

## BERKSHIRE PENSION FUND COMMITTEE

Monday 5 December 2022

Present: Councillors Julian Sharpe (Chairman), David Hilton (Vice-Chairman), Shamsul Shelim and Simon Bond

Present virtually: Councillor Wisdom Da Costa

Also in attendance: Alan Cross, Aoifinn Devitt, Joe Peach and Bob Swarup

Also in attendance virtually: Richard Tomlinson and Councillors Maria Gee (Wokingham) and Glenn Dennis (Reading)

Officers in attendance: Becky Oates, Philip Boyton, Kevin Taylor and Damien Pantling

Officers in attendance virtually: Andrew Vallance

### Apologies

There were no apologies for absence received. Councillor Wisdom Da Costa attended virtually as a non-voting member of the Committee.

### Declarations of Interest

There were no declarations of interest received.

### Minutes

**RESOLVED UNANIMOUSLY: That the Part I minutes of the meeting held on 12 October 2022 be a true and accurate record, subject to amendments to the Administration Report agenda item.**

### RISK REPORTING

Damien Pantling, Head of Pension Fund, introduced the item and explained that since the last meeting, he had looked at the impacts of inflation on both assets and liabilities, and was comfortable that these risks were reflected appropriately in the register. This had been reviewed by Barnet Waddingham, the Fund's actuary, and LPPI, the Fund's investments advisor.

Councillor Hilton, Vice-Chairman, asked in relation to risk PEN017 if any significant opportunities had arisen through other fund's having to sell off assets in order to pay off gilt debts.

Damien Pantling stated that generally speaking, the Fund didn't hold any products which contributed to the recent liquidity crunch (LDI investments). In terms of asset buying opportunities, it was being reviewed and would be taken into consideration when redrafting the investment strategy statement, which would come to the next Committee meeting.

Councillor Da Costa asked why the risk register reflected a high likelihood of unexpected employer contributions in PEN024.

Damien Pantling stated that the likelihood figure of 3 was a mid-risk. Affordability from an employer perspective was being challenged, and to describe the risk as a 2 would be inappropriate given the state of public finances.

Councillor Da Costa asked for clarification on risk PEN027.

Damien Pantling stated that the mitigations within the risk register had been put in place to reduce this risk, which resulted in a medium risk.

Councillor Da Costa asked if the McCloud case would have a significant impact on the fund.

Damien Pantling stated that there were three ways to look at the McCloud case – financial, administrative and from an employer perspective. The case would have an estimated 1% impact on the value of the liabilities which was already factored in. From an administration perspective, there would be a significant impact as the work that would be carried out would be legally required. From an individual employer perspective, this impact could be significant for individual employers but would be looked at on a case by case basis.

Councillor Da Costa asked if PEN032 was likely to be such a high risk.

Kevin Taylor, Pension Services Manager, stated that the risk was high before any mitigations were put into place. As a result of the treatments that were put into place, the actual net risk was green. The key item was to ensure that pensioners would be paid their pensions, treatments were in place to ensure that this would happen.

Councillor Da Costa asked if the cyber security policies relating to risk PEN035 were continually being updated, and whether the Fund outsourced this work.

Kevin Taylor clarified that there were two sides to this work – the system software provider had its own set of key factors in place to ensure against cyber security risk, which the Fund received regular updates about. The Fund was also supported by the borough and its cyber security risk policy.

Councillor Da Costa asked if any independent checks were carried out on behalf of the system software provider which would serve to add extra reassurance.

Kevin Taylor confirmed that these checks were in place and were included in the annual external audit.

Councillor Da Costa asked if PEN045 was as high a risk as detailed in the register.

Damien Pantling stated that it was a red gross risk before mitigations, but after these mitigations it was classed as yellow.

Councillor Da Costa thanked the Fund for their work on the risk register.

Councillor Sharpe, Chairman, stated that it was important to consider items which were not on the register going forward, as it was the unknown elements which could become a threat.

