

Minutes

Meeting: Local Pension Board for the Dorset County Pension Fund

Time: **2.00 pm**

Date: **Tuesday 28 September 2021**

Venue: Microsoft Teams

Present:

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

Officer Attendance:

Karen Gibson	Service Manager for Pensions
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:

- Adam Richens (Vice Chairman)
- Julie Strange
- John Jones
- Jim McManus (Corporate Director Finance & Commercial)
- Andy Canning (Chairman of Pension Fund Committee)

2. Declarations of interest

2.1. None

3. Minutes and matters arising from previous meeting

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

3.2. Employer Update (point 5.2.4). The Chairman asked if there was a further update on the position of the employer that is ceasing to trade. The Service Manager for Pensions said that the cessation valuation will take place after the last employee leaves and that process usually takes a couple of months. Some staff are being retained to oversee the closedown and are expected to leave employment in October.

- 3.3. Prudential (Point 5.3). Problems are continuing. Prudential met with the Southwest Pension Managers Group (SWAPOG) as this affects several funds. Prudential keep giving promises of improvement, but these don't materialise. The issues are leading to increased member complaints.

The Chairman asked whether failure by Prudential as an AVC provider would constitute a breach of the regulations. The Service Manager for Pensions explained that the Prudential had self-reported to The Pensions regulator on more than one occasion in relation to their current position. Committee are aware of these problems as this was included as part of the administration report.

- 3.4. GAD Section 13 results (Point 5.5). It was asked what the implications would be if the Fund was flagged as amber or red. The Service Manager for Pensions said that GAD would have a meeting with us again and would guide us towards what they think should happen in terms of future actions. The Actuaries would be heavily involved. As GAD have a responsibility to look at the LGPS, they would not want any funds to be outliers, particularly with the issues with the cost control mechanism at the moment.
- 3.5. Local Pension Board Annual Report (point 8). The revised version was circulated to Board Members and approved.

4. Papers from the Pension Fund Committee

Items on the agenda of the Pension Fund Committee meeting held on **8 September 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. Meeting Format

- 4.1.1. Since COVID meetings have been held 'virtually' but there is the current expectation that Committee meetings will go back to face to face meetings in November.

4.2. Public Participation

- 4.2.1. Before the meeting the Committee received 6 questions from members of the public, as at previous meetings all related to the Pension Fund's investment in fossil fuels. Each question was answered individually. The questions and answers can be seen in the appendix to the [minutes](#).
- 4.2.2. The Committee is going to take advice from Democratic Services on how to approach this in future, because there's a lot of repetition of the answers when they go through question by question.
- 4.2.3. The key point stressed when answering these questions is that the overriding responsibility of the Committee is to ensure that there is sufficient money in the pension fund to pay pensions and other benefits when they fall due - which means that there is a requirement for the contributions to be invested appropriately in order to make a return to close the gap between the contributions and the benefits. However, the Committee does have a responsibility to consider any risks that may have a material financial impact on investment returns, and that can include risks associated with fossil fuels. When the Committee agreed is current investment strategy in September

2021 it also agreed to reduce the carbon footprint of the pension fund's investments but without sacrificing financial return. Ultimately, the exposure to fossil fuels is reducing. Oil and gas companies have become a smaller part of the world economy so are also becoming a smaller part of our investment holdings.

- 4.2.4. The Chairman said that from the Pension Board's point of view it's not for them to decide or try to influence the Committee unless they feel that it's going to lead to a reduction in performance, and from reports it appears they are currently doing well against the benchmark.

4.3. 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](#)

- 4.3.1. To date central banks have given the impression that the inflation we are seeing at the moment is transitory, a consequence of the recovery from the reduction in output etc. because of COVID. However other commentators are concerned that there may be more structural reasons behind inflation, it isn't just going to be a temporary matter as we catch up and there is a fear that a 'wage-price' spiral could emerge that would lock in inflation for longer.

If inflation pressures are more than just transitory, then central banks have tools to try to address this such as increasing interest rates or reducing quantitative easing. However, such action will impact on economies and markets.

- 4.3.2. Given these concerns the Committee discussed whether it would be sensible to increase the size of inflation hedging. The Committee concluded that it wasn't because the cost to increasing hedging was prohibitively expensive and a satisfactory level of hedging was already in place - 30% of the pension fund's liabilities were already directly hedged plus the fund owns other assets with links to inflation such as rental property.
- 4.3.3. A Member Representative asked whether the Investment Strategy Statement (ISS) was currently being reviewed. Service Manager for Treasury and Investments said that the ISS was being updated and would be going to Committee in November for approval before publication.

