

## Minute

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

Wednesday, 16 November 2022, 09:30.

Council Chamber, Council Offices, School Place, Kirkwall.



## Present

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

Councillors Heather N Woodbridge, P Lindsay Hall, Steven B Heddle, Kristopher D Leask, James W Stockan and Mellissa-Louise Thomson.

### **Pension Board:**

#### **Employer Representatives:**

Councillors Graham A Bevan, James R Moar and Owen Tierney, Orkney Islands Council.

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

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

## Clerk

- Sandra Craigie, Committees Officer.

## In Attendance

- Gareth Waterson, Corporate Director for Enterprise and Sustainable Regeneration.
- Erik Knight, Head of Finance.
- Shonagh Merriman, Service Manager (Corporate Finance).
- Paul Maxton, Solicitor.

### **Audit Scotland:**

- Gillian Woolman, Audit Director.
- Claire Gardiner, Senior Audit Manager.

## In Attendance via remote link (Microsoft Teams)

### **Hymans Robertson:**

- David Walker, Partner.

## Observing

- Katie Gibson, Team Manager (Corporate Finance).
- Karen Rorie, Senior Accounting Officer (Treasury).

## **Apology**

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

- Councillor Rachael A King.

## **Not Present**

### **Pension Board:**

### **Trade Union Representatives:**

- Mark Vincent (GMB).

## **Declarations of Interest**

- No declarations of interest were intimated.

## **Chair**

- Councillor Heather N Woodbridge.

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

The Sub-committee noted the proposal that the public be excluded from the meeting for consideration of Item 6 as the business to be discussed involved the potential disclosure of exempt information of the classes described in the relevant paragraphs of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

## **2. Orkney Islands Council Pension Fund**

### **Audit Report to those charged with Governance**

After consideration of a report by the Corporate Director for Enterprise and Sustainable Regeneration, copies of which had been circulated, and after hearing a report from the Audit Director, Audit Scotland, the Sub-committee:

Noted:

**2.1.** That Audit Scotland, as the Council's external auditors, had concluded their audit of the Orkney Islands Council Pension Fund's Annual Report and Accounts for the year ended 31 March 2022.

**2.2.** That Audit Scotland had provided an unmodified certificate on the Pension Fund's Annual Report and Accounts for the year ended 31 March 2022.

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

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

**2.5.** That no material weaknesses in the accounting and internal control systems relating to the Pension Fund were identified during the audit.

**2.6.** Audit Scotland's covering letter in respect of the Orkney Islands Council Pension Fund's Annual Accounts for 2021/22, attached as Appendix 1 to the report by the Corporate Director for Enterprise and Sustainable Regeneration.

**2.7.** Orkney Island's Council's Letter of Representation to Audit Scotland in connection with its audit of the financial statements of Orkney Islands Council Pension Fund for the year ended 31 March 2022, attached as Appendix 2 to the report by the Corporate Director for Enterprise and Sustainable Regeneration.

**2.8.** The Annual Audit Report to Members of the Pension Fund Sub-committee and the Controller of Audit, attached as Appendix 3 to the report by the Corporate Director of Enterprise and Sustainable Regeneration.

Karen Kent joined the meeting during discussion of this item.

### **3. Pension Fund – Annual Accounts**

After consideration of a report by the Corporate Director for Enterprise and Sustainable Regeneration, copies of which had been circulated, and after hearing a report from the Head of Finance, the Sub-committee:

Noted:

**3.1.** 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.

**3.2.** That, in terms of the Coronavirus (Scotland) Act 2020, the deadline for publication of final accounts could be extended by two months, if required, from 31 October 2022 to 15 December 2022.

**3.3.** That, if approved, the signed Annual Accounts, together with an appropriate audit certificate, would be published by 30 November 2022.

**3.4.** The Management Commentary, contained in pages 1 to 13 of the Annual Report and Accounts of the Orkney Islands Council Pension Fund, attached as Appendix 1 to the report by the Corporate Director for Enterprise and Sustainable Regeneration, which provided an overview of the most significant matters reported in the Annual Accounts for financial year ended 31 March 2022, with the key facts and figures summarised at section 4.3 of the report.

On the motion of Councillor Heather N Woodbridge, seconded by Councillor James W Stockan, the Sub-committee resolved, in terms of delegated powers:

**3.5.** That the Annual Report and Accounts of the Orkney Islands Council Pension Fund 2021/2022, attached as Appendix 1 to this Minute, be approved.

## **4. Revenue Expenditure Monitoring**

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

Noted:

**4.1.** The revenue financial summary statement, in respect of service areas for which the Pension Fund Sub-committee was responsible, for the period 1 April to 30 September 2022, attached as Annex 1 to the report by the Head of Finance, indicating a budget deficit position of £39,837,800.

**4.2.** The revenue financial detail by service area statement, in respect of service areas for which the Pension Fund Sub-committee was responsible, for the period 1 April to 30 September 2022, attached as Annex 2 to the report by the Head of Finance.

The Sub-committee scrutinised:

**4.3.** 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, and obtained assurance that action was being taken with regard to significant budget variances.

## **5. 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 Service Manager (Corporate Finance), the Sub-committee:

Noted:

**5.1.** 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.

**5.2.** 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 26 February 2020.

**5.3.** That the Fund's Investment Strategy and Manager structure was formally reviewed in 2021, following completion of the 2020 actuarial valuation, and provided assurance that the interim and long-term strategies remained appropriate in the context of the Fund's long-term objectives.

**5.4.** That the Statement of Investment Principles had been reviewed and revised to reflect asset risks associated with Environmental, Social and Governance issues, as well as Climate Change, and how those risks were managed.

**5.5.** That the Statement of Investment Principles had also been updated to reflect the Fund Manager appointments made since the last review in February 2020 and showed the long-term targets for funds held by each Fund Manager under each asset class.

The Sub-committee resolved, in terms of delegated powers

**5.6.** That the Statement of Investment Principles, including the Statement of Compliance with the Chartered Institute of Public Finance and Accountancy Principles, attached as Appendix 2 to this Minute, be approved.

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

On the motion of Councillor Heather N Woodbridge, seconded by Councillor James W Stockan, 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 Service Manager (Corporate Finance), the Sub-committee:

Noted:

**6.1.** The investment monitoring report for the Pension Fund produced by Hymans Robertson, the Council's appointed investment advisor, attached as Appendix 1 to the report by the Head of Finance, relating to the performance of managed funds for the quarter to 30 September 2022.

**6.2.** That the Pension Fund investments returned a loss of £4,800,000, or minus 1.3% over the quarter to 30 September 2022, which was 0.3% behind benchmark and was considered poor.

**6.3.** That the value of the Pension Fund had decreased by 18.5% over the 12-month period to 30 September 2022, which was 15.2% behind benchmark over that period and was considered very poor.

**6.4.** That an average return of 4.5% per annum for the Pension Fund remained positive but was marginally behind the benchmark over the five-year period and therefore behind target, which was to outperform the aggregate benchmark.

**6.5.** The Governance Summary extracted from Baillie Gifford's investment report for the quarter ending 30 September 2022, attached as Appendix 2 to the report by the Head of Finance.

**6.6.** The extract from IFM Global Infrastructure's quarterly investor report, showing the responsible investment update for the quarter ending 30 September 2022, attached as Appendix 3 to the report by the Head of Finance.

**6.7.** The Corporate Governance Summary extracted from Legal and General's investment report for the quarter ending 30 September 2022, attached as Appendix 4 to the Head of Finance.

## **7. Conclusion of Meeting**

At 10:33 the Chair declared the meeting concluded.

Signed: H N Woodbridge.