

Shetland Islands Council Pension Fund Audited Annual Report and Accounts **2025/26**



SHETLAND
ISLANDS COUNCIL

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Management Commentary

This is Shetland Islands Council Pension Fund's (the 'Pension Fund') Annual Report and Accounts for the year ended 31 March 2026.

The Shetland Islands Council Pension Fund Annual Accounts satisfy the requirements of Regulation 55 (1) of the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended), to prepare a Pension Fund Annual Report for the financial year from 1 April 2025 to 31 March 2026. In addition, quarterly Management Accounts are presented to the Pension Fund Committee, which show the year-to-date position and the projected year-end outturn.

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

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

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

At 31st March 2026 there were 8,980 members, 9 participating employers, and investment assets of £878 million.

Primary Financial Statements

The Annual Accounts summarise the Pension Fund's transactions for the year and its year-end position at 31 March 2026. The Annual Accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the Framework), as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

The layout and content of the Pension Fund Annual Accounts follow advisory guidance from the Scheme Advisory Board produced in conjunction with the Department of Levelling up, Housing and Communities (DLUHC) and The Chartered Institute of Public Finance and Accountancy (CIPFA). This guidance is aimed at producing more consistent and comparable data across LGPS Pension Funds.

Remuneration Report

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

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

<https://www.shetland.gov.uk/budget-finance/audited-annual-accounts>

Key Trends

Key Trends					
	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
Membership					
Active Members	3,634	3,625	3,547	3,547	3,581
Deferred Members	2,503	2,608	2,755	2,731	2,617
Pensioners	2,321	2,429	2,528	2,652	2,782
Total Members	8,458	8,662	8,830	8,930	8,980
Member Bodies	10	10	10	9	9
Dealings with members					
Total Additions	(22,541)	(25,374)	(26,308)	(25,688)	(26,100)
Total Withdrawals	16,635	19,740	21,917	25,783	25,724
Net Pensions Cash flows	(5,906)	(5,634)	(4,391)	95	(376)
Fund Value					
Opening Net value	(589,951)	(659,948)	(660,467)	(767,986)	(784,135)
Investment Income	(3,959)	(6,336)	(8,019)	(9,936)	(10,748)
Investment Management Expenses	1,856	2,520	2,520	3,276	3,937
Administrative Costs	510	434	485	625	749
Oversight & Governance Costs	45	43	139	54	56
Dealings with members	(5,906)	(5,634)	(4,391)	95	(376)
Change in market value	(62,543)	8,454	(98,253)	(10,263)	(89,401)
Closing Fund Value	(659,948)	(660,467)	(767,986)	(784,135)	(879,918)

The purpose of the Management Commentary is to present an overview of the Pension Fund's performance during the financial year 2025/26 and to help readers understand the Pension Fund's financial position at 31 March 2026. In addition, it outlines the main uncertainties facing the Pension Fund for the financial year 2025/26 and beyond.

Review of the year

As highlighted in the key trends table above, the Pension Fund has shown positive growth over the year, with an increase in membership to 8980, and an increase in net assets of £96m to £880m. Transactions with members showed Payments of £25.724m. Total additions from contributions and transfers in totalled £26,100m giving a net inflow from dealings with members of £0.376m. The Pension Fund closed the year with 9 member bodies. (A list of participating employers is included at Section 4 under Scheme Administration).

Strategy and objectives

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

- secure and maintain sufficient resources to meet all liabilities as they fall due;
- mitigate the risk of failing to meet these liabilities, through an Investment Strategy specifically tailored to the Pension Fund's requirements;
- maximise investment returns within acceptable and reasonable parameters;
- provide stability in the level of employers' contribution rates; and
- remain fully funded. This means that the Pension Fund would on an ongoing basis be able to pay all liabilities due, at that time, and at any time in the future.

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

Investment performance

A health check of the Pension Fund’s Investment Strategy was conducted in 2024/25. From this health check adjustments have been made to the Investment Strategy during 2025/26. The main changes involved a reduction to equities, while increasing the allocation to the steadier returning asset class of infrastructure equities. In 2026/27 direct lending will also be increased to its new allocation percentage. The increase to direct lending will come from the equity allocation, and disinvestment from property.

At the end of 2025/26, the Pension Fund had a slight overweight to equities and a slight underweight to direct lending. There is also an allocation to property which will take a few years to be fully disinvested.

Current investment allocations at 31 March 2026 are as follows:

Passive Equities	35%
Active Equities	34%
Infrastructure Equity	20%
Direct Lending	6%
Property	5%

The overall investment return for 2025/26 was 11.9%. Passive equities, active equities, infrastructure and direct lending all returned positive figures, with only property slightly negative. The investments finished the year up £96m at £878m.

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

Financial performance

The financial performance for the year reflects a position where the Pension Fund has reduced its projected deficit. This is the result of movements in elements of both the income and expenses of the Pension Fund over the year, many of which are largely unpredictable. However, unfilled vacancies at year-end, and a reduction in investment expenses have contributed to this reduction.

The 2026/27 budget for the Pension Fund was approved on 24 February 2026. The budget anticipates the Pension Fund generating income of £27.8m and incurring total expenditure of £28.9m, resulting in net deficit of £1.07m. Any deficit exceeding current bank funds will initiate a withdrawal of money from the investments with the fund managers. A range of assumptions and historical trends are used to inform the development of the budget for the Pension Fund. Due to the level of individual choice available in choosing both when to retire and how to access pension benefits, the budget represents the most reasonable estimates of income and expenditure at that time, but these estimates are liable to change throughout the year.

Administrative performance

The Administration Section of the Pension Fund continues to perform well this year, with employer and member surveys returning a high degree of satisfaction with services provided. Comprehensive additional Key Performance Indicators (KPIs) have been reported this year, with comparative figures available from next year. For the year 2025/26, 58% of casework KPIs reported received a score of 100%. Communication with members, stakeholders and employers has been supported in the year, with the delivery of all Annual Benefits Statements (ABS) to members on time, and through the addition of relevant information to the Pension Fund website.

Staffing increases during the year, have resulted in the Pension Administration Team increasing to 9.6 Full Time Equivalent members, with 3 additional budgeted posts still to be recruited in the coming year to fulfil the budgeted allocation of 12.6 Full Time Equivalent members. This additional staffing will assist with the increasing demands of digitisation and the demands of new legislative changes and regulation, such as the national

Pensions Dashboards Programme and the McCloud Remedy, once a period of training has taken place.

Governance

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

A self-assessment report on the Pension Fund's compliance with the code was presented to committee on 10 November 2025. This report showed that 8 of the 14 measures of compliance were fully met. Self – assessment against the code will be reviewed and updated annually to ensure continuous improvement and to identify the key areas that need further work or where processes or policies need to be put in place.

Internal audit has been asked to use TPR's new GCoP template as a basis for future audits, reviewing the basis of the self-assessment scoring on an ongoing basis.

Training has also been provided to Pension Committee and Pension Board members in the year to address knowledge and understanding needs, identified using the Hyman's National Knowledge Assessment last year which assessed knowledge and understanding on the 8 topics of the CIPFA (Chartered Institute of Public Finance and Accountancy) knowledge and skills framework.

Following publication by CIPFA and SOLACE of the Delivering Good Governance in Local Government: Framework Addendum covering the annual review of governance and the annual governance statement (2025), the Pension Fund's Annual Governance Statement has been fully updated in the current year.

Risk

The risk register, which addresses the main risks and control measures in place for the Pension Fund,

receives a full review each year and was presented for scrutiny to members on 24 February 2026. The highest risks to the pension fund are from loss of revenue or income:

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

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

Looking Ahead

The Pension Fund takes a long-term view with its Investment Strategy, consistent with the long-term nature of a Pension Fund and in line with its main objective of being able to pay all scheme members pension payments now and in the future. This long-term view is constantly monitored and every three years evaluated through an actuarial valuation. This is a snapshot of the current position of the Pension Fund and states its funding level. The last actuarial valuation in 2023 saw the funding level increase to 120%, which resulted in a health check to ensure the Pension Fund's investments were appropriate for this new fully funded level. From the health check the investment strategy was adjusted in line with the new funding level, with the intention to maintain as a minimum the current fully funded level in the future.

The adjustments to the Investment Strategy from the health check will continue during 2026/27 with the direct lending allocation increasing to 20%. This should be completed during the first half of 2026/27. This will just leave the disinvestment from the property investment fund, which could take several years for the fund manager to complete.

The next actuarial valuation will be calculated on figures at the end of March 2026. The outcome of this valuation will not be known until well through 2026/27. Our initial view based on investment returns and the English actuarial valuations in 2025

gives some reassurance that the funding level will be at least maintained. Any increase in the funding level could have the benefit of being able to consider further reductions to the employers' contribution levels.

The next planned Investment Strategy review of the Pension Fund's investments is to be undertaken in 2027/28. This will be six years after the last full review and after the next actuarial valuation results are known. As a health check was conducted in 2024/25 the forthcoming Investment Strategy review should not require to be as comprehensive as in 2021/22, but still a necessary review on the appropriateness of the Investment Strategy for the long-term stability of the Pension Fund's investments.

Geopolitical events not only cause general concern but do affect global trade and investment. The conflict between the US and Iran has affected global energy supplies and created an inflationary environment. Depending on the length of the conflict it may also influence interest rates. This will affect and dampen certain asset class returns. The Pension Fund is not immune from these events but its long-term view and mix of investments will help over the short-term to mitigate against geopolitical or economic effects on the Pension Fund's investments.

Paul Fraser

Paul Fraser, CPFA
Interim Director of People & Resources
22 September 2026

Maggie Sandison

Maggie Sandison
Chief Executive
23 September 2026

Emma Macdonald

Emma Macdonald
Leader of the Council
Chair of the Pension Fund Committee
21 September 2026

Section 1 - Overall Fund Management

Scheme Management and Advisors

Administering Authority	Shetland Islands Council Town Hall Lerwick Shetland ZE1 0HB
Fund Custodian	The Northern Trust Company
Investment Advisor	ISIO
Investment Managers	Blackrock Schroders Fisher IFM Baillie Gifford Permira KBI (to August 2025)
Fund Actuary	Hymans Robertson LLP
Banker	Bank of Scotland
AVC Providers	Prudential Utmost (Closed to new members)
Independent Auditor	Audit Scotland
Website	www.shetlandpensionfund.org
Legal Advisors	Shetland Islands Council
Executive Manager Finance	Paul Fraser

Risk Management

Risk Management concerns itself with the identification and management of risk; it seeks to protect and add value to the organisation and its objectives by continuously, systematically and proportionately addressing risk. Responsibility for the Pension Fund's Risk Management Strategy rests with the Council, where The Corporate Management Team (CMT) ensures that risk management activity within the organisation is carried out in an effective, consistent and cooperative manner, and who meet quarterly in the role of a risk management board to focus on risk. The scope of the risk management strategy applies to everything the Council does and therefore includes consideration of the Pension Fund's relationship to the administering body and its reliance on shared policies. Policies are reviewed regularly to reflect any changes. Additionally, the Pension Fund Annual Governance Statement included in section 6, places reasonable assurance on the adequacy and effectiveness of the governance arrangements and systems of internal control that operate across the Council.

The Pension Fund maintains a Risk Register which is updated regularly. The latest iteration of the Risk Register, published in February 2026, contained a total of 5 risks, summarised by risk level in the following chart:

Pension Fund Risk Rating



The Risk Register is considered at least annually and is presented to the Pension Fund Committee and Pension Board as part of the good governance and administration of the Pension Fund. This Risk Register identifies the main risks to the Pension fund and mitigating control measures which have been identified or put in place. This year the presentation of the Risk Register to the Pension Fund Committee and Board took place on 24 February 2026.

<https://coins.shetland.gov.uk/Agenda.asp?meetingid=8482>

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

The Risk Register currently contains:

2 low risks: Economic/financial risk & risk of professional errors and omissions;

2 medium risks: Business continuity & political risk; and

1 high risk: Risk of loss of revenue or income.

Note 16 also details key elements of risk including market, price, interest rate, currency, credit, liquidity and refinancing risks. The highest rated risk to the Pension Fund is a loss of revenue or income which could result in greater liabilities than anticipated for the Pension Fund.

The Pension Fund Administration Strategy sets out the roles and responsibilities of both employers and the administering authority of the Pension Fund. The Administration Strategy requires employers to provide accurate information on members to the administering authority, and to ensure contributions are paid within 19 days following the month to which the payments were made. For the year ended 2025/26 there were no issues with the supply of information or late payment.

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

The Shetland Islands Council Pension Fund received an internal audit against the 2018 Cyber Security Principles for Pension Schemes issued by the Pensions Regulator, which was presented to the audit committee in November 2023. This audit covered the categories of Governance, Incident Response, Access Controls, Risk Management and Training, and concluded that a reasonable level of assurance could be placed on the control environment. This will form part of ongoing GCoP review by audit going forward.

<https://coins.shetland.gov.uk/Agenda.asp?meetingid=7754>

Section 2 – Financial Performance

Financial Performance 2025/26

The Pension Fund Accounts present the full economic cost of providing Pension Fund services for 2025/26, this shows an increase in net assets of £96m. This differs from the draft outturn position,

shown below. The draft outturn report was presented to the Pension Fund Committee and the Pension Board on 22 June 2026:

Pension Fund Operational Income and Expenditure	2025/26 Annual Budget £000	2025/26 Draft Outturn £000	2025/26 Variance under/over £000
Administration			
Employee Costs	750	568	182
Operating Costs	263	247	16
Financial Transactions			
Investment Expenses	1,740	1,241	499
Bank Interest	(35)	(280)	245
Pension Members			
Benefits Payable	17,848	18,250	(402)
Transfers Out	1,800	2,807	(1,007)
Lump Sums	4,100	4,571	(471)
Contributions Received	(23,586)	(24,826)	1,240
Transfers In	(1,200)	(1,229)	29
AVC Out	645	40	605
AVC In	(750)	0	(750)
Total Expenditure	27,146	27,724	(578)
Total Income	(25,571)	(26,335)	764
Net (Income)/Expenditure	1,575	1,389	186

The difference between the draft outturn of £1.389m, and the net increase in the net assets available as per the Pension Fund Accounts on page 46 of £95.783m, is mainly due to movements in the value of investment assets. These items are not included within the draft outturn which reports operational income and expenditure only.

