BERKSHIRE PENSION BOARD

Monday 18 September 2023

Present: Alan Cross (Chair) and Nikki Craig

Present virtually: Arthur Parker (Vice-Chairman), Jeff Ford and Julian Curzon

Officers: Damien Pantling and Philip Boyton

Officers in attendance virtually: Oran Norris-Browne and Mikey Lloyd

Introduction and Apologies

The Chair, Board Members and officers introduced themselves. No apologies were received.

Declaration of Interest

No declarations of interest were received.

Minutes

The Chair noted Jeff Ford's role in previous Minutes and gave apologies, member representative not employee representative.

The Chair asked Julian Curzon if he had forwarded completed training brought up in the previous meeting which Julian confirmed he had completed the training but not sent the details back.

The Chair asked Damian Pantling if he had picked up an issue raised in a previous report and Damian Pantling confirmed the issue of a new climate risk had been added to the Risk Register.

The Chair added he did not feel the need for corrections to the previous meetings Minutes but wanted to the highlighted points.

RESOLVED UNANIMOUSLY: That the Minutes of the meeting held on 19 June 2023 be approved as a correct record.

Board Governance Matters

The Chair opened by discussing the vacancy for the member representative position. Damien Pantling, Head of Pension Fund, confirmed that the issue remains standing item on the agenda.

The Chair noted he had emailed Board Members to set up a meeting later in the week to advertise the vacancy in The Quill newsletter~~,~~ Philip Boyton, Deputy Head of Pension Fund, also confirmed advertisement of the vacancy in The Scribe newsletter.

It was noted by the Chair The Quill newsletter was for active and deferred members whilst The Scribe newsletter was for retired members and to the article provide information about the Board and its functions to potential representatives. He said this was for in case of potential substitutes or vacancy for the Board it would streamline the representative process. The Chair continued he hoped it would help get more people involved by December.

Scheme and Regulatory Update

Philip Boyton delivered the update. He updated everyone at the last meeting about the Board receiving legal advice concerning Sharia Law compliance. Before an opinion could be obtained on whether the Local Government Pension Scheme~~,~~(~~-~~LGPS)~~,~~ was consistent with anti-discrimination law it was necessary for an expert in Islamic finance to provide evidence on a range of issues from an Islamic perspective.

Philip Boyton said that it was understood at the previous meeting that at the time of updating members a report about the expected advice that The Scheme and Advisory Board commissioned from Amana Associates would be available within three months. Philip Boyton said that the report however remained outstanding but an update would follow later.

Philip Boyton spoke on the McCloud remedy and explained on 8 September 2023 the Department for Levelling Up, Housing and Communities (DLUHC) laid the Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023. The regulations implement the McCloud remedy and change the underpin issued under the CARE Scheme from 1 April 2014, the change is to ensure it works effectively and consistently for qualifying members. The regulations 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.
- Have been a member of a public serviced pension scheme without continuous break of more than 5 calendar years.

Philip Boyton said the fund were now reviewing the regulations that were initially available in draft whilst at the same time being proactive to publish an external advert on 4 September 2023 that would run until 24 September 2023 which would seek the appointment of a newly created post of a Technical Officer.

Philip Boyton then informed the Board that they have appointed a new Pensions Administration Manager, Gavin Roberts, who joined on 7 August 2023 and brought over 40 years' experience of LGPS administration across the London boroughs.

Philip Boyton explained that the McCloud remedy had been added to the Risk Register. Philip Boyton said there were items specific to the McCloud remedy that would perhaps be worthy of a dedicated risk on the risk register including:

- Being unable to identify scheme members in scope.
- Inability to collect data due to changes of scheme employer or third-party payroll providers.
- If there was a change in scheme employer, certain scheme members the Pension Fund may be unable to identify the correct employer to provide data, data will then not be captured, and calculations would be incorrect.
- Data load process of historical data may cause issues with existing data leading to delays and possibly incorrect benefits for scheme members.
- Potential for delay in business as usual.
- Other service priorities taking precedence.

