BERKSHIRE PENSION FUND COMMITTEE

WEDNESDAY, 12 OCTOBER 2022

PRESENT: Councillors Julian Sharpe (Chairman), David Hilton (Vice-Chairman), Shamsul Shelim and Simon Bond

Also in attendance virtually: Councillors Wisdom Da Costa, Glenn Dennis (Reading Borough Council) and Maria Gee (Wokingham Borough Council)

Officers: Becky Oates, Andrew Vallance, Adele Taylor, Philip Boyton, Kevin Taylor, Damien Pantling and Nikki Craig

APOLOGIES

Apologies for absence were received from Alan Cross, Chair of the Berkshire Pension Board.

Councillor Wisdom Da Costa attended virtually as a non-voting member of the Committee.

DECLARATIONS OF INTEREST

There were no declarations of interest received.

MINUTES

RESOLVED UNANIMOUSLY: That the Part I minutes of the meeting held on 29 September 2022 be a true and correct record.

RISK REPORTING

Damien Pantling, Head of Pension Fund, introduced the report which covered the risk reporting methodology which was adopted in late 2021 and detailed in the risk management policy in March 2022. The risk register was a live document, kept continuously under review, and was brought to the Berkshire Pension Board and Berkshire Pension Fund Committee quarterly. A review had been conducted in the past quarter which resulted in changing the status of several of the risks which were detailed in the report. A new risk around planning for increased employer contributions had been added to the risk register. A detailed review would be undertaken on the risks of inflation and interest rates during the next quarter.

The Vice-Chairman, asked how Risk PEN014, detailed in paragraph 2.2.5 of the report, could be impacted by inflation.

Damien Pantling stated that inflation had a multifaceted approach through all areas on the fund, both on assets and liabilities. A review on this topic would be undertaken during the next quarter but the approaches in the risk report would still stand.

The Vice-Chairman asked what the consequences would be if the worst-case scenario arose.

Damien Pantling confirmed that he would respond to this issue outside of the Committee as it was a detailed issue.

Bob Swarup, Independent Advisor to the Committee, commented that the actual evaluation that had been conducted assumed for inflation of the long run, which was typically 2.5-3%. The issue was that the inflation print for each year's payment happened around October to come through in April of the next year. When the particular print came through, it would show a much higher figure. The liabilities and payments going out of the Fund would have increased in a way that the actual evaluation did not capture. As a result, a divergence between the prediction and what actually happened occurred. At the next actuarial evaluation, the assumption would be raised as a result of this experience.

The Vice-Chairman asked how a short-term increase in inflation would be managed.

Damien Pantling stated that PEN014 referred to employee pay increases being significantly higher than anticipated for employers within the fund. If these rises occurred, the deficit relating to this employer would increase, but the actuary built in a lot of caution in setting rates over the long run.

Councillor Da Costa commented that it was positive to see the way that risks were being managed but noted certain issues that were particular relevant after Kwasi Kwarteng’s mini budget, announced on 23 September 2022. Councillor Da Costa asked if there was a set of circumstances which would warrant steps to manage any risks arising.

Damien Pantling stated that news headlines relating to liquidity issues around liability driven investment (LDI) did not apply to the Pension Fund. However, there was a small exposure to bonds, which were largely outside of the UK thus reducing the exposure of the Pension Fund. In terms of reacting to issues in the economy, the Pension Fund maintained a well-diversified portfolio as part of its investment strategy. This was kept under review by LPPI, who reported back to the Pension Fund on a quarterly basis.

Councillor Da Costa asked if LPPI had reported back with any issues to be aware of in relation to Kwasi Kwarteng’s mini budget.

Damien Pantling confirmed that no specific issues had been raised but any information relating to investments would be discussed in Part II.

Councillor Hilton stated that if the Committee progressed as it already was in reviewing risks which were laid out, then any potential issues could be identified and managed.

RESOLVED UNANIMOUSLY: That the Pension Fund Committee notes the report and;

I) Approves the updated risk register including any changes since the last approval date, putting forward any suggested amendments as may be necessary; and
II) Approves publication of the updated risk register on the Pension Fund website

STATUTORY POLICIES REVIEW

Damien Pantling introduced the report and outlined the policies. The first policy was a revised communication policy, a statutory document last reviewed in September 2018, which had been updated to include several changes on the way the Fund communicated with its stakeholders, the streamlining of member and employer newsletter communications and the focus on e-communications going forward. The updated policy increased into minimis amount required to trigger writing to members about changes to their monthly pension income, effectively aiming to reduce paper communications.

