

Minutes

Meeting: Local Pension Board for the Dorset County Pension Fund
Time: 2.00 pm
Date: Thursday 9 December 2021
Venue: Microsoft Teams

Present:

Adam Richens	Vice Chairman – Employer Representative
Cllr David Shortell	Employer Representative
Mary O’Sullivan	Employer Representative
James Stevens	Member Representative
Julie Strange	Employer Representative
John Jones	Member Representative

Officer Attendance:

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

Managers, Advisors and Others Attendance:

Cllr Andy Canning	Chairman of the Pension Fund Committee
Cllr John Beesley	Pension Fund Committee
Louise Lau	Actuary – Barnett Waddingham

1. Apologies for Absence and Introductions

1.1. Advance apologies received from:

- Paul Kent (Chairman)

2. Declarations of interest

2.1. None

3. 2020 Fund Valuation

Louise Lau of Barnett Waddingham, the Fund Actuary, gave a presentation covering the background to the 2020 valuation, an explanation of the key results and some of the hot topics surrounding the 2022 valuation.

3.1. The Chairman of the Pension Fund Committee said that it is noticeable that the fund has performed very well in general over the last 12 months, but at the same time the funding level of the assets have been declining, and asked why that has occurred.

The Actuary said the main driver of the funding level is what happens to the liabilities. There are less positive views on future investment and also higher inflation, which both have the impact of increasing the liabilities because we are paying more in cash to pay for the benefits which are going to be higher because inflation is higher.

Also, in terms of the contribution rates, what has been accrued so far impacts the secondary rate, making it higher because the liabilities are higher. But it also affects the primary rate, which makes up most of the total contribution rate. The Fund has not yet got assets in respect of the primary rate, which are in respect of future service, so members accruing new benefits are going to cost more because we are expecting inflation be higher, which increases the overall contribution rate.

- 3.2. The Chairman of the Pension Fund Committee asked whether employers should be concerned about an increase in contributions.

The Actuary said that they should probably expect an increase. However, if there is an increase, they would not immediately put an employer up to higher contribution rate, but instead step it in to ease the cost pressure on the employer.

- 3.3. An Employer Representative asked whether mortality rates had been affected by COVID and if so whether this would influence the next valuation.

The Actuary said that it is possible. If you were to plot mortality rates, they have been coming down from around 20 years ago and then started tapering off about 6-7 years ago with mortality rates now being quite stable. If you factor in 2020 and 2021 it has risen again, but not quite as high as it was 20 years ago.

They have had an initial look at this the purpose of employers' accounts and spoken with auditors. The initial view is that mortality would be a little bit worse this time following the impacts of COVID, but many auditors felt that they didn't want to factor this into accounting. It is still very subjective, and people are forming more views on it now that 2021 mortality data is coming through, but they will do the bespoke analysis next year and see how that goes.

- 3.4. A Pension Fund Committee member asked about the methodology for softening any increases that come out of the valuation for the employers, for example stepped increases, and whether we may have used up these options in the past. The Actuary said that the methods used in the past to help keep contributions stable are still relevant now and are not limited approaches. There are plenty of options to look at in terms of managing any increases in contributions. It is important that employers acknowledge that we are doing this to help with affordability and contribution stability, but it does mean that we might be slightly delaying contributions coming in which might ultimately cost the employer more in future.

- 3.5. A copy of the slides from the presentation was e-mailed to Board and Committee Members following the meeting

4. Minutes and matters arising from previous meeting

The minutes from the September 2021 meeting were read and agreed.

- 4.1. Conflict of Interest Policy (point 9.2). A revised version had been circulated to Board Members. This has now been approved and has been published on the Dorset County Pension Fund website: [Local Pension Board Conflicts of Interest Policy](#)

- 4.2. Audit Update (point 11.1). The Service Manager for Treasury and Investments said we are still waiting for the audit to be completed for the 2019/20 accounts and the 2020/21 audit is still outstanding. He has had a meeting with the Audit Manager who said that it has been through the review process internally and are just waiting for the Audit Partner to sign it off, which they hope to do shortly. He added that this has not just been a Dorset Council issue, or an issue just with Deloitte, but we do not seem to have been served very well by Deloitte through this process.
- 4.3. The Corporate Director Finance & Commercial said that it is frustrating as it has been overdue for a year now. There is an Audit and Governance Committee meeting scheduled for 17 January 2022, and the Auditor and has said that the 2019/20 Pension Fund should be resolved by then. The Corporate Director Finance & Commercial will be contacting the Auditor for more detail in a call ahead of the meeting.
- 4.4. The Service Manager for Treasury and Investments said that the draft report had been shared with the Committee, and no substantive issues have been raised through this process. It is just that we haven't got that signature at the end of this process to give the Board, the Committee, and others that formal reassurance.
- 4.5. An Employer Representative asked whether both the 2019/20 and 2020/21 would be signed off at the same time. The Service Manager for Treasury and Investments said that they won't. The indications are that 2019/20 would be signed off before the end of the year, but it is hoped that 2020/21 would be signed off early in 2022.

