

Minute

Pension Fund Sub-committee, together with Pension Board

Wednesday, 21 November 2018, 10:30.

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).
- Michael Scott, Solicitor.

Hymans Robertson:

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

Apology

Pension Fund Sub-committee:

- Councillor Steven B Heddle.

Not Present

- Mark Vincent, Trade Union Representative.

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 Items 9 and 10, 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. Revenue Expenditure Monitoring

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:

2.1. The revenue financial summary statement in respect of Pension Fund services for the period 1 April to 30 September 2018, attached as Annex 1 to the report by the Head of Finance, indicating a surplus position of £15,014,600.

2.2. The revenue financial detail by Service Area statement in respect of Pension Fund services for the period 1 April to 30 September 2018, 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.

Karen Kent joined the meeting during discussion of this item.

3. Pensions Administration – Performance

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 the performance of Pensions administration for the period 1 April to 30 September 2018, as detailed in sections 4 to 12 of the report by the Head of Finance.

4. Pension Fund 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 Corporate Finance Senior Manager, the Sub-committee:

Noted the updated Risk Register relating to the Orkney Islands Council Pension Fund, attached as Appendix 1 to the report by the Head of Finance.

5. Scottish Local Government Pension Scheme – Review of Structure

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

Noted:

5.1. That the Pensions Institute, on behalf of the Scottish Local Government Pension Scheme Advisory Board, was undertaking a consultation on the review of the structure of the Scottish Local Government Pension Scheme, attached as Appendix 1 to the report by the Head of Finance, for which responses required to be submitted by 7 December 2018.

5.2. That the consultation contained four options for active consideration, namely:

- Option 1 – Retain the current structure of 11 Scottish Local Government Pension Scheme Funds.
- Option 2 – Promote co-operation in investing and administration between the 11 Funds.
- Option 3 – Pool investments between the 11 Funds.
- Option 4 – Merge the 11 Funds into one or more new Funds.

5.3. That differing opinions had been expressed by stakeholders on the preferred options in the consultation with a higher proportion of opinion tending to support larger scale pension operations.

5.4. The Council's draft response to the public consultation on the structure of the Scottish Local Government Pension Scheme, attached as Appendix 2 to the report by the Head of Finance, which favoured Option 1, namely to retain the current structure.

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

5.5. That the response to the public consultation on the review of the structure of the Scottish Local Government Pension Scheme, attached as Appendix 1 to this Minute, be approved as the Council's response, as an Administering Authority.

Eileen Swanney left the meeting at this point.

6. Local Government Pension Scheme – Discretionary Provisions

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

Noted:

6.1. That, following implementation of the Local Government Pension Scheme (Scotland) Regulations 2018, the Council was required, as administering authority for the Local Government Pension Scheme, to formulate and publish discretionary policies.

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

6.2. That the Administering Authority Discretions, attached as Appendix 2 to this Minute, be approved.

Eileen Swanney rejoined the meeting at this point.

7. 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:

7.1. 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.

7.2. 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 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.

7.3. That the Statement of Investment Principles had been updated, following completion of the last actuarial valuation, which was conducted as at 31 March 2017, and reflected the updated funding level of 112.7%.

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

7.4. 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.

8. Exclusion of the Public

On the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, 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 Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

Karen Kent left the meeting at this point.

9. Review of Investment Strategy

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 paragraphs 6 and 9 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. That Hymans Robertson, as investment advisers to the Pension Fund, had undertaken an independent review of the existing investment strategy in order to evaluate the suitability of the existing investment strategy, as well as assess the potential for the Pension Fund to maintain a longer term, lower risk, “steady state” funding basis going forward.

9.2. That the Pension Fund had performed well in recent years and, as at the triennial actuarial valuation date in 2017, was 112.7% funded.

9.3. That the current investment strategy of the Pension Fund had a relatively high allocation to growth assets, being approximately 85%, managed by a single Fund Manager.

9.4. That the current investment and funding strategies had a good chance of meeting the long-term funding objectives, but did expose the Pension Fund to significant volatility.

9.5. That, based on current market conditions, there was significant scope to de-risk and diversify the current investment strategy of the Pension Fund.

9.6. That the review undertaken by Hymans Robertson identified a requirement for members to receive further training on alternative sources of income, as well as giving due consideration to the practical implications associated with de-risking and diversifying the investment strategy.

9.7. A summary of the findings of the review by Hymans Robertson in respect of the investment strategy for the Pension Fund, as detailed in section 4 of the report by the Head of Finance.

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

9.8. That the Head of Finance, in consultation with Hymans Robertson, develop the findings of the review of the investment strategy for the Pension Fund into a set of specific proposals for de-risking and diversifying the investment strategy.

9.9. That the Head of Finance should thereafter submit a report, to the Sub-committee, setting out a revised investment strategy for the Pension Fund.

Councillor Stephen Sankey left the meeting during discussion of this item.

10. 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 Corporate Finance Senior Manager, the Sub-committee:

Noted:

10.1. The review of the investment manager's performance for the quarter to 30 September 2018, attached as Appendix 1 to the report by the Head of Finance, prepared by Hymans Robertson, the Council's appointed investment advisors.

10.2. That, although Pension Fund investments returned a gain of 1.6% over the quarter to 30 September 2018, this was 1.2% below the benchmark and was therefore considered poor.

10.3. That the value of the Pension Fund had increased by 9.3% over the 12-month period to 30 September 2018, which in absolute performance terms was good, however being only 0.8% ahead of the benchmark, was considered average.

10.4. That an average return of 15.6% per annum for the Pension Fund remained well ahead of the mandate over the three-year period.

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

10.6. The Governance Summary extracted from the Fund Manager's performance report for the quarter ending 30 September 2018, attached as Appendix 3 to the report by the Head of Finance.

10.7. The annual Global Alpha Stewardship Report 2018 from the Fund Manager, attached as Appendix 4 to the report by the Head of Finance.

Councillor John A R Scott left the meeting during discussion of this item.

11. Conclusion of Meeting

At 13:19 the Chair declared the meeting concluded.

Signed: L Manson.