

**Special Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 21 May 2014 at 9.30 am**

Present:

M Bell	P Campbell
G Cleaver	A Cooper
B Fox	R Henderson
A Manson	G Robinson
G Smith	T Smith
M Stout	V Wishart

Apologies

M Burgess	S Coutts
A Duncan	D Ratter
F Robertson	D Sandison
C Smith	J Wills
A Wishart	A Westlake

In Attendance (Officers):

M Boden, Chief Executive
C Ferguson, Director of Corporate Services
M Sandison, Director of Infrastructure Services
N Grant, Director of Development
J Gray, Executive Manager – Finance
C Bain, Treasury Accountant
K Marshall, Solicitor
L Gair, Committee Officer

Also:

T Scott, MSP
M Richardson, SOTEAG
D Paterson, SOTEAG
Z Morris-Trainor, SOTEAG
M Carrick, Aventa
D Bates, Aventa
P Davies, Aventa
M Templar, Aventa
J Cripps, Aventa

Chair:

Mr M Bell, Convener of the Council, presided.

Circular:

The circular calling the meeting was held as read.

Declarations of Interest

None

31/14 **Presentation from SOTEAG**

The Council considered a report by the Director of Infrastructure Services (ISD-12-14-F) which introduced a presentation from SOTEAG on their activities at Sullom Voe.

The Director of Infrastructure Services introduced the report and the representatives from SOTEAG. Mr Richardson and Mr Paterson provided a slide presentation (attached as Annex A to the minute).

Members were informed on a number of key issues for 2013/14 including:

- Oil spill sensitivity mapping
- Total UK Ltd
- National Contingency Plan
- WRCC and the Gott closure of the wildlife rescue unit

Members noted that data had been collected since 1975 and was now being digitally collated using the same methodology which means there is now almost 40 years worth of comparable information. In response to questions, Members were advised that this information was being used internationally and given the highest rating and had recently been debated in scientific journals. The data demonstrates how things are changing. Members were informed that as part of the 40th anniversary SOTEAG will have meetings in the Royal Society in Edinburgh. Members were pleased to see that the work of SOTEAG over 4 decades was being recognised.

Members were also advised that there are 2 common invasive species evident in Shetland but there are more dangerous species now in Scotland. It is proposed that there will be an extension to the monitoring already carried out.

Mr Richardson also advised that a visit was planned by the German Government Central Command for Maritime Emergencies who will come to Shetland between 30 June and 4 July 2014.

In response to questions, Mr Richardson agreed that there are elements of decommissioning that go hand in hand with invasive species from offshore, but no one has the answer to this at the moment. Mr Richardson said that there would be a role for SOTEAG if that was requested. He said that there may be a need to bring in expertise and speak to Sullom Voe Association to support that.

A Member asked how Mr Richardson thought the Oil Industry viewed sensitivity mapping and whether what is done in Sullom Voe could be used as a template elsewhere. Mr Richardson said it was important to move forward with Sullom Voe and Yell Sound. He said that at last meeting at Sullom, his report was enthusiastically taken on board. He added that if it was possible to have a cost sharing mechanism and spend over 2-3 years the industry would look at the plan as relatively inexpensive. Mr Richardson went on to say that he would like to draw on what work has already been done and use it as a template for the rest of Shetland.

In response to a comment from a Member on whether there is evidence to substantiate the concerns regarding copper based antifouling products and the effect they appear to have on jetties, Mr Patterson said that there was no specific concern at the moment and that all antifouling agents should be tested.

Members discussed the decline in seabird populations and Mr Patterson commented that there is concern and the major issue was the change in food supply. He said that there were a number of research groups investigating but no answers had been found. Mr Richardson added that although there was an overall 91% decline in seabirds, the gannets and fulmars had increased.

The Convener thanked SOTEAG representatives for attending the meeting.

Decision:

The Council **RESOLVED** to note the presentation.

32/14

Shetland Islands Enterprise Fund (Aventa Capital Partners Ltd)

The Council considered a report by the Chair of Executive Committee (DV022-F) which introduced a presentation from Aventa Capital Partners Ltd (Aventa) regarding a "Shetland Islands Enterprise Fund" and the intention for this to be set up.