5. Papers from the Pension Fund Committee

Items on the agenda of the Pension Fund Committee meeting held on **30 November 2021** were reviewed: [Pension Fund Committee Meeting 30 November 2021](#)

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

5.1. Public Participation

- 5.1.1. There were no questions or statements from members of the public at the meeting.

5.2. 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](#)

- 5.2.1. This was the last report from Mr Saunders before retirement from the role after 17 years.
- 5.2.2. Inflation continued to be a concern. Staff shortages and a big squeeze on real incomes could lead to a 'wage-price' spiral which in turn could lead to slower growth.
- 5.2.3. The Bank of England Monetary Policy Committee (MPC) had not raised Bank Rate at its most recent meeting in November 2021, but Bank Rate was widely expected to reach 1% by the end of 2022. In the US the Federal Reserve had begun to taper its programme of quantitative easing.

5.3. 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](#)

- 5.3.1. The value of the pension fund's assets ended the quarter at £3.6 billion compared to £3.3 billion at the start of the financial year, with 63% of those assets now under the management of Brunel Pension Partnership.
- 5.3.2. The revised Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS) are now published on the Pension Fund's website.
- 5.3.3. It has been agreed to make commitments to Brunel's cycle three private markets' portfolios for Private Equity and Infrastructure, provisionally for £60M to each with final commitments confirmed March 2022. A new allocation to Private Debt was not proposed at this stage.
- 5.3.4. The funding position estimated by the actuary was that the value of the pension fund's assets covered 88% of the present value of liabilities. The investment return for the quarter was 2.5% compared to the combined benchmark return of 2.4%. Approximately 30% of the pension fund's liabilities were hedged against inflation sensitivity using just under 12% of assets to do so.
- 5.3.5. James Russell-Stracey, Brunel Pension Partnership, updated the Committee on matters arising from Conference of the Parties (COP) 26, the newly launched low reduced carbon emissions passive equities funds, and the forthcoming 'stocktake' of Brunel's approach to decarbonisation.
- 5.3.6. There has been a procurement exercise to appoint a provider of independent investment advice. The contract has been awarded to M J Hudson, which are the same firm that provide advice at present, but the new advisor is Steve Tyson, who has had about 30 years of experience working in investments.

6. LGPS Administration report

The Service Manager for Pensions gave an update on the [Pensions Administration Report](#) provided to the Pension Fund Committee on 30 November 2021.

6.1. Systems Implementation

- 6.1.1. There are some ongoing issues with Civica, the provider of the new pensions system, and this has been causing some frustration and practical difficulties. This has been escalated and Civica have allocated a dedicated person to deal with the issues.
- 6.1.2. There remains between 35 and 40, outstanding issues raised within the project which cover a range of issues. The Service Manager for Pensions is currently working with Civica to establish a timescale for the remaining items to be completed.
- 6.1.3. An Employer Representative asked if Civica had given assurances as to when the outstanding issues would be resolved. The Service Manager for Pensions said that weekly meetings had been booked in up to the end of January, which is when they hope to complete the raised issues by. Some matters will be longer term because they are additional development requests.

6.2. Annual Allowance

- 6.2.1. The Service Manager for Pensions updated the Committee on the delay in issuing Annual Allowance Statements and that DCPF have self-reported this breach to the Pensions Regulator and notified affected members of a delay in providing pension saving statements.

This item was covered in the last Pension Board meeting, but had not been included on the agenda for the last Committee meeting.

- 6.2.2. An Employer Representative asked whether there is a schedule of approved advisors the Fund could direct members to as it is difficult to find somebody that really understands the LGPS. The Service Manager for Pensions said that this has been raised as a national problem and needs to be looked at. Funds are reluctant to put their name to any financial advisors, but the Government's advice is always that you must seek financial advice.

6.3. Staffing Update

- 6.3.1. The Pensions team has lost several staff recently, which has caused an impact because the losses are primarily in the key area of benefit calculations.
- 6.3.2. The LGPS is a complex scheme, so we are working with Dorset Council to improve recruitment and look at the staff grades so that we can retain staff.

