BERKSHIRE PENSION BOARD

Monday 18 December 2023

Present**:** Alan Cross (Chair) & Nikki Craig

Present virtually: Arthur Parker (Vice Chair) & Jeff Ford

Officers: Damien Pantling and Philip Boyton

Officers in attendance virtually: Mikey Lloyd

Introduction and Apologies

The Chair welcomed and introduced everyone in the meeting.

Apologies were received from Julian Curzon.

Declaration of Interest

No declarations of interest were received.

Minutes

The Chair noted at the bottom of page 10, action under risk management, spelling error. IT was also noted by the Chair that the previously discussed task and finish was not going to happen but would go into further detail later in the meeting.

RESOLVED UNANIMOUSLY: That the Minutes of the meeting held on 18 September 2023 be approved as a true and accurate record.

Board Governance Matters

The Chair opened the meeting by bringing to the Board's attention that Damien Pantling, Head of Pension Fund, would be leaving his role during February 2024 and that arrangements were already in place to fill the vacancy. The Chair noted this was the main reason for the task and finish group not going ahead at this moment in time.

The Chair also brought attention to the Board Member vacancy that was still not filled but highlighted ongoing efforts to fill the vacancy.

Scheme and Regulatory Update

Philip Boyton, Deputy Head of Pension Fund, delivered the update, he noted that Sharia Law compliance had been raised during both June and September Board meetings but unfortunately the report had been outstanding. Philip Boyton noted that a minute published in the LGPS Technical Group meeting held on 8 December 2023 stated a Muslim scholar had determined that the LGPS was a scheme compliant with Islamic beliefs due to pension contributions being treated as deferred pay. It was noted that the Scheme Advisory Board planned to publish a review and summary before Christmas. Philip Boyton also noted concerns were raised about the delay in the report and its potential impact on employee decisions regarding pension schemes. The Chair asked if this meant less work for the Fund if this was satisfactory? Philip Boyton explained that was the case.

Philip Boyton discussed the SCAPE Discount Rate adjustment, effective from 30 March 2023. Following this announcement made by the Chief Secretary to the Treasury many factors supplied by the Government Actuary Department and used by LGPS Pension Funds to calculate scheme member benefits were changed, including a change from 3 July 2023 to the percentage reduction factors applied to the annual pension and any tax-free lump sum retirement grant payable to those scheme members retiring prior to their normal pension age. With this change being in the scheme members favour, for example, the percentage reduction factors applied being less, the Pension Fund, having sought the guidance of the actuary, undertook a review and chose to update the factors used in the calculation of early retirement pension strain cost calculations.

He summarised; pension strain costs occur when there is a clear shortfall in the assumed level of funding needed to provide a particular entitlement to pension benefit.

He explained that an e-mail communication was sent to all HR and Payroll employer contacts on 11 December 2023 making them aware of new pension strain cost factors being introduced by the Pension Fund, effective from 1 January 2024.

The Chair asked if this primarily affects employers, which Philip Boyton clarified that pension strain costs most usually arise when an employer takes a decision to make a scheme member redundant or to retire them early for business efficiency reasons and the scheme member is aged between 55 and their Normal Retirement Age. In these circumstances the LGPS regulations dictate that the pension benefits paid to the member cannot have an early retirement reduction factor applied to the pension benefits and so the full value of the pension benefits calculated at the point of, for example, redundancy are paid immediately and without reduction. This places a strain on the Pension Fund and the scheme employer must make a capital payment to the Pension Fund to avoid the funding shortfall.

Philip Boyton gave an update on the McCloud Remedy, explaining that following a review of regulatory changes effective from 1 October 2023, Officers finalised a project plan on 3 October 2023, detailing criteria, resources, stakeholder support and project milestones, including a detailed risk analysis in support of the Pension Fund's risk management process. Risks will be identified, and mitigations will be put in place in minimise the likelihood and impact of risks materialising, and all risks will be monitored regularly. Scheme member data had been shared with the Pension Fund's actuary to identify those scheme members most likely impacted by the McCloud Remedy, enabling the team to move forward with the necessary work. Jeff Ford, Member Representative, asked how many staff would be needed for the work and for what periods? Philip Boyton responded by saying that they were ahead of the curve due to high volume of i-Connect users, but that resources would be determined by the actuary's findings and that 31 August 2025 was the ultimate deadline.