The main differences between the two figures are:

- (Profits) and losses on disposal of investments and change in the market value of investments (£89.401m);
- Investment Income, excluding bank interest (£10.467m);
- Fund manager fees deducted at source £2.416m; and
- Unit Trust fees deducted at source £0.281m

Expenditure was higher than budgeted due to a greater number of lump sums paid out during the year and a higher number of individuals transferring out of the scheme than anticipated. There was also an increase in benefits payable, although the number of pensioners stayed largely on budget. This however was offset by reductions in employee costs due to unfilled vacancies, and investments expenses reducing due to the disinvestment from one fund during the year. Fees for the new fund manager are not charged externally. Income was higher than budgeted mainly due to increased bank interest due to a fund manager recall during the year, an increase in the number of transfers in during the year, and an increase in the value of contributions received. Contributions received will be influenced by any changes in staff numbers or remuneration in the employer and admitted bodies.

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

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Pension Fund in accordance with

the Local Government Pension Scheme (Scotland) Regulations 2018 and range from 5.5% to 12% of pensionable pay for the financial year ended 31 March 2026. Employee contributions are topped up by employers' contributions, which are set based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2023 set these employers' contribution rates for 2025/26, and these range from 19.0% to 31.6% of pensionable pay.

Benefits

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

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

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

The Pension Fund takes several actions to deal with fraud. The Pension Fund participates in the National Fraud Initiative. This is a data matching exercise to assist in preventing and detecting fraud, which is

carried out every two years. This was last carried out in June 2025. The Pension Fund also takes part in the 'Tell Us Once Service', where it receives automatic notification from the DWP when a death is registered. Additional steps taken to reduce risk are detailed in the current Risk Register.

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

Section 3 - Investment Policy and Performance Report

Funding Strategy Statement

The local government Pension Scheme Regulations (LGPS) require the administering authority to prepare, maintain and publish a written Funding Strategy Statement. The FSS is prepared under guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Funding Strategy Statement was reviewed and noted in March 2024 as part of the 2023 Triennial Valuation process. Details of the Funding Strategy Statement are also found in Note 17: Funding Arrangements, on page 63.

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; and
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

The FSS is mainly for employers participating in the Pension Fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to a Statement of Investment Principles (SIP) set by the administering authority. A summary and link to the Statement of Investment Principles is included on p16.

The funding and investment strategies are closely linked. The Pension Fund must be able to pay

benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Pension Fund won't be able to pay benefits, so higher contributions would be required from employers.

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

The full Funding Strategy Statement which includes further detail on: the calculation of employer contributions; additional contributions payable; the calculation of assets and liabilities; the process when employers join, leave or bulk transfer staff; and statutory reporting requirements, can be found here:

<https://coins.shetland.gov.uk/Agenda.asp?meetingid=8219>

Investment Strategy

The funding strategy and the investment strategy are closely linked. While the funding strategy deals with income from contributions, the investment strategy is concerned with the asset returns and income of the Pension Fund which are then invested in line with the Statement of Investment Principles.

The Pension Fund last reviewed its Investment Strategy in 2024/25. The Pension Fund Committee approved the Investment Strategy asset allocation on 24 June 2024.

<https://coins.shetland.gov.uk/Agenda.asp?meetingid=7924>

The following table shows information about the Pension Fund's investments along with the investment position as at the 31 March 2026:

Asset Class	Fund Manager	Investment Value	Investment %	Performance Objective (Net of Fees)	Benchmark Indices
Passive Global Equity	BlackRock	304	35%	Benchmark	FTSE All World Developed
Infrastructure Equity	IFM	178	20%	Fixed Benchmark Return	Fixed 8%
Active Global Equity	Baillie Gifford	164	19%	Benchmark +2.0%	MSCI All Countries World Index
Active Global Equity	Fisher Investors	136	15%	Benchmark +2.0%	MSCI Developed World Index
Private Credit	Permira	55	6%	Fixed Benchmark Return	Fixed 6%
Property	Schroders	41	5%	Benchmark +1.0%	IPD Pooled Property

Health Check of Investment Strategy

The previous Investment Strategy review was conducted in 2021/22 and was set for a five-year period. The results of the actuarial review undertaken by Hymans Robertson in 2023 saw significant, positive changes to the Pension Fund's funding level and an approved reduction to employer contributions. Following the results of the actuarial valuation in 2023, a health check of the Investment Strategy was conducted by the Pension Fund's investment consultants. This resulted in the Pension Fund Committee approving a new Investment Strategy in June 2024 and an additional equity strategy update in February 2025. This resulted in a change from a strategy of growth, to one of maintaining the new funding position. This has led to a slight reduction in the equity allocation while increasing the steadier returning asset classes of Infrastructure Equity and Private Credit.

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

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

The reorganisation of the investments into the new Investment Strategy has continued throughout 2025/26. It is intended by the end of 2026/27 to have all asset allocations funded except the disinvestment from property, which due to the nature of the asset class may take several years.

The Pension Fund's current investment portfolio has a value of £878m as at 31 March 2026, compared to

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

Equities

Equities are the main investment asset class, and at the end of March 2026 accounted for 69% of the Pension Fund's investment portfolio. Equity investments are shareholdings in companies which fund managers buy and sell. Income is generated in the form of dividend payments or capital gains when shares are sold.

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

Property

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

Private Credit

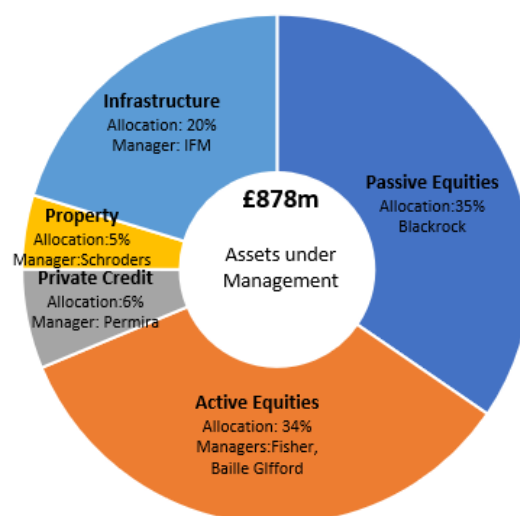
Private credit involves a fund manager giving loans to small medium sized private companies. Income is received from interest charged on the loans. The loans are structured with security over assets and rank very high against other company debt.

Infrastructure Equity

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

Pension Fund Investment Portfolio: Current Allocation

Pension Fund Investment Portfolio by underlying Asset Class at 31 March 2026



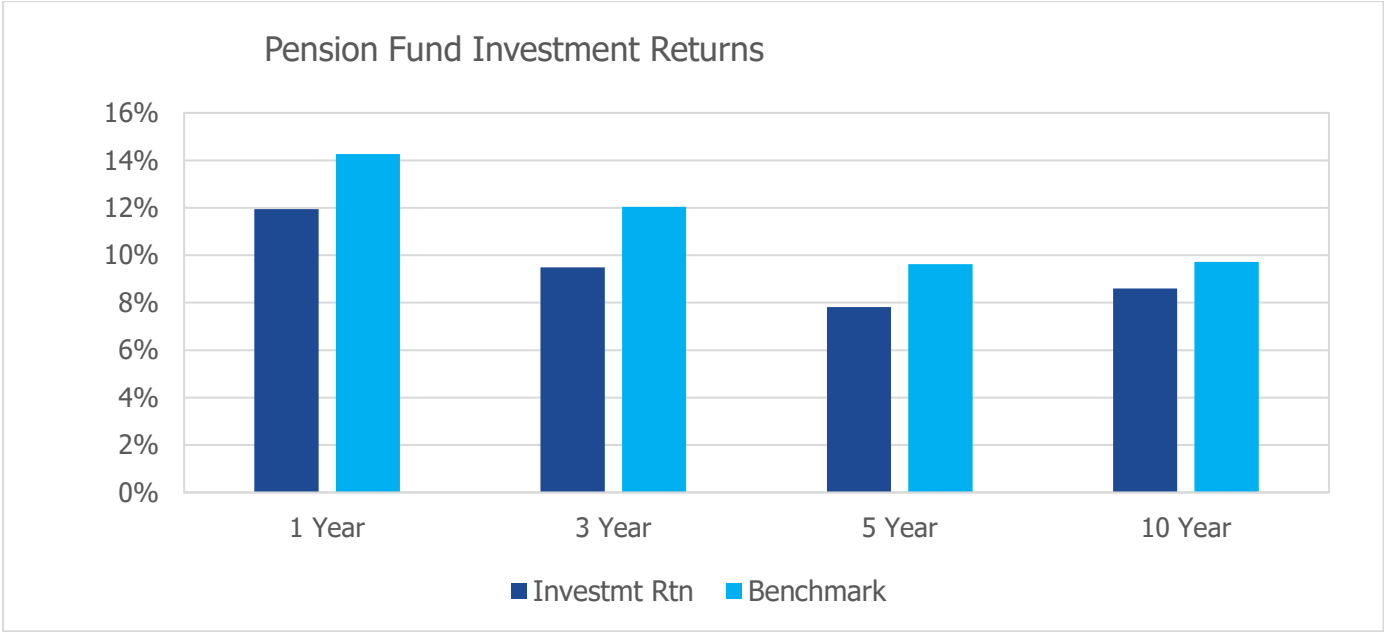
Investment Market Review

Equity markets fell at the start of the financial year due to US economic policy on increased tariff rates, causing global trade concerns. The equity markets recovered quickly as US economic policy changed, and many tariff increases were put on hold. This positive equity momentum continued during 2025 as inflation eased and the US, UK and Europe reduced interest rates. Certain tariffs were implemented, plus the conflict between Israel and Gaza and the longest US Government shutdown on record created headwinds, but corporate earnings continued to beat expectations maintaining strong equity markets. This continued until the start of the US Iran conflict in February 2026, which caused global energy concerns and a rapid return to an inflationary environment. Equity markets fell throughout March as the conflict continued and affected global energy supplies.

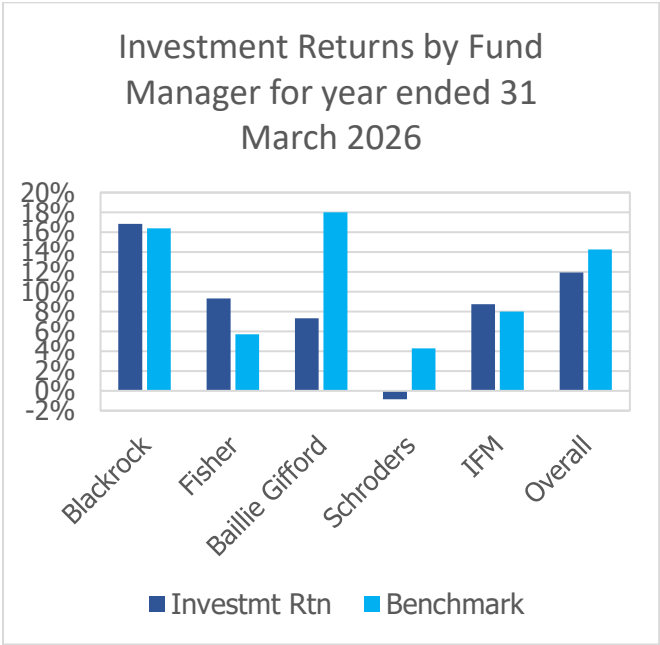
Pension Fund Investment Performance

The Pension Fund incurs management costs from the fund managers, and these costs are based on the value of funds they manage. A review of each of the fund manager’s costs was conducted by Isio during 2024/25, and this concluded that the fees, on the whole, were very competitive as compared against the marketplace. All investments are intended to produce a level of return which is seen as achievable with a low level of measured risk, after fund management fees that are appropriate and competitive. Investment management expenses for the different class of investment held by the Pension Fund are shown in note 10a on p52.

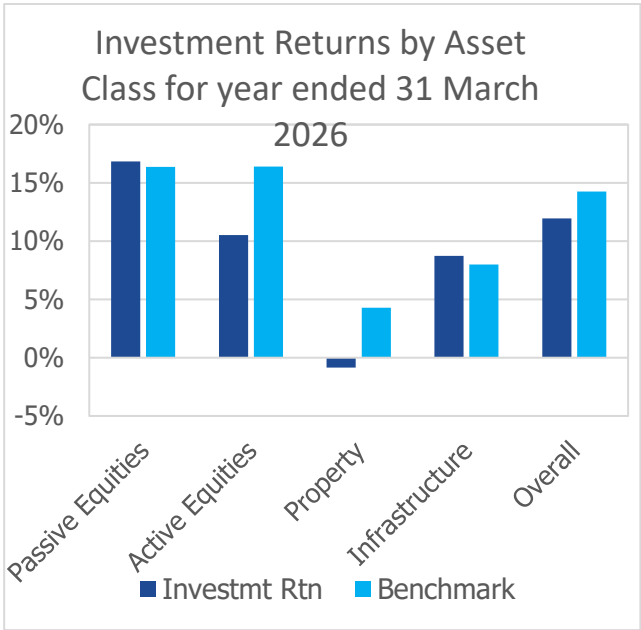
The table below shows the Pension Fund’s investment returns per annum over various time periods from 1 year up to a 10-year period.



The following tables show investment returns by asset class, and also by fund manager for the year ended 31 March 2026.



*figures for Fisher are only for an 8-month period in 2025/26



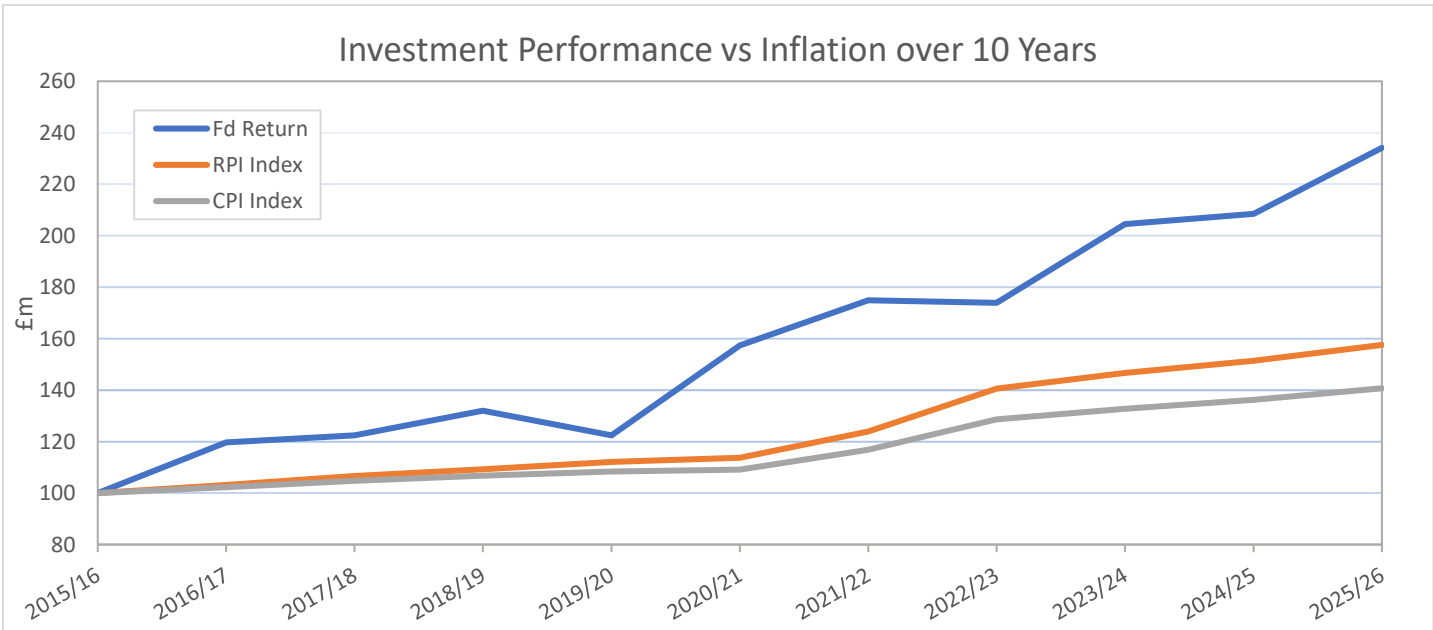
*Private credit performance figures not available

The Pension Fund achieved an overall investment return of 11.9% in 2025/26, from a combination of the fund managers returns. As can be seen from the above graph this return was below the overall benchmark return for 2025/26, due mainly to the underperformance of active equities and property.

