BERKSHIRE PENSION FUND PANEL

MONDAY, 13 FEBRUARY 2017

PRESENT: Councillors Lenton (Chairman), Hill, Collins, and Hilton.

ADVISORY MEMBERS: Cllr Law, Cllr Usmani, Cllr Stanton, Cllr Worrall, Mrs Nicholls, Mr Eryilmaz, Mr Ralfs and Mr Butcher.

INDEPENDENT ADVISOR: Mr Dhingra.

OFFICERS: Mr Greenwood, Mr Taylor, Mr Pardo, Mr Stubbs, Mr Bunn, Mr Boyton, Mr butcher and Mr Cook.

APOLOGIES

Apologies for absence were received by Cllr Rankin and Cllr Dennis.

It was noted that Billy Webster was no longer the Chairman of the Berkshire Pension Board.

DECLARATIONS OF INTEREST

There were no declarations of interest received.

MINUTES

The Part I minutes of the meeting held on 16 January 2017 were approved as a true and correct record.

INTEGRATED RISK MANAGEMENT

The Pension Fund Manager informed the Panel that the Pensions Regulator had issued a new defined-benefit regulatory guidance in December 2015, “Integrated Risk Management” (IRM). Whilst this was guidance rather than a code of practice it would be considered by the Regulator to be best practice. Lincoln Pensions, a company that had extensive experience of undertaking IRM work for large private sector pension funds, had been commissioned to undertake an IRM project for the Fund.

The Panel received a presentation from Lincoln Pensions regarding the conclusion of an Integrated Risk Management study they had undertaken on behalf of the Pension Fund. Draft findings were circulated at the meeting with the final report awaiting approval from the Pension Fund Manager.

The Panel were informed that Lincoln's approach on integrated risk with regards to the Pension Fund looked at the impact of selected economic scenarios on both the Fund and the Sponsors. The scenarios were:

- 1973 - 1974 Recession
- 2001 – 2003 Dot Com Crash
- 2007 – 2008 Credit Crunch

To allow for consistent analysis they had prepared a forecast model based on historical data. Forecast assumptions were then applied to produce ten year forecast projections for each Sponsor’s operating result, asset base and the ability to afford estimated pension contributions. For this analysis the Fund was split into four Sponsor groups; Councils, Educational Bodies, Housing Associations and Individual Admitted Bodies.

The Panel were informed that there were limitations to the economic analysis used as there were unknown impacts on the risk analysis such as an aging population or a change in the political landscape.

The overall conclusion of the report was that the Fund' solvency level would be sensitive to an environment of exceptionally high interest rates and high inflation especially those Sponsors in the public sector. It was felt that three of the local authorities could struggle to meet their recovery plans under such scenarios.

The Panel were informed that it was felt that if the Fund was impacted by the stress scenarios it would require higher annual contributions to maintain a 20 year recovery period. It was recommended that recovery plans should be better aligned to the strengths of each of the sponsors.

The report set out Lincoln Pensions recommendations and next steps to address the risk that certain Sponsors were unable to afford the required contributions to meet a 20 year recovery period. They felt that the Fund should not rely on being able to go to Central Government to bail it out and they encouraged the Fund to look at its financial position and performance every 6 months. It was felt that as part of the review the Fund should also consider the impact of unprecedented 'black swan' events which captured highlighted potential risks facing the Fund.

The Panel were informed that thought should be given to potential recovery models such as formalising resilience arrangements that may be placed on central Government, the utilisation of Council capital portfolios or the potential use of a local referendum to increase council tax.
Cllr Hill asked if the Fund could withstand a 'black swan' event and was informed that on an aggregated basis it could withstand all of the stress scenarios apart from the 1973 – 1974 Recession.

Cllr Hill asked what would be the implications of such an event and was informed that debts would increase and a new recovery rate would have to be calculated. If such an event were to happen in the next three years it was felt that the Fund would eventually be unable to meet all of its liabilities.. Inflation would cause pension costs to increase whilst asset values would fall.

