

## Regulatory and Other Committee

### Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	<b>Lincolnshire Pension Board</b>
Date:	<b>15 December 2016</b>
Subject:	<b>Asset Pooling Update</b>

#### Summary:

This paper updates the Pension Board on the latest activity with the asset pooling requirements.

#### Recommendation(s):

That the Board note the report.

#### Background

1. As previously reported, Border to Coast Pensions Partnership (BCPP) met the 15<sup>th</sup> July 2016 deadline for the final submission to DCLG. The expectation at the date of submission was that a response would be received by the end of September, to enable the already tight timetable included in the submission to be met.
2. Whilst awaiting this approval, work has continued to ensure that once it has been received, BCPP would be in a position to progress quickly.

#### CIPFA Guidance

3. Cipfa published guidance on Investment Pooling Governance Principles for Administering Authorities October 2016, this looked at the potential structure of any oversight body (the Joint Committee), how it should ensure it meets the governance principles set out in existing guidance and frameworks (including the Myners principles), and how existing governance structures could be adapted to meet the requirements with new pooling arrangements.

#### Investment Regulations

4. The long awaited Investment Regulations came into force on 1<sup>st</sup> November 2016. These contain the requirement for all Funds to pool assets as set out in the Guidance issued by the Secretary of State, and bring in the powers of intervention should such guidance not be followed.

## **Member Steering Group**

5. Member Steering Group (MSG) meetings were held on 30<sup>th</sup> September and 18<sup>th</sup> November.
6. The September meeting agenda items were:
  - Feedback from Officers from the BCPP Officer Operations Group meetings and national working groups
  - Presentation from legal advisors (Eversheds) on next steps
  - Phase 3 project delivery, budget requirements and proposed next steps
  - Update on work towards proposed approach to asset structuring and next steps
7. The November meeting agenda items were:
  - Feedback from Officers from the BCPP Officer Operations Group meetings and national working groups
  - Update on Phase 3 Project Delivery
  - Update on executive search and remuneration
  - Update on Joint Committee membership following publication of CIPFA's guide "Investment Pooling/Governance Principles"
  - Responsible Investing Presentation
  - Update on work towards proposed approach to asset structuring and next steps
8. The next meeting of the MSG is to be arranged for January 2017.

## **S151 and Legal/Monitoring Officer Meetings**

9. There have been two meetings of the Funds S151 and Legal/Monitoring officers, one on 5<sup>th</sup> September and one on 29<sup>th</sup> November.
10. The September meeting covered a review of what had been done so far and discussion about the next steps required, particularly from the Funds point of view. In particular this was about the process each Fund had to go through to get full council approval to create the Joint Committee structure and where the authority sat to buy a share in the Teckal company that would be created.
11. The November meeting received an update on BCPP progress and a presentation from Eversheds on the requirements to be FCA authorised and on the timetable and process for getting each Fund through the approvals required by each Authorities Full Council. It was acknowledged that the timetable was extremely tight, but that the implications of not meeting the deadline of March for all Funds to get reports through their Councils would be a potential three to six months added to the overall timetable, and therefore the likelihood of meeting the April 2018 deadline would be at risk.

12. Discussions were had about working together to prepare a number of documents/communications that could be used by all Funds to ensure a consistent message was given. Types of communications required would be a FAQ document for Council Members, briefing presentations for Members, information for scheme members and also employers.
13. An additional challenge that Administering Authorities have to consider is the County Council elections that will be taking place in May for a number of the partner Funds. This could potentially mean new Pension Committee members and/or new Chairs and therefore having to bring all new Committee Members up to speed in a short period of time.

### **Legal Advisors**

14. At the September S151 and Legal/Monitoring Officer meeting, it was agreed that two legal advisors should be appointed, one to act on behalf of BCPP and one to act on behalf of the partner Funds. The ConsultancyOne Framework (a framework for government to buy consultancy services) was used to tender for the two services.
15. Two responses were received for the BCPP Legal Advisor and four were received for the Funds' Legal Advisor. Different groups evaluated and moderated these submissions, and two companies were awarded the contracts. At the time of writing this report the contracts award is in standstill period.
16. The initial role for the BCPP Legal Advisor is to draft the documents required to take through Full Council to get each Administering Authority to approve. These include the Shareholder Agreement, the Articles of Association and the Inter Authority Agreement. The Funds' Legal Advisor will then review these on behalf of the Funds to finalise them.
17. A meeting has been organised with both Legal Advisors for Monday 12th December for the Legal/Monitoring Officers and Fund representatives to discuss the initial documents. As mentioned in paragraph 11 above, the timetable for agreeing these documents and getting them to each Council is very tight.

