

MINUTE

B - PUBLIC

**Special Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 26 June 2013 at 2 p.m.**

Present:

| | |
|-------------|------------|
| M Bell | M Burgess |
| G Cleaver | A Cooper |
| S Coutts | A Duncan |
| B Fox | A Manson |
| F Robertson | G Robinson |
| D Sandison | C Smith |
| G Smith | T Smith |
| J Wills | A Wishart |
| V Wishart | |

Apologies

| | |
|------------|------------------------|
| P Campbell | R Henderson |
| D Ratter | M Stout |
| A Westlake | J Wills [for lateness] |

In Attendance (Officers):

P Crossland, Director - Infrastructure Services
C Ferguson, Director – Corporate Services
J Gray, Executive Manager - Finance
P Peterson, Executive Manager – Executive Services
R Sinclair, Executive Manager – Capital Programme
H Tait, Team Leader - Accountancy
C Bain, Treasury Accountant
L Rosie, Communications Officer
W Spence, Team Leader – Waste Management
A Cogle, Team Leader – Administration

Also:

Mr C Brunton Smith, KPMG

Chair:

Mr M Bell, Convener of the Council, presided.

Circular:

The circular calling the meeting was held as read.

Declarations of Interest

Mr T Smith declared an interest in agenda item 5 [Transfer of Land] and advised that he would leave the meeting during discussion.

57/13

Medium Term Financial Plan 2013-18

The Council considered a report by the Executive Manager – Finance (F034) which presented the actions required for the Council to achieve financially sustainable budget from 2013-18.

The Executive Manager – Finance introduced the report, stating that it was a refresh of the existing Plan, but a few additional issues had impacted on it. He highlighted the fact that the external financial environment still remained bleak, with Government spending cuts having just been announced today. He said that the prospect of any external funding increases may not be until around 2020, and so the Plan remained unchanged in terms of the level of savings the Council required to make. He went on to advise that additional cost pressures had also been included in the Plan, such as the new Anderson High School and Bus Contracts. The Executive Manager concluded his introduction with reference to the new Reserves Equalisation Fund, explaining that this Fund had been introduced because of the combined effect of the reserves investment performing better than anticipated in 2012/13, and the draw on reserves had been less, and the Fund therefore could be used for the accumulated amount of additional investment returns over the average 5.75%, and therefore provide a significant asset that could be released back to the Reserve Fund in future years if the returns were less than average.

[Mr M Burgess attended the meeting.]

Mr Bell said that whilst this was a refresh, there were still a lot of significant changes that both Members and Officers would have to consider, and aligned to that was the spending review announced by the Government today.

Accordingly, Mr Bell moved that the Council defer a decision today on the report today, in order to allow further consideration to take place between Members, and between officers and Members, and that the report be brought back to the Council, either to a special meeting or to the scheduled meeting, in August. Mr A Cooper

Mr Bell went on to say that deferring consideration until August would still be a month ahead of when the Plan had been timetabled for. He said that he would much rather the Council had the right Plan approved by Members, than have an early decision when Members may not be fully aware of all the information that has to be considered.

Mr Bell confirmed that the work carried out by the Executive Manager – Finance and his staff so far had been valuable, but he felt that the Medium Term Financial Plan was so important that Members, and Officers, should take a few more weeks to consider it.

Decision:

The Council **RESOLVED** to defer this report to allow further consideration to take place between Members, between Members and Officers, and bring to a meeting of the Council in August 2013.

58/13

Shetland Islands Council Investment Strategy 2013/14

The Council considered a report by the Executive Manager – Finance (F035) which presented a proposed Investment Strategy for the Council's reserves.

The Executive Manager – Finance introduced the report, and outlined the purpose for the review of the Investment Strategy, highlighting in particular the Council's stated requirement to achieve £150k of savings in Fund manager fees. He advised that KPMG had been brought in to provide an independent valuation of the Strategy, and consequently Mr Brunton Smith from KPMG was attending the meeting today.

Following introduction, the Treasury Accountant then summarised the terms of the report, and Mr Brunton Smith summarised the issues that had been addressed as part of his independent evaluation.

[Dr J Wills attended the meeting.]

In response to questions from Members, Mr Brunton Smith said the proposed Strategy was more resilient than the current one, and so the level of the Council's Reserve Fund would not constrain the Council in terms of the proposed Strategy. He went on to say that a move to passive investments would essentially be a tracker fund, and would therefore follow the full share allocation on investment funds such as the FTSE. However, Mr Brunton Smith confirmed there was latitude within a tracker fund to have exclusions, but in general the performance of those sort of investments were lower than those without exclusions, and that exclusions also increased the risk, because there were fewer stocks, and therefore would have an impact on returns, as well as administration and management costs.

Regarding responsible investments, Mr Brunton Smith said that BlackRock, the Fund managers contracted by the Council, had a dedicated team that looked at environmental, ethical, corporate governance and social issues of the companies which they invested in. He said that the Council, as stock owners, had a fiduciary duty to ensure that this function was carried out, and that the fund managers were active in engaging with companies to ensure that they are comfortable with what those companies were doing. In response to a further question, Mr Brunton Smith said that certain companies could be excluded from the Council's investment if that is what the Council directed, but this would mean moving from a passive approach to an active one, and this would bring associated risks and costs.

