BERKSHIRE PENSION FUND COMMITTEE

Monday 18 December 2023

Present: Councillors Simon Bond (Chair), Wisdom Da Costa (Vice-Chair), Neil Knowles and Julian Tisi

Present virtually: Councillors Asghar Majeed

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

Officers: Mikey Lloyd, Damien Pantling and Philip Boyton

Introduction Apologies

Apologies for absence were received by advisory members Bob Swarup and Councillor Glenn Dennis, Reading Council

Declarations of Interest

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

Minutes

RESOLVED UNANIMOUSLY: That the Part I minutes of the meeting held on 18 September 2023 be a true and accurate record.

Risk Management

Damien Pantling, Head of Pension Fund, delivered the update on Risk Management and explained they were presenting 46 risks this quarter, including two new risks and three that were removed or merged since the last meeting. It was noted that one new risk involved differences in the fund's performance compared to the wider LGPS. The other risk noted concerned climate impact, split into assets and liabilities. Damien Pantling noted a new table had been included of top risks post-mitigation in the report, with a minor error to be corrected post meeting. It was also mentioned that during the Pension Board meeting it was discussed about a specific risk related to audit delays being documented in the Risk Register from March 2024.

Councillor Stephen Newton, Wokingham Borough Council (Advisory Panel), raised concerns regarding unsigned annual accounts affecting council operations, he emphasised the need for auditors to focus on resolving issues related to the Pension Fund accounts, minimising broader audit concerns.

Councillor Da Costa thanked Damien Pantling for the inclusion of climate risk in the Risk Register and for splitting it between assets and liabilities. He asked a few questions, firstly about how and when will they address operational risk, especially concerning infrastructure and building usability in the face of climate change impacts, secondly what their approach was to quantifying risks in terms of monetary value and considering potential increases in operational costs due to audit related issues?

Damien Pantling explained that Councillor Da Costa's concern extended beyond climate risk and encompassed disaster recovery and business continuity which while not explicitly stated in the Risk Register, Damien Pantling said there were robust disaster recovery and business continuity plans, annually reviewed, that addressed these aspects. He noted that for quantifying climate risk, their methodology aligns with government guidelines. Damien Pantling also noted that climate risk scenario analysis was mandated in their triennial valuation process and was last conducted in 2022.

Councillor Da Costa wanted to clarify that the net risk would be borne by the scheme members rather than those paying the pension? And commented on operation risks, that the Pension Fund Committee should be able to see where they are at with their disaster recovery scenarios, and asked what kind of scenarios are included?

Damien Pantling said what whilst employers bear the risk, it was important to acknowledge that local taxpayers, who fund the employers, are also impacted. As for disaster recovery, it was primarily an operational matter managed across various departments within the administering authority and his focus was solely on the Pension Fund's concerns. Councillor Da Costa believed it was essential to consider the significance of the risk and delegating responsibility was not good enough. He believed they should be aware of, if not directly involved in, addressing the risk.

Alan Cross, Chair of the Pension Board, said that regarding the new risk concerning a different investment approach, it's important to note that the approach aligned with their unique funding level. The Strategic Asset Allocation was thoroughly debated and unanimously agreed upon by the Pension Fund Committee in March. Revaluation would occur during the next Tri evaluation, considering input from advisors and LPPI.

In response to Councillor Newton's concern about local authority audit backlogs, Alan Cross said that it was a national issue receiving consideration at the national level. Wokingham's situation was not unique and had become a significant problem in recent years.

Councillor Tisi had two questions regarding the risk register. Firstly, concerning the new risk regarding the Fund's performance compared to the LGPS and the actual risk to the Fund, and were they satisfied with the current asset allocation, or could there be a need for adjustments? Secondly Councillor Tisi commented on the Risk Register circulated before the meeting and the risk labelled "McCloud Remedy,". He said the net rating of this risk was very high, implying limited control over the situation and wanted clarification on this.

Damien Pantling commented on how the asset allocation differs from other LGPS Funds, mainly due to the Fund's positive cash flow, relative youth, and significantly lower funding level. While it's reasons for this deviation were well-documented and robustly decided, there was a perceived risk associated with this divergence when compared to other LGPS Funds. Secondly, addressing the McCloud Remedy risk, Damien Pantling explained that the residual risk remained high due to ongoing uncertainties despite having a plan in place. He said they were engaging with external advisers and their actuary to finalise the implementation plan, addressing remaining gaps and uncertainties.

