



CONSTITUTION COMMITTEE – 4 MAY 2010

REPORT OF THE CHIEF EXECUTIVE

PENSION FUND MANAGEMENT BOARD – PROPOSED CHANGES TO GOVERNANCE ARRANGEMENTS

Purpose

1. The purpose of this report is to enable recommendations to be put to the meeting of the County Council on 19 May 2010 relating to the proposed changes to the governance arrangements for the Pension Fund Management Board

Background

2. Article 15 of the County Council's Constitution requires that changes to the document should only be approved by the full County Council after consideration of the proposal by the Chief Executive and the Constitution Committee or, in the case of the Financial Procedure Rules and Contract Procedure Rules, the recommendations of the Corporate Governance Committee.
3. At its meeting on 22 January 2010, the Pension Fund Management Board recommended that the Constitution Committee consider new governance arrangements for the Pension Fund Management Board and make appropriate recommendations to the County Council. An extract from the minutes of that meeting is attached as Appendix A to this report.
4. The Board also recommended that consultation be undertaken with interested parties (the major employers and unions) inviting their comments on the proposals and that such comments be reported to the Constitution Committee.

New Pension Fund Governance Structure

5. There are two elements to the proposals for the new Pension Fund governance structure. The first is the establishment of an Investment Subcommittee. The second is to increase the number of voting representatives on the Pension Fund Management Board, with a consequent decrease in the number of non voting members.
6. There are a number of clear reasons to alter the Pension Fund governance structure, including:

- (a) To free up enough time during Board meetings to deal with all the business which needs to be transacted at its quarterly meetings;
 - (b) To allow increased pro-activity in investment decision-making, for which the normal quarterly meetings are not appropriate (for example the opportunity pool concept which has been discussed previously);
 - (c) To address Government guidance concerning increased 'ownership' of the Fund by elected members;
 - (d) To enable quick decisions to be made in response to, or anticipating, market activity.
7. Consultation with other Local Authority Funds has suggested that the majority of administering authorities still operate a single Pension Fund committee, although many have suggested that they do not think this is optimal and are actively considering change. The only other common model of governance is to operate an Investment Subcommittee to deal with many of the investment issues, with the Pension Fund Management Board (or equivalent) continuing to be responsible for broad investment strategy and all governance issues. It is this structure that is thought to be the best one for the Leicestershire Pension Fund.

Suggested responsibilities of an Investment Subcommittee (ISC)

8. Members of the ISC would be drawn from members of the full Board. It is suggested that the ISC would normally meet monthly, but only in the months in which there is no quarterly Board meeting (i.e. it would meet in January, March, April, June, July, August, October and December). Meetings would not be held if there was felt to be insufficient matters to discuss, and equally extra meetings could be convened if this was felt appropriate – for example the ISC might also meet in the same month that a Board meeting takes place.
9. The ISC would only deal with investment issues, and the list below is intended to give a flavour of its proposed terms of reference:
- (a) actively monitoring the performance of managers whose performance is causing concern, which may include asking these managers to attend;
 - (b) becoming involved in the selection of investment managers, including being consulted on which managers are chosen to make presentations in respect of new mandates;
 - (c) taking decisions on the timing of changes in asset allocation, but working within the broad investment strategy agreed by the full Board;

- (d) considering changes to the portfolio sizes of investment managers (e.g. the notional size of the currency mandates);
- (e) making decisions in respect of the management of the 'opportunity pool' which is intended to be set up.

This list is not intended to be a definitive list of the ISC's responsibilities.

10. It is suggested that the ISC will be supported by the Fund's investment consultants, officers and (when appointed) it is expected that the Fund's asset allocation manager will also attend regularly. Other investment expertise will be drawn on when this is considered to be appropriate – it is considered important that the ISC has a broad range of investment opinions available to it, which will assist it in taking decisions based on a balanced view.

Membership of ISC

11. It is suggested that the ISC should consist of 5 voting members plus a non-voting staff representative. The membership would comprise:
 - 3 County Councillors (the Chairman and Vice-Chairman of the Board plus one other Board member)
 - 1 member representing Leicester City Council/ the District Councils (this member, plus a nominated substitute, to be agreed between them)
 - The member representing De Montfort/Loughborough Universities
 - 1 staff representative (non-voting)

Responsibilities retained by the Pension Fund Management Board

12. The setting up of an ISC is not intended to reduce the responsibilities of the Board, which will retain prime responsibility for the Pension Fund – for example it will still receive reports from the investment consultants and actuary and presentations from investment managers. Having certain matters dealt with by the ISC will, however, free up time for the Board to deal with some of the issues that are not currently given sufficient time – for example consideration of the Fund's corporate governance policy, pension fund administration performance, audit issues etc. It is also expected that each meeting will be able to accommodate an element of training (possibly delivered by one of the Fund's investment managers) and that this will assist in the Board carrying out its responsibilities in an effective manner.

