

# Minutes

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Meeting: Local Pension Board for the Dorset County Pension Fund

Time: **2.00 pm**

Date: **Thursday 24 June 2021**

Venue: Microsoft Teams

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**Present:**

Adam Richens	Vice-Chairman - Employer Representative
Cllr David Shortell	Employer Representative
Mary O'Sullivan	Employer Representative
Jeff Morley	Member Representative
James Stevens	Member Representative
John Jones	Member Representative
Julie Strange	Employer 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:**

None

**1. Apologies for Absence and Introductions**

1.1. Advance apologies received from:

- Paul Kent (Chairman)
- Andy Canning (Chairman of Pension Fund Committee)

1.2. In the absence of Paul Kent, Adam Richens chaired the meeting.

**2. Declarations of interest**

2.1. None

**3. Minutes from previous meeting**

3.1. The minutes from the March 2021 meeting were read and agreed.

**4. Papers from the Pension Fund Committee**

Items on the agenda of the Pension Fund Committee meeting held on 15 June 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. Committee Membership Change**

- 4.1.1. There has been a change in the Dorset Council representative on the committee. Councillor Ray Brian has been replaced by councillor Simon Christopher from the Dorset Council Conservative grouping.

#### **4.2. Public Participation**

- 4.2.1. Before the meeting the Committee received in the region of 15 to 20 questions from members of the public, all relating to the Pension Fund's investment in fossil fuels. Instead of the normal practice of reading out an answer to each of the questions, because they all related to the same topic, the chairman read out a statement in relation to the matter, but also said that each of the questions would be answered individually and those answers would be in the minutes of the meeting.
- 4.2.2. It was also noted that the Pension Fund Committee discussed this topic in length at its meeting in September 2020. The chairman also stressed that the overriding duty of the Committee is to ensure that the contributions from scheme members and their employers are invested appropriately to ensure that returns are sufficient to meet the pension obligations as they fall due.
- 4.2.3. Following a question from an Employer Representative, the Service Manager for Treasury and Investments said that from a Pension Fund perspective, if we decided to sell our investments in companies that are involved in the supply of fossil fuels, it doesn't mean that those companies will change what they are doing, it just means someone else will own those shares. Part of the rationale for the approach that the Pension Fund Committee agreed to take, along with Brunel, is that you are able to influence a transition away from fossil fuels if you own a stake in those companies.
- 4.2.4. A Member Representative had recently attended the Barnett Waddingham Board Member's Conference, where it was stated that private sector pension funds will soon have to report climate change risk on investments, and that it is also likely to apply to the LGPS in the future.

#### **4.3. Investment Pooling Update**

The quarterly report was given to the Committee by David Vickers, Chief Investment Officer of the Brunel Pension Partnership. The report can be viewed here: [Investment Pooling Update](#)

#### **4.4. Independent Adviser's Report**

The quarterly report on the outlook for the Pension Fund's investments was presented by Alan Saunders of MJ Hudson. The full report can be viewed here: [Independent Adviser's Report](#)

- 4.4.1. Both the Investment Pooling Update and the Independent Adviser's Report raised concern about inflation. Inflation rises can affect the Fund in two ways. Because pensions and benefits are linked to indexation, if inflation goes up then liabilities increase, but it can also have an impact on investment returns as it can have an impact on the profitability of companies.

There is discussion and uncertainty about whether the kind of inflationary pressures that we are seeing at the moment are a temporary consequence of the lost ground from COVID restrictions, and there is a bit of catch up going

on, or whether that is going to develop into something more long term.

- 4.4.2. The Committee agreed that no decisions or changes needed to be made at present but have agreed to meet with our inflation hedging manager, Insight Investments, prior to the next meeting in September. The discussions will be about whether there is an option to increase the size of the inflation hedging that we have in place at the moment. Currently approximately 30% of the inflation risk is hedged.

#### 4.5. 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](#)

- 4.5.1. The value of the Fund's assets and the end of the year is now £3.3 bn, compared to £2.7 bn at the start of the year. This is about 10% up on the position as at the end of March 2019, when the last actuarial valuation was undertaken and are now broadly in line with where they were expected to be at the point of the last valuation.
- 4.5.2. The estimated funding ratio is currently at 85%, which means the actuary is estimating that assets would only cover 85% of the present value of our liabilities. This is significantly down on the last full valuation as at March 2019, when it was 92%.
- 4.5.3. It was noted that the quarterly updates from the Fund's actuary, Barnett Waddingham, are only high-level estimates. They don't go into the same level of detail of the full triennial valuations, but are designed give an indication as to the direction of travel that we're going in.
- 4.5.4. The reasons that the funding position has deteriorated are partly due to small changes that the actuary has made in some of their assumptions in terms of pension increases and salaries increases, but the main reason for the fall in the funding rate is that Barnett Waddingham are constantly assessing what returns they think investments are going to make in the future. Their latest estimate is that the Pension Fund's current mix of assets is expected to return an average 4.5% annually, as opposed to the 5% assumed at the last full valuation.