Councillor Tisi responded on the McCloud remedy, saying that whilst they have a plan in place, they're adopting a prudent approach due to remaining uncertainties. Acknowledging the need to complete certain steps before assuming effectiveness. He also responded regarding the Fund's unique characteristics and asset allocation, whilst there was a perception difference compared to other LGPS Funds, driven by factors like age, cash flow, and funding level, the actual risk was unclear.

Damien Pantling explained that the real risk associated with the asset allocation compared to the wider LGPS was the slightly higher volatility. However, they closely monitor this through their risk appetite statements, assessing factors like the likelihood of being fully funded over time and the affordability of employer contributions. While there was increased volatility, it was managed and monitored within acceptable parameters.

Philip Boyton, Deputy Head of Pension Fund, added that the Berkshire Pension Fund, like all participating LGPS Funds, received the draft McCloud Remedy regulations, which became final on 1 October. Following this, Officers finalised a project plan by 3 October, outlining criteria, required resources, project structure, milestones, and detailed risk analysis. This living document would be continuously updated as additional guidance was received. He added that it aligned with other LGPS Funds, particularly in the southern area, with ongoing discussions to identify scheme members impacted by the underpin, informing resource and time allocation.

Alan Cross noted that with the budget plan, it was previously shared by Damien Pantling and could be made available to Pension Fund Committee members upon request. He then spoke on the real risk of the investment strategy and explained if shares and equities significantly underperform in the market over the next few years, the funding level suffers, putting them at the bottom of the return pile compared to other authorities. However, they opted for a strategy most likely to improve their position, following the thorough debate in March 2023.

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.

<u>Good Governance</u>

Damien Pantling introduced the report on Good Governance, firstly giving some background information that in September/October 2021, the CIPFA 2016 risk management framework was introduced to the Fund and adopted for Pension Board and Pension Fund Committee reports. The framework was used to establish the annual risk management policy and formed the basis for the quarterly Risk Register presented to the forum for approval. It was noted there had been a lack of professional second opinion on the interpretation of the framework.

Damien Pantling explained that an internal audit was commissioned a few months ago to thoroughly review the Fund's risk management practices. The outcome of the review was positive, with no high-priority recommendations identified. However, two classified as medium priority and five as low priority recommendations were made. Officers had already begun working on addressing the recommendations, and the deadlines were considered realistic.

Damien Pantling said it was important to note that internal audit reviews were not compulsory but were conducted for reasons of good governance and best practice. These reviews aligned with the Fund's business plan and its goals of continuous improvement.

Councillor Tisi highlighted the positive progress with no high-priority actions required, commenting that of the two medium-priority actions, one of which had already been resolved within the allocated timeframe. Regarding the open action concerning risk controls, Damien Pantling said specific risks identified had been addressed. However, restructuring the risk register remained pending. Damien Pantling highlighted that discussions with RBWM on utilising their risk management software were underway, with plans for a review before the next Pension Fund Committee meeting in March or June. He noted that the software seemed suitable for local authorities, its compliance with LGPS risk management frameworks would be assessed before implementation. If necessary, external procurement options would be explored.

Councillor Newton commended the initiative taken for the voluntary internal audit, noting positive outcomes with minimal priority actions identified, he then inquired about the plan for future audits and updates on pending actions.

Damien Pantling said that whilst there was no specific agenda item for reporting back on these actions, Officers intend to provide updates periodically. This could be included in future Good Governance reports, the annual governance statement, or the annual business plan. The exact reporting mechanism was yet to be decided but would ensure transparency and accountability.

Regarding future audit plans, Damien Pantling highlighted that the administering authority's Audit and Governance Committee sets the internal audit plan. The Pension Fund would coordinate with them to allocate internal audit resources effectively. While annual audits were not guaranteed, efforts would be made to continue this practice for ongoing improvement and oversight.

Councillor Da Costa commended the presentation and expressed agreement with the recommendations put forward. He emphasised the importance of having a formal view and external validation. Councillor Da Costa then inquired about the approach taken by external auditors in assessing the risk program, considering RBWM's existing teams. He sought clarification on how the audit compared to traditional audits, which focus on accounting standards and balance sheets. Councillor Da Costa then asked how and when the risk appetite framework would be reviewed and implemented, acknowledging its significance in framing the approach to risk management. Finally, Councillor Da Costa mentioned about exploring other systems suggested by the LGA's pension fund teams. He expressed the intention to consider additional systems for inclusion in the risk assessment process.

