

## Minute

### **Pension Fund Sub-committee, together with the Pension Board**

Wednesday, 20 September 2017, 11:15.

Council Chamber, Council Offices, School Place, Kirkwall.



## **Present**

### **Pension Fund Sub-committee:**

Councillors W Leslie Manson, Rachael A King, Stephen Sankey, John A R Scott, Graham L Sinclair and James W Stockan.

### **Pension Board:**

#### **Employer Representatives:**

Councillors J Harvey Johnston, Owen Tierney and Duncan A Tullock, Orkney Islands Council.

Andrew Blake, Orkney Ferries Limited.

#### **Trade Union Representatives:**

Karen Kent (Unison), Eoin Miller (Unite) and Eileen Swanney (Unison).

## **Clerk**

- Sandra Craigie, Committees Officer.

## **In Attendance**

- Gareth Waterson, Head of Finance.
- Colin Kemp, Corporate Finance Senior Manager.
- Shonagh Merriman, Accounting Manager (Corporate Finance).

### **Hymans Robertson:**

- David Walker, Head of Local Government and Pension Schemes Investments.

### **Audit Scotland:**

- Gillian Woolman, Assistant Director, Audit Scotland.
- Neil Reid, Senior Auditor, Audit Scotland.

## **Observing**

- Cheryl Harper, Accounting Officer (for Items 1 to 5 and 8).

## **Apology**

### **Pension Fund Sub-committee:**

- Councillor Steven B Heddle.

## **Not Present**

### **Pension Board:**

### **Trade Union Representative:**

- Mark Vincent.

## **Declarations of Interest**

- No declarations of interest were intimated.

## **Chair**

- Councillor W Leslie Manson.

## **1. Disclosure of Exempt Information**

The Sub-committee noted the proposal that the public be excluded from the meeting for Item 9, as the business to be discussed involved the potential disclosure of exempt information of the class described in the relevant paragraph of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

## **2. Annual Report and Accounts for Financial Year 2016 to 2017**

After consideration of a report by the Head of Finance, copies of which had been circulated, the Sub-committee:

Noted:

**2.1.** The requirement, in terms of the Local Authority Accounts (Scotland) Regulations 2014, for a local authority, or a committee of the authority, whose remit included audit or governance functions, to consider and approve the audited Annual Accounts for signature no later than 30 September immediately following the financial year to which the accounts related.

**2.2.** The management commentary, comprising pages 1 to 11 of the statement of accounts, which provided an overview of the most significant matters reported in the annual accounts for the Pension Fund for financial year ended 31 March 2017, with the key facts and figures summarised at section 6.3 of the report by the Head of Finance.

Following a request from the Assistant Director, Audit Scotland, the Sub-committee:

Resolved:

**2.3.** To defer approval of the Annual Report and Accounts for the Pension Fund for financial year 2016 to 2017 to enable the Sub-committee to consider Audit Scotland's report to those charged with governance on the audit.

### **3. External Report to those charged with Governance**

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Assistant Director, Audit Scotland, the Sub-committee:

Noted:

**3.1.** That Audit Scotland, as the Council's external auditors, had concluded their audit of the Orkney Islands Council Pension Fund's financial statements for the year ended 31 March 2017.

**3.2.** That Audit Scotland had provided an unqualified certificate on the Pension Fund's Annual Report and Accounts for the year ended 31 March 2017.

**3.3.** That the draft audit certificate stated that the accounts had been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

**3.4.** That a number of presentational, consistency and disclosure errors were identified within the financial statements during the course of the audit and had been adjusted in the final accounts.

**3.5.** That no material weaknesses in the accounting and internal control systems relating to the Pension Fund were identified during the audit, however a training policy and programme required to be developed.

**3.6.** Audit Scotland's covering letter in respect of the Orkney Islands Council Pension Fund Annual Audit Report, attached as Appendix 1 to the report by the Head of Finance.

