Minutes

Meeting:	Local Pension Board for the Dorset County Pension Fund
Time:	**2.00 pm**
Date:	**Thursday 10 December 2020**
Venue:	Microsoft Teams

Present:

Paul Kent	Chairman - Member Representative
Adam Richens	Vice Chairman - Employer Representative
Julie Strange	Employer 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:
None

1. Apologies for Absence and Introductions

1.1. All board members were present.

1.2. The Chairman welcomed John Jones to the board who is taking up the position of Member Representative.

2. Declarations of interest

2.1. None

3. Minutes from previous meeting

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

4. Papers from the Pension Fund Committee

Items on the agenda of the Pension Fund Committee meeting held on 26 November 2020 were reviewed. Pension Fund Committee Papers

4.1. **Elected Member Participation**.

4.1.1. Changes in the allocation of seats on outside bodies agreed by BCP Council meant that Cllr Felicity Rice was no longer a member of the Committee. She has been replaced on the Committee by Cllr Bobbie Dove.

4.2. **Independent Adviser's Report**
The quarterly report on the outlook for the Pension Fund's investments.

4.2.1. The Office for Budget Responsibility (OBR) had forecast a fall in the UK's Gross Domestic Product (GDP) of 11% in 2020, followed by recovery of 5% to 7% in 2021. No deal on the future trading arrangements between the UK and the EU would weaken the OBR's forecast by about 2% annually.

4.2.2. Markets had been resilient despite this economic background largely because of huge monetary and fiscal support from central banks and governments.

4.2.3. The market outlook had improved following recent news regarding the successful development of vaccines for Covid-19. In response UK markets had risen by 10% in a matter of weeks.

4.2.4. The government had confirmed that the Retail Price Index (RPI) would be aligned with the Consumer Price Index Including Housing Costs (CPIH) without compensation to holders of index linked bonds. Investment consultants, Mercer, advised that there was no immediate need to change the Pension Fund's inflation hedging strategy, but it was agreed that there should be training session for the Committee on the topic in March 2021.

4.2.5. The Chairman asked whether Board members would be able to attend the training session. The Treasury & Investments Manager said they haven't been invited but could see no reason why they couldn't and would discuss with the Chairman of the Committee.

4.2.6. An Employer Representative asked what impact the change from RPI to CPI is likely to have on pension deficits? The Treasury & Investments Manager said the short answer is that he doesn't know. With the LGPS already being linked to CPI, it won't impact on the liability side of things in terms of the linkage to an inflation measure, but it will impact on the asset value. However, it is difficult know the size of the impact.

4.3. **Pension Fund Administrators Report**

4.3.1. The value of the Pension Fund's investments had recovered to just over £3.0 billion at 30 September 2020. Assets were estimated to be 83% of the value needed to pay expected benefits accrued to 30 September 2020 compared to the funding level of 92% calculated by the actuary following their full assessment as at 31 March 2019.

The recovery in asset values is still behind the curve in terms of where we need to get to by the next actuarial valuation. We need to effectively get a return of 5% on our assets in order to hit the targets set by the actuary.

4.3.2. As at 30 September 2020 just under 50% of assets had transferred to Brunel's management. Implementation of the changes to the investment strategy agreed by the Committee in September 2020 are expected to increase this proportion significantly before the end of the financial year. Implementation of the changes to equities allocations had begun and should be completed before the next Committee meeting in March 2021.

4.3.3. So far, the focus has been on the transition of investments to Brunel's management. That process is nearing the end now, so the focus will be more on whether Brunel are meeting the expected investment outcomes. There is now a quarterly review with Brunel, which took place for the first time this quarter, and the aim is to give the Committee the assurance they require.

4.3.4. Brunel was set up primarily to drive down investment manager fees from the economies of scale. The Committee wants to see more detail in terms of set up costs and of how and what Brunel is delivering compared to what they are expecting it to deliver. This will be presented to the Committee at a future meeting (possibly June 2021).

4.4. **Pension Fund Annual Report**

4.4.1. The Pension Fund Annual Report has been published ahead of the deadline of 1 December 2020. Normally this has been done by the end of September but had been delayed due to COVID-19 and issues with the auditors not being able to complete their report. The Pension Fund Annual Report taken to committee in November was still subject to receiving the independent auditor's report.

