

Minutes

Meeting: Local Pension Board for the Dorset County Pension Fund

Time: **2.00 pm**

Date: **Thursday 18 March 2021**

Venue: Microsoft Teams

Present:

Paul Kent	Chairman - Member Representative
Cllr David Shortell	Employer Representative
Mary O'Sullivan	Employer Representative
Jeff Morley	Member Representative
James Stevens	Member Representative
John Jones	Member Representative

Officer Attendance:

Karen Gibson	Service Manager for Pensions
Jim McManus	Corporate Director Finance & Commercial
Vince Elliott	Employer Relationship Manager
David Wilkes	Service Manager for Treasury and Investments

Managers, Advisors and Others Attendance:

Cllr Andy Canning	Chairman, Pension Fund Committee
Peter Scales	Senior Advisor at MJ Hudson Allenbridge

1. Apologies for Absence and Introductions

- 1.1. All. Advance apologies received from:
- Adam Richens
 - Julie Strange

2. Declarations of interest

- 2.1. None

3. Minutes from previous meeting

- 3.1. The minutes from the December 2020 meeting were read and agreed.
- 3.2. Board members attendance at Committee training sessions (point 4.2.5). The Treasury and Investments Manager said that they were hoping to have a training session on inflation hedging in March, but that hasn't happened yet. He and the Chairman of the Committee agreed that board members would be welcome to attend and will let people know when it is set up.

- 3.3. Auditor's report (point 4.4.2). The external auditors have not finalised their audits of the 2019/20 financial statements for either Dorset Council or the Pension Fund. There is a meeting set up with the audit partner to see what progress has been made and the audit partner will give an update to the Audit and Governance Committee on 19 April.

A Member Representative asked whether this has an impact for other scheme employers if the audit of the Pension Fund accounts hasn't concluded. The Finance & Commercial Director said that there has been continuous dialogue with the auditors and they know what the issues are, but, yes, if you can't get the certificate for the Pension Fund, then it could potentially affect the audits of other scheme employers.

4. Papers from the Pension Fund Committee

Items on the agenda of the Pension Fund Committee meeting held on 11 March 2021 were reviewed. [Pension Fund Committee Papers.](#)

It was noted that the Pension Fund Committee meetings can now be viewed live, or a recording watched later, on [YouTube](#).

4.1. Public Participation.

- 4.1.1. The meeting had received three questions from members of the public which all related to the Pension Fund's investment in fossil fuels. The Chairman of the Committee had answered the questions, but also stated that the subject had been discussed at length in the September meeting and a recording of those discussions is available to view on the Council's website.
- 4.1.2. The Chairman of the Committee also made the point that the purpose of the Pension Fund is to pay benefits to scheme members and that the committee has a duty to scheme members and their employers to ensure that their contributions to the Fund are invested appropriately to make returns sufficient to meet those obligations.

4.2. Investment Pooling Update

A presentation was given to the Committee by David Vickers, Chief Investment Officer of the Brunel Pension Partnership which included a summary of each of the investments in the Brunel funds.

- 4.2.1. David Vickers was appointed to this role in January 2021. The Treasury and Investments Manager said that the initial feedback had been very good. He seems willing to consider improvements in the way Brunel report performance, and there had been discussions with Brunel and all ten clients in terms of how reporting can be improved.
- 4.2.2. The Chairman of the Committee, the Treasury and Investments Manager and the independent investment adviser now have quarterly meetings with Brunel, to look in greater detail at the performance of Brunel's funds.

4.3. Independent Adviser's Report

The quarterly report by the pension fund's independent investment adviser, Alan Saunders of MJ Hudson, on the outlook for the pension fund's investments. The full report can be viewed here: [Independent Adviser's Report](#)

- 4.3.1. There is some concern over inflation due to the amount of stimulus that's gone into the US economy in particular, but also to a lesser degree in the UK and other economies. This is not an immediate concern, but something that central banks will be keeping an eye on.
- 4.3.2. Alan Saunders informed the Committee that he will be standing down with September 2021 his last meeting after more than ten years' service. The Committee thanked him for his service.