Appendix two detailed the revised Pensions Administration Strategy which was last approved by the Committee in January 2019. This was referred to as a statutory document, but Damien Pantling noted that regulations highly recommended this document be reviewed rather than being compulsory. The purpose of this document was to review the administrative processes and ensure they reflected the requirements of the regulator and had been updated to bring the aims and objectives of the fund in line with the business plan earlier in 2022. The section on the service level agreement (SLA) had been expanded to ensure the purpose of the SLA had been made crystal clear. The updated Strategy also reflected the changes in the communications policy.

The final appendix was the SLA in place between the Fund and every employer in the Fund, setting out what was required by each employer and the Fund's administration team on behalf of the employers. This document enabled the Fund to enforce the Pensions Administration Strategy and set out the detailed KPIs in line with the Strategy's objectives which allowed for more effective monitoring of those KPIs.

Councillor Da Costa commented that these documents had practical rationale behind them and asked if the Fund had any practical anecdotes on how experience and feedback from various stakeholders and employees helped to improve the process.

Kevin Taylor, Pension Services Manager, stated that the Pensions Administration Strategy informed a lot of things that the Pension Fund did on a day-to-day basis in order to maintain individual reports and correct calculations amongst others. This document set a skeleton for what was required under the statutory regulations, while the SLA provided more detail. Improvements were constantly being made through the technology used to ensure that processes were streamlined and as efficient and cost effective as possible.

Kevin Taylor stated that the quarterly Administration Report included comments from scheme members and employers. Comments from employers were always positive around the guidance and information provided by the Fund.

Councillor Da Costa explained that he would appreciate reflections from the Pension Fund team and officers on how well these policies were being implemented in practice.

The Chairman stated that reports were regularly received by the Committee on how the Pension Fund was being operated and the experiences of employees.

The Vice-Chairman echoed the Chairman's comments and asked if members of the scheme opted out of receiving paper documents and in to receiving e-communications, and praised the work that had gone in to improving communications.

Kevin Taylor explained that the pension dashboard would provide a one-stop shop for everyone to access all their pensions. He highlighted the Pension Board and its role in ensuring that the Committee was fulfilling all statutory requirements under scheme regulations.

The Vice-Chairman asked if costs were benchmarked against other pension fund administration.

Kevin Taylor stated that while this wasn't a current practice, this was being discussed at a national level.

The Chairman thanked Kevin Taylor for the work on the Fund's quarterly administration report.

RESOLVED UNANIMOUSLY: That the Pension Fund Committee notes the report and;

i) **Approves the updated policies and administration SLA set out in the Appendices to this report; and**
ii) **Approves publication of the updated policies and administration SLA on the Pension Fund website.**

RESPONSIBLE INVESTMENT UPDATE

Damien Pantling introduced the report and stated that the appendices to the report were standard items that were brought to the Committee on a quarterly basis since December 2021.

The biggest change this quarter was the alignment with the updated Responsible Investment Policy. The updated policy reflected the priorities of the Fund and acted as an up-to-date position statement on its responsible investment activities. The document helped to focus LPPI's efforts with regards to implementation investment information.

The final document was an update from LPPI on the net zero journey which was almost a year on from the initial commitment.

Damien Pantling noted that since publicly publishing the reports on responsible investment and updating members through newsletters, he had noticed an almost 50% drop off in the number of freedom of information (FOI) requests coming through the fund. The work required to respond to FOI requests had dropped off as a lot of information requested was already publicly available.

A 12-week consultation on the Task Force on Climate-Related Financial Disclosures (TCFD) was ongoing, with a likely outcome being that the LGPS would enforce mandatory disclosures by December 2024. This would be picked up on the Responsible Investment Update item in future meetings if this was the case.

Councillor Bond stated that he had viewed the TCFD document and asked for feedback from Damien Pantling on his views of the proposal. Furthermore, Councillor Bond stated that the net zero document was excellent and commented that the digital innovation in healthcare report didn't seem as relevant.

Damien Pantling commented that the TCFD didn't appear too dissimilar to the proposal for the Department for Work and Pensions (DWP). The proposal made sense, and the first port of call in formulating a response to the consultation would be to hear the opinions of other parties such as LPPI and Barnet Waddingham. A response would be submitted if the Pension Fund had further detail to add.

The Chairman echoed Councillor Bond's comments and stated that overall, a huge amount of information was presented to the Committee on how investments were being managed which was very positive.

Joe Peach, Senior Analyst at LPPI, stated that the work undertaken on the evolution of the report was positive and noted the positive feedback from Committee members. The Robeco report was specific to LPPI but included a number of thought pieces on more general movements within the sector. Joe Peach noted that it was positive to hear that the number of FOI requests had reduced as a result of reports being made publicly available. LPPI made a commitment to be net zero by 2050 in October 2021, and information would be released over the coming weeks on how the organisation would make strides towards this target by 2030.