### **Workstreams**

18. In order to meet the project timetable of April 18, a detailed project plan has been created. Within this plan, three workstreams have been identified and dedicated resource has been approved across some of the partner funds.
19. The three workstreams and lead officers are:
  - Operating Model – Mark Lyon (East Riding) and Jo Ray (Lincolnshire)
  - People – Nick Orton (Durham) and Steve Barrett (SYPF)

- Governance and Monitoring – Phil Triggs (Surrey) and Tom Morrison (N Yorks)
20. In addition to the officers, each workstream has a Member Sub Group to work with.
21. The main responsibilities of each workstream are:

**Operating Model**

Procurement Advice & Implementation:  
 Legal Advice  
 Tax & Accounting  
 Asset Servicing (Depositary / Custodian)  
 Audit Services  
 Bank  
 FCA Compliance  
 ICT  
 Company set up  
 Asset Structuring - Sub-Fund Offering  
 Asset Transition  
 Policy & Legal

**People**

Acquisition of Premises  
 Recruitment and Remuneration  
 Directors (Executive and Non Executive)  
 Compliance Manager  
 HR Policy and Procedures  
 TUPE of existing staff  
 Recruit Additional Staff

**Governance and Monitoring**

Establish Joint Committee (TOR, etc),  
 Define Shareholder Reserved Matters,  
 Approval by individual Funds to commit to participate in Joint Committee and acquire full shareholding,  
 Confirmation TOR Officer Operations Group,  
 Agree information requirements from BCPP to Funds on set up.

22. Officers have been very aware to ensure that any potential conflicts of interest are managed, and declarations are made at the beginning of each Officer and Member meeting. One example of this is in the work being done to look at the executive remuneration, where the officers working on this have declared no interest in a role in the new company. Other officers that might wish to apply for a role in the new company have left the meeting when remuneration has been discussed.

## **Asset Structuring**

23. The initial asset structure for BCPP was set out in the July submission. Since then, this has been refined following discussions with Officers.
24. To ensure that the structure is fit for purpose, and aware that each Fund will be looking at its asset allocation following its valuation, the Investment Consultants and Independent Advisors from the partner funds were invited to one of two meetings to discuss the proposed asset structure of BCPP. Mark Lyon (East Riding Pension Fund), the workstream lead on the asset structure, talked them through the thinking behind the sub-funds that would be offered within BCPP. Generally the consultants and advisors were happy that the underlying asset allocations of their funds could be met with the sub-funds offered. It was understood that all sub-funds would not be available on day one, and that this was not set in stone, as requirements could change over the coming years.
25. Paul Potter (Hymans Robertson), the Lincolnshire Investment Consultant, attended one of the meetings and will present to the January Pensions Committee on his thoughts of the structure on offer, and how the Lincolnshire investment strategy will fit.

## **Government Approval**

26. At the Cross Pool Collaboration Group (CPCG) meeting on 20<sup>th</sup> October, Teresa Clay from DCLG informed the group that the Minister wished to meet with all pools to discuss their submissions, before any approval was given. These meetings were expected to take place over the following four to six weeks.
27. The BCPP meeting was held on 24<sup>th</sup> November, and the pool was represented by the three officers that attended the original meeting with the Minister in June, three Chairs of the Pension Funds within BCPP and a S151 Officer. Feedback was very positive about the submission and the progress to date, and the main concern from Government was that we meet the April 2018 deadline. The response from BCPP was that as there had already been a two month delay in receiving any approval, the timescale was very difficult but that we were still working towards meeting it.
28. The expectation was that a letter of approval would be received very soon after the meeting, however at the time of writing this had not been received.
29. At this point in time, letters of approval have been received by the LGPS Central pool and the Wales pool.

## **BCPP Budget**

30. To get BCPP to the final submission stage in July, an initial budget of £50k per fund was agreed in February 2016. This provided a total budget of £600k. Very little of this has actually been spent to date (approximately

£100k on advisory work) but the submission identified that to get the company into a position to manage assets from April 2018, the total cost may be as high as £4.2m across all 12 Funds (taken from figures provided by Deloitte). This figure included all set-up costs including staff, legal and professional, procurement, IT and infrastructure, regulatory costs for the operator (BCPP) and legal and professional costs for setting up the ACS structure. Taking account of the £50k already allocated, this requires approval from each Fund to spend up to another £300k to meet the cost requirements.

31. To ensure that funds are available when required and to meet the potential costs of the set-up of BCPP, it was requested at the October Pensions Committee that authority is delegated to the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee, to approve Pension Fund spend up to £350k (including the £50k already agreed). This was conditional on approval being received from Government on the pooling proposal.
32. All other partner funds have gained similar approvals for the total budget.

### **Conclusion**

33. Work continues

### **Consultation**

#### **a) Policy Proofing Actions Required**

n/a

### **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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