

BERKSHIRE PENSION FUND COMMITTEE

Monday 18 September 2023

Present: Councillors Simon Bond (Chair) and Asghar Majeed

Present virtually: Councillors Wisdom Da Costa (Vice-Chair) and Julian Tisi

Also in attendance: Alan Cross, Aoifinn Devitt, Bob Swarup, Joe Peach, Richard Tomlinson and Councillor Stephen Newton (Wokingham)

Also in attendance virtually: Gavin Roberts and Councillors Glenn Dennis (Reading) and Rifaqat Zarait (Slough)

Officers: Oran Norris-Browne, Mikey Lloyd, Philip Boyton and Damien Pantling

Officers in attendance virtually: Andrew Vallance

Apologies

There were no apologies for absence received.

Declarations of Interest

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

Minutes

The Part I minutes of the meeting held on 19 June 2023 were approved as a true and correct record.

Risk Management

Damien Pantling, Head of Pension Fund, delivered the quarterly reviewed Risk Register aligned with the Risk Management Strategy. The report was taken as read but Damien Pantling highlighted the disclosure of 18 proposed changes including three deletions with a total of 43 risks on the revised Risk Register.

Damien Pantling drew attention to two risks. Firstly, he drew attention to the addition of climate change risk in respect of both physical and transitional climate risk, it was noted the risk was flagged as red before mitigation.

Damien Pantling noted the other changes were to risk scores of risks 26 and 44 relating to the McCloud remedy. He noted the new regulations that were laid in early September and coming into force on 1 October 2023 and the fund had some way to go to be fully compliant.

Damien Pantling said they were making good progress and in the process of recruiting a Technical Officer to help deliver the project. He noted they would be delivering a high level implementation plan before the next Committee cycle. Damien Pantling continued by saying they were not alone in this journey and there was an issue facing much of the Local Government Pension Scheme, LGPS.

(Councillor Tisi joined virtually at this time)

Councillor Majeed questioned the removal of Brexit as a standing risk and what kind of risks were being looked at with the direction of Brexit still uncertain? Damien Pantling responded by saying the risk was covered under general geopolitical risk and general external risk as it was now considered a less specific risk.

Councillor Da Costa noted that climate change or environmental risk is not limited to investments but also liabilities and the funds operations. He questioned the funds missing staffing areas and reasonings for this, Councillor Da Costa also asked if when looking at the key service provider Local Pensions Partnership Investments, LPPI, if they had a similar view of staffing risk associated with them?

Damien Pantling highlighted that whilst it had been difficult filling vacant posts, it was a problem facing much of the public sector. He also noted that staffing risks with LPPI would be a question for them to answer in Part II of the meeting.

Councillor Da Costa asked at what stage do we consider increasing wage offerings to address staffing shortages? Damien Pantling replied that the fund did not have discretion on that and it was a Council decision.

Alan Cross, Chair of the Pension Board, noted that he had reviewed and commented on the draft of the Risk Management report and at the Board meeting in the morning they had agreed the Risk Register is moving in the right direction but one question they had proposed to Damien Pantling was to scrutinise the residual scores and ensure the highest scores align with day-to-day challenges.

Alan Cross also commented on staffing, indicating that in the event of serious crisis, collaboration with HR colleagues would be necessary. He acknowledged that whilst there were current vacancies they were not perceived as critical to the operation at this moment.

Councillor Tisi raised concerns about risks related to ESG scrutiny and potential changes in government policy. He asked if the Committee was adequately planning for potential changes and if there was any insight into the impacts a potential Labour government beyond public information?

Damien Pantling responded by explaining the Committee's awareness of the risks related to changes in government and policy, as outlined in the risk register but acknowledged the sensitivity of the topic and expressed that beyond publicly available details, there are no additional insights to offer.

Councillor Tisi asked for clarification on the Committee's stance regarding ESG disclosures, he expressed interest in the level of scrutiny and compliance compared to other funds. Councillor Tisi asked if the Committee feel there are on par with industry standard, ahead of the curve or lagging behind.

Damien Pantling responded by saying based on comparative analysis to three or four other funds that do not report publicly in a similar manner, the Committee is doing well in terms of responsible investment disclosure. He clarified that compliance with TCFD regulations, although not legally required for public disclosure, is not an issue. Damien Pantling invited one of the two independent advisors representing other funds to provide a more holistic review on industry standards.

Bob Swarup, Independent Advisor, addressed a few points. Bob Swarup responded to Councillor Tisi's political point emphasizing that government policy changes typically occur gradually, and the fund is proactively engaged in consultations to stay ahead and ensure effective risk mitigation.

