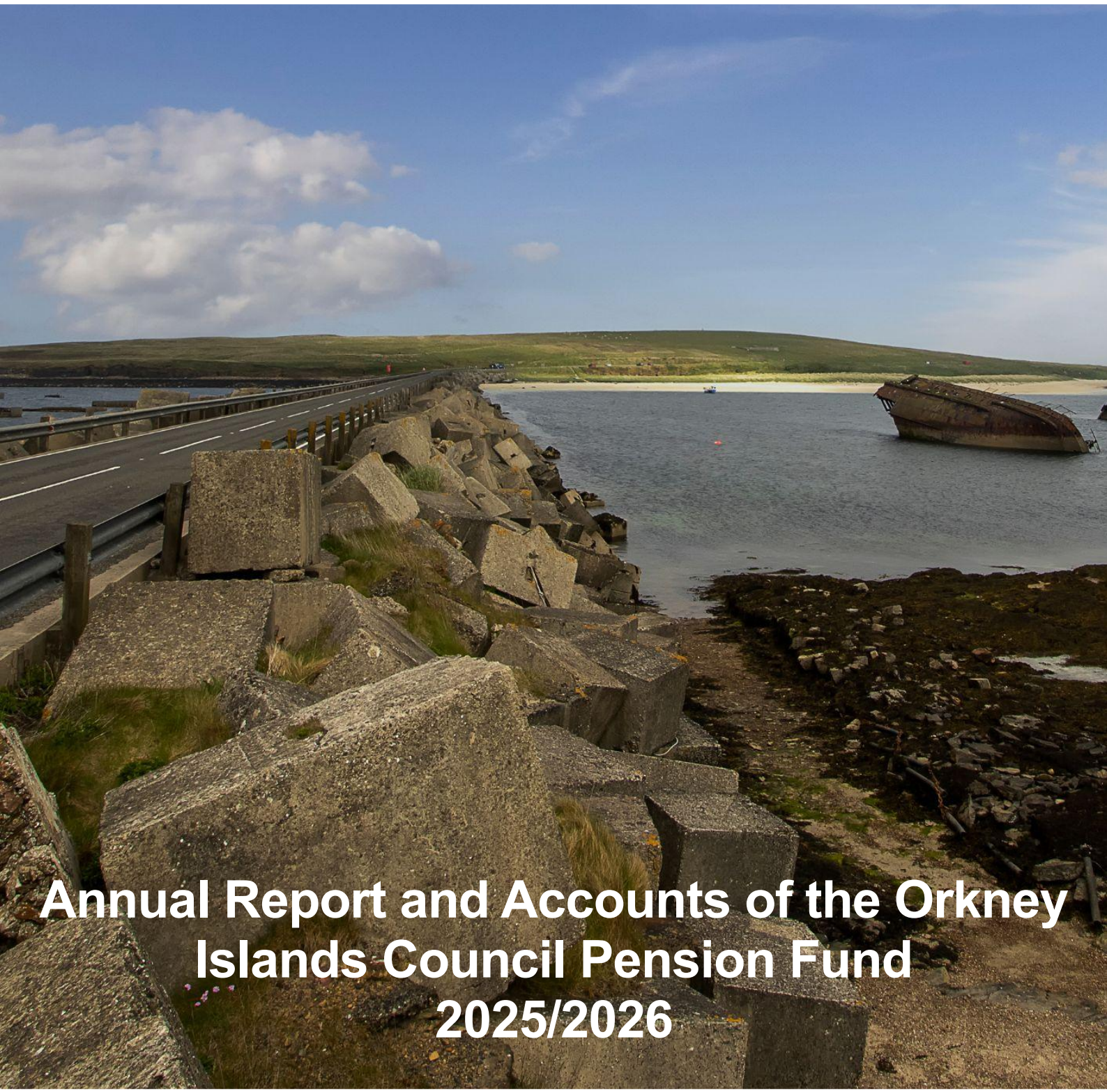
ORKNEY
ISLANDS COUNCIL



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

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Contents

Annual Report and Accounts of the Orkney Islands Council Pension Fund 1
2025/2026..... 1
Management Commentary 1
Statement of Responsibilities for the Annual Accounts 15
Remuneration Report 17
Annual Governance Statement.....18
Governance Compliance Statement.....26
Annual Accounts 2025/2026.....31
Pension Fund Account.....31
Net Assets Statement as at 31 March 2026 32
Notes to the Annual Accounts 33
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.....59
Annex 1 – Pension Fund Sub-committee, Pension Board, Scheduled and Admitted Bodies 63
Annex 2 – Actuarial Statement for 2025/2026 64
Annex 3 - Glossary of Terms 66
Additional Information.....68

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.

