

## Minute

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

Wednesday, 26 February 2020, 10:30.

Council Chamber, Council Offices, School Place, Kirkwall.



## Present

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

Councillors W Leslie Manson, Alexander G Cowie, Rachael A King and Stephen Sankey.

### **Pension Board:**

### **Employer Representatives:**

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

### **Trade Union Representative:**

Karen Kent (Unison) and Eoin Miller (Unite).

## Clerk

- Sandra Craigie, Committees Officer.

## In Attendance

- Gareth Waterson, Head of Finance.
- Colin Kemp, Corporate Finance Senior Manager.
- Bryan Hay, Payroll and Pensions Manager.
- Shonagh Merriman, Accounting Manager (Corporate Finance).
- Michael Scott, Solicitor.

### **Audit Scotland:**

- Colin Morrison, Senior Auditor.

## Apologies

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

- Councillor Barbara Foulkes.
- Councillor Steven B Heddle.
- Councillor James W Stockan.

**Pension Board:**

**Employer Representatives:**

- Councillor J Harvey Johnston, Orkney Islands Council.
- Andrew Blake, Orkney Ferries Limited.

**Not Present**

**Pension Board:**

**Trade Union Representatives:**

- Peter Trodden (Unison).
- Mark Vincent (GMB).

**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 consideration of Item 11, 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. Revenue Expenditure Monitoring**

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

Noted:

**2.1.** The revenue financial summary statement in respect of Pension Fund services for the period 1 April to 31 December 2019, attached as Annex 1 to the report by the Head of Finance, indicating a surplus position of £19,461,100.

**2.2.** The revenue financial detail by Service Area statement for the period 1 April to 31 December 2019, attached as Annex 2 to the report by the Head of Finance.

**2.3.** 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.

### **3. Pension Fund – Draft Budget**

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 the draft revenue budget for the Orkney Islands Council Pension Fund for financial year 2020 to 2021, attached as Annex 1 to the report by the Head of Finance, which formed part of the assumptions in the overall budget setting process considered by the Policy and Resources Committee at its special meeting held on 25 February 2020.

### **4. Orkney Islands Council Pension Fund – Annual Audit Plan**

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

Noted the external audit plan for 2019 to 2020 in respect of the Council's Pension Fund, prepared by Audit Scotland, attached as Appendix 1 to the report by the Head of Finance.

### **5. Review of Pension Fund Training**

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

Noted:

**5.1.** Progress made over the 12-month period to 31 December 2019 in relation to meeting the training needs of members of the Pension Fund Sub-committee and the Pension Board, against core areas of the Public Sector Pensions Finance Knowledge and Skills Framework, attached as Appendix 1 to the report by the Head of Finance.

**5.2.** That, over the 12-month period to 31 December 2019, all members of the Pension Fund Sub-committee achieved the minimum requirement of participating in at least one training event, or the equivalent to five hours training.

**5.3.** That, over the 12-month period to 31 December 2019, two members of the Pension Board did not achieve the required minimum participation level.

**5.4.** That one member of the Pension Board cited work pressure making it difficult to attend training events, while the other member recently intimated their intention to stand down as a member of the Pension Board.

**5.5.** That a replacement had been nominated to fill the vacant position on the Pension Board.

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

**5.6.** That the Annual Training Plan for 2020 for members of the Pension Fund Sub-committee and the Pension Board, attached as Appendix 1 to this Minute, be approved.

## **6. Review of Pension Risk Register**

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

Noted:

**6.1.** The Risk Register, attached as Appendix 1 to the report by the Head of Finance, which had been updated to reflect relative shifts in threats faced by the Pension Fund's performance in meeting target objectives, and which identified a total of 23 potential risks to delivering the key objectives of the Pension Fund, categorised across operational, governance and investment themes.

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

**6.2.** That powers be delegated to the Head of Finance, in consultation with the Chair of the Pension Fund Sub-committee, to further amend the Risk Register referred to at paragraph 6.1 above, in response to matters raised by members and thereafter circulate the amended Risk Register to members for information.

