BERKSHIRE PENSION BOARD

Monday 18 March 2024

Present: Alan Cross (Chair)

Present virtually: Arthur Parker (Vice-Chair), Nikki Craig, Julian Curzon and Jeff Ford

Officers: Ian Coleman and Philip Boyton

Officers in attendance virtually: Mikey Lloyd

In attendance: Jo Thistlewood.

Introduction and Apologies

The Chair introduced everyone in the meeting, including Jo Thistlewood, who would be starting soon as the new Head of Pension Fund on 22 April 2024.

There were no apologies for absence.

Declaration of Interest

There were no declarations of interest.

Minutes

The Chair commented on a few minor typos.

Jeff Ford, Member Representative, asked if the Authorities 2021 accounts had been signed off. The Chair noted that they had not yet been signed off.

AGREED: That the minutes of the meeting on Monday 18 December 2023 were a true and accurate record.

Board Governance Matters

The Chair noted that there continued to be a vacancy for a member representative and that the deadline for applications had been extended to the end of April. The Chair said that efforts would be made to actively encourage interest in the role and if progress had not been made by time Joe Thistlewood arrived then further action would be taken.

The Chair explained that the difficulty in recruiting member representatives was not unique to the Board, but efforts should still be made to address the issue and expressed concern about possible implications with regulators if such vacancies persisted for an extended period.

Scheme and Regulatory Update

Philip Boyton, Deputy Head of Pension Fund, opened the item discussing the recent report on Sharia Law, providing an overview of the opinion sought from an expert in Islamic finance. The report consisted of two parts.

Firstly, at a macro level, the pension benefits provided by the LGPS were acceptable from a Sharia perspective. This was based on the understanding that scheme members did not directly own the underlying investment in the funds; instead, they received deferred salary owed by their employer. The report highlighted that whilst the LGPS was not Sharia-compliant at a fund level due to significant investments in non-Sharia-compliant assets, Muslim members may technically receive pension benefits in the short term without breaching Sharia compliance.

Secondly, Philip Boyton explained how recommendations were provided to embrace a holistic investment strategy that considered different investment strategies aligned with Muslim members' values and interests. This included expanding to include specialised sub funds like Sharia-compliant ESG, SRI, or impact investments. Additionally, the LGPS was encouraged to develop a Sharia-compliant fund or segregated asset allocation, with a suggested portfolio allocation of 6.5% of the total LGPS fund. It was recommended that the LGPS established a Sharia Board to provide oversight and regular audit reviews to assure Muslim employees of compliance with Islamic principles. Philip Boyton concluded that the report emphasised that Muslim members may continue to be members of the LGPS, and retired Muslim members may continue to receive pension benefits.

The Chair raised a question regarding whether the Scheme Advisory Board intended to provide guidance based on the broader aspects of the advice, recognising the challenge Muslim members may face in participating in a scheme that may not fully align with their values.

Philip Boyton said no further steps had been taken regarding the advice beyond the report's availability. He explained that the conclusion suggested it was acceptable for Muslim members to benefit from the scheme's benefits, with the focus on the investment portfolio alignment with Islamic principles.

The Chair said some individuals may feel their pensions were compromised because the way the funds were generated did not align with their values. While it may be a relatively small minority, it was worth considering.

Julian Curzon, member representative, asked what other LGPS funds were doing? Jo Thistlewood explained that they anticipated further guidance from the Scheme Advisory Board and as a result implementing separate strategies for individual funds would pose challenges, given the diversity among the funds and the need for alignment with national guidance. The Chair added that there was likely no formal guidance as things stood.

The Chair highlighted that the Muslim population in the area might have exceeded the national average, although he cautioned against stating specifics without accurate statistics. He noted that whether this led to pressure for action remained to be seen. The Chair stated that their response would likely depend on guidance from the Board or any specific requests from members or employers, and that they would await further developments before taking any action.

Philip Boyton then spoke of how the new Pensions Regulated General Code was presented to Parliament on January 10th of this year, following nearly three years since the original consultation's publication in March 2021. The code, spanning 171 pages, replaced ten previous codes and came into effect on March 27th. It consisted of five parts and 51 modules covering areas such as governing body, funding and investment, administration, communications and disclosure, and reporting to The Pensions Regulator (TPR). While clarity was sought on its exact applicability to the LGPS, certain modules, including those on cyber security and scams, posed additional requirements. Philip Boyton noted how TPR would not expect full compliance immediately but anticipated funds to be aware of potential gaps and to have plans outlined for addressing them. The Scheme Advisory Board committed to supporting funds in understanding new requirements and providing guidance where needed.