The Committee has decided that it would be good practice not to immediately replace 'like-for-like' in the case of a new adviser, but to review and identify what is required.

4.4. Pension Fund Administrators Report

The quarterly report of the Fund Administrator including an update on the funding position and the value and performance of investments. The full report can be viewed here: [Fund Administrators Report](#)

- 4.4.1. The value of the Fund's investments is now £3.3 bn. So after the big fall in March and April, we've seen a recovery to a level that is the highest the pension fund has ever been at.
- 4.4.2. Funding ratio. At the last triennial review, as at 31 March 2019, the actuary calculated that the assets would cover 92% of the expected liabilities of the fund. The actuary also now provides a rough estimate of funding ratio every quarter.

The estimated funding ratio as at the end of December 2020 was 85%. The main reason for this is due to the smoothed asset value methodology used by the actuary, which means they will look at asset values over the preceding six months, not just at a moment in time. As a result, when markets are rising, there is a lag before you see the full benefit in the funding ratio. Similarly, when markets are falling, the ratio doesn't fall quite so steeply.

- 4.4.3. A Membership Representative asked whether it would be worth contacting employers to formally inform them of the results and that there could potentially be cost increases in the pipeline. The Treasury and Investments Manager said it is about getting the balance right in informing people and not scaring them unnecessarily. It will require a conversation with the actuary before deciding what message we need to go back to scheme employers with.

The Chairman of the Committee added that we shouldn't over-react on the basis of what is a snapshot. The full valuation that gives a better view of the underlying position and the next one of those will be in spring next year.

- 4.4.4. Training. It is suggested that training sessions on subjects such as inflation hedging, property (housing/residential), smart beta allocation and private debt would help Committee members improve their knowledge and understanding. The Chairman asked if these sessions could be open to Board members as well. The Chairman of the Committee agreed that this could be possible, especially since the changes that come about through using online methods such as Teams and Zoom.

5. LGPS Administration report

The Pensions Manager gave an update on the [Pensions Administration Report](#) provided to the Pension Fund Committee on 11 March 2021.

5.1. KPIs

The [key performance indicators for the period November 2020 to January 2021](#) were reviewed.

- 5.1.1. The team continues to work from home in the main, which has an impact on the service.
- 5.1.2. Some backlogs appearing in some of the less urgent areas of work, mainly in the aggregation of records and processing deferred benefits. This is monitored closely to ensure everything is being done that can be. It is hoped that restrictions can soon be lifted to allow some staff more time in the office.

5.2. Systems Implementation.

- 5.2.1. The project to change the pensions administration system is now underway and progressing well. There are several monitoring committees and meetings for this project including fortnightly project meetings with Civica (the system provider), weekly internal project meetings and monthly Project Board meetings, which includes two Local Pensions Board members.
- 5.2.2. The monthly Highlight Report monitors closely the project progress, which is reviewed by the Project Board and fortnightly meetings with Civica. The Highlight Report covers the monitoring of implementation costs, milestones, days of work forecast and delivered, quality, resources, and acceptance.
- 5.2.3. A In addition to the Highlight Report, the RAID log is regularly reviewed. This is a log of the Risks, Actions, Issues and Decisions. It enables those involved in the project to identify risks, assess the potential impact to the service, list the mitigation measures and plans and then monitor progress. The main issue for the project team is not to let the timescales, which are extremely tight, slip in any way. The top four risks are currently:
 - Delays in payment of benefits, or benefits not being paid at all
 - Resourcing for end of year processing which could impact on the resources available for project work and impact delivery
 - End of Year data submission from employers, late or poor-quality data could result in poor data quality scores, delayed ABI issued, delayed or inaccurate annual allowance calculations
 - Dorset Council and BCP Council Interfaces
- 5.2.4. Training and testing are going on as the system is being built. The system is being built in stages, so the training for key staff takes place as the stages are delivered which enables testing to take place all the time as things progress.
- 5.2.5. To meet the tight timescales of this project, it is planned to issue the Annual Benefit Statements at the earliest stage ever. This year's deferred statements are due to be issued in April and the active statements in June. To achieve this, we will be ensuring employers are aware of the need to stick to the agreed timescales for the submission of their annual data.

