

REPORT PREPARED FOR

**Dorset County Pension Fund**

**Meeting of the Pension Fund  
Committee on 23<sup>rd</sup> November 2017**

**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 12<sup>th</sup> September 2016. Since my last report there has been a continuing heavy focus on the new pooling arrangements and significant changes in regard to governance concerning the revised investment regulations.

Notwithstanding the upheaval in operational and transitional arrangements faced and the continuing development of the Brunel Pensions Partnership arrangements, 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 practice.

## Executive overview

- ✓ I have reviewed the business and minutes of Committee meetings since September 2016 and I am satisfied that governance standards are being maintained and improved.
- ✓ I have also reviewed and reported to the Local Pension Board which in my view is operating effectively.
- ✓ The new pooling arrangements appear to be proceeding well but continue to represent challenges in establishing a workable governance structure for the future, integrating the Committee's responsibilities, those in relation to the Brunel Pensions Partnership, and those relating to the Pension Board.

## Recommendations

- [1] That operational monitoring and compliance arrangements, including policy documentation, are reviewed with regard to the CIPFA guidance on governance principles for the oversight of pools in order to establish how the new governance arrangements will operate effectively in the context of both the Committee's the Pension Board's responsibilities.
- [2] That the Committee continues to monitor progress on the MIFID II opt-up process and the implementation of the General Data Protection Regulation.

## Independent governance oversight

As I have reported previously, the role of governance oversight has changed with the introduction of the new pooling arrangements and the Pension Board. While the responsibilities of the Committee in maintaining good governance standards have not diminished, pension board members now have a responsibility for ensuring compliance with regulations and guidance and in assisting the scheme manager to secure the effective and efficient governance and administration of the LGPS for the DCPF.

Many of the requirements that I have reported on over the past nine years have become embedded in the Committee's operations and need to be translated into the ongoing relationship with the Brunel Pensions Partnership. This represents new and complex arrangements that have by necessity been introduced and developed over a short timescale.

That is not to suggest any failings in governance oversight but that the position is evolving rapidly, i.e. relative to governance changes over the past ten years, and will need to be kept under review. The Committee faces challenges and risks in this 'new environment' but these are not inconsistent with those being faced by all LGPS pension funds at this time.

### Core business activity

A review of the Committee's core business activity at meetings since September 2016 confirms that governance standards continue to be maintained and improved where necessary. I note in particular the review of the valuation process; a satisfactory audit report on the Fund's accounts and controls with only one low priority recommendation; a review of the Committee's terms of reference; the approval of a revised Funding Strategy Statement for consultation; a review of the Treasury Management Strategy; a review of voting activity, the risk register and currency hedging; regular reports on administration and investment management arrangements, with presentations from the asset managers; and most recently a review of asset allocation strategy.

### Brunel Pensions Partnership

The business case for the Partnership was reviewed and approved by the Committee with the benefit of legal advice and the Committee is monitoring progress with reports to each meeting, aided by the role of the chairman on the Oversight Committee and the advice of officers.

I note that a review of risks and KPIs has been sought and that these are being developed. The forthcoming period over which assets will be transitioned into the new arrangements will be crucial in ensuring the Committee's asset allocation strategy is implemented, that costs and risks are managed properly, and that compliance with regulations and other legal requirements is maintained. While these remain challenges and there are significant risks to be managed, I am satisfied that these are being addressed by all parties.

As these arrangements evolve, it will be necessary to review operational monitoring and compliance arrangements, policy documentation, and how the new governance arrangements will operate effectively in the context of both the Committee's and the Pension Board's responsibilities. In that context, CIPFA issued guidance in October 2016 on the governance principles for investment pooling which should be considered as a practical framework within which to review the current arrangements.

### Annual Report and Accounts

I have reported previously on increasing pressure centrally for accounts to be produced earlier and I am pleased to note that the annual report and accounts for 2016-17 was approved by the Committee in September, earlier than in previous years. I am satisfied that the report has been adapted to reflect the CIPFA guidance and is compliant. It is likely that greater demands will be placed on administering authorities to report annually on the new pooling arrangements and cost savings, and more frequently in terms of the latter to evidence achievement of Government directions.

## Key Personnel

The Fund has lost some key personnel over the past 18 months but I consider that the governance arrangements have continued to operate effectively. 'Key personnel' includes elected members appointed to the Committee and following the changes from the May elections, I attended a training session for new members in June to provide some training on the Fund's governance arrangements.

## Dorset Local Pension Board

The Board has not met as frequently as planned over the past year due to lack of members which has since been rectified. The Board met in March and again in September which I attended to report on current regulatory and guidance issues. At both meetings the Board has addressed matters relating to their responsibilities and received training. In some respects, the Board's considerations reflect those of the Committee but with a more direct focus on those that they represent.

I reported to the Board that the Dorset website did not show papers from their meetings but this has since been rectified. I also referred to the incorrect data on the Scheme Advisory Board website, as reported to the Committee previously, but this has still to be corrected by the SAB.

The Board also considered a report on their effectiveness produced by JLT which was based on self-assessments completed by Board members. JLT concluded, "Overall, this is a good set of results that reveals no serious governance deficiencies". I would endorse that conclusion. The report made a number of recommendations which the Board are addressing.

## Other issues

**LGPS amending regulations** - There are a number of amendments to the regulations on which DCLG started consultations last year but which are pending covering Fair Deal; AVCs; Pension Accounts; revised actuarial valuations; scheme employers; membership before 1 April 2014; and transitional provisions. One on exit payments has re-surfaced recently and was reported to the Committee.

**MIFID II Directive** - The Committee received a report on this Directive at their meeting in September and agreed to 'opt-up' to elected professional status. This Directive comes into force in January 2018 and the Committee should be kept aware of developments. It will be necessary to ensure that the new status is retained in the pooling arrangements when they become fully operational.

**General Data Protection Regulation** - This Regulation comes into force in May 2018 and although it applies primarily to the Council, there are significant implications for the pension fund. These are being addressed by the administration team and were reported in brief to the Pension Board. The Committee should monitor progress and ensure that the new arrangements are in place.

**Investment Regulations** - In a recent court judgement divestment rules were declared 'unlawful' and the Secretary of State's power to keep local authority pension investments in line with national foreign and defence policy has been quashed. Government may appeal the ruling but the guidance has been rewritten in line with the judgement.

**Investment Cost Transparency** - The Scheme Advisory Board has published a template for asset managers to sign up to on a voluntary basis and this is being monitored by the Committee. No doubt there will be increasing pressure on all asset managers to adopt the code and the Committee's decisions in this respect will need to be translated into the Brunel Pensions Partnership.

**The Pensions Regulator** - TPR has announced that is currently considering new guidance on the roles and responsibilities of LPBs; a quick guide on issuing Annual Benefit Statements; and additional modules to their toolkit. The Committee and the Board will need to be aware of these as and when they emerge.

**The Pensions Ombudsman** - Consideration is being given (all schemes) to reducing the IDRPs procedures to one stage and they offer a simple checklist on how they process complaints.

**Scheme returns** - Barnet Council has recently been fined by the Pensions Regulator for failing to submit a 2016 scheme return, the first such fine imposed on an LGPS fund. This underscores the importance of making returns to tPR and I advised the Board to seek assurances and monitor that this is being done. This is not an issue for the Dorset Fund currently.

Peter Scales