The last item Philip Boyton wanted to highlight was around Consumer Price Index (CPI) inflation. He said on 18 October 2023 the Office for National Statistics announced a 6.7% CPI inflation rate for September 2023. Following government policy, it was expected a 6.7% increase in scheme members' benefits for April 2024, with official confirmation to be received from HM Treasury in due course.

Good Governance

The Chair moved the Good Governance item up on the agenda as it made more sense to consider before the Risk Management item. Damien Pantling delivered the report and outlined the implementation of the CIPFA 2016 risk management process since 2021, which had become standard practice for the Pension Fund. An internal audit reviewed the risk management process, resulting in seven recommendations, with two medium and five low priorities. Damien Pantling noted that these recommendations were already being integrated with a proposed realistic timeline, explaining it aligned with the fund's business plan for continuous improvement.

Damien Pantling added that they were exploring the use of a risk management software to address the constraint of fitting comprehensive information on the risk register page, working with RBWM on existing software or considering external procurement if necessary.

Nikki Craig, Employer Representative (Deputy Director for HR, IT and Corporate Projects – RBWM) questioned the recommendation for a risk officer and if there was enough work for the role to be required full time? The Chair commented that the role could be tied into the Head of Pension Fund role or other dedicated risk management staff RBWM staff may have and Damien Pantling added that the auditor did mention that no other Pension Fund had the role of a dedicated risk officer, and the recommendation was purely on the basis if there was an unlimited budget.

Risk Management

Damien Pantling delivered the update on Risk Management. The update noted 46 risks identified, with three removed or merged and two new risks added. The two new risks being proposed to the risk register, included one related to the deviations in the Pension Fund's performance compared to the wider LGPS due to different investment strategies observed in other funds. It was noted that the investment strategy was in place for a reason, and a very clear decision, due to other LGPS funds being better funded. Damien Pantling explained that the second new risk surrounded climate change, specifically focusing on the liabilities, in addition to the existing climate change risk related to assets, as directed at the Pension Fund Committee meeting in September.

The Chair commented on the deviation to investment strategy by addressing the Pension Fund Committee meeting back in March 2023 where there was a lengthy discussion. Subsequently there had been significant changes in membership due to elections. The March change was made after thoroughly considering funding views, views from the fund's advisors, input from the actuary and other perspectives.

Annual Report and Accounts

Damien Pantling delivered the Annual Report and Accounts agenda item. He explained that the accounts for the year ending March 2023 were to be presented for Pension Fund Committee for review, although formal sign off was pending completion of the ongoing main RBWM audit. Damien Pantling added that external auditors provided verbal assurances during the recent pre meet, focusing primarily on the financial figures. It was noted that the draft report would be made public once approved by the Pension Fund Committee, with the financials already published as part of the RBWM draft accounts.

Jeff Ford asked in the accounts were in draft only due to the administration authorities audit of the 2021 accounts had still not been confirmed by the auditors, which was confirmed to be the case by Damien Pantling. Jeff Ford then asked when this was expected to be completed. Damien Pantling explained that the 2021 accounts were due imminently having been signed off by the Audit and Governance Committee and the auditors were just tidying up some final paperwork. It was noted that the year end 2022 or 2023 draft accounts were not ready, and the Chair added that many local authorities were in a similar position, having a one or more previous accounts not signed off.

Jeff Ford asked how the Pension Board can they be assured the accounts were correct and can be signed off? The Chair explained that he considered the numbers in front of them were very unlikely to change, but we could not be sure when they would formally be signed off. Jeff Ford added that if it was not signed off, it should be added to the Risk Register, Damien Pantling confirmed he would consider further as he believed there were accounts and audit sign off related issues on the Risk Register already.

ACTION: Damien Pantling to review the position of audited accounts on Risk Register.

Jeff Ford queried in the report that it appeared an extra £1.276million was being invested into an asset that was not previously being invested in and asked for clarification. It was clarified by Damien Pantling that no new investments were made into investment vehicles managed by LPPI and that the difference in the numbers reflected changes in the market value, not new investments. It was highlighted that the increased value for the asset mentioned was due to market conditions and not additional investments. Conversely, an asset that went from £28million to zero was likely disposed of and reinvested into LPPI's funds according to the strategic asset allocation. The Chair added that the goal was to eventually transfer all assets to LPPI, but the process would take time due to the illiquidity of some assets.

