Dorset County Council

Dorset County Pension Fund
Administered by Dorset County Council

Minutes

Meeting:	Local Pension Board for the Dorset County Pension Fund
Time:	**14.00 pm**
Date:	**Wednesday 27 February 2019**
Venue:	Committee Room 2, County Hall, Dorchester DT1 1XJ

Present:

Cllr Andrew Cattaway	Chairman - Employer Representative
Adam Richens	Employer Representative
John Jones	Employer Representative
Jeff Morley	Union Nominated Member Representative
Luke White	Member Representative
James Stevens	Member Representative

Officer Attendance:

Jim McManus	Chief Accountant - Deputy 151 Officer
Karen Gibson	Pensions Manager
David Wilkes	Finance Manager (Treasury and Investments)
Vince Elliott	Employer Relationship Manager (DCPF)

Managers, Advisors and Others Attendance:
None

1. Apologies for Absence and Introductions

1.1. Advance apologies for absence were received from Paul Kent - Vice Chairman and Member Representative and Richard Bates - Chief Financial Officer/ Fund Administrator.

Jason Vaughan - Employer Representative - was also unable to attend the meeting

1.2. The chairman welcomed Jim McManus who is deputising for the Chief Financial Officer/ Fund Administrator.

1.3. The Chairman announced that as he will not be standing at the next elections, he will also be standing down from the Local Pension Board, so this would be his last meeting as Chairman.

2. Declarations of interest

2.1. None

3. Minutes from previous meeting

3.1. The minutes from the November 2018 meeting were read and agreed.

3.2. In the November meeting an action was recorded to invite Matthew Trebilcock (Client Relationship Director, Brunel Pension Partnership) to the February meeting to give a presentation on recent developments.

This was arranged. As it was also of interest to the Pension Fund Committee, Matthew Trebilcock delivered a Brunel Investment Pooling Update to members of both the Pension Fund Committee and the Local Pension Board. This took place immediately before the Local Pension Board meeting.

4. Papers from the Pension Fund Committee

The agenda of the Pension Fund Committee meeting that was held on 27 February 2019 was reviewed.

4.1. The estimated funding level has improved from 83.2% at the last triennial valuation, as at 31 March 2016, to 91.3% as at 31 December 2018. This improvement is largely the result of the substantial appreciation in the value of the Fund's assets in 2016-17.

4.2. The quarter saw large falls in all listed equities' markets, which drove a fall in the value of the Fund's assets of 6% from £3.02 billion at 30 September 2018 to £2.84 billion at 31 December 2018.

The Finance Manager explained that the Fund is a long-term investor and shouldn't be too influenced by a single quarter's figures, we should accept the market's current volatility and have seen a recovery in the market since the end of December. The fall in markets was also not unexpected, and steps had already been taken to mitigate the risk, such as the reduction of exposure to equities.

4.3. An Employer Representative asked whether assurances could be given that the current results are just a 'blip' and we will get back to normal conditions.

The Finance Manager said it is impossible to give that assurance because of the nature of markets. The Chairman agreed and added that a key consideration is the extent to which the funding in the Pension Fund has gone up from 83.2% to 91.3% since the last triennial valuation.

4.4. The performance return for the quarter was -5.9% compared to the combined benchmark return of -4.5%, which has had a negative impact on absolute and relative performance over the financial year to date and all longer periods. Some of these losses were down to short-term costs involved in the transition of investments to the Brunel portfolio.

A discussion took place regarding the transfer of investments to the Brunel Pensions Partnership. It was explained that when you when you change managers you lose value in the short term, but you change managers because in the long term you expect the benefits to outweigh the costs. The annual fee savings from the investments that had already transferred to Brunel will be £1m.

4.5. An Employer Representative asked how we compare to other funds. The Finance Manager said that it's quite difficult to compare performance against other funds because it comes back to what we are investing for. We are investing to ensure we have sufficient funds to pay the liabilities as they become due. Different funds will be at different positions in terms of funding, the level of contributions they are receiving and the benefits they are paying out and, therefore, their investment strategies will differ accordingly.

4.6. An Employer Rep asked whether being closer to full funding would result in an increased appetite to take investment risks or a reduced appetite to take risks. The Finance manager said it would be the latter. The actuary will start to do a full review of the liabilities based on the data as at the end of March 2019 and that will then inform our strategic asset allocation. The trend over the most recent reviews of asset allocation has been to reduce our exposure to equities.

