

<b>To:</b>	LSB Board	<b>Agenda Item No.:</b>	19
<b>Date of Meeting:</b>	28 April 2017	<b>Item:</b>	Paper (17) 34
<b>Title:</b>	<b>Annual report of the work of the RNC 2016/17 incorporating effectiveness review</b>		
<b>Author / Introduced by:</b>	Toni Whitby, Corporate Governance Manager Toni.whitby@legalservicesboard.org.uk / 020 7271 0070 Julie Myers, Corporate Director <a href="mailto:julie.myers@legalservicesboard.org.uk">julie.myers@legalservicesboard.org.uk</a> / 020 7271 0059		
<b>Status:</b>	Official		
<b>Summary:</b>	<p>This paper presents a report of the activities of the Remuneration and Nomination Committee (<b>RNC</b>) in the period 1 April 2016 to 31 March 2017, for consideration by the Legal Services Board at its meeting on 28 April 2017.</p> <p>This report is intended to inform the LSB's Annual Report and Accounts 2016/17 – in particular by supporting the Governance Statement – and represents governance best practice.</p> <p>This report sets out the Committee's activities during the year and provides assurance to the Board that there were effective arrangements in place in relation to remuneration and nomination and other executive employment matters. The report also reflects on the Committee's effectiveness. This is in accordance with the RNC's Terms of Reference (ToR) which require that:</p> <ul style="list-style-type: none"> <li>• the Committee reviews its own performance and ToR at least annually to ensure it is operating at maximum effectiveness; and that</li> <li>• the Chair will produce and present to the Board on an annual basis a report summarising the activities of the Committee and the outcomes of its work.</li> </ul> <p>With regard to an annual review of ToR, at the RNC meeting held on 23 March 2016, RNC considered that a comprehensive review should take place once necessary appointments had been made to the Board, and RNC's membership had stabilised. Now that RNC is at full complement, a review of the ToR will be considered by RNC at its July meeting. Any proposals for change will then come to the Board for approval as part of the Board's annual governance review.</p> <p>The RNC terms of reference are attached at <b>Annex A</b>.</p>		

**Recommendation(s):**

The Board is invited to **NOTE** the work undertaken by RNC over the year. The report is submitted to the **Board to inform the** LSB's Annual Report and Accounts for 2016/17.

## LEGAL SERVICES BOARD

<b>To:</b>	LSB Board	<b>Agenda Item No.:</b>	19
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### Annual report of the work of the RNC 2016/17 incorporating effectiveness review

#### Recommendation

1. The Board is invited to **NOTE** the work undertaken by RNC over the year. The report is submitted to the Board **to inform the LSB's Annual Report and Accounts** for 2016/17.

#### Background

2. RNC's ToR require that it reviews its own effectiveness each year and reports to the Board on its activities. The ToR are attached at **Annex A**. This contributes to the LSB's Annual Report and Accounts. Specifically, the ToR require that:
  - the Committee reviews its own performance and ToR at least annually to ensure it is operating at maximum effectiveness; and that
  - the Chair will produce and present to the Board on an annual basis a report summarising the activities of the Committee and the outcomes of its work

#### Overview of the Committee and its ToR

3. The ToR refer to the Board having delegated to the CEO, decisions about most aspects of the routine management of the LSB's executive team. RNC's role in relation to these issues is to oversee - on behalf of the Board - the exercise of these delegated authorities, and to advise the CEO and the Corporate Director on any novel or contentious matters that may arise and on what constitutes good employment practice.
4. In relation to policy or management matters reserved to the Board, matters relating to the performance of the Board and appointments to the Board, the Board of the OLC or the Consumer Panel, the Committee's role is to undertake such preliminary work as the Chairman of the Board or the Board may require and to advise the Board on options and, where appropriate, on an appropriate course of action.

#### Membership and attendees

5. The Committee has, as of 1 January 2017, returned to a membership in line with its quorum requirements. (As background, as a consequence of the reduced Board membership, the Committee had been operating with co-opted members to deliver a quorum since September 2015.)
6. Arrangements for appointments to the Committee are set out in the Committee ToR. Members are appointed by and from the Board with periods of appointment

agreed by the Chairman of the Board. The quorum is three Members attending in person or by other means (in exceptional circumstances). Decisions may also be ratified by suitable exchange of correspondence.