(Jeff Ford join virtually at this time)

Philip Boyton continued by referring to an update at the last meeting about the Chancellors announcement in his March budget concerning abolishing the Lifetime Allowance. He summarised that initially the Lifetime Allowance charge would be removed from 6 April 2023 and fully abolished by 6 April 2024. He said framework remained in place and the Lifetime Allowance for the financial year 2023-2024 remained at £1,073,100.

Philip Boyton said that a consultation on the changes ran from 18 July 2023 to 12 September 2023. He said examples of the responses made to the consultation are:

- The maximum lump sum a scheme member can take would be frozen at £268,275. If the government were committed to encouraging people back into the workforce then that figure should be increased in line with the Consumer Price Index, CPI, annually.

Philip Boyton recognised that some scheme members may struggle to provide details about (pensions) tax free lump sums they have received in the past. He said it had been all UK registered pension scheme administrators' responsibility to provide their scheme members with a statement telling them what percentage of the standard Lifetime Allowance had been used when a payment occurred and had not been required to split the amounts between taxable and non--taxable. He said that the fund had not been required to provide a cash value, only a percentage.

Philip Boyton said scheme members would need to revisit past payments to find out the amount of tax--free cash they received but some schemes may no longer exist and under data protection rules some schemes may no longer retain the information. He said the Lifetime Allowance did not just apply to the LGPS but to all UK registered pension schemes (an individual may have).

The Chair asked if individuals who had pension~~s~~ arrangements elsewhere in previous careers and had taken lump sums they would be taken in account, Philip Boyton confirmed that was correct and scheme members would have to ascertain all previous tax--free cash payments.

Philip Boyton said in the view of the Local Government Association (LGA) there was insufficient time to implement a large scale reform before 6 April 2024 given current projects such as the McCloud remedy which would take up large volumes of resources in each individual LGPS Pension Fund's administration team~~s~~.

Philip Boyton then noted the high level report published by the Scheme Advisory Board on the 2022 LGPS Pension Fund valuation report. He said that average funding level reported in 2019 had improved from 98% to 107%. Philip Boyton said that average employer contributions rates to meet future service costs increased from 18.6% of payroll in 2019 to 19.8% in 2022.

The Chair asked where the Berkshire Pension Fund were currently at, Damien Pantling said they were at 16.9%. The Chair noted it was worth remembering that when they reflected that the Berkshire Pension Fund is in a deficit.

Philip Boyton said that overall employer contributions had dropped from 22.9% of payroll in 2019 to 21.1% in 2022 reflecting lower deficit contributions. He also noted employee contributions increased from 6.5% to 6.6%.

Philip Boyton said the report examined assumptions used by the LGPS Pension Fund Actuary in their 2022 valuations, it looked at trends around setting of discount rate, life expectancy, future expectations for inflation and pay increases. He continued the actuary Barnett Waddingham helped the Scheme Advisory Board to produce the report which was seen as an improvement on reliable information available around the LGPS.

The Chair asked what was being asked of the Berkshire Pension Fund on the McCloud remedy? He asked if it was just a question of time and working through the details or was there a prospect of further legal query?

Philip Boyton said the LGA were putting together a working group of the practicalities of how the regulations can be delivered across the LGPS. He said Officers had updated the Board and Committee around the position with the Berkshire Pension Fund's plans to wait for the regulations. Philip Boyton continued that they had spoken with the actuary in finding out whether they could identify scheme members most likely to be impacted by the McCloud remedy rather than review the entire membership dating back to 1 April 2014.

Philip Boyton said they believed they were in a good spot with their membership data, helped by the use of i-Connect. He said when an employer onboards to i-Connect they make sure they backdate as much history as possible.

Risk Management

Damien Pantling delivered the report on Risk Management, he explained it was a quarterly risk register review aligning with the Pension Funds Risk Management Strategy.

Damien Pantling highlighted 18 changes proposed to the Risk Register since the last quarter, the report proposed 47 risks including three that had been removed and two proposed additions. Damien Pantling said that the proposed addition of climate change risk was to be discussed further as linked to the responsible investment report, he noted the risk was flagged as red before any mitigation.

Damien Pantling said they proposed changing the scores of risk 26 and 44, which were in related to the McCloud remedy and were marked as red on the Risk Register after mitigations. He said that whilst the fund had some ways to go to be compliant with new regulations, we were making good progress as outlined by Philip Boyton. Damien Pantling continued that there would be a high level implementation plan for the McCloud remedy being brought forward to future meetings. Damien Pantling said that this was something all funds in the LGPS were currently working on, so the fund was not alone and there were a lot of funds much further behind in their progress.