Aoifinn Devitt, advisor to the Committee, stated that some of the risks on the register may be temporary, for example Covid, but it was better to err on the side of caution in order to have the most comprehensive actions in place to reduce these risks.

Councillor Sharpe, Chairman, stated that the new risk register made it much easier to assess risks and understand actions that were being taken to mitigate these risks.

Alan Cross, Chair of Berkshire Pension Board, echoed the Chairman's comments and stated that 3-4 years ago, a pandemic would've been a classic example of an unknown risk.

**RESOLVED UNANIMOUSLY: That the Pension Fund Committee notes the report and;**

- i) Approves the updated risk register including any changes since the last approval date, putting forward any suggested amendments as may be necessary; and,**
- ii) Approves publication of the updated risk register on the Pension Fund website.**

## RESPONSIBLE INVESTMENT UPDATE

Damien Pantling introduced the report and stated that he had noted a significant improvement of the report from quarter to quarter, with the main RI report being built to align with the RI policy approved by the Committee last quarter.

In preparing the TCFD consultation response, Damien Pantling stated that he reviewed draft consultation responses from the LGA, Barnet Waddingham, PLSA, LPPI and various other pools and LGPS funds. The response submitted was very much Berkshire's view, having been written based on previous conversations in various forums, and through consulting Committee and Board members.

To summarise the response, it was the Fund's view that pools should be mandated to do more through TCFD. It was important that this policy was not at odds with pooling policy. LPPI had prepared a verbal statement on net-zero before receiving a formal report next quarter.

Richard Tomlinson, LPPI, stated that LPPI had been on its net zero for about a year and a half. The formal targets had been submitted to IIGGC and had been accepted and published, with LPPI now in the work of implementing the work towards these targets.

The first asset class that was in scope was global equities, with additional asset classes being brought in through time. The first two of these would be real estate and corporate credit. The Fund had a large global multi-asset portfolio, with each of those different asset classes bringing different challenges and opportunities for a net-zero perspective. The long-term goal was to have 100% of assets under a net zero approach by 2050, though the goal was to reach the target before this date.

When looking at net zero investments, there were a number of factors to consider. The first of these was the backward-looking component, looking at how assets owned today could be decarbonised. The second element would be the actions taken to improve the characteristics of the portfolio. LPPI had a series of engagement targets within the global equities component which would evolve through time as other asset classes were brought in. The final element was the forward-looking aspect, looking at the alignment with net-zero, Paris-aligned pathways. The target for the portfolio was a 1.5 degree pathway, which meant looking at the assets within the global assets portfolio and forecasting forward to the expectations of where their businesses are going based on what they say they are going to do. At present, LPPI did not have a technical solution to model this but hoped to have this soon, as it would enable LPPI to be more granular and precise on managing that level of commitment.

Councillor Da Costa stated that he believed that the industry was so far-off reaching the Paris target, and asked how LPPI would move assets to net zero. When looking at the actual activities, Councillor Da Costa asked if investees would be looked at in terms of impact, with poor carbon credentials having a higher rate of return or if LPPI would want to move to each investee to be net zero.

Richard Tomlinson stated that in terms of moving the portfolio, there were two elements to explore. The first was greening the portfolio in comparison to greening the world. Greening the portfolio was a task of improving the carbon footprint of the portfolio, which could simply mean

selling assets which were emitting, and investing in sectors which had low carbon intensity. This was not LPPI's preferred approach as it didn't make a difference to the world, but simply made the portfolio look better. Instead, LPPI were looking to move beyond this. From this perspective, the portfolio was already in a very good place. The carbon footprint was significantly lower than the carbon footprint of the benchmark for global equities, a lot of which was to do with the philosophy and style of investing and the sectors that were being invested in.