7. The Committee met on two occasions during 2016/17: on 6 July 2016 and on 8 February 2017. As necessary lay appointments had not been made to the Board to fill vacancies, a permanent lay member had not been appointed to the RNC to replace a vacancy left by a departing Board Member. A lay Board Member was therefore co-opted for the July meeting.
8. The Committee membership and attendance during 2016/17 was:

<b>Remuneration and Nomination Committee</b>	<b>Out of 2</b>
Helen Phillips (Chair)	2/2
Jemima Coleman	2/2
*Jeremy Mayhew	1/1
**Marina Gibbs	1/1

\* became a member of RNC from 1 January 2017

\*\* co-opted onto the committee for one meeting only (6 July 2016)

9. The Committee was supported in its work by an external advisor, Sandra Jenner, who is appointed under contract. Attendees also included:
  - Mike Pitt (LSB Chair)
  - Neil Buckley (Board Member, CEO and Accounting Officer)
  - Julie Myers (Corporate Director)
  - Edwin Josephs (Director of Finance and Services)
10. The Secretary to the Committee was the Corporate Governance Manager.

### **Main activities**

11. The main activities of the Committee in 2016/17 included:
  - Nomination matters:
    - Legal Services Consumer Panel - considering proposals regarding the appointment of a new Chair and Member and proposals regarding reappointment of three Members
    - Office for Legal Complaints – considering proposals regarding the appointment of a new Chair and Member
    - Legal Services Board – considering the progress made by the Ministry of Justice as regards the appointment of a new Chair and lay members
    - Debating the arrangements for any Chair interregnum in 2017
    - Considering the results of the Board’s annual evaluation exercise
  - Remuneration matters:
    - Considering the outcome of the performance review process and advising the CEO on the distribution of the 2016 pay award

- Agreeing the 2016 pay award for colleagues within the RNC's ToR
- Considering non-pay options for improving the LSB's offer to colleagues
- Receiving the annual governance review of the LSB's pension arrangements
- Advising on pay arrangements for an LSB apprentice
- Other executive employment matters:
  - Reviewing resourcing trends including turnover, wastage and vacancy rates, sickness absence, tribunal and grievance.
  - Considering the outcome and action plan emerging from the 2015 colleague survey and colleague engagement matters
  - Reviewing the succession plan
  - Reviewing family related HR policies
  - Noting plans for a diversity survey
  - Endorsing revised Terms of Reference for the Senior Leadership team

12. The majority of these items were considered in the two formal meetings of the Committee, with a small number (three) considered out of Committee by correspondence.

### **How effectively did the Committee comply with its ToR**

13. The Committee concludes that, in spite of its reduced membership during the early part of 2016/17, it has provided both sufficient and rigorous challenge of, and where necessary, appropriate support to the Executive.
14. Feedback from the Executive is that the advice and challenge of the Committee is invaluable in testing emerging thinking as regards matters delegated to the Executive, and in making sure a broader range of perspectives is considered. The level of interest and commitment shown by the Committee to colleagues' well-being, engagement and overall effectiveness is also valued highly.
15. The Committee will conduct a review of its ToR as required by the current ToR at its July meeting. Any proposals for change would then go to the Board for approval as part of the Board's annual governance review.
16. The Committee has considered equality and diversity implications throughout its work but has not conducted an annual review of equality and diversity trends across the LSB in 2016/17. The Executive would be conducting a survey during March 2017 and the Committee will consider the results of the survey and any proposed actions arising as soon as the outcome is available.
17. Both Committee meetings were quorate and attendance is referenced at paragraph 8 above.
18. Written reports of Committee meetings were submitted to the Board, supplemented as required by an update from the Chair of the Committee.

### **Forward look to 2017/18**

19. The Committee will continue to provide challenge, oversight and support to the Executive, in line with its prevailing ToR, during 2017/18. An early task will be to conduct a comprehensive review of the ToR to make sure they are proportionate and clear and whether it remains appropriate for the Committee to retain all delegations.
20. Consideration will also be given to identifying best practice for effectiveness reviews of Remuneration and Nomination Committees and incorporating any lessons that can be learned.
21. The Committee will also continue to support the Executive as it embeds actions arising from the 2015 colleague survey and considers how best to evaluate colleague engagement going forward.

### **Conclusion**

22. RNC is able to provide assurance to the Board that there were effective arrangements in place in relation to remuneration and nomination and other executive employment matters.

## Annex A

### Remuneration and Nomination Committee (RNC) Terms of Reference<sup>1</sup>

#### Objectives

The Board has delegated to the CEO, decisions about most aspects of the routine management of the LSB's executive team. The Remuneration and Nomination Committee<sup>2</sup>'s role in relation to these issues is to oversee - on behalf of the Board - the exercise of these delegated authorities, and to advise the CEO and the Corporate Director on any novel or contentious matters that may arise and on what constitutes good employment practice.

