# BERKSHIRE PENSION FUND PANEL

## MONDAY, 11 SEPTEMBER 2017

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

Advisory Members: Councillor Worrall, Councillor Dennis, Mark Butcher

Also in attendance: Inder Dhingra

Officers: Philip Boyton, Karen Shepherd, Nick Greenwood, Kevin Taylor, Pedro Pardo, Rob Stubbs, Alison Alexander and Nikki Craig

## APOLOGIES

Apologies for absence were received from Councillor Law and Councillor Stanton.

## DECLARATIONS OF INTEREST

The Pension Fund Manager declared that all Pension Fund officers could be affected by pooling with LPP.

## MINUTES

The Part I minutes of the meeting held on 15 May 2017 were approved as a true and correct record, subject to the date in the first paragraph in the item 'LGPS pooling' being amended to 11 May 2017.

## PENSION FUND ANNUAL REPORT & ACCOUNTS 2016/17

The Panel considered the Pension Fund Annual Report and Financial Statements 2016/17. Members were requested to inform the Pension Fund Manager of any typographical errors after the meeting. It was noted that the accounts had also been considered by the Audit and Performance Review Panel on 6 September 2017, as part of the overall Royal Borough statement of accounts.

Councillor Hilton questioned the difference between the budgeted and actual figures for administrative costs in 2016/17. The Pension Fund Manager commented that there had been a number of staff changes and some temporary recruitment; he was unsure however why the costs of supplies and services had increased so much. The Head of Finance agreed to seek further details and circulate to Panel Members.

Councillor Hilton commented that the number of pooled investments in terms of value had reduced; this was interesting when pooling was on the horizon. The Pension Fund Manager explained that the term 'pooling' referred to any collective investment vehicle set up under EU legislation. Over the years there had been a number of redemptions out of the hedge fund portfolio. It also reflected a movement in the global equities to RWC.

Councillor Hilton questioned the figures for 'change in financial assumptions' in Appendix 2 of the statement. The Pension Fund Manager explained that this was an accounting standard that treated all the liabilities of the pension fund as a loan or a debt on the council, and valued liabilities at the corporate bond rate. In 2015 the corporate bond rate used was 3.3%. This increased to 3.7% in 2016, resulting in a reduction in the value of liabilities. In the current year to 31 March 2017 the rate was 2.8%, resulting in the increase in the accounting liability. The Pension Fund Manager commented that if all deficits were explained as notes to the accounts this would be complicated and lengthy.

Councillor Hilton commended the communications plan with members of the fund, deferred members and pensioners.

Councillor Hilton queried the different contribution rates detailed on page 117 of the report. The Pension Fund Manager explained that employer rates had two elements. The primary rate would be the same for all councils, subject to minor variations due to the age profile of members. The secondary rate was the deficit recovery rate and therefore varied dependent on the age profile of members and what options the local authority had taken at the time of the last valuation in relation to the recovery period.

Councillor Hilton highlighted the important statement on page 126 of the report: 'The Pension Fund does not wish the fund to sell assets to pay benefits.'

It was confirmed that, in relation to the Key Performance indicators referred to in the report, officers were working with the actuary to stress test scenarios. It was expected that further details would be presented to the Panel in November 2017, and then included in future stewardship reports.

Councillor Hilton commented that on page 128 of the report it suggested 34% of assets would be pooled, whereas on page 129 the figure was 50.8%. The Pension Fund Manager explained that difference was cash, which stood at 11% at the moment.

Councillor Hilton commented that the fund seemed to have plenty of money to pay pensions so questioned whether the £87m deficit figure was an accounting aberration. The Chairman commented that the deficit figure took into account the fact that the fund was receiving contributions from 20 year olds who would receive their pension at age 70. The deficit could only be covered by fuller contributions. The base rate had at one time been 15%, whereas it was currently 0.25% and could obviously change again over time. The question was how far to take a view on this; currently the recovery plan covered a period of 23 years.

Members noted that although the fund targeted a long term return of CPI+4.5%, the current figure being used by the actuaries for monitoring purposes was CPI+2.8%. The difference was a buffer. Councillor Kellaway commented that the actuarial report reviewed in April 2017 showed a return of 15.8%, which was an outstanding achievement. The Pension Fund Manager explained that the 2008 investment review agreed to target a return of 8% with low volatility. The issue had been the change in the discount rate.