The Chair noted that these requirements had only just come in, so whilst there was red risks he echoed Damien Pantling in that other funds would have the same risks. Damien Pantling added that it will take a lot of attention of fund Officers not just over the coming quarter but probably the foreseeable future but was very much in hand.

The Chair asked if some scheme members may be owed money because of these regulations, which Damien Pantling confirmed was possible. Damien Pantling added that this had been accounted for in the actuarial evaluation. He said that any potential other financial impacts such as additional work required would be dealt with in the budget setting of the business plan next year.

Nikki Craig, Employer Representative (Assistant Director for HR, Corporate Projects and IT– RBWM), asked Damien Pantling if he looks at other fund's Risk Registers to compare with the fund's own? Damien Pantling said he had done a few independent checks, he said he also gives the funds reports to the independent advisors for review. He summarised by saying some put a little more detail in, some a little less but the Berkshire Pension fund is pretty much where others are. Nikki Craig asked if that was for all areas and not just the McCloud remedy? Damien Pantling confirmed~~,~~ he said that the risk methodology used in the LGPS framework was common among London Boroughs and other LGPS funds.

The Chair suggested considering the reordering of risks based on mitigation efforts and their practical significance. Damien Pantling said they could include a table in the report showing the top five or top ten risks that require the most attention.

ACTION: Damien Pantling to take away idea of reordering risks based on mitigation efforts or a summary tale of key risks.

Damien Pantling mentioned that an internal audit of the risk management process was currently underway. The audit would assess the risk management policy and the risk registers compliance with the sector framework. He said Committee would receive a report with any recommendations from the audit. Damien Pantling highlighted the commitment to continuous improvement in risk management and feedback from the Committee was encouraged and welcomed.

Statutory Policies

Damien Pantling delivered the report and said there was a review of two statutory policies: the Communication Strategy and the Pension Administration Strategy. It was mentioned the need for annual updates as best practice.

Damien Pantling noted that a paperless policy had been implemented in the Communication Strategy to align with sustainability objectives for the Fund and the Administering Authority. He noted changes made in communicating with scheme members were focusing on minimizing paper usage without disadvantaging scheme members. Damien Pantling continued that important communications were to become opt-out of paper usage instead of opt-in again emphasising on sustainability and cost efficiency objectives.

Damien Pantling gave an update on the Pension~~s~~ Administration Strategy. He said the strategy realigned to reflect the funds actual business operations. Damien Pantling said this eliminated differentiation between scheme administrator and administering authority as we have an in-house admin function. The Administration Service Level Agreement (SLA) incorporated into the strategy for streamlining purposes. The SLA clarifies responsibilities of employers under regulations. Damien Pantling emphasised that having it all in one document was to streamline how they do business.

Nikki Craig gave positive feedback on the paperless policy but was mindful to not have digital exclusion. She also discussed the use of gender-neutral language in the policies, specifically addressing ‘his or her’ to ‘their’.

ACTION: Damien Pantling to incorporate gender neutral language within the policies.

The Chair asked for clarification of the phrase ‘from normal retirement age’ for deferred scheme members as deferred scheme members could choose when to take retirement. The Chair suggested rewording. Damien Pantling agreed.

Philip Boyton added that there is a group of scheme members that must receive their benefits at a given ‘normal pension age’.

ACTION: Damien Pantling to reword to make all encompassing.

The Chair asked for clarification on whether responses to consultations are available to the public. Damien Pantling noted that the documents are when they have been to the Committee.

The Chair noted about interest rates of one percent above Bank of England base rates (for late payment) and for some employees that would be a premium and not much they could do. Damien Pantling confirmed that due to regulation, discretion was limited.

The Chair noted scheme employer responsibilities, with reference to whether an employee was full time or part time. They continued whilst the information might have been significant in the past, it was becoming less relevant with the shift from final salary to career average schemes.

The Chair opened a discussion regarding employer discretionary polic~~y~~ statements and asked for clarification. Damien Pantling said that his understanding was every employer has a discretionary policy statement, but it is shared with the pension fund rather than scheme members.