The two fund managers which underperformed during 2025/26 were Baillie Gifford with active equities and Schroders with property. Baillie Gifford found the equity environment difficult during 2025/26 with US economic policy changes on tariffs and conflicts in the Middle East impacting investments. Schroders’ mandate is ending and is currently in a period of disinvestment which affected returns.

<https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=32603>

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



Investment arrangements and policies

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

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

All the fund managers have signed up to the United Nations Principles on Responsible Investment Management, which is further described under the Responsible Investing section.

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

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

A new Investment Strategy asset allocation was approved in June 2024. The main asset class being equities which was split between three fund managers to diversify equity risk. The Investment Strategy was further diversified by including two additional asset classes of infrastructure and private credit, in order to reduce the overall exposure to risk and dampen investment volatility.

Statement of Investment Principles

The requirement to prepare, maintain and publish a Statement of Investment Principles is set out in the Local Government Pension Scheme (management and investment of funds) (Scotland) Regulations 2010.

The Pension Fund's primary objective is to provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefit basis.

The Pension Fund has set investment objectives to ensure it meets its primary objective; these investment objectives are as follows:

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

The purpose of the Statement of Investment Principles is to set out the Investment Strategy. The Pension Fund Committee and the Pension Board meetings on 20 August 2025 approved the current Shetland Islands Council Pension Fund Statement of Investment Principles. This statement includes administration details, the objective of the Pension Fund, types of investments, balance between different types of investment, risk, expected return on investments, realisation of investments, responsible investments, securities lending and compliance.

The current portfolio of investments does not at the end of March 2026 align with the specific allocations set out in the Statement of Investment Principles. This is because of ongoing changes to the Investment Strategy following the investment health check. The Statement of Investment Principles shows the Investment Strategy that will be in place once all changes have been completed.

The Statement of Investment Principles as approved by the Pension Fund Committee on 20 August 2025, can be found here:

<https://coins.shetland.gov.uk/Agenda.asp?meetingid=8480>

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

Following the results of the actuarial valuation in 2023, a health check of the Investment Strategy was conducted by the Pension Fund's investment consultants. This resulted in the Pension Fund Committee approving a new Investment Strategy in June 2024 and an additional equity strategy update in February 2025. The required changes to the Investment Strategy are currently in progress.

Responsible Investing

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

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

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

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

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

Pension Fund managers were recently surveyed; their responses detailed how their organisation dealt with social and perceptual issues of investment on defence and country specific issues plus what scenario planning they have undertaken in relation to climate change. They related this to the current portfolio/investments of the Pension Fund and set out the processes they have in place to review current/future investments and the key considerations they take account of. The Fund Manager responses are provided in Appendix 1.

Competition and Markets Authority Compliance

Isio are the Pension Fund's investment consultants, and in line with the requirements of the Competition and Markets Authority the Pension Fund Committee must assess their investment advisors on an annual basis. The Pension Fund Committee complied with this requirement at a Pension Fund Committee meeting on the 20 August 2025 when Isio achieved a satisfaction score of 87.5% based on an evaluation scoresheet.

Section 4 – Scheme Administration

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

Administration Strategy

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

<https://shetlandpensionfund.org/resources/pension-administration-strategy-statement>

Employers must provide accurate information to the Pension Fund in a timely manner, to ensure that information provided to Fund members is also accurate and timely. The information received from employers to the Pension Fund, such as new starters, leavers, retirements and deaths was delivered in a timely manner during 2025/26.

In 2025/26 all employer contributions were received on time in the month following deduction.

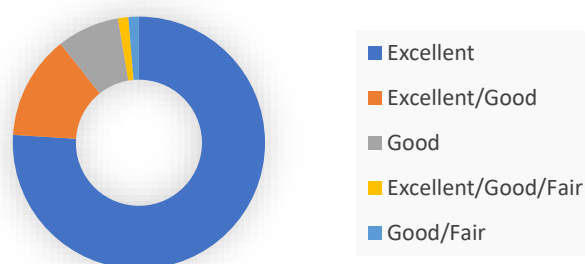
Administration Performance

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

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

Eight employer surveys were returned which indicated 100% of respondents rated the service received as excellent.

Member Satisfaction Survey



The chart above summarises the latest member satisfaction survey results, a total of 75 surveys were returned 53% (2024/25 49%). As well as administering employer contributions, pension transfers in and out, retirements and pension payments, the Pension Section also processes the pensioners' payroll.

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

The Pension Fund prides itself on providing an excellent and efficient service to both scheme members and scheme employers. The single most important activity of the Pension Administration Team is to ensure that our pensioner members are paid accurately and on time each month. In 2025/26 this was achieved without incident or delay. In respect of retiring members, payment is always made on the next available pensioner payroll date on receipt of all required documentation, thus allowing members to maintain continuity of income. For lump sum payments, these are paid on receipt of all required documentation as near to retirement date as possible.

A full list of Key Performance indicators (KPIs) applicable to the administration of Shetland Islands Council Pension Fund are listed at the end of this section. Comparative period information will be available in following financial years.

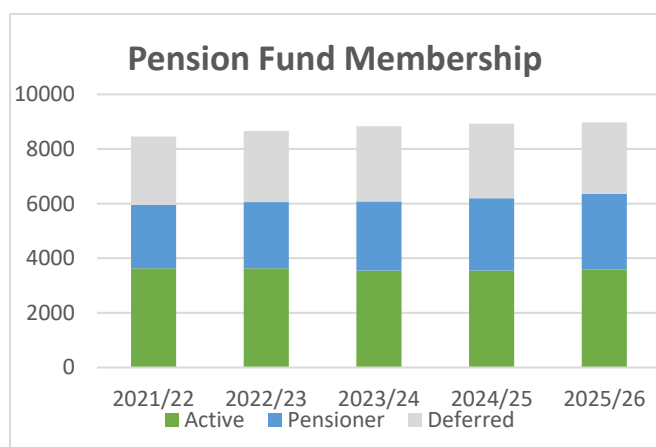
The table below shows summarised budget and spend for the Pension Fund's administration costs for 2025/26:

	2025/2026 Annual Budget	2025/2026 Draft Outturn	2025/2026 Variance under/(over)
Administration Expenses	£000	£000	£000
Staff Time Allocations	750	568	182
Supplies, Services & Systems	185	176	9
Printing & Publications	6	6	0
Total	941	750	191

Fund Membership

Membership of the Pension Fund comprises:

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



Pension Fund membership has increased during 2025/26 by 0.56% to 8980. Active membership has increased 0.96% from 2024/25, with a small increase in pensioner members of 4.9%.

Employers with Active Members at 31 March 2026

Scheduled Bodies: 7995 members

Shetland Islands Council
Orkney & Shetland Valuation Joint Board

Admitted Bodies: 985 Members

Lerwick Port Authority
Shetland Recreational Trust
Shetland Amenity Trust
Shetland Charitable Trust
Shetland Arts Development Agency
Shetland Care Attendant Scheme
(previously Crossroads)
Shetland UHI

Communications

During the scheme year 2025/26 the Shetland Islands Council Pension Fund

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

New items have been added to the Pension Fund website during the current year, including: an annual allowance factsheet, an LGPS brief guide, a retirement planning guide, the 2025 Pensioners newsletter, and Annual Accounts and Audit information.

The Communications Policy for the Shetland Islands Council Pension Fund was approved by the Pension Fund Committee on 11 December 2024.

<https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=30635>

The key objectives of the Communications Policy are:

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

In order to achieve these objectives, communications require to:

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

Summary of Pension Administration Activity

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

1) Pensions Dashboard Programme (PDP) –

Continuing to prepare for onboarding with the national Pensions Dashboard Programme, which is a UK government initiative aimed at helping individuals access all their pension information in one secure, digital platform, for free. The main goal of the Pensions Dashboards Programme is to make it easier for people to track down and understand their various pension pots, including state pensions, workplace pensions, like the Local Government Pension Scheme, and private pensions, which can often be scattered across multiple providers. The Pensions Administration Project Team successfully uploaded data to the Production Dashboard environment, well within our connection deadline of 31 October 2025. The Pension Regulator confirmed we were successful in connecting to the Pensions Dashboard. Work is now focusing on designing, testing and implementing processes and workflows to support staff with Pensions Dashboard enquiries.

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

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

McCloud remedy calculations form part of business as usual for all new LGPS calculations. Work is ongoing regarding former calculations that still require to be addressed.

3) Pension Administration System Servers – Migration to Heywood's Cloud Based Solution -

The Altair Pensions Administration System Cloud Project was initiated to migrate the Council's Altair Pension Administration System from an on-premise environment to our supplier Heywood's cloud-based solution. This involves transferring our existing Test and Live environments, along with all associated modules, to the supplier's data centre and adopting a Software as a Service (SaaS) model.

4) Pension Administration System - Insights Module -

The implementation of this new reporting module has been delayed as the migration of the system servers had to be done prior to onboarding with the module. As well as being a more efficient method of reporting, Insights will also be used to support Pensions Dashboard requirements.

5) Pension Administration System - Image Module –

The move from manual to electronic storage of members records, is being supported through our procurement of the new image module in the pension administration system. The aim being that all documents associated with a scheme member will be accessed directly from their electronic pension administration system record. It is

planned that the implementation of this module will commence around December 2026.

Key Performance Indicators

In line with new recommended reporting guidelines, the Shetland Islands Council Pension Fund commenced recording the below KPI data on casework, communication & engagement, resources and data quality from October 2025. Due to data collection only commencing in year, there are no comparative years figures available.

In table C, questions referring to members having access to member self-service (MSS) are currently blank. This is not currently available to scheme members and will not be implemented in 2026/27 due to other planned system enhancements and ongoing Pensions Dashboards work. In addition, due to the time-consuming nature of tracking information data for C7, C8 and C11, this is not held.

Table A - Total number of casework

Ref	Casework KPI	Outstanding Cases at 30 September 2025	New Cases created in the year, October 25 to March 26	Cases Completed in the year, October 25 to March 26	Total % of cases completed, October 25 to March 26
A1	Deaths recorded of active, deferred, pensioner and dependant members	0	41	37	90.24%
A2	New dependant member benefits	0	21	19	90.48%
	Deferred member retirements - Options Issued	0	39	38	97.44%
A3	Deferred member retirements - Pension Details Issued	18	20	38	100.00%
	Active member retirements - Options Issued	2	41	43	100.00%
A4	Active member retirements - Pension Details Issued	7	27	34	100.00%
	Active & Deferred member retirements - Lump Sum Issued	0	72	72	100.00%
A5	Deferred benefits - 1st Deferral Letter Issued	0	127	127	100.00%
A6	Transfers In (including interfunds in, club transfers that have been initiated)	5	7	3	25.00%
A7	Transfers Out (including interfunds in, club transfers that have been initiated)	0	14	5	35.71%
A8	Refunds	345	59	55	13.61%
A9	Divorce quotations issued	0	7	7	100.00%
A10	Actual divorce cases	0	0	0	0.00%
A11	Member estimates requested either by scheme member or employer	1	81	77	93.90%
A12	New joiner notifications	48	339	341	88.11%
A13	Aggregation cases	0	48	48	100.00%
A14	Optants out received after 3 months membership	0	2	2	100.00%

Table B - Time taken to process casework

Ref	KPIs	Target	Communication Type	Number Within Target	% completed within fund target in year
B1	Communication issued with acknowledgement of death of active, deferred, pensioner and dependent member	5 days	Death Acknowledgement	34	91.89%
B2	Communication issued confirming the amount of dependents pension	10 days	Dependent Benefits Letter	19	100.00%
B3	Communication issued to deferred member with pension and lump sum options (quotation)	15 days	Retirement options Letter	38	100.00%
B4	Communication issued to active member with pension and lump sum options (quotation)	15 days	Retirement options Letter	42	97.67%
B5	Communication issued to deferred member with confirmation of pension and lump sum options (actual)	15 days	Retirement Actual Letter	38	100.00%
B6	Communication issued to active member with confirmation of pension and lump sum options (actual)	15 days	Retirement Actual Letter	34	100.00%
B7	Payment of lump sum (both actives and deferreds)	15 days	Lump Sum Paid	72	100.00%
B8	Communication issued with deferred benefit options	30 days	Deferral 1st letter	127	100.00%
B9	Communication issued to scheme member with completion of transfer in	15 days	Transfer In completed	3	100.00%
B10	Communication issued to scheme member with completion of transfer out	15 days	Transfer Out completed	5	100.00%
B11	Payment of refund	10 days	Frozen Refund (completed form rec)	55	100.00%
B12	Divorce quotation	45 days	Quotation Sent	7	100.00%
B13	Communication issued following actual divorce proceedings i.e. application of a Pension Sharing Order	15 days	PSO Applied Communication	0	0.00%
B14	Member estimates requested by scheme member and employer	15 days	Estimate completed	66	85.71%
B15	Communication issued to new starters	40 days	New Start Letter Sent	308	90.32%

Table C - Communications and engagement

Ref	Engagement with online portals		Percentage as at 31 March 2026
Engagement with online portals			
C1	% of active members registered		
C2	% of deferred member registered		
C3	% of pensioner and survivor members		
C4	% total of all scheme members registered for self-service		
C5	Number of registered users by age		
C6	% of all registered users that have logged onto the service in the last 12 months		
Communication			
C9	Number of scheme member events held in year (total of in-person and online)		6
C10	Number of employer engagement events held in year (in-person and online)		0
C12	Number of times a communication (i.e.newsletter) issued to:		Annually
	a) Active members		1
	b) Deferred members		1
	c) Pensioners		1

Table D – Resources

Ref	Resources	As at 31 March 2026
D1	Total number of all administration staff (FTE)	9.6
D2	Average service length of all administration staff	10 years, 31 days
D3	Staff vacancy rate as %	23.81%
D4	Ratio of all administration staff to total number of scheme members (all staff including management)	1:935
D5	Ratio of administration staff (excluding management) to total number of scheme members	1:997

Table E – Data Quality

Ref	Resources	Percentage as at 31 March 2026
Annual Benefit Statements		
E1	Percentage of annual benefit statements issued as at 31 August	100%
Data category		
E3	Common data score	99.80%
E4	Scheme specific data score	94.30%
E5	Percentage of active, deferred and pensioner members recorded as 'gone away' with no home address held, or address is known to be out of date	1.35%
E6	Percentage of active, deferred and pensioner members with an email address held on file	33.94%
Employer performance		
E3	Common data score	100%
E4	Scheme specific data score	100%

***Common Data** - refers to essential information that the Pension Fund must hold for scheme members. This includes details such as National Insurance number, name, gender, date of birth, membership status, and address.

