

# **DORSET COUNTY PENSION FUND**

Governance Compliance Update

Pension Fund Committee on 22<sup>nd</sup> November 2018

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24<sup>th</sup> November 2018

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## 1.0 Summary Observations

- I have reviewed the business and minutes of Committee and Board meetings and I am satisfied that governance standards are being maintained and improved.
- The Pension Board has been operating effectively and in line with its responsibilities, but has suffered problems with meeting dates even on the basis of two meetings per year. Conversely there is pressure from the Pensions Regulator for more frequent meetings.
- I have reviewed the Annual Report for 2017-18 as reported to the Committee in September and I am satisfied that it is compliant with the regulatory requirements and reflects good practice.
- The new pooling arrangements (BPP) are continuing to evolve and assets are in a well-planned transition process through to 2020. Governance arrangements will need to be reviewed and similarly evolve to ensure the Committee and Board are best able to meet their responsibilities.
- Other issues developing nationally by the Scheme Advisory Board, the Government Actuary's Department and the Pensions Regulator should be monitored and responded to as and when appropriate.

## 2.0 Introduction

- 2.1 I last reported on the governance arrangements for the Dorset County Pension Fund to the Committee on 23<sup>rd</sup> November 2017. Since then, the Fund has been heavily engaged in developing and implementing new pooling arrangements, on which I comment later in this report.
- 2.2 As I have indicated to the Committee previously, my role in relation to compliance reporting has changed with the introduction of the Pension Board. Nevertheless, I continue to monitor the governance activities of both the Committee and the Board, and keep the Committee informed of issues developing scheme-wide.
- 2.3 Notwithstanding the pressures placed on funds to move to new pooling arrangements, the regulatory framework continues to develop and pressure continues on the administration arrangements. I have included some indicators of current developments, some commentary on discussions at the Scheme Advisory Board level of which the Committee should be aware, and also some recent national dialogue relating to local pension boards and pooling.

## 3.0 Core business activity

- 3.1 Part of my governance review involves monitoring the reports and minutes of Committee meetings and of Board meetings. While this may give only a limited perspective on the detail of meetings, it does enable me to form the view that governance standards are being maintained and improved. From my limited experience, I believe these standards are at a high level and consistent with the other funds with which I am involved.
- 3.2 I note in particular that the Committee has been kept informed of developments on data quality checks, the GMP reconciliation exercise, whole fund tracing, GDPR, administration backlogs, existence checks, amending regulations, exit credits, annual benefit statements, the risk register, and pension scams which are all issues under the regulatory spotlight. In addition I note the training day with BPP and the regular review of the Oversight Committee reports, and also the move to quarterly funding updates from Barnett Waddingham.

## **4.0 Review of the Annual Report**

- 4.1 I have reviewed the content of the Annual Report and each of the policy documents contained within the Report. I have not studied each policy document in detail as this is a function more for the Board and I do not wish to duplicate their efforts. However I found the documents overall to be compliant with the regulations and have made some observations below.
- 4.2 No information is provided on administration performance over the past year, e.g. against benchmark for each main case type and in the form reported regularly to the Committee. In a similar vein, no indication is given of performance by employers under the Administration Strategy, e.g. payments made on time (or late if appropriate), any fines levied. This might be viewed technically as a lack of compliance with the regulatory requirements.
- 4.3 The report contains a statement of compliance with Myners' Principles. While this is a useful indicator of good practice, there is no longer any regulatory requirement to report on this. As a consequence, comments on compliance are no longer accurate in this context. Dorset is not alone in continuing to refer to Myners' Principles but any formal need for this is slipping away and the issues have almost been forgotten in the private sector.

## **5.0 Implementation of pooling arrangements**

- 5.1 As I have indicated previously, the introduction of pooling arrangements represents a major change in the way LGPS funds are invested and I don't need to remind the Committee of the difficult and complex process they have gone, or are still going through. I note that the Committee has been advised that BPP are making good progress and better progress than some other pools.
- 5.2 At this albeit early stage, I believe there are still a number of detailed governance issues to be resolved particularly in the transition to a new structure through which the Committee and Board can continue to meet their responsibilities. While there will be guidance and advice on generic processes the Committee and Board will need to develop governance arrangements that work best for them in practice.
- 5.3 In terms of collaboration between pools, the Chairs of LGPS pension committees and local pension boards attended an open session on 27<sup>th</sup> March where representatives from the eight asset pools reported on progress in establishing their organisational structures and governance arrangements. I was not available to attend this meeting.
- 5.4 The SAB reports that steps have been taken to establish the Cross Pool Open Forum approved by the Board in February 2018, comprising three representatives from each of the eight pools and three trade union representatives. Such a Forum may be a useful cross reference for the Committee in testing their own arrangements both with other funds in BPP and also in other pools.

