

DORSET COUNTY PENSION FUND

Governance Compliance Update

Pension Fund Committee on 10th March 2022

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1.0 Introduction

- 1.1 I last presented my annual review on the governance arrangements for the Dorset County Pension Fund at the Committee on 11th March 2021. As for all local authorities, the past two years have been a period of uncertainty due to the COVID-19 pandemic. This has been an extreme test for governance arrangements and compliance. The Dorset County Pension Fund has adapted well and has continued to maintain good governance standards.

2.0 Committee and Board meetings

- 2.1 Both the Committee and the Local Pension Board have adapted their meeting arrangements to enable virtual meetings to take place. I note in particular, the arrangements for decisions to be taken on a “minded to” basis and then made by the officers under delegated powers. This enables the Committee to maintain proceedings on a virtual basis without diluting governance too much. For the Board, meetings can continue on a virtual basis, and I note this addition to the revised terms of reference.
- 2.2 My experience from other LGPS funds is that while they have adapted to virtual meetings, they are not the preferred option and represent a possible weakness in the governance arrangements. For example, many find virtual meetings lack interaction and can hamper open discussion.
- 2.3 On the other hand, virtual meetings can make it easier for some to attend and for more members of the public to listen to proceedings if not participate. Having attended one meeting and watched the webcast of another, I don’t see this as a significant issue for the Committee.
- 2.4 However, I would make the observation that I agree with views expressed in the November meeting that matters to do with staff pay and conditions should not be discussed in detail in a public meeting, albeit the issues evolved in the discussion. That part of the discussion was necessary for the Committee to understand the factors but should have been deferred to Part II of the agenda.

3.0 Core business activity

- 3.1 I have looked through the public papers for both the Committee and the Board and read the Part I minutes of each meeting. I listened to part of the webcast of one of the Committee’s meetings and to the full meeting in November as the annual report was being considered. This only provides me with a partial oversight of proceedings but enough to satisfy me that the meetings are being run well in governance terms and are covering the broad range of responsibilities. I endorse the way in which questions from the public have been handled.
- 3.2 For the Committee, I note that administration is now a regular item on each agenda, and I welcome the web links placed in the report as background papers, e.g. LGPS regulations 2013. However, I note also that KPIs have not been available during the transition to the Civica system. Other key areas covered include data quality, ABIs, treasury management, pooling and external audit, and I note that the Brunel monitoring reports are being reviewed in an effort to make them more concise and relevant.
- 3.3 For the Board, the business considered has been wide ranging and highly relevant to the Board’s role. I note in particular the recent review of a conflict of interests policy specific to the Board. The Committee chair has attended meetings which is a sign of a good working relationship between the Committee and Board. As I suggested last year, the Committee should receive the minutes of the Board meetings at each of its meetings to further evidence good governance in practice.
- 3.4 Also, the Board sees the Committee’s papers on a timely basis which is an efficient way to monitor the decisions being taken. While this inevitably leads to some duplication, that is good practice as the Board can ensure the Committee is covering all relevant aspects of administration, helps the Board improve its knowledge and understanding, and enables the Board to view the business from a different perspective.

4.0 Annual Report

- 4.1 I have read through the annual report for 2020-21 and consider that, as in 2019-20, the report is well written and informative. In my opinion, and as stated in the report itself, the annual report is compliant with the regulations (Reg 57) and has regard to the guidance as issued by CIPFA.
- 4.2 I note that the Board produces a comprehensive annual report of its proceedings which is available on the website. Some funds include a brief summary report from their local pension board in their annual report, which includes meeting attendance and training, and some also include a short report in their fund member newsletters.

5.0 Regulations and Guidance

- 5.1 The impact of the COVID-19 pandemic has continued to slow progress on an increasing number of regulatory and guidance matters. DULHC (formerly MHCLG) has a significant ‘build-up’ of regulatory matters requiring their attention but do not appear to have sufficient resources to deal with them. I understand that they are adding new staff to their pensions team, but it is not clear how quickly they will be able to tackle this heavy workload. There is a risk that changes in the regulatory framework will be rushed and not processed in a practicable manner.
- 5.2 Most of these issues have been brought to the Committee’s attention previously and I have set out below a summary of the key items:

SAB Good Governance Review – SAB agreed the proposals in the Hymans report in February 2021 together with a work plan for implementation. A response is awaited from DLUHC but it is likely there will be significant changes to the regulations and guidance on governance.