****Conditional (Scheme-Specific) Data** is unique to each Pension Fund and depends on its structure and administration. It includes details such as remuneration, service history, contribution history, pension benefit calculations.

Section 5 - Actuarial Reports on Funds

Shetland Islands Council Pension Fund ("the Fund") Actuarial Statement for 2025/26

15 May 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 Statement (FSS), dated March 2024.

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 set 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 an 80% 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 2018 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £660 million, were sufficient to meet 120% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £111 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving 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:

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

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

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

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

**Aged 45 at the 2023 Valuation.*

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



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 (eg US tariffs, Middle East conflict) has caused significant short-term market volatility. Overall, the Fund's investment returns since March 2023 have been greater than that assumed for the purpose of the 2023 valuation.

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.

Prepared by:

Steven Scott FFA C.Act

15 May 2025

For and on behalf of Hymans Robertson LLP



Pension Fund Accounts Reporting Requirements

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2025/26 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Shetland Islands Council Pension Fund. ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19.

There are three options for its disclosure in the pension fund accounts:

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

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

Present value of promised retirement benefits

Year ended	31 March 2026	31 March 2025
Active members (£m)	274	256
Deferred members (£m)	95	95
Pensioners (£m)	189	195
Total (£m)	558	546

The promised retirement benefits at 31 March 2026 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2023. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2026 and 31 March 2025. I estimate that the impact of the change in financial assumptions to 31 March 2026 is to decrease the actuarial present value by £23m. I estimate that the impact of the change in demographic assumptions is to increase the actuarial present value by £3m.

Financial assumptions

Year ended	31 March 2026	31 March 2025
	% p.a.	% p.a.
Pension Increase Rate (CPI)	3.00%	2.75%
Salary Increase Rate	3.00%	2.75%
Discount Rate	6.30%	5.80%

Demographic assumptions

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

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2025 model, with core parameterisation, initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.1 years	23.4 years
Future pensioners (assumed to be aged 45 at the latest valuation date)	22.2 years	25.3 years

All other demographic assumptions are unchanged from last year and are as per the latest funding valuation of the Fund.

Sensitivity Analysis

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

Change in assumption at 31 March 2026	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2%	10
1 year increase in member life expectancy	4%	23
0.1% p.a. increase in the Salary Increase Rate	0%	1
0.1% p.a. increase in the Rate of CPI Inflation	2%	10

Professional notes

This paper accompanies the 'Accounting Covering Report – 31 March 2026' which identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Steven Scott FFA
Partner and LGPS Actuary

15 May 2026

For and on behalf of Hymans Robertson LLP



London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk

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Section 6 - Governance and Training

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

Monitoring

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

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

In line with the Pension Fund's governance arrangements to monitor and review Fund Managers, the Pension Fund Committee and Pension Board invite Fund Managers to attend the quarterly meetings to give presentations on their mandates and investment performance. During the financial year-presentations have been received from IFM and Baillie Gifford. The Fund Managers supply a quarterly audited performance review report and monthly valuation report.

Membership of the Pension Board consists of trade union representatives and employer representatives, drawn from Shetland Islands Council and other scheduled or admitted bodies who participate in membership of the Pension Fund.

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

Key management personnel

Key management personnel for the Pension Fund include the Shetland Islands Council Councillors, who sit on the Pension Fund Committee and Pension Board. Key roles of those responsible for governance of the pension fund are detailed in the Annual Governance Statement at p35.

The membership of the Pension Fund Committee consists of all members of the Policy and Resources Committee appointed by Shetland Islands Council. Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, drawn from Shetland Islands Council and other scheduled or admitted bodies who participate in membership of the Pension Fund. The term of appointment to the Pension Board is concurrent with the council election cycle. The membership and attendance is as follows:

Pension Fund Committee Membership/ Meeting Attendance	13/05/2025	04/06/2025	23/06/2025	20/08/2025	22/09/2025	10/11/2025	24/02/2026
Emma Macdonald (Chair)			x		x	x	x
Davie Sandison		x	x				x
Moraig Lyall	x		x	x	x	x	x
John Fraser	x	x	x	x	x	x	x
Duncan Anderson	x						
Gary Robinson (Vice Chair)	x	x		x	x	x	x
Dennis Leask		x	x	x	x		x
Catherine Hughson	x		x	x	x	x	x
Robbie McGregor	x	x		x	x		x
Liz Peterson	x	x	x	x	x		
Robert Thomson	x	x	x	x	x	x	x

Pension Fund Board Membership/ Meeting Attendance	13/05/2025	04/06/2025	23/06/2025	20/08/2025	22/09/2025	10/11/2025	24/02/2026
<u>Scheme member representatives:</u>							
David Marsh - (Vice Chair)	x	x	x		x	x	x
Lyall Halcrow	x			x			
Ivor Arthur							
Andrew Thompson							
<u>Employer representatives:</u>							
H Sutherland (SAT)			x		x	x	x
Mark Robinson (SIC)(Chair)		x			x	x	x
Andrew Hall (SIC)	x	x	x	x	x	x	x
Bryan Peterson (SIC)		x	x	x	x	x	x
<u>Substitutes:</u>							
Austin Taylor					x		
Ian Taylor			x				
Kerry Llewellyn							

Training

All new Members of the Pension Fund Committee and Pension Board are required to complete an induction training session upon appointment. Also, to assist with maintaining knowledge and skills at an appropriate level, training is made available throughout the year. Following on from the Hymans knowledge assessment previously completed by Pension Fund Committee and Pension Board members, a member's seminar was arranged on 22 September 2025 with presentations targeting areas of knowledge identified in the assessment. Eight members of the Pension Fund Committee and three members of the Pension Fund Board attended this event. Training was also provided during the year through presentations from fund managers, covering knowledge areas relating to the Pension Fund Investments, along with training from Hymans, the Pension Fund Actuary on the 2026 Triennial Valuation and TPRs new General Code of Practice.

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

Pension Fund Committee and Pension Board Training 2024/25						
	Presentations from: IFM on their equity mandate, & Hymans on TPR		Presentation from Baillie Gifford on their equity mandate		Presentation from Hymans - 2026 Valuation	
	13/05/2025		20/08/2025		24/02/2026	
	Attendees	%	Attendees	%	Attendees	%
Committee	8	73%	8	73%	9	82%
Board	3	38%	3	38%	5	63%

In addition to the above, three members of the Pension Fund Committee attended the LGC investment seminar in October 2025, one member of the Pension Fund Committee and one member of the Pension Fund Board attended the Baillie Gifford investment seminar in November 2025, and one member of the Pension Fund Committee took part in fund manager visits in November 2025.

Annual Governance Statement

Executive Summary

This Annual Governance Statement provides a transparent and evidence-based assessment of the Pension Fund's governance arrangements for the year ending 31 March 2026, in line with the CIPFA/SOLACE Delivering Good Governance Local Government Framework addendum (2025).

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

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

The 2025/26 review of the effectiveness of the overall governance framework, has found that, based on the evidence presented, the Pension Fund remains governed by sound and effective internal management controls, and continues to demonstrate compliance with the requirements of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". The Council acknowledges that several key governance documents require updating, and that failure to do so increases the risk of them becoming outdated and misaligned with current practices or legislative requirements. A Governance Working Group has been established to assist in reviewing and updating the constitutional documents, and an update report will be presented to the council meeting during 2026. Pension Fund Committee and Board members will also be updated through the quarterly performance reports.

The Pension Fund recognises the importance of anticipating future challenges and adapting the governance arrangements accordingly and remain committed to ensuring that governance will be fit for purpose.

Overall, the Pension Fund continues to demonstrate sound governance and effective internal controls.

What is the Annual Governance Statement?

The Pension Fund is required to prepare and publish an Annual Governance Statement. Preparing an Annual Governance Statement is an opportunity to undertake a rigorous annual assessment of governance and consider whether it truly is fit for purpose. The review takes into account not just current demands but also anticipated challenges.

In this document the Pension Fund:

- Acknowledges its responsibilities for ensuring that there is a sound system of governance;
- Summarises the key elements of the Governance Framework. The Pension Fund assesses against the core principles of good governance and the behaviours and actions that demonstrate good governance;
- Summarises how the review of effectiveness was conducted and the results;
- Provides details on areas of governance requiring improvement and how these are being addressed; and
- Demonstrates how the governance issues identified in the previous year's statement has been addressed and whether further work is required.

The Annual Governance Statement reports on the governance system as it applied during 2025/26, and up to the date of approval of the audited accounts.

What is Governance?

The Administering Authority, through its Chief Executive and Chief Officers, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the effectiveness of these arrangements.

Corporate governance refers to the system by which the Administering Authority directs and controls its functions. It covers service delivery arrangements, structures and processes, risk management and internal control and standards of conduct.

Good governance is about the culture, systems, processes and values by which the Pension Fund conducts its business and delivers services. The Pension Fund adheres to and works within a framework of internal values and expected external principles and standards which help to deliver good standards of practice.

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

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

What is the Governance Framework

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

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

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

A Risk Register is maintained to facilitate detailed risk monitoring, the latest update to the Register is available [here](#).

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

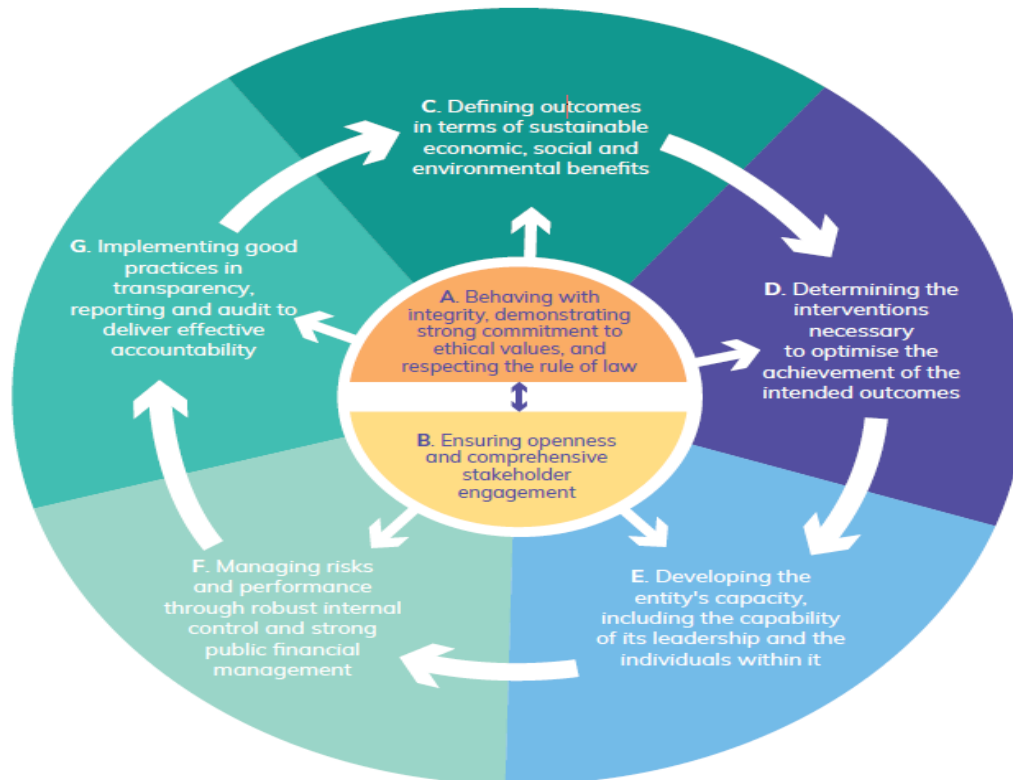
- the **legal powers, duties and functions** of the Council (including the Pension Fund), and roles and responsibilities of the people who take decisions on behalf of the community;
- **Scheme of Administration and Delegations**, which detail the functions that the Council (including the Pension Fund)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

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

What are the key elements of the Governance Framework?

The governance framework adopted by the administering authority is consistent with the seven core principles of the CIPFA/SOLACE framework illustrated below:

Delivering Good Governance in Local Government (CIPFA and Solace, 2016)



What are the key roles of those responsible for governance of the Pension Fund?

The Council (Administering Authority)	Responsible for managing the Pension Fund.
Pension Fund Committee	Responsible for establishing proper arrangements for the governance of the Pension Fund's affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Approves the Annual Report and Accounts, and Annual Governance Statement.
Pension Board	Assists the Pension Fund Committee in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.
Chief Executive Corporate Management Team	Responsible for the operational management of the Council (including the Pension Fund) and its employees.
Section 95 Officer of the Council	In their role as Section 95 Officer for the administering authority, they are responsible for the administration of the financial affairs of the Pension Fund and for the provision of financial advice to the Pension Fund Committee.
Monitoring Officer	To maintain the Council's Constitution and its governance arrangements, including the Code of Corporate Governance.
Internal Audit	Provides independent assurance on the adequacy and effectiveness of the Pension Fund's governance, risk management and control framework.
External Audit	Report on the Pension Fund's Annual Report and Accounts (including the Annual Governance Statement).

