

BERKSHIRE PENSION FUND PANEL

MONDAY, 15 MAY 2017

PRESENT: Councillors Nicholls, Alan, John Lenton (Chairman), Geoff Hill and David Hilton (Vice-Chairman)

Advisory Members: Cllr Law, Mr Butcher and Mrs Nicholls.

Independent Advisor: Mr Dhingra.

Officers: Mr Greenwood, Mr Taylor, Mr Boyton, Mr Stubbs and Mr Cook.

APOLOGIES

Apologies for absence were received by Cllr Rankin, Cllr Stanton, Cllr Worrall and Engin Eryilmaz.

DECLARATIONS OF INTEREST

The Pension Fund Manager declared that all Pension Fund officers could be affected by LGP Pooling.

MINUTES

The Part I minutes of the meeting held on 13 February 2017 were approved as a true and correct record subject to on page 8 the AAA rating be amended to AA and that on page 9 out saucing be amended to out-sourcing.

PENSION FUND CASH-FLOW

The Pension Fund Manager informed the Panel that following the triennial actuarial valuation and the new deficit recovery rates Barnett Waddingham had been instructed to prepare a cash flow mode for the fund.

Agenda pages 11 and 12 showed details of two cases that were presented; the base case (no outsourcing of services over three years) and the bear case (with 25% of patrols out sauced). In both cases both benefits remained the same. The Panel were informed that the Pension Fund operated with a negative cash flow and therefore needed investment income on a regular basis and not wishing to sell assets to pay benefits.

Cllr Hill asked if in 3 to 4 years time if the fund has to sell assets to pay benefits what were the options. The Panel were informed that the answer was to rely on investment income. It was always known that the gap would grow and the fund would be cash flow negative hence the plan was to increase investment income for as long as possible. The need to sell assets was not expected for another 20 to 30 years. The Fund needed repetitive, regular, predictable income.

Cllr Hill said that the fund needed regular income that the Pensions Manager feels should come from equity whilst others have said this should come from capital sales.

The Chairman mentioned that the dangers of out-sourcing was the reduction of employee contributions that could, as shown in the American car industry, result in bankruptcy.

The Panel were informed that section 2.2 of the report showed a hypothetical model (as requested by the Panel) of an admitted body which did not allow new employees to join the

Fund. The scenario showed that payroll falls and after 2020 deficit recovery payments would be required.

Cllr Hilton asked what the table showed and the Panel were asked to refer back to the table on agenda page 11 that showed the results of a reduced contribution rate producing a deficit of £1.1 million.

Resolved unanimously: that the report be noted.

LGPS POOLING

The Chairman of the Panel informed that a meeting was held with representatives of the Local Pensions Partnership on 11th May 2017 and notes of the discussion were circulated to the Panel.

The Chairman explained that the main problem moving forward for LPP was that they were not comfortable with the Funds investment strategy and the amount we wished to retain for local investments.

With regards to the documentation the Pension Fund Manager informed that when they draft legal documents were sent there were over 75 errors, LPP had not yet corrected the documents as they were waiting for our commitment to Pool.

The Chairman highlighted that agenda pages 19 to 21 contained the letter from Marcus Jones MP (Minister for Local government), instructing the Berkshire Pension Fund to conclude their negotiations with LPP, and the Panel Chairman's response.

The Chairman informed the Panel that he had informed the Minister that his department had not replied to his letter requesting confirmation that LPP would become an authorised LGPS Investment Pool.

Cllr Hilton informed the Panel that the Fund currently had about £500 million invested in equity with the aim that income produced would cover pension payments. LPP may refuse to maintain our investment strategy and they would cover pension payments from the capital bucket and by selling capital. LPP did concede to creating an emerging markets bucket. LPP currently had 8 investment buckets that we split our investments into; however we would be moving to a vanilla traditional fund.

Cllr Law informed that there were two main issues that came out of the meeting with LPP. It was clear that their strategy for equity income differed from ours and that they expected that once our local investments matured they should be re-invested back into the Pool. LPP expected that eventually we would have 100% of the fund invested with them. The only choice was to agree to join LPP or say no to pooling. Cllr Law stated that prior to making our decision we needed a clear understanding of the costs.

The Chairman mentioned that he had been surprised that there had not been more opposition to pooling from other LGPS.

Cllr Hill questioned what the implications would be if costs increased and was informed that LPP had said that if we changed our investment strategy then they could decrease costs. A costs analysis exercise had been undertaken but LPP had refused to provide data as they said it was sensitive information. It would be difficult to justify pooling if we can not justify costs.

The Panel were informed that the minister had said in his letter that we had to pool and he has powers to force a new investment strategy on the fund. An off the record discussion with a legal advisor had indicated that he minister could not force the fund to pool, however he could introduce legislation to be able to do this.