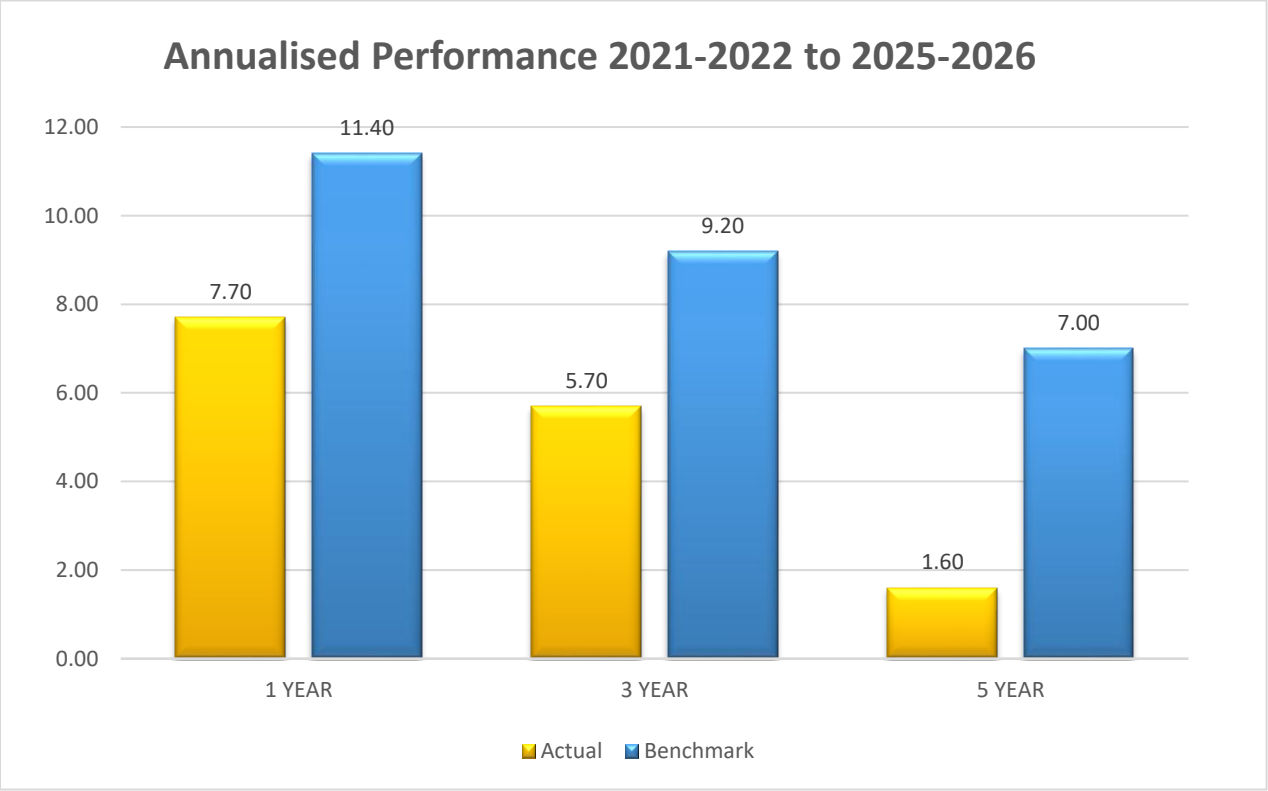
The top 10 direct equity holdings within the Fund at 31 March 2026 were:

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

24 September 2026

Councillor Sandy Cowie
Depute Leader

24 September 2026

Lorna Richardson
Deputising Chief Executive

24 September 2026

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 Sandy Cowie
Depute Leader

24 September 2026

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

24 September 2026

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.

A. Cowie

Councillor Sandy Cowie
Depute Leader

24 September 2026

Lorna Richardson

Lorna Richardson
Deputising Chief Executive

24 September 2026

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

24 September 2026

Councillor Sandy Cowie
Depute Leader

24 September 2026

Lorna Richardson
Deputising Chief Executive

24 September 2026

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

24 September 2026

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 1/49th. 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

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

24 September 2026

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, resigned on 10/09/2026

***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:

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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	