

Minutes

Meeting: Local Pension Board for the Dorset County Pension Fund

Time: **2.00 pm**

Date: **Wednesday 3 April 2024**

Venue: Teams Meeting

Present:

Richard Bates	Chair
Mary O'Sullivan	Employer Representative
Neal Butterworth	Employer Representative
Cllr David Shortell	Employer Representative
Adam Richens	Employer Representative
James Stevens	Member Representative
Jonathan Stiby	Member Representative

Officer Attendance:

David Wilkes	Service Manager for Treasury and Investments
Sean Cremer	Corporate Director Finance & Commercial
Vince Elliott	Employer Relationship & Communications Manager
Stephanie Clifton	Employer Relationship & Communications Manager

Managers, Advisors and Others Attendance:

Adrian Felgate	Pension Fund Committee Member
Chris Jones	Managing Director, Civica Pensions

1. Apologies for Absence and Introductions

1.1. Advance apologies received from:

- Jon Bird Member Representative
- James Sheehy Member Representative

2. Board Membership Update

- 2.1. James Sheehy has resigned from his position of Member Representative with immediate effect.
- 2.2. Mary O'Sullivan will be stepping down from her position of Employer Representative as she is retiring from her employment.
- 2.3. Mary O'Sullivan was invited to take up the vacant position of Member Representative. Mary was happy to do this, and the change was approved by the Board.

3. Declarations of interest

- 3.1. None

4. Minutes and matters arising from previous meeting

- 4.1. The minutes from the December 2023 meeting were read and agreed.
- 4.2. The Chair noted that item 6.1.5 had asked if the KPI table could show the figures for the previous period for comparison. The Service Manager for Pensions confirmed that this now shows the current quarter and the previous quarter for comparison.

5. Papers from the Pension Fund Committee

Items on the agenda of the Pension Fund Committee meeting held on 29 November 2023 were reviewed: [Pension Fund Committee Meeting 26 March 2024](#)

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

5.1. Questions

- 5.1.1. There were no questions from the public,

5.2. Pension Fund Investments

The quarterly report on the value and performance of the pension fund's investments.

- 5.2.1. The value of the pension fund's assets at 31 December 2023 was £3.8 billion with just under 80% of assets by value now under the management of Brunel.
- 5.2.2. The final quarter up to 31 December 2023 showed good returns in most asset classes. This is in response to inflation falling at a faster pace than had been expected, which in turn led to expectations that interest rates might start falling faster. So we saw rallies in across most asset classes and subsequently the Dorset Fund returned 5% in the quarter which was ahead of its combined benchmark of 4.5%. The total return for the 12 months to 31 December 2023 was 9.7% compared to the benchmark return of 8.8%.
- 5.2.3. As to whether this would lead to lower employer contribution rates, the rates would be reviewed by the actuary at the next triennial valuation based on assets and estimated liabilities as at 31 March 2025. The actuary was expected to take a cautious approach if the funding position had improved as they would not want to reduce rates and then subsequently have to increase rates at a later date.
- 5.2.4. Annualised returns for three years were 4.5% compared to the benchmark return of 6.0% and for five years were 5.8% compared to the benchmark of 6.4%. An Employer Representative asked whether this underperformance could lead to increased employer contribution rates. The Service Manager for Treasury and Investments said that there is still 15 months left in this period and it is expected that first quarter of 2024 will see reasonably good investment performance and the outlook is generally positive for the remainder of 2024.
- 5.2.5. A key theme in markets was the performance of the 'Magnificent Seven' mega-cap stocks - Apple, Amazon, Alphabet, Meta, Nvidia, Microsoft and Tesla. The potential for social media and anti-trust legislation could have an

impact on the valuations of some of these companies. Brunel's active portfolios were generally under-weight in these companies and their underlying managers would be aware of and managing these risks.

- 5.2.6. An Employer Representative asked how much the Fund has invested in the 'Magnificent Seven', either directly or through Brunel. The Service Manager for Treasury and Investments said he would need to check on that and come back with an answer.
- 5.2.7. An Employer Representative asked if the benchmark figures consist of other funds undergoing the same processes. The Service Manager for Treasury and Investments said it is not a benchmarking exercise where we are comparing ourselves with other LGPS funds, but instead the benchmark for investment return.
- 5.2.8. An Employer Representative asked if the Fund is happy with Brunel's performance, particularly as their biggest focus seems to be on environmental sustainability. The Service Manager for Treasury and Investments said that the reason for investing sustainably is not an ethical decision as such. It is a long-term view that investing in this way, being mindful and aware of the risks that climate change may have on investments, will see the returns from this approach. The feedback Brunel has been given is that they need to make a clearer link as to why they are focusing on these. That it isn't just from an ethical stance, it is from a long-term investment belief that it is going to deliver better returns for its clients.