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 quarterly estimated value of the Fund's assets is now £3.5 bn, compared to £3.3 bn at the start of the financial year.
- 4.4.2. The estimated funding ratio is currently at 86%, compared to 85% at the previous quarter. This is still down on the last full valuation as at March 2019, when it was 92%.
- 4.4.3. Investment return for the quarter is nearly 6%. Just under 30% of the pension fund's liabilities were hedged against inflation sensitivity using 11.2% of assets to do so. Nearly two thirds of the pension fund's assets were now under the management of Brunel.

- 4.4.4. Target allocations for private market assets remained a challenge. Committee is to come up with some proposed commitments to Brunel's next cycle of private market funds for consideration at the November meeting. This will include looking into an allocation to private debt.
- 4.4.5. Hermes, one of the pension fund's infrastructure managers, and Aberdeen Standard, one of the pension fund's private equity managers would both be invited to a future meeting of the Committee to discuss performance concerns.
- 4.4.6. Cllr John Beesley, the pension fund's representative on the Brunel Oversight Board, updated the Committee on governance matters relating to the investment pooling partnership. It was felt that although there had been recent changes in senior roles, Brunel were performing well.
- 4.4.7. The Chairman commented that overall, given what's been going on in the past two years, the pension fund has come out of it remarkably well. He asked whether the pension fund received analysis reports as to whether outperformance was due to asset allocation strategy or to the managers. The Service Manager for Treasury and Investments said that we don't currently but a lot of our reporting now comes through Brunel and there's an ongoing piece of work in terms of looking at the reporting we receive and whether there are enhancements that can be made.
- 4.4.8. A Member Representative asked if there is a threshold which if the funding dropped below it would trigger a strategy review. The Service Manager for Treasury and Investments said there isn't an absolute figure for this, but we would be reviewing our investment strategy when the results of the next valuation are known, whether the figure comes out at good, bad, or indifferent.

5. LGPS Administration report

The Pensions Manager gave an update on the [Pensions Administration Report](#) provided to the Pension Fund Committee on 8 September 2021.

5.1. Data Quality

- 5.1.1. Each year, the quality of our data is reviewed and measured in accordance with the guidance set out by the Pensions Regulator. This serves two main purposes. Firstly, it feeds into the future year's Data Improvement Plan, and secondly it provides the Data Quality scores for the Dorset County Pension Fund which must be reported to The Pensions Regulator each year and recorded in the Fund's Annual Report. This is split into two areas, Common data, and Scheme Specific Data.
- 5.1.2. Common Data relates to all pension schemes and looks at things like data being present for date of birth, address, etc. The score for this year is 99.4%, which is the same as last year.
- 5.1.3. Scheme Specific Data (sometimes called conditional data) is specific to each scheme, so for LGPS this will relate to whether key items such as CARE pay, etc. are present on a member's record. Here we saw a score of 98.9% which is a slight improvement on 98.2% from last year.
- 5.1.4. Because we have exceptionally high data quality scores, there are concerns as we have changed our systems and want to ensure this continues with the new system. We have identified several data issues in our new system and

are working with our software supplier to look at these. It is important that we get our data right for next year's valuation and then for the issuing of annual benefit statements.

5.2. Cost Cap.

- 5.2.1. Following the introduction of the new public sector schemes in 2014 and 15 the government set in place cost CAP review. This provides for a cap and a mechanism to monitor the cost of public sector pensions. The outcome of review in 2016 was that the cost of the scheme had dropped to such a point that it would trigger improvements to member benefits. However, at that time the McCloud and Sargeant cases came to court resulting in the cost control mechanism being paused until July 2020 when the consultations relating to the remedy for the McCloud judgement were released. We now await revised HM Treasury directions on the 2016 process.
- 5.2.2. The 2020 cost cap review has not yet started, for the same reasons as stated above, we await further details regarding this.

5.3. Delays to new Code of Practice

- 5.3.1. The Pensions Regulator has delayed the application of their new code of practice. They received over 100 responses to its consultation which included over 1,000 individual answers. The delay is taking place so they can work through and fully consider its responses.
- 5.3.2. The Code of Practice is now not likely to become effective before Summer 2022.

5.4. Commons Committee Report on Public Sector Pensions

- 5.4.1. On 21 June 2021, the House of Commons Committee of Public Accounts published a [report on public sector pensions](#), after taking advice earlier this year from HM Treasury and the Government Actuary's Department.
- 5.4.2. One item on the report found that HM Treasury had not done enough to ensure people understand the value of the pensions. The Service Manager for Pensions felt that was important for the LGPS, which doesn't have the same take up of its membership as other public sector schemes. Dorset County Pension Fund understand that communication is important and aware of the importance of helping Members to understand the value of the pension scheme.
- 5.4.3. It also found that HM Treasury has done little to identify and manage the stark differences in average pensions between genders and other groups. This is relevant to the LGPS as a majority of LGPS members are female and their average pension is less than male members of the LGPS.

