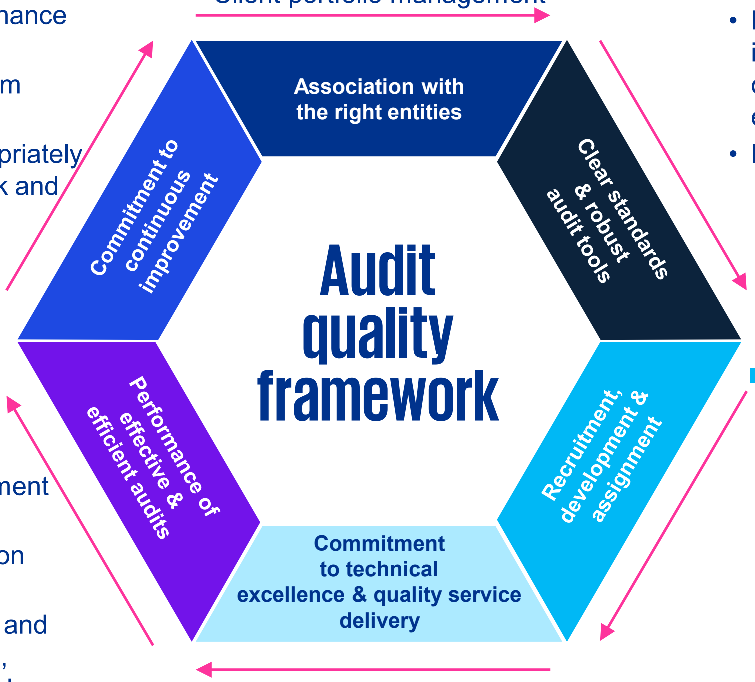
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies



Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusion s
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members

Appendix 8

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021*)* *The auditor's responsibilities relating to fraud in an audit of financial statements* included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgement, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page 7. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* , to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorisation of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

Appendix 9

Audit quality, evidence & the timeline of completion activities

Audit quality is at the core of everything we do – the quality and timeliness of information received from management and those charged with governance also affects audit quality.

The timeline on this page is for illustration only and shows the timing of our completion activities around the signing of the audit opinion. We depend on well planned timing of our audit work to avoid compromising the quality of the audit. We aim to complete all audit work no later than 2 days before audit signing.

Weeks before signing Audit Opinion	-3 weeks	-2 weeks			-1 week		Completion week			Teams involved in the process
Individual day's activities		Day 1	Day 3	Day 5	Day 1	Day 5	Day 1	Day 3	Day 5	
Final audit fieldwork										Audit Team
Review significant risk audit areas and challenge work performed										RI
Review of Pension Fund Sub-committee and Pension Board reporting and draft accounts										RI
KPMG reporting issued to the Pension Fund Sub-committee and Pension Board				♦						Audit Team
Final Pension Fund Sub-committee meeting						♦				Audit Team
Final audit field work completed and signed off								♦		Audit Team
Stand-Back review								♦		Audit Team
Ensure all points raised are cleared								♦		RI

Key:

- ♦ One day activity
- Activity over a period of time
- Year end
- Signing date of the Audit Report

Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates or related entities.

kpmg.com/uk

Appendix 2

ENTERPRISE & RESOURCES

Director: Gareth O Waterson BAcc CA
Council Offices, Kirkwall, Orkney, KW15 1NY

Tel: (01856) 873535 Website: www.orkney.gov.uk
Email: accountancy@orkney.gov.uk

ORKNEY
ISLANDS COUNCIL

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

16 September 2026

Dear Julie

This representation letter is provided in connection with your audit of the Pension Fund annual accounts of Orkney Islands Council Pension Fund ("the Pension Fund"), for the year ended 31 March 2026, for the purpose of expressing an opinion:

i. as to whether these annual accounts give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities.
ii. whether the Pension Fund's annual accounts have been properly prepared in accordance with the UK adopted international accounting standards, as interpreted, and adapted by the 2025/26 Code; and
iii. whether the annual accounts have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003

These annual accounts comprise the Pension Fund account, the Net Assets Statement and the related notes to the annual accounts, comprising material accounting policies and other explanatory information.

The Pension Fund confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Pension Fund confirms that, to the best of its knowledge and belief, having made such inquiries as it is considered necessary for the purpose of appropriately informing itself:

Annual Accounts

1. The Pension Fund has fulfilled its responsibilities, as set out in the terms of the audit engagement letter dated 18 May 2022, for the preparation of annual accounts that:

   i. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities
   ii. have been properly prepared in accordance with UK adopted international accounting standards, as interpreted, and adapted by the 2025/26 Code; and
   iii. have been properly prepared in accordance with the requirement of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

   The annual accounts have been prepared on a going concern basis.

2. The methods, the data and the significant assumptions used in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

3. All events subsequent to the date of the annual accounts and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Pension Fund has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the annual accounts, such as records, documentation and other matters;
   - additional information that you have requested from the Pension Fund for the purpose of the audit; and
   - unrestricted access to persons within the Pension Fund from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the annual accounts.

6. The Pension Fund confirms the following:

   The Pension Fund has disclosed to you the results of its assessment of the risk that the annual accounts may be materially misstated as a result of fraud.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

7. The Pension Fund has disclosed to you all information in relation to:

   a) There have been no instances of fraud or suspected fraud that the Pension Fund is aware of and that affect the Pension Fund and involves:
      - management;
      - members;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the annual accounts; and

   b) There have been no allegations of fraud, or suspected fraud, affecting the Pension Fund's annual accounts communicated by employees, former employees, members, analysts, regulators or others.

   In respect of the above, the Pension Fund acknowledges its responsibility for such internal control as it determines necessary for the preparation of annual accounts that are free from material misstatement, whether due to fraud or error. In particular, the Pension Fund acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error, and we believe we have appropriately fulfilled those responsibilities.

8. The Pension Fund has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the annual accounts.

9. The Pension Fund has disclosed to you and has appropriately accounted for and/or disclosed in the annual accounts, in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the annual accounts.

10. The Pension Fund has disclosed to you the identity of the Pension Fund's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with *IAS 24 Related Party Disclosures.*

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in IAS 24 and the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26.

11. The Pension Fund confirms that:

a) The annual accounts disclose all of the matters that are relevant to the Pension Fund's ability to continue as a going concern, including the key risk factors, assumptions made and uncertainties surrounding the Pension Fund's ability to continue as a going concern as required to provide a true and fair view and to comply with IAS 1 Presentation of Financial Statements.
b) No material uncertainties related to events or conditions exist that may cast significant doubt upon the ability of the Pension Fund to continue as a going concern.

12. On the basis of the process established by the Pension Fund and having made appropriate enquiries, the Pension Fund is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans.

This letter was tabled and agreed at the meeting of the Pension Fund Sub-committee on 16 September 2026.

Yours faithfully,

Gareth Waterson, BAcc, CA
Section 95 Officer
16 September 2026

Appendix to the Pension Fund Representation Letter of *Orkney Islands Council Pension Fund*: Definitions

Annual Accounts

A complete set of annual accounts comprises:

- Pension Fund Account;
- Net Assets Statement;
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

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Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

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c) dissimilar items, transactions or other events are inappropriately aggregated;
d) similar items, transactions or other events are inappropriately disaggregated; and
e) the understandability of financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

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Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- A person or a close member of that person's family is related to a reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity; or
  - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

- An entity is related to a reporting entity if any of the following conditions applies:
  - The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - Both entities are joint ventures of the same third party.
  - One entity is a joint venture of a third entity, and the other entity is an associate of the third entity.
  - The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - The entity is controlled or jointly controlled by a person identified in (a).
  - A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a government that has control or joint control of, or significant influence over the reporting entity; and

- another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Item: 2

Pension Fund Sub-committee: 16 September 2026.

Pension Fund – Annual Accounts.

Report by Director of Enterprise and Resources.

1. Overview

1.1. This report presents the Annual Report and Accounts of the Orkney Islands Council Pension Fund 2025/2026, incorporating the Annual Governance Statement, for approval.

1.2. Orkney Islands Council acts as Administering Authority for the Orkney Islands Council Pension Fund.

1.3. The Orkney Islands Council Pension Fund is constituted under the various Local Government Pension Fund Acts and related regulations and provides pension benefits to all local government employees, excluding principally teachers, together with three other organisations of a statutory or voluntary nature which have been accepted into the Pension Fund as admitted bodies.

1.4. The Pension Fund is built up from contributions from both employees and employing bodies, together with interest and dividends from investments, out of which pensions and other benefits are paid. The Pension Fund is entirely managed by external investment managers.

1.5. The purpose of the annual statement of accounts is to demonstrate proper stewardship of the Pension Fund’s financial affairs.

1.6. Under the Local Authority Accounts Scotland Regulations, a local authority, or a committee of the authority whose remit includes audit or governance functions, must meet to consider the audited Annual Accounts; and aim to approve those accounts for signature no later than 30 September immediately following the financial year to which the accounts relate. The committee must consider whether the Annual Accounts should be signed, having regard to any report made on the accounts and any advice given by the proper officer or the auditor.

1.7. On 27 August 2026, the Pension Fund Sub-committee approved the draft Annual Report and Accounts for financial year 2025/26, incorporating the Annual Governance Statement.

2. Recommendations

2.1. It is recommended that members of the Sub-committee:

i. Approve the Annual Report and Accounts of the Orkney Islands Council Pension Fund 2025/2026, incorporating the Annual Governance Statement at pages 18 to 25, attached as Appendix 1 to this report.

3. Annual Accounts and Management Commentary

3.1. The accounts have been prepared in accordance with the main recommendations of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in the United Kingdom 2025/2026, supported by International Financial Reporting Standards as amended for the UK public sector.

3.2. The accounts have been prepared on an accruals basis, but do not take account of liabilities to pay pensions and other benefits after the year end. The actuarial position which is disclosed in the accounts does however account for such obligations.

3.3. The management commentary, comprising pages 1 to 14 of the Annual Report and Accounts of the Orkney Islands Council Pension Fund, attached as Appendix 1 to this report, provides an overview of the most significant matters reported in the Annual Accounts for financial year ended 31 March 2026. The key facts and figures can be summarised as follows, noting that figures in brackets represent the figure as at 31 March 2025:

- The value of the Pension Fund was £570,576,000 (£532,141,000).
- Operational and investment income activities on the Pension Fund incurred a gain of £38,435,000 (loss of £3,661,000).
- The increase in the value of the Pension Fund was largely the result of an increase in the market value of investments and an increase in contributions receivable and transfers in.
- Performance of the Pension Fund on a five-year rolling average basis was 1.6% per annum, giving a relative return below the fund specific benchmark of 7% and the target to outperform the aggregate benchmark over a rolling five-year period.

- During the year, membership of the Pension Fund increased by 103 to a total of 5,199 persons.
- Employers contributed £9,743,000 (£9,551,000).
- Employees contributed £3,963,000 (£3,750,000).
- Pension and other benefits paid out totalled £14,274,000 (£13,071,000).
- Transfer values paid into the Pension Fund because staff changed employers was £1,466,000 (£1,571,000).
- Transfer values paid out of the Pension Fund on account of leavers was £1,903,000 (£1,936,000).

3.4. The audit of the draft accounts identified some minor presentation and typographical amendments required which have been incorporated into the final version and were not considered material in nature.

4. Annual Governance Statement

4.1. CIPFA, in consultation with SOLACE, published the Delivering Good Governance in Local Government: Framework in 2007 to set the standard for local authority governance in the UK. The framework was reviewed in 2015, and a revised edition was issued in 2016.

4.2. Since 2007, when the first edition of the framework was issued, it has been a requirement for each Council to include an Annual Governance Statement in the Annual Accounts of the authority.

4.3. In May 2025, CIPFA published an addendum to the framework, covering the annual review of governance and the Annual Governance Statement. The addendum sets out the key roles and responsibilities in the annual review of governance and production of the Annual Governance Statement.

4.4. The Annual Governance Statement is contained within the Annual Report and Accounts for the financial year 2025/26, attached as Appendix 1 to this report, at pages 18 to 25.

For Further Information please contact:
Shonagh Merriman, Service Manager (Corporate Finance), Extension 2105, email shonagh.merriman@orkney.gov.uk.

Implications of Report

1. **Financial:** Existing staff resources are deployed as part of the annual financial year end closedown process to prepare the annual report and accounts for the Pension Fund.
   The audit fee payable to KPMG for the audit work on the Pension Fund was £28,000 for financial year 2025/2026 (compared to £26,800 for the previous year).
2. **Legal:** Councils which are responsible for administering a pension fund (administering authorities), forming part of the Local Government Pension Scheme, are required by the Local Government Pension Scheme (Administration) (Scotland) Regulations 2018 to publish a Pension Fund Annual Report. The Pension Fund Annual Report includes the financial statements of the Pension Fund.
   Orkney Islands Council will publish its Pension Fund accounts for financial year 2025/2026 by 30 September 2026.
3. **Corporate Governance:** In terms of the Scheme of Administration, consideration of the audited Annual Accounts of the Orkney Islands Council Pension Fund and thereafter approval for signature, as described in The Local Authority Accounts (Scotland) Regulations 2014, no later than 30 September immediately following the financial year to which the accounts relate, is a delegated function of the Pension Fund Sub-committee.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** An Equality Impact Assessment is not required in respect of financial monitoring.
6. **Island Communities Impact:** An Island Communities Impact Assessment is not required in respect of financial monitoring.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
   ☐Growing our economy.
   ☐Strengthening our communities.
   ☐Developing our Infrastructure.
   ☐Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
   ☐Cost of Living.
   ☐Sustainable Development.
   ☐Local Equality.
   ☐Improving Population Health.
9. **Environmental and Climate Risk:** Environmental, Social and Governance factors are recognised as having the potential to impact the Fund.

10. **Risk:** The main risk facing the Pension Fund remains, as in previous years, that the Fund's assets fail to grow in line with the cost of meeting its liabilities. This financial mismatch is managed by the Pension Fund Sub-committee in several ways, including, for example, implementing a diversified investment strategy.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Orkney Islands Council Pension Fund Annual Audit Plan 2025/2026

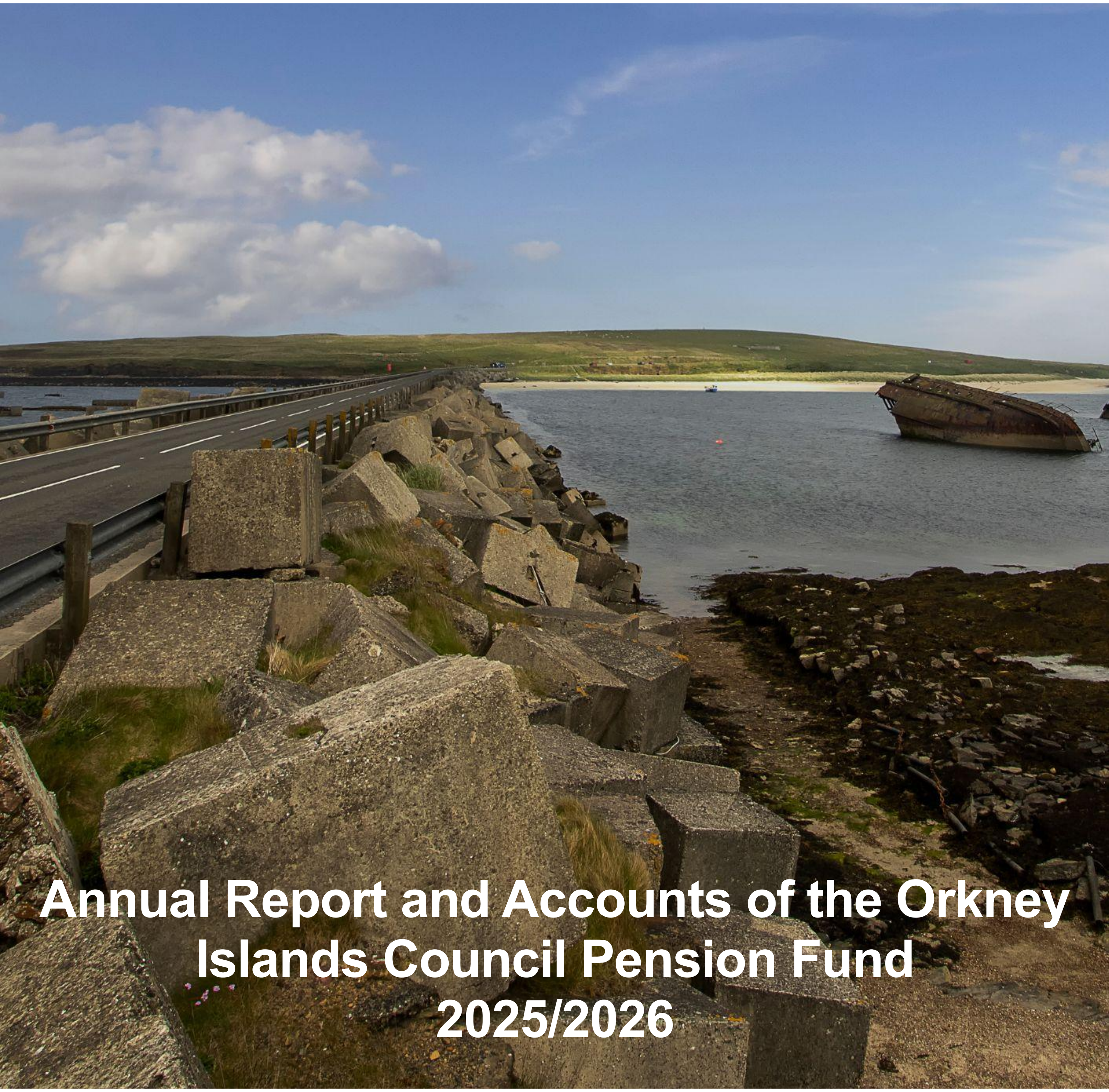
Pension Fund Sub-committee 27 August 2026 – Pension Fund – Draft Financial Statements.