6.4. Cost Management Process

- 6.4.1. The Scheme Advisory Board (SAB) [cost management process results](#) were published in October. The processes were put on hold while deciding on how to include the McCloud costs into the process.
- 6.4.2. The resulting outcome was 19.4% against the target cost of 19.5%. Despite the slight shortfall in cost, SAB will not be recommending any scheme changes.
- 6.4.3. Going forward SAB will be reviewing Tier 3 ill health retirements with a view to removing Tier 3.

6.5. Cost Control Mechanism

- 6.5.1. In October, HM Treasury published the [consultation response](#) on the Public Service Pensions cost control mechanism
- 6.5.2. This confirms that it will proceed with all three reforms:
- Moving to a reformed scheme only design which considers only past and future service in the new schemes. Legacy costs are to be excluded
 - The cost corridor will be widened from 2% to 3% of pensionable pay
 - Introduction of an economic check to allow for the consideration of long-term economic assumptions.
- 6.5.3. HM Treasury also published the [Public Service Pensions \(Valuation and Employer Cost Cap\) Directions 2021](#). This had been paused due to the uncertainty of cost following the McCloud and Sargeant cases.

- 6.5.4. A Member Representative asked for an update on the McCloud remedy. The Service Manager for Pensions said that we have to wait for the regulations which probably won't be until April 2022 and there should be a consultation in early 2022. The regulations will be effective from April 2023, so preparation is going on which involves collection of missing data (such as hour changes and service breaks) from the employers. It is likely that some employers will struggle to provide this information. There's concern nationally about how this is going to be achieved, and it is going to take a lot of resource. It will be a project that will run for a long time.
- 6.5.5. An Employer Representative asked if there has been an update on the exit payment cap. The Service Manager for Pensions said that the government are committed to bringing this in, but no time has yet been allocated in Parliament and no consultation issued.

6.6. SF3 Data Published

- 6.6.1. The Department for Levelling Up, Housing and Communities (DLUHC) published the [Local Government Pensions Scheme statistics](#) for England and Wales for the 2020/21 year.
- 6.6.2. Despite the pandemic, results for the LGPS were quite positive across the whole country with total expenditure of £13.4 billion against income of £17.2 billion.
- 6.6.3. Employer contributions increased by 32.46% and membership has remained stable.

6.7. Key Performance Indicators (KPIs)

- 6.7.1. The Service Manager for Pensions ran through a presentation delivered to the Pension Fund Committee at the November meeting.
- 6.7.2. There have been issues recently with obtaining accurate figures from the new system, so this report covered a period of 5 months. The KPIs focus on the top ten most important areas of work. During the 5-month period 11,165 cases were completed, of which 5,784 were in the top 10.
- 6.7.3. The KPI figures included details of cases that were aborted. Over 4,000 cases were migrated from the old system to the new system. Many of these had been completed in the old system but needed to be checked. As no further work was required, they were aborted. These cases are not counted.
- 6.7.4. The KPI standards for time to complete cases are specific to Dorset County Pension Fund, and not the national standards which are more generous.
- 6.7.5. An Employer Representative asked whether certain areas were prioritised over others. The Service Manager for Pensions said that they were. Priority is given to payments, which are retirements, death benefits and transfers.
- 6.7.6. An Employer Representative asked whether the amount by which a case misses a target is recorded. The Service Manager for Pensions said that this is looked at, as well as the reason that they miss the target. The higher priority work may be missing the target by a day or two, but with lower priority work it could be a wider margin. Case process maps within the system are being looked at to ensure the KPIs are reporting from the right starting point to

the right endpoint. Some of these are very complex and had not been reporting the KPIs correctly.

6.7.7. KPIs were also affected by the significant amount of additional work required to bring in a new system, including a 'blackout' period when no systems were available, staff training, and staff adapting to the new work processes.

6.7.8. September recorded a significantly high number of telephone calls, many were due to call from members requesting help with the new portal, but also due to having our highest number of leavers in August and new starters in September because of school employments.

6.7.9. Moving forward it is likely that KPIs will be affected while the new processes settle in. There is also an impact from staff shortages.

7. Local Pension Board Member Representative Vacancy

7.1. A vacancy for a member representative has arisen as Jeff Morley has left employment.

7.2. Jeff was a Union nominated representative, so the main unions have been approached to request nominations and applications for a new representative. The Pension Board Terms of Reference require that there is a union nominated representative on the board.

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. No additional risks had been identified and no queries were raised by the Board.

9. Any other Business

9.1. The Board was reminded that the Annual Employer Meeting would be taking place on Monday 13 December. The event takes place on-line and Board members can attend if they wish.

10. Meeting closed at 16.00

11. Date of next meeting – 23 March 2022

Details of the Local Pension Board and past meetings can be found [here](#).