## **7. Risk Management Strategy**

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

Noted:

**7.1.** That, although the Pension Fund had a Risk Register in place, which was reviewed regularly, it was considered best practice, as part of overseeing the risk management process, for the Sub-committee to develop and approve a Risk Management Strategy.

**7.2.** The draft Risk Management Strategy for the Orkney Islands Council Pension Fund, attached as Appendix 1 to the report by the Head of Finance

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

**7.3.** That powers be delegated to the Head of Finance, in consultation with the Chair of the Pension Fund Sub-committee, to further amend the Risk Management Strategy, referred to at paragraph 7.2 above, in response to matters raised by members and thereafter circulate the amended Risk Management Strategy to members for information.

## **8. Pension Administration Performance Standards**

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

Noted:

**8.1.** That, in order to address recommendations included in the Pension Fund Annual Audit Report issued by Audit Scotland on 17 September 2019, a review of the administration performance standards of the Orkney Islands Council Pension Fund had been undertaken.

**8.2.** That, following a benchmarking exercise with the other Scottish Pension Fund Administering Authorities, no revisions were proposed at this time in respect of the administration performance standards of the Orkney Islands Council Pension Fund.

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

**8.3.** That the administration performance standards of the Orkney Islands Council Pension Fund, attached as Appendix 2 to this Minute, be approved.

## **9. Court of Appeal Judgement – Update**

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

Noted:

**9.1.** That, as a result of the Court of Appeal judgement in December 2018 in the McCloud case and the subsequent unsuccessful appeal by the UK Government in June 2019, transitional protections applicable to public sector pension scheme members, who were within 10 years of normal retirement age on 1 April 2012, had been ruled to be unlawful on the grounds of age discrimination.

**9.2.** That HM Treasury was currently developing the exact method of remedying the discrimination, referred to at paragraph 9.1 above, with a cross Local Government Pension Scheme approach that was expected to be announced shortly.

**9.3.** That the estimated impact of the McCloud ruling on the Orkney Islands Council Pension Fund was an increase in active member liabilities of £1,000,000, from £234,000,000 to £235,000,000, as at 31 March 2019.

## **10. 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, the Sub-committee:

Noted:

**10.1.** 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.

**10.2.** That the Statement of Investment Principles, which set out a number of detailed investment principles for achieving the prime objective of the Pension Fund, namely to be able to meet employers' pension liabilities into the future, as set out in the Funding Strategy Statement, were last reviewed and updated on 21 November 2018.

**10.3.** That the Statement of Investment Principles had been further revised to reflect a further review of the investment strategy, as detailed in section 4.7 of the report by the Head of Finance.

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

**10.4.** That the Statement of Investment Principles, including the Statement of Compliance with the Chartered Institute of Public Finance and Accountancy Principles, attached as Appendix 3 to this Minute, be approved.

## **11. Statement of Managed Funds**

On the motion of Councillor W Leslie Manson, seconded by Councillor Rachael A King, the Sub-committee resolved that 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 Local Government (Scotland) Act 1973 as amended.

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:

**11.1.** The review of the investment manager's performance for the quarter to 31 December 2019, attached as Appendix 1 to the report by the Head of Finance, prepared by Hymans Robertson, the Council's appointed investment advisors.

**11.2.** That the Pension Fund investments returned a gain of 3.0% over the quarter to 31 December 2019, which was 2.6% ahead of the target and was considered very good.

**11.3.** That the value of the Pension Fund had increased by 20.8% over the 12-month period to 31 December 2019, being 5.3% ahead of the target, which was considered excellent.

**11.4.** That an average return of 11.1% per annum for the Pension Fund remained 2.1% ahead of the target over the five-year period.

**11.5.** The Governance Summary extracted from the Fund Manager's performance report for the quarter ending 31 December 2019, attached as Appendix 2 to the report by the Head of Finance.

## **12. Conclusion of Meeting**

At 13:04 the Chair declared the meeting concluded.

Signed: L Manson.