Sue Nicholls said that if costs were going to increase there was the potential impact on the residents having to pay more council tax and thus should we say no to pooling.

Cllr Law said that LPP would only do the extra work regarding costs if they had an in principle agreement from the Fund that we would join their pool.

Cllr Hilton mentioned that we had no option but to join with LPP, however LPP needed to provide requested information so we could sell the proposal to the Berkshire Unitary Authorities. Cllr Hilton also mentioned that LPP had indicated their strategy would evolve over time and as a partner we would have an opportunity to influence this.

The Pension Fund Manager explained the investment buckets used by LPP but felt that they could not achieve their targets. He was concerned that LPP had said they could add an emerging markets bucket but not an additional bucket to meet our investment strategy.

Cllr Hilton mentioned that LPP had said they would achieve an income of 2.5% not the 4% targeted by the Fund. The Pension Fund Manager said that LPP had indicated that over 3 years there would be a shortfall of £5 million however he felt this would be £17 million.

The Chairman said that in principle we would be joining LPP but there were still many loose ends that needed to be resolved.

With regards to keeping a local presence the Panel were informed that an office would be retained in Maidenhead but over time the staffing levels were expected to reduce by 50%.

The Panels independent advisor Mr Dhingra informed that joining LPP was an attractive offer considering we would have an equal voting right and increased resilience. If the Fund moved away from its rigid investment approach income could come from other asset classes.

Resolved unanimously: that Panel notes the report and:

- i) Notes the instruction to join the Local Pensions Partnership issued by Marcus Jones MP.**
- ii) In principle fully supports joining the Local Pensions Partnership as a shareholder.**
- iii) Requests Officers to obtain details of on-going costs which will be incurred by Berkshire as a shareholder in the Local Pensions Partnership and authorises them in conjunction with the Chairman, Vice Chairman and other members of Panel to confirm details of the terms, conditions and the timings of any transfers of assets, staff and operations to the Local Pensions Partnership.**
- iv) Requests Officers in conjunction with the Local Pensions Partnership to prepare a report to be presented to unitary authorities, admitted bodies and other stakeholders.**

PENSION FUND POLICY DOCUMENTS

The Panel were requested to approve two statutory policy documents; the Funding Strategy Statement and the Investment Strategy Statement. The Panel were also asked to approve the Pension Funds Business Plan.

The Panel were informed that the Funding Strategy Statement had been previously approved so the version under consideration was a refresh reflecting the assumptions made and the results of the 2016 Actuarial valuation. The Investment Strategy Statement was a new requirement replacing the Statement of Investment Principles.

Mr Butcher highlighted that on agenda page 29 paragraph 1.1 the Royal Borough of Windsor of Maidenhead should be changed to Windsor 'and' Maidenhead. Mr Butcher also recommended that as the first two documents were departmental statements that it should say so on the front sheets.

Mr Butcher asked if there should be reference to LPP and risk management. The Pension Fund Manager replied that this would be added later when the Funds position on pooling was clearer. The Chairman recommended that we could add that we planned to join LPP.

Cllr Hill questioned how table 7 could show contributions increasing whilst the number of employees in the scheme was decreasing. The Panel were informed that contributions would increase as debt recovery contributions have increased. The impact of out-sourcing would take 3 years to have an impact.

Cllr Hilton mentioned that on agenda page 43 the table showed that 50% of the Funds assets would not be pooled and questioned if this was still correct. The Panel were informed that the table was correct when the document was published. LPP had the assumption that in 8 years all the Funds assets would be pooled.

It was noted that the approval date of the Business Plan would have to be changed to 15 May 2017.

Resolved unanimously: that the Panel notes and authorised the publication of:

- I. The Funding Strategy Statement**
- II. The Investment Strategy Statement**
- III. Business Plan 2017 – 18 and Medium Term Strategy 2018/2021**

STEWARDSHIP REPORT

The Panel considered the latest stewardship report of the Pension Fund for the period October 2016 to 31 March 2017.

The Panel were informed that on agenda page 54 a new table had been added showing funding levels over a 12 month period, both smoothed and unsmoothed. The performance indicators on agenda page 57 showed the improved performance of those authorities using i-Connect. When an employer was underperforming against the KPI's this would be reported by exception.

Cllr Law asked why Table 8B showed West Berkshire as underperforming and was informed that this was because they were not using i-Connect. West Berkshire were due to implement i-Connect this year.

Resolved unanimously: that the Panel noted the report and:

- I. The investment performance and asset allocation of the Fund**

- II. All areas of governance and administration as reported
- III. All key performance indicators

LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC

RESOLVED UNANIMOUSLY: That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting whilst discussion takes place on following items on the grounds that they involve the likely disclosure of exempt information as defined in Paragraphs 1-7 of part I of Schedule 12A of the Act.

The meeting, which began at 4.00 pm, finished at 6.05 pm

CHAIRMAN.....

DATE.....