In relation to policy or management matters reserved to the Board, matters relating to the performance of the Board and appointments to the Board, the Board of the OLC or the Consumer Panel, the Committee's role is to undertake such preliminary work as the Chairman of the Board or the Board may require and to advise the Board on options and, where appropriate, on an appropriate course of action.

#### Specific responsibilities

This section sets out the most significant responsibilities of the Committee. It is not an exhaustive list and can be amended at the Committee's discretion – subject to the agreement of the Board – to ensure objectives are met.

##### 1. In respect of Remuneration (executive terms and conditions)

- To review and advise the Board on the terms and conditions of service, including remuneration, pensions, benefits and allowances, of the Chief Executive
- To decide and review the terms and conditions of service, including remuneration, pensions, benefits and allowances of the Chief Executive's director reports ('Executive Group'), and of any other colleague(s) as agreed between the Chair of the Committee and the Chief Executive<sup>3</sup>.
- To oversee the process for determining the terms and conditions of employment, including remuneration, benefits and pensions of all LSB staff.
- To oversee the process for determining the terms and conditions of all other appointments, including in relation to the Consumer Panel<sup>4</sup> and Office for Legal Complaints<sup>5</sup>, but excluding ordinary Board Members<sup>6</sup>.
- To advise the Chairman on issues relating to the terms and conditions of ordinary Board Members for onward discussion with the Ministry of Justice.

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<sup>1</sup> *Ibid.*, Schedule 1, para. 21.

<sup>2</sup> Legal Services Act 2007, Schedule 1, para. 20(1).

<sup>3</sup> *Ibid.*, Schedule 1, para. 15-17.

<sup>4</sup> *Ibid.*, Section 8(6).

<sup>5</sup> *Ibid.*, Schedule 15, para. 10-12.

<sup>6</sup> *Ibid.*, Schedule 1, para. 1(2), defines 'ordinary' Board Members.

- To ensure that no person shall be involved in any decisions on their own remuneration.
- To review and approve any amendments to pay strategy, bandings and progression arrangements

## **2. In respect of other executive employment matters**

- To review annually the equality and diversity trends across the LSB.
- To comment on major management decisions and HR policies likely to have a significant impact on the LSB's budget, workforce, culture or performance (for example, any plans for new senior management posts).
- To monitor and evaluate – at a strategic level and on an exception basis – the impact of the LSB's HR policies. Key HR policies include:

- a) Health and safety<sup>7</sup>
- b) Capability procedure
- c) Colleague Forum and communication policy
- d) Grievance procedure
- e) Disciplinary procedure
- f) Sickness absence policy and procedure
- g) Holiday policy and procedure
- h) Smoking policy
- i) Alcohol and substance abuse policy
- j) Bullying and harassment policy
- k) Recruitment policy and procedure
- l) Leavers procedure
- m) Redundancy policy
- n) Adoption leave
- o) Parental leave
- p) Maternity leave
- q) Paternity leave
- r) Flexible working
- s) Compassionate leave

- to review periodically the design of the objective-setting and appraisal process, and to assess how it has operated in practice

## **3. In respect of Nomination**

### *LSB executives*

- To oversee and review the talent management strategy and succession planning for those LSB colleagues<sup>8</sup> as agreed between the Chair of the Committee and the Chief Executive

### *Legal Services Board members*

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<sup>7</sup> The LSB's Health and Safety policy is a matter reserved to the full Board (4.3 of the schedule refers)

<sup>8</sup> Executive employees of the LSB

- To review regularly the structure, size and composition of the Board, including members' skills, knowledge and experience.
- To assist the Chairman of the Board and through him the Ministry of Justice (MoJ) in identifying and nominating non-executive members (including the Chairman of the Board) to fill Board vacancies as and when they arise.
- Making recommendations to the Chairman and through him the MoJ as to the composition of the recruitment panel, giving due consideration to the views of other non executive members of the Board as appropriate.
- To assist the Chairman of the Board in making recommendations to the Lord Chancellor in respect of the appointment of Executive Board members.
- To consider the succession plan for the Board periodically.
- To monitor and review the induction process for Board Members.