4.7. An Employer Rep asked how the SCAPE rate used by GAD compares to the rate used by the fund actuary, Barnett Waddingham. The Finance Manager understood that the SCAPE rate is more prudent than that used by Barnett Waddingham.

It was then asked, given that the funding level has gone from 83.2% to 91.3%, and the costs of funding a deficit that gets turned around so quickly has real term effects on employer's budgets, whether actuaries ever get it right? The Finance Manager said that Barnett Waddingham assess what they think the mix of assets that the Fund has will return over a very long-time horizon and then apply prudence factor to reduce that down. However, since the date of the last valuation stock markets have appreciated significantly higher than expected. The Fund also benefited from the fall in value of the pound in 2016 which supported the value of the FTSE 100 companies because the majority of their income comes from overseas. It would have been quite difficult for the actuaries to have predicted this.

4.8. It was asked if it was possible to put pressure on the actuaries regarding the estimates. The Chairman suggested that is the work of the Pension Fund Committee rather than this oversight board, and he believed that the Pension Fund Committee had registered similar concerns.

4.9. The Brunel Pension Partnership was not discussed in great detail as prior to the meeting Board members had attended the Brunel Investment pooling update.

4.10. The Finance Manager highlighted the Treasury Management Strategy report which is approved annually by the Pension Fund Committee. The Fund has no strategic allocation to cash, but it does have cashflows from returns on investments, funding investments, contributions coming in and benefits going out. The Treasury Management Strategy provides the framework within which these cashflows and investments must be managed and follows broadly the strategy of the administering authority. The report contained a table which displayed time and monetary limits applicable to the investments.

It was noted that the Fund was able to lend to Local Authorities, and an Employer Rep asked whether interest would be charged on these loans. It was confirmed it would be.

5. Pensions Administration Reports

The Pensions Manager provided a pension administration update.

5.1. The Dorset County Pension Fund has changed its logo and now features the Dorset blue butterfly (an example was shown to the Board). It is important to ensure that people identify Dorset County Pension Fund as being distinct from Dorset Council, and changing the logo would help with this. The logo was created 'in-house' with little expense.

5.2. Two breaches have been reported to the Pensions Regulator (TPR). These relate to problems with specific employers involving data provision and contribution payments. The Pension Manager has received an acknowledgement from TPR and a statement saying that they will take no further action with regard to the Fund. It is not yet known if TPR has contacted the employers directly.

5.3. The teams are gearing up for the End of Year processes for 2018/19. We are doing a lot of engagement with employers in preparation; setting up training workshops, providing updated notes and guidance, offing assistance, etc. A big issue is always getting employers to engage with us. Employers vary, some of them are very small, some of them are quite distant from us, but when employers engage with us on a regular basis and come to our meetings and training it is very helpful to us, and them.

6. LGPS Regulatory Changes

6.1. New Fair Deal. There is a consultation in progress relating to Fair Deal proposals that will strengthen the pensions protections that apply to workers that are transferred as part of an outsourcing arrangement.

It also proposes to amend the regulations to provide that when an LGPS scheme employer is merged into or taken over by another organisation, the responsibility for that pensions liability automatically transfers to the successor body. Currently, this situation could lead to an exit charge to the employer with no active members.

An Employer Rep asked if the reorganisation in Dorset would trigger a cessation. The Pension Manager said that in this case there is a transfer of pension assets so there will be no cessation.

Another proposal is to introduce a new 'deemed employer' approach as an alternative to 'admitted body' status aimed at giving greater flexibility to outsourcing employers which will potentially help them obtain better value from their contracts. For contractors, the proposals are intended to give them greater certainty on the pensions costs they will face over the life of the contract.

There will also be no option for employers to offer a 'broadly comparable' scheme.