## **6.0 Dorset Local Pension Board**

- 6.1 Over the past 12 months, the Board has continued to operate in line with its terms of reference, covering the key areas of their responsibilities. However, there is a continuing problem with holding meetings with the September meeting cancelled due to lack of availability, to be re-scheduled in November.
- 6.2 The Board considered the frequency of meetings earlier in the year and decided that two per year were adequate. As indicated later in this report, there is growing pressure from the Pensions Regulator for public sector pension boards to meet more frequently.

6.3 In reviewing the risk register as currently agreed, the Board may wish to consider whether there should be more references to the activities of the Board on reviewing compliance and performance, for example, as mitigating factors in reducing the likelihood of risk.

6.4 There has been considerable debate nationally about the representation of scheme members on the oversight committees of the pools, led in part by discussions at the Scheme Advisory Board. Earlier in the year, the SAB revised its guidance and issued a revised statement. The key component of this revised guidance is:

***“In line with the UK Corporate Governance Code principle of ‘comply or explain’, any pool making a decision to exclude member representatives from their formal oversight structures should publish this decision and formally report the reasons to the local pension boards which the pool serves.”***

6.5 I make this point as in my view this is something of a ‘veiled threat’ to administering authorities as the SAB has no powers to compel funds to comply although this will be perceived as good practice. BPP has already taken the step of appointing two scheme member representatives to the Oversight Committee in the capacity of observers and I understand that they report back to meetings of representatives of local pension boards of funds in the pool. This will be an important part of evolving governance arrangements.

6.6 Subsequently, there was some discussion at a CIPFA Conference for Local Pension Boards in June on the role of LPBs in pooling. I was unable to attend this event but a summary of the discussion has been circulated to attendees and I have circulated this to officers at funds with which I have an involvement.

6.7 While the comments are mainly from a local pension board perspective and are not in any way conclusive, the Committee may find it useful to know how pension boards generally are reacting to the new pooling arrangements. The conclusions in that note were:

- *“Overall the view appeared to be that LPBs should be very cautious about getting involved in decision making roles and the focus should be on scrutinising how the Committee/administering authority is managing the pool.*
- *There was support for an observer role and this is clearly working well in some Pools; it was felt that attending in person can provide a different understanding and view of what they mean than reading the reports and minutes.*
- *There was interest in the idea of the LPB chairs within each pool meeting as is already practiced by some although London may need to meet in smaller groups.*
- *The different Pool models make prescribing a solution difficult. There needs to be a clear process for making Pools accountable but in a free market environment this could be restrictive.”*

6.8 In my view, the underlying issue is whether or not scheme member representatives should have a role in the investment decision making process, particularly in regard to responsible investment. As I have indicated to the Committee previously, my view is that local pension boards have a role in ensuring compliance and efficient processing but not in detailed investment decisions.

## 7.0 Scheme Advisory Board

7.1 Aside from the issues referred to above concerning scheme member representation, the Committee should be aware of other activities in progress.

7.2 The SAB has agreed three key projects in their Work-plan for 2018-19:

[1] The separation project with the objective to identify both the issues deriving from the current scheme administrative arrangements and the potential benefits of further increasing the level of separation between host authority and the scheme manager role. This project was first raised in 2015 and some initial investigative work done. However it was put on hold while pooling was progressed.

[2] A project proposed by MHCLG to identify regulations which may be better sited within statutory guidance and assist with the drafting of revised regulations and guidance.

[3] A project to assist administering authorities in meeting the Pension Regulator's requirements for monitoring and improving data, to include the identification of scheme specific conditional data and the production of guidance for authorities and employers.

7.3 In a move to improve communication of its work, the SAB agreed in October to circulate a bullet point summary of each meeting to scheme stakeholders as soon as possible to be followed up with a more detailed summary on the Board's website. The summary from their meeting on 10<sup>th</sup> October has been circulated to officers and I have highlighted some key governance issues below.