4.4.2. In terms of the Pension Fund, the auditor has provided a list of 10 outstanding items that they need to work through. This has been very frustrating as many questions were not raised until very late.

4.4.3. A meeting has been set up with the auditors for the w/c 14 December to establish what stage they are at. The Employer Representatives asked to be informed of the outcome by email so that they can try and get some perspective as to when it's likely to be signed off, as this impacts on employers.

4.4.4. An Employer Representative asked what was causing the delay. The Finance Director said that there is generally an issue with the quality of resource available to audit firms. For example, in respect of Dorset Council's audit, looking at the collection fund they lost a lot of experience from predecessor district councils.

4.4.5. The Chairman asked whether the auditor had given any indication on time scale for completion. The Treasury & Investments Manager said that they can't give us a date. Based on the list of 10 outstanding points, it may be achievable to get the pension audit done before Christmas, but we are not confident as there may be something else that they start looking at very late in the day.

4.4.6. The decision was taken to publish the annual report, though there is a delegation back to the Chairman and Vice Chairman of the Committee to approve the final version if there were no substantive matters raised in the auditor's report.

4.4.7. Usually, the report looks back at the financial year just ended. Because of the exceptional circumstances that impacted on the value of the Fund's assets at 31st of March, the Committee wanted some reference to the fact that the value of the assets had had recovered in the subsequent six months, so this was included.

5. LGPS Administration report

The Pensions Manager gave an update on the Pensions Administration Report provided to the Pension Fund Committee on 26 November 2020.

5.1. KPIs

The key performance indicators for the period 1 August to 31 October were reviewed.

5.1.1. Results continue to be positive despite the difficulties with home working, which at the current levels is not ideal for the service.

5.1.2. Some staff members are struggling at home due to the high technical nature of the work. Confidence levels are low in certain areas, as staff are used to having support around them. Training is also impacted, which is an essential part of everyday work.

5.1.3. An Employer Representative asked whether this is likely to lead to more errors because people have come to judgments that perhaps weren't the right one because they didn't have that structure around them.

The Pension Manager said that she had not noticed an increase in errors, but has noticed that things are just taking longer to complete. When staff members have other staff around them, they would just check things constantly, but now they're making a phone call or booking in a meeting to get advice and it's taking people longer to complete tasks.

She has also notice that senior staff are getting more calls from people, which are taking up more of their time and therefore they have less time for the things they need to do.

5.2. Systems Procurement.

5.2.1. The procurement for the Pensions Administration Software System is now complete, and successful provider is Civica. This means DCPF will be leaving Aquilla Heywood after many years with this provider.

5.2.2. The new system is based on more modern technology and will provide more flexibility, capability and functionality for us. There will be some long-term improvements, but the inevitable challenges of a transition to a new system are going to be huge. See item 6.1 for further details.

5.2.3. A Member Representative asked about the current scanning arrangements with an external company, and whether they held a database our member documents.

The Pensions Manager explained that DCPF use an external company to scan our documents, but they return a file of those images which are then uploaded to our own databases. So those images are stored in Dorset Council on our servers and not held externally. The new system will include integrated scanning so that we will no longer have to send the documents off site.

5.3. **Exit Cap Update**

5.3.1. The Restriction of Public Exit Payments Regulations 2020 came into force on 4 November 2020. This limits the value of exit payments, resulting from redundancy or efficiency of the service retirements for members over the age of 55, made from the public sector to £95K.

5.3.2. This has caused huge problems as this is at odds with the LGPS regulations which currently require immediate payment of unreduced benefits on redundancy of anyone over 55. This conflict occurs where the £95k cap is breached.

5.3.3. The £95K total will include any redundancy or exit payments made and the pension strain cost, which can sometimes be substantial. Historically, the pension strain cost has been unknown to members themselves. It's usually only of interest to employers who pay this cost, but now can mean that benefits to the member are curtailed.

5.3.4. The immediate issue is where a member who has exceeded the cap as the new LGPS regulations are not yet in place to deal with this circumstance. DCPF have decided on its best approach to this, and this is detailed in the attached position statement. Approval of this is sought from the Local Pension Board and Pension Fund Committee. This is based on advice and information given by the Scheme Advisory Board and by the LGA and takes the approach of least risk. The proposal is that DCPF will pay either a fully reduced pension or offer a deferred benefit. Once the new regulations are in place, any retrospective adjustments to the benefits paid to members affected will be made. The statement can be found here: Interim Policy For Exit Payment Cap

5.3.5. The Local Government Pension scheme (Restriction of Exit Payments) (Early Termination of Employment) (Discretionary Compensation and Exit Payments) (England and Wales) Regulations 2020, come into force at some point in 2021. These regulations will have a wider impact because they will affect everybody leaving on redundancy where a strain cost applies, not just those whose exit payments exceed £95K.