Appendix

Appendix 1: Annual Report and Accounts of the Orkney Islands Council Pension Fund 2025/2026.

Appendix 1

ORKNEY
ISLANDS COUNCIL



Annual Report and Accounts of the Orkney Islands Council Pension Fund 2025/2026

www.orkney.gov.uk

Contents

Management Commentary

Introduction

Welcome to the Annual Report and Accounts for the Orkney Islands Council Pension Fund for the year ended 31 March 2026.

The Local Government Pension Scheme (Scotland) Regulations 2018 require the Council, as administering authority for the Fund, to produce a separate statement of accounts for the Pension Fund and incorporate it into an Annual Report.

This Annual Report has been produced to provide Elected Members, employers, scheme members, and other interested parties with information concerning the administration and performance of the fund for financial year 2025/2026 and we hope you find its content useful.

To assist in the understanding of the Annual Report and Accounts we would encourage you to make reference to the Management Commentary in the first instance.

We realise that pensions are a highly complicated subject. It is, however, important that fund members take the time to try and understand the scale of benefits that they will receive when they retire - whether this is from the Local Government Pension Scheme itself or through other pension arrangements, such as the State Pension.

Overview of Fund Business

Under the statutory provisions of the Local Government Pension Scheme, Orkney Islands Council is designated as an “Administering Authority” and is required to operate and maintain a pension fund – the Orkney Islands Council Pension Fund (“the Fund”).

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. Contributions to the Fund are made by employee members and by participating employers. The Fund also receives income from its investments, which include equities and pooled investment vehicles.

The Fund operates under the terms of the Local Government Pension Scheme, which is a public sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not eligible to join another public sector pension scheme. Teachers are not included as they have a separate national pension scheme.

Review of the Year

Key Facts and Figures:
Value of the Fund at 31 March 2026 was £570.6 million (£532.1m at 31 March 2025).
An Operational and Investment Income Gain of £38.4 million was incurred on the activities of the fund (compared to a loss of £3.6m for the year ended 31 March 2025).
The increase in fund value over the year was largely the result of an increase in the market value of investments of £33.7m. Outflows, including benefits payable (£14.3m) and management expenses (£3.2m) were offset by investment income of £9.2m and contributions receivable of £13.7m. Overall, this represents a year-on-year increase of - 7.2% in the value of the fund.
Performance of the Fund on a three-year rolling average basis has been 5.7% p.a., giving a relative return below benchmark by 3.5%.
Fund membership increased by 103 to 5,199.
Employers contributed £9.7 million to the Fund (£9.6m to 31 March 2025).
Employees contributed £4.0 million (£3.7m to 31 March 2025).
Pension and other benefits paid out were £14.3 million (£13.1m to 31 March 2025).
Transfer values paid into the Fund because staff changed employers was £1.5 million (£1.5m to 31 March 2025).
Transfer values out of the Fund because staff changed employers was £1.9 million (£1.9m to 31 March 2025).

Over the 2025/2026 financial year, the Pension Fund returned 7.2% driven by strong equity returns over Q2 and Q3 2025, which were partially offset as markets saw increased volatility towards the end of the year due to uncertainties surrounding the Middle East conflict.

The Fund's managers delivered mixed performance over the past 12 months. All of the Pension Fund's holdings (the Baillie Gifford Global Alpha and UK Equity Funds, Barings Global Private Loan Fund ("GPLF") 3 and 4 mandates and the IFM Global Infrastructure Fund, L&G gilts funds and L&G Future World Net Zero Buy and Maintain Fund) had positive returns this year in absolute terms, except for the IFM Core Energy Transition Fund (previously known as the Net Zero Infrastructure Fund) which produced negative returns.

Amongst the growth assets, the Baillie Gifford Global Alpha Fund was the best performing mandate over the year, returning 10.4%, in absolute terms. Nevertheless, the manager underperformed its benchmark by 6.4% over the past 12 months. Similarly, the Baillie Gifford UK Equity Fund returned 7.5% (in absolute terms) over the 12-month period and underperformed its benchmark by 12.6% (net of fees). At the start of the 12 months, global equities outperformed on the back of strong performance by a limited number of US-listed Technology and Technology-adjacent megacap names i.e. the "Magnificent 7". These are Apple, Nvidia, Microsoft, Amazon, Tesla, Meta/Facebook, and Alphabet/Google. However, global equities weighed on performance in the latter part of the year, amid rising investor uncertainty surrounding geopolitical tensions.

The Pension Fund's protection assets with L&G, (gilts and index-linked gilts funds and Future World Net Zero Buy and Maintain Fund) returned 2.5%, 3.8% and 3.8% respectively.

Fixed income assets delivered positive absolute returns throughout the year as inflation and rising interest rate expectations eased, resulting in the fall of yields and the rise in prices (bond prices rise as their yields fall. UK bonds in particular performed well as credit spreads tightened to historic lows through 2025 before widening again in early 2026 ending Q1 2026 above prior lows but still below long-term averages.

Within the Pension Fund’s income assets, the GPLF 3 and 4 posted positive returns over the 12-month period, where the GPLF 3 marginally outperformed its benchmark by 0.3% while the GPLF 4 slightly underperformed by 0.6%.

Similarly, IFM Global Infrastructure Fund had a positive return over a 12-month period in absolute terms, returning 8.7%, albeit falling behind its benchmark by 1.2%. However, the IFM Core Energy Transition Fund delivered a negative absolute return of -0.5%, underperforming its benchmark of 2.9%. We note it is too early to meaningfully evaluate the manager’s performance, given this is a relatively newly appointed manager.

The overall benchmark return of 11.4% generally reflects variable market conditions for investors over the 12 months to 31 March 2026.

The table shown within the investment strategy section, page 6, details the allocation of the fund within asset class or pooled investment vehicle.

The value of the fund increased by £38.4m or 7.2% in the financial year and totalled £570.6m at 31 March 2026.

The change in value of the fund over any given period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of its investments. During the year, a loss on member contributions receivable and transfers in over pension payments and management expenses of £4.2m (2025: £3.4m loss) was offset by income from dividends and interest of £9.2m (2025: £9.7m). The Fund was also increased by a net capital gain of £33.7m (2025: £10.0m loss).

The Accounts are based on the market value of investments at 31 March 2026. This means that they include the profit or loss that has been made, due to the change in the value of investments, over the period from the date of their purchase to 31 March 2026 even though no actual sale has taken place. This notional value is defined as "unrealised” profit or loss. By contrast “realised” profits and losses are those that have arisen from actual sales throughout the year. Of the net capital gain of £33.7m in the year, £4.4m was an unrealised gain (2025: £50.0m loss) and £29.3m realised gain (2025: £40.0m realised gain).

After allowing for projected liabilities on the fund, the funding level has decreased to 175% at 31 March 2026 from its value of 188% last financial year end, calculated on an ongoing funding basis.

We are pleased to report that the Fund maintains a position well above its 100% funding target, being in surplus by £244m at the financial year end (2024/2025: £245m) according to the actuary’s most recent funding update.

Economic and Market Background

Despite a softer second half, 2025 proved to be a resilient year for the global economy (expanding 3.4%), amid higher US tariffs and policy uncertainty. AI-related investment, fiscal support and monetary easing reinforce a reasonable global growth backdrop in 2026. However, supply-side risks from the US-Iran conflict have added uncertainty.

US and UK headline inflation peaked in summer 2025. Tariff impacts on US inflation were milder; in the UK, wage and services inflation eased. However, higher energy costs have derailed disinflation progress, with US (3.3%), UK (3.3%0 and eurozone (2.6%) inflation up in March 2026.

Brent crude oil rose 58.3% to $118 per barrel over the period. Oversupply concerns weighed on oil prices in 2025; however, geopolitical tensions and the Strait of Hormuz (a vital route for 20% of global energy trade) closure drove oil prices up 63.1% in March and 94.5% in the first quarter (Q1) of 2026.

After cutting borrowing costs, markets were pricing in UK and US rate reductions in 2026, prior to the conflict. However, energy-driven inflation fears reversed expectations. Expectations of US rate cuts were erased. In the UK, expectations of two rate cuts by end-February became expectations of two rates hikes by March-end. Markets priced in a possible rate hike in the eurozone. In Japan, rates rose to 0.75% pa, the highest since 1995.

Sovereign bond yields rose across major advanced markets in Q1 2026. Concerns over greater bond issuance amid waning institutional demand have pressured long-end yields. Real yields rose on global competition for capital from the AI-investment boom. However, short-term yields rose the most, as markets priced in rate hikes. US and UK 10-year bond yields increased, to 4.3% pa and 4.9% pa, respectively. Equivalent Japanese and German yields rose, to 2.4% pa and 3.0% pa, respectively, on increased issuance expectations.

Despite widening in Q1 2026, credit spreads remain down over 12 months and near historic lows. Over the period, sterling investment-grade spreads fell 0.1% pa to 0.9% pa. Over the same period, US speculative-grade spreads fell 0.1% pa, while European high yield spreads were flat, both were at 3.3% pa by March-end.

The US dollar has outperformed peers since the conflict began. However, the Nominal Broad U.S. Dollar Index remains 5.6% lower over the period as investors increased hedging after April's tariffs. Yen and sterling trade-weighted measures fell 9.7% and 1.1%, respectively, while the euro rose 3.1%.

Global equities are up 19.8% over the period. Tech led growth (20.6%), outperforming value (16.7%). Developed Asia Pacific ex Japan led, with the region's involvement in the semiconductor supply-chain role and increased AI-related capital expenditure. Japan outperformed on higher fiscal spending, corporate reforms and a weaker yen. Strong energy sector performance and positive selection contributed to the UK's outperformance. Robust earnings, advances in Chinese AI and dollar weakness supported emerging markets. US equities lagged, due to weakness in mega-cap tech (primary AI-capex spenders) and lack of market breadth. Europe ex UK underperformed on an unfavourable sector mix and stock selection.

The growth outlook has been supported by AI-related investment and expectations of monetary and fiscal easing, but higher energy prices add uncertainty. While geopolitical shocks often fade, prolonged energy-supply disruptions – such as in the mid-1970's or 2022 – have led to more persistent macroeconomic and market effects.

Although forecasts are still evolving, global inflation is likely to be revised up and growth revised down, with uneven impacts. Europe and Asia are more exposed to higher oil and gas prices than North America, with outcomes dependent on the scale and duration of any disruption to energy supplies through the Strait of Hormuz.

Central banks typically look through one-off supply shocks, but post-2022, they're likely to be more cautious about second-round inflation effects. The UK and eurozone appear most vulnerable, suggesting the Bank of England and the ECB may remain on hold in the near term. By contrast, the US Federal Reserve may prioritise growth risks, given the US economy's relative insulation from energy shocks and weakening labour market data.

Sovereign bond yields appear attractive relative to long-term growth and inflation expectations, particularly in scenarios where growth slows and near-term inflation pressures ease. For absolute-return investors focused on managing near-term inflation risks, leaning into exposure to the front end of the sovereign yield curve may be sensible, given lower duration risk and reduced sensitivity to further inflation surprises. Since the conflict in the Middle East began, implied inflation – especially at the front end – has risen sharply. This may create opportunities to rebalance between real and nominal bonds to capture relative outperformance.

Credit spreads have compressed and are well below long-term averages. While they still offer a premium over long-term expected loss, it is historically a thin one. Given attractive sovereign yields, investment-grade bonds offer reasonable medium-term return potential, although slight widening could lead credit to underperform gilts. We're more cautious on speculative-grade bonds; spreads are more volatile and, being shorter maturity, speculative-grade bonds derive less benefit from attractive long-term sovereign bond yields. We expect more attractive entry points may yet emerge.

Equities have recovered from their March 2026 decline. Strong tech-driven earnings growth has provided near-term fundamental support to equities. However, elevated valuations mean our expected medium-term returns remain moderately weaker relative to our neutral expectations and historic norms. Materially higher yields, rising costs and weaker demand still threaten valuation multiples and the strong earnings growth expected this year and next. Since the start of the conflict, the US has outperformed Europe, benefiting from the AI boom and its relative insulation to energy shocks. However, cyclically adjusted valuations continue to argue for diversification away from US-heavy indices, which dominate global markets – a view held since early last year.

The US dollar has steadied against major peers in 2026, having weakened notably since the start of 2025. While sterling has weakened versus the dollar, it remains broadly in line with fair value based on its real effective exchange rate relative to its long-term trend. This supports a neutral medium-term view on the dollar.

Investment Strategy

The investment strategy of the Fund is to invest monies in a prudent and diversified manner, in accordance with the scheme regulations and in recognition of the inherent risks that accompany any investment in the respective asset classes. The strategy is set out in the Statement of Investment Principles which can be viewed on request.

The most recent review of the investment strategy was approved by the Sub-committee in February 2024. The agreed interim and long-term target allocations are shown in the Asset Allocation table below together with the actual asset allocation at 31 March 2026.

Asset Class	Asset Allocation at 31/03/2026	Range	Revised Long-term Target
	%	%	%
Growth			
UK Equities	8.7	46-56	7.0
Overseas Equities	45.9		43.0
Total Growth	**54.6**		**50.0**
Income			
Infrastructure Credit	8.4	0-10	10.0
Private Debt	7.9	2.5-12.5	10.0
Total Income	**16.3**		**20.0**
Protection			
UK Gilts	9.4	2.5-12.5	10.0
UK Index-Linked Gilts	8.8	2.5-12.5	10.0
Corporate Bonds	10.2	-	10.0
Cash	0.7	-	0.0
Total Protection	**29.1**		**30.0**
Total	**100.00**		**100.0**

In time the strategy will transition towards the relevant target allocations. The Fund has acted to reduce its holdings in growth–seeking assets in favour of funding a new allocation to income generating assets as part of a strategy to further diversify the Fund’s investments. Nevertheless, holdings in equities still account for 54.6% of the Fund’s portfolio as at 31 March 2026. The remaining 45.4% is held in Infrastructure Credit, Private Debt, Bonds and Cash at 8.4%, 7.9%, 28.4% and 0.7% respectively.

