

BRUNEL GOVERNANCE REVIEW

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Committee support the following changes to the Brunel governance arrangements:

- (a) the adoption of the proposed new procedures;
- (b) an increase in the number of Non-Executive Directors to five;
- (c) the appointment of a new Shareholder Non-Executive Director; and
- (d) the amendment to the process for the re-appointment of Non-Executive Directors.

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### **1. INTRODUCTION**

- 1.1 At the previous meeting of the Committee we reported on the review of Brunel's governance arrangements and the concerns raised at a meeting of the client funds' shareholder representatives, Oversight Board members and client group officers held in early June.
- 1.2 Following the meeting a letter was sent to Brunel Chair Denise Le Gal outlining the concerns. Further discussions have taken place between client funds and Brunel, and a timetable has been put in place for addressing each of the issues that need to be resolved by the governance review, with the intention that a revised Shareholder Agreement be put in place by the end of the year.
- 1.3 The first set of proposals were taken to the Brunel Oversight Board (BOB) meeting on 3<sup>rd</sup> September and were recommended for approval. The Committee is reminded that BOB provides scrutiny and oversight to Brunel's operations, but is not a decision-making body. The proposals that require formal approval will therefore be submitted to shareholders for approval as reserved matters requests, or incorporated into the revised Shareholder Agreement which will then need to be agreed by all ten shareholders.
- 1.4 The proposals endorsed by BOB are outlined below.

### **2. APPRAISAL OF THE CHAIR**

- 2.1 It is proposed that the appraisal process should be formalised and strengthened. This was one of the concerns specifically raised in the letter to Denise Le Gal.

- 2.2 The review should be conducted by the Shareholder Non-Executive Director (NED) with a requirement for formal, documented consultation with a range of stakeholders including, but not limited to, the Chair and Vice-Chair of the Oversight Board, the Chair and Vice-Chairs of the Client Group and all Board members. Views will be sought from a representative of all ten shareholders in writing and delivered in a standard template.
- 2.3 The proposal also confirms that the reference points for the performance review will be the job description of the Chair and the strategic objectives of the Company.

### **3. NON-EXECUTIVE DIRECTORS**

- 3.1 The proposals respond to the request for the opportunity to feed into the annual performance reviews of the NEDs, in particular, the Shareholder NED. They also take the opportunity to address the structure of the board, clarify the role of the Shareholder NED and the appointment, appraisal and re-appointment process for all the NEDs.
- 3.2 It is recommended that Brunel should now add a fifth NED to the Board, bringing the total number of members of the Board to nine. This is in line with the expectations of financial regulators, who favour an independent board for regulated entities, with more NEDs than Executive Directors, and good practice in the public sector.
- 3.3 It is proposed that the additional NED should be the Shareholder NED, with the appointment process and future appraisals being jointly handled by the Brunel chair and shareholder representatives. Given that there is limited interaction between the other NEDs and a broad set of clients or shareholders, it is proposed that their appraisals include a more limited feedback from selected individuals within client funds who do have some interaction with them.
- 3.4 It is also proposed that the standard process for the re-appointment of directors is by a shareholder vote at the AGM, in line with the practice at most companies. This will be preceded by the annual performance appraisal, which should result in a positive recommendation that the NEDs be re-appointed. Removal of any NEDs, including the Chair and the Shareholder NED, would require a simple majority of shareholders to vote against re-appointment. This is an amendment to the current process, which requires 80% approval of shareholders to remove the Shareholder NED.

### **4. CONSULTATION PROCESS**

- 4.1 One of the concerns has been around how Brunel consults with clients/shareholders on significant issues that need to be addressed with tact and discretion because of their complexity, potential impact on the partnership or contentious nature. This has often been done via informal phone calls to canvass views, and on a number of occasions there has been concern that the views of some shareholders have then been misrepresented.

- 4.2 Therefore, it is proposed to establish a clearly defined process to reach an acceptable outcome and preferred course of action, with the minimum of disruption and in a timely manner. This will be co-ordinated by the Strategy and Governance sub-group that includes representatives of both Brunel and shareholder/client funds.

## **5. CONCLUSION**

- 5.1 The proposals outlined above should go some way towards addressing the governance concerns raised by shareholders, without resulting in micro-management of Brunel by shareholders in a way that would prevent Brunel carrying out the investment activity required to ensure our wider objectives from pooling are met.
- 5.2 The review will now go on to look at other aspects of the current Shareholder Agreement, including looking again at the list of reserved matters and special reserved matters. The review will also consider whether there is a need to set up a formal shareholder forum to consider significant and controversial issues.
- 5.3 The Committee is recommended to support the proposals outlined in the report.

Mary Davis  
County Treasurer

[Electoral Divisions: All]

**LOCAL GOVERNMENT ACT 1972:**  
**LIST OF BACKGROUND PAPERS: NIL**  
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