Damien Pantling noted that the audit was conducted by an external partner, which comprised a group of councils with extensive experience auditing local authority accounts and pension funds. Their review focused on best practices in risk management within the LGPS framework, drawing insights from partner Funds and other audits. As for risk appetite, Damien Pantling explained that with 46 risks in the register, setting individual appetites for each would be impractical and constantly evolving. He said they were considering grouping risks into the seven categories to establish a more pragmatic approach. Whilst they had already set appetites for funding and investment risks, defining appetites for the remaining risks was an ongoing process, with a deadline of approximately a year to finalise.

Councillor Tisi made a few points, firstly, regarding the assessment of risk appetite, and that it was sensible to consolidate opinions rather than evaluating each of the 46 risks individually. Secondly, while the recent internal audit reflected positively on the risk management practices, it was prudent to consider the cost-benefit analysis of conducting audits annually, suggesting a flexible approach, such as determining audit frequency based on value-added insights, rather than a fixed schedule.

AGREED: That then Pension Fund Committee notes the report;

- **i) Considers the findings presented by SWAP Internal Audit; and**
- **ii) Approves the recommendations for implementation by the deadlines disclosed in the Internal Audit report (Appendix 1).**

Annual Report and Accounts

Damien Pantling delivered the Annual Report and Accounts and began with a commendation to the team for their hard work in preparing the draft annual report for the Pension Fund, ending on 31 March 2023. It was explained that the purpose of the report was outlined as seeking approval for the draft, which remained unaudited due to ongoing prior audit periods. It was emphasised that the Pension Fund accounts were integral to the RBWM accounts and could not be signed off until the latter were audited. Although external auditors provided a positive verbal update during the Pension Fund pre-meet, formal audit opinions were pending. Pension Fund Committee approval was sought to publish the annual report, marking its first public release, although it was noted the chart of accounts had been previously published alongside RBWM draft accounts in May/June.

Councillor Da Costa acknowledged the effort that had gone into the report and suggested using PNG format for signatures instead of JPEGs. Reflecting on the audit, Councillor Da Costa sought clarification that while most of the testing had been conducted and formal sign-off was pending, the auditors did not raise any issues with the Pension Fund accounts and their feedback suggested no significant concerns?

Damien Pantling explained that auditors had completed most of the testing and verbally confirmed no issues found, but formal assurance awaited partner review. However, due to unaudited prior-year balances and outstanding audits, full assurance was pending.

Councillor Da Costa asked what the process was once the previous outstanding accounts were signed off? Damien Pantling explained that once the auditors sign off on the accounts for the years 2021to 2023, the final audited accounts will be approved by the Audit and Governance Committee of the administering authority. Any material amendments will be brought back to the committee for reapproval. It was also noted that the process for finalising the annual report will follow a similar pattern, with any significant changes requiring Pension Fund Committee approval.

Councillor Da Costa requested that the word 'draft' be added to the motion which officers accepted.

Councillor Tisi wanted to clarify the wording in 2.6 of the report that referred to a correction related to scheme assets amounting to £24 million, representing approximately 0.9% of the total assets. He sought clarification if this error was due to an update or adjustment in the reported values of the assets rather than an error in the internal accounting processes. Damien Pantling explained that they reported the information provided to them by their Fund custodian, and it was later discovered that there was a double counting error amounting to approximately £24 million. The error was identified by fund officers approximately two months after the initial reporting and they followed all due processes by reporting the information as received from their third-party custodian. Upon officers discovering the error and raising with the Custodian, they (the custodian) promptly corrected it.

Councillor Tisi asked about potential legislation changes impacting financial reporting requirements, and would they still do the outstanding previous years accounts if it was no longer required? Damien Pantling said he viewed audits as valuable for continuous improvement of controls and processes.

Councillor Newton asked if any significant learnings have emerged from this incident? Damien Pantling said that they had changed their custodian due to performance issues identified during the process and, they had strengthened internal processes for cross-checking asset values, ensuring a more robust control environment.