In terms of the actions taken to maintain a solid footprint, this would take the form of engagement with companies to get them onto the pathway of aligning with the pathway. More broadly, significant actions were being taken on assets that weren't currently in scope. For example, in terms of real estate, actions were being taken to make buildings more carbon efficient.

Councillor Da Costa stated that it was incumbent on the Committee to ask LPPI to prove it, and demonstrate how Paris-aligned targets were being set.

Richard Tomlinson stated that a significant element of this would be covered by the TCFD report which would be forthcoming.

Councillor Hilton stated that he would expect to see more and more companies moving up the scale used by the Transition Pathway Initiative (TPI). Using this would demonstrate that investments were moving in the right direction. The Committee's fiduciary responsibility to pay out pensions was just as important as climate change, with these two issues running in parallel. A balance would need to be struck, and the Fund had come a long way in the last 18 months and the amount of effort that had gone in to ESG should be recognised. Councillor Hilton thanked LPPI for its work.

Damien Pantling stated that TCFD provided a reporting framework to prove the claims that LPPI made in terms of carbon emissions in the portfolio.

Alan Cross recognised that the Fund had been on a journey and would be on this journey for a considerable while to come.

Councillor Sharpe commented that along the journey, the industry had picked up and adapted to all of the ESG requirements. Ideally the Fund would move faster, but various constraints prevented this.

Councillor Bond commented that TCFD was the initiative of Mark Carney, former Governor of the Bank of England, who seemed committed to making a difference. It was good practice to have circulated a draft response to the consultation, and commended officers.

Councillor Sharpe echoed Councillor Bond's comments and stated that this was new to everybody, not just this particular Committee.

Councillor Hilton stated that the Fund was trying to control the things within its control. The issues beyond its control would have a much bigger impact on carbon in the world than the Fund could ever had. It was only when one could reach the largest emitters that goals could be reached in the long term.

Councillor Da Costa agreed with Councillor Hilton's comments about the Fund's fiduciary duty but stated that his original comments referred to having the information in order to make valid decisions. If the metrics aligned and the Fund had the correct targets, it could then make proper decisions. Regarding the TCFD consultation, Councillor Da Costa thanked Damien and agreed with his comments.

Councillor Maria Gee, Wokingham Borough Council, stated that she did not believe Councillor Da Costa's request for proof to be unreasonable, as it shouldn't be difficult to provide this evidence. Additionally, Councillor Gee asked why the Fund was presenting going further with

the Paris Accord as not being compatible with paying pensions, and asked what evidence there was to prove that this was the case in the long and short term.

Richard Tomlinson stated that this was a fair challenge, and the extent to which there may be a trade-off between expected return and the transition was an issue debated a lot. Long term, the destination of having to decarbonise was clear. It was a matter of finding the balance between prudently investing the scheme's capital in line with the gradual transition that was being made.

Bob Swarup commented that the issue was that people worried if there was substance behind the gloss. The Committee and Fund tried to address some of this when the responsible investment policy was introduced. Firstly, there was a requirement for continuous improvement which acknowledged that there would always be new information which would be looked at. It was important to point out that there was nothing to say you couldn't go for net zero and not have returns, with the opposite being true. What was important to look at everything in a simple, clinical, evidence-based fashion to understand what was happening. Within the responsible investment policy, the Committee had made commitments on the issues it saw as being very important. This policy would be reviewed on a regular basis and would provide an opportunity to amend the goals and targets.

Aoifinn Devitt commented that there should not be a trade off in theory of achieving the goals of the Paris alignment and paying pensions. The point was that these processes were in their infancy and as a result, there was still an element of trade-off. The work being done meant that hopefully, in the future, there wouldn't need to be a trade-off.

Councillor Sharpe thanked all for their comments.