Explicit assurance that each of the core arrangements for the local code are operating effectively are shown below:

Principle		Compliance	Comments
A	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.		The Pension Fund adheres to the Council's Constitution which sets out the basic rules governing the way the Council (including the Pension Fund) conducts business. It sets out how decisions are made and the procedures that are followed to ensure that these are accessible, transparent and accountable to local people. The Council has a duty to appoint Chief Officer roles, these being: The Chief Executive, who is principal advisor to the Council on all matters of policy and strategic direction and is responsible for the implementation of Council aims and priorities, strategies and policies, including leading the delivery of Best Value and Community Planning. The Monitoring Officer who has a key role in ensuring that decisions taken by the Council are within the law, and to maintain the Council's Constitution and its governance arrangements, including the Code of Corporate Governance. The Section 95 Officer is the principal financial adviser to the Council and is responsible for the proper administration of the Council's financial affairs and internal control environment. The employee Code of Conduct is underpinned by the Seven Principles of Public Life (the Nolan Principles). It describes the standard of behaviour expected of all employees of the Council (including the Pension Fund) in their day-to-day duties, and communications with colleagues, managers, Councillors, service users and other organisations and members of the public. The Councillor Code of Conduct is issued by the Scottish Ministers and sets out the conduct expected of every elected member of a local authority in Scotland.
B	Ensuring openness and comprehensive stakeholder engagement.		Meetings of the Pension Fund Committee and Pension Board are held in public and are routinely webcast, allowing scheme members, employers and the wider community to observe discussions and decisions in real time. The Pension Fund has a Communications Policy which summaries how the administering authority communicates with members, employers and other stakeholders. Active members are provided with an annual newsletter that sets out the latest information about the scheme including Pension Fund account information. The Shetland Islands Council Pension Fund website provides clear, accessible information for members, covering key areas such as scheme membership, contribution rates, benefits, retirement options, and general pension guidance.

			Membership of the Pension Board consists of equal numbers of trade union representatives and employer representatives, drawn from Shetland Islands Council and scheduled or admitted bodies in the membership of the Pension Fund. In fulfilling its remit, the Board considers a wide range of matters, including reports to the Pensions Committee, investment strategy and monitoring, administrative performance, actuarial valuations, and funding policy.
C	Defining outcomes in terms of sustainable economic, social, and environmental benefits.		The Pension Fund's Investment Strategy has been developed with the help and advice of Isio, who are the Pension Fund's investment consultants. The Strategy maintains a growth strategy while reducing the level of equity risk and using the benefit of investing in illiquid assets to achieve more stable high returns. This supports the achievement of the Fund's long-term objectives. In line with the Competition and Markets Authority (CMA) requirements, an annual report is presented to the Pension Fund Committee and Board reviewing the investment advisor's performance, and a compliance statement to this effect is reported in the annual accounts. All fund managers have signed up to the United Nations Principles on Responsible Investment Management. This commitment ensures that environmental, social and governance (ESG) considerations are embedded within investment analysis and stewardship activity. The Fund recognises that ESG factors can have a material impact on the long-term investment performance and that responsible investment contributes to sustainable economic, social and environmental outcomes.
D	Determining the interventions necessary to optimise the achievement of the intended outcomes.		Decisions impacting on the Pension Fund are informed by actuarial advice, investment strategy reviews and performance monitoring. The Pension Fund undertakes reviews of its Investment Strategy, informed by actuarial and investment advice. This allows the Fund to respond to changes in funding, risk and market conditions, ensuring the strategy remains aligned with the Fund objectives. The Pension Fund Committee and Pension Board receive quarterly financial performance and investment review reports. These reports summarise the financial performance and investment position of the Fund enabling the Pension Fund Committee and Pension Board to gain assurance that resources are being managed effectively, and to inform any action required to be taken.

E	Developing the entity's capacity, including the capability of its leadership and the individuals within it.		Training is made available to the Members of the Pension Fund Committee and Pension Board throughout the year. Members take part in the National Knowledge Assessment (NKA) provided by Hymans Robertson. The NKA measures knowledge across the core areas of LGPS governance, funding, investments and administration, and is aligned to the CIPFA Knowledge and Skills Framework. The results help identify and tailor training needs. In addition, members have access to Hymans Robertson's LOLA (LGPS Online Learning Academy) training platform, which provides structured, modular learning to support continuous development and ensure that members maintain the knowledge and skills required by the Pension Regulator's General Code of Practice. Training is also provided through presentations from fund managers, covering knowledge areas relating to the Pension Fund Investments, and from the Pension Fund actuaries.
F	Managing risks and performance through robust internal control and strong public financial management.		The risk register is reviewed regularly and reported to the Pension Fund Committee and Pension Board at least annually. It forms an integral part of the effective management and administration of the Pension Fund, enabling emerging risks to be identified, monitored and mitigated in a timely manner. Robust financial monitoring arrangements are in place, including quarterly reporting on investment performance and budget monitoring. These reports are scrutinised by the Pension Fund Committee and Pension Board, ensuring that financial performance and risk are subject to appropriate oversight and challenge. Internal Audit provides independent assurance on the adequacy and effectiveness of the Fund's governance, risk management and internal control arrangements. Whilst all audit reports are presented to Audit Committee for consideration, in future all audit reports relating to Pension Fund will be presented to Pension Committee/Board members for awareness. The Chief Internal Auditor provides an annual opinion on the overall control environment, which forms a key component of the assurance framework supporting this Annual Governance Statement. External audit undertakes an independent review of the Pension Fund's Annual Report and Accounts, including this Annual Governance Statement. Their work provides assurance on the financial statements and concludes on the Fund's arrangements for financial management, financial sustainability, vision, leadership and governance, and use of resources to improve outcomes. Findings are reported to the Pension Fund Committee, supporting accountability and continuous improvement.

G	Implementing good practices in transparency, reporting, and audit to deliver effective accountability.		Agendas and minutes of the Pension Fund Committee and Pension Board are publicly available on the Council's website. The Pension Fund Committee and Pension Board meetings are live streamed allowing scheme members, employers and the wider community to observe discussions and decisions in real time. Accountability and decision-making arrangements are clearly defined within the Council's constitution and the Pension Fund Committee's Terms of Reference. These documents set out roles, responsibilities and delegations, ensuring clarity over who is responsible for key decisions and how those decisions are scrutinised. A range of key documents are reported annually and made publicly available through COINS, the Council's committee management system. These include the Pension Fund's Annual Report and Accounts, the Internal Audit Annual Report, the External Audit's Annual Audit Report and this Annual Governance Statement. Together, these reports provide assurance on financial performance, governance, risk management and stewardship of the fund.
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Governance Compliance Statement 2025/26

In addition to complying with the governance framework approved by the Council, the Local Government Pension Scheme (Scotland) Regulations 2018 require each Administering Authority to publish a Governance Compliance Statement that sets out how their governance arrangements comply with best practice issued by the Scottish Ministers. The table below contains a self-assessment of the Fund's compliance with these principles and highlights any actions required to implement improvements. Where compliance does not meet the required standard, there is a requirement for Administering Authorities to set out any reasons for non-compliance in their Governance Compliance Statement.

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

iii) where appropriate, independent professional observers; and expert advisors (on an ad-hoc basis).	iii)		iii) Professional advisors (investment fund managers, investment advisors, actuary etc.) are regularly invited to attend Pension Committee and Board meetings.
Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given opportunities to contribute to the decision-making process, with or without voting rights.			Pension Board members have the same access to information, papers and training as Pension Fund Committee members. Pension Fund Committee and Board meetings are recorded and made public on the Shetland Islands Council website for those unable to attend in person.
Selection and role of lay members			
Committee or board members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.			Committee and Board members induction training provided following the Scottish Local Government elections. Members of the Pension Fund Committee and Pension Board attended training events during the year relating to Fund administration and investment management.
At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.			'Declarations of Interest' is a standing item on all agendas.
Voting			
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.			The Terms of Reference for both Pension Fund Committee and Pension Board set out this principle.

Our assessment of effectiveness

The Pension Fund is responsible for ensuring the governance framework and systems of internal control remain effective. The Pension Fund conducts an annual review of the effectiveness of the overall governance framework. The Pension Fund gains assurance from various sources:

- Assurances from senior managers. These assurances include confirmation of compliance with internal financial controls and provide the opportunity to highlight any weaknesses or areas for concern;
- Regular reports on risk management activity;
- The head of internal audit's opinion on governance, risk management and internal control;
- Internal and external audit and inspection; and
- Self-assessments

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

2025/26 annual review

The Council as Administering Authority for the Pension Fund conducts an annual review of the effectiveness of its overall governance framework. The review is informed by the work of the senior officers who have responsibility for the development and maintenance of the governance framework, the Internal Audit Annual Report prepared by the Chief Internal Auditor and also reports from external auditors and other external agencies.

The Corporate Management Team, which consists of the Chief Executive, Directors, and Chief Officers concluded in their review on 9 June 2026 that the annual review process has demonstrated sufficient evidence that the Council's corporate governance arrangements have operated effectively and comply with the relevant principles in all significant respects.

Based on the evidence presented in the Council's Corporate Governance – Self Assessment 2025/26, the Council concludes that it is governed by sound and

effective internal management controls and continues to demonstrate compliance with the requirements of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'.

The self-assessment document is available from the Council's website:

<https://www.shetland.gov.uk/downloads/download/260/constitution-governance-downloads>

Internal management

Administration of the Pension Fund is directly within the remit of the Director of Corporate Services and assurance has been sought from the Director in relation to the effectiveness of internal financial controls. This assurance provides the opportunity to highlight any weaknesses or areas of concern that should be considered. For 2025/26, no areas of weakness or concern were identified.

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

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

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

The Pensions Regulator General Code of Practice

The Pension Regulator (TPR) is responsible for the regulatory oversight of public service pension schemes, including the Local Government Pension Scheme. In 2024, TPR published a new single General

Code of Practice (GCoP) for all pension schemes, including the public sector. Pension Fund Administering authorities of Funds must comply with the sections relevant to them.

Hymans Robertson developed a LGPS Code Checker Self-Assessment Tool, which has been used to complete the initial assessment of the Pension Fund's current compliance with TPRs new GCoP. A summary of the Pension Fund's current assessment of compliance with the new Code was reported to the Pension Fund Committee and Pension Board in November 2025 and is available here: <https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=31774>

Audit Glasgow have been asked to use the GCOP template as a basis for future audits, reviewing the basis of the self-assessment scoring on an ongoing basis.

Internal audit reviews

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

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

No audits relating specifically to the Pension Fund were completed in 2025/26, although a new audit on compliance with TPRs new GCoP commenced during the year. All prior year Pension Fund audit recommendations have been fully resolved.

The Chief Internal Auditor's opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2025/26 in the Council (the Administering Authority for the Pension Fund).

External audit

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

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

The 2024/25 audit contained one audit recommendation regarding management assurances over Level 3 investment valuations. Management have undertaken additional assurance checks to address the audit recommendation, and in discussions with Audit Scotland, this recommendation has been closed. There have been two new audit recommendations in the year; to strengthen arrangements for member training and meeting attendance, and improvements to quarterly Investment performance reporting and scrutiny.

Investment fund managers and the Custodian

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

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

Where our governance needs to improve

The completed LGPS (GCoP) Self-Assessment Tool, captured actions required to progress towards an improved compliance position. The action plan covers the following areas:

- Board Structure and Activities;
- Knowledge & Understanding;
- Advisers and service providers;
- Risk management;

- Scheme governance;
- Investment;
- Scheme administration;
- Information handling;
- Communications & disclosure – public information; and
- Reporting to TPR: reporting breaches.

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

How we have improved our governance arrangements in 2025/26

During 2025/26, the Pension Fund strengthened its governance arrangements in several key areas. The Fund completed its first full self-assessment against the TPR GCoP, using the Hymans Robertson LGPS Code Checker. This work provided an understanding of compliance and identified areas for improvement, which will be progressed during 2026.

All outstanding internal audit recommendations specific to the Pension Fund were completed.

Training for Pension Fund Committee and Board members was further strengthened through the CIPFA Knowledge and Skills assessment process and targeted training sessions delivered by fund managers and the Fund actuary.

Recognising the need to ensure governance documents remain current, the Council has established a Governance Working Group to oversee the review and updating of key constitutional and governance documents during 2026.

Forward look on governance

The Pension Fund is committed to take steps to address any new or outstanding matters to further enhance our governance arrangements.

Self-assessment against the GCoP will be reviewed and updated annually to ensure continuous improvement and to identify the key areas that need further work or processes and/or policies to be put in place.

Audit Glasgow have been asked to use the GCoP template as a basis for future audits, reviewing the basis of the self-assessment scoring on an ongoing basis. Whilst all audit reports are presented to Audit Committee for consideration, in future all audit reports relating to the Pension Fund will be presented to the Pension Fund Committee and Pension Board members for awareness.

The Pension Fund will continue to monitor effectiveness of the governance arrangements and will take any new recommendations into account as part of the next annual review.

Conclusion

Overall, it is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance arrangements and systems of internal control that operate across the Council as Administering Authority of the Pension Fund throughout 2025/26. We consider that the governance arrangements and internal control environment allow the identification of any significant risks which may impact on the achievement of the Pension Fund's principal objectives, and to take action (or actions) to avoid or mitigate the impact of any such risks.

Emma Macdonald

Emma Macdonald
Leader of the Council
Chair of the Pension Fund Committee
21 September 2026

Maggie Sandison

Maggie Sandison
Chief Executive
Shetland Islands Council
23 September 2026

Section 7 – Fund Account, Net Assets Statement and Notes

Statement of Responsibilities for the Statement of Accounts

The administering authority's responsibilities

The Authority is required to:

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

I certify the Annual Accounts have been approved for signature by the Pension Fund Committee at its meeting on 21 September 2026.

Signed on behalf of Shetland Islands Council.

Emma Macdonald

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Emma Macdonald
Leader of the Council
Chair of the Pension Fund Committee
21 September 2026

The Executive Manager – Finance's responsibilities

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

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

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

The Executive Manager - Finance has also:

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2026.

Paul Fraser

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Paul Fraser, CPFA
Interim Director of People & Resources
Shetland Islands Council
22 September 2026

Pension Fund Account for year ended 31 March 2026

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

2024/25 £000		Notes	2025/26 £000	2025/26 £000
	Dealings with members, employers and others directly involved in the scheme			
(23,538)	Contributions	6	(24,871)	
(2,149)	Transfers in from other pension funds	7	(1,229)	
(1)	Other income		0	
(25,688)	Total Additions			(26,100)
22,677	Benefits payable	8	22,862	
3,083	Payments to and on account of leavers	9	2,852	
23	Other payments		10	
25,783	Total Withdrawals			25,724
95	Net (additions)/withdrawals from dealings with members			(376)
3,955	Management expenses	10		4,742
4,050	Net (additions)/withdrawals including Fund Management Expenses			4,366
	Return on investments			
(9,936)	Investment income	12		(10,748)
(10,263)	(Profits) and losses on disposal of investments and changes in market value of investments	15b		(89,401)
(20,199)	Net return on investments			(100,149)
(16,149)	Net (increase)/decrease in the net assets available for benefits during the year			(95,783)
(767,986)	Opening net assets of the scheme			(784,135)
(784,135)	Closing net assets of the scheme			(879,918)

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 Pension Fund. The net assets of the Pension Fund (assets less current liabilities) represent the funds available to provide for pension benefits at the statement date.