The current position is that there are two significant regulatory changes, one is already in force, and the further wider reforms yet to come into effect. Unfortunately, we don't yet know when these regulations will take effect, causing further issues for members, employers and administrators.

5.3.6. Extreme caution is being advised to employers who may be making staff redundant at this time. DCPF are working closely with employers at the moment.

5.3.7. Two of our biggest employers, Dorset Council and BCP, have got large scale redundancy exercises going on. The situation has presented enormous difficulties in communication with members who are anxiously waiting to hear confirmation of their exit and pension entitlements.

5.3.8. There are some legal challenges being brought by the Unions to the exit cap itself, not to the wider reforms. The government have been asked to delay the implementation of the wider reform legislation because of these legal cases, but the government has not at this time responded.

5.3.9. The Chairman said that the Pension Fund Committee had approved the position statement put forward by DCPF, subject to the approval of the Pension Board. However, it would appear that one way or another we could fall foul of the of the regulations and asked whether this could trigger a potential challenge on the fund.

The Pensions Manager said it could, and to the employer. It seems everybody is waiting for the first person to go to court because then there will be a determination and that will lead to the answers that we need. We are currently in a difficult situation as we want to avoid giving members money that they may then have to repay. We also don't want employers paying out money that then leaves them in a situation where they can't reclaim money they are owed.

5.3.10. A Member Representative asked whether it is the employer or the Pension Fund who has the responsibility for the exit calculations, because it is the employer who would have access to all of an employee's exit costs. And if there is a mistake, what would be the penalty?

The Pensions Manager said that the exit cap legislation applies to employers, so if they default it is employer that is at fault, not the Pension Fund, but we are trying to work closely with those employers affected because the closer we can work with them, the more problems we can avoid. In terms of a penalty, no details have been provided as yet, but this is something that would be going to the employer, not the Fund.

5.3.11. An Employer Representative noted that there appears to be a mix of employers that are affected and not affected by the exit cap, and asked whether there would be further clarification provided on this.

The Pensions Manager said that this is difficult for the Fund too, as these regulations apply to some of our employers, but not all of them. The capped employers (as we're calling them) are all the councils, academies and the Police Authority. Currently no other employer is impacted, so higher and further education establishments and admitted bodies shouldn't be affected. This is a further complexity, but it also feels a little unfair that you can be a member of the LGPS with one employer in the same fund and have these impacts, yet not with another employer.

5.3.12. The Chairman asked whether the Board approved the position statement put forward by DCPF.

Resolution: Position Statement was approved by the Board.

5.4. **Public Service Pension GMP indexation consultation**

5.4.1. The HM Treasury Public Service Pensions: Guaranteed Minimum Pension Indexation consultation closes on 30 December.

5.4.2. This will be of interest because of the change of the application of indexation to GMP pensions. This has increased liability on the fund and there were initially discussions as to whether the government should be compensating funds for that loss.

5.5. **September 2020 rate of CPI**

5.5.1. The Consumer Price Index (CPI) measure for September 2020 has been confirmed as 0.5%. This is an indication of the increases that will be applied to pension accounts for April next year.

6. **On the Horizon - 2021**
The Pensions Manager gave an update on matters affecting the Pension Fund in the year ahead.

6.1. **New Pensions Administration Software System**

6.1.1. The Pensions Systems Manager, Steph Ball, will lead the entire project, with support from project user groups to take responsibility for each main area, for example; core system configuration, employer portal, member portal, benefit calculations, processes, and standard fund letters.

6.1.2. We are aiming to go live on the 1st of July 2021. The contract with Heywards ends mid-August and they will switch off at that time.

6.1.3. The new system will incorporate additional features, some of which will replace the workflow and employer portal add-on facilities that have been purchased from the London Pensions Partnership (LPP) for the last six years, but which are shortly to be decommissioned.

