

Pension Fund Committee

Meeting to be held on 4 February 2011

Electoral Division affected: None

Principles of Revised Governance Arrangements

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Executive Summary

The approval by the Committee at its last meeting of the revised investment strategy requires a review of certain areas of the Fund's governance arrangements in order to support the operation of the new ways of working required by the Strategy.

This report sets out the nature of the changes required. Subject to the approval of these changes they will be incorporated in a revised "constitution" for the Pension Fund and presented to an appropriate meeting of the Full Council (as the decision making body) for approval.

Recommendation

The Committee is asked:

1. To instruct the County Secretary and Solicitor to draft a "constitution" for the Lancashire County Pension Fund reflecting the proposals in this report in relation to Investment Decision Making, Appointments and Procurement and Reporting for consideration by this Committee and recommendation to the County Council.
2. In the light of the changes at 1 above, to consider whether it would wish to maintain a standing Appointments Sub-Committee.
3. To endorse the recommendation that there be no change in the membership of the Committee.
4. To consider whether it would wish to maintain an Administration Sub-Committee.
5. To instruct the County Secretary and Solicitor to incorporate the Committee's decisions in relation to 2, 3 and 4 above in the "constitution" to be presented to the County Council.

Background and Advice

At its last meeting the Committee approved a new investment strategy for the Fund. This strategy has implications for the Fund's decision making and governance arrangements which need to be incorporated in to a revised "constitution" for the Fund. This report sets out the proposed changes for endorsement by the Committee prior to the production of the final "constitution" which must be approved by the full County Council.

The proposed changes set out below reflect a number of key drivers set out in the investment strategy:

- Firstly, the Fund must be managed more dynamically so it is able to take advantage of opportunity and move to avoid risk. To this end decision making arrangements must, subject to appropriate checks and balances, be capable of operating swiftly.
- Secondly, the role of the Committee is to approve strategy and hold the Investment Panel (which will become much more like a private sector fund's Investment Committee) to account for its delivery.

In addition to this the development of the EU Procurement regime as it applies to public authorities means that it is necessary to reconsider the way in which the Fund makes procurement decisions, in order that members role in the process is meaningful.

Investment Decision Making

Over time the investment strategy looks to the Fund making a wider range of individual investment decisions, rather than simply placing funds with managers. Currently other than bringing every such decision back to the Committee there is no explicit mechanism for making such decisions.

The proposal is that the power to make individual investments (for example in a particular PFI scheme) is delegated to the Treasurer to the Fund, as is the case with property transactions. In this case it is proposed that the Treasurer should act on the recommendation of the Investment Panel with the two independent advisers having a veto. Thus if both advisers were to vote against a particular investment it would not take place. This provides an important check and reassurance for members. The Panel would need to report formally on its decisions and the rationale for them at each meeting of the Committee.

Appointments and Procurement

Currently the framework of rules under which the Fund operates does not work particularly well with the EU Procurement rules. This EU rules require the Fund to determine in advance of procurement the criteria it will use to make a decision on which bidder to select. Thus the current arrangement of an Appointments Sub-Committee, making the decision on final selection brings members in to the process at the wrong point as given the rules the Sub-Committee is in effect simply a cipher.

It would be more appropriate to involve members at an earlier stage in agreeing the criteria for award of contracts. It is therefore proposed that where the Fund is going to enter in to a procurement process the criteria for award of the contract should be agreed by the Committee but the award be delegated to the Treasurer on the advice of the Investment Panel. This allows members to exercise genuine influence on the process as opposed to the current situation.

This arrangement would apply to all procurement situations such as Fund Managers, Actuaries and Consultants and in the light of this members may wish to consider whether it is necessary to maintain a separate Appointments Sub-Committee.

There is one situation where it is important that an appointment is made directly by members and which remains, in effect, like a staff appointment. This is the appointment of the two independent advisers. This appointment must remain with the Committee as an important check within the overall governance arrangements. In this case the Committee might wish to appoint an ad hoc sub committee to conduct interviews and make recommendations to the Committee.

Reporting

Given the changed role of the Investment Panel it will be an important part of the accountability framework that the Fund's "constitution" spells out a requirement that the Panel reports on its decisions to each meeting of the Committee. This needs to include specific issues such as the reporting of the Fund's voting record, and the overall performance of the Fund relative to the benchmarks agreed by the Committee.

Composition of the Committee

Members have previously asked whether it is possible to make the Committee more representative of all employers. Currently the group not represented are the smaller admitted bodies, who make up approximately 6% of the Fund's membership. The membership of the Committee currently stands at 21 which puts it at the larger end of such bodies within the Local Government Pension Scheme.

The smaller admitted bodies represent a very diverse range of employers from those such as Leisure Trusts and Stock Transfer Housing Associations which are closely aligned with Councils, to small local charities to major companies which provide services to councils. It is not clear that there is sufficient commonality of interest amongst this group or that effective arrangements could be made to appoint a member to the Committee for such an arrangement to add value. The Fund already has arrangements in place to engage with employers on key issues such as the actuarial valuation and such anecdotal feedback as is available indicates that smaller employers are content with such arrangements.

At this stage it is suggested that the composition of the Committee is not changed.

Administration Sub Committee

While members are engaged in a broad set of changes such as these it is opportune to consider the overall committee structure. Members may wish to consider whether there is sufficient business to justify the maintenance of an Administration Sub-Committee. Alternatively members may consider that it is important that administration issues are not overwhelmed by investment issues in the full committee.

Consultations

County Secretary and Solicitor, Independent Advisers to the Fund.

Implications:

This item has the following implications, as indicated:

Risk management

The new investment strategy is intended to reduce the overall risk exposure of the Fund and allow the Fund to be managed in such a way that risk can be addressed swiftly where it emerges.

Legal

New constitutional arrangements will need to be approved by the Full Council and will need to reflect appropriate checks and balances within the decision making process.

Local Government (Access to Information) Act 1985 List of Background Papers

N/A

Reason for inclusion in Part II, if appropriate

N/A