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

As at 31 March 2025 £000		Notes	As at 31 March 2026 £000
	Investment Assets		
782,229	Investment Assets	13	878,388
782,229	Total Investment Assets		878,388
	Non-current Assets		
100	Long-term debtors	20a	89
100	Total Non-current Assets		89
	Current Assets		
1,977	Debtors	20	2,108
2,926	Bank current accounts	20	1,823
4,903	Total Current Assets		3,931
	Current Liabilities		
(798)	Sundry creditors	22	(493)
(2,299)	Benefits payable	22	(1,997)
(3,097)	Total Current Liabilities		(2,490)
784,135	Net assets of the scheme available to fund benefits at the reporting year end		879,918

The unaudited financial statement were issued on 22 June 2026, and the audited accounts were authorised for issue on 21 September 2026.

Paul Fraser

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Paul Fraser, CPFA
Interim Director of People & Resources
Shetland Islands Council
22 September 2026

Notes to the Accounts

Note 1: Description of Pension Fund

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

General

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

- the Local Government Pension Scheme (Scotland) Regulations 2018;
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015; and
- The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2010.

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

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

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

Membership

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

Organisations participating in the Shetland Islands Council Pension Fund include:

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

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

31 March 2025	Shetland Islands Council Pension Fund	31 March 2026
9	Number of employers with active members	9
	Number of employees in scheme:	
3,246	Shetland Islands Council	3,273
301	Other employers	308
3,547	Total	3,581
	Number of pensioners/dependants	
2,414	Shetland Islands Council	2,529
238	Other employers	253
2,652	Total	2,782
	Deferred pensioners	
2,225	Shetland Islands Council	2,157
506	Other employers	460
2,731	Total	2,617
8,930	Scheme Total	8,980

Note 2: Basis of Preparation

The Statement of Accounts summarises the Pension Fund's transactions for the 2025/26 financial year and its position at year-end as at 31 March 2026. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Pension Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS 19 basis, is disclosed at Note 18.

The accounts have been prepared on a going concern basis.

Note 3: Accounting Standards Issued not Adopted

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

- Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (Amendments to Heritage assets). Applicable for periods beginning on or after 1 April 2026.
- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7). Applicable for periods beginning on or after 1 April 2026.
- Annual improvements to IFRS accounting standards – Volume 11. Applicable for periods beginning on or after 1 April 2026.
- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7). Applicable for periods beginning on or after 1 April 2026.

These amendments are not expected to have an impact on the Pension Fund's financial statements.

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

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

could be materially different from assumptions and estimates.

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

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

Item	Uncertainties - Estimate	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. An actuary to the Fund is appointed to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, 0.1% decrease in the real discount rate assumption would result in a decrease in the pension liability of £10m. A 0.1% increase in salary increase rate would increase the value of liabilities by approximately £1m, and a 0.1% increase in CPI inflation would increase the liability £10m, and a 1 year increase in member life expectancy would increase the liability £23m.
Level 3 investments	Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Key sensitivities affecting valuations for level 3 assets are shown in the basis of valuation table at note 14.	The Pension Fund has investments in Property, Infrastructure and Private Credit which are currently classified as level 3 investments. The value of these investments at 31 March 2026 is £272m. Changes to this value based on assessed volatility for these classes of assets, would give a value on increase of £308m and on decrease of £235m, as shown in the table at note 14.

Note 5: Critical judgements in Applying Accounting Policies

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

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years, if required. The methodology used is in line with accepted guidelines and in accordance with IAS 19.

Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 17.

Note 6: Contributions Receivable

By category:

31 March 2025 £000		31 March 2026 £000
(17,705)	Employers - normal	(18,733)
(252)	Employers - augmentation	(170)
(5,581)	Members - normal	(5,968)
(23,538)	Total	(24,871)

By authority:

31 March 2025 £000		31 March 2026 £000
(20,318)	Administering authority	(21,766)
(179)	Scheduled bodies	(214)
(3,041)	Admitted bodies	(2,891)
(23,538)	Total	(24,871)

Note 7: Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 March 2025 £000		31 March 2026 £000
(2,149)	Individual transfers in	(1,229)
(2,149)	Total	(1,229)

The Pension Fund received 40 transfers in during 2025/26 with an average transfer value of £30,722, compared to 68 transfers in during 2024/25 with an average value of £31,611.

Note 8: Benefits Payable

By category:

31 March 2025 £000		31 March 2026 £000
17,006	Pensions	18,250
4,824	Commutation and lump sum retirement benefits	4,177
847	Lump sum death benefits	435
22,677	Total	22,862

By authority:

31 March 2025 £000		31 March 2026 £000
20,019	Administering authority	20,542
180	Scheduled bodies	175
2,478	Admitted bodies	2,145
22,677	Total	22,862

Note 9: Payments to and on Account of Leavers

31 March 2025 £000		31 March 2026 £000
88	Refunds to members leaving service	45
2,995	Individual transfers	2,807
3,083	Total	2,852

Note 10: Management Expenses

31 March 2025		31 March 2026
£000		£000
625	Administration Expenses	749
54	Oversight and Governance Expenses	56
	Investment Management expenses	
3,181	Management Fees	2,859
62	Performance Fees*	1,045
33	Custody Fees	33
3,955	Total	4,742

Note 10a: Investment Management Expenses

2025/26	Total £000	Management fees £000	Performance related fees £000
Managed Funds	1,421	1421	
Unit linked insurance policies	42	42	
Private Credit	658	658	
Infrastructure	1,673	628	1,045
Pooled Property Unit Trusts	98	98	
Property Debt	10	10	
Unitised Liquidity Fund	2	2	
	3,904	2,859	1,045
Custody fees	33		
Total	3,937		

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

*Performance related fees of £543,000 were included within management fees for 2024/25. As the amount is not material, prior years' figures have not been restated.

Note 11: External Audit Costs

31 March 2025 £000		31 March 2026 £000
38	Payable in respect of external audit	42
38	Total	42

Note 12: Investment Income

31 March 2025 £000		31 March 2026 £000
(4,311)	Private equity income	(4,742)
(2,312)	Pooled investment vehicles	(1,515)
(1,602)	Managed Funds	(1,598)
(1,596)	Infrastructure	(1,987)
(111)	Interest on cash deposits	(295)
(4)	Other	(611)
(9,936)	Total	(10,748)

Note 13: Investments

Fair Value As at 31 March 2025 £000		Fair Value As at 31 March 2026 £000
301,052	Managed Funds	299,861
296,759	Unit Linked Insurance Policies	303,651
40,002	Private Credit	53,274
72,930	Infrastructure	178,166
55,498	Pooled property unit trusts	36,612
6,307	Unitised Liquidity Fund	681
5,461	Property Debt	3,646
4,220	Cash deposits	2,458
72	Property income due	39
(72)	Diversified growth income due	0
782,229	Total investment assets	878,388

Note 13a: Reconciliation of movements in investments

	Market Value at 1 April 2025 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2026 £000
Investment Assets:					
Pooled Funds - managed funds	301,053	126,793	(159,849)	31,864	299,861
Unit Linked Insurance Policies	296,758	20	(45,000)	51,873	303,651
Private Credit	40,002	13,390	(71)	(47)	53,274
Infrastructure	72,930	101,032	(2,701)	6,905	178,166
Pooled Property Unit Trusts	55,498	473	(18,007)	(1,352)	36,612
Unitised Liquidity Fund	6,307	7,432	(13,262)	204	681
Property Debt	5,461	0	(1,769)	(46)	3,646
Total Pooled Investment Vehicles	778,009	249,140	(240,659)	89,401	875,891
Other investment balances:					
Property Income due	72				39
Property Purchase due	(72)				0
Cash Deposits	4,220				2,458
Net investment assets	782,229				878,388

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

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

Note 13b: Analysis by Fund Manager

Market Value 31 March 2025			Market Value 31 March 2026	
£000	%		£000	%
296,771	38	BlackRock	303,664	35
67,328	9	Schroders	41,236	5
110,655	14	KBI	0	0
0	0	Fisher	136,326	15
190,398	24	Baillie Gifford	163,535	19
72,930	9	IFM	178,166	20
44,147	6	Permira	55,461	6
782,229	100	Total investment assets	878,388	100

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

Market Value 31 March 2025			Market Value 31 March 2026	
£000	%		£000	%
296,759	38	Aquila Life MSCI World Fund S1	303,651	35
110,655	14	KBI 1 Dividend Plus	0	0
72,930	9	IFM loan Fund	178,166	20
190,398	24	Ballie Gifford Global Alpha Fund	163,535	19
40,002	5	Permira CR Solns V Senior GBP SCSP	53,274	6
0	0	FI INST GLOBAL DEV EQ FUND	136,326	15

Note 14: Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

As at 31 March 2025 £000	Fair value through profit and loss	As at 31 March 2026 £000
10,527	Level 1	139,504
597,811	Level 2	467,186
173,891	Level 3	271,698
782,229	Net Investment Assets	878,388

Basis of Valuation

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

Description of Asset	Valuation hierarchy	Basis of valuation	Observable / unobservable inputs	Key sensitivities affecting valuations
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short term nature of these financial instruments.	Not required	Not required
Market Quoted Investments	Level 1	Published NAV market price on the final day of the accounting period.	Not required	Not required
Global pooled fund investments	Level 2	Closing bid price where bid and offer price are published. Closing single price where single price published.	NAV-based pricing	Not required
Pooled property funds where regular trading does not take place	Level 3	Open-ended funds are valued at mid-price, and closed-ended funds are valued at NAV.	NAV -based pricing on statements and/or global pricing platforms.	Significant changes in rental growth, vacancy levels or the discounted rate could affect valuations as could more general changes to market prices.
Unquoted private market credit investments where regular trading does not take place	Level 3	Assets are valued on a fair value basis. In accordance with International Private Equity & Venture Capital Guidelines and Private Equity Industrial Group Guidelines.	Review from third party valuation company.	Valuations could be affected by significant market movements, refinancing activity or changes in operating conditions.

Unquoted infrastructure funds where regular trading does not take place	Level 3	Valued by independent third-party valuation firms, in line with relevant accounting standards (including AASB and US GAAP).	Assets are valued using discounted cash flow methodologies, with discount rates determined by the independent valuer and cross-checked against market data and comparable transactions.	Valuations could be affected by significant market movements, refinancing activity or changes in operating conditions.
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Sensitivity of assets valued at level 3

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

	Assessed valuation range (+/-)	Value at 31 March 2026 £000	Value on increase £000	Value on decrease £000
Private Credit	7.4%	53,274	57,216	49,332
Infrastructure	14.6%	178,166	204,178	152,154
Pooled Property	15.9%	36,612	42,433	30,791
Real Estate Debt	15.9%	3,646	4,226	3,066
		271,698	308,054	235,342

For the year ending 31 March 2026 the value of level 3 assets was £272m (2024/25: £174m)

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

	Market value at 1 April 2025 £000	Trfrs into Level 3 £000	Trfrs out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Realised gains/losses £000	Unrealised gains/losses £000	Market value at 31 March 2026 £000
Private Credit	40,002	-	-	13,390	(71)	52	(99)	53,274
Infrastructure	72,930	-	-	101,032	(2,701)	197	6,708	178,166
Pooled Property	55,498	-	-	473	(18,007)	2,875	(4,227)	36,612
Real Estate Debt	5,461	-	-	-	(1,769)	(5)	(41)	3,646
	173,891	-	-	114,895	- 22,548	3,119	2,341	271,698

Note 15: Financial Instruments

Note 15a - Classification of financial instruments

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

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

As at 31 March 2025				As at 31 March 2026		
Fair value through profit and loss £000	Receivables £000	Financial liabilities £000		Fair value through profit and loss £000	Receivables £000	Financial liabilities £000
			Financial assets			
			Pooled funds			
301,053			- managed funds	299,861		
296,758			- unit linked insurance policies	303,651		
40,002			Private Credit	53,274		
72,930			Infrastructure	178,166		
55,498			Pooled property unit trusts	36,612		
6,307			Unitised liquidity funds	681		
5,461			Property debt	3,646		
4,220	2,926		Cash	2,458	1,823	
72			Property income due	39		
-72			Property Purchase due Debtors		2,108	
	1,977					
782,229	4,903	0	Total Financial assets	878,388	3,931	0
			Financial liabilities			
		(3,097)	Creditors			(2,490)
0	0	(3,097)	Total Financial liabilities	0	0	(2,490)
782,229	4,903	(3,097)	Total	878,388	3,931	(2,490)

Note 15b: Net gains and losses on financial instruments

As at 31 March 2025 £000	Financial assets	As at 31 March 2026 £000
(10,263)	Fair value through profit and loss	(89,401)
(10,263)	Total	(89,401)

Note 15c: Value of financial instruments

As at 31 March 2025		Financial assets	As at 31 March 2026	
Book value £000	Market value £000		Book value £000	Market value £000
631,983	782,229	Fair value through profit and loss	736,852	878,388
631,983	782,229	Total	736,852	878,388

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

Risk and risk management

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

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

Market risk

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

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

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

Other price risk

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

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

Other Pension Fund price risk - sensitivity analysis

In agreement with the Pension Fund's performance analyst, and following analysis of historical data and expected investment return during the financial year, the Pension Fund has determined that the following movements in market price risk are deemed reasonably possible for the financial year 2025/26 reporting period:

Asset Type	Potential market movements (+/-)
Global equities (ex UK)	18.6%
Infrastructure Equity	14.6%
Property	15.9%
Cash	0.3%
Private Credit	7.4%

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

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

Asset Type	Value as at 31 March 2026 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Investment portfolio assets:				
Cash and cash equivalents	3,139	0.30%	3,148	3,130
Global Equities	603,512	18.6%	715,765	491,259
Property	40,297	15.9%	46,704	33,890
Infrastructure	178,166	14.6%	204,177	152,153
Private Credit	53,274	7.4%	57,216	49,332
Total assets	878,388		1,027,010	729,764

Asset Type	Value as at 31 March 2025 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Investment portfolio assets:				
Cash and cash equivalents	10,527	0.30%	10,559	10,495
Global Equities	597,811	18.6%	709,004	486,618
Property	60,959	15.2%	70,225	51,693
Infrastructure	72,930	14.5%	83,505	62,355
Private Credit	40,002	7.6%	43,042	36,962
Total assets	782,229		916,335	648,123

Interest rate risk

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

These investments are subject to interest rate risks, which represent the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The

Pension Fund has a diversified portfolio, managed by different Fund Managers who have the flexibility to hold cash and cash-equivalent balances in order to make investments at short notice. These balances are exposed to interest rate risk, however Fund Managers are expected to maintain such balances at a minimal level, whilst retaining the agility to invest in line with their respective investment mandates.