**RESOLVED UNANIMOUSLY: That the Pension Fund Committee notes the report and;**

- i) Acknowledges the Fund's RI dashboard, RI report, active engagement report and achievement of associated outcomes;**
- ii) Approves the publication of the appendices contained within this report on the Pension Fund website**
- iii) TCFD consultation response to DLUHC**

## PENSION FUND ANNUAL REPORT

Damien Pantling introduced the report and stated that the purpose of the report was to sign off the draft 2021/22 Pension Fund annual report and accounts. The report was unaudited, with the audit still underway. There had been some amendments to the prior two years' annual reports and accounts, which was why the report had been brought back to the Committee for re-approval. At the pre-meeting, Deloitte had asked the Committee to note a small amendment to be made to the covering report, noting a caveat to the wording around Deloitte being comfortable with the 2021/22 audit. Whilst Deloitte advised they were generally comfortable, the report had not been reviewed by their lead engagement partner which meant that the Committee and officers could not yet state that Deloitte were comfortable with the report.

Councillor Sharpe stated that the situation of a delay in audit that the Fund were in with relation to Deloitte was not an unusual one and was one that a number of other councils were facing.

Councillor Hilton asked if the increase in management expenses from £27.7m to £40m was a revised reporting structure including previously unreported costs.

Damien Pantling stated that the accounting methodology had changed using the Cost Transparency Initiative, which was an industry standard. A third party, ClearGlass, via LPPI reported on the Fund's management fees, with a note in the still open 2019/20 accounts and

annual report that defined this change in accounting approach. It was not that the management fees had significantly increased, but a different method of reporting was being used to improve transparency. It was important to note that this didn't affect closing net asset values in any way. The Fund carried out a grossing up exercise, which was increasing the Gross performance of investment assets and increasing management fees, which meant they net each other off while having no impact on the bottom line closing balance sheet.

Councillor Hilton asked if Technology Enhanced Oil Ltd was still trading. Given the increase in oil prices, Councillor Hilton asked if there was any opportunity for the company to re-emerge as a force they might have been.

Damien Pantling stated that specific investments could not be discussed in Part I.

Councillor Da Costa asked if it would be helpful to have the comparable figure for the previous year available in order to compare.

Damien Pantling stated that the way the report was presented was in line with advice from Deloitte as auditors, re-stating prior years as agreed with the auditors. The accounts were appended to the report, and the advice had been taken from Deloitte to present it this way, rather than overcomplicating the annual report more than was required.

Councillor Hilton asked if, in the cases where the value of an asset had decreased, this was a result of selling.

Damien Pantling stated that it would depend, but in the majority of cases this was probably related to selling.

Alan Cross stated that in relation to Councillor Da Costa's question, it would be more beneficial to disclose two previous years on management expenses rather than just one.

**RESOLVED UNANIMOUSLY: That the Pension Fund Committee notes the report and;**

- i) Approves the draft 2021/22 Pension Fund Annual Report for publication on the Pension Fund's website;**
- ii) Approves the draft 2019/20 and 2020/21 Pension Fund Annual Reports for re-publication following amendments since December 2021 approval;**
- iii) Notes that although the accounts will remain as "draft" officially until the Administering Authority's accounts are formally signed off, the auditors have recommended these have been reviewed and are fit for public disclosure.**

## ADMINISTRATION REPORT

Philip Boyton, Pension Administration Manager, introduced the report and stated that this report covered the quarter 1<sup>st</sup> July 2022 to 30<sup>th</sup> September 2022. Section 1.4 of the report covered i-Connect users, and Philip Boyton confirmed that The Holt School had onboarded, and the Fund continued to work with the Slough and East Berkshire Multi-Academy Trust along with one other large Trust, which would reduce the number of member records down from the reported circa. 2300 to somewhere in the region of 1700. Additionally, the six unitary authorities had achieved 100% file submission with the period, with Academies, Schools and other employer types providing data to the team on a regular, timely basis.