The Executive Manager – Finance, in response to a question regarding the Reserves Equalisation Fund, said that this was an accounting feature of the proposed Medium Term Financial Plan, where the Council would have control over the reserves being kept at a steady level and associated return.

In terms of benchmarking BlackRock, Mr Brunton Smith explained that passive management meant tracking a benchmark, and so BlackRock were not looking to outperform those benchmarks. In terms of their costs, he said that BlackRock were able to drive down their costs due to their scale. Regarding the overall Fund manager fees, Mr Brunton Smith said that the objective of the new Strategy was not necessarily to reduce those costs, but to enhance the Fund's return with a reduced risk and a robust investment strategy which would therefore reduce fees. The Executive Manager – Finance said that despite a small reduction in fees, there would still be a higher return, and at around 6.4% was still a good return.

Dr J Wills moved that the Council adopt the decisions required in Section 2.0 of the report, but to add also that the Leader and Executive Manager – Finance be asked to take up a standing invitation from Ethical Investment Research Services Ltd to discuss the Council's Policy on social, environmental and ethically responsible investments. Mr G Robinson seconded. In response to a query, Dr Wills confirmed that he had done some research on the company, and it appeared to be a reliable and reputable firm, and the invitation to discuss would be at no cost to the Council.

It was noted that the Investment Strategy made reference to the version of the Medium Term Financial Plan which had been deferred today, and therefore the

Strategy would require amendment in order to reflect the current Plan. The Council agreed.

In response to a further query, the Treasury Accountant confirmed that implementation would take around 3 months.

Decision:

The Council **RESOLVED** to adopt the Investment Strategy 2013-2018 by:

- 1 Approving the proposed Investment Strategy at section 3.1 to 3.4 of Appendix 1;
- 2 Approving the draw on reserves structure as set out in section 3.6 to 3.7 of Appendix 1;
- 3 Approving the fund manager structure as set out in section 3.8 to 3.14 of Appendix 1;
- 4 Granting delegated authority to the Executive Manager – Finance to implement the policy by making the necessary changes to fund manager arrangements; and
- 5 That the Leader and Executive Manager – Finance be asked to take up a standing invitation from Ethical Investment Research Services Ltd to discuss the Council's Policy on social, environmental and ethically responsible investments.

The Council further resolved that the Investment Strategy be amended to ensure that any references to the Medium Term Financial Plan are as it currently stands, and not to the proposed Plan which was deferred at this meeting.

59/13

Shetland Single Outcome Agreement

The Council considered a report by the Executive Manager – Improvement and Performance [IP14] which presented the 2013 Shetland Outcome Agreement that had been prepared by the Shetland Community Planning Partnership.

The Executive Manager Improvement and Performance advised that there would be further refinement of the Shetland Single Outcome Agreement [SSOA] in terms of general layout, presentation and language being used for the benefit of the general public. During discussion, Members asked that they be provided with more information on the methodology behind the performance indicators and targets, and that this information be considered for inclusion within the SSOA in future.

After some discussion, the Council approved the recommendations in the report, subject to further refinement of the document as discussed, on the motion of Mr G Smith, seconded by Mr A Cooper.

Decision

The Council **RESOLVED** endorse the objectives and actions contained in appendix 1 – Shetland Single Outcome Agreement 2013, subject to further refinement of the general layout, presentation and language being used for the benefit of the general public.

60/13

Asset Investment Plan – Service Need Case – Phase 1 Landfill Capping

The Council considered a report [CPS09] which presented a Service Need Case (SNC) for the Capping of Phase 1 of the Gremista Landfill Site, which had been considered and approved by the Corporate Management Team on 28 May 2013.

The Executive Manager - Capital Programme introduced the report and, along with the Team Leader – Waste Management, answered a number of technical questions from Members. The Council approved the recommendation contained in the report, on the motion of Mr C Smith, seconded by Mr G Cleaver.

Decision:

The Council RESOLVED to approve the addition of the Landfill Capping project to the 2013/14 Asset Investment Plan.

In order to avoid the disclosure of exempt information, Mr Bell moved, Mr Robertson seconded, and the Council agreed to exclude the public in terms of the relevant legislation during consideration of the following items of business.

61/13 **Transfer of Land**

The Council considered a report by the Executive Manager Capital Programme and Executive Manager Housing [CPS10] which recommended the transfer of land to the Housing Revenue Account and the transfer of ownership of serviced sites in Lerwick.

The Executive Manager Capital Programme introduced the report, after which he answered various questions from Members.

After some discussion, and on the motion of Mr A Duncan, seconded by Mrs V Wishart, the Council approved the recommendations in the report, and that a report be presented to a future meeting regarding options for the remaining serviced sites.

Decision:

The Council RESOLVED:

- (a) To approve the transfer of land between the HRA and the GF as set out in paragraph 3.2 of the report; and
- (a) To approve the transfer of serviced sites in Lerwick as set out in paragraph 3.3 of the report.

The Council further RESOLVED that a report on options for the remaining serviced sites be presented to a future meeting.

The meeting closed at 3.50 p.m.

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Chair