Report to:	Police Authority
Agenda item:	6
Date:	May 2011
Subject:	Pensions – Governance arrangements
Sponsor:	Chief Executive
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For:	Agreement

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1. Purpose of Paper

1.1 The purpose of this paper is to provide an update on the progress made in relation to the review of the governance arrangements in place for the British Transport Police Force Superannuation Fund (the "Fund"). This review has been undertaken by the Working Party since the last Authority meeting in January.

1.2 At this meeting Members asked the Chief Executive and the Authority Finance Director to set up a Working Party consisting of the Chief Executive, the Authority Finance Director and four Members of the Authority (the "Working Party"). At this meeting it was also agreed that the four representative Members of the Working Party would be Howard Collins, Neil Scales, Lew Adams and Colin Foxall.

1.3 This paper provides a summary of the discussions had to date in relation to the Fund's governance arrangements and sets out a recommendation on how the Authority should proceed on this issue. The Authority is asked to accept the recommendation of the Working Party and approve the draft "Terms of Reference" included in the Appendix of this paper.

2. Background

2.1 Members will be aware from previous discussions that the Trustee of the Fund is the Railways Pension Trustee Company Limited (the "Railways Trustee"). The Railways Trustee is a corporate Trustee set up for the sole purpose of running occupational pension schemes. Unlike many other corporate Trustee companies, the Railways Trustee is responsible for more than one pension scheme, namely four, including the much larger Railways Pension Scheme ("RPS"). RPS is a multi-employer scheme with more than 100 participating employers,

340,000 members and assets under management in excess of £20 billion.

2.2 Given the fact that the Railways Trustee is responsible for more than one scheme and in particular, one the size of RPS, the Authority were concerned that the Fund was not getting sufficient attention and that its specific needs were not being properly addressed. A point of particular concern was the fact that the Fund's investment strategy appeared to be very aggressive, not dissimilar to that in RPS, despite the fact that the Fund's membership was relatively mature (with around 44% of the Fund's liabilities relating to pensioner members, whose benefits are largely known).

2.3 The Working Party, with the assistance of the Authority's pension advisers, Punter Southall, were therefore tasked with investigating the current governance arrangements put in place by the Railways Trustee and to establish whether they felt that they were appropriate for the Fund. To the extent that the current arrangements were felt to be insufficient, the Working Party were asked to come up with some alternative options and put forward a proposal to achieve its implementation.

3. The governance review

3.1 Since the last Authority meeting in January, the Working Party have met with Punter Southall to discuss their report titled "British Transport Police Authority – Initial advice in relation to the governance arrangements currently in place for the British Transport Police Force Superannuation Fund" dated March 2011. This report provided a detailed review of a number of documents about the Fund which were made available by rpmi (as advisers to the Railways Trustee) and is available on request. However, to summarise the content of this report, Punter Southall also provided a presentation to the Working Party at their meeting on 5 April titled "Review of British Transport Police Force Superannuation Fund's Governance Arrangements". The presentation is attached to this paper for Members information.

3.2 In their review, Punter Southall commented that within its Governance structure, the Railways Trustee delegates some of its decision making to either one of five Pension Committees (covering the subjects of Audit, Benefits and Funding, Case, Executive and Investment issues), the Fund's Management Committee or rpmi (as the Fund's administrator and investment adviser). However, they further noted that the vast majority of the decisions taken in respect of the Fund (and certainly the important decisions relating to Funding and Investment) are

taken by the Railways Trustee or one of the Pension Committees, neither of which have any direct Authority representation. Furthermore, the Management Committee, which currently has six Employer nominated Members and six Employee nominated members, has very limited powers of delegation, predominantly relating to decisions on applying discretion to individual members' benefits.

3.3 In conclusion, Punter Southall noted that the Authority currently has no direct representation on the Railways Trustee or the Pension Committees and hence in making their important decisions, there was very little direct knowledge about the Authority, their Fund members or their circumstances. It was also noted that as one of four schemes looked after by the Railways Trustee, the Fund members only accounted for around 1.6% of the total membership. They also commented that the Railways Trustee had one set of advisers for all four schemes (although the Fund does appear to have a different Scheme Actuary to RPS) and hence there was concern that there was too little focus on the Fund, its circumstances and its issues by the current advisers.

3.4 In terms of the options put forward, they were summarised as follows:

- No change to the current arrangements but with greater engagement with the Railways Trustee;
- To obtain greater powers of delegation for the existing Management Committee, principally in relation to Funding and audit and Investment issues; or
- To set up a separate Trustee body, solely represented by the Authority and the Fund members.

It was noted that each of these options would require a greater time and resource commitment from the Authority than was currently the case.

3.5 Having considered the report and the advice from Punter Southall, it is the view of the Working Party that Option 2 above is the most appropriate and workable for the Authority. This is because the Management Committee is already established and has appropriate representation from both the Authority and the Fund's members. As such, it is the Working Party's view that this Management Committee has the appropriate knowledge of the Authority and the Fund's circumstances to make the necessary decisions. It is further proposed that the current membership of the Management Committee is reviewed and that changes are made if the Working Party agree that additional, or alternative, skill sets and experience are required in order to ensure that the new arrangements are effective. It is proposed that any

decisions relating to Funding and Audit or Investment within the Fund are delegated to the Management Committee.

3.6 In order to get this proposal approved, the agreement of both the Authority and the Railways Trustee are required.

4. Recommendations

4.1 Members are asked to agree to the Working Party's proposal for the Management Committee to receive greater powers of delegation in relation to the Fund, principally in the areas of Funding, Audit and Investment. To take matters forward on their behalf, Members are required to agree:

- that the Working Party can take this proposal to the Railways Trustee;
- that the responsibilities of the Management Committee are amended to be as set out in the draft "Terms of Reference" document which is included in the Appendix to this paper; and
- that the Working Party are asked to review the current Management Committee and, if appropriate, suggest changes to ensure that it has the appropriate level of knowledge and experience to make the necessary decisions.

4.2 The Working Party will report back to the Authority once a formal response to the proposal has been received from the Railways Trustee.