The Vice-Chairman asked what kind of process LPPI would follow when deciding whether to invest more in certain investment categories, given there appeared to be an opportunity for reasonable returns.

Richard Tomlinson, Chief Investment Officer at LPPI, stated that this would not be an area that LPPI would be looking to add to at this point in time.

Councillor Da Costa stated that he was proud of the responsible investment update and commented that the Fund was moving in the right direction with regards to climate change.

The Vice-Chairman echoed Councillor Da Costa's comments and stated that the report was a valuable document which talked to the issues in the right way.

The Chairman stated that the increase of information in the public domain was very important and had a positive impact by reducing the number of FOI requests.

RESOLVED UNANIMOUSLY: That the Pension Fund Committee notes the report and;

- **i) Acknowledges the Fund's RI dashboard, RI report, active engagement report and achievement of associated outcomes;**
- **ii) Acknowledges LPPI's recent client update on Net-Zero;**
- **iii) Approves and adopts the Fund's revised RI policy for implementation, and;**
- **iv) Approves the publication of the appendices contained within this report on the Pension Fund website.**

ADMINISTRATION REPORT

Kevin Taylor introduced the report and stated that the report was informed by the Pensions Admin Strategy and the SLA in place with employers. The Pension Fund was in the early stages of reviewing the Administration Report, bearing in mind CIPFA guidance and peer review of other funds. A revised report would be brought to the Committee in due course.

A key ongoing issue was the McCloud case, with changes to scheme regulations being expected imminently. Certain teachers who worked full time in part time roles were wrongly excluded from the LGPS, which could add complexity to the McCloud issue. The £95,000 cap was back on the agenda, with the expectation that the government would insist on reviewing all cases to determine whether they should go ahead or not. In instances where these cases could proceed, scheme employers would need to get all strain costs associated with early retirements ahead of asking the government to review. In a successful review, the member would continue to receive full benefits as opposed to the reduced benefits they received under the current legislation. This was a good change in policy from a scheme member viewpoint.

The Chairman thanked Kevin Taylor for his report and stated that it was reassuring that there wasn't anything to worry about, with the exception of the McCloud case.

The Vice-Chairman stated that McCloud was a potential liability, and asked for clarification on the £95,000 cap topic. The Vice-Chairman asked if the government would reimburse the pension scheme.

Kevin Taylor clarified that when a scheme member retired early, the regulations dictated that their benefits cannot be reduced to reflect their early payment. If somebody voluntarily retired, they would have a reduction to those benefits as they would be payable over a long period of time. As these benefits could not be reduced, there was a strain cost that the employed had to pay to the Pension Fund to meet the early release of those benefits at an unreduced rate. Those strain costs were originally going to be included in the £95,000 cap, with those costs alone possibly running over the cap. The new proposal was that the strain costs would be included as part of any representation made by an employer to the government to allow those benefits to be paid early at an unreduced rate. The government would examine this to see whether any alternative options could be sought. If the government agreed to the early release of benefits, the employer would need to make that strain cost to the Pension Fund, but the scheme member would not have those reductions applied as they were in the current legislation.

The Vice-Chairman stated that he noted that two more admitted bodies had been added since the last report and asked about the process for admitting these bodies.

Kevin Taylor stated that an admission body would only come from an existing scheme employer outsourcing a service under The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). Pensions were not covered by TUPE but were covered by the Best Value Direction order instead. This resulted in a responsibility on the outsourcing employer to ensure equivalent pension rights going forward. Admitted bodies were monitored in the same way as any other scheme employer.

The Chairman asked if there were any particular areas of note in the Administration Report in the future.

Kevin Taylor stated that McCloud was the biggest issue to be aware of. Pension dashboards was another project requiring a large amount of work but would bring about a number of benefits.

Councillor Wisdom Da Costa asked if the impact of the McCloud case would be a workload issue or a material financial impact on the Fund. Councillor Wisdom Da Costa also asked if any strain on workload was evidenced with regards to changes in the number of members.

Kevin Taylor stated that the McCloud case would cause an administrative burden. The actuary had already included an element within all calculations for the McCloud costs to allow for the potential risks and additional liabilities arising as a result. With regards to churn of membership numbers, the Pension Fund was a relatively small team working with a relatively large membership. Automation of the process was key in reducing workload on employees.

RESOLVED UNANIMOUSLY: That the Pension Fund Committee notes the report and;

- **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.**

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 5.00 pm, finished at 7.10 pm

CHAIRMAN…………………………………

DATE…………………………………........