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

As at 31 March 2025 £000		As at 31 March 2026 £000
	Asset type	
10,527	Cash and cash equivalents	3,139
2,926	Cash balances	1,823
40,002	Private credit	53,274
53,455	Total	58,236

Interest rate risk sensitivity analysis

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

Asset exposed to interest rate risk:

Asset Type	Carrying amount as at 31 March 2026 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £000
Cash and cash equivalents	3,139	31	(31)
Cash balances	1,823	18	(18)
Private credit	53,274	533	(533)
Total change in assets available	58,236	582	(582)

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

Currency risk

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

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

The following table summarises the Pension Fund's currency exposure as at 31 March 2026 and as at the previous period end.

As at 31 March 2025 £000		As at 31 March 2026 £000
	Asset type	
579,133	Pooled Funds - overseas equities	581,638
64,689	Infrastructure	158,746
31,786	Private Credit	39,422
675,608	Total	779,806

Currency risk - sensitivity analysis

Following analysis of data provided by the Pension Fund's performance analysts, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 8.7%.

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 Pension Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Carrying amount as at 31 March 2026 £000	Change to net assets available to pay benefits	
		+8.7% £000	-8.7% £000
Pooled Funds - overseas equities	581,638	632,241	531,035
Infrastructure	158,746	172,557	144,935
Private Credit	39,422	42,852	35,992
Total change in assets available	779,806	847,650	711,962

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

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Pension Fund

to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of

loss is implicitly provided for in the carrying value of the Pension Fund's financial assets and liabilities.

In essence, the Pension Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Deposits are not made with banks and financial institutions unless they meet the Council's credit criteria. The Council has also set limits on the value of these deposits, which can be placed with any bank or financial institution, apart from the bank the Council uses for its daily operations.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years.

The Pension Fund's cash holding under its treasury management arrangements at 31 March 2026 was £4.282m (31 March 2025: £7.146m). This was held with the following institutions:

As at 31 March 2025 £000		As at 31 March 2026 £000
	Fund manager deposits	
62	Schroders cash	258
13	BlackRock cash	13
4,145	Permira cash	2,188
	Bank current accounts	
2,926	Bank of Scotland Plc	1,823
7,146	Total	4,282

Liquidity risk

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

The Pension Fund has immediate access to all its cash holdings. The Pension Fund also has an overdraft facility to cover any unexpected short-term cash needs. The overdraft facility has not been

used over the past five years and therefore the Pension Fund's exposure to liquidity risk is considered negligible.

The Pension Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert into cash. As at 31 March 2026, the value of illiquid assets was £271.9m, which represented 30.9% of the Pension Fund Investment assets (31 March 2025: £173.9m, which represented 22.2% of the Pension Fund assets).

Note 17: Funding Arrangements

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

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

The key elements of the funding policy are:

- to ensure the long-term solvency of the overall Fund
- to ensure the solvency of each individual employer's 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

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

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.

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) (Administration) Regulations 2018 was at 31 March 2023. This valuation revealed that the Pension Fund's assets, which at 31 March 2023 were valued at £660m, were sufficient to meet 120% (£461m and 92% at 31 March 2020 valuation) of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £111m (2020 valuation: £38m deficit).

Copies of the 2023 Triennial Valuation Report and Funding Strategy Statement are available on request from Shetland Islands Council Pension Fund website. <https://www.shetlandpensionfund.org/resources/>

Principal actuarial assumptions and method used in the valuation

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

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary

growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

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

The primary rate of contribution payable by each employing authority under regulation 32(4)(a) of the 2014 Regulations for the period 1 April 2024 to 31 March 2027 is between 19.0% and 31.6% of pensionable pay.

Individual employers' rates are adjusted under regulation 32(4) (b) from the common contribution rate. The contribution rates payable for the period 1 April 2024 to 31 March 2027 were set in accordance with the Pension Fund's funding policy as set out in its Funding Strategy Statement.

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

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

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

Financial assumptions	% per annum
Discount rate	4.60%
Salary increase assumption	2.30%
Benefit increase assumption (CPI)	2.30%

Mortality assumptions

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

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

Commutation assumption

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

50:50 Option assumption

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

Note 18: Actuarial Present Value of Promised Retirement Benefits

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

Note 19: Changes in Actuarial Value of promised Retirement Benefits

Actuarial Present Value of Promised Retirement Benefits	Vested Benefits £m	Total £m
Balance at 31 March 2026	569	569
Increase/(Decrease) in value during 2025/26	23	23
Balance at 31 March 2025	546	546
Increase/(Decrease) in value during 2024/25	(71)	(71)
Balance at 31 March 2024	617	617

The promised retirement benefits at 31 March 2026 have been projected using a roll forward approximation by the Pension Fund actuary from the latest formal funding valuation at 31 March 2023. It should be noted the figures are appropriate for the administering authority only for the preparation of the Pension Fund Accounts and should not be used for any other purpose. These are included in Section 5.

Note 20: Current Assets

As at 31 March 2025 £000		As at 31 March 2026 £000
468	Debtors:	
	Contributions due - employees	507
1,489	Contributions due - employers	1,587
20	Sundry debtors	14
2,926	Bank current accounts	1,823
4,903	Total	3,931

Note 20a: Long Term Debtor

As at 31 March 2025 £000		As at 31 March 2026 £000
	Long Term Debtors	
100	Reimbursement of lifetime tax allowance	89
100	Total	89

Note 21: Unfunded Pension

As at 31 March 2025 £000		As at 31 March 2026 £000
800	Added years pension	796

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

Note 22: Current Liabilities

As at 31 March 2025 £000		As at 31 March 2026 £000
(798)	Sundry creditors	(493)
(2,299)	Benefits payable	(1,997)
(3,097)	Total	(2,490)

Note 23: Contingent Liabilities

GMP Equalisation

Following a High Court ruling from 26 October 2016, all defined benefit pension schemes must equalise guaranteed minimum pension (GMP) for men and women. From October 2016, the UK Government confirmed that all public service pension schemes would fully index GMPs from that date, effectively delivering equalisation through ongoing indexation. This was built into both the 2020 Pension Fund valuation and the 2023 Valuation.

Advice is still awaited on how past cases require to be addressed but no explicit allowance was made in the 2023 Valuation.

Survivors Benefits

Regulations have now been made which change the rules for calculating pre-April 15 survivor pensions in response to two court cases: namely Walker v

Innospec and Goodwin v Department for Education. Principally, for deaths on or after 5 December 2005, the amendments place surviving same-sex civil partners, survivors of married same-sex couples and male survivors of female married members in a similar position to female survivors of male married members.

The Regulations were made on 29 April 2022 and came into force on 1 June 2022. Recent system changes have allowed us to identify the few members that are affected. Calculations still require to be performed, and any benefits due will be backdated, with the appropriate interest added to them.

With the relatively few members that are affected, the impact on scheme liabilities will be minimal.

Cost Cap Valuation

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

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

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

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

Under existing legislation, the next valuation will be based on scheme data as at 31st March 2026 and will set the employer contribution rate for the period 1 April 2027 to 31 March 2031.

Note 24: Additional Voluntary Contributions

As at 31 March 2025 £000		As at 31 March 2026 £000
6,246	Prudential	7,092
32	Utmost (formerly Equitable Life)	35
6,278	Total	7,127

AVC contributions of £1.349m were paid directly to Prudential during the year (2024/25: £0.955m).

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

Note 25: Related Party Transactions

Shetland Islands Council

The Shetland Islands Council Pension Fund is administered by Shetland Islands Council. Consequently, there is a strong relationship between the Council and the Pension Fund. The Council incurred costs of £0.763m (2024/25 £0.642m) in relation to the administration of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses. A recharge for a proportion of the salary costs for the Team Leader-Expenditure is included in the administration expenses above. The recharge of cost for the Section 95 officer is split between administration and investment costs.

The investments of the Pension Fund are overseen by the Council's Treasury Section: their costs are levied by staff time allocations. Costs incurred were £0.074m (2024/25 £0.062m) in relation to administering investments of the Pension Fund and

was subsequently reimbursed by the Pension Fund for these expenses.

The Council incurred costs of £18.250m (2024/25 £17.006m) in relation to pensioner payments. Such payments are reimbursed by the Pension Fund.

In addition, the Council is the single largest employer of Pension Fund members and contributed £16.440m to the Pension Fund (2024/25 £15.371m).

Governance

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

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

Note 26: Events after the Reporting Date

The Audited Annual Accounts were authorised for issue on 21 September 2026. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2026, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 27: Accounting Policies

The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 which is based upon International Reporting Standards (IFRS) as amended for the UK public sector.

The accounts summarise the transactions of the Pension Fund and report on the net assets available to pay pension benefits. The accounts do not take account of any obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of the promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed at Note 19 of these accounts.

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

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

Management's assessment of the above factors has determined that it is still appropriate to prepare the Pension Fund's accounts on a going concern basis, as required by the Code of Practice on Local Authority Accounting 2025/26.

Pension Fund account - revenue recognition

A Contribution income

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

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

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

B Transfers to and from other schemes

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

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional

voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (Note 7).

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

C Investment income

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

Pension Fund account - expense items

D Benefits payable

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

E Management Expenses

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

- **Administrative Expenses** – all staff costs relating to the Pensions Administration Team are charged direct to the Pension Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the Pension Fund;

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

F Taxation

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

Net assets statement

G Financial assets

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

from changes in the fair value of the asset are recognised in the Pension Fund Account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy, the Pension Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

H Foreign currency transactions

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

I Cash and cash equivalents

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

J Loans and receivables

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

K Financial Liabilities

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

L Actuarial present value of promised retirement benefits

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

M Additional Voluntary Contributions (AVCs)

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

AVCs are not included in the accounts in accordance with section 4(1) (b) of the Local Government

Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 24).

N Contingent Liabilities

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

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

SECTION 8 – EXTERNAL AUDIT OPINION

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Shetland Islands Council Pension Fund (the fund) for the year ended 31 March 2026 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of material accounting policy information. 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 my opinion the accompanying financial statements:

- 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

I conducted my 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. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 3 April 2024. My period of appointment is four years, covering 2023/24 to 2026/27. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I 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 financial statements 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, I 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

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Interim Director of People & Resources and Pension Fund Committee for the financial statements

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

In preparing the financial statements, the Interim Director of People & 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 Pension Fund Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my 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 financial statements.

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

- using my 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 Interim Director of People & 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 Interim Director of People & Resources concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements 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 my 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 financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Other information

The Interim Director of People & Resources is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and my auditor's report thereon.

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

My opinion on the financial statements does not cover the other information and I 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 my opinion, based on the work undertaken in the course of the audit:

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

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or

- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my 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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Rachel Browne

Rachel Browne CPFA
Audit Director,
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN
23 September 2026

Appendix 1- Collated response from Fund Managers on their environmental, social and governance focus

Collated Responses from Fund Managers

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

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

The approach taken in 2025/26 was to look more specifically at how fund managers dealt with areas of social concern and climate change. This was intended as a progressive step to delve deeper into how fund managers tackle social and climate issues at the outset within their investment processes.

Q: Pension Funds receive a range of questions on Social and perceptual issues of investments. This may include issues around defence investments or be targeted on geographic areas and identify country specific issues. Can you advise how you approach these known areas of concern within your investment screening approaches and how do you handle this with individual investors in receipt of concerns?

As active, long-term investors our ability to deliver good outcomes for our clients means being able to identify well-run companies which stand a better than average chance of delivering outperformance. Therefore, a deep understanding of any material issues which could derail that performance outcome is key, which includes the possibility of physical, financial and/or reputational damage. Our approach is to address these issues through a combination of firmwide exclusions, mandate or fund level screening (where applicable), and fundamental, case-by-case investment analysis and stewardship.

Baillie Gifford applies a firmwide exclusion on companies directly involved in the production of controversial weapons, or essential components for them. In addition, some strategies apply further sector and/or principles-based exclusions, including alignment with international norms such as the UN Global Compact.

Beyond formal exclusions, this is simply a question of materiality, flagged by our fundamental research. Where defence exposure or geographic risk is identified, we assess the nature of products and services, end markets, governance standards, regulatory and sanctions exposure, and potential reputational and long-term financial risks. This analysis informs both investment decisions and ongoing monitoring.

Stewardship is central to our approach. We engage directly with company management on governance, oversight and risk management issues and use proxy voting to support our engagement where appropriate.

When individual investors raise concerns, we respond transparently, identifying exposure and outlining our analysis and engagement activity. For segregated clients, we can discuss tailored restrictions where required, subject to mandate agreement.

Q: What scenario planning has been undertaken for your fund in relation to climate change? Please outline your general views on the resilience of existing investments against scenarios developed.

Assessing physical and transition risk is complex. To help, we think through different versions of the future using a technique called qualitative scenario analysis. At present, we believe this is more useful than quantitative scenario analysis (which is dependent on numerical data and modelling) because it allows us to explore the complexities and knock-on effects of future pathways. Baillie Gifford has developed three qualitative climate scenarios in partnership with two external organisations: The Deep Transitions project (a collaboration between the universities of Utrecht and Sussex) and Independent Economics (a macroeconomics consultancy). The scenarios are based on NGFS 'orderly', 'disorderly' and 'hothouse' world scenarios. More detail has been added in areas of interest to us, including human behaviour, technology adoption and societal change. The qualitative scenarios describe three different versions of the future.

We then assess how the holdings, and the portfolio in aggregate, might be affected if those worlds come to pass. We look in particular for sensitivities and dependencies. For example, over the medium term (3-10 years), under a disorderly transition (base case for many), the most significant risk to portfolio holdings is an abrupt and dislocating shift to the policy and regulatory landscape. Companies reliant on legacy practices or unpriced externalities may struggle to adapt to rapid change. Companies able to adapt and navigate dislocation will see market-expansion opportunities. We see such ambition from a diverse range of (some high emissions) holdings, from Ryanair to CRH, and actively engage when we deem ambition to be lacking.