Bob Swarup acknowledged the fund's success in implementing a progressive and detailed Responsible Investment policy. He highlighted the challenge of complying with TCFD reporting requirements, noting the fund preparedness and the detailed reporting provided by LPPI.

Bob Swarup advised the fund to consider how its Responsible Investment policy evolved with emerging risks, incorporating new data and deepening knowledge. He also suggested unpacking climate risk into different components over time, particularly focusing on potential risks associated with not achieving Net Zero. Bob Swarup highlighted the importance of considering climate adaptation risks and their impact on assets, liabilities and the funds overall funding position.

Alan Cross emphasised that the risks outlined in the Risk Register were designed to address the general issue of potential changes in government policies. He acknowledged that changes could occur under a stable government due to new ministers or identified reports and significant changes may result from a change in government. Alan Cross agreed with Bob Swarup that government changes usually occur gradually rather than instant transformation. Alan Cross highlighted the upcoming general election and the likelihood of parties clarifying their post-election policies and emphasized the Committee's role in reacting and preparing for any potential changes following the election.

AGREED: That the Pension Fund Committee notes the report:

i. Approves the updated Risk Register for publication including any changes since the last approval date, suggesting amendments as required.

Statutory Policies

Damien Pantling introduced the report on Statutory Policies. Damien Pantling explained this was the annual review of two of the pension funds statutory policies and said that detailed changes were discussed in both the Committee pre meet and the Pension Board meeting.

Damien Pantling outlined the summary of changes made to the pension fund's statutory policies which included the introduction of a paperless policy in the Communication Strategy Statement, aligning with sustainability and cost efficiency objectives. He added that the Administration Strategy Statement had been streamlined to better reflect the funds in house administration functions and integration of the Administration Service Level Agreement, SLA, into the same policy document for improved accessibility.

Councillor Da Costa asked two questions, firstly he asked about the scope for improving engagement with the Board, panel members and encouraging regular questions. Secondly, he asked if an independent third party had reviewed the SLA for potential improvements.

Damien Pantling responded by outlining existing engagement initiatives which included the annual general meeting for all fund members, annual employer meeting, and regular engagement with the larger employers including the unitary six councils. Damien Pantling acknowledged the challenge of engaging with the cast number of scheme employers and expressed openness to suggestions for improvements. Damien Pantling then explained the purpose of the SLA in the Administration Strategy, emphasising that it delineates the expectations between employers and the administering authority. He continued that the SLA is designed for the relationship between the employers and the fund, not for an outsourced administration function.

Councillor Da Costa asked if the individual employers had come back and made any comments. Damien Pantling replied that it had not gone out to consultation as there are no material changes that would impact employers positively or negatively, the exercise is primarily a streamlining initiative and considering pragmatism and the balance of seeking comments on an already approved document. Alan Cross added that the document was consulted with employers at earlier iterations so employers would have had the opportunity to comment on it at an earlier stage.

The Chair asked that they presumed any new employer joining the scheme would read it and have the opportunity to comment on it. Damien Pantling confirmed this stating that it is added as an appendix to the pack provided to all new employers as part of the admission process.

AGREED: That the Pension Fund Committee notes the report:

- i. Approves the revised Communications Strategy Statement as set out in Appendix 1 to this report; and**
- ii) Approves the revised Pensions Administration Strategy Statement as set out in Appendix 2 to this report.**

Administration Report

Philip Boyton delivered the Administration Report on Quarter 1 from 1 April to 30 June 2023. The report was taken as read but highlighted some points.

Philip Boyton directed members to page 77 of the pack highlighting the scheme employer key performance indicators related to i-Connect and data exchange with participating employer payroll departments. Philip Boyton noted the consistent high performance from employers and positive improvement of over 5.5% by academies and schools compared to the previous quarter. He noted the challenges with academies and schools sharing common payroll providers which impacted submissions in bulk. Philip Boyton said there was progress in onboarding scheme employers to i-Connect with over 250 scheme member records picked up last quarter.

Philip Boyton said there was increased engagement with Trusts, the largest remaining employers, for onboarding to i-Connect. He attributed the engagement surge to turnover of staff within employers or their third party payroll providers. Phillip Boyton added this had had a positive impact of avoiding manual year end exercises through i-Connect onboarding.

Philip Boyton addressed the fluctuating picture of processing deceased members on page 78, Key Performance Indicators, Chart 5B. He acknowledged the ongoing challenge and said that a recent team meeting aimed to gain a better understanding of the fluctuation. Philip Boyton said actions taken from the meeting included a consultation planned with the LGA for training on what constitutes deceased member processing and engagement with the software provider, Heywood Pension Technologies, to improve the processing of information through AI.