In their response to DLUHC, SAB included a useful and comprehensive Action Plan consisting of formal requests from SAB and other bodies to implement the recommendations together with proposed actions for each of the recommendations made by Hymans Robertson. Part of that suggests a process of assessment by each fund against key performance indicators which each fund would determine, to form part of an annual governance statement and biennial independent review. Given that some form of consultation may emerge this year, there would be value in making an interim assessment of how the Committee and Board arrangements in Dorset might stand under such scrutiny.

Pooling arrangements – DLUHC issued an informal consultation in January 2019 which was subsequently withdrawn for revision following a significant amount of criticism and challenge. It is not clear when revised guidance will be issued but some clarity is needed on the operation of the pools.

Investment strategy guidance – Revised guidance on the preparation of the investment strategy statement is awaited following the Supreme Court judgement in favour of the Palestine Solidarity Campaign handed down on 29th April 2020, but this is likely due to other outstanding investment issues.

Responsible Investment guidance – SAB has issued an on-line A-Z guide to responsible investing but without reference to fiduciary duty, an issue on which clarification has been sought. It seems likely that there will be pressure on DLUHC to regulate on responsible investment, including climate change in some way, although this may require secondary or even primary legislation.

Climate risk disclosure – Consultation on the introduction of mandatory climate risk reporting across the LGPS, using the Task-force on Climate-related Financial Disclosures (TCFD) is expected soon.

Pensions dashboards – Proposals for consultation on how these will be applied in the LGPS are expected soon.

Changes to the local valuation cycle and management of employer risk – It is not yet clear how the transition to quadrennial valuations will be managed or the implications for the cost cap mechanism.

CIPFA Pensions Panel – CIPFA has disbanded the Panel and the SAB has recently established a new Compliance and Reporting Committee to replace the Panel. As the Committee will be aware, CIPFA guidance is part of the regulatory framework (e.g. annual reports) and it is not yet clear how this will be translated into new regulatory guidance.

Levelling up White Paper – There are references in the recent White Paper to the case for LGPS funds to support levelling up across infrastructure, housing, regeneration and SME finance through local projects. The suggestion is that if LGPS funds allocated 5% to local investing, this would unlock £16bn in new investment and funds are asked, working with the asset pools to publish plans for increasing local investment. The Committee will no doubt recognise similarities to ambitions voiced by the Government in 2001 at the time of the ‘Myners Review’, in 2015 when the concept of pooling was first mooted, and on other occasions over the years. This could well lead to a change in regulatory guidance.

- 5.3 All these issues and potential changes will impact upon the governance framework and timescales are likely to be truncated due to the loss of momentum during the pandemic. They will also further complicate the requirements for compliance, knowledge and understanding on both the Committee and the Board.

6.0 The Pensions Regulator

- 6.1 The Pensions Regulator published the results of their 2020 survey and these have been reported to the Committee. The survey results are used by tPR to direct their future plans and focus areas, and they have published what they refer to as “expectations” on pensions governance.
- 6.2 The Regulator’s plans to introduce a combined code of practice have been subject to a formal consultation but implementation has been delayed by the need to digest the high number of responses received. It is still not clear whether the LGPS will be differentiated from non-funded public sector schemes in the new Code. The outcome is not now expected until the summer with the new code coming into force in October.
- 6.3 Administering authorities, including local pension boards, will need to be able to demonstrate that they have an effective system of governance within 12 months of publication of the updated code. It is not clear how this relates to the SAB Good Governance Review and whether any conflicts will emerge.

7.0 Conclusions

- The Dorset County Pension Fund continues to maintain good governance principles.
- Despite the pandemic, the overall administration of the fund has continued to operate well.
- The transition to the new Civica administration system has suffered ‘teething’ problems but is being monitored closely and appears to be recovering.
- The governance framework is on the verge of significant change.
- There continues to be competing demands from the various interested parties and regulators to introduce new controls, guidance and standards, e.g. SAB, LGA, tPR, DLUHC, Treasury.
- As I said last year, there does not appear to be a clear objective that change should benefit scheme employers and members other than an implicit expectation of improved governance.