AGREED: That the Pension Fund Committee notes the report;

- **i) Notes and reviews the amendment to the (prior year) 2021/22 annual draft reports; and**
- **ii) Approves the 2022/23 draft annual report and statement of accounts for publication.**

<u>Administration Report</u>

Philip Boyton delivered the Administration Report, highlighting three key points in the presentation. Firstly, it was highlighted the addition of a new membership type called "Frozen Refund Records" and "Frozen Refund People" to ensure consistency with the annual report and accounts. Frozen refunds referred to former contributors who did not meet the twocalendar year vesting period for a deferred benefit and were entitled to receive a return of their net pension contributions. The number of frozen refunds was higher than desired, prompting plans for a project to reduce this number through an address tracing exercise and utilising the National Insurance database. Philip Boyton then spoke on i-Connect and the report noted a significant increase in employer performance and engagement with Academies and Schools, showing a circa 8% increase compared to the previous quarter, reaching 93.4%. This improvement was attributed to enhanced communication and engagement with third-party payroll providers. Finally, there was discussion focused on increasing the key performance indicator (KPI) for deceased processing from five to 10 working days. The KPI measured the time taken to begin payment of a surviving partner's annual pension after receiving all necessary paperwork. Despite the increase, the timeframe remains within the CIPFA benchmark of two months. The report emphasised the importance of monitoring progress and highlighted the development of less experienced pensions administrators in handling this area.

Councillor Tisi acknowledged the realistic adjustment of the key performance indicator (KPI) benchmark to 10 working days and expressed satisfaction with the progress on adopting the i-Connect system. He commended the team for the efficient transition. However, Councillor Tisi asked for clarification on the graph representing Frozen Refund People, noting a discrepancy in the numbers, and asked for an explanation for the apparent sudden increase in the figures from previous years.

Philip Boyton summarised that the Frozen Refund Records represented individuals who had contributed for less than the vesting period required for a pension entitlement. These individuals were not previously included in the reported figures, hence the sudden appearance in the graph. The team was going to undertake efforts to identify and reduce the number of Frozen Refund Records through an address tracing exercise and utilising the National Insurance database.

Councillor Da Costa highlighted the positive progress outlined in the report but raised concerns about the quality of communications sent to members. Councillor Da Costa also discussed ongoing issues with the McCloud Remedy and the Pensions Dashboard Programme, underscoring the need to identify pressure points and allocate resources accordingly for sustained operational effectiveness.

Philip Boyton reported progress on familiar KPIs, noting that all team members are experienced in delivering except for deceased processing, which less experienced team members are now transitioning to handle, anticipating improved reporting in this area. Philip Boyton discussed communication efforts, including pension surgeries, presentations, employer meetings, and training sessions, led by a dedicated Communications Manager with support from the team. Ongoing projects included addressing the McCloud Remedy and developing the Pensions Dashboards, with a revised timeline for the latter to 2025. It was emphasised the importance of effective communication and collaboration with software providers to successfully deliver on these initiatives.

Councillor Da Costa asked what the merits was of increasing or decreasing communication and if communication was solely statutory or include additional information based on legal requirements or best practices. Philip Boyton said the Pension Fund’s Communication Strategy primarily leverages online platforms to engage with our scheme members, offering real-time updates on LGPS news and facilitating benefit projections. It was noted the platform ensures transparency and accuracy in data utilisation. Additionally, Philip Boyton said they maintain regular communication through quarterly newsletters, which highlight key developments, such as the McCloud Remedy, and outline necessary actions to ensure compliance with pension regulations.

Councillor Newton said it was important to recognise the efforts in place and maintain the integrity of the scheme, ensuring high-quality services for all members. Adding that whilst there may be room for further reduction within the CIPFA framework, urged caution against frequent boundary adjustments.

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

Damian Pantling introduced the report on Responsible Investment but explained that two colleagues from LPPI were present for questions on the reports. It was emphasised the portfolio's current green-to-brown ratio with 3.4 time more green than brown and consistently better ESG score compared to the benchmark. Damien Pantling noted an outstanding action regarding climate training and the setup of a task and finish group, ensuring it remains on the radar despite resource challenges, with plans to address it in the new financial year.

Councillor Da Costa expanded on Damien Pantling's point regarding climate change training, highlighting its dual purpose of educating Pension Fund Committee members and shaping a responsible investment policy and strategy. This endeavour aimed to align investment objectives with emerging opportunities in green assets and other climate-friendly solutions. Councillor Da Costa emphasised the long-term nature of this project, acknowledging the complexities involved and the need for extensive information and collaboration to formulate a strategy that maximises growth while addressing challenges and opportunities in the changing environment.