**3.7.** Orkney Island's Council's Letter of Representation to Audit Scotland in connection with their audit of the financial statements of the Orkney Islands Council Pension Fund for the year ended 31 March 2017, attached as Appendix 2 to the report by the Head of Finance.

**3.8.** The Annual Audit Report to Members and the Controller of Audit of the Orkney Islands Council Pension Fund, attached as Appendix 3 to the report by the Head of Finance.

The Sub-committee thereafter resolved, in terms of delegated powers:

**3.9.** That the Annual Report and Accounts for the Pension Fund for financial year 2016 to 2017, attached as Appendix 1 to this Minute, be approved.

### **4. Revenue Expenditure Outturn Report for Financial Year 2016 to 2017**

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Corporate Finance Senior Manager, the Sub-committee:

Noted:

**4.1.** The revenue expenditure outturn statement in respect of Pension Fund services for financial year 2016 to 2017, attached as Annex 1 to the report by the Head of Finance, indicating a surplus position of £49,855,900.

**4.2.** The explanations given and actions proposed in respect of significant budget variances as outlined in the Budget Action Plan, attached as Annex 2 to the report by the Head of Finance.

## **5. Revenue Expenditure Monitoring Report as at 30 June 2017**

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Corporate Finance Senior Manager, the Sub-committee:

Noted:

**5.1.** The revenue financial summary statement in respect of Pension Fund services for the period 1 April to 30 June 2017, attached as Annex 1 to the report by the Head of Finance, indicating a surplus position of £7,712,800.

**5.2.** The revenue financial detail by Service Area statement in respect of Pension Fund services for the period 1 April to 30 June 2017, attached as Annex 2 to the report by the Head of Finance.

**5.3.** The explanations given and actions proposed in respect of significant budget variances as outlined in the Budget Action Plan, attached as Annex 3 to the report by the Head of Finance.

## **6. Interim Funding Review**

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Corporate Finance Senior Manager, with reference to the Minute of the Meeting of the Pension Fund Sub-committee held on 22 September 2016, paragraph 3, the Sub-committee:

Noted:

**6.1.** That the funding level of the Orkney Islands Council Pension Fund was reported at 114% as at 31 March 2014, as part of the triennial actuarial valuation exercise carried out by the Actuary, Hymans Robertson.

**6.2.** That, in light of the uncertainty surrounding future financial conditions, the financial position of the Pension Fund was monitored by means of interim funding reviews in the period up to the next triennial valuation.

**6.3.** That an interim funding review had now estimated the funding level of the Pension Fund to be 104% as at 31 March 2017, which represented a surplus of £29,000,000 as at 31 March 2014, decreasing to a surplus of £13,000,000 as at 31 March 2017.

**6.4.** That investment returns over the four year period to 31 March 2017 had been strong, which had mitigated the effect of the increase in liabilities since the 2014 valuation.

**6.5.** That the balance of assets relative to the assessed future cost of member benefits had increased over the past year by £9,000,000, from a surplus of £4,000,000 as at 31 March 2016 to a surplus of £13,000,000 as at 31 March 2017.

**6.6.** That the contribution rates were reviewed as part of the 2014 formal valuation carried out as at 31 March 2014 and the Actuary had reported that no immediate action was required as a result of the interim funding review for the Pension Fund.

**6.7.** That the interim funding review gave an indication of the results that may be expected at the 2017 formal triennial actuarial valuation as at 31 March 2017, which was currently being carried out.

Councillor Graham L Sinclair left the meeting during discussion of this item.

## **7. Implementation of Markets in Financial Instruments Directive**

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Corporate Finance Senior Manager, the Sub-committee:

Noted:

**7.1.** That, following introduction of the Markets in Financial Instrument Directive 2014/65 from 3 January 2018, local authorities must be classified as retail clients unless they were opted up by firms to an elective professional client status.