Cllr Stanton asked why three of the local authorities were particularlyvulnerable. The Panel were informed that it was felt that West Berkshire, RBWM and Bracknell Forest were more vulnerable to stress when their cash flow was stressed.

Cllr Hilton mentioned that as more Council's were outsourcing to community interest companies the Panel had recognised the risks associated with this and asked if Lincoln had a view of the sustainability of the local government pension scheme. The Panel were informed that when there was an increased shift from the public sector to the private sector the covenant would be weakened. Local Government Pension Funds were exposed to higher risks of underfunding and generally final salary schemes were unsustainable.

Cllr Lenton mentioned that the outcomes of the stress testing were in the report but not the calculations and also asked why certain councils were more susceptible. The Panel were informed that the calculations would be in the final full version of the report and that smaller councils were more vulnerable to changes such as demographic changes or population growth.

Cllr Hill mentioned that the analysis had been done but asked what could be done about potential stress events. The Panel were informed that the stress tests showed that if there were a future event the Panel could go to the Government and show that the Fund was at risk of running out of money. The Funds covenant was strong and had an AAA rating as council tax could be raised. Officers could produce a dashboard every 6 months highlighting potential threats and solutions.

The Chairman raised concern that the Fund had a number of admitted bodies whose covenant was not strong.

Cllr Law highlighted the paragraph that showed that the University of West London and East Berkshire College could not meet their contributions under any of the scenarios. Cllr Law also mentioned that Councils' could not borrow for revenue expenditure. The Panel were informed that one option was to borrow to fund the scheme better and that the Government could be asked to change legislation to allow this to happen.

Resolved unanimously: that the Panel note the report and approved that a dashboard be brought back to the Panel. Approved that the first risk scenario examined be out saucing of Council services.

ACTUARIAL VALUATION 2016

The Panel received a presentation from representatives of Barnett Waddingham, Actuary to the Fund, on the results of the 2016 Triennial Actuarial Valuation.

The Panel were informed that the purpose of the valuations was to show how much employers needed to pay in the future to have sufficient assets to pay benefits. GAD would be carrying out the Section 13 valuations.

The administrating authority had the responsibility for producing the Funding Strategy Statement that showed the assumptions that had been used. It was noted that revised CIPFA guidance had just been issued.

The Panel were shown how the valuation was done by projecting all possible benefits payments for each member, then attached probabilities to each possible payment and finally discounted expected payments to obtain the value. The main question was are assets sufficient to pay the cash flow.

The March 2013 valuation results showed a deficit of £527 million with the plan to eliminate over 27 years. The plan was to increase contributions from pensionable pay by 3% over a 6 year period.

The Panel were informed that the Advisory Board had asked actuaries why they did not use the same assumptions for all funds. The Board were informed that different funds had different strategies; however the Board have asked for standardised assumptions.

The Section 13 valuation provided an independent review by GAD of the valuation and employer contribution rates to asses they are appropriate and if remedial action was required.

(Cllr Hill left the meeting)

The Panel were informed that the new Section 13 valuation started on 1st April 2017 with the draft report expected late 2018 or early 2019.

The Panel were shown the 20 year inflation curve and were informed that the assumption was for long term salary increases of 1.5% more then the CPI.

With regards to the discount rate this had been based on a number of factors including the proportion of liabilities that were the responsibility of tax raising bodies, the ability of employers to pay more, the attitude to risk, the levels of volatility in the assumed asset returns and consistency with the 2013 valuation. The demographic assumptions used were updated every three years based on mortality rates.

The results of the valuation was that the funding assumption had decreased from 75% to 73% and thus more money was required to go into the Fund to pay for this deficit. As a result when looking at the standardised funding levels the Berkshire Fund was ranked at 72% when compared to other Funds with 50% of Funds in the 90% to 100% range.

As the rest of the discussion related to the financial affairs of Fund bodies the discussion continued in Part II – Private meeting.

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 6.30 pm

CHAIRMAN……………………………….

DATE……………………………..........