6.1.4. Dorset Council will host the system. Civica could have done this, but Dorset Council hosted us previously and provided a very good service. Dorset Council are changing a lot of their technology and moving toward 'one domain'. This clashes with the new system coming in next year, so they have suggested that Pensions move to the one domain early to ensure a smooth transition. We are currently testing new laptops and the new technology to make sure that the one domain works with the new system.

6.1.5. A huge amount of detailed testing will take place. We have already started an exchange of our work processes, letting Civica know what we do and what we hold, particularly in regard to the software that we currently buy from the LPP, so that they can replicate as much as possible for us and that will help us with the transition.

6.1.6. Benefit calculations are one of the most challenging areas. Civica have what they call a testing suite. That will enable us to test a whole range of benefit calculations to make sure of the integrity of the calculations we are processing.

6.1.7. The Pensions Systems team will have overall responsibility for the whole system. They will be looking at matters like the data migration and mapping from the old to new. They will also be looking at the archive of the stored images, letters and cases to ensure that we maintain the good data quality scores that we have had for the past few years.

6.1.8. Training and support are going to be important. The new system has improved functionality, new front-end scanning and increased digital working. Some staff will like this, but others may find the change difficult. It's not going to be easy due to how different the system will look, so we have training plans for before and after the transition. It is hoped we will be back in the office by then as it may be hard for staff working from home to be faced with a new system.

6.1.9. We will also be organising training and support to our employers. This will start late spring early summer to prepare them for the change in moving from our current employer portal to the new one.

6.1.10. Communications to members - Currently around 15,500 members use our online services. This will be replaced by the new one, so we are going to have to write to them all to tell them about this change and contact the entire fund to offer them access to the new portal.

6.2. **McCloud**

6.2.1. McCloud is going to be a long project over a number of years, but stage one has to be completed by 31 March 2021. The project launches this month and starts with collection of data from employers. This involves asking employers to provide details of hour changes and service breaks going back to 1 April 2014. This is for all employees, even those that have left. We are asking for that by 31 March 2021.

6.2.2. There will be issues in getting the data. Some employers no longer exist. Some employers will be unable to provide us with that data for various reasons (e.g. payroll provider has changed, system capability, lost data, etc.). We are waiting for legislation to come out with the solution to data gaps.

6.2.3. The second stage of the project is to upload this data to our system. It is hoped that it will be part of the plan for 2021 but this will depend heavily on the new system implementation. Although we know about 23,000 members will have a direct impact from McCloud, employers have to provide information for all members, regardless of whether we can identify that they will be benefiting, because we don't know where they stand with transfers and LGPS membership in other funds. This information has to be uploaded onto our systems for every scheme member that that we can.

6.2.4. The third stage will be rectification, but that will not take place during 2021. This will take a lot of work and resources, and regulations and guidance are needed.

6.3. **The Exit Cap**

6.3.1. This came in on 4 November, but is in direct conflict with LGPS Regulations, which makes it very difficult for employers and members.

6.3.2. DCPF will be offering training at our employer meetings, along with fact sheets and member presentations.

6.3.3. Each pension estimate that is done under the exit cap, and moving forward under the wider reforms, takes a lot longer because it has to be done manually as the system, and spreadsheets provided to help calculations, can't cope with working out the different retirement dates for each of the three sections of the LGPS scheme.

6.3.4. Anyone retiring before the new rules in place exceeds the cap will have to wait the outcome of a legal challenge (see item 5.3.8). This means that we are likely to have to revisit benefit calculations next year.

6.3.5. The wider reforms are expected early next year. This is causing issues as we do not know when, what the full details will be, or if there will be transitional protections. We will not have software in place for a long time, so again complex calculations required and complex decisions for members.

6.3.6. The difficulty is that because of the complexity, and because of the high risk, we only have a small group of staff dealing with this. Unfortunately, there's quite a high volume because of the amount of redundancies that are going on in certain organisations.

6.4. **Working from Home**

6.4.1. Working from home has had an impact on output, but has also provided difficulties in other areas such as

- ICT
- Working environment
- Support and training
- Wellbeing
- Phone lines
- Post in and out

Some staff do not have good broadband at home, with some working on DC hotspots, which can cause applications to crash and cause issues with phone lines. Others who live and work in one room do not have the space to set up adequate workstations. The wellbeing of some staff is being affected. All these factors contribute to a general slowdown of work. Unfortunately, working from home will remain a reality for the first part of next year at least

6.5. **Other matters**

6.5.1. Despite everything it is still business as usual. We have to send out our annual benefit statements on time and complete the end of year processes. We will be asking employers to complete their returns early next year because of the system change.