The Director of Development Services introduced the report and the representatives from Aventa. He explained that Aventa has asked for a letter of support from the Council and advised that this is being prepared and is currently going through a due diligence process and would be brought to Members in due course.

Mr Carrick delivered a power point presentation (slides attached as Appendix to the report).

In response to a question, Mr Carrick advised that it would take 4 years to raise capital. He said that the documents in market weighting would be expected in Quarter 3. In parallel he said that steps were being undertaken today to show the investment authority that planning permission on hotels was being sought.

A Member asked what view Aventa had about carrying progressing with this vision during the historic period of the referendum and the potentially different political landscape. Mr Carrick advised that investors would not be making decisions until the outcome of the referendum is known. He said that the future for Shetland needs more devolved initiatives and would be a test bed. He went on to say that the fund would be raised after the elections and independent of the election.

Mr Carrick confirmed to a Member that Aventa was established in 2011 and the project was funded for 3 years before the company was established. He said that Aventa's involvement was around managing build activity but said they have to be careful how many projects they take on and they are selective about what they do.

At the request of a Member Mr Carrick took Members through Aventa's approach to the links in Yell and Unst, how the funds to be realised would depend on the strategy put in place, how investors would be provided with a business plan created by development teams together with partners to ensure the correct economic business case is developed, and how investors would get their return though an exit strategy after 10 years. He added that there were conceptual ideas on energy links that could offset costs.

The Convener thanked Mr Carrick and his colleagues for attending the meeting.

Decision:

The Council **RESOLVED** to note the content of the report and presentation.

(Mr Taylor, Mrs Polson and Mr Marsh, Members of the Pension Fund Consultative Committee attended the meeting.)

33/14 **Pension Fund Management Annual Review 2013/14**

The Council considered a report by the Executive Manager – Finance (F-018-F) which informed on the position and performance of the Council's Pension Fund external investments, with fund managers for the financial year 2013/14.

Ms Thrumble provided an overview of the Pension Fund and advised that this had been a good year overall and commented on the performance of both Blackrock and Shroders.

(Mr Day and Ms Murray attended on behalf of Schroders)

Schroders

Ms Thrumble then provided Members with an overview of the Property Fund's performance.

Mr Day introduced the report on behalf of Schroders, commenting on the UK Property market performance against benchmark.

Ms Murray provided more detail on the property portfolio explaining that 12% of the fund had been allocated in 2007 to the European property market which had been vibrant at that time. She said that it was hoped that there would be improvement in this portfolio towards the end of the fund's life in 2018. She commented on the positive outlook for UK Property for future years.

In responding to a query, Ms Murray confirmed that at the end of the fund's life the value of the fund will be down £3.3m. Ms Murray also advised that the Council has a small proportion invested in the total fund and it was important not to come out of it and cause a liquidity event for other investors. She said that one benefit is that the Council has the might of other investors to ensure that the best is achieved out of the investment.

A questioned was raised on the Negative Key Performance contributors and the investments in Eastern Germany. Ms Murray explained that there was a huge amount of due diligence in UK and EU and particularly Eastern Germany where, since home ownership came into force in 2008 the economic position has improved.

On the motion of Mr Fox seconded by Mr C Smith the Council agreed to note with dissatisfaction the performance of Schroders (property fund) in 2013/14.

(Mr Day and Ms Murray left the Chamber)

(Mr Jung attended the meeting by teleconference, on behalf of BlackRock)

BlackRock

Ms Thrumble then provided Members with an overview of the Equity and Bond fund's performance.

Mr G Jung presented a report on behalf of BlackRock and commented that they had achieved what was asked of them by tracking the index.

In response to a question on the desire amongst investors to diversify, Mr Jung said that areas of interest to investors included infrastructure, property, nominal bonds and higher interest bonds. He added that diversified growth funds had done well when most assets had under performed.

On the motion of Mr Fox seconded by Mr Henderson the Council agreed to note with satisfaction the performance of BlackRock (equity and bond fund) in 2013/14;

Decision:

The Council **RESOLVED** to:

- Note with dissatisfaction the performance of Schroders (property fund) in 2013/14; and
- Note with satisfaction the performance of BlackRock (equity and bond fund) in 2013/14.

