

**Scheme Member and / or Local
Pension Board Representation on
the Joint Committee**



Joint Committee

Date: 19 September 2018

Report by: Officers Working Group

Subject:	Scheme Member and / or Local Pension Board Representation on the Joint Committee
Purpose of the Report:	To update the Joint Committee on current guidance and discussion with regards to scheme member and Local Pension Board (LPB) representation on investment pool governance structures.
Recommendations:	<p>The Committee is asked to:</p> <ol style="list-style-type: none"> 1) Consider whether it wishes to propose any changes to representation on the Joint Committee to incorporate scheme member and/or LPB member representatives either as observers or voting members 2) If the Committee does wish to make changes, to seek the approval of the constituent ACCESS Authorities for those changes and request the Inter-Authority Agreement is updated accordingly.
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1. Purpose.

- 1.1 The purpose of this paper is to update the Joint Committee on current guidance and national/local discussions with regards to scheme member and Local Pension Board (LPB) representation on investment pool governance structures.

2. Background

- 2.1 The ACCESS Joint Committee is currently formed of the Chairman of each of the constituent Funds or their substitute. The current governance structure does not specifically allow for representation from either scheme members or LPB members, although the Inter-Authority Agreement does allow the Joint Committee to co-opt any person whom it thinks fit to be a non-voting member of the Committee.
- 2.2 Scheme member representation was previously considered by the then Shadow Joint Committee on 14th December 2016. It was agreed that scheme member representation on the Joint Committee was not necessary as meetings would be held in public, enabling the attendance of member representatives. In practice, a significant proportion of Joint Committee agendas have necessarily been held in private session.
- 2.3 There have been recent discussions and statements in respect of the governance arrangements in relation to investment pooling including:
- The latest guidance from the Scheme Advisory Board (SAB) on scheme member representation in investment pool governance structures
 - Following the CIPFA/Barnett Waddingham Local Pension Board Conference of 27 June 2018 wherein the role of the LPB representatives in investment pool governance was debated
 - Local pressure more generally from unions and certain LPBs, increasing in light of the above.
- 2.4 The above relates to scheme member representation and / or Local Pension Board representation and this report considers these items in turn.

3. SAB guidance on investment pool governance

- 3.1 The SAB have issued a revised statement on investment pool governance following their meeting of 16 February, attached in full at Appendix 1.
- 3.2 The key part of the statement is extracted below (revised parts in **bold**):

*“The board recognises that strategic decisions on asset allocations and responsible investment will remain at the local level and therefore the involvement via local pension boards of those employers beyond the scheme manager along with member representatives in those areas would continue. However the Board **would expect that** scheme managers involve those same employers and member representatives in assisting with the assurance of transparent reporting from pools and ensuring the effective implementation of strategies by pools. Such involvement should include the consideration of provision of direct representation on oversight structures. **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.**”*

- 3.3 The SAB are asking pools to consider the involvement of LPB representatives on pool oversight structures such as the Joint Committee, and explicitly recommending that pools comply or explain if they exclude scheme member representatives.

4. CIPFA/Barnett Waddingham Local Pension Board Conference

- 4.1 The matter of LPB representation on pool governance structures was debated at the CIPFA/Barnett Waddingham Local Pension Board Conference on 27th June 2018. This event was timed for the third anniversary of the creation of LPBs and enabled the sharing of experiences by LPB members and discussion of key issues.
- 4.2 CIPFA provided feedback on the event and summarised the LPB representation debate. Whilst LPBs were cautious about getting involved in decision making roles there was support for an observer role. A full note of this debate, as provided directly by CIPFA, is attached at Appendix 2.
- 4.3 The observer role is known to be operational in two pools, Brunel and Northern, with the former, for example, having two LPB scheme member representatives democratically elected by all LPB members of the Brunel Funds. The CIPFA note does, however, recognise the different pool models makes prescribing a common solution difficult.
- 4.4 The variability of information flows was also discussed at the Conference, particularly with regards to access to confidential papers and the ability to observe exempt agenda items at Section 101 Committees. Within the ACCESS pool this should not be an issue as all LPBs have direct access to such information either automatically or on request through the sharing of minutes/papers and updates.
- 4.5 In addition, the Inter-Authority Agreement acknowledges that “Each Council has overview and scrutiny committees which have the right to scrutinise the Operation of the Joint Committee and the Joint Committee and the Host Authority will co-operate with reasonable requests for information from any of the Councils’ overview and scrutiny committees”.

5. Local pressures

- 5.1 From the onset of pooling there has been pressure from various stakeholders within certain constituent Funds to allow scheme member representation on the Joint Committee.
- 5.2 This has been evident during discussions at Section 101 Committees, LPBs and during direct discussions with unions. Generally the ACCESS pool has been able to point to the balance of decision making power between the pool and the constituent funds which has alleviated to some extent the need for scheme member representation.
- 5.2 However, the SAB guidance and national discussion around scheme member and LPB member representation has changed the landscape and intensified the pressure for change to investment pool governance models. Locally both the Cambridgeshire LPB (as a whole) and the East Sussex LPB Chairman have requested the issue of representation should be raised with the Joint Committee.
- 5.3 Note that this request includes consideration as to whether any LPB representative on the Joint Committee should be elected from one of the Chairmen of the ACCESS LPBs (i.e. who may not necessarily also be a scheme member representative).

6 Inter-Authority Agreement (IAA)

- 6.1 Any changes to representation on the Joint Committee would require agreement of the constituent ACCESS Authorities and amendment to the IAA.