Philip Boyton added that every employer’s discretionary policy statement should be readily available via their own website and it is the employer’s decision whether to apply a particular discretion to an individual member.

Administration Report

Philip Boyton delivered the Administration Report for the period 1 April to June 2023. The report was taken as read and key highlights were discussed.

Philip Boyton highlighted key performance indicators like i-Connect. Consistently high performance for onboarded scheme employer groups was noted with academies and schools showing improvement, up 5.5% since the last quarter, but still below where they would like them to be.

Philip Boyton spoke about the fluctuation in deceased processing times and plans to improve the process.

Nikki Craig asked about the feasibility of the five working day turnaround for deceased processing and whether it should be reconsidered, she also asked is 5 working days industry standard? Philip Boyton said the CIPFA industry standard was two months.

The Chair asked if some payments were being done in short periods and others substantially longer which was affecting targets? Philip Boyton responded saying the number of cases processed monthly was quite small so one outlier can impact targets of 95%. He said that over a 12-month period the average was nine days over the five day target and was 11 days over for the last quarter.

The Chair spoke about the improvements in the school sector and the challenges of dealing with frequent changes. He recognised the complexity of the school sector.

Jeff Ford, Member Representative, asked if i-Connect figures were down to a particular group of academies or if it was across the board? Philip Boyton explained the issues were connected mainly to the performance of third-party payroll providers. He continued if a payroll provider was behind the curve, it would have a knock-on effect to many academies and schools.

Philip Boyton noted that there had been changes in personnel at some of the Trusts and payroll providers and this had had a positive effect with onboarding.

The Chair made a point about the subset of Trusts that are not yet onboarded to i-Connect and highlighted if the majority are onboarded it would improve the figures from the current 92% to hopefully over 95% using i-Connect.

Responsible Investment

Damien Pantling presented the Responsible Investment report into responsible investment. He mentioned the wide disparity between scientific and investment management communities regarding climate risk modelling. Damien Pantling highlighted the importance of addressing questions raised at previous Committee meetings and climate risk training sessions and that these questions have been addressed in the body of the report.

Damien Pantling discussed the ongoing cost-benefit analysis regarding climate risk modelling, including more pessimistic scenarios and bottom-up analysis. He said the recommendation was to hold off on bottom-up analysis until December 2025 and recommended no changes in modelling approaches at this stage for consistency and comparability with industry standards (citing TCFD principles). Damien Pantling emphasized the need to evolve the approach over time due to the completely nascent nature.

Damien Pantling said that just the discussion and raising awareness on climate risk modelling was a significant step forward in responsible investment and more than some others are already doing. He acknowledged that there are pros and cons to different modelling approaches. Recognised the modelling flaws and commitment to improve over time. Described the modelling as an ongoing project in its early stages.

Damien Pantling said that he recommended against making changes to modelling approaches at this stage to align with industry standards. Damien Pantling also mentioned the presence of caveats in modelling and acknowledge the need to improve the approach over time however the fact this was being discussed is a positive step forward and a step further ahead of some other funds.
Damien Pantling highlighted appendix 1 in the Responsible Investment reports, LPPI had aligned the report with the responsible investment policy following feedback to provide clarity on the mapping of different areas. Noted to small percentage, 1.98%, of portfolio considered brown investment and the higher percentage, 6.85%, considered green investment.

Damien Pantling noted that it was recommended re-establishing the task and finish group, consisting of voting council Members, Advisory Panel Members, the Chair of the Board, Fund Advisors and LPPI representatives to ensure that they are improving policy over time. Damien Pantling also noted a suggestion to have one of the independent advisors to chair the group for increased independence.

The Chair noted the importance of reviewing the initial policy given the changes since the previous work was done. The significance of addressing climate issues, in addition to ESG concerns.

Part I Any Other Business

No other business.

LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC

RESOLVED UNANIMOUSLY: That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting on the grounds that discussions involve the likely disclosure of exempt information as defined in Paragraphs 1-7 of Part I of Schedule 12A of the Act.

The meeting, which began at 11.08 am, finished at 12.41 pm

Chair……………………………………

Date…………………………….........