Philip Boyton noted that the Berkshire Fund already maintained a high level of compliance with TPR's governance and administration requirements outlined in the outgoing Code Number 14. However, rather than awaiting guidance from the Scheme Advisory Board, an internal assessment was underway to evaluate the Fund's compliance with new elements, encompassing aspects beyond LGPS applicability and potentially incorporating broader best practices. Updates, including a plan for achieving full compliance with relevant code elements, would be presented at future Board meetings.

Jo Thistlewood discussed compliance checks conducted by various advisers. These advisers were in the process of developing compliance checker systems. These systems allowed funds to input evidence, link to their controls, and identify areas of non-compliance. The checkers would generate reports for boards and committees, highlighting areas of non-compliance and facilitating the creation of action plans. Jo Thistlewood explained that these checklists typically cost around £5,000 and provided a valuable tool for assessing compliance and evidencing necessary actions. Jo Thistlewood said that procuring one of these checkers could be considered for an initial assessment of compliance, with resulting reports used to demonstrate progress towards compliance to TPR. The Chair commented that it seemed a sensible way forward.

Background information on the Pensions Increase Act 1971 legislation governing public service annual pensions, including deferred and in-payment pensions, was provided by Philip Boyton. He explained that LGPS annual pensions were set to increase by 6.7% from April 8th this year, in line with the annual increase in the Consumer Prices Index (CPI) up to September 2023. Exceptions included annual pensions deferred or in payment for less than one year, which would receive a prorated increase. Additionally, career average revalued earnings (CARE) public sector pension schemes introduced in 2014 and 2015 would have their annual pensions revalued annually based on prices or earnings terms specified in regulations. LGPS CARE pensions would be increased on April 6th this year by 6.7%, deviating from the traditional April 1st increase date. Philip Boyton explained that the change aimed to address the larger pensions increase awarded in April 2023. The additional pension limit, allowing individuals to purchase additional annual pensions through additional monthly contributions or lump sums, increased annually on April 1st. This year, the increase was based on the pensions increase that applied on April 10th 2023, resulting in a 10.1% increase from the previous limit of £7,579 to £8,344.

Risk Management

Ian Coleman, Interim Head of Pension Fund, noted the risk management report provided an update on the risk register, which was regularly updated in accordance with best practice and reported at each Board meeting and to the Fund Committee. Currently, there were 46 risks on the register, with only one assessed as red, which was to the implementation of the McLoud remedy. Ian Coleman explained that this classification was not due to doubts about successful implementation but rather stemmed from uncertainty regarding the volume of work required and whether the available staff could manage it adequately. Once the volume of work became clearer, this risk was expected to diminish. Ian Coleman said confidence remained high in meeting the remedy within the designated timelines once all parameters were defined.

The Chair noted that there had not been much change in the risk register since the last update, indicating a stable situation overall. Adding that previous risks that were highlighted by the previous Head of Pension Fund, Damien Pantling, were no longer relevant but it was prudent to maintain vigilance and revisit the register periodically. The Chair said that when Joe

Thistlewood assumed her role in a month's time, she would likely conduct a thorough review of the risks to ensure she was well-informed about the current status.

Philip Boyton said where Ian Coleman highlighted the McLoud remedy as a red risk, it had prompted a dedicated project plan specifically for addressing it, which included its own risk register. Phillip Boyton said they were collaborating closely with their actuary and pension software provider to streamline the identification of eligible members under the McLoud remedy. Progress on this front was ongoing, with regular updates and coordination with partners.

The Chair asked if it was going as well as or not as well as expected? Philip Boyton said in terms of the work assigned to the actuary and the requirements for the software provider, all requested inputs had been confirmed as feasible without encountering any obstacles or challenges.

Jo Thistlewood wished to manage expectations and noted that she would not have a detailed update of the risk register ready for the next meeting in July and rather simply an understanding of the risk register. Ian Coleman added that having seen others, this was a good risk register and in a good state.

Mikey Lloyd, Democratic Services Officer, clarified for the Board that the next meeting was scheduled for June.

Statutory Policies

Ian Coleman introduced the item by explaining that only one statutory policy had been updated in the last quarter which was the revision to the governance compliance statement. Ian Coleman noted that if members had compared the updated statement with the previous there was very little change as there was very little that needed to be changed.

Nikki Craig, Assistant Director of HR Corporate Projects and IT, Employee Representative, discussed that with the conduct being update they already had some of the new TPR modules such as pension scams. Nikki Craig then asked about the potential inclusion of cyber security training, possibly through the output of a purchased compliance checker mentioned by Jo Thistlewood.

Jo Thistlewood mentioned that on webinars she had attended it was mentioned that TPR’s public sector online toolkit would be updated for the requirements code however it was not their number one priority. Ian Coleman added that TPR had said they would be updating their private sector first before following with the public sector, suggesting they would not see anything until at least next year.

Philip Boyton added that there had been a turnover of committee and advisory members following the 2023 May local elections and said efforts were made to ensure all new committee and advisory member fulfilled their training.