The most recent review in 2024 agreed a full disinvestment from the multi-asset mandates and subsequent investment of those proceeds into protection assets. These changes have been progressed during 2024/25 and are intended to reduce the risk profile of the fund and have been matched by a proportionate reduction in growth assets.

During 2025/26, the Pension Fund Sub-committee agreed to increase the Fund’s commitment to private debt, to reach its target allocation of 10%. Following fund manager interviews, the onboarding to Barings Global Private Loan Fund Perpetual was completed in March 2026.

As a result of its exposure to equities, the relative performance of the Fund against its benchmark can be volatile over the short term. However, the Fund continues to have a strong funding position which allows it to take a long-term view across successive investment cycles.

A Responsible Investment Policy was approved in February 2024 which sets out the underlying objectives and beliefs of the Sub-committee on behalf of the Fund and what the Sub-committee expects to achieve from having this policy in place. It details the actions that the Sub-committee will take to achieve those actions and the means by which the actions will be assessed in order to judge whether the expected outcomes have or have not been achieved.

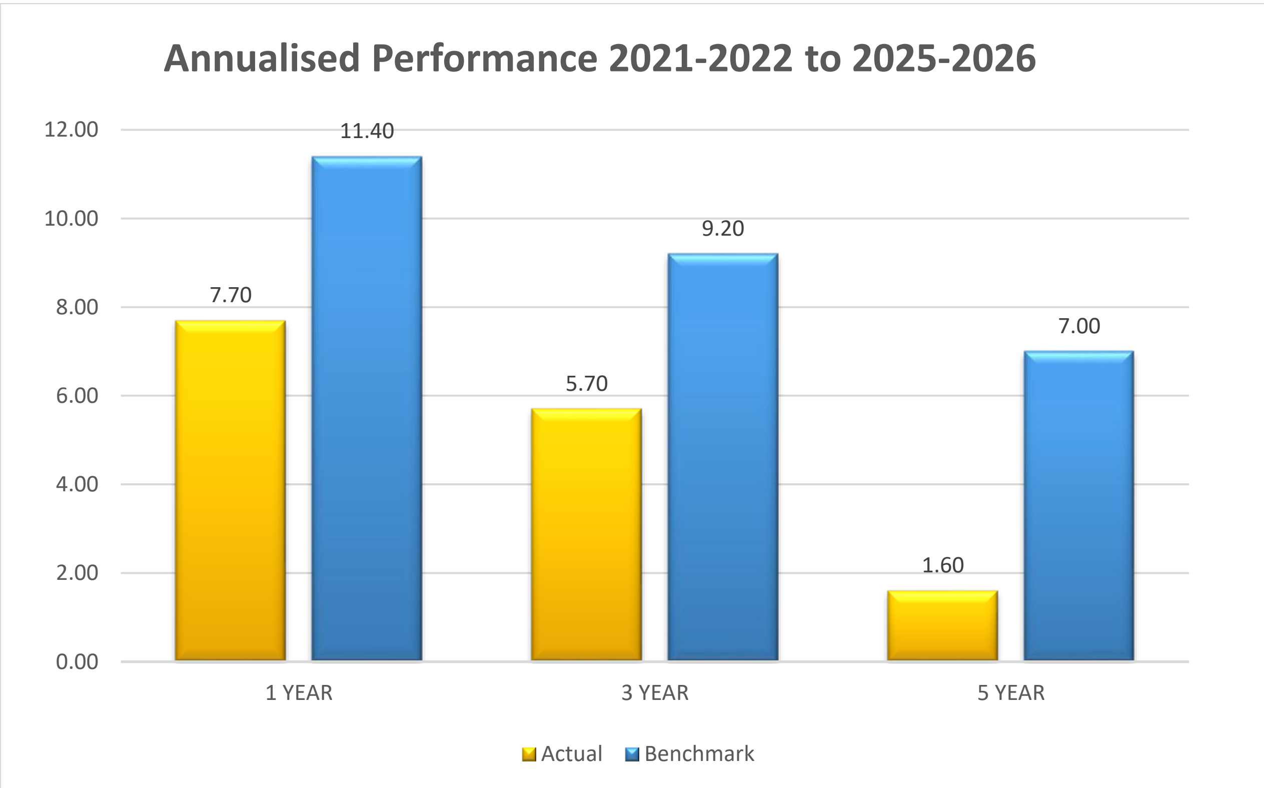
The top 10 direct equity holdings within the Fund at 31 March 2026 were:

Company	Market Value of Holding £m
NVIDIA	14.9
TSMC ADR	14.3
Alphabet Inc Class C	9.1
Amazon.com	7.9
Microsoft	7.9
Meta Platforms Inc	7.3
Tencent	7.0
Samsung Electronics	6.0
Martin Marietta Materials	6.0
Royalty Pharma	6.0

Investment Performance

The performance of the Pension Fund managed investments has been measured against a bespoke or fund specific benchmark since the 1 April 2018, following the closure of the previous peer group benchmark, and reflects the weighting or concentration of individual asset classes within the approved investment strategy. The benchmark is maintained by Hymans Robertson. The Fund's performance target for this accounting period is to outperform the fund specific benchmark measured over a rolling 5-year period. The average performance over the last 5 years of 1.6% is behind the benchmark of 7.0%.

The following graph summarises investment performance on an annualised basis over 1, 3 and 5-year periods.



Structure of Administration

Staffing

Administration of the Fund is carried out in-house and undertaken by the Payroll and Pensions section within Orkney Islands Council's Enterprise & Resources Service.

The Pensions team within the Payroll and Pensions section has 3.7 full-time equivalents, consisting of a Service Manager, one full-time Team Manager, two part-time Senior Assistants and an Administrative Assistant. In addition to maintaining Fund members' records using data supplied by all Fund employers, the Pensions team also provides frontline services to scheme members. As well as answering telephone calls and responding to electronic and written correspondence, meetings are provided where requested.

The staff resources detailed above are supplemented by shared staff resources within the Enterprise & Resources Service, providing additional governance, payments, investment, and accounting expertise. In addition, the Human Resources and Organisational Development section, within Orkney Islands Council's Infrastructure & Organisational Development Service also supports the work of the Pension section by arranging pre-retirement workshops for scheme members who are within two years of retirement.

Systems

Fund members' records are maintained on Aquila Heywood's pensions administration system known as Altair. Every current and former employee of Fund employers, including Orkney Islands Council, who has a pension entitlement in the Fund is included in the Altair system.

The Council's ResourceLink Payroll system is used to pay pensioner benefits. The Pensions team is restricted to read only access of the payroll system, with amendments being made to pensioner records via a formal request process to the Payroll team.

Administration Performance

Orkney Islands Council as administering authority is committed to providing a high-quality pension service to both members and employers and ensuring members receive their correct pension benefits entitlement.

Administration performance figures are monitored by the Pension Fund for financial year 2025/2026, against the key service standards set by the Pension Fund Sub-committee, as follows:

Category	Performance Standard – No of Working Days	Number of records processed within standard	Number of records processed Outwith standard	Percentage of records processed within standard	Prior Year Performance
New Entrant Information	10	210	3	98.6%	99.6%
Leaver Information	10	167	10	94.4%	97.8%
Pension Estimates	10	140	4	97.2%	98.0%
Retirements	5	120	0	100.0%	100.0%
Transfers In	10	49	1	98.0%	98.3%
Transfers Out	10	17	1	94.4%	95.0%
Refunds	5	40	0	100.0%	96.2%

Scheme Arrangements

Career Average Revalued Earnings Scheme (CARE) – LGPS 2015

A number of important changes have been made to the LGPS from 1 April 2015. The changes, which have been agreed between the Trade Unions, COSLA and the Scottish Government, ensure that the scheme complies with the terms of the Public Pensions Act 2013.

From 1 April 2015 the pension scheme moved away from a final salary to a career average revalued earnings scheme (CARE).

The main changes of this scheme were:

- A move towards benefits being worked out using career average revalued earnings (CARE) rather than final salary.
- Pensions being built up at a rate of 1/49th of annual pensionable pay.
- Member's normal retirement age being linked to their own State Pension Age. Members may still be able to retire from age 60 but a reduction for early payment may apply.
- Protection of benefits for members aged 55 and over at 1 April 2012 who will be guaranteed that their benefits will not be less than they would have been if the 2015 scheme had never been introduced, and
- Benefits built up before April 2015 will continue to be calculated using actual final pensionable pay at date of leaving.

Fund Update

Membership details are shown below along with a short description for each membership status:

Membership	2024/2025	2025/2026
Contributing members	2,248	2,244
Pensioners	1,375	1,461
Deferred members	1,473*	1,494*
Total	**5,096**	**5,199**

Contributing Member	Someone who is currently employed by a scheduled or admitted body and is making contributions from their pay to the Pension Fund. Such a person is referred to as an "active" member.
Pensioner/Dependent Member	Someone who is receiving benefits from the Fund either as a former contributor or as a dependant of a former contributor who has deceased.

Deferred Member	Someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course. This figure also includes Frozen Refund Members to align with the triennial valuation figures. A Frozen Refund Member is someone who was once a contributing member and has left with less than 2 years pensionable service and has not yet taken a refund of their contributions or transferred to another pension scheme. Frozen Refund Members are not entitled to a pension. *The total number of Frozen Refund Members included in the Deferred Member total is: 2024/2025 - 302 2025/2026 - 311

Employer Bodies

The Fund invested and administered pensions on behalf of 4 current and former employers during financial year 2025/2026. These include scheduled bodies, brought into the Fund by legislation, and admitted bodies, which chose to join the Fund. The detailed listing of employers and their membership numbers is contained in Note 1 of the Annual Report and Accounts for the Fund.

Pension Increases

Pensions which are in payment and deferment are increased each April in accordance with the Pension (Increase) Act 1971. Since April 2011, this increase has been linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

Actuarial Valuation

Annex 2 contains the formal Actuarial Statement for financial year 2025/2026 which is prepared in line with International Accounting Standard (IAS) 26 and supports the preparation of the Accounts for the Pension Fund.

The last triennial valuation, as at the 31 March 2023, calculated that the Fund's assets were valued at £480m, and were sufficient to meet 164.0% of the liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. This compared with 118% at the previous March 2020 valuation. The resulting surplus at the 2023 valuation was £188m.

For the purpose of reporting a funding level and an associated surplus/deficit for the 2023 valuation a prudent future investment return of 5.2% p.a with a 75% likelihood of success has been used, this compared to 2.9% p.a for the 2020 valuation.

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.

Since the previous valuation, various events have taken place which affect the value placed on the liabilities, including:

- Decrease due to future investment returns being anticipated to be higher than at 2020.
- Increase due to the significant increase in short-term future inflation expectations.
- Decrease due to a slight reduction in life expectancy (not allowing for Covid-related excess deaths).
- Decrease due to updated model of future improvements to the most recent model available, including allowance for some recent mortality experience related to the excess deaths from the Covid 19 pandemic.

This overall decrease in liabilities has been offset by an increase in the Fund's assets resulting from a positive investment return and a net cash inflow over the period since the last full valuation at 31 March 2023.

As recommended by the Fund's Actuary (Hymans Robertson) the employers contribution rate has been reduced to 15.0% for the period 1 April 2024 to 31 March 2027 with reference to the future costs and also taking account of the current funding position, which is based on past service benefits.

The LGPS regulations state that a Primary Contribution Rate should also be set, which is the cost of active members accruing benefits in the scheme. The overall contribution rate, expressed as a percentage of pay, has reduced due to both an improvement in the past service funding position and higher assumed future investment returns at 2023 compared to 2020.

The most recent funding update produced at 31 March 2026 indicates that the funding surplus has decreased from 188% to 175% since 31 March 2025. The reduced surplus can be attributed to increases in past service liabilities and a reduction in the surplus during the year. A summary of these results is shown below:

	31 March 2025	31 March 2026
Assumed Future Investment Return (Based on a 75% Likelihood of Success	6.3% p.a.	6.1% p.a.
Salary Increase Assumption	2.8% p.a.	3.1% p.a.
Pension Increase Assumption	2.3% p.a.	2.6% p.a.
Assets	£523m	£568m
Past Service Liabilities	£278m	£324m
Surplus/ (Deficit)	**£245m**	**£244m**
Funding Level	**188%**	**175%**
Future Investment Return Required to be 100% Funded	2.7% p.a.	2.9% p.a.
Likelihood of Achieving This Return	95%	95%

The assessed Primary contribution rate for 1 April 2024 – 31 March 2027 at March 2023 was 22.1%. On applying a Secondary contribution rate of -7.1% to give a required minimum contribution, against the background of increased uncertainty over the future impacting on actuarial assumptions the employer contribution rate was reduced to 15.0% for the three-year period 2024 to 2027.

Employee Contribution Rates

Employees pay contributions on pensionable pay at a contribution rate which depends on how much the employee is paid and is currently between 5.5% and 12%. There are five-tiers as shown in the table below and the contributions are based on how much of an employee's pensionable pay falls into each tier.

Actual pensionable pay is:	Contribution rate (%)
On earnings up to and including £27,500	5.5%
On earnings above £27,501 and up to £33,600	7.25%
On earnings above £33,601 and up to £46,100	8.5%
On earnings above £46,101 and up to £61,400	9.5%
On earnings above £61,401	12%

Tiered contribution rates from the table above are used to determine the member's average contribution rate for the whole of the scheme year in accordance with a look up table which breaks down the contribution rates from the above table into steps of 0.1% and allocates pay ranges to these steps to simplify the process of allocating contribution rates to members for payroll purposes.

Main Risks and Uncertainties facing the Fund

Awareness of risk and risk mitigation is a key facet of the Fund's strategic and operational activities. Whilst it is not possible to eliminate risk entirely, the Fund has taken steps to evaluate risk and put strategies and controls in place to minimise its adverse effects.

The Fund has its own risk register, which details some 24 risks faced by the Fund and can be viewed at the related downloads section here. The risk register is reviewed annually by the Pension Fund Sub-committee and Pension Board.

Principal risks, and the way in which they are managed, are as follows:

Financial Mismatch, the risk that the Fund's assets fail to grow in line with the cost of meeting its liabilities. The Pension Fund Sub-committee measures and manages financial mismatch in several ways. It has set a strategic asset allocation benchmark for the Fund and assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns. It also assesses risk relative to liabilities by monitoring benchmark returns relative to liabilities. The Pension Fund Sub-committee keeps under review demographic assumptions which could impact on the cost of benefits. These assumptions are considered formally in the triennial valuation and reviewed annually within funding update reports (Navigator) produced by the Fund's Actuary, Hymans Robertson.

Systemic Risk, the risk of an interlinked and simultaneous failure of several asset classes and/or investment managers. The Pension Fund Sub-committee seeks to manage systemic risk by the appointment of investment managers. The Pension Fund Sub-committee regularly reviews total asset values within asset class.

Liquidity Risk, the risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. This is controlled by the regular estimation of cash flow to ensure that sufficient cash balances are available. By holding the majority of its assets in liquid assets such as equities and bonds, unexpected cash flow requirements can be met by the realisation of assets. Liquidity risk is also moderated by the Fund continuing to have a surplus of contributions receivable over pensions payable.

Transition Risk, the risk of incurring unexpected costs or losses when assets are transferred between asset classes. When carrying out significant transitions the Pensions Sub-committee will take professional advice and consider the appointment of specialist transition managers.

Pension Fund Sub-committee and Pensions Board

In line with scheme regulations, and the respective terms of reference for the Pension Fund Sub-committee and Pensions Board, the group met concurrently on six occasions during 2025/2026.