The main reason for marking down expectations has been quite large reductions in dividends paid out by companies since the start of the pandemic, but Barnett Waddingham acknowledge that this seems to have bottomed out and there are signs now of dividends going up.

- 4.5.5. An employer representative asked whether this means that there might be a significant increase in contribution rates at the next valuation.

The Service Manager for Treasury and Investments said the Fund Actuary, Barnett Waddingham, has to take into account the funding position of the Pension Fund and the pressure from the Government Actuaries Department (GAD) in terms of funding levels and deficits, but also stability and affordability for employers. Barnett Waddingham do not anticipate large increases to contribution rates generally based on the current position and outlook, but they cannot say they definitely won't go up for employers generally or some employers specifically.

## 5. LGPS Administration report

The Pensions Manager gave an update on the [Pensions Administration Report](#) provided to the Pension Fund Committee on 15 June 2021.

### 5.1. KPIs

The [key performance indicators for the period February to April 2021](#) were reviewed.

- 5.1.1. There is likely to be a downturn in the KPIs going forward as the implementation of the new administration system takes place. This is expected to recover soon after the system goes live.

### 5.2. Employer Update

A review of employers recently joining and exiting the scheme.

- 5.2.1. Since the beginning of the year there have been 5 employers joining the scheme as Admitted Bodies and 4 employers exiting the scheme.
- 5.2.2. During the pandemic, there were no new employers joining the Fund mainly because a lot of our new employers stem from schools outsourcing services. Schools were mostly inactive during that period of time, but things are now returning to normal.
- 5.2.3. Three employers are exiting the scheme because they no longer have any active scheme members. This is due to them having 'closed' admission agreement, and so will not have any new members joining. When the last active member leaves, they become an exiting employer and cessation calculations take place to see if there are any excess or deficit funds involved.
- 5.2.4. The fourth employer is exiting as they are ceasing to trade. The closure is currently in progress. Their exit position is currently being assessed, as is their position to pay any exit debt. A further update will be provided in due course.
- 5.2.5. An Employer Representative asked, with regards to the cessations, whether there are any implications for the transferor employers or local authorities that entered into the agreements. The Pensions Manager said potentially yes, although most are relatively straightforward with an exit deficit being paid by the exiting employer, or a credit paid by the Fund if there's a surplus.

There was recently an issue where an admitted employer went bankrupt with a deficit. With transferee admission agreements, if the admitted employer cannot meet any cessation debts, ultimately, any debts fall back to the outsourcing employer or authority, which protects the fund. With Community Admission bodies, the situation is different and there is a potential for any cessation debt to impact other employers.

- 5.2.6. An Employer Representative asked whether this could affect employers who haven't had to go through the admission process. The Pensions Manager said that primarily it is admitted bodies that are more likely to cease and have a cessation. They are different types of employer to those such as Dorset Council, for example. Historically with admission agreements there wasn't adequate consideration given to future long-term liabilities that might fall to the fund. Some of these older admitted bodies don't have financial agreements in place, and some don't have bonds. In recent years, due to changing regulations, this would not happen because a bond or a financial guarantee is

now a requirement of all admission agreements.

### 5.3. Prudential.

- 5.3.1. As an LGPS fund, Dorset County Pension Fund have to provide an inhouse AVC facility, our chosen provider is the Prudential. Prudential have experienced huge problems following implementation of a new system. This has caused unacceptable delays to members receiving their retirement benefits, and to the reconciliation of payments. In addition, they have been unable to supply the annual schedule of payments which has impacted our ability to run the annual allowance.
- 5.3.2. In order to carry out annual allowance checks, employers were asked if they could send AVC data into us direct. The employers were fantastic and came back to us within days. When the Prudential finally send in their return, it will be used to double check against what the employers have told us to make sure that the correct reconciliation has taken place.
- 5.3.3. The Prudential is the in-house AVC provider for several LGPS funds, and the issues have been raised nationally, through the LGPC Technical Group, and regionally. We have met with the Prudential personally to try to address these issues and received reassurances of improved service, which have not materialised. We have received a number of complaints from members whose retirements benefits have been delayed because of this situation.
- 5.3.4. An Employer Representative asked if there any penalties for the Prudential as a result of their performance issues. The Pensions Manager said it appears there isn't, but it seems that they are paying compensation to individual members where complaints have been raised. The Prudential have also self-reported to the Pensions Regulator.