**7.2.** The protections available to retail clients, attached as Appendix 1 to the report by the Head of Finance.

**7.3.** The potential impact on the investment strategy of the Pension Fund as a result of the Council becoming a retail client, as detailed in section 5 of the report by the Head of Finance.

**7.4.** The criteria and timetable for election to professional client status, as outlined in Appendices 2 and 3 to the report by the Head of Finance.

The Sub-committee resolved, in terms of delegated powers:

**7.5.** To acknowledge and forgo the protections available to retail clients, referred to at paragraph 7.2 above, and elect professional client status in respect of the Pension Fund managed funds.

**7.6.** That the Head of Finance should immediately commence applications for elected professional client status with all relevant institutions in order to ensure that the Council, as Administering Authority for the Orkney Islands Council Pension Fund, could continue to implement an effective investment strategy in respect of the Pension Fund.

**7.7.** That powers be delegated to the Head of Finance to determine the nature of each application, referred to at paragraph 7.6 above, as either full or single service.

Councillor Graham L Sinclair rejoined the meeting during discussion of this item.

## **8. Statement of Investment Principles**

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Corporate Finance Senior Manager, with reference to the Minute of the Meeting of the Investments Sub-committee held on 28 February 2013, paragraph 3.1, the Sub-committee:

Noted:

**8.1.** The requirement of the Council, as administering authority for the Orkney Islands Council Pension Fund, to review the Statement of Investment Principles at least every three years.

**8.2.** That the last review of the Statement of Investment Principles, carried out in 2013, noted the adoption of an upper limit of 35% for exposure to pooled funds from a single entity as part of the rationale for carrying out the review on a more frequent basis.

**8.3.** That the prime objective of the Pension Fund was to be able to meet employers' pension liabilities into the future, and as set out in the Funding Strategy Statement.

**8.4.** That the Statement of Investment Principles, attached as Appendix 1 to the report by the Head of Finance, set out a number of detailed investment principles for achieving the objective referred to at paragraph 8.3 above.

**8.5.** That the Statement of Investment Beliefs, attached as Appendix 2 to the report by the Head of Finance, set out a number of themes as a basis for ensuring a consistent approach in developing an investment strategy and making investment decisions over time.

**8.6.** That the Investment Practice of Hymans Robertson, the Pension Fund's actuary, had assisted in developing both the Statement of Investment Principles and the Statement of Investment Beliefs.

On the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, the Sub-committee resolved:

**8.7.** That consideration of the Statement of Investment Principles be deferred, to the next meeting of the Pension Fund Sub-committee, to enable the Head of Finance to submit a further report, including a revised Statement of Investment Principles which addressed comments and concerns raised by members.

## **9. Statement of Managed Pension Funds**

On the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, the Sub-committee resolved that, under section 50A(4) of the Local Government (Scotland) Act 1973, the public be excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 7A of the Act.

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Corporate Finance Senior Manager, the Sub-committee:

Noted:

**9.1.** The review of the investment manager's performance for the quarter to 30 June 2017, attached as Appendix 1 to the report by the Head of Finance, prepared by Hymans Robertson, the Council's appointed investment advisors.

**9.2.** That Pension Fund investments continued to perform strongly over the quarter to 30 June 2017, increasing in value by 2.9%.

**9.3.** That the performance of the Pension Fund had been exceptional over the 12 month period to 30 June 2017, with the value of the Fund increasing by 22.9%, being 7.6% ahead of the benchmark.

**9.4.** That an average return of 13.3% per annum for the Pension Fund remained well ahead of the mandate over the three year period.

**9.5.** The performance review commentary provided by the Fund Manager, attached as Appendix 2 to the report by the Head of Finance.

**9.6.** The Governance Summary extracted from the Fund Manager's performance report for the quarter ending 30 June 2017, attached as Appendix 3 to the report by the Head of Finance.

## **10. Conclusion of Meeting**

At 13:40 the Chair declared the meeting concluded.

Signed: L Manson