BERKSHIRE PENSION FUND COMMITTEE

Monday 19 June 2023

Present: Councillors Simon Bond (Chair) and Julian Tisi

Present (virtually): Councillor Wisdom Da Costa (Vice-Chair)

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

Also in attendance (virtually): Councillors Stephen O'Regan (Bracknell Forest) and Stephen Newton (Wokingham)

Officers: Damien Pantling, Philip Boyton and Laurence Ellis

Officers (virtually): Andrew Vallance

Apologies

The Chair, Councillor Simon Bond, Committee members and officers introduced themselves.

Apologies were received from Councillors Majeed and Knowles. Substitutes were unavailable.

Declarations of Interest

Councillor Stephen Newton, Wokingham Borough Council (Advisory Panel), declared that his wife was a member of the scheme.

Councillor Wisdom Da Costa asked Laurence Ellis, Democratic Services Officer, if the meeting was quorate, to which he confirmed.

Minutes

RESOLVED UNANIMOUSLY: That the Part I minutes of the meeting held on 13th March 2023 be a true and accurate record.

Risk Management

Damien Pantling, Head of Pension Fund, gave a brief overview, explaining that the Fund had a risk management policy in place which defined its approach to managing risks. One of processes in managing risks since 2021 was to take a risk register to the Committee at each yearly quarter for review. At the moment, the risk register had 49 identified risks with various offsetting mitigations. In addition, it identified any material changes to the risk register since the last quarter. He explained that the Committee needed to approve the risk register, the mitigations and any changes since last quarter in line with the approved risk management policy.

Regarding the various risks identified in the report, Councillor Tisi asked what level of assurance the Fund had control over mitigating the critical risks. Damien Pantling replied that the Fund was either doing the mitigations in the risk register or had a clear action plan to meet them.

To explain how the mitigations worked, Aoifinn Devitt, Independent Advisor to the Committee, informed that, for example, to mitigate against increasing investment risks, there was continuous scrutiny with LPPI (Local Pensions Partnership Investments), which managed the Fund’s investments. She added that if the risks increased, so do the mitigations.

Councillor Da Costa asked a series of questions. He first asked if there would be a presentation on the risks. Damien Pantling replied that an annual review of the risks took place in 2022 whereby Committee members, the Advisory Panel, advisors and officers were invited. He had not arranged a review for 2023 until the new Committee members were established, but he had planned to arrange one.

Councillor Da Costa then asked for confirmation that the risks were being managed as well as using internal and external resources and individuals to mitigate them. Damien Pantling answered that the Fund used the Chartered Institute of Public Finance and Accountancies 2018 framework for managing and mitigating risks as it was considered the best practice in the sector. He also confirmed that officers, advisors and third parties were involved in managing the risks.

Councillor Da Costa then asked if there were any other potential risks which could be added to the register, such as climate risk. Damien Pantling replied that climate risk was listed in the register and that the Fund captured material risks on the register as it was always under constant review.

Councillor Da Costa then asked if the Fund had enough staff and resources to manage the Fund going forward. Damien Pantling replied that the Fund was being managed within the boundaries of the budget set by the Committee in April 2023, but the Fund’s resources were constrained in the public sector.

Councillor Da Costa then asked if more resources were possible. Philllip Boyton, Deputy Head of Pension Fund, informed that while there were job vacancies in the Fund, the overall Administration Team (including pension and payroll) was in a good position to deliver the service compared to the Fund’s local neighbours.

Councillor Da Costa then asked about what was being done to improve the privacy and security of the Fund’s systems and data. Phillip Boyton explained that the software provider was Heywood Pension Technologies. As part of each external audit of the Fund, it was required to provide assurance around the securities, whereby the Fund’s data was secured at two sites within the UK, and Heywood Pension Technologies conduct an annual review.

Councillor Da Costa then asked for reassurance that the data was located in more than one or two locations and therefore safe from attack. Phillip Boyton explained that membership data was backed up daily and was held in external sites provided by Heywood Pension Technologies. Internally, the Fund had a two-stage factor authentication which all Pension Team members had to follow as the system worked over the internet.

Councillor Da Costa then asked if there were any issues in which the Committee needed to be aware of. Phillip Boyton replied that, apart from the ongoing project work in the Administration Report, the Fund was well positioned. Alan Cross, Chair of the Pension Board, mentioned that it was noted that the Fund was well managed.