Philip Boyton discussed the engagement methods with scheme members and employers, referring members to page 80, Chart 1.6 in the pack. Philip Boyton said there were various engagement methods, including pension surgeries, presentations and training events. He stressed the commitment to provide two pension surgeries per year to each unitary authority with additional ad hoc training for new payroll and HR staff. Philip Boyton said he had confidence in the effectiveness of engagement strategies, noting readily available access to other LGPS pension fund strategies and said that the amount of engagement through pension surgeries with scheme members was greater than other LGPS funds.

Philip Boyton spoke on the final regulations for the McCloud remedy laid on 8 September 2023. The regulations delayed take effect from the 1 October 2023 and the changes may affect a scheme member if they were paying into the LGPS or another public service pension scheme before 1 April 2012, paying into the LGPS between 1 April 2014 and 31 March 2022 or have been a member of a public service pension scheme without continuous break of more than 5 calendar years. Philip Boyton said the regulations were under review and an external advertisement was published on 4 September 2023 to appoint a Technical Officer. Philip Boyton said that they had recently appointed Gavin Roberts as the new Pensions Administration Manager.

Philip Boyton said that the McCloud remedy had been added to the Risk Register as mentioned earlier. He said they had identified specific risk items related to the McCloud

remedy including challenges identifying scheme members, data collection issues, potential delays in business as usual and impacts on other service priorities like the Pension's Dashboards Programme. Philip Boyton said that the risks were shared by all LGPS Pension Funds and were not unique to the Berkshire Pension Fund.

Councillor Da Costa asked two questions. Firstly, he asked Philip Boyton where he thought operational pressures were most prominent within the tasks presented in the report due to staff vacancies and secondly, he asked what is the most common questions asked during pension surgeries?

Philip Boyton addressed Councillor Da Costa's second question first. He said the most frequent questions revolve around estimating retirement benefits and options for increasing benefits, such as Additional Voluntary Contributions (AVCs). Philip Boyton also said that members have the availability to model benefits at their convenience using the funds 'my pension online' service. Philip Boyton said there was minimal backlog of work due to the team's hard work. He said the increased complexity of tasks over time had contributed to longer processing times. Philip Boyton also said that they were recruiting to three vacant positions, a Senior Pensions Administrator, Communications Officer, and Technical Officer.

Councillor Tisi said it was positive to see the uptick in i-Connect usage, especially among academies and schools up 5.5%. He asked for clarification that promoting i-Connect usage was a deliberate effort and that it would be a benefit for both administrators and employers?

Philip Boyton said that the proactive nature of i-Connect usage positioned the fund ahead of the curve. He said they remained aware of upcoming mandatory monthly data submission requirements being considered by the Scheme Advisory Board, so this also ensured continued compliance. Philip Boyton said it allowed additional opportunities for leveraging real time information for improved member services.

Councillor Stephen Newton, Wokingham Borough Council (Advisory Panel), said he was concerned about the Key Performance Indicator for deceased scheme member processing, noting that the target had been achieved only once in the last year. Councillor Newton raised further concerns about potential delays in payments and challenges in contacting individuals when they might need support the most. He asked whether there were management actions that might be taken to try and improve this?

Philip Boyton responded by clarifying the Key Performance Indicator measures the time it takes from receiving all the required paperwork to enable a payment to be made. He said that the numbers are relatively small compared to other Key Performance Indicators and even a small deviation can impact the percentages. Philip Boyton said that there was discussion at the mornings Board meeting about reassessing a realistic time frame for processing payments. He said currently the target was five working says compared to the CIPFA Benchmark of two months.

Councillor Newton said that it may be better to change the KPI and achieve it rather than have a target and miss it. Councillor Newton advocated for a balance between efficiency and providing families with the comfort of timely and effective service.

AGREED: That the Pension Fund Committee notes the report:

I. Notes all areas of governance, administration and the Key Performance Indicators as reported

Responsible Investment

Damien Pantling delivered the report into Responsible Investment. He offered some background on the agenda item saying there was a significant effort involved from his team, independent advisors, the investment manager LPPI and the actuarial consultants Barnett Waddingham. Damien Pantling said they have delved into the flaws in the industry's climate

modelling approach as highlighted by the Institute and Faculty of Actuaries background paper. Damien Pantling said the industry faced a growing disparity between scientific and investment management perspectives. He said in trying to address this challenge they initiated a cost-benefit analysis on remodelling climate scenarios and transitioning to a bottom-up model. Damien Pantling said that after consideration they proposed two options. The first was to delay any bottom-up analysis until December 2025, aligning with compulsory TCFD reporting and maintaining consistency with industry standards.