6.5.2. Staff training is ongoing, to help develop staff, but it will also have to include the new regulations coming in and the new software.

6.5.3. We are also looking to complete the Pension Regulator’s pledge to combat pension scams, and we've got the new employer flexibilities coming in as well, so quite a busy year.

6.5.4. The Chairman commented that it was a comprehensive list and asked whether resource implications had been worked out, both in the short and long term? The Pensions Manager said it was difficult, particularly with McCloud, but they are well supported by Dorset Council and have always been able to have the staff when needed, with agency staff coming in where necessary. The difficultly is you need specialist staff for some of this work and that is a struggle because you just can't get trained staff. As it is hard to quantify, we are going to do it a stage at a time and looking up to six months ahead.

7. **Breaches Policy**

7.1. Ahead of the meeting the Board had been provided with a copy of the draft policy document for comment and approval. This sets out Dorset County Pension Fund's procedures to be followed in identifying, managing and reporting breaches of the law.

7.2. **Resolution:** The Breaches Policy was approved by the Board.

8. **Employer Bond Review**

The Employer Relations Manager gave an update on the Employer Bond Review.

8.1. The Fund Actuary had conducted a review of the level of bonds held by employers in the Fund. These are admitted bodies that do not have any other form of guarantee against pension liabilities.

8.2. The report identified:

- 4 cases where they recommend the employer bond level is increased
- 4 cases where the employer bond could be reduced

8.3. Where the bond level has increased, we will write to the employer to suggest that they increase the level of the bond. We will also provide details given to us by the actuary as to why the liabilities have increased. For example, in one case an employee has transferred in past service from another pension.

It is not certain whether the Fund can enforce a higher bond, but we will review the responses and, if necessary, seek actuarial and/or legal advice.

8.4. Where it has been identified that a lower value bond is sufficient, we will also write to those employers to let them know that they can reduce their bond level if they wish.

8.5. There is a third group of 11 employers which do not currently have a bond in place. These are longer standing employers and at the time of admission, there was no requirement to put a bond in place.

8.6. The Actuary has calculated the required bond value for these employers. The employers will be written to, recommending they review their position with a view to putting a bond in place. However, there is a possibility that as part of the commercial contract (which the Fund does not generally see) they may have some form of guarantee in place. We will ask these employers to confirm if this is the case. Again, it is not certain whether the Fund can enforce a bond at this stage, but we will review the responses and, if necessary, seek actuarial and/or legal advice.

8.7. The Employer Relations Manager explained that current practices mean that any new admitted bodies would be required to have a bond or guarantor in place, so the issue of not having either should not be an issue for future employers in the Fund.

8.8. The letters will be sent out early in the new year and an update on any issues will be provided at the next board meeting.

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. A column has been added to the register relating to the implementation of the new pensions system.

9.2. The Chairman noted that most of the risks are marked as 'low' with only 7 marked as 'medium'. He asked whether there were any further concerns about any of those, for example, could the handling of confidential information be impacted by the new system? The Employer Relations Manager said that information security is a major consideration in the testing process. Civica is an established pension software provider and used by many funds, so we have got confidence in their abilities, but obviously we need to evidence that as well.

9.3. A Member Representative noted that 3 of the 7 'medium' risks seem very similar. Should the separate risks addressing the same issue should be combined or should we be more concerned that it features repeatedly? The Employer Relations Manager said that the register is split into separate areas, e.g. governance, administration, etc. so a matter could appear as a risk in each area. He noted that the register has become rather crowded, so could perhaps benefit from a revised format and would look into finding an improved template for the register.

9.4. An Employer Representative noted that under workforce risks, the failure to maintain the balance between workload and staff capacity was currently 'low', and asked whether, given the current pressures, was that appropriate? It was agreed to highlight this as a more significant risk and monitor the situation.

10. **Any other Business**

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

10.2. The Pensions Manager thanked everybody on the Board for the work they have put in, and that she appreciates everybody giving up their time to do this.

11. **Meeting closed at 15.45**

12. **Date of next meeting – 2.00 pm 18 March 2021**