There have been frustrations from committee members about the performance of some of our investments with Brunel over the last couple of years, but in fairness to Brunel, they've faced rising interest rates due to inflation and the invasion of Ukraine by Russia leading to a big spike in oil prices, which has played out poorly for Brunel's performance. Now we are in a more stable environment then we should see better performance come through.

5.3. Brunel Governance/ Scheme Advisory Board Update

The Committee received a verbal update from Cllr John Beesley in his capacity as the Committee's representative on the Brunel Oversight Board (BOB) and as a member of the Scheme Advisory Board (SAB) for the Local Government Pension Scheme (LGPS).

- 5.3.1. The main topic on both bodies continues to be in response to what direction the government looks to be trying to push the LGPS in. There is a desire from the government for fewer and larger pools. This is likely to play out over two or three years and the desire is unlikely to change if there is a change of government.
- 5.3.2. The government is also pushing LGPS funds to invest more in the UK and particularly around levelling up and private equity. The main fiduciary duty of the Pension Fund Committee is not only to the scheme members to ensure that they have sufficient money to pay their pensions when they fall due, but also not to put too high a burden on scheme employers. It is expected that there will be guidance from the government for schemes to set ambitions to invest more in the UK, but it is unlikely they will be mandating funds to invest in any way because legally that would stand up at the moment.

5.4. Pension Fund Treasury Management Strategy 2024/25

The Committee considered and approved a [report](#) setting out the Treasury Management Strategy (TMS) for 2024/25.

- 5.4.1. Although the pension fund had no strategic allocation to cash, cashflows needed to be managed to ensure there was sufficient liquidity to meet liabilities as they fell due and to invest any surplus balances appropriately. The TMS provided the framework within which officers must manage these cashflows and cash investments.
- 5.4.2. The TMS for 2024-25 was unchanged from 2023-24 and broadly followed the TMS for Dorset Council, the administering authority for the pension fund, where applicable.
- 5.4.3. The Chair asked where the Fund stands now in terms of things like the property portfolio, which is outside of the Brunel arrangements. The Service Manager for Treasury and Investments said that ultimately, the government wants us to move all of our investments into the pools, but to date they've been quite understanding of the fact that investments in private markets are less liquid, and they haven't really been pushing for funds to do that.

6. LGPS Administration report

The Service Manager for Pensions gave an update on the [Pensions Administration Report](#) provided to the Pension Fund Committee on 26 March 2024.

6.1. Key Performance Indicators (KPIs)

- 6.1.1. The KPI report for the period can be viewed here: [KPI report](#).
- 6.1.2. There Performance against Key Performance Indicators (KPIs) continued to be generally good despite difficulties with the McCloud remedy.

6.2. Abolition of the Lifetime Allowance (LTA) from 6 April 2024

- 6.2.1. The Government announced in the Spring budget 2023 that it will abolish the LTA completely from April 2024. HMRC then released draft legislation, a policy paper '[Abolition of the Lifetime Allowance from 6 April 2024](#)', and a consultation on 18 July 2023 to achieve this.
- 6.2.2. The new rules come into effect from 6 April 2024, when the LTA will be replaced by three new allowances (Lump Sum Allowance, a Lump Sum and Death benefit Allowance, and an Overseas Transfer Allowance) bringing further complexity to pensions tax.
- 6.2.3. In addition, there is a new 'Transitional Allowance', this will impact members who had previously taken benefits under the old rules, who will now have a reduction to the LSA of 25% of the LTA previously used
- 6.2.4. Further clarity is needed as the new rules are complex. We are currently reviewing communications and working with our software provider to modify systems and reporting where needed.

6.3. UK Spring Budget

- 6.3.1. On 6 March 2024, the Chancellor delivered his Spring Budget. There were no significant changes to Defined Benefit Schemes, but some notable changes to Defined Contribution Schemes. There were no further changes to pensions tax following the chancellor's previous announcement in Spring 2023
- 6.3.2. However, the Chancellor did announce that requirements will be introduced for LGPS funds to publicly disclose the breakdown of their asset allocations, including UK equities, on an annual basis. These requirements will be part of the new Annual Report guidance which is expected by the end of March.