Proposed change to the structure of the Pension Fund Management Board

13. The current Board has five staff representatives, who do not have voting powers. In comparison to most other Local Authority Funds this is a high number and having so many staff representatives is restrictive in terms of how many voting members there can be, as there is a risk of larger committees becoming cumbersome. It is, therefore, suggested that two staff representative places be removed with effect from the January 2011 Annual General Meeting of the Fund and that these two places be given to voting members – 1 from the County (in order that it retains a majority on a committee which maintains a Pension Fund for which it has sole responsibility) and 1 from the District Councils (who currently have one representative for 7 relatively large employers). It is felt that having more voting representatives on the Board will allow more views to be aired, better debate and ultimately better decision making. The increase in voting members will be implemented as quickly as possible.

14. One of the major recommendations of the 2001 Myners Report into institutional investment practices was that trustees of pension funds (and, in this respect, members of the Board can reasonably be considered to be trustees) should be able to carry out their responsibilities effectively. One of the key factors in terms of the effectiveness of trustees (both individually and collectively) is their experience in dealing with Pension Fund matters, and it should go without saying that longevity of service on the Board will assist members in understanding the key issues and assist effective decision making. Voting members of the Board (with the exception of the member representing the two universities) are political appointees and it is hoped that the membership of the Board is decided after careful consideration of the experience and skills required and that members will not be regularly changed. The same rationale can, however, be used to question why staff representatives are elected annually for a single year as we could (in theory, at least) have constant change in this area. As a result it is suggested that it would be more sensible for the Annual General Meeting to appoint staff representatives for a three year period to ensure continuity.

15. The suggested changes to staff representatives would not become effective until the next Fund AGM, in January 2011. This will mean the Board will be larger than proposed for the period up to January 2011. In order that an orderly migration to the new structure is achieved, the following timetable is suggested:

January 2011 – three staff representatives (who must be actively contributing to the Fund) elected at AGM (one for 3 years, one for 2 years and one for a single year).

January 2012 – a staff representative will be elected for a three year period, replacing the one elected for a single year in 2011.

January 2013 - a staff representative will be elected for a three year period, replacing the one elected for two years in 2011.

Each January thereafter will see the election of one staff representative for a three year period.

If circumstances are such that more than one staff representative place is available at an AGM, the election will ensure that one place is available at each subsequent AGM.

Consultation

16. A letter was written on 2 February 2010 to all employing bodies within the Leicestershire Local Government Pension Fund and the trade unions, Unison and GMB. Responses were asked for by 19 March 2010. Responses in support of the proposals were received from the District Council Chief Executives, Hinckley and Bosworth Borough Council and Regent College. A response was also received from Unison which supported the proposal to establish an Investment Subcommittee but expressed some concerns regarding its proposed structure. Unison also strongly opposed the proposal to reduce the number of staff representative on the Pension Fund Management Board. A copy of the letter and responses is attached as Appendix B to this report.

Changes to the Constitution

17. The Pension Fund Management Board currently has no power to appoint subcommittees. Subcommittees have decision making powers. Due to the nature of the decisions that the ISC is expected to be making, some of which may be time-critical, the intention is that it will have certain decision-making powers.
18. It will therefore be necessary to amend Section B of Part 3 of the County Council's Constitution, Responsibility for Functions, to enable the appointment of a subcommittee. The proposed amendment is attached as Appendix C to this report.

Resources Implications

19. None. The proposals will more than double the number of Pension Fund meetings per annum. Servicing these meetings will be undertaken within existing staffing resources in the Chief Executive's and Corporate Resources Departments.

Recommendation

20. (a) That the County Council be recommended to approve the revised terms of reference of the Pension Fund Management Board as set out in Appendix C to this report;

- (b) That, subject to (a) above, the County Council be recommended to make the necessary appointments.

Background Papers

The Constitution of Leicestershire County Council.
Report to the Pension Fund Management Board, 22 January 2010

Circulation under the Local Issues Alert Procedure

None.

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List of Appendices

Appendix A – Extract from minutes of the Pension Fund Management Board, 22 January 2010;
Appendix B – Consultation letter and responses received;
Appendix C – Proposed amendment to the Constitution.

Equal Opportunities Implications

None.