Pension Fund Committee minutes

Minutes of the meeting of the Pension Fund Committee held on Thursday 29 September 2022 in Paralympic Room, The Gateway, Aylesbury, commencing at 2.00 pm and concluding at 4.25 pm.

Members present

R Bagge, T Butcher, E Gemmell, I Macpherson, P Marland and M Walsh

Others in attendance

C Dobson, R Ellis, T English, M Passey and M Preston

Agenda Item

1 Apologies for Absence
There were no apologies for absence.

2 Declarations of Interest
There were no declarations of interest.

3 Minutes of the last meeting
Resolved: That the Minutes of the Meeting of the Pension Fund Committee held on 7 July 2022 were agreed as a correct record.

4 Buckinghamshire Pension Fund Board Draft Minutes
Resolved: That the Minutes of the Buckinghamshire Pension Fund Board meeting held on 27 July 2022 be noted.

5 Pension Fund Annual Report 2021/22
Each year the Pension Fund Committee was required to approve the Pension Fund Annual Report, including the Pension Fund Statement of Accounts. The Annual Report included pensions administration and investment performance, in addition to the annual accounts. The approval of the Annual Report was subject to the accounts being approved by the Buckinghamshire Council Audit and Governance Committee. The Chairman reported that he had received an update from the Section 151 officer regarding the accounts in that all figures had been sent to the auditors by the end of this week and were waiting for sign off. However, this could not be undertaken until a Statutory Instrument had been passed by Parliament and the earliest possible date for this was November 2022. The provisional Annual Report and Accounts for 2021/22 would be published on 30 November 2022 without an

audit opinion if the audit for Buckinghamshire Council and the pension fund accounts had not been completed by that date.

The Assistant Director of Finance particularly referred Members to Note 20 regarding Additional Voluntary Contributions and that information on AVC's had been delayed by Prudential but they were addressing this and would have the information in time for the final accounts publication.

Members discussed the Annual Report. The Brunel Pension Partnership who looked after approximately 90% of the Fund received fees of £18 million and a Member queried whether any further information was available on the fees. Fees were calculated on the value of the Fund. A further Member then suggested it would be helpful to have information on whether the Fund Manager provided good value for money and whether the fee was justified. The Chairman reported that as a result of the investment pooling agenda, the Buckinghamshire Fund had joined with nine other LGPS administering authorities to set up the Brunel Pension Partnership and the business case had been agreed in 2017 based on an estimated potential fee saving of £550 million over a 20 year period across the ten funds. The expected costs and savings were set out on page 62 of the agenda pack. Members agreed that a breakdown of the management fees would not necessarily be helpful to the Committee but that Brunel should demonstrate why they were good value for money and also to demonstrate the savings they had currently made. It was noted that Brunel was a not-for-profit organisation.

A further query was made under note 13 regarding additional financial risk management disclosures which included information on market risk and market price risk and why this did not include any information on climate change. The Chairman referred the Member to page 153 of the agenda pack which referred to climate change under the social, environmental and corporate governance policy.

Under that same area, a Member referred to Brunel being committed to industry and corporate engagement, decarbonising its listed investment portfolios, and being transparent about their carbon intensity. Members noted that the Committee would work with Brunel to ensure that these were implemented over time. On an annual basis Brunel produced data so that the Fund's progress could be monitored.

RESOLVED

That the Annual Report 2021/22 be approved, subject to the statement of accounts element being signed off by Audit and Governance Committee.

6 Funding Strategy Statement

The Local Government Pension Scheme Regulations required all LGPS Administering Authorities to prepare a Funding Strategy Statement. The current Statement needed to be updated to reflect pass-through arrangements for new admission bodies approved by the Pension Fund Committee in March 2022. Under a pass-through arrangement, the letting Authority retained the pension risk and also additional costs as set out in each admission agreement eg redundancy and early retirement costs.

The Assistant Director of Finance particularly made reference to page 171 of the agenda pack relating to a paragraph on payment of contributions. Primary contributions were certified as a percentage of payroll and payments received which would fluctuate in line with the payroll each month. Secondary rate adjustments could also be certified as a percentage of payroll or as a monetary amount. From 1 April 2023 no discount would be offered in exchange for prepayment of either primary or secondary contributions.

During discussion reference was made to cessation valuations particularly relating to town and parish councils. A Member commented it was helpful for smaller organisations to be given an indication of whether there was any surplus or deficit in the Fund and assessing the value of the liabilities attributable to the exiting employer earlier in the year. Obtaining a valuation could be very expensive so for smaller organisations valuations were undertaken at the end of March.

Another query was raised in relation to page 186 of the agenda pack in terms of financial risks and what happened if organisations went bankrupt. A representative from Mercer reported that employer risks were detailed on page 190 of the pack. In addition it was noted that Parish Councils would not go bankrupt and could raise their precept if they were in financial difficulty.

RESOLVED

That the revised Funding Strategy Statement be approved.

7 Breaches of the Law

The Committee received the Procedure for Reporting Breaches of Law and also the Breach Log which detailed the administration breaches recorded along with details of the percentage of annual benefit statements issued for 2021/22. The Assistant Director of Finance reported that the Procedure complied with the requirements of the Pension Act 2002 and the Pensions Regulator's Code of Practice. He also commented that the breaches were minor in nature with some breaches relating to refunds of employee contributions being paid in excess of 5 years since their date of leaving and pensions being paid after age 75 (9 in total). Members had been written to after leaving and had been informed that they had a refund due and a reminder was sent to them six months prior to the 5 year expiry date. With regard to pensions paid after age 75 Members were written to at leaving notifying them of their pension benefits and the date they must be claimed by. If still not claimed three month prior to normal pension age a notification was issued to the Member confirming benefits could be claimed or payment deferred until the day before age 75 was attained and a further reminder was issued three months prior to age 75. A Member commented that it was good to write to people in advance particularly at key birthdays. The Chairman reported that most breaches were outside of the Administering Authority's control.

The Assistant Director of Finance reported that another breach was that 100% of annual benefit statements were not issued by the statutory deadline, with 99.89% issued. In 2020/21 98.14% of ABS were issued by the deadline. This was still a high percentage therefore a green breach. The final breach related to employees/ employer's contributions not being received by 19th of the month following the month in which they were deducted. This was an amber breach and there had been some improvement. Monthly debt days were scheduled into the finance teams' diaries to ensure this was addressed every month. The Chairman reported that it was important to monitor these closely and Members noted that processes had been made more robust to ensure payments were made on time.

RESOLVED

That the report be noted including the comments made on the breaches log.

8 Investment Strategy Statement

All LGPS Administering Authorities were required to issue an Investment Strategy Statement (ISS). The ISS was reviewed every three years following the triennial actuarial valuation, although ad hoc revisions could be made where required. The representative from Mercer reported that the current ISS needed to be updated for revisions in asset allocations (section 3) and the Fund's social, environmental and corporate governance policy (section 7). In Section 3 Mercer had taken the opportunity to update the overview of the role each asset class played and changes were set out in the table at page 199 of the agenda pack including private debt, infrastructure and bonds. Members noted the additional information provided on rebalancing policy. Due to their illiquid nature, rebalancing ranges were not set for individual private market asset classes (specifically private equity, private debt and infrastructure). However, the Committee regularly conducted commitment planning exercises to seek to achieve and broadly maintain the strategic allocations to each asset class.

In relation to the social, environmental and corporate governance policy, Brunel had published its Responsible Investment Policy Statement and had identified seven priority themes as part of its integrated Responsible Investment process. These themes spanned a wide range of ESG issues and were informed by Brunel's investment beliefs, its clients' policies and priorities, together with stakeholder views, regulatory and statutory guidance and alignment with best practice. The themes were set out below:-

- Climate change
- UK policy framework
- Diversity and Inclusion
- Human capital
- Cost and tax transparency
- Cyber
- Supply chain management

The Committee was supportive of Brunel's Responsible Investment Policy, as well as their priority themes for Responsible Investment and stewardship activities. During 2021, Brunel engaged with a number of investee companies on a wide variety of ESG-related themes, including corporate conduct, culture and ethics, human capital measurement, respect of human rights, board effectiveness and executive remuneration.

Cllr Marland referred to the Notice of Motion which was passed at his Council declaring a Climate Emergency and its commitment to becoming carbon neutral by 2030 and carbon negative by 2050. He asked the Committee to note that the Investment Strategy was against the policy set by Milton Keynes Council who contributed to one third of the pension fund.

Members noted that Brunel's intention was to align its investments with the targets set under the Paris Agreement in relation to greenhouse gas emissions and carbon neutrality. Brunel had committed to a 50% reduction in emissions by 2030 and to net zero by 2050 which the Committee supported. It was reported that there were not enough investment opportunities in renewables yet to have a diverse enough portfolio. The Committee would continue to develop its beliefs and approach to ESG integration and climate change, and its strategy for decarbonising the Fund's investment portfolio. The Climate Change Policy was being reviewed by Brunel in 2022, ahead of publishing an updated policy in 2023.

One area of Brunel's focus would be on driving real and substantial change in how investment managers invest and if they were not able to robustly explain their investment strategies and how they had integrated climate risk, Brunel would look to replace them with investment managers that did. On an annual basis, Brunel produced carbon footprint analysis to monitor the Fund's progress in reducing carbon emissions and key carbon metrics, such as the weighted average carbon intensity of the aggregate portfolio were measured and monitored against a custom benchmark. By 31 December 2021 the Fund was c.32% less carbon intensive than the benchmark.

The Committee did not consider a top-down approach to disinvestment to be an appropriate strategy for reducing climate and carbon risk and contributing towards reducing carbon emissions. The Committee believed that decarbonising the Fund's portfolio over time by reducing its exposure to carbon intensive companies and assets, and seeking to influence the behaviour of companies through engagement, would have a more beneficial impact.

RESOLVED

That the updated Investment Strategy Statement be approved.

9 Forward Plan

The Assistant Director of Finance reported that the external auditors would be attending the next meeting which would also include the Actuarial Valuation as at 31 March 2022. The Investment Strategy would be reviewed in March 2023.

Reference was also made to the Government launching a consultation proposing more effective governance, strategy, risk management and targets for the assessment and management of climate related risks and opportunities for the Local Government Pension Scheme. It also invited responses on proposals to disclose these in line with the recommendations of the international industry-led Taskforce on Climate-related Financial Disclosures (TCFD). The proposals included a requirement for LGPS authorities to calculate their carbon footprint, and to assess how different temperature rises could affect their assets and liabilities. The consultation closed on 24 November 2022. Members discussed the best way to approach the consultation and agreed that discussions should be held before the Committee on 24 November as the response needed to be finalised on that day. A draft response would be circulated beforehand. **ACTION: J Edwards**

RESOLVED: That the Forward Plan be noted

9A Question Time

The following question was asked by Councillor Ed Gemmell under section 2.17 of the Committee Procedure Rules

(a) Overall viability of the fund in relation to the Climate and Ecological Emergency: Is the Committee aware that pension funds themselves have the power to determine their own strategy and policy position in relation to sector-wide divestments? If so, why is the Committee currently retaining investments in fossil fuels? On what basis do they consider that the benefit to the fund is greater by staying with fossil fuel investments rather than disinvesting from them? This question entails:

*** financial benefits or risks, concerning stranded assets and volatility, including in conventional terms within existing financial markets and activities**

*** risks to future beneficiaries, associated with a possible contribution to societal breakdown, breakdown of the financial system including the pension industry, loss of nature and increase in extreme weather;**

*** the ethical imperative that is part of the committee's responsibility, to consider stewardship of the earth that is our home and thus to stop investing in fossil fuels which are causing damage to our planet which will only repair on a timescale of millennia**

The Committee has a fiduciary duty to act in the best financial interests of the Fund's members and employers and seek to obtain the best financial return that it can for members and employers against a suitable degree of risk, given that any shortfall in returns will have a direct impact on employer contribution rates and therefore Council Tax payers. This is a fundamental principle; however, the Fund is also mindful of its responsibilities as a long term shareholder.

The Committee believes that environmental, social, and corporate governance (ESG) factors, including climate change, will have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Committee recognises that long term sustainability issues present risks and opportunities that increasingly require explicit consideration when investing the Fund's assets.

The majority of the Committee does not consider a top-down approach to disinvestment to be an appropriate strategy for reducing climate and carbon risk and contributing towards reducing carbon emissions. Instead, the Committee believes that decarbonising the Fund's portfolio over time by reducing its exposure to carbon intensive companies and assets, and seeking to influence the behaviour of companies through engagement, will have a more beneficial impact.

In order to target net zero the objective is to decarbonise investments by 2050 in line with Bucks Council strategic objective, with the Committee broadly supportive of Brunel's interim objective for a 50% carbon emission intensity reduction by 2030. The Committee will be carrying out further work to develop its net zero pathway in the coming months, including climate scenario analysis. The Buckinghamshire Pension Fund reported 22% carbon efficiency in December 2020. At the end of December 2020 the Fund had 22% fewer carbon emissions than similar companies in the investable universe.

The Pension Fund is due to undertake a review of its Investment Strategy in light of the triennial revaluation results that are due by the end of this calendar year.

10 Exclusion of the Press and Public

RESOLVED

That the press and public be excluded for the following items as they were exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because they contained information relating to the financial or business affairs of any particular person (including the authority holding that information).

11 Confidential minutes of the last meeting

Resolved: That the confidential minutes of the Buckinghamshire Pension Fund Committee held on 7 July 2022, be approved as a correct record.

12 Buckinghamshire Pension Fund Board Confidential Draft Minutes

Resolved: That the confidential minutes of the Buckinghamshire Pension Fund Board meeting held on 27 July 2022, be noted.

13 AVC Review

RESOLVED that the AVC Review report be noted.

14 Pension Fund Risk Register

RESOLVED that the Risk Register for the Pension Fund be noted.

15 Pension Fund Performance

RESOLVED that the investment performance of the Pension Fund for the second quarter of 2022, ending 30 June 2022 be noted.

16 Brunel Pension Partnership Update

RESOLVED that the Brunel Pension Partnership Update be noted.

17 Secured Income Training

This was deferred to the following meeting on 24 November 2022.

18 Date of the next meeting

24 November 2022 at 2pm.