Councillor Tisi requested for a session to explain certain risks, particularly cyber risks and pension payroll risks. He also asked if there were any risks which were out of tolerance and therefore required more work. Damien Pantling replied that the risks would be analysed at a risk review session later in 2023. As for the risks considered outside of tolerance levels, he explained that there was generally nothing particularly concerning as many of the risks were green or amber.

Agreeing with Councillor Tisi, Councillor Da Costa stated that it would be valuable to have a session on reviewing the Pension Fund's cyber risk and how this was being mitigated.

AGREED: That the Pension Fund Committee notes the report:

i) **Approves the updated risk register for publishing including any changes since the last approval date, suggesting any amendments as required.**

Good Governance

Damien Pantling informed that there were two parts of the report which covered the first financial quarter. The first appendix, he explained, was the training framework which ensured decision makers had the tools, knowledge and skills to make various Committee decisions.

The second appendix was an updated governance structure chart which illustrated the new Committee members. It included some changes, namely its presentation and including key third parties, for external stakeholders for greater transparency.

Councillor Da Costa asked a series of questions. He requested for a session with the Committee on how pension funding worked, what it was and how the assets and liabilities were matched; from this, he conveyed, the Committee would better understand its role. He then asked when the budget would be available, how much of the budget was allocated to training and what had the budget been spent on in 2022.

Damien Pantling replied that training modules were sent out to Committee members and Advisory Panel members via email. He added that there was a training plan, and that additional training could be provided. While he did not have the figure on spending in 2022 available, Damien Pantling informed that there was an £80,000 contingency in the budget for training for 2023.

Councillor Da Costa followed up by asking if the training covered Committee members, officers or both. Damien Pantling replied that it was for all. Councillor Da Costa then asked how this compared to other Pension Funds, to which Damien Pantling replied that he did not have this information. Councillor Da Costa then asked if this could be looked into. Damien Pantling replied that it could be investigated.

ACTION: Damien Pantling to investigate the costs of training of other pension funds in comparison to Berkshire Pension Fund.

AGREED: That the Pension Fund Committee notes the report:

i) **Approves 2023/24 training framework; and**

ii) **Approves the revised governance structure chart**

Administration Report

Philip Boyton, Deputy Head of Pension Fund, gave an overview of the report. Starting with Scheme Membership (1.1 in the report), he informed that membership had steadily risen during the last six scheme years. He explained that it was necessary for the Pension Team to hold more than one pensionable employment record because scheme members could hold multiple pensionable employments at a given time. He then informed that the total cost for administration per membership record was £24.60, which was significantly below the London average of £50 and LGPS (Local Government Pension Scheme) in England and Wales of around £30.

Moving onto Membership by Employer (1.2 in the report), Philip Boyton pointed to the graph which showed a variance in total membership across the six local authorities (Bracknell Forest, RBWM, Reading, Slough, West Berkshire and Wokingham), which would have been influenced by the individual authorities' policy on outsourcing services. Where there were low active records, there would be more outsourcing; where the active records are high, there was less outsourcing.

Philip Boyton explained that when services were outsourced, scheme members were to be transferred to a new employer who would then acquire admitted body status in the Fund. Therefore, whilst it looked like there were low active records for some unitary authorities, the scheme members had moved between scheme employers and would be recorded in the other scheme employer numbers which were being held in the Pension Team's membership database.

Regarding Scheme Employers (1.3 in the report), referring to Chart 4 in the report, Philip Boyton informed that there were several types of scheme employers alongside the six unitary authorities. The largest scheme employer were academies, which were on-boarded under the Academies Act 2010. Under this legislation, schools were no longer funded through a local education authority and automatically became separate employers. This meant all non-teaching employees, including any new employees after conversion to academy, had a legal right to become members of the scheme. At the date in which the school became an academy, existing scheme members transfer to the academy and continue their membership.

As shown by Chart 4, Philip Boyton informed, there were some scheme employers which no longer had active members contributing to the scheme; but the Pension Team nevertheless was still responsible for administering those benefits on behalf of deferred and in-payment scheme numbers.

Philip Boyton explained that Admission Bodies were employers who chose to participate in the scheme under an admission agreement. These usually included charities and contractors, usually where a local government service was being contracted out to a non-local government employer.

Philip Boyton then stated that scheme member information was administrated through the i-Connect software, a secure internet-based application which managed the transfer of employee information from a payroll system to the pension system. Through this, when scheme employers process their monthly payroll, they were able to immediately transfer the appropriate data to the pension system rather than the Pension Team receiving paper forms via email or waiting until month 12 of the scheme year ending on 31st March every year. With RBWM being the first scheme employer to be on-boarded in February 2016, over 90% of scheme member records had been on-boarded to i-Connect, leaving circa. 2,000 scheme member records yet to be on-boarded.

