

MINUTES

A&B – Public

Special Pension Fund Committee Council Chamber, Town Hall, Lerwick Wednesday 5 December 2018 at 10 am Present - Members: A Cooper S Coutts S Leask R McGregor I Scott T Smith <u>Apologies:</u> E Macdonald G Smith R Thomson	Special Pension Board Council Chamber, Town Hall, Lerwick Wednesday 5 December 2018 at 10 am Present - Members: J Fraser A Hawick J Johnston D Marsh A Taylor C Wiseman <u>Apologies:</u> M Bell A Goudie
In Attendance: J Manson, Executive Manager – Finance J Riise, Executive Manager – Governance and Law M Smith, Team Leader – Expenditure L Chapman, Pensions Supervisor C Bain, Treasury Accountant S Brown, Senior Assistant Accountant A MacIver, Assistant Accountant L Malcolmson, Committee Officer	

Chair

Mr Coutts, Chair of the Pension Fund Committee, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

None

Minutes

The minutes of the meeting held on 28 August 2018 were confirmed on the motion of Mr Cooper, seconded by Mr Leask.

The minutes of the meeting held on 19 September 2018 were confirmed on the motion of Mr Cooper, seconded by Mr Leask.

The minutes of the meeting held on 8 October 2018 were confirmed on the motion of Mr Scott, seconded by Mr Leask.

20/18

Membership of the Pension Fund Committee

The Committee and Board considered a report by the Executive Manager – Governance and Law (GL-20-18-F) which advised of the resignation of Mr Cecil Smith from the Pension Fund Committee, from 1 October 2018.

The Executive Manager – Governance and Law introduced the report and the Committee and Board noted its content.

Decision:

The Pension Fund Committee and Pension Board NOTED the resignation of Mr Cecil Smith from the Pension Fund Committee.

21/18

Pension Fund – 2018/19 Mid-Year Performance Review

The Committee and Board considered a report by the Executive Manager – Finance (F-085-F) that allowed the Pension Fund Committee and Board to review the mid-year investment position and performance of the Pension Fund's external investments, managed on their behalf by Fund Managers.

The Treasury Accountant introduced the report and advised on the performance of investments for the first 6 months of the year. He also advised on the performance of Fund Managers against benchmark as set out in paragraph 2.2 in Appendix 1.

In responding to questions the Treasury Accountant advised Members that the information provided was over the short term and that when looking at the performance of Fund Managers it would tend to be over a longer 5 year term. He informed the Committee and Board that a review process was now underway to see if any changes to the Investment Strategy is needed and that would be reported to the Committee and Board by the end of this financial year.

Reference was made to the recent drop in the equity market and the forum were advised that the audited figures would be provided in March. The Committee and Board acknowledged that the equity market is currently volatile.

The Committee and Board noted the report.

Decision:

The Pension Fund Committee and Pension Board reviewed the Pension Fund's external investments over the first six months of the 2018/19 financial year, and as such the Pension Fund Committee and Pension Board considered and commented on the outcome of this Mid-Year review.

22/18

**Management Accounts for Pension Fund Committee –
Projected Outturn at Quarter 2**

The Committee and Board considered a report by the Executive Manager – Finance (F-080-F) that enabled the Pension Fund Committee and Pension Board to monitor the financial performance of the Pension Fund to ensure that Members are aware of the forecast income and expenditure position and its impact on delivery of the approved budget.

The Executive Manager – Finance introduced the report and highlighted the key variances as set out in the Appendix to the report. The Pension Fund Committee and Board noted the report.

Decision:

The Pension Fund Committee and Pension Board NOTED the Management Accounts showing the projected outturn position at Quarter 2.

Scottish LGPS Restructure Review – Consultation Final Response

The Committee and Board considered a report by the Executive Manager – Finance (F-088-F) that enabled the Pension Fund Committee and Pension Board to consider the consultation response to the Scottish LGPS restructure review.

The Committee and Board were introduced to Mr Douglas Green of Hymans Robertson who was present to provide an overview of the consultation process and this would be followed by the Treasury Accountant's presentation of the consultation response.

Mr Green explained the process undertaken by England and Wales which had provided the benefit of knowledge, experience and lessons learned. He explained that the Local Government Pension Scheme (LGPS) was unusual in that money is put aside where most other pension funds do not. The Committee and Board heard that there are 11 branches of the LGPS and Shetland is one of those and although there is a lot of autonomy there are parts of the scheme that have to be the same in order that the same pension payment and contributions are paid by those 11 branches.

Mr Green informed the Committee and Board on how individual schemes are structured with governance arrangements, employee contributions, investment strategy, fund manager selection and the choice of whether to enter into collaboration within another fund on a voluntary basis. He advised that in deciding to look at the LGPS structure again, the Council had four options to consider and he took Members through each of those in more detail. In responding to a question Mr Green said that the level of impact on the Council would depend on the option chosen.