The Pension Fund manager agreed to circulate a final copy of the statement of accounts to all Members.

**RESOLVED UNANIMOUSLY: That Panel notes the report and:**

i) **Authorises Officers to correct typographical and drafting errors and to insert the Auditors' Report on receipt.**
ii) **Approves publication of the final version of the Fund's Annual report and Financial Statements by the statutory deadline of 1 December 2017**

RISK ASSESSMENT REGISTER

Members considered the latest risk register. It was noted that the same risks were listed as in the report considered by the Panel six months previously. The detail had been updated but the risk levels remained the same.

The Pension Fund Manager stated that he did not feel that GDPR preparations needed to be included as a risk. The fund already complied with Data Protection standards and was involved in the GDPR working group, to ensure it would remain compliant.

The Deputy Pension Fund Manager explained that the risk in relation to having a high quality database related to data submission by employers. This was being addressed by the introduction of i-Connect. The quality of data was the key driver in having accurate employer contribution rates. The quality of data from newly admitted bodies such as Academies was generally good. The Multi-Academy Trusts were in the main taking up i-Connect. Some very small employers still relied on paper documents, but the risk was smaller as they did not have significant liabilities.

**RESOLVED UNANIMOUSLY: That Panel:**

**i. considers the amendments made to the risk register as set out in this report and as represented in the full register at report Annex 1**

STEWARDSHIP REPORT

Members considered the latest stewardship report.

The Pension Fund Manager highlighted that table 1.1 showed how the deficit had developed. At March 2016 the deficit for the total fund had been £597m. The forecast for June 2017 was £628m. The unsmoothed level was a spot valuation using the current valuation of assets. The unsmoothed was over a six month period and made assumptions about the level of stock markets in the next three months. Table 6 showed the deficit was down slightly and the funding level had gone up slightly.

Members noted that the Key Performance indicators in Table 2.4 showed administrative targets were being met. One area for concern was the employer performance when not on i-Connect and missing deadlines in the SLA. However, it was noted that 97.5% of annual benefit statements had been produced within the deadline.

A typographical error was noted in Table 1.1: Investment Performance target should read 'CPI+4.5%'.

**RESOLVED UNANIMOUSLY: That Panel notes the report and:**

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

- **All areas of governance and administration as reported**
- **All key performance indicators**

MARKETS IN FINANCIAL INSTRUMENT DIRECTIVE

Members considered the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the administering authority of becoming a retail client on 3 January 2018.

The Pension Fund Manager explained that the directive was designed to protect individuals making poor investment decisions because of misinformation. Local authorities would be treated as retail clients unless they could prove staff had sufficient professional skills to analyse all aspects of investment. The Scheme Advisory Board had worked with the LGPS to create a questionnaire to enable local authorities to opt-up as professional clients. Professional client status enabled a local authority to invest in private equity, infrastructure, corporate bonds and other non-retail oriented investments. To qualify the fund had to have an administering authority, assets of at least £10m and be able to demonstrate a certain level of professionalism, allowing officers to make final investment decisions or demonstrate that a body such as the Investment Working Group had sufficient knowledge to make such decisions.

It was confirmed that the directive was due to come into force on 3 January 2018. Between then and pooling on 31 March 2018, the fund would have to be opted-up with all fund managers. LPP was automatically deemed to be a professional client as it had FCA authorisation. As a client of LPP the fund would have to ask them to opt-up the fund to invest in anything other than straightforward equities or listed gilts.

**RESOLVED UNANIMOUSLY: That Panel notes the report and:**

i. **Notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018.**

ii. **Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.**

iii. **In electing for professional clients status, the committee acknowledges and agrees to forgo the protections available to retail clients attached as Annex 1.**

iv. **Agrees to grant delegated authority to the Pension Fund Manager and Investment Manager for the purposes of completing the applications and determining the basis of the application as either full or single service.**

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 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 4.02 pm, finished at 5.20 pm

CHAIRMAN……………………………….

DATE………………………………..........