- 5.2.6. The Chairman said it's fair to say that we are currently on track in accordance with the project plan, but probably the next 6 to 8 weeks are going to be critical.

The Pensions Manager said that approaching 'go live' is going to be exceptionally difficult because there will be a blackout period where we won't have a system at all, and we cannot afford any period where benefits are not being paid. There's also the need to transfer over the thousands of ongoing and historic pieces of work, and staff training. It will all have to be managed very carefully, as this is the coming together of everything at once; the new system, the launching of the new member Self Service site and the Employer Portal. She added that if any issues crop up that affect the timescales, then the Board and Committee will be informed

- 5.2.7. A Membership Representative asked whether there is anything included in the planning process to formally review whether what is eventually delivered matches our expectations, given it being such a large investment. The Pensions Manager said that yes, that is something they will do. For the first couple of years the set-up costs will be high, but we're hoping in the long term there will be savings. She added that the change of systems was partly brought about due to losing our workflow and employer portal. A change of supplier was needed in order to get a new employer portal, but if we hadn't made this move, we would have taken a backward step for our employers.
- 5.2.8. A Membership Representative asked whether it would help to have volunteers from the board to assist in testing. The Pensions Manager agreed that this may be useful and would pass the offer to the team.

5.3. Exit Cap Update

- 5.3.1. On 12 February 2021 the government issued the [Exit Payment Cap Directions 2021](#). The Directions disapply regulation 3 (Restrictions on exit payments), meaning the exit cap no longer applies in England from this date.
- 5.3.2. Dorset County Pension Fund did not have anybody retire subject to the cap in the relevant period, which means they do not have the difficult task of reversing any benefit payments made. Neither did they implement the new strain factors which were due to come in, choosing rather to wait until they were in place, so any quotes to employers do not need to be changed.
- 5.3.3. It is important to note that these measures have not gone away, but have been put on hold. The government has made it clear they plan to revisit this in the future. MHCLG have confirmed that they will consult again on these further reforms to exit payments before any changes are made.
- 5.3.4. Employers have been notified and advised that if they are looking at workplace reform or any potential redundancies it is important to caveat anything with this is the situation at the moment.

5.4. McCloud Data Collection

- 5.4.1. Dorset County Pension Fund has asked all employers to supply data of hour changes and service breaks for all scheme members since 1 April 2014. This historical data is needed to implement the remedy for members in scope of protection.

- 5.4.2. This is not an easy task for employers, made difficult by matters such as payroll changes and academy conversions. Training has been delivered and employers are engaging with the process. Inevitably there will be some employers unable to do this. The deadline for submission for this data is 31 March 2021.
- 5.4.3. Civica has confirmed it will be delivering, as part of our new software, tools to assist with upload of data on records where this can be done. This is the first part of a project that will span several years, and further software changes will be necessary to implement the revised regulations once these are in place.

5.5. Good Governance Report

- 5.5.1. The Scheme Advisory Board (SAB), published its final report on [Good Governance and Action Plan](#). This identifies areas for MHCLG to implement by amending regulations or producing statutory guidance, as well as areas for the SAB and other bodies to implement.
- 5.5.2. The main recommendations are;
- **General** – new statutory guidance, the requirement for a LGPS Senior Officer, and a new annual compliance statement
 - **Conflicts of Interest** – Funds must produce a conflict of interest policy
 - **Representation** – Policy on scheme members and non-administering authority employers on committees and voting rights
 - **Skills and Training** – Officer and Committee training, s151 officers LGPS CPD requirement, training plans to be published
 - **Service delivery for LGPS function** – Roles and Responsibility matrix, publish an administration strategy, report performance against KPIs
 - **Compliance and Improvement** – Independent biennial governance review & improvement plan assessed by SAB panel, plus an LGPS Fund peer review process
- 5.5.3. This is going to be something very significant moving forward, so we're waiting now to hear back from MHCLG as to whether these things will come in terms of guidance or regulation change.
- 5.5.4. The Chairman said that there is a lot of work to be done on this, but also a lot of positive points and few, if any, where the board is lacking. The Pensions Manager said that completing the survey has been useful to make sure that we're doing everything that we should be and having a look at to see if there is anything that we can do in advance. It is likely to involve extra work and possibly extra expense. Updates will be provided to the Board as things progress.

