REPORT PREPARED FOR

Dorset County Pension Fund

Meeting of the Pension Fund Committee on 12th September 2016

Governance Compliance Update

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Introduction

I last reported on the governance arrangements for the Dorset County Pension Fund to the Committee on 24th June 2015. While I would usually report annually on these matters, the Committee's business during the summer was heavily focused on preparing for and responding to the Government's proposals on pooling investment operations and it was decided to defer my report until the autumn.

Since my last report and in addition to the focus on pooling, there have been significant developments in regard to governance concerning the review of the investment regulations (still in progress) and the establishment of the new local pension board. I refer to these issues in more detail below.

Notwithstanding the upheaval in operational and transitional arrangements faced, the Committee continues to maintain a high standard of governance in the administration of its responsibilities, and to make changes and improvements both to strengthen governance and to adopt industry-wide developments.

Executive overview

- ✓ I have reviewed the business and minutes of Committee meetings since June 2015 and I am satisfied that governance standards are being maintained and improved.
- ✓ There have been significant regulatory changes affecting the governance arrangements in relation to the establishment of the Local Pension Board which require some 'bedding down'.
- ✓ The new pooling arrangements represent challenges in establishing a workable governance structure for the future, integrating the Committee's existing responsibilities, those in relation to the Brunel pool, and those relating to the Pension Board.

Recommendations

[1] That consideration is given to bringing forward the closing process for the pension fund accounts.

[2] That the website information relating to the Pension Board is kept up to date.

[3] That the Scheme Advisory Board website is checked regularly for information published about the Dorset Fund and updated as necessary.

[4] That the CIPFA guidance on governance for the oversight of pools is reviewed when available.

[5] That the revised investment regulations are reviewed as soon as they become available.

Independent governance oversight

The role of governance oversight has changed with the introduction of the Pension Board. While the responsibilities of the Committee in maintaining good governance have not diminished, pension board members now have a responsibility for ensuring compliance with regulations and guidance. In some respects this can lead to duplication of effort and it is important to differentiate the role of the latter in assisting the Scheme Manager to ensure compliance, notwithstanding the statutory responsibilities placed on individual Board members.

At the same time, many of the requirements that I have reported on over the past eight years have become embedded in the Committee's operations, including those most recent ones relating to the annual report. That is not to suggest any complacency but that the focus of governance oversight is changing and can be developed to be as effective and efficient as possible.

For my own part and recognising this change of emphasis, I have adapted my agreement with the Dorset Pension Fund to cover advice both to the Committee and to the Pension Board as required, as well as maintaining a general role of oversight and responsiveness. My role may need to adapt further as new governance frameworks and guidance emerge - see further comments below.

Core business activity

A review of the Committee's core business activity at meetings since June 2015 confirms that governance standards continue to be maintained and improved where necessary. I note in particular the approval of a business plan; a satisfactory audit report on the Fund's accounts and controls; the approval of a revised Statement of Investment Principles; a revised Treasury Management Strategy; a review of voting activity, the risk register and currency hedging; and regular reports on administration and investment management arrangements, with presentations from the asset managers.

As I have indicated above, it has been necessary for the Committee to devote a significant amount of time to the issue of pooling which was introduced by the Government on a tight timetable. Nevertheless, in my view this has not impacted on the Committee's continuing high standards of governance in transacting business.

Annual Report and Accounts

The Committee agreed the report for 2014-15 at its meeting in November, in a form that had been adapted to reflect the CIPFA guidance and is now compliant. I would note that there will be increasing pressure for the accounts to be produced earlier, i.e. by the end of September in line with the Council's main accounts, and this will place some added strain on the accounts closing process for the pension fund.

Governance Compliance Statement

The Committee agreed a revised statement in June 2015 which is fully compliant with the guidance. This guidance issued by the DCLG in 2008 is now somewhat outdated although still relevant. I refer below to the expectation of new guidance from CIPFA.

Dorset Local Pension Board

The Board has been both active and productive in the past year. I attended the Board meeting in June 2015 and provided some basic training on the governance framework. I was appointed as governance adviser to the Board, though not required to attend each meeting.

The meeting scheduled for September was cancelled (due to timing problems and limited business). I attended the next meeting in December to provide a review of the annual report and policy statements from a compliance perspective and to give some training on the regulatory requirements.

As with the Committee's business, the pooling proposals have proved a major distraction to the normal flow of meetings but Board members have been kept informed of developments; attended a special training session on new pooling arrangements; and have attended meetings of the Committee.

While the Board has been developing its role in a satisfactory manner, there is a lack of transparency in its operations as the website is not being kept up to date. This will be a matter for the Board to consider with the Scheme Manager but I would suggest that at the least, the agenda, items of business that are not confidential and draft minutes are published on the website. This is considered good practice elsewhere.

It is also important to be aware of external perceptions, particularly the Scheme Advisory Board. Their website provides scheme information on local pension boards in relation to compliance with the Public Service Pensions Act 2013 and is shown in Annex A.

While non-compliance is recorded on two areas, this is not the case and the SAB website should be updated. The statutory responsibility for this is placed on the Scheme Manager but the Pension Board could assist in this function by reviewing the website on a regular basis and suggesting any updates.

Implementation of new pooling arrangements

I have been kept informed of developments in the Committee's involvement and participation in the Brunel Pension Partnership as have members of the Pension Board. The next stage is somewhat dependent on the Government's response to the proposals submitted but assuming the proposals are agreed, implementation is expected to take place over the period up to April 2018.