BlackRock

Q: Pension Funds receive a range of questions on Social and perceptual issues of investments. This may include issues around defence investments or be targeted on geographic areas and identify country specific issues. Can you advise how you approach these known areas of concern within your investment screening approaches and how do you handle this with individual investors in receipt of concerns?

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

Q: What scenario planning has been undertaken for your fund in relation to climate change? Please outline your general views on the resilience of existing investments against scenarios developed.

The funds are index-tracking strategies designed to replicate the performance of their respective market capitalisation benchmark indices. As such, no fund-specific scenario planning is undertaken that would result in portfolio repositioning in response to climate-related scenarios, as portfolio holdings are determined by the benchmark methodology.

The resilience of the funds to climate-related transition or physical risks is therefore inherently linked to the resilience of the underlying benchmark and its constituent companies. Broad market capitalisation indices are diversified across sectors and geographies, and over time index composition evolves as market capitalisations adjust to reflect changing economic conditions, regulatory developments, and company fundamentals, including those related to climate risk.

From the firmwide perspective, in order to allow clients to make informed decisions, we are committed to providing the research and analytical tools to help clients understand the potential impacts of these factors on their portfolios such as the BlackRock Investment Institute Transition Scenario. BlackRock's research shows that climate risk can impact portfolios and assets' long-term financial performance and that an orderly transition would result in higher economic growth, compared with a no-action scenario.

IFM

Q: Pension Funds receive a range of questions on Social and perceptual issues of investments. This may include issues around defence investments or be targeted on geographic areas and identify country specific issues. Can you advise how you approach these known areas of concern within your investment screening approaches and how do you handle this with individual investors in receipt of concerns?

At IFM, we recognise that social, ethical and perceptual issues can be highly sensitive and vary across investors, regulatory environments and beneficiary expectations.

Identifying and managing areas of concern

Our investment screening framework integrates Sustainable Investment (SI) considerations alongside financial analysis. We draw on internal policies, third-party research and ongoing monitoring to identify sectors, activities and geographies with elevated social, ethical or reputational risk. This includes assessment of defence and

dual-use industries (such as product type, end use and regulatory compliance), country and regional exposures (including human rights, political stability, sanctions, labour standards and corruption), and emerging controversies or changing external conditions.

Where heightened risks are identified, they are assessed against materiality, investor mandates and our SI policies. Responses may include enhanced due diligence, active engagement, or divestment where appropriate.

Addressing investor-specific concerns

We recognise that pension funds do not take a one-size-fits-all approach. As such, we prioritise transparency, dialogue and flexibility. We provide clear disclosure on our SI policies, screening criteria and the rationale for sectoral or geographic exposures. Where concerns relate to specific holdings, we offer detailed, evidence-based explanations covering investment rationale, risk controls and engagement activity.

Ongoing review

Social expectations and geopolitical risks evolve over time. Our screening and engagement processes are therefore dynamic and regularly reviewed, informed by regulatory developments, international standards, investor feedback and emerging best practice.

Overall, our approach combines robust SI integration, proportional risk assessment and open communication, supporting investors in meeting fiduciary obligations while addressing stakeholder expectations.

Q: What scenario planning has been undertaken for your fund in relation to climate change? Please outline your general views on the resilience of existing investments against scenarios developed.

In 2019, IFM conducted a desktop-based climate scenario analysis to assess potential climate risks across our infrastructure portfolios. The analysis considered impacts at portfolio, sector and, in some cases, asset level, and complemented our existing acquisition due diligence. It focused on potential unmitigated climate impacts across industry subsectors, recognising that many assets were already progressing their own climate mitigation and adaptation initiatives. These existing strategies were intentionally excluded to support engagement with assets and better understand their individual approaches.

In 2025, IFM further embedded climate risk assessment into asset and portfolio management. A key objective is to incorporate greater direct input from assets, reflecting their views on risks, controls and the maturity of their transition plans.

The analysis builds on the 2019 scenarios, supplemented by asset-specific scenarios where appropriate. Physical risks reference IPCC scenarios (SSP1-2.6 and SSP3-7.0), while transition risks reference IEA Net Zero Emissions and Stated Policies scenarios. Transition risks were assessed across 14 industry subsectors and three regions: Australia, Europe and North America. Physical risk assessment combined a portfolio-level desktop review with asset-level risk registers and disclosures.

Findings indicate limited near-term physical risk exposure but increasing vulnerability over the longer term without mitigation. Transition risk was identified as higher for district heating and refined products pipelines, although several assets have already progressed decarbonisation initiatives. Overall, IFM recognises climate risks and opportunities across all scenarios and believes decarbonisation and resilience are critical to protecting and growing long-term asset value for investors.

Fisher Investments

Q: Pension Funds receive a range of questions on Social and perceptual issues of investments. This may include issues around defence investments or be targeted on geographic areas and identify country specific issues. Can you advise how you approach these known areas of concern within your investment screening approaches and how do you handle this with individual investors in receipt of concerns?

We know that individual investors have a wide variety of strongly held beliefs on social issues. While we are cognisant of those, we focus on evaluating and integrating financially material ESG factors into our investment process.

Generally, FI would choose not to invest in companies when, in its opinion, security level issues: (i) violate a client mandated ESG policy or (ii) present an inordinate risk to a company's operational or financial performance or (iii) appear to present undue headline risk to share price performance.

Please see below an example of one of our most recent engagements:

FI met with a US based automotive company to gain insight on the company's approach to climate risk and how it manages the risks and opportunities associated with environmental opportunities in its product offerings, as well as further understanding its approach to human rights.

The company is one of many that is being criticised by a civil society group because its vehicles are used by border patrol forces. FI enquired on the company's approach to this and potential negative publicity, whilst understanding the limits on what it can control. The company appreciated the question, and the thought FI had given this topic. The company has and will continue to work with NGOs on topics such as this. The company provided a follow-up response to FI after discussing internally, including the following:

'We are committed to being the world's most trusted company and our reputation is an important part of that ambition. We are a global brand and our vehicles are in use around the world. We fully comply with laws about where and to whom our products are sold, but don't control how all of them are deployed'. – Investor Relations Team

FI enquired if the company could share an example of how it has dealt with one of these situations. They referenced an inquiry it received a few months ago regarding a number of older vans that were depicted as part of Kim Jong Un's motorcade at an event in North Korea. The company provided the following response:

'We have a robust global media tracking system that alerts us when our vehicles are depicted in the news. Our media tracking provided an alert to the image, so we were prepared when we got a (single) media question about the topic. We promptly explained that we did/do not sell to any accounts in that country or its known agents elsewhere, but that it's possible for used vehicles to change hands outside of our control. We were able to control and contain the story as a result'. – Investor Relations Team

In FI's view, the company is attuned to the risks related to customer use of its products, and has adequate risk management controls in place. FI does not view this as a financially material issue in isolation, but we intend to monitor future developments to ensure the company effectively manages the associated risks, including the potential for both legal issues and reputational damage, and the potential for these to develop into a financially material impact.

Q: What scenario planning has been undertaken for your fund in relation to climate change? Please outline your general views on the resilience of existing investments against scenarios developed.

FI considers such climate-related risks and opportunities throughout the investment process. For example, within portfolios, FI reviews the impact of climate-related legislation and shifting consumer and investor preferences on

country, sector and security decisions, and the firm regularly engages companies in dialogue on climate-related risks and opportunities.

FI subscribes to MSCI ESG Climate Value-at-Risk (VaR) giving us climate-related scenario analysis tools and reporting capabilities. This subscription allows FI to report on a portfolio's Implied Temperature Rise, portfolio climate VaR based on multiple climate scenarios, and to provide detail on portfolio holdings alignment to various climate initiatives such as the Paris Agreement. Such reporting is available to clients upon request.

More generally, Research Analysts monitor responsible investments thematic opportunities and risks deemed material to returns or those supporting ESG portfolio objectives:

- Environmental thematic opportunities include, but not limited to, those related to the global low carbon transition (e.g. energy efficiency, alternative energy, electrical vehicle trends, green building & sustainable water).
- Environmental thematic risks include those related to thermal coal power, resource extraction (e.g. mining labor strikes and resource nationalization) and litigation tied to environmental impact.

FI assesses the risk of climate change in the security selection process, examining specific climate change sources such as carbon emissions, fossil fuel production, and fossil fuel use when deemed material. Climate-related risk assessments seek to improve the probability of alpha generation over FI's outlook horizon (12-18 months) and to support the non-financial objectives mandated by FI's clients.

Short term: Regulatory, Environmental Stewardship, & Business Activities

Short term risks and opportunities are those where businesses may be negatively impacted by regulation or poor environmental stewardship or positively impacted through a business activity (e.g. energy efficient products and services.) Such risks and opportunities are idiosyncratic and mostly within the firm's investment horizon (12-18 months).

Medium term: Regulatory & Reputational

Medium term risks and opportunities are those where country policy or shifting consumer preferences may have more general impact (positively or negatively). Such risks and opportunities are sometimes idiosyncratic, and sometimes within the firm's investment horizon.

Long term: Climate Change Transition Risks

Long term risks and opportunities are those mostly associated with a broader transition from a carbon-based economy. These risks and opportunities may be sizeable but slower to mature. Such long-term risks and opportunities are monitored to help ensure shorter-term opportunities and risks are appropriately identified.

Permira

Q: Pension Funds receive a range of questions on Social and perceptual issues of investments. This may include issues around defence investments or be targeted on geographic areas and identify country specific issues. Can you advise how you approach these known areas of concern within your investment screening approaches and how do you handle this with individual investors in receipt of concerns?

Permira Credit receives a range of investor queries on social and perceptual issues, including defence exposure and geographic sensitivities. These concerns are addressed through formal screening, enhanced due diligence and ongoing dialogue with investors.

At the outset, all direct lending investments are screened against fund-level exclusion criteria and any client-specific restrictions. These prohibit or otherwise restrict exposure to areas such as controversial weapons, firearms, ammunition and activities subject to international conventions or sanctions regimes.

Permira Credit's Responsible Investing Framework is used to identify sectors and activities with heightened sustainability or reputational risk, including defence. Where an investment falls outside formal exclusions but is considered higher risk, enhanced due diligence is undertaken on a case-by-case basis.

For defence-related investments, this includes assessing the nature and end-use of products, degree of involvement in weapon systems, customer base, geographic exposure, export controls, and broader human rights and reputational considerations.

Permira Credit maintains an open dialogue with investors on such topics and can incorporate client-specific requirements into screening processes where appropriate. This approach ensures that known areas of concern are addressed in a transparent and consistent manner.

Following investment, exposures are monitored on an ongoing basis through Permira Credit's portfolio monitoring processes, including the use of third-party screening tools (e.g. RepRisk). Where concerns arise, Permira engages with relevant stakeholders and may take appropriate risk management actions in line with the investment mandate.

Q: What scenario planning has been undertaken for your fund in relation to climate change? Please outline your general views on the resilience of existing investments against scenarios developed.

Permira undertakes climate scenario analysis at portfolio company level across its direct lending portfolio on an annual basis, using internal analysis and third-party climate analytics tools, most recently based on portfolio data as at 31 December 2024. The analysis considered both physical and transition risks under a range of IPCC scenarios, including SSP1-2.6, SSP2-4.5 and SSP5-8.5.

The analysis found the funds to be broadly resilient to physical climate risks in the short and medium term, reflecting in part the relatively asset-light nature of many operating sites and their diversification across lower-risk geographies. Some higher-risk locations were also identified, including sites with greater exposure to acute physical risks (e.g. flooding or extreme weather) and more asset-intensive operations. The exercise for the 2025 year end is currently underway.

Over the longer term, we recognise that chronic risks such as extreme heat and changing precipitation patterns may increase and could have financial implications, including higher energy consumption or asset depreciation. For credit investments, these risks are considered in the context of potential impacts on business resilience, cash flow generation and credit quality.

Schroders

Q: Pension Funds receive a range of questions on Social and perceptual issues of investments. This may include issues around defence investments or be targeted on geographic areas and identify country specific issues. Can you advise how you approach these known areas of concern within your investment screening approaches and how do you handle this with individual investors in receipt of concerns?

Financial crime and reputational risk checks are conducted for all tenants across funds and mandates managed by Schroders Capital Real Estate (SCRE). ESG-based exclusions are also applied to most direct real estate assets (buildings) and tenants, subject to exemptions such as advisory or non-discretionary mandates. This approach helps limit exposure to controversial income sources that may negatively impact society or the environment.

Partnership funds are being incorporated into the ESG exclusions screening process as part of broader efforts to strengthen integration with the direct real estate sustainability programme.

The exclusions framework ranges from full prohibitions on certain industries to restrictions based on revenue thresholds from excluded activities. SCRE excludes investments in buildings where the asset's purpose, or the

tenant's primary activity, involves controversial weapons or thermal coal mining. All funds are also screened against a UN Global Compact (UNGC) norms list curated by Schroders.

Additional exclusions apply to SFDR Article 8/9 and impact-focused products. Individual funds or mandates may also include further criteria driven by regulatory requirements or specific client preferences. SCRE aims to notify investors promptly of any material potential or actual breaches.

For externally managed funds, SCRE does not control the execution of reputational risk or ESG exclusion checks at the tenant level. Instead, its role focuses on fund selection and ongoing engagement with external managers, relying on them to carry out appropriate screening processes.

Q: What scenario planning has been undertaken for your fund in relation to climate change? Please outline your general views on the resilience of existing investments against scenarios developed.

At the firm level, we are firmly committed to achieving net zero emissions by 2050, as a founding signatory of the Net Zero Asset Managers Initiative, aligning our investments with a 1.5°C pathway and shaping our approach to scenario analysis and portfolio resilience.

In real estate, scenario planning is embedded through both transition and physical risk assessments. For transition risks, we have established a Net Zero Carbon Pathway (2020) for our direct real estate investments, supported by interim 2025 and 2030 targets aligned with a 1.5°C scenario. We leverage tools like CRREM to identify key risks and prioritise decarbonisation initiatives at asset level. We are exploring a stronger integration of strategic partnership funds with the direct real estate sustainability programme.

Physical risk is assessed across directly managed assets and some partnership funds using a third-party database against material climate risk perils across multiple timeframes and published climate scenarios (including both RCPs3 and SSPs4). Looking ahead, high-risk assets will be further evaluated qualitatively to determine vulnerability and the need for adaptation plans to strengthen resilience.

For externally managed funds, we require alignment with our sustainability policies and priorities. As we do not have operational control over the underlying assets, our key role is in the selection of these funds and engagement with managers. A proprietary ESG Scorecard is used at onboarding and for ongoing monitoring, supported by an annual survey which among various ESG themes, focuses on NZC performance and targets, physical climate risk exposure, and mitigation and adaptation efforts.