5.6. HM Treasury Consultation on Implementing the Increase of Normal Minimum Pension Age

- 5.6.1. HM Treasury have published their [consultation on the implementation on increasing the normal minimum pension age](#). This means that the normal minimum pension age of 55 will be increasing to 57 in April 2028.
- 5.6.2. This consultation is not specific to the LGPS, but it of relevance because it will impact the LGPS as it seems to suggest that there will be full protection for existing scheme members, bringing in a further layer of complexity in the scheme.

5.7. Pension Schemes Act 2021

5.7.1. The [Pension Schemes Act 2021](#) received Royal assent on 11 February 2021. This will mainly affect the LGPS in the following areas:

- Climate risk reporting
- Pensions Dashboard
- Transfers out

5.8. Update on Cost Control Mechanisms

5.8.1. The Government announced updates on the 2016 and 2020 Valuations and cost control mechanism. Prior to McCloud this would have changed LGPS regulations to make them slightly better for members as the cost floor had been breached.

5.8.2. The cost control element of the 2016 valuations will now be completed using Deferred Choice Underpin to establish the cost of implementing the McCloud remedy.

There will be no reduction to member benefits as a result of completing the 2016 valuation if the cost ceiling is breached. If the cost floor is breached, this will be honoured by implementing increases in benefit accrual and/or reductions in member contributions from 1 April 2019.

6. Annual Governance Review

A presentation was given by Peter Scales, Senior Advisor at MJ Hudson Allenbridge, on the governance arrangements for Dorset County Pension Fund.

6.1. The presentation was based on the contents of the Annual Governance Report. A copy of the report can be found here: [Annual Governance Report](#).

6.2. It was suggested that the minutes of the Pension Board should be presented to the Committee in the same way that the Committee's minutes are put to the board and to give some form of exchange of knowledge about what is going on. The Chairman agreed that this would be a good idea.

6.3. The Chairman said that the board should be encouraged by the fact that from the review of Dorset's activities, they seem to be maintaining good governance principles. He also observed that there doesn't seem to be a clear link between what is required and the benefits that it should produce both to an employer and to the scheme member. It would be good could if there was a bit more clarity on that from central government.

6.4. A Member Representative asked whether there should be something in the good governance review to move us towards a set of national KPIs to make it easier to compare relative performance across the various pension funds. Peter Scales agreed it will be good to have some sort of national level of indicators or at least the types of indicators that are looked at. Over the past years, there have been attempts to get some sort of consistency between funds, but it has always been very difficult as the circumstances are always going to be different for each fund.

7. Knowledge and Understanding. Communications

The Pensions Manager gave a presentation on employer and member support and communications provided by Dorset County Pension Fund.

A link to the slides will be posted on the [Local Pension Board](#) page of the Pension Fund Website

8. Risk Register

The Dorset County Pension Fund Risk Register was reviewed. Board members were provided with a copy ahead of the meeting.

8.1. Risk B03 'Failure to maintain the balance between workload and staff capacity' has been upgraded to an amber risk. This is to account for the COVID-19 situation and the implementation of a new pensions administration system.

8.2. An Employer Representative asked how often the risk register is updated and who owns it. It was confirmed that the register was created by the Pensions Administration team and reviewed at each Pension Board meeting. Risks can and will be added as identified, for example in team meetings. If Board members identify a potential risk, they should contact the Pensions Manager or the Employer Relationship Manager.

9. Any other Business

9.1. Board Members were reminded to notify the Fund of any training they have taken part in and to update their training logs.

9.2. A schedule of training events taking place during 2021/22 will be circulated to Board Members

10. Meeting closed at 16.05

11. Date of next meeting – 24 June 2021 – venue TBC