7.4 Cost cap mechanism:

- Following completion of the Section 13 national valuation process and the Treasury announcement regarding quadrennial national scheme valuations, the 2% floor has been breached in most cases.
- SAB has its own cost cap mechanism for LGPS which indicates a total cost of 19% against a target of 19.5%, and a working group has been established to agree a package to bring costs back to 19.5%.
- Any subsequent regulatory changes must be on the statute book by 1<sup>st</sup> April 2019.
- A move to quadrennial valuations for the LGPS is under discussion but won't affect the 2019 valuation.

7.5 Separation Project: Following a tender exercise, three bids for the work are under consideration.

7.6 Code of transparency: 91 signatories have signed up to the code covering £180bn of assets. An OJEU process is underway for the procurement of a code compliance utility.

7.7 Responsible investment: The Board has agreed that the guidance on Responsible Investment should include reference to the Government's latest position on ESG and, in particular, climate risk. ShareAction may be approaching funds to discuss their approach to ESG policies.

7.8 Pensions Regulator: Further to concerns raised by a number of funds, the Board agreed that the Chair should write to the Pensions Regulator about their activities and approaches in dealing with the LGPS. I do not know what those particular concerns are.

## 8.0 The Pensions Regulator

8.1 The results of the Public service governance and administration survey undertaken in autumn 2017 were finally published in May. Some of the key issues are summarised in Appendix A as these will influence tPR's work in the coming year. The survey for 2018 is due to be issued in early November for completion by the end of that month. It is important for funds to respond to this survey as the results are clearly used by tPR to assess performance on governance issues.

- 8.2 A new approach to regulation of workplace pension scheme has been launched recently with the ‘banner’ headlines:

*“An increasing number of workplace pension schemes will come under greater scrutiny from The Pensions Regulator (TPR) from next month as part of a significant shift in its approach to protect savers. To reflect major changes in the political, economic and pensions landscape, TPR will be working proactively with more pension schemes through a new range of interventions to address risks sooner, clearly set out its expectations and take action where necessary.”*

- 8.3 While this new approach applies to all workplace schemes with the emphasis on protecting savers, inevitably there will be an additional focus on LGPS schemes and current indications are that at least five LGPS funds have been targeted for one-to-one contact. This may be the source of the concerns referred to in paragraph 7.8 above.

- 8.4 Key areas of focus are suggested as:

Record keeping and data quality: This remains a high priority with data scores implemented in 2018 and scheme returns (issued in September for submission by the end of October) to include data scores for the first time.

Local Pension Boards assisting Scheme Managers: An expectation that Scheme Managers should work with LPBs and that the boards take an active role in identifying key risks and driving forward improvements.

21<sup>st</sup> Century Governance: This remains a key focus in raising standards of competence and improving the governance and administration of pension schemes.

Writing to Scheme Managers: Main risk areas should already be focussing on risks, how to identify and mitigate them, coupled with tPR’s expectations.

## 9.0 The Pensions Advisory Service

- 9.1 The current LGPS regulations require references to TPAS to be made in dispute resolution decisions and documentation. However, TPAS dispute resolution service was transferred to the Pensions Ombudsman in March 2018. While this may be due to Parliamentary time pressures, there is nevertheless a compliance issue that is causing some confusion.

## 10.0 Other issues

- 10.1 MHCLG has recently released draft regulations covering survivor benefits together with other technical amendments. Further regulatory changes, albeit a long time coming, are still expected in respect of an exit cap, ‘Fair Deal’ and valuation factors.
- 10.2 Notwithstanding the enormous pressures placed on funds in relation to pooling and with the forthcoming valuation exercise next year, the administration and governance of the Scheme continues to face enormous pressures.

## Public service governance and administration survey 2017

### Summary of key findings reported by the Pensions Regulator

- Confirms their assessment that the top risks are around scheme governance, record keeping and internal controls but identifies significant improvements.
- 60% of schemes reported that all members received their annual benefit statements on time (up from 43% the previous year).
- Increased engagement from scheme managers and pension boards in running the schemes.
- 43% of schemes hold fewer than four meetings a year which in their view provides inadequate opportunity for pension boards to effectively carry out their role and raises concerns about the quality of governance.
- Process improvements have stalled in some Local Government schemes and this group was the one least likely to respond to the survey and they are concerned about the risks of disengagement.
- Because of the specific challenges faced by Local Government schemes, they expect to focus casework activities on that group in the coming year.
- Only 58% of schemes have all six of the key processes measured by tPR in place.

[N.B.] The six key processes are not entirely clear but are likely to include:

- [1] Governance
- [2] Conflicts of interest
- [3] Risk management
- [4] Administration performance
- [5] Record keeping and data quality
- [6] Reporting





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