Training activity for the members of the Pension Fund Sub-committee and Pension Board was undertaken during the financial year 2025/2026, in accordance with the agreed training plan, to enable Councillors charged with the governance of the Fund to execute their role as quasi-trustees effectively. In recognition of the complex and ever-changing environment of Local Government Pension Scheme finance, and specifically to address the governance requirements, the Chartered Institute of Public Finance and Accountancy Code of Practice on Public Sector Pensions Finance Knowledge and Skills has been adopted.

Acknowledgement

We would like to take this opportunity to thank our colleagues in the Enterprise & Resources Service and the members of the Pension Fund Sub-committee and the Pensions Board for their help and co-operation in managing the financial affairs of the Pension Fund.

Gareth Waterson, BAcc, CA Section 95 Officer	Councillor Heather Woodbridge Leader	Oliver D Reid Chief Executive

Statement of Responsibilities for the Annual Accounts

Responsibilities of the Orkney Islands Council as Administering Authority

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Orkney Islands Council Pension Fund (the Fund) and to secure that one of its officers has the responsibility for the administration of those affairs (Section 95 of the Local Government (Scotland) Act 1973). In this Council, that officer is the Director of Enterprise & Resources.

- Manage the affairs of the Fund to secure economic, efficient, and effective use of resources and safeguard its assets.

- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and the Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021, 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).

- Approve the Annual Accounts for signature.

Signed on behalf of Orkney Islands Council

Councillor Heather Woodbridge
Leader

The Director of Enterprise & Resources responsibilities

The Director of Enterprise & Resources is responsible for the preparation of the Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Annual Accounts, the Director of Enterprise & Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with legislation.
- Complied with the Code (in so far as it is compatible with legislation).

The Director of Enterprise & Resources has also:

- Kept adequate accounting records which were up to date.
- 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 Orkney Islands Council Pension Fund as at 31 March 2026, and of its transactions for the year ended 31 March 2026.

Gareth Waterson, BAcc, CA
Section 95 Officer

Remuneration Report

The Pension Fund does not directly employ any staff. We have therefore not included a remuneration report within the Annual Report.

All staff are employed by Orkney Islands Council, and their costs reimbursed by the Pension Fund.

The Councillors, who are members of the Pension Fund Sub-committee and Pension Board are also remunerated by Orkney Islands Council.

Details of Councillor and Senior Employee remuneration can be found in the statement of accounts of Orkney Islands Council on the Council's website:

https://www.orkney.gov.uk/your-council/finances/budgets-and-accounting/statement-of-accounts/.

The Statement of Accounts of Orkney Islands Council do not form part of the Pension Fund's Annual Report and Accounts.

Annual Governance Statement

Scope of Responsibility

The Orkney Islands Council acts as Administering Authority for the Orkney Islands Council Pension Fund. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, and effectively. The Council has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. This includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives and Senior Managers (SOLACE) framework 'Delivering Good Governance in Local Government.' The Code is available on the Council's website. The authority's financial and management arrangements conform to the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in local government.

The Local Code of Corporate Governance evidences the Council's commitment to achieving good governance and demonstrates how it complies with the governance standards recommended by CIPFA. The document is regularly reviewed and updated.

Purpose of the Governance Framework

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

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

The governance framework has been in place for the year ended 31 March 2026 and up to the date of approval of the Annual Accounts.

Governance Framework

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social, and environmental benefits.

4. Determining the interventions necessary to optimise the achievement of the intended outcomes.
5. Developing the entity’s capacity, including the capability of its leadership and the individuals within it.
6. Managing risks and performance through robust internal control and strong public financial management.

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

Review of Effectiveness

Orkney Islands Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. This includes ensuring appropriate advice is available to the Pension Fund on all governance matters, providing training to all members of the Pension Fund Sub-committee and the Pension Board, keeping proper administrative and financial records and accounts, and maintaining effective procedures and arrangements for the control of governance.

The officers responsible for administering the Pension Fund respond to findings and recommendations of external audit, scrutiny and inspection bodies and the Council’s independent internal audit section. The Pension Fund Sub-committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Administering Authority

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

The Pension Fund Sub-committee has responsibility to discharge all functions and responsibilities relating to the Council’s role as administering authority for the Orkney Islands Council Pension Fund (the Pension Fund) in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2013. The Council has delegated management of the investments of the Pension Fund to the Pension Fund Sub-committee who fulfils the role of Fund Manager and has established a Pension Board which is the body responsible for assisting the Fund Manager in relation to compliance with scheme regulations, and the requirements of the Pension Regulator.

Regulatory Framework

The Pensions Regulator is the UK regulator of work-based pension schemes. It works with trustees, employers, pension specialists and business advisers, giving guidance on what is expected of them.

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

The Orkney Islands Council Pension Fund is open to all employees of scheduled bodies except those whose employment entitles them to belong to another statutory pension scheme (e.g. Teachers). Employees of admitted bodies can join the scheme, subject to those bodies meeting the statutory requirements, and on such terms and conditions as the Council (as Administering Authority) may require. A list of scheduled and admitted bodies is attached as Annex 1.

The Pension Fund Sub-committee is a formal sub-committee of Orkney Islands Council's Policy and Resources Committee. The Scheme of Administration for the Council refers the responsibility to discharge all functions and responsibilities relating to the Council's role as administering authority for the Orkney Islands Council Pension Fund in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2013.

Financial affairs are conducted in compliance with the Council's Financial Regulations which are reviewed and updated on a regular basis.

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

Pension Fund Sub-committee and Pension Board

The members of the Pension Fund Sub-committee together with the Pension Board act as quasi-trustees and oversee the management of the Orkney Islands Council Pension Fund.

Their overriding duty is to ensure the best possible outcomes for the Fund, its participating employers and scheme members.

The members' knowledge is supplemented by professional advice from officers of the Council, professional advisers, and other external providers.

The Pension Fund Sub-committee comprises seven members of the Council:

- Leader (Chair of Policy and Resources Committee).
- Deputy Leader (Vice Chair of Policy and Resources Committee), and
- Five other elected members of the Council appointed by the Policy and Resources Committee.

The Fund Actuary, the Independent Investment Consultant, the Director of Enterprise and Resources, the Service Manager (Payroll and Pensions) and the Head of Corporate Governance, or their nominated representatives, also attend meetings of the Pension Fund Sub-committee as advisers.

The Pension Fund Sub-committee meets at least quarterly. Additional meetings are called as appropriate and papers and minutes are publicly available on the Council's website, unless they have been considered as exempt business in terms of Schedule 7A to the Local Government (Scotland) Act 1973, as amended. Minutes of the Pension Fund Sub-committee are presented to the Policy and Resources Committee of the Council.

Membership of the Pension Board consists of equal numbers made up of 4 trade union representatives and employer representatives, drawn from Orkney Islands Council and scheduled or admitted bodies who are members of the Pension Fund. Pension Board representatives may not participate in or act as members of the Pension Fund Sub- committee or the Monitoring and Audit Committee. Local Authority employer representatives will normally be Elected Members of the Council.

The Pension Board meets at least quarterly. A majority of either side, trade union or employer representatives, may requisition a special meeting of the Pension Board in exceptional circumstances.

While the statutory roles and function of the Pension Fund Sub-committee and the Pension Board are separate, the normal practice is that both bodies meet at the same time to consider the same agenda, with the Chair of the Pension Fund Sub-committee chairing the concurrent meeting. The Council's Standing Orders apply at concurrent meetings. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

During the year 2025/26 there was no disagreement. However, if the Pension Fund Sub-committee and the Pension Board cannot reach joint agreement on any matter, the process for resolving any differences between the two bodies is as follows:

- In the first instance, if at least half of the members of the Pension Board agree, then the Pension Board can refer a decision of the Pension Fund Sub-committee back for further consideration if any of the defined grounds are met. Whilst this process is undertaken the decision of the Pension Fund Sub-committee is still competent.
- If there is no agreement after the matter has been referred back to the Pension Fund Sub-committee, the decision of the Pension Fund Sub-committee stands and the difference in view between the Pension Board and the Pension Fund Sub-committee will be published in the form of a joint secretarial report on the Pension Fund website, included in the Pension Fund annual report and notified to the Scottish LGPS Advisory Board, and
- The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter.

Administration and Financial Management of the Fund

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

The Director of Enterprise and Resources is responsible for:

- The financial accounting of the Fund.
- The preparation of the Pension Fund Annual Report and Accounts.
- Being the principal advisor on management of investments to the Council in its capacity as Trustee to the Fund and as the Fund's Administering Authority.

The day-to-day management of the investment activities of the Fund is administered by the Corporate Finance Team within the Enterprise and Resources Service.

The pension benefits policy oversight and day-to-day administration for the Fund is administered by the Pensions Team within the Enterprise and Resources Service.

The annual accounts of the Fund are subject to external audit. The auditor is appointed by Audit Scotland, as part of the process to ensure that public funds are properly safeguarded and accounted for.

Professional Advisers and External Service Providers

Hymans Robertson is appointed to act as Actuary and Investment Consultants to the Fund. The services provided include advice on investment strategy, funding level, and actuarial valuations. Hymans Robertson also provides independent performance measurement services for the Fund and has responsibility for measuring and reporting on the performance of the Fund during the year.

The investment strategy was most recently reviewed in February 2024 where the Pension Fund Sub-committee agreed to changes to the size of the strategic allocation to growth assets, reducing or removing the allocation to multi asset funds, increasing allocations to protection assets and introducing an allocation to corporate bonds as an increase in protection assets. These changes were implemented in 2024/25 financial year.

During 2025/26, the Pension Fund Sub-committee agreed to increase the Fund's commitment to private debt, to reach its target allocation of 10%. Following fund manager interviews, the onboarding to Barings Global Private Loan Fund Perpetual was completed in March 2026.

The Fund's appointed investment managers have responsibility for the selection, retention, and disposal of individual investments. Where appropriate, they also implement the Pension Fund Sub-committee's policy in relation to socially responsible investment and corporate governance. All fund managers are required to be signatories of the United Nations' Principles for Responsible Investment.

During 2025/26 a due diligence questionnaire was issued to each of the Fund investment managers. The completed questionnaires provide assurance on the investment managers processes followed for the Pension Fund investments which they hold. This questionnaire will be issued annually as part of the financial year end procedures.

The Bank of New York is the Fund's appointed global custodian and is responsible for the safekeeping of the assets including the processing of transactions and submission of tax claims.

Internal and External Control and Review

The system of internal financial controls is based on a framework of delegation and accountability for officers and elected members embodied in procedural Standing Orders, Financial Regulations, the Scheme of Administration, and the Scheme of Delegation to Officers. It is supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. This includes:

- Comprehensive accounting systems that record income and expenditure for both member and investment activities.
- Regular reviews of investment reports that measure investment returns against agreed benchmarks.
- Regular reviews of investment manager reports that measure performance against agreed targets.
- Independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services provider.

The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The officers responsible for administering the Pension Fund respond to findings and recommendations of external audit, scrutiny and inspection bodies and the Orkney Islands Council's independent internal audit section. The Monitoring and Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

The Pensions team within the Payroll and Pension section consists of 3.7 full-time equivalents.

The Director of Enterprise and Resources (Section 95 officer) for the Council as Administering Authority is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate advice is made available to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.

The Chief Internal Auditor (CIA) reports to the Monitoring and Audit Committee and functionally to the Head of Corporate Governance, who is also the Council's Monitoring Officer. The CIA is in regular contact with the Head of Finance and the Monitoring Officer. The CIA provides an independent and objective internal audit annual report and assurance statement on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review of the Council's arrangements.

Given the structural size of the Council, there are common controls over Council systems and pension systems. Internal Audit's work on Council systems also contributes to providing management assurance that Pension Fund operations and transactions are appropriately controlled.

Counter Fraud and Anti-Corruption

Effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption. This includes, but is not limited to, ensuring established systems of internal controls and security are in place, segregation of duties and supervisory checking of all calculations, and internal audit and monitoring arrangements.

The increased risk of fraud and scams is also being managed on an ongoing basis, focusing on staff support, communication of potential scams and close monitoring of checks prior to any transfers out being completed. These steps are further enhanced by the development of an on-line training course which is mandatory for all Finance staff.

Risk Management

The Fund's Risk Register was last reviewed and updated at the concurrent meetings of the Pension Fund Sub-committee, together with the Pension Board, on 25 February 2026. The risk register incorporates a risk matrix to clearly demonstrate the Pension Fund's current threats relative to the individual risks anticipated, and a summary and prioritisation of risks to indicate the descriptive risks ranking.

Risk awareness is embedded into the investment performance management process.

The main changes identified in the last review of the risk register were as follows:

- The likelihood of the risk regarding financial risks arising from UK and geopolitical uncertainty which could impact the Fund's Assets and Liabilities has been increased to 5, with the impact maintained at 3. This change is to reflect that there is continuing, and heightened, geopolitical uncertainty.
- The likelihood of the risk regarding the Funding Strategy only being updated following a triennial actuarial valuation has been increased to 4, with the impact remaining at 2. This change is to reflect the fact that the triennial valuation will be carried out as at 31 March 2026 with the reports on the funding position and impact on contributions known within the next 12 months.
- The likelihood of the risk regarding Fund members electing to transfer all or part of their pension entitlement much earlier than projected due to new pension access reforms has been decreased to 3, with the impact remaining at 1. This change is to reflect the fact that the Fund has not been experiencing large transfers out following the "Freedom and choice" reform although it does remain a risk for the Fund.
- The risk regarding closure of facilities due to a pandemic has been renamed to Closure of facilities. This is to reflect that it is not only a pandemic that may lead to the closure of facilities. The likelihood and impact remain unchanged.

The full risk register is available under the related download section via the following link to the Council's website:

https://www.orkney.gov.uk/your-council/finances-services/pensions/pension-fund-sub-committeepension-board/.

Significant Governance Issues

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

The following issue was highlighted in the Audit Report for financial year 2024/25:

- It was noted that there is only one nominal ledger code for the whole Baillie Gifford portfolio. The movement on investments table did not correctly reflect the change in market value attributed to the cash held in foreign currency.

  Recommendation – A nominal code is set up for each portfolio, equities, cash, and pooled funds. The cash postings are made between the codes, and the cash balance is reconciled to the investment manager records at end of each quarter.

  Management Response – The point was noted but given that Baillie Gifford is reported internally as a separate mandate for the whole portfolio, it is preferred to keep the nominal ledger in its current format. However, we will maintain records on a quarterly basis that make the transactions in the portfolio clearer and identification of the change in market value across the different asset classes.

  Update – The quarterly records have been updated to comply with this audit point.

Access to Information

Pension Fund Sub-committee papers, minutes and the Fund's Annual Audit Report and Accounts are available via the Council's website https://www.orkney.gov.uk/.

Opinion

Our review of the effectiveness of the system of internal financial control is informed by:

- The work of Internal Audit and the professional pensions and accountancy staff within the Council.
- The External Auditor's reports.
- The Director of Enterprise and Resources (Section 95 Officer), whose duties include putting in place the arrangements for the proper administration of financial affairs of the Pension Fund.

The internal financial control environment was enhanced through the adoption in 2015 of a Risk Register, Procedural Standing Orders, and the establishment of a scheme of delegation for the Pension Fund Sub-committee and supported by the Pension Board.

The control environment was further enhanced during financial year 2024/25 by the adoption of a self-assessment of the Fund's compliance against the updated General Code of Practice issued by the Pensions Regulator in March 2024. The updated Code of Practice is designed to help trustees comply with their duty to establish and operate an effective system of governance, including internal controls. The Code recommends that self-assessment of compliance against the Code requirements should take place and, following the initial self-assessment, this was repeated in 2025/26 and will be completed annually to ensure continuous improvement and to identify the key areas that need further work or processes to be put in place.

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control systems during the year ended 31 March 2026.

Councillor Heather Woodbridge Leader	Oliver D Reid Chief Executive

Governance Compliance Statement

The Regulations that govern the management of LGPS funds in Scotland require that a Governance Compliance Statement be published. The following compliance statement sets out the extent to which the Orkney Islands Council Pension Fund governance arrangements comply with best practice.