34/14

Fund Management Annual Investment Report 2013/14

The Council considered a report by the Executive Manager – Finance (F-17-F), which informed on the position and performance of the Council's external investments with fund managers for the financial year 2013/14.

BlackRock

Ms Thrumble provided Members with an overview of the Equity Index Tracking (passive) fund. She explained that this fund had been changed and moved to BlackRock in October 2013 following the reorganisation of the Reserves since that date this passively managed fund has tracked the index.

Mr Jung introduced the report, and there being no questions for Mr Jung, Mr Robinson moved that the Council agree to note the performance of BlackRock (passive equity fund) in 2013/14, seconded by Mr G Smith.

(Mr Jung left the meeting)

(Mr Lewis and Ms LaRusse attended the meeting, on behalf of Insight)

Insight

Ms Thrumble provided Members with an overview of the Bond Fund and explained that Insight had managed this fund for many years. The Council sought a change last October in that 55% was allocated to Bond Fund and 45% to Liquidity Fund. She advised that Insight had outperformed the benchmark during a challenging year where levels were almost flat, however the skill of the fund manager achieved 1% ahead. She said that value had been added which you would not normally see.

Mr Lewis introduced the report and Ms LaRusse took Members through the Bond Plus Fund and the absolute return strategy adopted.

In response to a question on what implications an independent Scotland may have on the UK Bond Market, Ms LaRusse advised that she had been surprised to see that the gilt market had not moved and was ignoring risk. She said that there was concern around the currency, ability of the Bank of Scotland as a lender of last

resort and who would bail them out if they got into trouble. She said that there are issues to be considered by the electorate. Ms LaRusse said that Insight had no house policy and went on to advise that the Bond Markets were also ignoring the changes in the Ukraine. She said that other questions to consider were around how the UK debt will be split and if Scotland will issue Scotland Gilts 1.5% more than for UK gilt and if it is feasible to fund the debt.

(Mr Fox left the meeting).

Ms LaRusse responded to a question on their medium term outturn for their portfolio and said that Insight capitalise on their views by being different and said that they will not take a view until a position is clear.

On the motion of Mr Campbell seconded by Mr C Smith the Council noted the performance of Insight (bond fund) in 2013/14.

(Mr Lewis and Ms LaRusse left the meeting)

(Mr T Wright and Mr T Gooding attended the meeting on behalf of Baillie Gifford)

Baillie Gifford

Ms Thrumble provided Members with an overview of the diversified growth fund and equity fund and explained that the restructuring brief was expanded to 60% equity and 40% diversified growth. She said that there had been aggressive outperformance on the target of 2.5% which is more than other managers and achieved 11% in the last year, which is exceptional. She explained that Baillie Gifford has consistently outperformed on this fund and the only worry was how much longer it could carry on.

Mr Wright introduced the report and explained that although economies are getting stronger, and the market reflects this, there is more volatility to come and the important point for Baillie Gifford is to take the long term view.

(Mr Robinson left the meeting)

A Member asked why the Fund Managers had the Bank of Ireland as a new buy, but had reduced the Svenska Handelsbanken. Mr Gooding explained that Svenska had been a long term holding that had been conservatively run and did well during the credit crunch however it was a small niche bank that had expanded and became a larger holding and that Baillie Gifford had now reduced that holding. Mr Wright added that there was a lot of uncertainty but still opportunities with this investment due to technology and how it is used.

Mr Cleaver moved that the Council note with satisfaction the performance of Baillie Gifford (diversified growth fund and equity fund) in 2013/14, seconded by Ms Manson.

Mr Henderson moved that the Council approve the Annual Investment Report for 2013/14 for the purposes of the consent issued by the Scottish Ministers by virtue of Section 40 of the Local Government (Scotland) Act 2003, seconded by Mr Campbell.

Decision:

The Council **RESOLVED** to:-

- Approve the Annual Investment Report for 2013/14 for the purposes of the consent issued by the Scottish Ministers by virtue of Section 40 of the Local Government (Scotland) Act 2003;
- Note the performance of BlackRock (passive equity fund) in 2013/14;
- Note the performance of Insight (bond fund) in 2013/14; and
- Note with satisfaction the performance of Baillie Gifford (diversified growth fund and equity fund) in 2013/14.

The meeting closed at 13.05pm

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Convener