BERKSHIRE PENSION BOARD

Monday 13 March 2023

Present: Alan Cross (Chairman)

Present virtually: Board Members Arthur Parker (Vice-Chairman), Nikki Craig and Jeff Ford

Also in attendance virtually: Julian Curzon and Kieron Finlay

Officers: Damien Pantling, Kevin Taylor and Philip Boyton

Officers in attendance virtually: Becky Oates

Introduction and Apologies

The Chairman, Board Members and officers introduced themselves.

No apologies were received.

Declarations of Interest

No declarations of interest were received.

Minutes

AGREED: That the minutes of the meeting held on 17 November 2022 be agreed as a true and accurate record.

Risk Reporting

Damien Pantling, Head of Pension Fund, introduced the report, stating that Appendix 2 was the usual risk register. The main crux of the report revised the risk management policy, focusing on the risk appetite statement. Since 2018, various metrics were measured and given a red, amber, or green status. However, risk tolerance bands had not been applied (to investment management) which resulted in strategic asset allocation decisions being somewhat more subjective with regards to how much risk the Fund was willing to take in order to meet its financial goals. The committee had received a risk training session in April 2022, at which time it was not appropriate to implement these bands due to waiting for the results of the triennial valuation. In forming these new statement metrics, LPPI's asset and liability management team had advised on the appropriate bands which would help in forming objective 'go' and 'no-go' decisions. This would make decision making far clearer and less subjective when choosing an optimum strategic asset allocation investment portfolio.

The Chair asked for clarification on paragraph 2.6.2 of the report and the thinking behind this statement.

Damien Pantling explained that back in 2018 when the risk appetite statements were implemented, the Fund was at a mid-70% funding level. Red ratings resulted in immediate action if the funding level dropped below 70%. However, the Fund was now at a much better funding position of 86% at the last triennial valuation and therefore it made sense to move the red threshold up to 75%. If the Fund got close to a 75% funding level, the investment strategy would have to change reactively to stop this from happening.

The Chair asked if this would impact the level of risk that was taken over the investments at any point in time.

Damien Pantling confirmed this was correct.

Jeff Ford asked how often these ratings were given and whether this was annually or quarterly.

Damien Pantling confirmed that LPPI's asset and liability management team carried out this analysis on a quarterly basis which was reported to the Committee. The time horizon that was looked at was the average funding level over 10 years, so was a very forward-looking approach.

Jeff Ford asked if, hypothetically speaking, the funding level decreased to 74% at the end of 2023, would the process automatically kick in to review the investment strategy.

Damien Pantling stated that it would not, as the time horizon was 10 years and there may be volatility from time to time over the short-term.

The Chair stated that if the funding level reached 74% in December and was due to remain at 74% over the next 10 years, then action would occur to review the investment strategy.

Jeff Ford asked what the mechanism would be to change the strategy.

Damien Pantling stated that if and when the Fund was flagged as breaching the threshold, this would trigger an immediate review for the strategic asset allocation with a paper being brought to the Board and Committee to change the investment strategy.

The Chair commented that there was not a lot of action that could be taken if conditions became truly adverse, but there were things that could be done by taking reasonable views of what may happen in the market. The idea was to reduce the risk of decreasing to lower funding percentages.

The Chair said that he had provided feedback on the risk register (during the report drafting), and the register was being actively reviewed. In the risk management policy itself, he noted at paragraph 4.1, it was important to be aware that not all staff had responsibilities associated with all of the risks.

Philip Boyton, Pension Administration Manager, stated that staff received training on the potential outcome of certain actions that they may undertake.

The Board noted the report.

Scheme and Regulatory Update

Kevin Taylor began by stating that the Schools Bill had been scrapped and therefore the consequences of this Bill were no longer going to be enforced.

The Chair asked if this Bill would potentially have taken staff in academies out of the LGPS, and if so, which funds they would have been moved into.

Kevin Taylor confirmed that this may have been the case, but the specific details had not been clarified.

Kevin Taylor stated that guidance had been issued on the exit cap, which was now referred to as 'public sector exit payments: a new controls process for high exit payments.' The Scheme Advisory Board had provided a response to the consultation on behalf of the whole LGPS. The key point to note was that local authorities were not going to be part of the exit cap. There was still a question around academies as they were funded by DfE, as clear guidance had not yet been issued. This created the risk of a two-tier scheme member situation where those made redundant by a council would not be affected by the 95k cap whereas those made redundant by an academy might be subject to this cap.

Nikki Craig, Scheme Employer Representative, asked Kevin Taylor if there was any indication as to when that formal guidance was likely to be given.

Kevin Taylor stated that he had not received any indication.

Kevin Taylor added that the revaluation date was being changed from 1 April to 6 April 2023. There had been a perceived risk, because of the 10.1% inflationary increase in benefits, of a lot of people being caught by the annual allowance tax levy, and the government had released regulation to change the revaluation date for the CARE benefits to prevent members being caught by a potential trap of having a tax charge through the annual allowance.

The Chair noted that this was a potential issue for the longest-standing and/or higher paid employees.