The Treasury Accountant then took the Committee and Board through each point of the consultation response that concluded on page 21 of the Appendix with a statement that Shetland Islands Council Pension Fund would prefer to retain the current structure of 11 funds. He advised that the response was circulated to all admitted bodies, by the Pension Board Chair and the response was to be submitted to the Pensions Institute by 7 December 2018. The Executive Manager – Governance and Law added that the Treasury Accountant had sought an extension for the Council to respond separately by 12 December 2018 to allow the Council time to consider their response at its meeting on the same date.

Mr Green was asked if there had been any strong or positive feedback from England and Wales in terms of whether cost of investing had decreased or returns improved. Mr Green explained that costs were down on most funds but it was too early to say if there was an improvement in returns as investments were now only starting. He advised therefore that the impact on contributions was nil so far but that a material change could not be expected for many years.

Concern was expressed around the impact any change would have on existing or new employees in the pension scheme through an admitted body or any future employees through an existing or new admitted body, Mr Green explained that a new or substantially changed admitted body would be considered by the merged fund committee but may be subject to a different decision than that of a locally controlled Committee and Board. In light of this a request was made for the response to include a comment on the obligation to existing and new staff either through the Local Authority or an admitted body.

Comment was made on the centralisation of a number of activities and Mr Green was asked what benefit would there be to the Local Authority if it were to lose the status quo. Mr Green advised that there would be benefit in collaboration to reduce costs and management time. In terms of option three the pooling of funds would see a reduction in investment fees. He explained however that there were already examples of Fund Managers reducing their fees as they know there is a political drive for that. By reducing their fees they are indicating that there is no need to pool investments to make savings. Mr Green said that the benefits would be around consistency and reduction of identifiable costs. Mr Green added that it was important for Local Authorities to understand the real objectives for the review and if the Scottish Government articulate that it would be important to look at options that would address those objectives.

In terms of the timing of the review, the Committee and Board were informed that there was a review 8-9 years ago on whether a merged option was preferable and the question should be asked what had changed since then to make this a pertinent time to seek an answer again.

During further discussion the Committee and Board considered the speculation around the need for England and Wales to fund higher profile infrastructure projects.

In terms of representation on the merged committee Mr Green confirmed that there would be no explicit representation for admitted bodies, nor would there be employee representation. He advised however that there would be representation from each fund but that would not necessarily be an employer.

In response to further questions, Mr Green said that there was three things that any fund should do whether a decision is made to merge or remain with the status quo:

1. It should not give infrastructure any different treatment than any other asset class, as some projects could be better options in terms of good quality, and long term steady income. All investments should be considered seriously and if they are too risky then do not proceed.
2. Infrastructure investments can be considered under the current arrangement.
3. If considering direct investment in infrastructure, it could be carried out collaboratively if it is not too risky.

In terms of risk and whether the Pension fund is playing it safe using fund managers, Mr Green said there was no right or wrong answer in pension fund investments. Member also spoke of other initiatives such as Social Housing and were advised that would be a feasible asset class to consider.

In terms of Fund Manager's fees the Treasury Accountant commented that an approach can be made but that may not be easy where Managers are performing well but there would be more leverage where performance is not as good.

In terms of the views across Scottish Local Authorities, the Leader advised that CoSLA are supportive of Council and the funds providing their views on the 11 funds. He advised that the majority of funds are in favour of the status quo as the

best option but with greater collaboration for investment in infrastructure and social housing.

Mr Green was thanked for his attendance at the meeting.

There followed some debate where Mr James Johnson advised on the discussion from an investment seminar he attended in October. It was noted that all 11 funds were represented with a mix of Officers and Members. He explained that at the beginning of the meeting pooling had been ruled out and the status quo did not exist with 65% present preferring collaboration and 35% preferring merger. He reported that there was a clear drive from the government for investment in infrastructure and that 11 individual pension pots were not large enough for that and by merging it would make a better option. He noted that following discussion the poll had changed to 35% collaboration preferred and 65% merger. Mr Johnson advised that from that meeting he had taken the Council's draft consultation response to union and staff representatives. He said that he would be interested to see more around collaboration and if that can drive down costs there would be support for the Council's response.

As debate progressed the Executive Manager – Governance and Law reminded those present of their fiduciary duties and advised that this should not be confused with political views.

The Board expressed their support for the Council's response with the inclusion of wording that addressed the concern regarding the status of existing and new employees of admitted bodies to the pension fund. Mr Coutts moved that the Committee approve the recommendations contained in the report with the addition as expressed by Board Members. Mr Cooper seconded.

Decision:

The Pension Fund Committee and Pension Board RESOLVED to approve that the consultation response be sent on behalf of the Shetland Islands Council Pension Fund to the Pensions Institute.

The meeting concluded at 11.20am.

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Chair