

EMPLOYER BODY REPRESENTATION

Introduction

1. The Committee, at its meeting on 22 July 2002, agreed the adoption of an updated Statement of Investment Principles (SIP) for the Pension Fund. This had been the subject of a consultation exercise with the major employer bodies in the Fund.
2. One suggestion received as a result of this consultation was that bodies such as charities or private sector companies might have different financial objectives to, for example, local authority employer bodies. As such, they should therefore have some form of representation on the Committee.
3. I therefore suggested to the Committee that I consult with all employer bodies in the Fund on this issue, and bring proposals to a future meeting of the Committee for consideration. This issue, incidentally, is one that the Government is keen to see addressed by Fund administering authorities.
4. The Committee agreed this course of action. Before going forward with the consultation, however, I thought it appropriate to involve the Committee in deciding what options might be offered to the employer bodies.

Employer body statistics

5. For background information, I attach an analysis of membership of the Wiltshire Pension Fund as at 31 March 2002, which includes a note of representatives on the Wiltshire Pension Fund Committee. You will see from this that, for example, the County Council, whilst having 46% of Fund members, has 5 out of 8 voting representatives on the Committee.

The impact of investment strategy

6. Whilst the Committee deals with all aspects of administration of the Local Government Pension Scheme, its main area of activity and impact is on the investment performance of the Pension Fund.
7. The effectiveness or otherwise of investment performance has a direct impact on the level of employer body contributions that need to be paid into the Fund. Whilst poor investment performance is only one of a number of factors that can cause a deficit in a pension fund, a successfully implemented investment strategy can help alleviate such deficits.
8. As a crude measure, the overall deficit of assets compared with pension liabilities on the Wiltshire Fund as at 31 March 2001 requires an additional employer contribution rate of around 7% of payroll costs. Each major employer organisation's contribution rate is assessed individually by the Fund actuary. Employer bodies therefore have a direct interest in the investment of the Fund.

Factors to consider on representation

9. Before I make suggestions on representation, I believe the following points need to be borne in mind:

- 9.1 The Government recognises that the County Council, as administering authority, is legally liable for the proper administration of the Fund. Its expectation is that it should therefore have a majority of members on the Committee, and should also provide the Chairman.
- 9.2 The County Council, as administering authority, is responsible for looking after the interests of those employer bodies not represented on the Committee.
- 9.3 The majority of the Committee's work deals with a specialist area of activity, the investment of the Pension Fund. For this to be carried out effectively, it is preferable that the Committee is kept to a workable size. In addition, where possible, there should be continuity of membership to enable experience to be built up and to avoid any investment in training being wasted.
- 9.4 The County Council has, in the past, held annual meetings of all employer bodies. Whilst the first one, which coincided with the results of the 1998 actuarial valuation of the Fund, was fairly well attended, the meeting held the following year attracted a small audience. Following a survey of all employer bodies, it was subsequently agreed that such meetings should only be held every three years, to coincide with the actuarial valuation results.
- 9.5 In carrying out the recent review of investment strategy for the Fund, representatives of District Councils not represented on the Committee were invited to attend the two seminar/workshops that were held to discuss options. These invitations attracted minimal response.
10. Members are also asked to note that two employee representatives are entitled to attend Committee meetings on an observer basis. Scheme members' pension benefits are defined and protected by statute, and are not affected by the investment performance of the Fund.

Proposals

11. My initial inclination was to think that representation on the Committee itself is not necessarily the best answer and that a better route maybe through annual employer body meetings or workshops, and the opportunity to input to future reviews of Fund investment strategy. My concern about this, however, is generating sufficient interest from employer bodies (see 9.4 and 9.5 above).
12. Having thought further about this issue, and bearing in mind the factors listed above, I feel that a better option should be available. Two possible courses of action come to mind. A combination of both might also be a possibility.

Option 1 – Direct Representation on the Committee

13. This option would need to ensure that the County Council maintained its majority on the Committee, and that the Committee does not become too unwieldy in size.
14. The simplest solution would therefore be to add one voting member to the Committee, representing those bodies not currently represented on the Committee, who now comprise 15.6% of the Fund membership.
15. An alternative to this option might be to add two voting members, one for each of the Other Scheduled Bodies (10.3% of membership) and the Admitted Bodies (5.3% of membership).
16. This could be argued on the grounds that Other Scheduled Bodies have nearly the same proportion of Fund membership as the District Councils, who have a voting representative, and that the interests of Admitted Bodies (as non local authority bodies) are sufficiently different to warrant their own representative. Membership of Admitted Bodies is also likely to increase in future relative to that of other bodies.

17. This, however, would entail the County Council representation having to be a minimum of six, to maintain its majority on the Committee, so making the overall membership eleven. I would regard this as the absolute maximum size for the Committee to be effective, and less preferable than a membership of nine.
18. In either event, a process for selecting representatives (and their deputies) would be required. This might best be achieved by inviting nominations of individuals who would publish their credentials for the role, to allow a voting process to take place. Some process for reporting back on Committee activity to the bodies being represented would need to be established.

Option 2 – Establishment of Advisory Panel

19. This option would entail leaving the Committee representation as it is, but to establish a Panel made up of representatives of all bodies not directly represented. This may therefore include District Councils as well. This should be a more effective forum of representation than regular annual general meetings and ad hoc workshops.
20. The benefit of a Panel such as this is that it could also deal with some of the non-investment issues that are also the responsibility of the administering authority, and which the Committee itself does not have time to focus on. These include the impact of changes in pension regulations, the provision of administrative services to the Fund, including budgetary and benchmarking issues, and promotion of the pension scheme.
21. Again, an option might be to form two advisory panels, one that deals with investment matters, and one with non-investment issues. Terms of reference for the panels would need to be established, and the issue of how membership should be formulated will need consideration.

Conclusion

22. I hope these proposals will stimulate some ideas that you might wish to develop. I do not, however, think it appropriate that employer bodies be given too many options to consider as I suspect that a unanimous response might be difficult to achieve.

Recommendation

23. The Committee is asked to endorse or amend the proposals contained in this report for inclusion in the consultation with employer bodies on representation.

MIKE PRINCE
County Treasurer

Unpublished documents relied upon in the production of this report: NONE

Environmental impact of these proposals: UNKNOWN