Damien Pantling said the second recommendation was to refrain from making changes in alternative modelling approaches at this stage. He said this decision was based on the merit of maintaining consistency and comparability within the LGPS community and this was backed by TCFD principle 5. Damien Pantling said that they acknowledge the flaws in the current models and they are committed to evolving their approach over time. He continued that they recognised the infancy of climate scenario analysis and it was an ongoing project. Damien Pantling said that both Barnett Waddingham and LPPI had emphasized that they were at the early stages of the journey in climate scenario analysis. He said that discussing and addressing the topic was a positive step forward in building awareness and understanding.

Damien Pantling said that LPPI had aligned the Responsible Investment report with their existing RI policy and the positive news is the continued reporting of the split between brown and green exposures.

Damien Pantling concluded the report by saying they recommended re-establishing a task and finish group to review the RI policy a year after its last approval.

Councillor Tisi said he agreed with the observation that responsible investment is still a growing area and the Committee seemed to be making commendable progress. Councillor Tisi said he recognised the significance of comparability in responsible investment disclosure referring to TCFD principle 5. Councillor Tisi asked about green and brown investments in the dashboard and asked to clarify on whether their definitions align with those used by other pension funds.

Richard Tomlinson, LPPI, responded by saying the classification of certain assets has been widely debated, including at EU forums and different taxonomies. He said he broadly supports the definitions used and he indicated that aligning them with the majority of taxonomies would likely lead to similar conclusion. Richard Tomlinson continued by saying there were ongoing debates such as whether nuclear assets were green or brown, he clarified that nuclear assets were not included in the presented data.

Councillor Tisi raised a follow up question to Richard Tomlinson on whether the industry was moving towards commonality in terms of definitions? Richard Tomlinson said he did think it was moving towards commonality.

Councillor Da Costa raised concerns regarding the limitations and flaws in existing stress tests and requirements imposed by regulatory bodies like the Bank of England. Councillor Da Costa said it was important to address the underlying risks faced by members rather than solely adhering to regulatory tests. Councillor Da Costa said he had had discussions with senior experts revealing that current models could not accommodate negative scenarios adequately. Councillor Da Costa said there should be a shift in approach, focusing on the fund's actual sensitivities and vulnerabilities. He proposed a comprehensive discussion to identify major fund issues, sensitivities, and potential risk mitigation strategies. Councillor Da Costa said he supported the formation of a task and finish group and requested a meeting with Damien Pantling to delve into the nuances and complexities discussed with experts.

Aoifinn Devitt, Independent Advisor, said she commended the report for linking back to the fund's policy, she said it was important aligning actions with the outlined principles. Aoifinn Devitt said they would need to distinguish between the fund's principles and the risks in the portfolio, particularly concerning climate change. Aoifinn Devitt said there would need to be a detailed and granular examination of climate change risks to the portfolio, she highlighted the importance of clarifying whether risks involve financial losses or other factors like real estate devaluation. Aoifinn Devitt commented on the ongoing evolution of ESG and the need to be

mindful of changing terminologies. Aoifinn Devitt said that ESG was becoming a retired term, signalling a shift in the industry's approach. Aoifinn Devitt spoke on the task and finish group and said that she questioned the idea of considering a group's job as 'finished' in the context of responsible investment. She suggested a continuous and adaptive approach to reflect the dynamic nature of the field.

The Chair highlighted a key point from section three of the report, emphasising the alignment of good ESG credentials with strong investment performance. The Chair referred to a footnote in the report which cited a study in the Journal of Sustainable Finance and Investment. The Chair shared the conclusion of the study, emphasising that the orientation towards long-term responsible investment is crucial for rational investors. They continued that the study suggested that integrating ESG criteria into investment processes can align investor interests with broader societal objective. The Chair said it was important to have a detailed and profound understanding of how to integrate ESG criteria to harness the full potential value enhancing ESG factors.

Bob Swarup said there was an importance to continuous improvement in the Responsible Investment policy and the need for the evolution of the investment strategy to be reflected in the policy and vice versa. Bob Swarup stressed the significance of ensuring that changes in the investment strategy are accurately mirrored in the Responsible Investment policy. He agreed with Councillor Da Costa about the necessity of a discussion on examining the portfolio and suggested that the structure of the Responsible Investment policy is a suitable forum for such discussion. Bob Swarup suggested that a future Committee meeting could include a workshop or session to debate the policy, along with tangible outcomes from the continuous improvement process.

AGREED: That the Pension Fund Committee notes the report:

- i. Approves the Fund's RI dashboard, RI report and Active Engagement report for publication;**
- ii) Acknowledges the forward looking actions on climate risk assessment; and**
- iii) Agrees to the re-establishment of a RI working group and full review of RI policy by end of 2023/24**

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 5.56 pm

Chair.....

Date.....