

Minute

Pension Fund Sub-committee, together with Pension Board

Wednesday, 22 November 2023, 14:00.

Council Chamber, Council Offices, School Place, Kirkwall.



Present

Pension Fund Sub-committee:

Councillors Heather N Woodbridge, P Lindsay Hall, Steven B Heddle, Rachael A King, Kristopher D Leask and Mellissa-Louise Thomson.

Pension Board:

Employer Representatives:

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

Trade Union Representatives:

Eoin Miller (Unite) and Eileen Swanney (Unison).

Present via remote link (Microsoft Teams)

Pension Fund Sub-committee:

Councillor James W Stockan.

Pension Board:

Karen Kent (Unison), Trade Union Representative.

Clerk

- Hazel Flett, Service Manager (Governance).

In Attendance

- Gareth Waterson, Corporate Director for Enterprise and Sustainable Regeneration.
- Erik Knight, Head of Finance.
- Robert Adamson, Service Manager (Payroll and Pensions).
- Shonagh Merriman, Service Manager (Corporate Finance),
- Katie Gibson, Team Manager (Corporate Finance).
- Paul Maxton, Solicitor.

Present via remote link (Microsoft Teams)

- Karen Rorie, Senior Accounting Officer (Treasury) (for Items 1 to 8).

Hymans Robertson:

- David Walker, Partner.
- Tom Hoare, Consulting Actuary (for Item 8).

KPMG:

- Michael Wilkie, Public Sector Audit Director.

Apologies

Pension Board:

Employer Representative:

Karen Ritch, Senior Finance Officer, Orkney Ferries Ltd.

Not Present

Pension Board:

Trade Union Representative:

- 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 Items 7 to 9 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, and after hearing a report from the Public Sector Audit Director, KPMG, the Sub-committee:

Noted:

2.1. That KPMG, 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 2023.

2.2. That KPMG would be providing an unqualified certificate on the Pension Fund's Annual Report and Accounts for the year ended 31 March 2023.

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 disclosure misstatements and other minor presentation and typographical changes 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. Orkney Islands Council's Letter of Representation to KPMG in connection with their audit of the financial statements of Orkney Islands Council Pension Fund for the year ended 31 March 2023, attached as Appendix 1 to the report by the Corporate Director for Enterprise and Sustainable Regeneration.

2.7. The Annual Audit Report to Members of the Pension Fund Sub-committee and the Controller of Audit, in respect of the Orkney Islands Council Pension Fund, attached as Appendix 2 to the report by the Corporate Director for Enterprise and Sustainable Regeneration.

Councillor Kristopher D Leask 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, although the unaudited annual accounts were submitted to KPMG by the required deadline of 30 June 2023, as this was the first year of KPMG's 5-year appointment as the Council's external auditors and, given the pressures on the audit profession, together with changes to certain auditing standards, certain aspects of the audit were still ongoing and could not be completed in time to allow a full audit opinion to be reached before 30 September 2023.

3.3. That Audit Scotland had been notified of the situation outlined above and had been in regular contact with KPMG, and all other auditors, to monitor progress with the 2022/23 audits, as it was known that this year would prove challenging to meet the 30 September deadline.

3.4. That the signed Annual Accounts, together with an appropriate audit certificate, would be published by 30 November 2023.

3.5. The Management Commentary, comprising pages 1 to 14 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 2023, with the key facts and figures summarised at section 4.3 of the report by the Corporate Director for Enterprise and Sustainable Regeneration.

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

3.6. That the Annual Report and Accounts of the Orkney Islands Council Pension Fund 2022/2023, 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 2023, attached as Annex 1 to the report by the Head of Finance, indicating a budget overspend position of £7,665,600.

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 2023, 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. Pension Administration Strategy

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 (Payroll and Pensions), the Sub-committee:

Noted:

5.1. That the Council, as an Administering Authority, had discretion, under the Local Government Pension Scheme regulations, to publish a Pension Administration Strategy.

5.2. That a Pension Administration Strategy set out roles and responsibilities for the Administering Authority and of the employers participating in the Pension Fund.

5.3. That the Pension Administration Strategy, once approved, must be kept under review and updated when necessary.

5.4. That, in certain circumstances, the Pension Fund might recover costs from employers that had arisen as a result of that employer's performance.

5.5. That the Pension Administration Strategy, which was approved in 2017, had been reviewed and updated, to reflect recommendations arising from an internal audit.

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

5.6. That the Pension Administration Strategy, attached as Appendix 2 to this Minute, be approved.

6. Exclusion of Public

On the motion of Councillor Heather N Woodbridge, seconded by Councillor Rachael A King, the Sub-committee resolved that the public be excluded for the remainder of the meeting, as the business to be considered involved the 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.

7. Statement of Managed Pension Funds

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been 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 Service Manager (Corporate Finance), the Sub-committee:

Noted:

7.1. 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 2023.

7.2. That the Pension Fund investments returned a loss of £16,900,000, or 2.7% over the quarter to 30 September 2023, which was 3.8% behind benchmark and therefore considered poor in both absolute and relative terms.

7.3. That the value of the Pension Fund had increased by 4.2% over the 12-month period to 30 September 2023, which was good in terms of actual return, however, was behind the benchmark of 8.3% and therefore considered poor.

7.4. That an average return of 3.6% per annum for the Pension Fund remained positive but was 2.5% behind the benchmark over the five-year period and therefore behind target, which was to outperform the aggregate benchmark.

7.5. The Baillie Gifford Global Alpha Task Force on Climate-Related Financial Disclosures report for the year ending 31 March 2023, attached as Appendix 2 to the report by the Head of Finance.

7.6. The Baillie Gifford UK Equity Task Force on Climate-Related Financial Disclosures report for the year ending 31 March 2023, attached as Appendix 3 to the report by the Head of Finance.

7.7. The IFM Infrastructure Climate Change Report 2022, attached as Appendix 4 to the report by the Head of Finance.

8. Responsible Investment Beliefs

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been 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 Service Manager (Corporate Finance), the Sub-committee:

Resolved, in terms of delegated powers:

8.1. That the Head of Finance, in consultation with Hymans Robertson, should develop a Responsible Investment Policy for the Orkney Islands Council Pension Fund for consideration by the Pension Fund Sub-committee in due course.

8.2. That the Head of Finance, in consultation with Hymans Robertson, should review the investment strategy of the Pension Fund, following the triennial actuarial valuation results, to take account of the Fund's Responsible Investment Policy, once approved.

The above constitutes the summary of the Minute in terms of the Local Government (Scotland) Act 1973 section 50C(2) as amended by the Local Government (Access to Information) Act 1985.

9. Orkney Islands Council Pension Fund – Triennial Actuarial Valuation

Preliminary Results and Draft Funding Strategy Statement

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been 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, the Sub-committee:

Resolved, in terms of delegated powers, what action should be taken with regard to the principal actuarial assumptions and the funding approach in the draft Funding Strategy Statement.

The above constitutes the summary of the Minute in terms of the Local Government (Scotland) Act 1973 section 50C(2) as amended by the Local Government (Access to Information) Act 1985.

10. Conclusion of Meeting

At 15:45 the Chair declared the meeting concluded.

Signed: Heather N Woodbridge.