7. Recommendation

- 7.1 The Committee is asked to:
 - 1) Consider whether it wishes to propose any changes to representation on the Joint Committee to incorporate scheme member and/or LPB member representatives either as observers or voting members
 - 2) If the Committee does wish to make changes, to seek the approval of the constituent ACCESS Authorities for those changes and request the Inter-Authority Agreement is updated accordingly.

8. Background papers

- 8.1 Appendix 1: SAB statement on investment pool governance
- 8.2 Appendix 2: LPB Conference 27th June 2018 – Summary of discussion on LPB role around pooling

Appendix 1: SAB statement on investment pool governance

At its meeting on the 16th February 2018, the SAB agreed to review the wording of the policy statement on pool governance previously published on 23rd March 2017. The following statement was subsequently agreed (revised text shown in **bold**) –

“The Board recognises that it is for scheme managers within each pool to develop appropriate governance to assure all stakeholders of the transparent and effective implementation of strategy. In this respect the Board notes the comments made by the then Local Government minister Marcus Jones MP on this matter in the Westminster Hall debate on 24th October 2016.

*The board recognises that strategic decisions on asset allocations and responsible investment will remain at the local level and therefore the involvement via local pension boards of those employers beyond the scheme manager along with member representatives in those areas would continue. However the Board **would expect that** scheme managers involve those same employers and member representatives in assisting with the assurance of transparent reporting from pools and ensuring the effective implementation of strategies by pools. Such involvement should include the consideration of provision of direct representation on oversight structures. **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.**”*

Appendix 2: LPB Conference 27th June 2018 – Summary of discussion on LPB role around pooling

It was agreed that a summary of the discussion on the LPB role in pooling would be provided to delegates which they could then use with their Boards and to Bob Holloway to feedback to him as in order to attend the meeting of the Scheme Advisory Board he had not been able to remain for the debate

The discussion was stimulated following a presentation by Bob on the role of the Local Pension Boards (LPB) in pooling and covered the role that the Board members felt they should have.

The debate centred on whether the LPB should have representation in the pool governance structure. The following is a summary of the points raised by delegates:

Points Raised

The LPB role is to scrutinise the Committee so they should not be involved in pooling directly. This should work well as long as the Committee Chair is active in the pooling structure and communicates well with the Fund/Board.

Not concerned about being represented on the Board, but on giving good advice. The issue is how to give value and consistent advice if Boards do not talk to other Boards in the pool.

Some delegates felt that Boards should be positioned so they can with a reasonable degree of confidence gain assurances, perhaps as a group of Boards/Chairs within the Pool, that the Joint Governance Committee (or equivalent body) is adhering to its own Terms of Reference and other agreed procedures.

There is a need for clarity in the administering authority/pool governance structures to define who is responsible for what so that the LPB know who they are scrutinising and who should provide assurances they seek.

LPB role is to assist the Scheme manager so they should support the committee but if they are not involved in the pool how can they offer assistance? Central Pool LPB's have got together to share views on the Pool which was a popular idea.

It is important who LPBs feedback to. Having a seat from a group of chairs would allow a collective view to be heard and would be better than one Fund raising the point.

It took a long time to get LPBs and now the goal posts have moved. As the Pool manages scheme members' assets the scheme members should be involved with a vote although that would need to be by the right person with knowledge / so that members are remembered.

Specifically London CIV should have a credit rating to assess their risk

LPB members are volunteers and should not be running operations. Not all are experts. The issue is all about good governance.

A popular view was that the role is to scrutinise so they cannot be part of the decision making i.e. part of the pool structure.

The position as an observer was also a popular view although it was clear this meant different things to different people in terms of whether the observer role was active or passive. Again getting LPB chairs in Pools together was popular to feedback to Committees and this also linked with the scheme member point being on a Pool Board as someone to share those views.

Some felt that as pools are mandatory then it is more important for the LPB to have a role but to be effective they needed to be expert. There was concern that the London pool was too big and the voice of the member will be lost. Members should have a role in the pool to know what is going on with their money.

Brunel explained they have two scheme members as observers on the Pool Oversight Board who were existing LPB scheme member representatives and democratically elected by all the LPB members. LPB members from all the Funds meet and feed into them. LPBs can work together on Funds in a pool to get member representation.

There was a feeling that in some cases the LPB were more expert than the Committee as some Committees had significant turnover and had no idea what pooling was about.

Again the view that LPB members should not be involved with decision making was supported. It was suggested that LPBs could comment on any concerns on the Pool governance arrangements in their Annual Report. Picking up on these reports MHCLG or SAB could issue guidance on the role of LPBs with regard to pools. There was also a view that SAB should comment on capability of Committees in terms of experience i.e. the turnover issue.

There was also concern that some Committees still exclude LPB members for private agenda items although this practice was variable – did the recent survey pick up on this and could guidance be issued?

There was view that pooling was effectively privatising scheme member assets with no way to scrutinise it and LPB members should resist this.

In the USS Board members are well paid, on a smaller scale should LPB members be paid to raise standards?

It was recognised that the London CIV had the biggest challenge with 32 Funds but whilst difficult they should still try and work together and get the LPB Chairs to collaborate, perhaps LGA/London Councils could facilitate?

Could the regulations be amended to establish an Oversight Committees and their role? It was not the role of the LPB to check if the operator is doing the right thing. It is the role of the LPB to review that the administering authority is managing the operator properly and a route to do this should be found.

Summary

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 makes 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.