#### *Office for Legal Complaints (OLC)*

- To review regularly the structure, size and composition of the OLC, including members' skills, knowledge and experience.
- To approve, on the Board's behalf, plans for identifying and nominating non-executive members (including the Chair of the OLC) to fill OLC vacancies as and when they arise.
- Making recommendations as to the composition of the recruitment panel, giving due consideration to the views of the Chair of the OLC and other non executive members of the Board as appropriate.
- To consider reports from the Chair of the OLC on the evaluation of the performance of OLC members annually, via the Chairman of the LSB, and make recommendations to the Board on re-appointments where appropriate.

#### *Legal Services Consumer Panel ('the Consumer Panel')*

- To review regularly the structure, size and composition of the Consumer Panel, including members' skills, knowledge and experience.
- To approve, on the Board's behalf, plans for identifying and nominating non-executive members (including the Chair of the Consumer Panel) to fill Consumer Panel vacancies as and when they arise.
- Making recommendations as to the composition of the recruitment panel, giving due consideration to the views of the Chair of the Consumer Panel and other non executive members of the Board as appropriate.
- To consider reports from the Chair of the Consumer Panel on the evaluation of the performance of Panel members annually, via the Chairman of the LSB, and make recommendations to the Board on re-appointments where appropriate.
- Overseeing that on appointment to the Consumer Panel, members receive an appropriate induction.
- To consider the succession plan for the Consumer Panel periodically

## **4. General**



- The Committee shall make whatever recommendations to the Board it deems appropriate on:
  - (i) any area within its remit where action or improvement is needed
  - (ii) specific issues where the Board is the decision taker
  - (iii) matters delegated to the Chief Executive where there is a substantive difference of view
- The Committee shall, at least annually, review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

### **Authority**

The Accounting Officer and the Board authorises the Committee to investigate any activity or topic covered by these Terms of Reference, and to request any information it requires from LSB colleagues, all of whom are directed to co-operate with any request for such information.

The Committee shall, in connection with its duties, and as authorised by the Board, obtain any legal or other professional advice at the LSB's expense.

The Chair of the Committee will have free and confidential access to the Accounting Officer, Corporate Director, Director of Finance and Services and National Audit Office, but will keep the Accounting Officer informed of any discussions that may take place as appropriate.

### **Membership, quorum, independence, objectivity and understanding**

Members of the Committee will act with independence and objectivity in the conduct of their responsibilities, and will have a sound understanding of the objectives and priorities of the LSB and of their role as a Committee member.

Committee members and the Chair shall be appointed by and from the Board<sup>9</sup> and the period of appointment to the Committee shall be agreed by the Chairman of the Board.

One member of the Committee shall be appointed as Chair. The majority of the members must be lay persons. The quorum of the Committee shall be at least three members<sup>10</sup> attending in person or, in exceptional circumstances, by telephone or video-conferencing facility, and decisions may also be made or ratified following a suitable exchange of correspondence, either electronically or in hard copy. A lay<sup>11</sup> majority is required for all decisions. Where a meeting is not quorate it will nevertheless go ahead, with decisions to be ratified at the next meeting of the Committee or the full Board, as appropriate.

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<sup>9</sup> *Ibid.*, Schedule 1, para. 20(3), restricts the membership of the Committee only to Board Members.

<sup>10</sup> *Ibid.*, Schedule 1, para. 21(2)

<sup>11</sup> *Ibid.*, Schedule 1, para. 20(4).

Where necessary, in order to make sure that members are aware of the nuance of a particular debate, a resolution may be circulated to all members after a Committee meeting and a decision taken by email. A decision might be delayed to a subsequent meeting where there is any doubt as to the decision taken.

The Chairman of the Board may not be a member of the Committee, but shall attend when matters of nomination are discussed. The Chair of the Committee, the Chairman of the Board and Committee members may participate in discussions about his/her succession but must not make decisions in relation to his/her own position or succession.

### **Current members and other attendees**

<b>Members</b>	
Chair (Lay)	Helen Phillips
Member	Jemima Coleman
Member (Lay)	
<b>Attendees</b>	
Sandra Jenner	External adviser to the Committee
Chief Executive, Accounting Officer and Executive Board member	Neil Buckley
Corporate Director	Julie Myers
Director of Finance and Services	Edwin Josephs

In addition to the above, external attendees, for example the Chairs of the OLC and Consumer Panel, the external auditors, and other LSB staff may attend as required to assist the Committee on specific issues.

### **Conflict of Interest**

A Committee member or attendee who becomes aware of a potential conflict of interest relating to matters being discussed by the Committee should give prior notification to the Chair or, if this is not possible, declare this at the meeting and – where necessary – withdraw during discussion of the relevant agenda item.