6.4. TPR's General Code of Practice

- 6.4.1. The long awaited [General Code of Practice](#) was finally published by The Pensions Regulator (TPR) in January 2024. The new Code replaces Code of Practice 14 for public service pension schemes and brings together ten previous TPR codes into one. It is expected to come into force on 27 March 2024.
- 6.4.2. The Code provides an opportunity for funds to review current practices, but clarity is needed on which parts of the Code apply to the LGPS, what this means for administering authorities and how they should be applied in practice. The Scheme Advisory Board (SAB) will support authorities in understanding any new requirements in the Code and, where needed, will produce new or updated existing guidance.

6.5. McCloud

- 6.5.1. Our software provider, Civica, has confirmed that there will be a further delay in delivering the remaining McCloud developments, with current timescales indicating the required updates will not be in our live system until November at the earliest.
- 6.5.2. Civica had sent out a questionnaire to all its clients to get feedback on their thoughts and issues. DCPF had responded (a copy of the response was given to the board ahead of the meeting) but this hasn't appeared to change anything.
- 6.5.3. Although some functions are in place, including the ability to identify members in scope and calculate underpin benefits for active retirements and deferred benefits, other 'business as usual' tasks and the ability to commence the significant rectification work, covering all benefits calculated from April 2014 is not available. This is a concern as 2025 is a Valuation year, and the year in which all annual benefit statements must be compliant with the McCloud Regulations.
- 6.5.4. The Service Manager for Pensions and Corporate Director Finance & Commercial have met with senior staff at Civica. However, the outcome was that there will be no change to their envisaged timeline, but they did acknowledge that they were under-resourced at the beginning of the project.
- 6.5.5. Chris Jones, Managing Director at Civica Pensions, attended this board meeting to answer questions from the Pension Board (the content of this meeting is covered separately to these minutes).

- 6.5.6. Data: The work to cleanse the Fund's data for the McCloud Regulations is complete, putting us in an excellent position. This was a significant task, which included manual adjustments to nearly 60,000 data items.
- 6.5.7. On 1 March 2023, the Department for Levelling Up, Housing and Communities (DLUCH) issued a consultation to stakeholders of the draft LGPS statutory guidance on the McCloud Implementation. The draft guidance covers a number of issues related to the extension of the underpin to younger LGPS members made through the [LGPS \(Amendment\) \(No.3\) Regulations 2023](#), and has been issued following initial feedback from a McCloud guidance working group. Items covered include governance, data collection and verification, case prioritisation, transfers, deaths of beneficiaries before payment made and compensation.
- 6.5.8. On 24 January 2024, DLUCH issued new [LGPS actuarial guidance](#). This does not contain new factors but does provide additional information about how the McCloud remedy will affect certain calculations, including early payment of pensions, late retirements, incoming and outgoing transfers and interfund transfers.
- 6.5.9. Transfers are proving to be especially challenging in meeting the McCloud remedy requirements. Following the publication of the new guidance above, the Local Government Association (LGA) has provided a spreadsheet to assist authorities with the calculation of the McCloud element of non-club transfers whilst waiting for the required software developments. However, they have not been able to do the same for Club transfers due to the complexities involved. GAD have been approached to see if they can assist. These delays and complexity will be of concern going forward.

7. Pensions Software Delay – Exempt Item

8. Policy Reviews

- 8.1. Ahead of the meeting copies of the Board Training Policy & Board Conflicts of Interest Policy were sent to all board members for review and comment.
- 8.2. Comments were received and minor changes were made to both policies. The updated policies can be viewed on the fund website: www.dorsetpensionfund.org
- [Training Policy](#)
 - [Conflicts of Interest Policy](#)
- 8.3. A Member Representative asked whether the level of training expected of Board Members is also applicable to the Pension Fund Committee. The Employer Relationship & Communications Manager said that this is one of the areas that the new Code of Practice aims to highlight and address.

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. There has been a new risk added to the register. Pensioner payroll is due to be migrated from Dorset Council to Dorset County Pension Fund, so we needed to put

that on there as a risk because if anything goes wrong, there's a risk of not paying pensioners on time, and it's quite a significant issue if that happens.

9.2. An Employer Representative asked why this was being moved from Dorset Council, and would this involve new staff. The Service Manager for Pensions said that currently the pensioner payroll data is held separately to the Pensions Administration System, which could lead to inconsistencies and requires extra work on a system the fund has no direct control over, for example when running reports. As far as the staff, these have already been moved over, bringing with them expert knowledge at dealing the pensions payroll.

9.3. The 'go-live' date has not yet been set. It is important that we get everything in place with our software provider as it will need a big lead in time and a period of about six months of intense work for our team. We have already paid for the project time and project support when we migrated to the new system.

10. Any other Business

10.1. None

11. Meeting closed at 15:50

12. Date of next meeting – 10 July 2024

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