Kevin Taylor commented that the good news for scheme members was that they would receive a 10.1% increase on the value of their CARE benefits for that year.

Philip Boyton added that moving the date from 1 April to 6 April harmonised the Annual Allowance Pension Input Period with that of the tax year and made logical sense.

The Chair asked if any research had been conducted on how many people may be impacted by this change.

Philip Boyton stated that in order to conduct an accurate assessment, it would be necessary to wait for the conclusion of the year end process by 31 August 2023.

Kevin Taylor concluded by stating that consultations were expected around Spring 2023 about proposed regulation changes to bring certain benefits in line for certain members such as the equalisation of widowers' benefits.

The current age 75 limit for death grants was being removed and backdated in order to remove any (perceived) age discrimination.

Also likely to come into regulation was the mandatory collection of monthly data from scheme employers. The Fund was already well ahead of the game in this regard. Also introduced would be pension administration KPIs which would provide a benchmark between Local Authority Funds.

The Board noted the update.

Actuarial Valuation

Damien Pantling introduced the report by noting that this was the busiest time of the triennial period and the busiest quarter of the year which had resulted in a remarkably busy agenda. It was the most appropriate time to review some related statements and policies.

The report concerned a formal Committee sign off of the results of the 2022 triennial valuation and the sign off of the rates and adjustment certificate, which set out the employer contribution rates payable by all employers from 1 April 2023. The valuation results were widely known by stakeholders and were communicated to Committee members at the November 2022 pre-meet. This was also communicated to scheme members and employers at the October annual meeting and senior officers with briefings as early as summer 2022. The results would be communicated to individual employers at the employer meeting on 16 March 2023.

It was worth noting that there may be some final amendments before 31 March 2023 as the final valuation report would not be signed off by the actuary until this date. The report itself had been a culmination of over a year of challenging work, and Damien Pantling paid credit to the team for their hard work.

The Chair asked if any changes would be formally agreed between Damien Pantling, the Chair of the Committee and the actuary and asked for confirmation that employers would have been aware of what they would be required to pay for some time now.

Damien Pantling confirmed both of these points and echoed that employers had been consulted since as early as September 2022.

Nikki Craig asked where the Fund sat in the table relative to other local authorities.

Damien Pantling stated that the only “league table” was the Government Actuary’s Department Section 13 report which would be published in around a year’s time. Prudence was incorporated into assumptions which would result in an underestimation in how much the Fund had improved over the long run. Additionally, an active step had been taken to reduce the deficit recovery period by an additional year to bring the Fund closer to being fully funded than previously expected. The Fund was currently fourth in the league table of investment returns in the LGPS, returning 12.5%, which was an incredibly positive picture.

The Chair commented that he suspected that the reality of the “league table” being published would show the Fund still near the bottom, but a decreased gap between the Funds rated higher than it was three years ago.

Kevin Taylor explained that the Fund had previously been flagged in previous Section 13 reports but with the ongoing work, it was hoped that the Fund would no longer be flagged.

Jeff Ford asked if it was possible to continue to ask the ratepayers to pay more and increasing employer contributions each year.

The Chair commented that the reality was that the main income source for local authorities was limited by central government, so the impact was seen in service reduction.

Damien Pantling stated that the Fund had one of the lowest primary employer contribution rates in the whole LGPS.

Kevin Taylor added that primary contributions were the future cost of the scheme, secondary contributions were deficit recovery for past experience.

The Board noted the report.

Statutory Policies

Damien Pantling stated that three policy documents required in the LGPS regulations were being brought to the Committee on the same day. The Investment Strategy Statement and the Funding Strategy Statement had gone through extensive external consultation. The Funding Strategy Statement featured several key changes that sought to protect and improve the Fund’s overall funding position.

The Chair asked how the assumptions in section 7.11.3 of the statement had been changed with regards to inflation since the last valuation.

Damien Pantling explained that future pension increases had been applied across the whole of the LGPS. With regards to inflation, the Fund looked at a future period of between 20 and 30 years. The inflation assumption applied by the actuary had been increased from 2.6% in the 2019 triennial valuation exercise to 2.9% in the 2022 valuation exercise to take the current high inflationary rate into account.

The Chair asked what specifically had happened to those assumptions since the last valuation.

Damien Pantling stated that since the last valuation, these had risen by 30 basis points, which would push up the liabilities.

Kevin Taylor added that the amount of liability based on pre April 2014 scheme membership still linked to final salary was reducing as more and more of the liabilities become linked to the CARE scheme.

Damien Pantling explained that the Governance Compliance Statement was an annual statement, with the only change being made last year with the training records of all Board and Committee members being appended to the statement following a Scheme Advisory Board recommendation.

The Chair thanked Arthur Parker, Jeff Ford, and Nikki Craig for completing the training as detailed on the last page of the appended training records.

Damien Pantling explained that a training plan would be brought to the next Committee as there may be new Committee members following the 2023 local elections.

Jeff Ford asked how the Fund could be seen to be compliant if Advisory Panel members did not attend meetings.