### **Access to the Remuneration and Nomination Committee**

Representatives from the LSB’s internal and external auditors will have free and confidential access to the Chair of the Committee.

### **Confidentiality**

Decisions on matters relating to Board Members, Committee advisors, the Consumer Panel and Office for Legal Complaints will generally remain wholly confidential to the Committee and executive attendees.

Decisions on matters relating to individuals' remuneration will generally remain wholly confidential to the Committee and relevant executive attendees (executives will not attend for discussions relating to their own remuneration).

The Committee shall operate on the basis that matters it discusses are confidential to the Committee. Papers will clarify the status and next steps on any necessary communication.

### **Consultation**

The Chief Executive and Corporate Director will determine the appropriate level of engagement and consultation with LSB colleagues, both prior to and following presentation of matters to the Committee and will provide details to members at the time matters are presented. This will be in accordance with good employment practice which expects some form of dialogue – at the most appropriate stage – on matters that are likely to make a material difference to working conditions, morale and LSB colleagues' commitment to the organisation.

### **Support and meetings**

Support for the Committee will be provided by the Corporate Governance Manager who will make arrangements for the organisation and recording of Committee meetings, coordination and distribution of papers.

In respect of Committee meetings:

- these shall be held at least twice a year and where possible should coincide with key dates in the LSB's reporting calendar (see **Appendix 1** for the schedule).
- the Chairman of the Board (in respect of nomination issues), the Chair of the Committee or the Accounting Officer may convene additional meetings as deemed necessary
- the Chair may ask any or all of those who normally attend, but who are not members of the Committee, to withdraw should this be deemed appropriate.
- written agendas and supporting papers will, be dispatched to members and attendees five working days before meetings
- draft minutes will, be circulated by the Corporate Governance Manager to Committee members and attendees within five working days following a committee meeting

### **Reporting to the Board**

The minutes of each Committee meeting will be circulated to all members of the Board and the Chair will produce and present to the Board on an annual basis a report summarising the activities of the Committee and the outcomes of its work. The annual report will be presented to the meeting of the Board that is scheduled to consider and agree the LSB's Annual Report and Accounts for the preceding financial year.

### **Information and consultation**

Communication between the Committee and LSB colleagues will be led by the Chief Executive; communications between the Committee and the Board will be led by the Chair of the Committee.

The Chief Executive and Corporate Director will determine the appropriate level of engagement with LSB colleagues<sup>12</sup> both prior to and following presentation of matters to the Committee and will provide details to members at the time matters are presented.

### **Annual Review of remit and performance**

The Committee will assess its effectiveness, and will also review these Terms of Reference, annually. It will submit recommendations for any proposed changes to the Board for approval. The Committee's duties and activities shall be disclosed in the LSB's Annual Report and Accounts.

Approved by the Board on 26 October 2016

## **APPENDIX 1**

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<sup>12</sup> The expectation is of some form of discussion – at the most appropriate stage - on matters that are likely to make a material difference to working conditions, morale and LSB colleagues' commitment to the organisation. This will be in line with the LSB's Colleague Forum and Communication Policy

<b>REMUNERATION AND NOMINATION COMMITTEE ANNUAL CYCLE OF AGENDA ITEMS</b>		
<b>Standing items</b>	<b>Jan</b>	<b>June</b>
Approval of previous minutes	√	√
Matters arising and outstanding action points	√	√
Policy review (a separate timetable exists for the periodic review of policies)	√	√
Any other business	√	√
<b>Agenda items</b>		
Review terms and conditions of service, including remuneration, pensions, benefits and allowances	√	
Review of remuneration and resourcing trends across the LSB, including sickness absence		√
Review of pensions governance	√	
Review of staff performance assessment process and performance related pay scheme	√	
Annual remuneration review		√
Annual report on equality, diversity and accessibility		√
Talent management strategy and executive succession plan		√
Annual review of Board, OLC and Consumer Panel succession planning		√
Committee Annual Report – for approval	√	
Annual RemCo performance self assessment and review of Committee Terms of Reference	√	

### **Information requirements**

In addition to information cited above, as appropriate the Committee will also be provided on an *ad hoc* basis with:

- proposals for any changes to the Terms of Reference
- the remuneration and nomination strategy and proposed annual programme of Committee work
- proposals for the appointment or re-appointment of Board, OLC and Consumer Panel members, according to the timetable of appointments
- proposals for changes to human resource policies
- quality assurance reports as deemed necessary