5.5. LGPS Mortality Data

- 5.5.1. On 15 June 2021, the Scheme Advisory Board (SAB) in England and Wales updated its LGPS mortality data to the end of March 2021. SAB has published updated reports from Aon and Barnett Waddingham. Each report sets out analysis of the mortality data of a single LGPS fund during the pandemic. You can see the data and the reports on the [SAB COVID-19 Mortality page](#).

5.5.2. The Service Manager for Pensions said it will be interesting to see whether there has been an impact from the pandemic on the next valuation results and in mortality rates going forward. The DCPF had seen an increase in pensioner mortality of around 17% when compared to previous years.

5.6. Governance and Administration Survey 2020-21 Results

5.6.1. TPR published the results from the [Public Service Pension Scheme Governance and Administration Survey 2020-21](#) on 1 July 2021. The survey was completed on-line and included a response by Dorset County Pension Fund. This year it included some additional questions around matters such as the pandemic and pension dashboards.

5.6.2. The survey found little change since 2019 for the key processes that are monitored as indicators of performance, which are to have:

- a documented policy to manage board members' conflicts of interest
- access to the knowledge, understanding and skills needed to properly run the scheme
- documented procedures for assessing and managing risk
- processes to monitor records for accuracy and completeness
- a process for resolving contribution payment issues
- procedures to identify, assess and report breaches of the law

5.6.3. This serves as a useful check to the Fund as well to make sure that we are doing what we need to do in terms of governance.

6. Systems Implementation

6.1. The UPM system, which is the main pension administration system, went live on 26 July 2021 and is generally working well. It gives a lot more scope and functionality than the previous system, basically replacing three systems with one, and staff have adjusted well to the new system although it is a huge change in the way they work.

6.2. The system includes a new on-line employer portal. If we had stayed with the previous software supplier, we would not have been able to provide an employer portal and we would have gone back to employers sending us forms each month, which wasn't satisfactory. The employer portal makes life a lot easier for employers who have already got a difficult job dealing with the complexities of the LGPS.

6.3. There is also a new member on-line portal. Because of the system change, members have had to re-register to access the portal, so we have been very busy dealing with members who have experienced problems setting up their accounts.

6.4. There is still a lot of work to be done to get the system as a whole working smoothly and to its full potential. There are currently about 60 outstanding issues with Civica, and we feel they have not delivered everything to the original specification. We are in discussions with Civica to ensure a speedy resolution

Civica have been very helpful and supportive, but they don't have the resources to help us with all the issues that we have identified. Our Systems team have identified a large number of issues that we want addressed or developed, more than any other funds that Civica have dealt with previously. Ultimately, it has been an amazing achievement as we have implemented the whole system in the shortest time that Civica have known, it has been carried out 'virtually', and we are the only fund that has launched all three core products within days of each other.

- 6.5. Overall it has gone well, but we are still smoothing out some of the edges. Civica will be coming for a site visit in October, which will be the first time we have actually met.
- 6.6. A Member Representative asked when previous years benefit statements will be uploaded to the member portal. The Service Manager for Pensions said that the annual benefit statement data has now been uploaded into the system, so putting it on the member portal is one of the jobs with Civica. This should be available soon.
- 6.7. The Chairman said that given the timescale and the circumstances in we were trying to deliver this, he thought they' had done a pretty good job, not just Civica who are the providers, but particularly the staff within the pensions team who worked extremely hard on this. He would like to thank them for all the effort they put in.

7. Key Performance Indicators (KPI)

- 7.1. The usual KPI reports are not yet available for a number of reasons.
- 7.2. Reporting in the new system is still in development, so although KPI reports have been run, the results were not right for several reasons. These issues are being addressed and included matters such as where the system was not correctly applying periods where cases were on hold, or correctly counting completed cases transferred from the previous system.
- 7.3. Work-wise we have got to a point where we are back on top of a lot of the areas we have been struggling with due to staff leave, sickness and losing staff members – which was on top of implementing the new system. We are now doing well with retirements, deaths, estimates and refunds. We are still waiting for Civica to provide us with processes to deal with interfund transfers but are on top of other transfers.
- 7.4. The main area of backlogs is with aggregation, but as this is less of a priority than other tasks a decision was made to focus on other areas. No backlog is ideal, so a plan will be put in place to deal with this once we are more confident with the new system.