The Chair suggested that in the first instance, the appropriate action may be for the CFO of RBWM to have a conversation with the CFO of the largest authority to work with elected members to understand the importance of attending these meetings, noting that there may be clashes with meetings in that authority.

Nikki Craig asked if the training plan would just be for Committee members or also Board members and asked for advance notice if it included the latter.

Damien Pantling confirmed that it would be expected that the training would be for both Committee and Board members and would be mindful of busy diaries when planning these sessions.

The Board noted the report.

Good Governance

Damien Pantling stated that the two key parts to this report were the Business Plan and budget, with the Fund setting a proper budget for the first time, and the conclusion of the recent internal audit which had given a reasonable governance opinion which was a huge success given that two years ago the Fund was cited as having significant governance concerns.

The Chair commented that under section 2.6 of the report, he was surprised that delegation did not automatically fall to the Head of Pension Fund.

Damien Pantling explained that to his understanding, the delegation naturally fell to the Section 151 officer and therefore further delegation was required.

The Chair asked if the target date of 1 April 2023 was still going ahead for the transition to a segregated Pension Fund ledger.

Damien Pantling stated that there was a lot of work going on in the background and there was no indication to believe this would not be going ahead.

Arthur Parker asked for clarification on the dates in sections 2.3 and 2.5, stating that he believed these dates should be 2023/24 and 2022/23 instead of the current 2022/23 and 2021/22. On page 165 of the report pack, he believed that the date for publishing annual financial statements should be 30 September 2023 instead of 30 November 2023 due to the deadline being brought forward.

The Chair and Damien Pantling confirmed that this was correct.

Jeff Ford asked if it was thought that this would be the last year that the Pension Fund would be net cash positive.

Damien Pantling explained that it was difficult to say as there were many other unpredictable factors involved. From a purely operational point of view, just considering the contributions and pensions payable, it was probably the last year of cash flow positivity.

The Board noted the report.

Administration Report

Philip Boyton stated that the report was in respect of Q4 of the 2022 calendar year. It was pleasing to see that the majority of scheme employers were meeting the SLA for submitting their monthly iConnect data. The picture was positive, though 8.5% of scheme member records were not delivered by iConnect on a monthly basis, representing just over 2,000 records. The pension team continue to work with those scheme employers yet to onboard iConnect, these are all of various size in terms of the number of scheme member records.

Page 184 of the reports pack showed the four KPIs that were reported each quarter and detailed a positive upward trend since July 2022 in deceased member records being processed within five working days.

Page 190 detailed a significant shift regarding the Pensions Dashboards Programme. On 2 March 2023, a written ministerial statement had been issued around the legislation and explained that a new timeline was being established and would likely result in the deadline of onboarding public sector pension schemes being pushed back from September 2024 to sometime in late 2025.

Section 2.3 explained upcoming changes later in 2023 surrounding the online pension service. Better functionality would be available to both the scheme member and also the pension team, which would result in creating better efficiencies in the way the pension team communicated with scheme members.

Jeff Ford asked when the functionality regarding the website would be likely to occur.

Philip Boyton explained that a service review had been conducted in February 2023. The changes to the platform would be delivered later in 2023, as the Fund had put itself forward as a test site to get early sight of these developments and put forward any ideas for further development.

The Board noted the report.

Responsible Investment

Damien Pantling stated that a key part of this report was LPPI's roadmap to Net Zero. The Fund published a lot more information than the average Fund on responsible investment, and progress on the delivery to Net Zero was being observed.

Jeff Ford asked if the report was LPPI's approach to all investment or just this Fund, and whether LPPI had obtained their own assets or were instead managing the assets inherited from the Fund.

Damien Pantling stated that the majority of the investments held in LPPI's pooling vehicles were close to 80% of the Fund's portfolio. The remaining assets are managed by LPPI from a fiduciary management point of view with investment managers reporting performance with the intention of selling those down or allowing them to mature naturally, then collecting the proceeds.

The Chair stated that he believed the Fund to be right to put as much information in the public domain as possible and noted that this helped reduce the workload associated with FOI requests. He added that a lot of work was being done to understand how to better invest from an ESG perspective.

Damien Pantling added that a newsletter was sent to members and employers which detailed what was being done in terms of responsible investment, with improvements each quarter to the amount of information published.

The Chair noted that this would be a big part of the pension agenda going forward and was the right thing to be doing.

Julian Curzon asked if the performance of the Fund could be monitored by going Net Zero.

Damien Pantling stated that it would be hard to compare before and after, but some modelling would be coming to the next quarter's meeting.

Part I Any Other Business

Damien Pantling explained that the 2019/20 audit had been signed off and credited the team for their hard work. Work was ongoing on the 2020/21 audit.

Kevin Taylor stated that this would be his last Pension Board meeting as he was due to retire and wished everybody every future success.

The Chair thanked Kevin Taylor for his work on behalf of the Committee and Board and wished him well for his retirement.

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 10.30 am, finished at 1.04 pm

Chair……………………………………

Date…………………………….........