Section 2.2 of the report covered the Pensions Dashboards Programme, with the regulations governing pensions dashboards being ratified by Parliament. As part of making these regulations, public sector schemes were required to onboard in late 2024 rather than late 2023. The Fund could now work with software provider Heywood Pension Technologies in ensuring that the Fund was in line to meet this date. This would involve a data cleansing exercise which was negotiated to be free of charge, combined with the annual data quality test of Common and Scheme specific data in line with The Pensions Regulator (tPR) code of

practice. The Fund planned to meet with the software provider during early February 2023 to set out a timeline of events and who would be responsible for key targets.

Councillor Sharpe asked if there was anything that Philip Boyton wished to highlight as the main issue from an administration perspective.

Philip Boyton stated that this would be dealing with the additional workload created by the McCloud judgement alongside ensuring the Fund is as best placed as possible to meet its obligations in respect of the Pensions Dashboards Regulations. This went hand-in-hand with having good quality data, which historically through the tPR annual data quality exercise, the Fund could demonstrate the evidence for. Furthermore, working with Heywood Pension Technologies would help with this.

Councillor Hilton asked if admitted bodies had a right to enter into the Pension Scheme, and whether the Fund checked if they were in good shape.

Kevin Taylor, Pension Services Manager, stated that part of the process when admitting these bodies was for the actuary to undertake an evaluation of the assets and liabilities attributable to the scheme members being transferred to the new employer. They transfer at 100% funded level for future membership of the scheme, and were monitored at each valuation period to ensure that the contributions that had been paid were sufficient to meet their liabilities. As part of the triennial valuation, the Fund's actuaries were asked to do a full employer covenant review of those employers perceived to be at risk.

Councillor Da Costa asked in whose gift it was to say yes or no to an organisation joining the Fund, and if the Pensions Dashboard Programme was something that the Committee would be talked to and given information about. Councillor Da Costa also asked for clarity on the term data cleansing.

Kevin Taylor stated that the Fund was bound by the Scheme regulations to provide admitted body status to groups of staff that were transferred out of a local authority and into the private sector under TUPE regulations. The only other option would be to provide employees with a government actuary-certified broadly equivalent Pension Scheme, which didn't really exist in the private sector. Therefore, the only route was to protect members' pensions through admission and ongoing access to the LGPS.

Philip Boyton explained that across scheme member records, there was 'Common data', which referred to personal data of an individual, such as Full Name, Date of Birth and National Insurance Number. These data items were presented to a scheme member when they logged onto the Pensions Dashboards. Further to this, there was Scheme Specific data, which was the type of data items held by each individual type of pension scheme to ensure that benefits could be calculated in line with statutory regulations. The Fund needed to ensure that it held the most up to date Scheme Specific data to ensure that scheme members saw the most accurate estimate of benefits. Data cleansing was carried out on an annual basis by the software provider and returned healthy results over the last 5 years, averaging 98% on both types of data. However, this could always be improved. The exercise that was carried out further to the tPR annual data quality exercise was making sure that the Fund had the data positioned correctly within the software to map to the Pensions Dashboards. The Fund was awaiting the results of this check.

Councillor Da Costa asked if the Committee would be receiving a paper of some kind of training on the requirements of the new regulations which would be implemented by the end of 2024.

Philip Boyton confirmed that as part of future administration reports, officers would be reporting back to the Committee on how the project was progressing, any challenges or hurdles that had been encountered and how those were being addressed.

Kevin Taylor stated that the Fund had put itself forward as a test site for Heywood's technology so would be involved in the actual structure of the dashboard when it came to data being mapped to the dashboard.

Councillor Sharpe thanked Kevin Taylor and stated it was important to be ahead of the curve.

**RESOLVED UNANIMOUSLY: That the Pension Fund Committee notes the report and;**

- i) Notes all areas of governance and administration as reported;**
- ii) Notes all key performance indicators; and**
- iii) Approves publication of the quarterly Administration report on the Pension Fund website.**

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 4.00 pm, finished at 5.45 pm

Chair.....

Date.....