Principle	Compliance and Comments
1. Structure	
a) The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council.	Compliance in Full: Yes On 17 February 2015, the Policy and Resources Committee (PRC) established a Pension Fund Sub-committee (PSC) and delegated to it the power to discharge all functions and responsibilities relating to the Council's role as administering authority for Orkney Islands Council Pension Fund (the Fund). The PSC is the main committee in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972, and the Public Services Act 2013. The PRC further agreed to establish a Pension Board (PB) as a secondary committee to underpin the work of the main committee.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliance in Full: Yes There are no admitted bodies or deferred members represented on the PSC. Orkney Ferries Limited, an admitted body, currently has a representative on the PB. The existing membership of the PSC includes both active and pensioner members of the Orkney Island Council Pension Fund.
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliance in Full: Yes The agreed terms of reference for operation of the PSC include the requirement to produce a formal minute of all meetings. The PSC sit at the same time as the PB allowing them to communicate with each other on the day they sit.

d) That where a secondary committee or panel has been established; at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Compliance in Full: Yes The PSC and PB sit at the same place and time to assist with the formation of a consensus. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.
2. Representation	
a) That all key stakeholders are afforded the opportunity to be represented within the Pensions Board. These include: • Employing authorities including non-scheme employers, e.g., admitted bodies. • Scheme members including deferred and pensioner scheme members • Where appropriate, independent professional observers, and • Expert advisors (on an ad-hoc basis).	Compliance in Full: Yes In accordance with the terms of reference for the operation of the PB, membership comprises 8 members: four trade union representatives and four employer representatives. One of the trade union representatives retired during 2025/26 and this seat is currently vacant. Input from Hymans Robertson as expert advisors to the Pension Fund is routinely sought on policy matters.
b) That where lay members sit on a main or secondary committee, they are treated the same as elected Members in terms of access to papers, meetings, and training, and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Compliance in Full: Yes In accordance with the terms of reference, all members of the PB and PSC are treated equally. The two bodies sit at the same time to facilitate equal opportunity.
3. Selection and Role of Lay Members	
a) That committee or panel members are made fully aware of the status, role, and function that they are required to perform on either a main or secondary committee.	Compliance in Full: Yes At the inaugural meeting of the PSC and PB, held concurrently on 24 April 2015, respective Terms of Reference were duly approved for each body. In addition, an induction programme has been provided to members. Induction training was provided in June 2022 to new members following the local elections in May 2022. During 2025, 1 officer and 2 Pension Board members participated in a training seminar provided by the Local Government Chronicle. An officer also attended an event organised by Scottish Borders Council in 2025 on creating a sustainable future for the Scottish LGPS.

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliance in Full: Yes The declaration of Member's interests is a standard item on the agenda of the PSC and PB.
4. 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.	Compliance in Full: Yes Full voting rights are given to all members of the PSC.
5. Training/ Facility Time/ Expenses	
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time, and reimbursement of expenses in respect of members involved in the decision-making process.	Compliance in Full: Yes The CIPFA Code of Practice for Public Sector Pensions Finance Knowledge and Skills, together with a Knowledge and Skills Framework to support the Code has been adopted as the basis for training and development of members and officers involved in Pension Fund financial matters. CIPFA Framework Members' training is funded from the Pension Fund. An updated training policy was approved in February 2026 and is aligned to CIPFA's Knowledge and Skills Framework. The policy considers new legislation and training requirements for members of the Pension Fund Sub-committee and the Pension Board, as well as administering Officers of the Fund.
b) That where such a policy exists it applies equally to all members of committees, sub-committees, advisory panels, or any other form of secondary forum.	Compliance in Full: Yes All elected and lay members are treated equally under the training policy.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Compliance in Full: Yes The Administering Authority of the PSC and PB has to date considered the training requirements of committee members collectively and provided training on that basis. A log has been established of all training provided to members and this is monitored and reported as appropriate. In accordance with the Framework a self-assessment to identify training needs was

	prepared and issued in December 2025 with a 75% return rate. The results help to identify areas where individuals feel that further training would be beneficial and feeds into the training plan. The annual training plan for 2025/2026 was approved by the PSC at its meeting of 26 February 2025.
6. Meeting Frequency	
a) That an administering authority's main committee or committees meet at least quarterly.	Compliance in Full: Yes The PSC and PB are scheduled to meet at least four times a year.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sit.	Compliance in Full: Yes The PSC and PB are scheduled to meet at least four times a year.
c) That an administering authority that does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliance in Full: Yes On 17 February 2015, the PSC agreed to establish a PB, with representatives from Trade Unions and admitted bodies.
7. Access	
That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliance in Full: Yes All members are treated equally.
8. Scope	
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliance in Full: Yes. The PSC deal with all matters relating to both the administration and investment of the Pension Fund. The PSC is formed from members of the Policy and Resources Committee of the Council.
9. Publicity	
	Compliance in Full: Yes.

That administering authorities have published details of their governance arrangements in such a way that stakeholders, can express an interest in wanting to be part of those arrangements.	The Orkney Islands Council Pension Fund governance documents are available on the Council website using the following link: Pension Board Terms of Reference (orkney.gov.uk) The Council as administering authority communicates regularly with employers and scheme members.

Gareth Waterson, BAcc, CA
Section 95 Officer

Councillor Heather Woodbridge
Leader

Oliver D Reid
Chief Executive

Annual Accounts 2025/2026

Pension Fund Account

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

2024/2025 £'000		2025/2026 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme		
13,301	Contributions Receivable	13,706	**4**
1,571	Transfers In	1,466	**5**
14,872		**15,172**	
(13,071)	Benefits Payable	(14,274)	**6**
(1,936)	Payments to and on account of leavers	(1,903)	**7**
(15,007)		**(16,177)**	
(135)	**Net withdrawals from dealings with members**	**(1,005)**	
(3,245)	Management expenses	(3,195)	**8**
(3,380)	**Net withdrawals including management expenses**	**(4,200)**	
	Return on Investments		
9,668	Investment Income	9,212	**9**
(10,014)	Gain/(loss) on disposal of investments and changes in the market value of investments	33,697	**10**
65	Taxes on Income	(274)	
(281)	**Net Gain/(loss) on Investments**	**42,635**	
(3,661)	**Net increase/(decrease) in the net assets available for benefits during the year**	**38,435**	
535,802	Opening Net Assets of the Scheme	532,141	
532,141	**Closing Net Assets of the Scheme**	**570,576**	**13**

Net Assets Statement as at 31 March 2026

The Net Assets Statement sets out the value, as at the statement date, of all assets and current liabilities of the Fund. The net assets of the Fund (assets less current liabilities) represent the funds available to provide for pension benefits as at 31 March 2026.

31 March 2025 £'000		31 March 2026 £'000	Notes
	Managed Funds		
294,543	Equities	310,711	
228,265	Pooled Investment Vehicles	253,626	
6,048	Cash Equivalents	4,189	
528,856		**568,526**	**11**
	Current Assets		
2,570	Cash Balances	571	
121	Contributions due	242	
948	Current Debtors	1,754	
3,639		**2,567**	**20**
	Current Liabilities		
(354)	Current Creditors	**(517)**	**21**
3,285	**Net Current Assets/(Liabilities)**	**2,050**	
532,141	**Net Assets of the Scheme available to fund benefits at the year end**	**570,576**	

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in Note 19 Actuarial Present Value of Promised Retirement Benefits.

The unaudited accounts were issued on 30 June 2026.

Gareth Waterson, BAcc, CA
Section 95 Officer

Notes to the Annual Accounts

1. Description of Fund

The Orkney Islands Council Pension Fund (the Fund) is part of the LGPS and is administered by Orkney Islands Council.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The 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.
- The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016.
- The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

The Orkney Islands Council Pension Fund is a contributory defined benefit pension scheme administered by Orkney Islands Council (the Council) to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies within the area. Teachers are not included as they have a separate national pension scheme. The Fund is overseen by the Pension Fund Sub-committee.

b) Membership Details

Under the Local Government Pension Scheme (LGPS), member contributions are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier.

Eligibility to join the scheme

Orkney Islands Council employees with a contract for 3 months duration or more are automatically entered into the LGPS. Employees with a contract of less than 3 months duration will be automatically enrolled into the LGPS if they satisfy the automatic enrolment criteria, however they can opt in if they do not meet the automatic enrolment criteria.

A person employed by a community admission body, or a person employed by a transferee admission body is eligible to be a member if the person, or class of employees to which the person belongs, is designated in the admission agreement by the body as being eligible for membership of the Scheme.

If they satisfy the above statement, they should be automatically entered into the LGPS if they have a contract for 3 months or more otherwise, they can opt in if they have a contract for less than 3 months.

Employees of community admission bodies and transferee admission bodies are also enrolled into the Local Government Pension Scheme if they satisfy the auto enrolment criteria.

The following table gives details of the various bodies' membership.

Membership Details at 31/03/2026	Active	Deferred	Pensioner	Dependant	Total
Orkney Islands Council	2,038	1,351*	1,212	176	**4,777**
Orkney Islands Property Development	3	2	7	0	**12**
Pickaquoy Centre Trust	59	83**	12	0	**154**
Orkney Ferries Limited	144	58***	50	4	**256**
Summary of Members					
OIC	2,038	1,351	1,212	176	**4,777**
Admitted Bodies	206	143	69	4	**422**
Totals	**2,244**	**1,494**	**1,281**	**180**	**5,199**

*Includes 274 Frozen Refund Members
**Includes 25 Frozen Refund Members
*** Includes 12 Frozen Refund Members

Membership Details at 31/03/2025	**Active**	**Deferred**	**Pensioner**	**Dependant**	**Total**
Orkney Islands Council	2,053	1,329*	1,141	169	**4,692**
Orkney Islands Property Development	3	2	7	0	**12**
Pickaquoy Centre Trust	62	79**	11	0	**152**
Orkney Ferries Limited	130	63***	43	4	**240**
Summary of Members					
OIC	2,053	1,329	1,141	169	**4,692**
Admitted Bodies	195	144	61	4	**404**
Totals	**2,248**	**1,473**	**1,202**	**173**	**5,096**

Note - the 2025 deferred membership numbers have been restated to include the frozen members.

*Includes 268 Frozen Refund Members
**Includes 21 Frozen Refund Members
***Includes 13 Frozen Refund Members

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations (Scotland) Regulations 2018 and ranged from 5.5% to 12% of pensionable pay for the financial year ending 31 March 2026. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2023. Currently, the employer contribution rate is 15% of pensionable pay.

d) Benefits

Prior to 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2015, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of $1/49^{th}$. Accrued pension is uprated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions, and death benefits, as explained on the LGPS website – see https://www.scotlgpsmember.org/.

2. Basis of Preparation of the Accounts

The Accounts summarises the Pension Fund's transactions for the 2025/2026 financial year and its position at year-end as at 31 March 2026.

The accounts for the Fund have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2025/2026, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts have been prepared on an accruals basis and do not take account of liabilities to pay pensions and other benefits after the year end. However, the actuarial position does account for such obligations. This is disclosed on page 12 of the accounts and should be read in conjunction with the Actuarial Statement (Annex 2). The accounts have been prepared on a going concern basis. The going concern concept assumes that the Pension Fund has adequate resources to realise its assets and meet benefit obligations in the normal course of affairs (continue to operate) for at least twelve months from the date of approval of these Accounts.

3. Statement of Accounting Policies

A summary of the more important accounting policies has been set out below:

3.1. Contributions Income

Normal contributions, both from the members and employers, 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.
- Employer contributions are set at the percentage rate recommended by the Fund Actuary for the period to which they relate.

Employers' augmentation contributions and pension strain costs are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid will be classed as current financial assets.

Augmentation contributions are contributions paid to the Fund by an employer where that employer awards compensatory added years to a scheme member at retirement. Strain costs are contributions paid to the Fund by an employer where a scheme member, aged 55 or over, chooses to retire prior to normal pension age and the employer elects to waive any reductions normally applied to the member's pension benefits. Strain costs are also paid to the Fund by an employer where a scheme member, aged 55 or over, retires prior to normal pension age and the grounds for retirement are redundancy or efficiency.

3.2. Transfers to and from Other Schemes

Transfer values represent the amounts receivable and payable during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations.

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

Transfers to the Fund from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipt basis and are included in Transfers in.

Bulk (group) transfers are accounted for on an accrual's basis in accordance with the terms of the transfer agreement.

3.3. Investment Income

i) Income from fixed interest, index linked securities and other interest receivable is taken into account on an accruals basis.

ii) Income from all other marketable securities is taken into account on the date when stocks are quoted ex-dividend.

iii) Distributions from pooled funds are recognised at the date of issue. Where income generated by the pooled investment vehicles is not distributed but is retained within the funds this is reflected in the change in market value of the units.

iv) Changes in the value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

3.4. 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.

3.5. Management Expenses

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

Administrative expenses	All staff costs relating to the pensions administration team are charged direct to the fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the fund.
Oversight and governance	All costs associated with governance and oversight are separately identified, apportioned to this activity, and charged as expenses to the fund.
Investment management expenses	Investment fees are charged directly to the fund as part of the management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in value of investments. Fees charged by external investment managers and custodians are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their

	management and therefore increase or reduce as the value of these investments change. The costs of the council's in-house fund management team are also charged to the fund as well as a proportion of the time spent by officers on investment management activity.

Management expenses include direct management fees from external fund managers appointed to manage a segregated portfolio(s) of investments, indirect management charges levied on pool funds, transactions costs and expenses associated with the administration and governance of the Fund.

3.6 Taxation

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

3.7 Financial Instruments

Investments

Investment assets are included in the accounts 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. From this date any gains or losses 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 a fair value in accordance with the requirements of the Code and IFRS 13 (see note 14). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures. Market values, are assessed as follows:

3.7.1 Market quoted securities are valued at bid market prices on the final day of the accounting period.

3.7.2 Fixed interest securities are valued at a market value based on current yields at 31 March 2026.

3.7.3 Pooled investments, which comprise the fund manager's unit trusts and open-ended investment companies, are valued at closing bid prices where bid and offer prices are published or closing single price where single price is published, as provided by the investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

3.7.4 Unquoted equity/debt and infrastructure asset valuations are provided by fund managers following independent validation.

Since investments are all held for trading, disclosure in the accounts is at fair value through profit and loss. Fair values are derived from unadjusted quoted prices in active markets.

3.8 Foreign Currency

Income and expenditure arising from transactions denominated in a foreign currency are translated into pound sterling at the exchange rate in operation on the date on which the transaction occurred. Where the transaction is to be settled at a contracted rate, that rate is used. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

3.9 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in less than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

3.10 Recognition of Income and Expenditure

Activity is accounted for in the year in which it takes place, not simply when cash payments are made or received. In particular:

3.10.1 Expenses in relation to services received (including services provided by Orkney Islands Council) are recorded as expenditure when the services are received rather than when payments are made.

3.10.2 Dividend income is recognised when the right to receive payment is established.

3.10.3 Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Net Assets Statement.

3.11 Administrative Overheads

The Payroll and Pensions section of Orkney Islands Council is responsible for administering the Pension Fund. The Section receives an allocation of the overheads of the Council which is based on its direct cost and the amount of central services consumed.

3.12 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Fund’s financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

3.13 Actuarial Present Value of Promised Retirement Benefits

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

3.14 Additional Voluntary Contributions

The fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. 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 for information in note 28.

3.15 Contingent Assets and Contingent Liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise when it is not possible at the Balance Sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in note 29.

3.16 Acquisition Cost

Any acquisition costs of investments are included in the book cost of the investment.

3.17 Critical Judgements in Applying Accounting Policies Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with International Accounting Standard IAS 26. The judgements which have the greatest impact on pension fund liabilities are those around the discount rate, the inflation rate, and the life expectancy of members.