### 5.4. McCloud Update

- 5.4.1. On 13 May 2021, Luke Hall, Minister for Regional Growth and Local Government, made a [written Ministerial Statement on McCloud and the LGPS](#). The statement confirms the key changes that the Government will make to the LGPS regulations to remove the unlawful age discrimination. The statement confirms that;
  - The age requirement for underpin will be removed
  - A member will not need to leave with an immediate entitlement to benefits to qualify for underpin protection
  - The remedy period will end on 31 March 2022
  - The underpin calculation will be based on final pay at the underpin date, even when this is after 31 March 2022
  - There will be two stages to the underpin calculation, the first being on the underpin date (date of leaving or normal pension age under the 2008 scheme), and secondly when the benefits are paid
  - The regulations will be retrospective to 1 April 2014
- 5.4.2. McCloud will have a significant impact to the administration team, and the additional work required is likely to last for many years. Once we have emerged from bringing in a new system, we are going to have to focus on McLeod. That will necessitate the setting up of a project team and bringing in additional staff to deal with this.

- 5.4.3. A Member Representative asked whether there was any support from MHCLG on paying for all the extra administrative work that goes with this. The Pensions Manager said there wouldn't be anything centrally. The cost for this will come out of the pension fund and there are increased liabilities to the fund because of this change in legislation.

## 5.5. GAD Section 13 results

- 5.5.1. On 14 May, we met with the Government Actuary's Department (GAD), at their invitation to discuss the Fund's Section 13 results. Our actuaries were also included in the meeting.
- 5.5.2. MHCLG appointed GAD to report under Section 13 of the Public Service Pensions Act 2013 in relation to the 2019 actuarial valuations of all the English and Welsh LGPS funds. The aim of the report is to consider whether the aims of consistency, compliance, solvency, and long-term cost efficiency are met.
- 5.5.3. The Dorset Fund had no amber or red flags, however, it was close in one or more areas. The purpose of the meeting was to discuss what the Fund could do to avoid drifting into being flagged at the next valuation, due in 2022.
- 5.5.4. Their main focus during the meeting was the relative funding level against employer contribution rates. This gave us some concerns ahead of setting new employer rates next year following the valuation. It is likely that we will stick with an approach consistent with the 2019 valuation and try to keep contributions affordable for employers following such a difficult time for them.
- 5.5.5. We have asked the Fund Actuary to provide us with a scatter chart showing the individual employers within the Dorset Fund, similar to the exact criteria being looked at by GAD. We will then have a look at that with the 2019 valuation results and then again with the 2022 valuation results.

## 6. Systems Implementation

- 6.1. The implementation of the new pension administration systems is progressing well, and remains on target, though with very tight timescales. There is an exceptional amount of work to be done in preparation for the go-live dates, and this is putting a lot of pressure on the team.
- 6.2. Up until recently, testing has involved smaller group of people only dealing with the with the system aspects. We have now moved some more staff from the main benefits teams to test and develop the processes full time. This testing focuses on the benefits work, which involves calculations and the most complex areas of what we do.
- 6.3. The team are focusing on priorities, with some aspects of the new system to be further developed after the system is live. The transfer of active work cases, which typically average between 4,000 and 5,000, is a particular challenge and will involve careful planning as the workflow system changes, and close control so that cases are not lost, or priority orders shifted. The very sensitive areas of our work, such as retirements and death benefits plus divorce quotes are going to be managed separately by a small team to make sure that work moves over safely.
- 6.4. Training of the wider staff has started, with most of the training is being carried out by staff within the section. Some staff, depending on what job they do and how they respond to change may be trained later. Home working does not help, as some

struggle more with distance learning than others. Hopefully restrictions will be lifted so they can come into the office and receive more support.