Administration Report

Philip Boyton delivered the Administration Report for the quarter 1 July 2023 to 30 September 2023 and wanted to highlight a few items. Firstly, it was noted about a new membership type for 'Frozen Refunds' had been added for consistency in reporting from 2020 to 2021, reflecting contributors who did not meet the vesting period for deferred benefits. Philip Boyton explained that instead they would be entitled to receive a return of their employee pension contributions paid, less mandatory deductions such as 20% statutory scheme tax . Philip Boyton continued that currently, if a contributor ceases to contribute with a total membership across the LGPS in England and Wales of less than two calendar years, they would be entitled to receive a return on their net pension contributions, which remained frozen until they claimed payment. Philip Boyton noted that this category currently totalled around 8500 and would undergo a project to reduce numbers through an address tracing exercise and using the National Insurance database to identify membership held by other LGPS Pension Funds.

There was discussion between the Chair and Philip Boyton over the clarification of a Frozen Refund scheme member. Philip Boyton stated they typically had a short initial period of membership in the LGPS, less than two calendar years, before leaving their employment, and if they joined another employer eligible for membership of the LGPS their membership periods must or may be combined, however if they moved to the private sector and did not return to an employment eligible for admission to the LGPS, they would be entitled only to a refund of their net pension contributions without the option to receive a pension benefit based on those net pension contributions.

Jeff Ford said he had not seen this information before, noting its importance in understanding the broader scope of pension administration department responsibilities. He queried if the data would be added to the Pension Dashboards when it was up and running, considering that while individuals may not have been entitled to an LGPS pension directly, their contributions and funds would likely be part of the overall pension view on the Pensions Dashboards. Philip Boyton said that while they may not represent a traditional pension benefit, they still constitute a financial liability for individuals. He continued that there was an argument for its inclusion, considering that individuals are entitled to receive the funds back or transfer them to another pension arrangement, whether public or private sector.

Jeff Ford questioned the issue with trying to contact the larger number of people and suggested it would be very labour intensive and require an increase in resources. The Chair noted than there was discussion about using information-based systems rather than an army of workers. Philip Boyton also highlighted a previous exercise in 2019 where they had employed a third-party organisation which worked very well and proved fruitful to locate those scheme members held on the pension administration system 'Gone Away'.

Philip Boyton noted the second item he wanted to highlight in the report was in relation to i-Connect, and that there had been a notable circa. 8% increase in the performance of Academy/School employers submitting their monthly scheme member data within the pre-defined timescale, which reflected the efforts of the Pension Fund's technical team in enhancing communication with third-party payroll providers and ensuring timely submissions. Philip Boyton added that whilst there had been progress, they were still working to onboard the larger membership populations such as Multi Academy Trusts and hoping to build on last year's efforts with i-Connect.

Lasty Philip Boyton wanted to highlight the key performance indicator (KPI) for deceased processing within five working days (when there were on-going survivor benefits) had shown significant fluctuations, prompting a recommendation to extend the reporting period from five to 10 working days. The KPI measured the time taken from receiving all the paperwork from a surviving partner or their third-party representative to initiating payment of their annual pension. It was noted that even with the extension it was still well within the CIPFA sector standard benchmark of two calendar months, and the development of less experienced administrators would contribute to smoother processing in that area. It was brought up by Jeff Ford and Nikki Craig that the table in the report did not quite line up correctly due to how it was formatted, Philip Boyton made a note of this.

Responsible Investment

Damien Pantling delivered a brief update from the two reports prepared by LPPI which included the dashboard and the Responsible Investment report. The main highlight was the green and brown exposure, which showed that the portfolio had 3.4 times more green investments than brown, a positive outcome. It was also highlighted that the portfolio's ESG score was better than the benchmark.

Damien Pantling then spoke on the action from the previous Pension Fund Committee meeting to establish a task and finish working group, although it had been postponed due to resource constraints. Damien Pantling noted that LPPI would address any technical questions in the committee meeting later that day but would answer questions he could or taken them away for further consideration.

The Chair noted that it would be helpful for LPPI to specify whether changes in the composition of boards were driven by changes in investments or by actual changes within the companies themselves. He continued that the distinction was important for understanding the dynamics of the investments and the impact of their actions as active investors. He also noted clarity in reporting would provide transparency about how the investment strategy aligned with their goals of promoting diversity and influencing company practices.

Part I Any Other Business

The Chair noted this would be Damien Pantling's last meeting and thanked him for his work over the previous two and a half years.

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 11.10 am, finished at 12.39 pm

Chair…………………………………….
Date…………………………….........