3.18 Assumptions made about the future and other major sources of estimation and uncertainty

The Accounts contain 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 such factors cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the accounts at 31 March 2026 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties and Effect if Actual Results Differ from Assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. The sensitivities are listed in a table below.
Unquoted Private Debt	Unquoted private debt investments are valued by the underlying administrators of the specialist pooled fund, appointed by the fund manager, using various valuation techniques that require significant judgement in determining appropriate assumptions. In recognition that these investments are relatively illiquid and to ensure objectivity in the valuation process the results are then validated by independent administrators. Nevertheless, as these investments are not publicly listed there is a greater degree of subjectivity and estimation involved in the valuation process. Pooled Investment – Private Debt £44.766m – there is a risk that this investment may be under or overstated in the accounts by up to 15% i.e. an increase or decrease of £6.715m.
Unlisted Infrastructure	For infrastructure preferred equity or infrastructure debt investments held within an infrastructure equity fund, the method of valuation of assets is market value provided by an underlying approved data provider appointed by the fund manager, unless there is no market, or it does not represent fair value in which case another method will be determined. As these investments are also not publicly listed there is a greater degree of subjectivity and estimation involved in the valuation process. Pooled Investment – Infrastructure Equity £47.767m – there is a risk that this investment may be under or overstated in the accounts by up to 15% i.e. an increase or decrease of £7.165m.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at year ended 31 March 2026	Approximate % increase to Employer Liability	Approximate monetary amount £'000
0.1% decrease in Real Discount Rate	2%	5,643
1 year increase in member life expectancy	4%	12,973
0.1% increase in the Salary Increase Rate	0%	318
0.1% increase in the Pension Increase Rate	2%	5,319

3.19 Accounting Standards that were issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The following new or amended standards have been published but not yet adopted:

- FRS 102 Amendments – The Financial Reporting Standard applicable in the UK and Republic of Ireland (Amendments to Heritage assets).
- IFRS 9 and IFRS 7 – Amendments to the Classification and Measurement of Financial Instruments.
- Annual improvements to IFRS accounting standards – Volume 11.
- IFRS 9 and IFRS 7 – Amendments to the Contracts Referencing Nature-dependent Electricity.

These amendments help give clarification or are generally minor in nature, and as such are not expected to have a significant impact on the Pension Fund.

3.20 Events after the Balance Sheet

Events after the net assets statement date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- 3.16.1. those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- 3.16.2. those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

The annual accounts were signed by the Director of Enterprise & Resources on 30 June 2026. Events taking place after the date of authorisation for issue have not been reflected in the accounts. Material events between the balance sheet date and the date of signing have been considered and where necessary reflected in the accounts.

4. Analysis of Contributions Receivable

	2024/2025			2025/2026		
	Orkney Islands Council £000	Admitted Bodies £000	Total	Orkney Islands Council £000	Admitted Bodies £000	Total
Employee Contributions	3,349	401	**3,750**	3,501	462	**3,963**
Employer Contributions	8,330	953	**9,283**	8,605	1,092	**9,697**
Strain Costs	268	0	**268**	46	0	**46**
Total	**11,947**	**1,354**	**13,301**	**12,152**	**1,554**	**13,706**

5. Transfers In

Transfers into the Fund during 2025/2026 were £1.466m (2024/2025: £1.571m). This represents the total of transfer values in respect of individual members joining the scheme.

6. Analysis of Benefits Payable

	2024/2025			2025/2026		
	Orkney Islands Council £000	Admitted Bodies £000	Total	Orkney Islands Council £000	Admitted Bodies £000	Total
Pensions Paid	8,939	460	**9,399**	9,544	549	**10,093**
Dependants Pensions	625	22	**647**	695	22	**717**
Lump Sums Paid	2,271	334	**2,605**	2,727	356	**3,083**
Death Grants Paid	420	0	**420**	381	0	**381**
Total	**12,255**	**816**	**13,071**	**13,347**	**927**	**14,274**

7. Payments to and on Account of Leavers

2024/2025		2025/2026
£'000		£'000
(24)	Contributions Returned	(40)
(1,912)	Individual Transfers to other Schemes	(1,863)
(1,936)		**(1,903)**

8. Management Expenses

	2024/2025 £'000	2025/2026 £'000
Investment Management Expenses		
Investment managers fees	2,058	1,940
Custodian fees	42	35
Other Investment management expenses	298	295
Other Transaction Taxes and Levies	52	97
Broker Commission	61	80
Total Investment Management Expenses	**2,511**	**2,447**
Administration Costs		
Staff time and Support allocations	564	604
Total Administration Costs	**564**	**604**
Governance		
Audit costs	26	28
Professional fees	144	116
Total Governance Costs	**170**	**144**
Total	**3,245**	**3,195**

9. Investment Income

	2024/2025 £'000	2025/2026 £'000
Equities		
Equities UK	1,324	1,533
Equities Global	2,137	2,433
Total Equities	**3,461**	**3,966**
Pooled Investment Vehicle - Private Debt	4,940	4,008
Pooled Investment Vehicle – Infrastructure	1,161	1,157
Interest on Cash and Deposits	106	81
Totals	**9,668**	**9,212**

10. Change in the Market Value of Investments

	2024/2025 £'000	2025/2026 £'000
Realised	40,007	29,290
Unrealised	(50,021)	4,407
Total	**(10,014)**	**33,697**

11. Analysis of Investments

As at 31 March 2026 the market value of the assets under management is as follows:

	31 March 2025 £'000	31 March 2026 £'000
Equities		
UK		
Quoted	42,968	49,642
Overseas		
Quoted	251,575	261,069
Total Equities	**294,543**	**310,711**
Pooled Fund – Infrastructure	46,313	47,767
Pooled Fund - Private Debt	47,851	44,766
Pooled Fund - Fixed Income	134,101	161,093
Total Pooled Fund	**228,265**	**253,626**
Cash and Deposits	6,048	4,189
Totals	**528,856**	**568,526**

The following table provides an analysis of investments by fund manager:

	31 March 2025 £'000	%	31 March 2026 £'000	%
Baillie Gifford	300,591	56.8	314,900	55.4
Barings	47,851	9.0	44,766	7.9
IFM	46,313	8.8	47,767	8.4
LGIM	134,101	25.4	161,093	28.3
Totals	**528,856**	**100.0**	**568,526**	**100.0**

12. Concentration of Investments

Investments increased in value to £568.5m as at 31 March 2026 (2025: £528.9m) a movement of £39.6m.

During 2025/2026, sales of investments totalled £132.3m and purchases totalled £140.2m, including £16.7m and £23.2m respectively relating to the transitioning to the revised investment strategy. Transaction costs are included in the cost of purchases and sales proceeds.

The following individual investments exceed 5% of the total value of the net assets of the Pension Fund at 31 March 2026.

	31 March 2025 £’000	31 March 2026 £’000
LGIM All Stocks Gilts Index	50,440	53,217
LGIM Over 5y Index-Link Gilts	46,306	49,648
LGIM Future World Net Zero	37,355	58,228
Barings – Global Private Loan Fund 4	34,643	35,010

13. Reconciliation of Movements in Investments

2025/2026	Opening Market Value £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Closing Market Value £'000
Investment Assets – Managed Funds					
Equities	294,543	111,802	(123,351)	27,717	310,711
Pooled Investment - Private Debt	47,851	5,009	(7,489)	(605)	44,766
Pooled Investment – Infrastructure	46,313	1,189	(1,372)	1,637	47,767
Pooled Investment – Fixed Income	134,101	22,200	(60)	4,852	161,093
Pooled Investment – Multi-Asset Growth	0	0	0	0	0
Pooled Investment – Diversified Growth	0	0	0	0	0
Total Transactions	**522,808**	**140,200**	**(132,272)**	**33,601**	**564,337**
Cash Deposits	6,048	0	0	96	4,189
	528,856				**568,526**
Internal Net Current Assets / (Liabilities)	**3,285**				**2,050**
Total	**532,141**			**33,697**	**570,576**

2024/2025	Opening Market Value £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Closing Market Value £'000
Investment Assets – Managed Fund					
Equities	306,735	100,481	(107,197)	(5,476)	294,543
Pooled Investment - Private Debt	52,656	4,939	(9,898)	154	47,851
Pooled Investment - Infrastructure	44,380	1,191	(628)	1,370	46,313
Pooled Investment – Fixed Income	32,390	106,200	(13)	(4,476)	134,101
Pooled Investment – Multi-Asset Growth	41,595	0	(40,967)	(628)	0
Pooled Investment – Diversified Growth	47,726	0	(47,013)	(713)	0
Total Transactions	**525,482**	**212,811**	**(205,716)**	**(9,769)**	**522,808**
Cash Deposits	9,923	0	0	(245)	6,048
	535,405				**528,856**
Internal Net Current Assets / (Liabilities)	**397**				**3,285**
Total	**535,802**			**(10,014)**	**532,141**

14. Fair Value Hierarchy

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair value.

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. The products classified as Level 1 are comprised of quoted equities.

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 based on observable data.

Level 3

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

The fund manager uses various valuation techniques that require significant judgement in determining appropriate assumptions.

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

Fair Value Through Fund Account	31 March 2025 £'000	31 March 2026 £'000
Level 1: Quoted Market Price	300,591	314,900
Level 2: Using Observable Inputs	134,101	161,093
Level 3: With Significant Unobservable Inputs	94,164	92,533
Net Investment Assets	**528,856**	**568,526**

Transfers Between Levels 1 and 2

There have been no transfers between Levels 1 and 2 during 2025/2026.

Reconciliation of Fair Value Measurements Within Level 3

The following table provides a reconciliation of fair value measurements within level 3.

	Market Value 31 March 2025 £'000	Transfers Into Level 3 £'000	Transfers Out Of Level 3 £'000	Purchases During the Year £'000	Sales During the Year £'000	Unrealised Gains/ (Losses) £'000	Realised Gains/ (Losses) £'000	Market Value 31 March 2026 £'000
Private Debt	47,851	0	0	5,009	(7,489)	(605)	0	44,766
Infrastructure	46,313	0	0	1,189	(1,372)	1,637	0	47,767

Basis of Valuation

The basis of valuation of each class is set out below. There have been no changes in the valuation techniques used during the year. All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Market Quoted Investments	Level 1	Published bid market prices ruling on the final day of the accounting period.	Not required.	Not required.
Pooled Funds – Multi Assets, Equity and Bond Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis.	Not required.
Pooled Funds – Private Debts and Infrastructure Equity	Level 3	Valuation provided by investment managers on fair value basis each year using PRAG guidance.	NAV based pricing set on a forward pricing basis.	Valuations are affected by changes to expected cashflows or by differences between audited and unaudited accounts.

Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out the consequent potential impact on the closing value of investments held at 31 March 2026.

Asset Type	Assessed Valuation Range (+/-)	Value at 31 March 2026 £’000	Value on Increase £’000	Value on Decrease £’000
Private Debt	7.4%	44,766	48,079	41,453
Infrastructure Equity	14.6%	47,767	54,741	40,793

The underlying assets in the private debt fund are a series of privately originated loans. The underlying assets in the infrastructure fund are high quality, essential and long-duration infrastructure. As such the valuations of these loans could move due to changes in a number of factors and assumptions including short term interest rates, inflation, the outlook for the profitability of the component companies and the likelihood of these companies to repay the loans. The potential movements of +/- 7.4% and +/- 14.6% reflects the extent to which this value could vary based on each of these factors and assumptions.

15. Financial Instruments

Categories of Financial Instruments.

The following categories of financial instrument are carried in the Net Assets Statement:

	31 March 2025			31 March 2026		
	Fair value through profit and loss £'000	Assets at amortised cost £'000	Liabilities at amortised cost £'000	Fair value through profit and loss £'000	Assets at amortised cost £'000	Liabilities at amortised cost £'000
Financial Assets						
Equities	294,543			310,711		
Pooled Investment Vehicles	228,265			253,626		
Cash	6,048	2,570		4,189	571	
Contributions Due		121			242	
Debtors		948			1,754	
	528,856	**3,639**	**0**	**568,526**	**2,567**	**0**
Financial Liabilities						
Current Creditors			(354)			(517)
	0	**0**	**(354)**	**0**	**0**	**(517)**
	528,856	**3,639**	**(354)**	**568,526**	**2,567**	**(517)**
		532,141			**570,576**	

Financial Instruments Balances	31 March 2025 £'000	31 March 2026 £'000
Investments		
Financial Assets at fair value through profit/loss	522,808	564,337
Cash and cash equivalents at fair value through profit/loss	6,048	4,189
Total Investments	**528,856**	**568,526**
Current Assets and Liabilities		
Debtors at amortised cost	3,639	2,567
Financial liabilities at amortised cost	(354)	(517)
Total Current Assets and Liabilities	**3,285**	**2,050**

16. Income, Expenses, Gains and Losses

All realised gains and losses arise from the sale or disposal of financial assets that have been derecognised in the annual accounts. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Financial Instruments Gains/Losses	31 March 2025 Financial Assets £'000	31 March 2026 £'000
Net gains/(losses) on financial assets at fair value through profit and loss	(10,014)	33,697
Investment Income	9,668	9,212
Investment management expenses including taxation	(3,180)	(3,468)
Total Investment Gains and Losses	**(3,526)**	**39,441**

17. Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets 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 Fund and to maximise the opportunity for gains across the whole Fund portfolio. The 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 Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Responsibility for managing the Fund's risk rests with the Pension Fund Sub-committee, who approved the revised investment strategy in February 2019 and reviews in February 2022 and again in February 2024 following the actuarial valuation.

17.1 Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Funding 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 industry sectors and individual securities. To mitigate market risk, the Council and its Investment Advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

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

The Fund is exposed to share and derivative price risk. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

Sensitivity analysis

In consultation with the Fund's independent provider of performance and analytical data (Hymans Robertson), the Council has determined that the following movements in market price risk are reasonably possible for the reporting period:

Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	18.0
Global Equities	18.6
UK Index-Linked Gilts (medium term)	6.7
UK Index-Linked Gilts (long term)	7.7
UK Fixed Interest Gilts (short term)	2.0
UK Fixed Interest Gilts (medium term)	5.4
UK Fixed Interest Gilts (long term)	6.5
Corporate Bonds (medium term)	6.3
Private Debt	7.4
Infrastructure Equity	14.6
Cash	0.3
Total Fund Volatility	**10.7**

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows:

			Potential change in year in the net assets available to pay benefits	
Asset Type	Value	Change	Favourable Market Movement	Unfavourable Market Movement
	£'000	%	£'000	£'000
UK Equities	49,642	18.0	58,578	40,706
Global Equities	261,069	18.6	309,628	212,510
UK Index-Linked Gilts (medium term)	24,400	6.7	26,035	22,765
UK Index-Linked Gilts (long term)	25,248	7.7	27,192	23,304
UK Fixed Interest Gilts (short term)	20,300	2.0	20,706	19,894
UK Fixed Interest Gilts (medium term)	13,700	5.4	14,440	12,960
UK Fixed Interest Gilts (long term)	19,217	6.5	20,466	17,968
Corporate Bonds (medium term)	58,228	6.3	61,896	54,560
Private Debt	44,766	7.4	48,079	41,453
Infrastructure Equity	47,767	14.6	54,741	40,793
Cash	4,189	0.3	4,202	4,176
Total Assets	**568,526**			
Total Fund Volatility	**568,526**	**10.70**	**629,358**	**507,694**

17.2 Interest Rate Risk

The 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 fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its Investment Advisers, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund’s direct exposure to interest rate movements as at 31 March 2026 and 31 March 2025 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2025 £’000	31 March 2026 £’000
Cash and cash equivalents	6,048	4,189
Pooled Fund – Fixed Income	134,101	161,093
Pooled Fund – Private Debt	47,851	44,766
Pooled Fund – Infrastructure	26,115	27,666
Pooled Fund – Net Zero	20,198	20,102

Note – Pooled funds are subject to indirect interest rate risk.

Sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory. The analysis that follows shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates:

Asset Type	Carrying amount as at 31 March 2026	Potential change in year in the net assets available to pay benefits	
	£’000	1% Interest Movement £’000	-1% Interest Movement £’000
Cash and Cash Equivalents	4,189	41.9	(41.9)
Total Change in Assets Available	**4,189**	**41.9**	**(41.9)**

17.3 Currency Exposure 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 Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in both private debt and equities overseas that are denominated in currencies other than £UK. The Fund also holds a low level of bonds denominated in overseas currencies.

The following table summarises the Fund’s currency exposure at 31 March 2026:

Currency exposure - asset type	Asset value 31 March 2025 £’000	Asset value 31 March 2026 £’000
Overseas Quoted Equities	245,050	257,423
Overseas Pooled Funds	47,851	44,766
Cash	5,284	3,776
Total	**298,185**	**305,965**

Sensitivity analysis

Following analysis of historical data in consultation with Hymans Robertson, the council considers the likely volatility associated with foreign exchange movements to be 8.7%.

A 8.7% fluctuation is considered reasonable based on Hyman's analysis of long-term historical movements. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 8.7% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Asset Value as at 31 March 2026 £'000	Potential Movement %	Value on Increase £'000	Value on Decrease £'000
Overseas Quoted Equities	257,423	8.7%	279,819	235,027
Total Change in Assets Available to Pay Benefits	**257,423**	**8.7%**	**279,819**	**235,027**

17.4 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 Fund to incur a financial loss. Indirect credit risk from pooled investment vehicles is mitigated by the underlying assets of the pooled investment vehicles being ring fenced from the pooled managers. Indirect credit risk arises in relation to the underlying investments held in the pooled funds. 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. The pooled investment vehicles are unrated.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations.

The Council's Annual Treasury Management Strategy Statement sets out the Fund's approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Strategy has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2026, including current account cash, was £0.571m. (31 March 2025: 2.570m). The Fund also held cash under its investment management arrangement. This was held with the following institutions:

	Rating (Fitch)	Balance 31 March 2026 £'000
Bank current accounts		
Royal Bank of Scotland	AA-	571
Cash held in Portfolio		
Bank of New York Mellon (BNY)	AA	4,189

17.5 Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2026, the Fund had illiquid assets of £92.533m (2024/2025: £94.164m).

17.6 Refinancing Risk

The key risk is that the pension fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

18. Funding and Valuation Note

In line with the Local Government Pension Scheme (Scotland) Regulations 2018, the Fund's Actuary undertakes a funding valuation every three years. The actuarial valuation assesses the health of the fund and provides a check that the funding strategy and assumptions used are appropriate. It also sets the future rates of contributions payable by employers. The most recent full actuarial valuation by the Fund's actuary Hymans Robertson was to 31 March 2023. The next valuation will take place as at 31 March 2026.

The funding strategy objectives 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.
- 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 aim is to maintain 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns, and contributions are sufficient to meet expected future pension benefits payable.

At the 2023 actuarial valuation, the Fund was assessed as 164% funded (118% at the March 2020 valuation). This corresponded to a surplus of £188m (2020 valuation: surplus of £58m) at that time.

The assessed Primary contribution rate for 1 April 2024 – 31 March 2027 at March 2023 was 22.1%. On applying a Secondary contribution rate of -7.1% to give a required minimum contribution, against the background of increased uncertainty over the future impacting on actuarial assumptions the employer contribution rate will be reduced to 15% for the three-year period 2024 to 2027.

In accordance with the Funding Strategy Statement the administering authority has adopted employer contributions of 15% for 2025/2026. The valuation of the Fund has been undertaken using a ‘risk based’ approach which considers how each employer’s assets and liabilities may evolve over the future. The principal assumptions were:

	31 March 2020	31 March 2023
Financial Assumptions:		
Salary and Benefit Increases & Investment Return		
Benefit Increases & CARE Revaluation (CPI)	1.70%	2.30%
Salary Increases	2.20%	2.80%
Investment Return ('Discount Rate')	2.90%	5.20%
Demographic Assumptions:		
Longevity		
Baseline Longevity	Club Vita	Club Vita
Future Improvements	CMI 2019, Smoothed, 1.5% p.a. long term	CMI 2022, Smoothed, 1.5% p.a. long term

Mortality assumptions

The mortality assumptions used and applied to all members are based on the Self-Administered Pension Schemes year of birth tables with no further improvements in lifespans estimated from 2020.

19. Actuarial Present Value of Promised Retirement Benefits

The Fund’s Actuary undertakes a valuation of the Fund’s liabilities to pay future retirement benefits. This is calculated in line with the IAS 19 every year using the same base data as the triennial funding valuation, rolled forward to the current financial year and taking into account changes in membership numbers and updated assumptions.

In order to assess the value of liabilities on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Annex 2).

The actuarial present value of promised retirement benefits at 31 March 2026 was £340m (2025: £326m).

This figure is used for statutory accounting purposes by Orkney Islands Council Pension Fund and complies with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans. The IAS 26 valuation is not used for calculations undertaken for funding purposes and setting contributions payable to the Fund and has no validity in other circumstances.

Financial Assumptions

Year Ended	31 March 2025 **% p.a.**	31 March 2026 **% p.a.**
Inflation/Pensions Increase Rate	2.80%	3.00%
Salary Increase Rate	3.30%	3.50%
Discount Rate	5.80%	6.20%

Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18.

Longevity Assumptions

	31 March 2025		31 March 2026	
	Males	Females	Males	Females
Current Pensioners	20.9 years	23.6 years	21.2 years	23.8 years
Future Pensioners*	22.0 years	25.5 years	22.3 years	25.7 years

*Future pensioners are assumed to be aged 45 as at the last formal valuation.

Commutation assumption

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

20. Current Assets

	31 March 2025 £'000	31 March 2026 £'000
Income Due	360	472
Recoverable Tax	236	364
Cash Balances	2,570	571
Transfer Values Receivable	2	76
Contributions Due - Employers	85	169
Contributions Due - Employees	36	73
Orkney Islands Council	349	772
Sundry Debtors	1	70
Total Current Assets	**3,639**	**2,567**

21. Current Liabilities

	31 March 2025 £’000	31 March 2026 £’000
Orkney Islands Council	0	0
Sundry Creditors	302	420
Benefits Payable	52	97
Provision For Liabilities	0	0
Total Current Liabilities	**354**	**517**

22. Code of Transparency

The Code of Transparency enables a greater understanding of the investment process and better cost management through the fund managers disclosure of transaction costs.

Total transaction costs for each asset class held with Baillie Gifford are detailed below:

2025/2026	Transaction Taxes £	Broker Commission £	Implicit Costs £	Indirect Transaction Costs £	Total Transaction Costs £
Equities	96,842	80,058	278,590	0	**455,490**
Pooled Funds	0	0	0	0	**0**
Foreign Exchange	0	0	8,132	0	**8,132**
Total	**96,842**	**80,058**	**286,722**	**0**	**463,622**

2024/2025	Transaction Taxes £	Broker Commission £	Implicit Costs £	Indirect Transaction Costs £	Total Transaction Costs £
Equities	52,002	61,171	381,154	0	**494,327**
Pooled Funds	0	0	0	0	**0**
Foreign Exchange	0	0	2,535	0	**2,535**
Total	**52,002**	**61,171**	**383,689**	**0**	**496,862**

The nature of the transaction costs groups are as follows:

- Transaction Taxes – includes stamp duty and any other financial transaction taxes.
- Broker Commissions – payments for execution services, including exchange fees, settlement fees and clearing fees.
- Implicit Costs – indirect costs associated with buying and selling securities, being an estimate of market impact.
- Indirect Transaction Costs – transaction costs incurred within pooled funds when they buy and sell their underlying investments.

23. Audit Fees

In 2025/2026 the agreed audit fee for the year was £28,000 (2024/2025: £26,800).

24. Agency Arrangements

The Orkney Islands Council Pension Fund pays discretionary pensions to former employees of Orkney Islands Council who were awarded compensatory added years in accordance with the Orkney Islands Council's Early Retirement and Severance Scheme, but subject to limitations set out in the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulation 1998. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the Council. The total amount of these payments was £0.235m in 2025/2026 (2024/2025: £0.240m).

Members of the Fund who elected before 1 April 2008 to purchase added years of membership can continue to do so unless the member elects to cease the contract. Administration of added years' contracts is carried out by the Orkney Islands Council Pension Fund on behalf of Orkney Islands Council. Costs borne by the Fund relating to added years are incorporated into the overall administration cost and are immaterial in value.

25. Statement of Investment Principles and Funding Strategy Statement

The Council as Administering Authority approved its current Statement of Investment Principles in November 2022. The Statement defines the Fund's operational framework insofar as investments are concerned. It is reviewed periodically to ensure that it continues to reflect the needs of the Fund and the views of its stakeholders.

The Funding Strategy Statement defines how the Fund intends to meet its financial obligations and was effective from 22 November 2023.

Both these documents are available on the Council website under the related download section here, and are also available on request from the Council's Head of Finance.

26. Stock Lending

In accordance with the Statement of Investment Principles 2022, stock lending is not permitted within any of its segregated investment mandates. As at 31 March 2026 no stock had been released to a third party under a stock lending arrangement.

27. Related Party Transactions

Orkney Islands Council Pension Fund is administered by Orkney Islands Council. The Council incurred costs of £0.604m (2024/2025: £0.564m) in relation to administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Fund had a balance due from Orkney Islands Council of £0.772m as at 31 March 2026 (£0.349m due from Orkney Islands Council as at 31 March 2025).

The Treasury Management section of the Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £274,384.47 (£383,434.48 in 2024/25) and interest of £114,927.74 (£98,191.96 in 2024/25) was earned over the year.

The Council is also the single largest employer of members of the Pension Fund and contributed £8.651m to the fund in 2025/2026 (2024/2025: £8.598m).

All the members of the Pensions Sub-committee and the members of the Pensions Board are active members or pensioner members of the pension scheme. Each Councillor is required to declare any financial or pecuniary interest related to specific matters on the agenda at each meeting. There were no declarations of interest intimated at the meetings held during 2025/2026.

27A. Key Management Personnel

Key management personnel are members of the pension fund committee; the remuneration of the Director of Enterprise & Resources in relation to time spent on the Pension Fund is set out below:

	2024/2025 £000	2025/2026 £000
Short-term benefits	2	2

28. Additional Voluntary Contributions

Under Inland Revenue rules, scheme members are permitted to make contributions towards retirement and death in service benefits in addition to those which they are required to make as members of the Local Government Pension Scheme. These contributions are known as Additional Voluntary Contributions and are treated separately from the scheme's assets under arrangement with Prudential Assurance Company Limited.

During the year 2025/2026 member contributions amounted to £0.693m (2024/2025: £0.583m).

Member's contributions are invested in a "with profits" Fund or a "deposit" Fund. The value of AVC investments increased by £0.332m to £3.040m as at 31 March 2026 (2024/2025: £2,708m) excluding the final bonus.

29. Contingent Liabilities and Contractual Commitments

McCloud Judgement

An allowance for the estimated impact of the McCloud judgement is included within the funding valuation position. The valuation results are used as the starting point for the accounting roll forward calculations and therefore an allowance is included in the accounting disclosure.

Capital Commitments

As at the 31 March 2026, as part of the transitioning arrangements to the revised investment strategy, the Fund had contractual commitments to invest up to £1.9m and £5.1m across two new mandates to Private Debt. No further drawdowns are expected on the first mandate as this fund has reached the end of its investment period and is now in a harvesting stage with capital beginning to be returned. The drawdowns of the commitment on the second mandate recommenced in March 2026 and will be funded from within the Fund’s portfolio of investments. The onboarding to a new Private Loan Perpetual Fund was completed in March 2026 with a contractual commitment of £80.0m. Drawdowns for this new fund will commence during 2026/27 and will also be funded from within the Fund’s portfolio of investments.

Independent Auditor’s Report to the Members of Orkney Islands Council as administering authority for the Orkney Islands Council Pension Fund and the Accounts Commission

Reporting on the audit of the annual accounts

Opinion on annual accounts

We certify that we have audited the annual accounts in the Annual Report and Accounts of the Orkney Islands Council Pension Fund (the “Fund”) for the year ended 31 March 2026 under Part VII of the Local Government (Scotland) Act 1973. The annual accounts comprise the Pension Fund Account, the Net Assets Statement, and notes to the annual accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 (the “2025/26 Code”).

In our opinion the accompanying annual accounts:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2025/26 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (“ISAs (UK)”), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the annual accounts section of our report. We were appointed by the Accounts Commission on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK including the Financial Reporting Council’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to Orkney Islands Council as administering authority for the Fund. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the annual accounts are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the Fund’s current or future financial sustainability. However, we report on the Fund’s arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

We report in our separate Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Director of Enterprise and Resources and Orkney Islands Council Pension Fund Sub Committee for the annual accounts

As explained more fully in the Statement of Responsibilities, the Director of Enterprise and Resources is responsible for the preparation of annual accounts that give a true and fair view in accordance with the financial reporting framework. The Director of Enterprise and Resources is also responsible for such internal control as the Director of Enterprise and Resources determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Director of Enterprise and Resources is responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the Fund’s operations.

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

Auditor’s responsibilities for the audit of the annual accounts

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the Fund;
- inquiring of the Director of Enterprise and Resources as to other laws or regulations that may be expected to have a fundamental effect on the operations of the Fund;

- inquiring of the Director of Enterprise and Resources concerning the Fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the annual accounts to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Reporting on other requirements

Other information

The Director of Enterprise and Resources is responsible for the other information in the Annual Report and Accounts. The other information comprises the information included in the Annual Report and Accounts other than the annual accounts and our auditor's report.

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

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

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

- the information given in the Management Commentary for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;

- the information given in the Annual Governance Statement for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our separate Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Julie Radcliffe,
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

Annex 1 – Pension Fund Sub-committee, Pension Board, Scheduled and Admitted Bodies

Pension Fund Sub-committee

Members

Councillor A Cowie

Councillor L Hall

Councillor S Heddle

Councillor R King

Councillor K Leask

Councillor M Thomson

Councillor H Woodbridge

Pension Board

Members

Councillor G Bevan

Councillor D Dawson

Councillor O Tierney

***Union Representatives*:**

K Kent – Unison

E Millar – Unite, retired on 29/07/2025

E Swanney – Unison

M Vincent - GMB

***Employer Representative*:**

K Ritch – Orkney Ferries Ltd

Orkney Islands Council Pension Fund

Scheduled Bodies

- Orkney Islands Council

Admitted Bodies - Active

- Orkney Ferries Limited
- Pickaquoy Centre Trust
- Orkney Islands Property Development Limited

Annex 2 – Actuarial Statement for 2025/2026

Orkney Islands Council Pension Fund ("the Fund") Actuarial Statement for 2025/2026

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 October 2023. In summary, the key funding principles are as follows:

- To ensure the long-term solvency of the overall Fund.
- To ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the Fund.
- To maximise the returns from investments within reasonable and considered risk parameters and hence minimise the cost to the employer.
- To minimise the degree of short-term change in employer contribution rates.
- To ensure that sufficient cash is available to meet all liabilities as they fall due for payment.
- To help employers manage their pension liabilities.
  Where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

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 have a sufficiently high likelihood of achieving the funding target over 20 years. 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 75% likelihood that the Fund will achieve the funding target 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 £480 million, were sufficient to meet 164% 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 £188 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood 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 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-Mar-23
Discount rate	5.2%
Pay increases	2.8%
Price inflation/Pension increases	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's Vita Curves 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	23.7 years
Future Pensioners*	22.1 years	25.6 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 were disrupted by the ongoing war in Ukraine and inflationary pressures in 2023, impacting on investment returns achieved by the Fund’s assets. Asset performance improved in 2024 and early 2025; however, increasing uncertainty in the geo-political environment (e.g. US tariffs, Middle East conflict) have caused significant short-term market volatility. Overall, the Fund’s investment returns since March 2023 have been positive.