On Key Performance Indicators (KPI) (1.5 in the report), the target for each KPI was 95%. Three out of the four KPIs were achieving the target with the KPI in respect of deceased scheme member processing showing a fluctuation. The Pensions Team were working on improving this.

On Communications (1.6 in the report), Philip Boyton informed that the Pensions Team provided various methods of communication to scheme members and scheme employers through pension surgeries, presentations, employer meetings and training events. The Pensions Team continued to reach out to scheme members and employers both remotely and on-site.

Philip Boyton then discussed Special Projects, which included the McCloud Judgement and Pensions Dashboards Programme. Philip Boyton described the McCloud Remedy as one of the largest and most complex retrospective rectification exercises that the public sector would face, with its effects likely to be felt for many years into the future. Giving some context, Philip Boyton stated that the McCloud Judgement was related to two employment tribunal against central government. The claimants argued that protection introduced from a change to the scheme in April 2014 amounted to unlawful discrimination as the protections only applied to certain older members. In December 2018, the Court of Appeal ruled that younger members had been discriminated against because the protection was only afforded to older members.

Philip Boyton also informed that further supplementary consultation had recently been issued, whereby it was addressing matters affecting the LGPS.

On the Pensions Dashboards Programme, Philip Boyton informed that a ministerial statement on 2nd March 2023 announced that the Programme required additional time to facilitate the connection of pension providers and pensions schemes. The connection deadline had been moved to 31st October 2026, although the Pensions Dashboards could go live before then.

Councillor Tisi asked a series of questions. On the McCloud Judgement, he asked if there was a view on the impact and timing on the updated regulations. Philip Boyton answered that the regulations would be finalised from 1st October 2023. There were protections afforded to scheme members already in place and it was believed the McCloud Judgement would impact only a small group of members. Philip Boyton stated that the Pensions Team would approach scheme employers for the required information when the final regulations were implemented to not impose an unnecessary burden on scheme employers. In spite of this, they had informed scheme employers to keep the records and not dispose of them.

Councillor Tisi then asked for confirmation that the Fund was doing well in regard to the benchmarks, and what were the implications of this. Philip Boyton replied that the KPI graph with the fluctuation (Deceased Processed within 5 working days) was highlighted to senior officers in 2022 to investigate the reasons behind this. The reasons they discovered was because of the Pensions Team training new team members at this time, and the complexities of managing deceased scheme member cases. Philip Boyton added that if a KPI declined in performance, a monthly review would take place to investigate the reasons behind this and work with the team members to resolve it.

Councillor Tisi then asked if there was any costs or penalties for KPIs being below target. Philip Boyton replied that the failures to meet KPI targets would by highlighted by both internal and external auditors. If a failure report was submitted to the Pensions Regulator, they would investigate the Fund's internal processes. He added that, as part of the Scheme Advisory Board, there was consideration being given to mandate KPIs consistently across Funds in England and Wales in contrast to each Fund having their own local KPIs.

Councillor Tisi then asked what the Fund was doing to on-board the scheme employers (namely academies and schools) onto i-Connect. Philip Boyton replied that the scheme employers which the Fund was currently on-boarding had member records in trusts which meant they could be easily uploaded i-Connect. Regarding academies and schools, he informed that the Communications Manager and Assistant Technical Analyst from the Pensions Team were arranging verbal catch-ups with the scheme employers, adding that employers were responsible for ensuring that data reaches the Pension Team in line with the SLA (Service Level Agreement).

Alan Cross added that academies and schools had been around 80% for a long time and that a suggestion was to directly engage with them, reminding them of the deadline to on-board onto i-Connect.

Councillor Da Costa asked if there was any growing credit risks or concerns, especially as the cost-of-living crisis had increased pressure on Councils and organisations, such as employers falling behind on payments. Philip Boyton stated that contribution payments to the Pension Fund were not reliant on the i-Connect submission. i-Connect would deliver the value data directly into a scheme member's record. If a scheme employer had on-boarded in the middle of the financial year, the Pension Team would roll back the scheme member data to the beginning of the scheme year (1st April) so that the Fund had a full scheme year worth of data.

Damien Pantling added that the Pension Fund was a public service pension fund and therefore was the highest creditor. Regarding credit risk, Damien Pantling informed that there were no scheme employers which were significantly behind; and if there were, it would be reported to the Committee.