Good Governance

Ian Coleman opened the item explaining that the report encompassed the annual business plan, the budget for the forthcoming year 2024/25 and the medium-term plan for the next four years.

The Chair noted it would be beneficial to include specific percentages of standards achieved in the report, providing clarity on the level of accomplishment. The Chair then commented on the budget that there were notable variances in certain areas and asked if these were within the normal course of operations of resulted from insufficient planning in prior budget cycles?

Ian Coleman explained that the primary challenge in assembling a budget for the Pension Fund lied in the uncertainty surrounding crucial information, much of which hinged on decisions made by employers, and Windsor and Maidenhead lacked visibility into there determinations, there remained unpredictability in the Fund budget.

The Chair questioned about how staff costs was under budget, but administration costs was over, Philip Boyton clarified that the budget approach for staff remuneration was that the top end of each grade was considered on this occasion rather than actual spend.

Jeff Ford also questioned the large variance between the budgeted and forecasted administration costs for 2023/24. Philip Boyton noted that a driving factor was additional costs related to software development, stemming from various developments within the scheme such as McLoud and Pension Dashboard initiatives which had necessitated ad hoc expenditures.

Jeff Ford also questioned the staff costs being under and if one of the reasons was due to being short staffed. Philip Boyton confirmed that there had been various vacancies within the structure and that there was an ongoing recruitment process. Jeff Ford followed up by asking what the turnover in staff was in a year, Philip Boyton explained that whilst this period had been rather unusual, with senior positions being left due to reasons such as natural retirement, he suggested that on average only one member of staff a year departed.

Julian Curzon noted that there was a large difference in the 2023/24 forecast and budget and asked if it would make a big difference to the Fund's performance? It was explained by Ian Coleman that the costs outlined in the budget represented a relatively small portion of the overall turnover of the Pension Fund, and even if there was a significant variation in the costs, they would have minimal impact om the net position of the Fund. Julian Curzon clarified he was speaking on the increase of net assets. The Chair noted that liabilities had also increased, which would be addressed in later papers. The Chair also explained that larger variations in the budget table were associated with things such as people moving into the Fund and employer contributions being higher.

Administration Report

Philip Boyton introduced item for the period from October 1st to December 31st which included multiple recommendations. In addition to noting the areas of focus, the increase in the key performance indicator for deceased processing from five to 10 working days, effective from January 1st, was also recommended. This adjustment reflected discussions held by the Board and Fund Committee and would be implemented pending approval of the report's recommendation.

Regarding scheme employer key performance indicators in reference to i-Connect, there had been some downturn in a few employer types. Reading Bough Council did not achieve 100% submission this time, as one of their three returns was late by 10 days. This delay was due to the individual responsible for submission being on leave without contingency plans in place. Additionally, a payroll provider for academies and schools, submitted all their contracts late. However, there had been significant engagement from other trusts seeking to streamline the year-end process, although Philip Boyton noted not all would be able to onboard due to the current queue. Testing with these employers was ongoing, with plans to transition to a live state as soon as possible.

Philip Boyton then spoke on the key performance indicator in relation to deceased processing within five working days and how it showed a significant fluctuation. However, in response to feedback, they had adjusted the KPI to 10 working days, marking a 100% increase. Philip

Boyton said it was important to note that this adjustment was still well within the CIPFA benchmark of two months.

The Chair underscored the impact of group submissions and the significance of how if one employer with numerous employees was late it altered the submission percentages. The Chair commented that it would be interesting to observe the progress with the revised expectation of 10 working days for deceased processing, which should offer a more realistic target. It was noted how previously less experienced staff had been tasked with completing this area.

Responsible Investment

Ian Coleman addressed that the report was produced by LPPI and explained that any detailed questions may have to be delayed until the Fund Committee which LPPI would be present at.

The Chair highlighted some positives from the report such as progress in climate voting. The Chair also mentioned LPPI's performance showed reasonably good results and how the LPPI global fund had consistently performed well compared to benchmarks, which was promising.

Ian Coleman also noted the promise of the increased proportion of investments in green sectors compared to brown, however this was subject to LPPI's definitions.

It was highlighted that the challenge was to pull from the responsible investment work LPPI do and get key messages across to members. Philip Boyton said there was a dedicated item related to responsible investment in a circulated quarterly newsletter.

The Chair commented on Net Zero targets and how they showed a notable trend, noting that the market started with a level of carbon intensity double that of LPPI and that whilst the market's carbon intensity had decreased to half, LPPI's portfolio had dropped even further to only a third of its starting point, which indicated a strong message.

Part I Any Other Business

There was no other business to discuss.

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 discussions 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 11.04 am, finished at 12.14 pm

Chair……………………………………

Date…………………………….........