It is during this period that the issue of governance, among the many other areas to be addressed, will need to be developed. New governance arrangements will need to ensure that both the Committee and the Board can meet their responsibilities in relation to compliance with statutory requirements and guidance.

In the past few weeks, CIPFA has announced that it is to launch guidance on the governance principles for the oversight of LGPS asset pools. The guide will set out the key governance issues that the 89 LGPS funds in England and Wales must consider as the pooling proposals are developed ahead of planned implementation in April 2018. The governance document has been prepared by the CIPFA Pensions Panel with Aon Hewitt and is intended to highlight areas that individual funds should consider, including conflicts of interest and risk management, information and reporting requirements, and the responsibilities of chief finance officers.

Local Pension Board briefing

I have reviewed the notes from an asset pooling briefing with local pension board representatives held by the Scheme Advisory Board, LGA. HM Treasury and DCLG (these four representing the Panel) on 10th August. I refer below to some relevant points in relation to governance.

Representation - Significant concerns were raised about the lack of representation on the governance structures designed to oversee the pools. The note states that *"without such representation, local boards, and member representatives in particular, would not be able to play an effective role in helping to ensure that investment and responsible investment strategies were being implemented by the pools"*.

In response, the Panel stated that there would be no mandatory membership of oversight structures and that it would be for each pool to develop the proposals they considered appropriate.

Transparency of process - Copies of the submissions and associated data were requested but the Panel said that this was for each scheme manager. As I have said above, the Dorset Pension Board has been kept informed of the pooling proposals with copies provided.

Transparency of costs - Mandatory disclosure of investment costs was requested but the Panel stated there was no authority to do so. The SAB has announced recently that they will be launching a transparency code to require disclosure of investment fees on a voluntary basis and a standard template will be provided. Funds would be expected to encourage their asset managers to sign up to the Code.

Ownership and voting - A concern was raised regarding the impact of the common ownership of assets on responsible investment strategies. Clearly these are issues to be resolved in the new governance arrangements.

Impact on benefits - It is important to note the response to concerns raised about the potential impact on member benefits of any underperformance by pools, in particular through cost management arrangements:

"The Panel was unequivocal in reminding the meeting that benefits in the LGPS were statutory and were not subject to the level of, or variation in, investment returns. Both the SAB and HM Treasury cost management processes specifically excluded investment returns from the factors to be taking (sic) into account when assessing the future cost of the scheme. The risk of underperformance in investment returns was reflected solely in the deficit and met through increased employer contribution rates. It was, however, accepted that significant and continued growth in deficits could raise questions on the sustainability of the current benefit structure."

While none of this is new, it is helpful to have these views spelt out. Clearly local pension board members have an interest but this needs to be viewed in the context of their statutory duties. The position of the Committee is unchanged.

Review of investment regulations

The Committee has been informed of, and has responded to, the proposed changes to the investment regulations which have a significant impact on future investment strategy and the operation of the pools. Unfortunately the DCLG has failed to publish any decision on the consultation responses received in February. It is expected that the revised regulations will be issued in the autumn for implementation from 1st April 2017 but there is no indication of when an announcement will be made.

The changes proposed are fundamental in governance terms and the Committee should review the new regulations when they are issued.

Other issues

Section 13 valuations - The Government Actuary's Department, appointed by DCLG, have completed a 'dry run' section 13 analysis based on the 2013 local valuations. This analysis assesses whether the four main aims - compliance, consistency, solvency and long term cost effectiveness - have been achieved.

This is in advance of a review of the 2016 valuation results under the Public Service Pensions Act 2013 - a copy of Section 13 is provided in ANNEX B for ease of reference. It is for each fund to discuss the implications with the fund actuary but there will be governance issues arising which affect the Committee and the Board.

Counsel Opinion on local pension boards - The SAB has reported on a Counsel Opinion it obtained in February regarding the legal status of local pension boards in particular their legal relationship with the authority acting as scheme manager. Details of the outcome and a copy of the Opinion are available on the SAB website.

Peter Scales

Public Service Pensions Act 2013

6 Pension board: information

(1) The scheme manager for a scheme under section 1 and any statutory pension scheme that is connected with it must publish information about the pension board for the scheme or schemes (and keep that information up-to-date).

(2) That information must include information about—

(a) who the members of the board are,

(b) representation on the board of members of the scheme or schemes, and

(c) the matters falling within the board's responsibility.

(3) This section does not apply to a scheme under section 1 which is an injury or compensation scheme.

Pension Fund	PSPA 6(a)	PSPA 6(b)	PSPA 6(c)
Dorset Pension Fund	**No**	**No**	**Yes**

The information on this page has been collated from the second quarter of 2015 onwards, and whilst every effort has been made to ensure that information listed here is accurate, there is a chance that some authorities may not have published or provided information on request.

If any information is missing or not accurate/up to date, please contact Liam Robson.

Public Service Pensions Act 2013 (contd)

13 Employer contributions in funded schemes

(1) This section applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.

(2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—

(a) the solvency of the pension fund, and

(b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.

(3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.

(4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved—

(a) the valuation is in accordance with the scheme regulations;

(b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);

(c) the rate of employer contributions is set as specified in subsection (2).

(5) A report under subsection (4) must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.

(6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved—

(a) the report may recommend remedial steps;

(b) the scheme manager must—

(i) take such remedial steps as the scheme manager considers appropriate, and

(ii) publish details of those steps and the reasons for taking them;

(c) the responsible authority may—

(i) require the scheme manager to report on progress in taking remedial steps;

(ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

(7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified.