

THE EXECUTIVE

1 JUNE 2004

REPORT OF THE DIRECTOR OF FINANCE

PENSION FUND - TRUSTEE PANEL	FOR DECISION	
<i>This report concerns a matter affecting the membership and allocation of responsibilities between the Executive and the Pension Panel.</i>		
<u>Summary</u>		
<p>The Myners Review makes a number of recommendations in relation to the stewardship of pension funds. Whilst the Council fully meets these principles of stewardship, this report outlines further improvements that can be made in support of these principles.</p>		
<u>Recommendations</u>		
<p>It is recommended that:</p>		
<ol style="list-style-type: none">1. The Assembly be asked to extend the membership of the Pension Panel to four and appointments be made to all four positions.2. The split of responsibilities between the Executive, the Director of Finance and the terms of reference of the Pension Panel as set out in Appendix A be agreed.		
<u>Reason</u>		
<p>To assist the council in the discharge of its responsibilities regarding pension matters.</p>		
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1. Background

1.1 In 2000 the government commissioned a review of Institutional Investment, (the Myners Review); it was concerned that institutional investors including local authorities were not playing a sufficiently active role in the management of their pension funds. The review asked key questions such as:

- Are we too prone to invest in established companies, rather than higher risk start-ups?
- Do the major institutions follow investment patterns that are too standard, seeking safety in numbers, rather than pioneering radically different investment strategies?

- Do we have the right incentives to tackle underperformance at the companies in which we invest?
- Do we have appropriate competencies at each key point in the investment decision process?

1.2 From the Myners Review came ten principles listed below. These formed a voluntary Code of Best Practice for UK pension schemes. However, for local government pension schemes, this code was made a statutory requirement with effect from 30 September 2002. The Borough's Myners code adherence document was produced in September 2002 and revised in January 2004.

1.3 The ten principles are:

- Effective Decision Making
- Clear Objectives
- Focus on Asset Allocation
- Expert Advice
- Explicit Mandates
- Activism
- Appropriate benchmarks
- Performance Measurement
- Transparency
- Regular Reporting.

1.4 The Council meets all the above criteria. However, it is the intention to build on the work undertaken to date and introduce further improvements.

1.5 There is also a need to review the activities that the Executive undertakes within its role on policy matters, those of the Pension Panel and Director of Finance.

2. Review of Activities and Reporting Arrangements

2.1 The Executive has responsibility for "determining major issues affecting the Council, particularly strategic, financial, policy related and corporate management matters".

2.2 The Director of Finance is delegated to undertake all matters relating to the overall financial arrangements of the Council, other than those reserved to Member meetings including investments on behalf of the Superannuation Fund, including sale/disposal of investments as well as new investments.

2.3 The Executive also appoints Members to the Pension Fund. The Trustees, Director of Finance, Union Representative and Investment advisor currently meet quarterly with the Fund Manager to discuss the funds performance and also meet independently on a quarterly basis.

2.4 A review of the responsibilities has been undertaken and it is recommended that the respective split as detailed in Appendix A is adopted.

2.5 The membership of the panel currently consists of two Members with two further nominees to be put forward by the Lead Member.

- 2.6 Having only two Standing Members has meant that on occasions there has not been the required quorum of two Members, this can hinder effective decision making.
- 2.7 Members are asked to recommend the Assembly to extend the membership to 4 Standing Members. It is suggested that one of which is to be from the opposition parties. It is also suggested that a single chair be appointed.
- 2.8 It is further recommended that an Executive Member (or a Member from the Panel nominated by the Executive) from the Panel be responsible for reporting on an annual basis to the Executive on the activities of the Panel during the year. This will enable the Executive to be informed of the Panel's activities with some context, rather than just formally receiving minutes.
- 2.9 Minutes of all the Pension Panel meetings will continue to be taken and available on a confidential basis to Members.
- 2.10 The Myners Code Adherence document will be revised to reflect the latest position.
- 2.11 Up until 2001/2002 an annual performance report on the scheme was brought to the Executive each year, this will be reinstated for the 2003/04 accounting year.

The report for 2002/03 performance was presented to the pension panel in November 2003.

3. Union Representative

- 3.1 Currently there is one non- voting Union representative observer on the Panel. It is recommended this continues.

4. Consultation

- 4.1 Councillor Bramley
Councillor Thomas
Tom Baillie – Union Representative
Democratic Services

Background papers

- Myners Code Adherence Document – January 2004

PENSION FUND – SPLIT OF RESPONSIBILITIES

The Executive is responsible for the following activities.

- a) The Council will determine the allocation of new money to the Fund Manager(s). Similarly, in the event that assets need to be realised in order to meet the Fund's liabilities, the Council will determine the source of this funding.
- b) The Council will be responsible for any changes to the terms of the mandates of existing fund managers.
- c) The Council will be responsible for the appointment and termination of fund managers.
- d) The Council is responsible for socially responsible investment, corporate governance and shareholder activism. It has delegated these tasks to the Fund's managers, who conduct the delegated tasks in line with the Council's policies.
- e) The Council will be responsible for the appointment and termination of Additional Voluntary Contributions providers.

Delegation to Director of Finance

The Assembly has delegated to the Director of Finance all matters relating to the overall financial arrangements of the Council, other than those reserved to Member meetings including:

Investments on behalf of the Council and the Superannuation Fund, including sale/disposal of investments as well as new investments.

In exercising this delegation the Director of Finance will consult and seek advice from the Pension Panel on matters within the following terms of reference:-

Pensions Panel Terms of Reference

The Panel is responsible for monitoring all aspects relating to the investment of the assets of the Fund. Their specific responsibilities are as follows:-

- a) The Panel will formally review the Fund's asset allocation at least annually, taking account of any changes in the profile of Fund liabilities and any guidance from the Panel regarding tolerance of risk. They will recommend changes in asset allocation to the Borough.
- b) The Panel will consider and monitor the Quarterly Reports produced by their Investment Manager. In addition to managers' portfolio and performance reporting, the Panel will also receive and review information from the managers on risk analysis, transaction costs, and details of corporate governance (including Socially Responsible Investments, voting activity and engagement with management).
- c) The Panel will formally review annually the manager's mandate, and its adherence to its expected investment process and style. The Panel will ensure

that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale.

- d) The Panel will consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) at least annually.
- e) In the event of a proposed change of managers, the Panel will evaluate the credentials of potential managers.
- f) The Panel will consider the Fund's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism.
- g) The Panel is responsible for maintenance of the Statement of Investment Principles (SIP) and the document setting out the Fund's Myners Code Adherence document.
- h) The Panel will review the Fund's Additional Voluntary Contributions arrangements annually. If they consider a change is appropriate, they will make recommendations to the Council.
- i) The Panel will monitor the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually. The Panel will be responsible for the appointment and termination of providers.
- j) The Panel will conduct and conclude the negotiation of formal agreements with managers, custodians and other investment service providers.
- k) In order to fulfil their roles, the members of the Panel will be provided with appropriate training, initially and on an ongoing basis.
- l) The Panel is able to take such professional advice as it considers necessary.
- m) The Panel will keep Minutes and other appropriate records of its proceedings, and make these available to Members of the Council.
- n) The Panel may also carry out any additional tasks delegated to it by the Borough Council to develop sufficient expertise in investment matters to be able to conduct their Panel responsibilities and to interpret the advice which they receive.
- o) An Executive Member from the Panel (or a member from the Panel nominated by the Executive) will report annually to the Executive on the activities of the Panel during the year.

The Panel, consists of 4 councillors, with a quorum of 2. The Assembly appoints Panel Members and any changes requires approval of the Assembly.

All panel members are expected to have or, for new members, to develop sufficient expertise in investments matters to be able to conduct their panel responsibilities and to interpret the advice which they receive.