Despite ongoing higher levels of inflation in the UK (compared to recent experience) resulting in cumulative LGPS benefit increases of 12.6% since 2023 (6.7% in April 2024, 1.7% in 2025 and 3.8% in April 2026) and a slight increase in the Fund’s liabilities, the funding position is likely to be stronger than at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026, and will be finalised by 31 March 2027. The Funding Strategy Statement will also be reviewed during the valuation, and a revised version will come into effect from 1 April 2027.

Allan Woodhouse FFA C.Act
For and on behalf of Hymans Robertson LLP
20 May 2026

Annex 3 - Glossary of Terms

Active Management

An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or asset allocation. Compare this with Passive Management.

Asset Allocation

The division of the Fund’s assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund’s strategic financial objectives. In the short-term tactical changes might be made to achieve short- term advantage.

Balanced Management

An arrangement under which investments are spread over a range of asset classes at the manager’s discretion. The manager controls investments over as many classes as are available under the Fund’s overall strategy. Compare this with specialist management.

Growth Manager

An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with value manager.

Mandate

An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

Passive Management

A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with active management.

Pooled Fund

A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with segregated fund.

Return

The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall “Return” would be negative.

Risk

The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

Segregated Fund

The management of a particular fund's assets independently of those of other funds managed by the same investment house. Compare this with a pooled fund.

Specialist Management

The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

Value Manager

A manager who selects stocks that he believes to have potential that is not reflected in the price. This is sometimes caricatured as buying stock because it is cheap. Compare this with growth manager.

Vested/Non-Vested Obligations

Vested obligations refer to employee benefits that are not conditional on future employment. Non- vested obligations refer to employee benefits that are conditional on future employment.

Pension Fund Strain

The cost to employers of the early release of pension benefits.

Operating Surplus/Deficit

The surplus/deficit arising from dealing with members, employers and others directly involved in the scheme.

Additional Information

Key Documents Online

You can find further information on our website:

Pension Fund Annual Reports (orkney.gov.uk), Including the following documents:

- Annual Report and Accounts

Auditor:	KPMG
Fund Actuary:	Hymans Robertson
Banker:	Royal Bank of Scotland
Investment Advisor:	Hymans Robertson
Investment Custodian:	Bank of New York Mellon
Performance Measurement:	Hymans Robertson
Additional Voluntary Contributions (AVC) Manager:	Prudential
Investment Managers:	Baillie Gifford & Co
	Barings
	LGIM
	IFM

Contact Details

For further information and advice on administration, benefits and scheme membership please contact:

Robert Adamson	Telephone: 01856 873535.	Extension: 2108.
Pensions Manager	Email: robert.adamson@orkney.gov.uk	

Scheme members should have a copy of the "Employees' Guide to the Local Government Pension Scheme Administered by the Orkney Islands Council" and can obtain their own copy of an Annual Report on request or visit Orkney Islands Council Pension Fund website at: https://www.orkney.gov.uk/.

For further information on the Fund's Investments, please contact:

Gareth Waterson	Telephone: 01856 873535.	Extension: 2521.
Director of Enterprise & Resources	Email: gareth.waterson@orkney.gov.uk	
Erik Knight	Telephone: 01856 873535.	Extension: 2127.
Head of Finance	Email: erik.knight@orkney.gov.uk	

Item: 3

Pension Fund Sub-committee: 16 September 2026.

Revenue Expenditure Outturn.

Report by Head of Finance.

ORKNEY
ISLANDS COUNCIL

1. Overview

1.1. This report presents the revenue financial outturn position as at 31 March 2026, in respect of service areas for which the Pension Fund Sub-committee is responsible.

1.2. On 4 March 2025, the Council set its overall revenue budget for financial year 2025/26. On 17 June 2025, the Policy and Resources Committee recommended approval of the detailed revenue budgets for 2025/26, which form the basis of the individual revenue expenditure monitoring reports.

1.3. Individual revenue expenditure monitoring reports are circulated every month to inform elected members of the up-to-date financial position. Quarterly revenue expenditure monitoring reports are presented to individual service committees.

1.4. In terms of revenue spending, at an individual cost centre level, budget holders are required to provide an explanation of the causes of each material variance and to identify appropriate corrective actions to remedy the situation.

1.5. Material variances are identified automatically as Priority Actions within individual budget cost centres according to the following criteria:

- Variance of £10,000 and more than 110% or less than 90% of anticipated position (1B).
- Not more than 110% or less than 90% of anticipated position but variance greater than £50,000 (1C).

1.6. Priority Actions can be identified at the Service Function level according to the same criteria and these are shown in the Revenue Expenditure Statements. As with individual cost centre variances, each of these Priority Actions requires an explanation and corrective action to be identified and these are shown in the Budget Action Plan.

1.7. The details have been provided following consultation with the relevant Directors and their staff.

1.8. The figures quoted within the Budget Action Plan by way of the underspend (-) and overspend position will always relate to the position within the current month.

2. Recommendations

2.1. It is recommended that members of the Sub-committee:

i. Note the revenue financial summary statement in respect of service areas for which the Pension Fund Sub-committee is responsible, for the period 1 April 2025 to 31 March 2026, attached as Annex 1 to this report, indicating a budget surplus position of £9,829,800.

ii. Note the revenue financial service area statement in respect of service areas for which the Pension Fund Sub-committee is responsible, for the period 1 April 2025 to 31 March 2026, attached as Annex 2 to this report.

iii. Scrutinise the explanations given and actions proposed in respect of significant budget variances, as outlined in the Budget Action Plan, attached as Annex 3 to this report, in order to obtain assurance that appropriate action was taken with regard to significant budget variances.

For Further Information please contact:
Pat Robinson, Service Manager (Accounting), extension 2621, Email: pat.robinson@orkney.gov.uk

Implications of Report

1. **Financial** The Financial Regulations state that Directors can incur expenditure within approved revenue and capital budgets. Such expenditure must be in accordance with the Council's policies and objectives and subject to compliance with the Financial Regulations.
2. **Legal** Regular financial monitoring and reporting help the Council meet its statutory obligation to secure best value.
3. **Corporate Governance** In terms of the Scheme of Administration, monitoring the levels of revenue expenditure incurred against approved budgets, in respect of each of the service areas for which the Sub-committee is responsible, is referred to the Pension Fund Sub-committee.
4. **Human Resources** N/A.
5. **Equalities** An Equality Impact Assessment is not required for financial monitoring.
6. **Island Communities Impact** An Island Communities Impact Assessment is not required for financial monitoring.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:

☐Growing our economy.

☐Strengthening our Communities.

☐Developing our Infrastructure.

☐Transforming our Council.

8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:

   ☐Cost of Living.

   ☐Sustainable Development.

   ☐Local Equality.

   ☐Improving Population Health.

9. **Environmental and Climate Risk** N/A.
10. **Risk** N/A.
11. **Procurement** N/A.
12. **Health and Safety** N/A.
13. **Property and Assets** N/A.
14. **Information Technology** N/A.
15. **Cost of Living** N/A.

List of Background Papers

Policy and Resources Committee, 4 March 2025, Budget and Council Tax Level for 2025/26.
Policy and Resources Committee, 17 June 2025, Detailed Revenue Budgets.

Annexes

Annex 1: Financial Summary.
Annex 2: Financial Detail by Service Area.
Annex 3: Budget Action Plan.

Annex 1: Financial Summary

March 2026

The table below provides a summary of the position across all Service Areas.

Service Area	Spend £000	Budget £000	Over/(Under) Spend £000	Over/(Under) Spend %	Annual Budget £000
Pension Fund	(38,435.6)	(28,605.8)	(9,829.8)	0.0	(28,605.8)
	(38,435.6)	**(28,605.8)**	**(9,829.8)**	**0.0**	**(28,605.8)**
Service Totals	**(38,435.6)**	**(28,605.8)**	**(9,829.8)**	**0.0**	**(28,605.8)**

The following tables show the spending position by service function

Pension Fund	PA	Spend £000	Budget £000	Over/(Under) £000	Spend %	Annual Budget £000
Pensions Fund Operations	**1B**	1,269.5	(1,314.9)	2,584.4	N/A	(1,314.9)
Pension Fund Admitted Bodies	**1B**	(298.1)	(635.7)	337.6	46.9	(635.7)
Pension Fund Administration		471.5	477.2	(5.7)	98.8	477.2
Pension Fund Investments	**1B**	(39,878.5)	(27,132.4)	(12,746.1)	147.0	(27,132.4)
Service Total		**(38,435.6)**	**(28,605.8)**	**(9,829.8)**	**0.0**	**(28,605.8)**

Pension Fund

Service Function	Service Description	Responsible Officer	Variance Reason	Action Notes
R81A	**Pension Fund Operations** More than anticipated expenditure by £2,584.4K.	Erik Knight	More transfers from pension fund than anticipated. It is difficult to accurately budget in the area as we have no control over when members may transfer in or out of the fund.	None.
R81B	**Pension Fund Admitted Bodies** More than anticipated expenditure by £337.6K.	Erik Knight	More transfers from the pension fund than anticipated. It is difficult to accurately budget in this area as we have no control over when members may transfer in or out of the fund.	None.
R81D	**Pension Fund Investments** More than anticipated income by £12,746.1K.	Erik Knight	Markets were particularly volatile at the turn of the financial year with the US conflict in the Middle East. However, returns up to end of February were very positive. The snapshot of the investment valuations at the end of March was significantly ahead of budget expectations for the year.	Investments are considered long term. Continue to move towards Pension Fund Investment Strategy mix of investments, which has been agreed, with the intention of reducing volatility.

Item: 4

Pension Fund Sub-committee: 16 September 2026.

Revenue Expenditure Monitoring.

Report by Head of Finance.

1. Overview

1.1. This report presents the revenue financial summary position of expenditure incurred as at 30 June 2026, in respect of service areas for which the Pension Fund Sub-committee is responsible, for scrutiny.

1.2. On 3 March 2026, the Council set its overall revenue budget for financial year 2026/27. On 16 June 2026, the Policy and Resources Committee recommended approval of the detailed revenue budgets for 2026/27, which form the basis of the individual revenue expenditure monitoring reports.

1.3. Individual revenue expenditure monitoring reports are circulated every month to inform elected members of the up-to-date financial position. Quarterly revenue expenditure monitoring reports are presented to individual service committees.

1.4. In terms of revenue spending, at an individual cost centre level, budget holders are required to provide an explanation of the causes of each material variance and to identify appropriate corrective actions to remedy the situation.

1.5. Material variances are identified automatically as Priority Actions within individual budget cost centres according to the following criteria:

- Variance of £10,000 and more than 110% or less than 90% of anticipated position (1B).
- Not more than 110% or less than 90% of anticipated position but variance greater than £50,000 (1C).

1.6. Priority Actions can be identified at the Service Function level according to the same criteria and these are shown in the Revenue Expenditure Statements. As with individual cost centre variances, each of these Priority Actions requires an explanation and corrective action to be identified and these are shown in the Budget Action Plan.

1.7. The details have been provided following consultation with the relevant Directors and their staff.

1.8. The figures quoted within the Budget Action Plan by way of the underspend (-) and overspend position will always relate to the position within the current month.

2. Recommendations

2.1. It is recommended that members of the Sub-committee:

i. Note the revenue financial summary statement in respect of service areas for which the Pension Fund Sub-committee is responsible, for the period 1 April to 30 June 2026, attached as Annex 1 to this report, indicating a budget surplus position of £27,252,300.

ii. Note the revenue financial service area statement in respect of service areas for which the Pension Fund Sub-committee is responsible, for the period 1 April to 30 June 2026, attached as Annex 2 to this report.

iii. Scrutinise the explanations given and actions proposed in respect of significant budget variances, as outlined in the Budget Action Plan, attached as Annex 3 to this report, in order to obtain assurance that appropriate action was being taken with regard to significant budget variances.

For Further Information please contact:

Pat Robinson, Service Manager (Accounting), extension 2621, Email: pat.robinson@orkney.gov.uk

Implications of Report

1. **Financial** The Financial Regulations state that Directors can incur expenditure within approved revenue and capital budgets. Such expenditure must be in accordance with the Council's policies and objectives and subject to compliance with the Financial Regulations.
2. **Legal** Regular financial monitoring and reporting help the Council meet its statutory obligation to secure best value.
3. **Corporate Governance** In terms of the Scheme of Administration, monitoring the levels of revenue expenditure incurred against approved budgets, in respect of each of the service areas for which the Sub-committee is responsible, is referred to the Pension Fund Sub-committee.
4. **Human Resources** N/A.
5. **Equalities** An Equality Impact Assessment is not required for financial monitoring.
6. **Island Communities Impact** An Island Communities Impact Assessment is not required for financial monitoring.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:

☐Growing our economy.

☐Strengthening our Communities.

☐Developing our Infrastructure.

☐Transforming our Council.

8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:

   ☐Cost of Living.

   ☐Sustainable Development.

   ☐Local Equality.

   ☐Improving Population Health.

9. **Environmental and Climate Risk** N/A.
10. **Risk** N/A.
11. **Procurement** N/A.
12. **Health and Safety** N/A.
13. **Property and Assets** N/A.
14. **Information Technology** N/A.
15. **Cost of Living** N/A.

List of Background Papers

Policy and Resources Committee, 3 March 2026, Budget and Council Tax Level for 2026/27.
Policy and Resources Committee, 16 June 2026, Detailed Revenue Budgets.

Annexes

Annex 1: Financial Summary.
Annex 2: Financial Detail by Service Area.
Annex 3: Budget Action Plan.

Annex 1: Financial Summary **June 2026**

The table below provides a summary of the position across all Service Areas.

Service Area	Spend £000	Budget £000	Over/(Under) £000	Spend %	Annual Budget £000
Pension Fund	(33,349.0)	(6,096.7)	(27,252.3)	547.0	(35,213.7)
	(33,349.0)	**(6,096.7)**	**(27,252.3)**	**547.0**	**(35,213.7)**
Service Totals	**(33,349.0)**	**(6,096.7)**	**(27,252.3)**	**547.0**	**(35,213.7)**

Compared to last month, the total number of PAs has changed as follows:

Service Area	No. of PAs P02	P03	Service Functions	PAs/ Function
Pension Fund	4	4	4	100%
Totals	4	4	4	100%

Annex 2: Financial Detail by Service Area **June 2026**

The following tables show the spending position by service function

Pension Fund	**PA**	**Spend £000**	**Budget £000**	**Over/(Under) £000**	**Spend %**	**Annual Budget £000**
Pensions Fund Operations	**1B**	480.3	(106.6)	586.9	N/A	(449.3)
Pension Fund Admitted Bodies	**1B**	55.3	(99.3)	154.6	N/A	(737.0)
Pension Fund Administration	**1B**	155.6	177.1	(21.5)	87.9	526.4
Pension Fund Investments	**1B**	(34,040.2)	(6,067.9)	(27,972.3)	561.0	(34,553.8)
Service Total		**(33,349.0)**	**(6,096.7)**	**(27,252.3)**	**547.0**	**(35,213.7)**

Pension Fund

Function	Function Description/ Explanation	Action Category/ Action Description	Responsible Officer	Deadline	Status
R81A	**Pensions Fund Operations** More than anticipated expenditure by £586.9K. More retirees taking the maximum lump sum as part of their pension.	**Monitor the situation** Monitor.	Erik Knight	31/07/2026	Ongoing
R81B	**Pension Fund Admitted Bodies** Less than anticipated income by £154.6K. Transfers out are higher than anticipated.	**Monitor the situation** Monitor.	Erik Knight	31/07/2026	Ongoing
R81C	**Pension Fund Administration** Less than anticipated expenditure by £21.5K. Some reprofiling of budget required to reflect actual timing of costs.	**Raise virements request** Reprofile as required.	Erik Knight	31/07/2026	Ongoing
R81D	**Pension Fund Investments** More than anticipated income by £27,972.3K. Investment returns are ahead of budget as at the end of June.	**Monitor the situation** Monitor.	Erik Knight	31/07/2026	Ongoing