Dorset County Pension Fund intend to prepare a response. The consultation lasts until Thursday 4 April 2019. It is recommended that employers also review the consultation paper and provide a response if they feel the need.
It can be found here: https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection

6.2. Cost Management of LGPS – Outcome. All Public Sector costs have been reviewed under the HM Treasury management process and the Scheme Advisory Board (SAB) which has its own LGPS cost management process. The result is that the scheme is costing less than expected, so improved scheme benefits must be applied by 1 April 2019. The proposed changes are:

- Removal of Tier 3 ill-health benefit with any eligible member receiving Tier 2 instead;
- Introduction of a minimum death in service benefit of £75,000 per member
- Enhanced early retirement factors for members active on 1 April 2019
- Lower contribution rates for lower paid members

There were a lot of issues with this – time scale for administrators, employers and software companies, short consultation, etc. The improved benefits to members will though have an impact on future scheme costs, and it is predicted this will result in an increase to employer contribution rates, estimated at an average of 1%. This consequence to employers is a serious issue and is a result of the mechanisms looking at scheme benefits (Public Sector Pensions Act 2013) and that calculating employer contributions (i.e. the valuation process) being distinct.

The Pensions Manager has raised this as an issue with the LGA as increased financial pressures on employers will inevitably impact on members and public services. The Government has acknowledged this as an issue, that was not anticipated, affecting all Public Service schemes, and as such will be revisiting the legislation in place ahead of the next cost control process.

6.3. However, the recent McCloud judgement ruled that the transitional protections for older members built into the judges' and firefighters pension schemes breached age and sex discrimination rules. The government will appeal this decision.

The outcome of this case will affect all Public Sector schemes, including the LGPS. The SAB has therefore decided to pause any changes to the LGPS and that the cost management process will be revisited when the outcome of McCloud case is known.

If the Government wins their appeal, it's likely the changes will be put in place and back-dated to 1 April 2019. If the Government lose, this could potentially lead to all Public Sector schemes having to revisit the transitional protections in place when schemes changed from final salary to CARE in 2014/15. It is not yet known when the appeal will take place, resulting in an uncertain picture for members, employers, administrators and actuaries preparing for the 2019 valuation. This is likely to result in a lot of additional work for all concerned.

6.4. An Employer Rep asked if employers should budget for an extra 1% rise in contributions. The Pensions Manager has consulted with the Actuaries, but it is not clear at present what changes may occur to employer as so many different factors come into play.

Update: SAB to issue guidance for all Funds to adopt in the 2019 valuation in light of the uncertainty following the McCloud case.

7. TPR Code of Practice 14 (Governance and administration of public service pension schemes)

7.1. This has not yet been finalised so will be covered at the next Board meeting.

8. Employer Contributions Update

The Finance Manager gave an update on late contribution payments by employers as at 29 February 2019.

8.1. There are two employers who have made late payments. Both are small employers and were due to staff absences, so are not of concern.

8.2. Currently only one employer has outstanding contributions, which is as a result of cash flow problems. This is a known issue and a formal letter has been sent to the employer by the Pensions Manager. The employer has also been reported to TPR. It is noted that the Fund can charge interest on late fees.

Action: The Pensions Manager will consult with TPR on actions (if any) taken.

8.3. One company is in administration. We are in contact with a corporate recovery specialist. A cessation report has been received and a scheduled employer (the outsourcing authority) is responsible for the liabilities.

9. Terms of Reference

The Dorset local government reorganisation means that certain sections of the Board's Terms of Reference need to be amended.

9.1. Membership of the Local Pension Board. Sections 3.3 & 3.6 make references to selecting Employer Representatives from Dorset County Council, Bournemouth Borough Council and Borough of Poole Council as they are the 3 largest employers in the fund. As of 1 April 2019, only two bodies will exist, so consideration should be given to membership requirements after this date.

9.2. As a new chairman will be required, consideration should be given to the selection process (section 3.10). Paul Kent has agreed to temporarily stand in as Chairman until an appointment has been made.

9.3. The reorganisation has provided an opportunity to review the whole document. It was decided that Board members and those attending the meeting on behalf of the Fund should review all sections of the Terms of Reference and report back with any suggested changes at the next meeting.

Action: All - Review all sections of the Terms of Reference and report back with any suggested changes before the next meeting.

10. Programme of Business for future meetings

10.1. It was agreed that the following items be included in future meetings

- TPR Code of Practice 14 (Governance and administration of public service pension schemes)
- Risk Register

10.2. Subjects for future training sessions will identified by the Pensions Manager and the Employer Relationship Manager. However, if Board Members identify a particular training need, please let the team know.

11. Any other Business

11.1. Thanks were given to Andrew Cattaway for the work he has put in serving as Chairman since the Board's inception.

12. Meeting closed at 15:30

13. Date of next meeting – 25 June 2019