8. Annual Allowance statements

- 8.1. Dorset County Pension Fund have a responsibility to inform Members who have exceeded the annual allowance and provide them with statements by 5 October following the end of the relevant financial year. Annual allowance only affects a small percentage of members, but it is hugely significant because we may be sending out large tax bills to members. It is also a complex area for members, and we have always gone out of our way to help them as much as we can.
- 8.2. It was identified early on that the new system was not as good as our previous system in regard to the annual allowance, and there was a concern that we would not get our annual allowance statements out correctly or with the detail required. Civica had been asked to improve the annual allowance part of the system, but this is taking time.
- 8.3. In preparation, annual allowance checks had been run through the old system to identify the members affected. This amounted to around 150 members that required more detailed calculations. It was realised that using the new system we were not going to be able to do that with any degree of confidence before the deadline, so made the decision to set a new deadline of 5 November. This resulted in a breach of statutory requirement, so will be reported to the Pensions Regulator.

8.4. Details of how the breach occurred and the reasons behind it will be reported. As it is due to a change in systems, which is an acceptable reason, it may turn out not to be a material breach, but we felt that it is worth reporting.

9. Document Reviews

As part of regular practice Pension Fund policies and documents are periodically reviewed by the Board.

9.1. The following documents were reviewed:

- Local Pension Board Conflict of Interest Policy
- Local Pension Board Terms of Reference

9.2. Local Pension Board Conflict of Interest Policy. This policy was published two years ago, so this is its first review. A Member Representative asked if the introduction could be amended to clarify that this policy relates specifically to the board, rather than Dorset County Pension Fund as a whole. This was agreed.

The Chairman also asked if the first example of a conflict held in the annex could be changed slightly to make it more relevant to the board, as it appears to be more relevant to a Scheme Manager. This was agreed.

Action: Revised version of the policy to be produced and circulated to Board Members for review and approval.

9.3. Local Pension Board Terms of Reference. This was last reviewed in September 2019. The Chairman asked whether the board were happy that the membership set up of having 4 employer and 4 member representatives was still appropriate. It was agreed to continue like that as it has worked well.

9.4. An Employer Representative asked if something could be added to state that meetings could take place either in person or on-line. This was agreed.

Resolution: Terms of Reference was approved. Review date has been updated and the document is now published on the website: [Terms of Reference](#).

10. Risk Register

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

- 10.1. The Risk Register has been updated to be presented in a new format. It was felt that the previous version did not present the risks and scoring methods clearly enough. The new version is based on the template used by Dorset Council and provides more detail on how risks are scored and easier ways for users to sort and view risks by type, risk level, etc. Although Dorset Council helped compile this version of the Risk Register, it remains separate to Dorset Council's own Risk Register.
- 10.2. Although the Risk Register is reviewed by the Board at each meeting, risks would also be reviewed by the Pensions teams periodically and added to as and when a potential risk is identified. Board Members were reminded that if they identify a potential risk, then they should bring it to our attention to be added to the register.
- 10.3. An Employer Representative asked whether the risk level is scored before or after any required action has been taken. It was confirmed that it would be after any necessary action had been taken and that further detail on the scoring method is held on a separate tab on the Risk Register. It was noted that due to the scoring

criteria and value of the risks involved, it is unlikely that the Fund would ever have a risk that is scored as 'High'.

- 10.4. The Chairman said that in all cases but one, there was no change in the risk level from the previous meeting. The risk that had worsened related to workforce and maintaining the balance between workload and staff capacity. He asked if steps were being taken to address this. The Service Manager for Pensions said that this is expected to be temporary, and is due to some staff members leaving, along with backlogs due to the new system and matters such as the pandemic and McCloud. They are currently recruiting new staff to deal with this.

11. Any other Business

- 11.1. An Employer Representative asked if there was an explanation as to why the auditor's report took so long to be issued, and if the same thing is going to happen again in the future. The Service Manager for Pensions said that this appeared to not just affect Dorset County Pension Fund but was unsure whether this was because they were new auditors, or whether remote working had some affect. She said she would ask the Service Manager for Treasury and Investments to update Board Members on this.

Action: Service Manager for Treasury and Investments to provide update at next board meeting.

12. Meeting closed at 15.45

13. Date of next meeting – 9 December 2021 2.00 pm

The Pension Fund website contains information about the operation of the Fund and contains a specific page for the Local Pension Board. The website address is <https://www.dorsetpensionfund.org>.

The [Local Pension Board section](#) of the website contains details of the Board membership, its Terms of Reference and meeting agendas, minutes and reports.

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