- 6.5. Some additional resource has already been sourced; however, it is very hard to find temporary staff with experience in our critical areas. Extra resources are instead put to easier tasks, general support and data cleansing.
- 6.6. To help staff, we are producing detailed process guides. The difficulty with our new system is that it has a lot more functionality, which will suit us much better going forward. But it's a completely different way of working and looks very different, so it's a huge challenge for the staff.
- 6.7. Prior to the Go-Live dates, the section will have a 'black-out' period (15 to 28 July) where neither the old nor new system will be live. During this time testing will continue and critical work will be handled by the team with extreme caution. The Go-Live dates are as follows:
  - Main administration system 28 July
  - Employer Portal 30 July.
  - Member Portal 2 August.
- 6.8. We have started to engage with our employers regarding the employer portal. which is essential and extremely valuable to employer. The portal enables employers to see outstanding work items, such as leaver forms that they need to complete, and submit work to us. This then feeds directly into our workflow.
- 6.9. The crucial end of year processes were completed in record time. Our employers were very good submitting their data this year. Because of that we have been able to issue our deferred and active annual benefit statements early. That was important because we didn't want a statutory deadline hanging over our heads after the new system comes in.
- 6.10. There was an issue regarding accommodation and an office move during the migration, which looks to have been resolved. Dorset Council are no longer pushing us to move before the implementation, but sometime shortly after.

## 7. **Employer Flexibilities**

The Board were asked to review and approve draft policy documents. These set out Dorset County Pension Fund's policies on:

- Contribution Review - amending the contribution rates payable by an employer between formal funding valuations
- Deferred debt agreements (DDAs) and debt spreading agreements (DSAs) for exiting employers.

- 7.1. The policies had previously been presented to the Pension Fund Committee, who raised the question regarding whether timescales stated in the documents were calendar or working days. It has now been confirmed to be calendar days.
- 7.2. **Resolution:** The Board approved the policies. The documents will now be sent out to employers for a short consultation. Following that they will be published by Dorset County Pension Fund, displayed on their website, and communicated to relevant stakeholders.

## 8. Local Pension Board Annual Report 2020/21

The Board had been provided with a draft copy of the Annual Report ahead of the meeting for review.

8.1. A Member Representative said that they found this quite useful as it enabled members to reflect on the year and the matters the Board and Fund have been involved in.

8.2. An Employer Representative asked if it was aimed at a specific audience. The Employer Relationship Manager said that although it will be presented to the Pension Fund Committee as an item on a future agenda, it was not specifically aimed at certain customers, but would be available to view on the Pension Fund's website by all members and employers.

8.3. It was suggested that the report should include a paragraph relating to something along the lines of a statement of compliance, to record whether any matters had to be reported to the Pensions Regulator, etc. This was agreed and will be included in a revised version.

**Action:** Revised version to be produced and circulated to Board Members for review and approval.

8.4. An Employer Representative asked whether there was anything that could clarify what is expected of a Board Member. It was suggested that the training courses available to Board Members, particularly the CIPFA seminars, the Annual Event and the Governance Conferences, could help in that area. Details of these events are circulated to Board Members as and when they take place.

## 9. Risk Register

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

9.1. An Employer Representative noted that many of the risks had been on the report for a long time, and certain people are mentioned in the report, such as Fund Administrator, Pension Manager, so they weren't sure if the same titles are used now. The Employer Relationship Manager said that the risks are ongoing, so remain on the report as evidence they are being considered, but added that a key to the various positions could be added.

9.2. There were also questions on how the risks are scored, as no clear scoring was shown. The risk register was set up quite a few years back, and the format of the report had not been reviewed since. It was agreed that the document has become quite difficult to navigate, so alternatives will be looked into which can also include more detail on how the risks are accessed.

**Action:** Employer Relationship Manager to review template options, including those used by Dorset Council, with a view to updating the format of the risk register.

9.3. An Employer Representative noted that the risk of cyber security breaches was low but is concerned with one or two high profile denial of service attacks in the news, and asked whether the level should be reviewed. It was stated that the level was based on Dorset Council's risk as they provide IT services for the Fund.

**Action:** Employer Relationship Manager to seek confirmation on Dorset County's cyber security risk levels.



## **10. Any other Business**

- 10.1. The Scheme Advisory Board made a statement recently on pension board meetings because there has been an issue with Committee meetings. The Minister responsible for the LGPS, Luke Hall, wrote to councils explaining that the legislation allowing remote Committee meetings will not be extended beyond the 7th of May.

The scheme Advisory Board is satisfied that this does not affect Local Pension Board meetings and having taken legal advice, their view is that arranging a virtual meeting of a Local Pension Board would facilitate the discharge of a Local Pension Board duty to conduct business during the pandemic and therefore has the power to hold virtual meetings by virtue of regulation.

- 10.2. The Pensions Manager asked whether Board Members wished to continue with 'virtual' meetings. After a brief discussion, it was agreed to continue with 'virtual' meetings as they are easier to attend, cut down travel time, and can be better for the environment.

## **11. Meeting closed at 15.35**

## **12. Date of next meeting – 28 September 2021**