AGREED: That the Pension Fund Committee notes the report;

- **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.**

Responsible Investment

Damien Pantling introduced the report which encompassed ESG (environmental, social and governance), net zero and carbon emissions. Referring to appendix two and three, he explained that the main conclusion was that the Pension Fund had strong ESG credentials whereby it had more Green (renewable energy generation, clean technology, and decarbonising activities) than brown investments (extraction, transportation, storage, supply, and generation of energy from fossil fuels) as well as a generally better ESG score.

Regarding appendix one, Damien Pantling informed that the Pension Fund was required to consider climate risk relating to its ability to pay pensions in the future. The main focus was on short-term transition and long-term physical risk the Fund was facing as a result of climate change. The conclusion from the report was positive, whereby the Pension Fund would be resilient enough in all scenarios based on its current asset allocation to get the returns needed to pay pensions in the future.

Due the complexity of this, Damien Pantling informed that a training session had taken place for Committee members earlier in the day.

Damien Pantling concluded that Berkshire Pension Fund was positively going beyond as required by legislation.

Councillor Tisi asked for confirmation that deficit contributions were required due to the funding level being under 100%. Damien Pantling replied that the Pension Fund would ask scheme employers for deficit recovery contributions within an 18-year maximum deficit recover period to help get back to 100% funding. While this was not tested, it was based on assuming only the primary contributions, looking at the Pension Fund's assets, and the value of liabilities in the present and projected to 2050. Damien Pantling added that the Pension Fund was confident in getting the funding back to over 100%.

Councillor Tisi then asked about the graphs in the report on green and brown investments, namely asking why green investments had increased while brown investments had decreased. Chris Rule, Chief Executive of LPPI, replied that green investments had increased because LPPI had (on the Fund's behalf) been making investments in this area, such as renewable energy in infrastructure, alongside increasing strategic allocation into some private market allocations. As for why brown investments had remained the same, this was because there were no new investments as well as investments holding up due to traditional energy sources performing relatively well in an energy crisis.

Councillor Da Costa commented that the report had scenarios set by the Bank of England, and these scenarios were not stringent enough and were not reflective of the real world. He stated that this was a concerning, and it needed to change. He then commented that the LPPI report did not correlate or align with the Pension Fund's Responsible Investment (RI) policy, and this was problematic. He then asked how this could be changed to reflect the Pension Fund's RI policy and decisions.

Damien Pantling responded that since the Pension Fund Committee meeting in late-2021, the report had considerably developed with every meeting. He stated that he would take this as an action to ensure the LPPI report was in line with the Pension Fund's RI policy.

ACTION: Damien Pantling to change the LPPI report so that it was in line with the Pension Fund's Responsible Investment policy.

Alan Cross commented that the actuary's view of the risks which the Pension Fund was facing were reviewed and it was established that the actuary had taken a general view rather than a view specific to the Fund's investment when giving the advice. He added that that RI policy would likely change over the years and that the Pension Fund was in a good position to deal with this.

Adding to what Damien Pantling had stated, Chris Rule explained that the LPPI report was designed to be reasonably homogenous with the reports produced by other funds, which then allowed comparisons and contrasts. This, he explained, was considered a reasonable industry standard for this kind of metrics. He then added that metrics were difficult to derive from responsible investment activity. Chris Rule stated that report had been evolving over time and would continue to work with Berkshire Pension Fund to continue this over time.

Aoifinn Devitt, Independent Advisor to the Committee, believed that the LPPI report conveyed the Pension Fund's RI policy adequately and there was not a large gap between the report and RI policy; adding that if changes needed to be made, this could be done. She also stated that independent advisors do not just take the data at face value, but also interrogate it and review the effectiveness of the engagement.

Bob Swarup, Independent Advisor to the Committee, commented that the RI policy was quite innovative which other Pension Funds do not possess. He stated that the policy included a principle of continuous improvement and that this was an area of fast development. The risks, he explained, were understood from a macro-level but were poorly articulated and measured on a micro-level. From this, as the data came through and became more understood, the policy would likely be reviewed and altered.

AGREED: That the Pension Fund Committee notes the report;

i) **Approves the Fund's RI dashboard, RI report, active engagement report for publication; and**
ii) **Acknowledges the Climate Risk Analysis report as provided by Barnett Waddingham for discussion.**

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 6.13 pm

Chair………………………………….

Date…………………………………........