Alan Cross noted a point for the benefit of LPPI colleagues regarding the comparison of changes over time, particularly in areas like diversity on boards. He raised the question of whether these changes were driven by shifts in investments or by alterations in board compositions, possibly influenced by actions taken by partners collaborating with these boards. Alan Cross emphasised the importance of delineating between changes resulting from investment shifts and those stemming from board dynamics to better understand progress.

Richard Tomlinson, LPPI, spoke on the difficulty in attributing outcomes to specific actions, especially within a public equity portfolio, it was noted that multiple managers often claim responsibility for the same outcome due to various engagements. This made it challenging to determine whether changes were driven by shifts in composition or in the assets themselves. While efforts were made to analyse these factors, it remained complex as changes were influenced by both portfolio adjustments and advocacy for change. Richard Tomlinson emphasised that preferences for certain types of investments can shape future decisions and engagements to align with desired characteristics. He noted that transparency was encouraged, with a reminder to acknowledge actions taken when attributing outcomes.

The Chair queried the involvement of various organisations mentioned in the report, all of which appeared commendable and committed to effecting change. The International Investors Group on Climate Change (IIGCC) was highlighted for its admirable work over the past decade. The Transition Pathway Initiative (TPI), initiated with the support of organisations like the Church of England, was also noted for its dedication to responsible investment. The Task Force on Climate-related Financial Disclosures (TCFD), championed by Mark Carney, was recognised for its influence in driving change. Mention of the Nature Action 100 initiative on biodiversity was particularly welcomed. The Chair requested additional context on the initiative, particularly regarding the founding participants and other key stakeholders involved.

Richard Tomlinson clarified that the Nature Action 100 initiative is an organisation being supported, with biodiversity and nature emerging as key themes not only for the group but also within broader discourse, as evidenced by increased content on nature and biodiversity in recent COP conferences. Richard Tomlinson discussed the ongoing development of a climate opportunities vehicle with a specific focus on nature and biodiversity, indicating the significance of this theme in the organisation's investment strategy moving forward. Richard Tomlinson emphasised the interconnectedness of addressing biodiversity alongside the transition to Net Zero, viewing them as integral components. He noted while the initiative extends beyond the organisation, they had taken the lead in engaging with three companies, with expectations for momentum to grow over time.

Councillor Da Costa questioned Richard Tomlinson regarding his mention of a new green fund. He inquired about the fund's basis, asset selection criteria, and considerations for transitioning funds into it. Richard Tomlinson suggested discussing these details in part II of the meeting, emphasising the organisation's serious consideration of creating solutions for clients to invest in climate and nature-based initiatives.

Aoifinn Devitt made an inquiry about the level of satisfaction with engagement efforts and their efficacy, particularly given the global portfolio context and regional dynamics around ESG and activism. Richard Tomlinson emphasised the nuanced nature of engagement strategies, differing between internal and external management. He said internal portfolio engagement involves detailed, granular conversations with specific outcomes tracked, while broader engagement with external partners operated at a higher level, representing a larger pool of capital. Richard Tomlinson acknowledged regional differences, noting pushback in the US compared to a more receptive attitude in Europe. Despite these variations, the organisation remained committed to its engagement efforts, with plans to enhance and broaden activities rather than retreat.

Councillor Da Costa noted insights from discussions with investors at the LAPF Forum conference, where some attributed ESG pushback in the US to political motives, questioning its reflection of genuine value amidst significant investments spurred by the Inflation Reduction Act.

Aoifinn Devitt responded that the ESG debate was maturing beyond election-year politics, undergoing robust testing and interrogation, which ultimately strengthened it while revealing instances of greenwashing. She said stakeholders were becoming more demanding, seeking evidence of continuous improvement rather than mere engagement. Aoifinn Devitt then asked Richard Tomlinson whether the report demonstrated this progression towards achieving goals?

Richard Tomlinson responded that progress was seen within the internal portfolio, with direct control allowing for continuous improvement. While broader engagement progress was less directly observable, aggregate analysis revealed significant annual improvement in responsible investment practices. He noted that political dynamics vary by country, influencing dialogues on decarbonisation, yet a clear long-term trend towards decarbonisation persists.

AGREED: That the Pension Fund Committee notes the report;

i) Approves the Fund’s RI dashboard, RI report and Active Engagement report for publication;

<u>Local Government Act 1972 - Exclusion of the Public</u>

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 4.10 pm, finished at 6.36 pm

Chair……………………………………….

Date…………………………………..........