

Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection

Report to:	Pensions Committee
Date:	05 January 2017
Subject:	Asset Pooling Update

Summary:

This paper updates the Pensions Committee on the latest activity with the asset pooling requirements. In addition, the Pension Fund Manager will provide a presentation on the implementation and governance for BCPP.

Recommendation(s):

That the Committee note the report.

Background

1. As previously reported, Border to Coast Pensions Partnership (BCPP) met the 15th 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. Approval from Government was finally received on 12th December, but 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 1st 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 30th September and 18th 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 arranged for 31st January 2017.

Senior Officers Group (SOG)

9. There have been two meetings of the Senior Officers Group (SOG), which is made up of the Funds S151 and Legal/Monitoring officers; one on 5th September and one on 29th 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 how the authority would 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 the legal firm Eversheds on the requirements to be FCA authorised and the timetable and process for getting each Fund through the approvals required by each Administering Authority's Full Council. It was

acknowledged that the timetable was extremely tight, but that the implications of not meeting the deadline of end 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 SOG 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; Eversheds to represent BCPP and Squire Patton Boggs to represent the partner Funds.
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 was held on Monday 12th December with both Legal Advisors, 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, with the final date for agreeing them being the week commencing 16th January 2017.
18. The expectation is get the approvals required from Lincolnshire County Council at the Full Council meeting held to the 24th February

Workstreams

19. In order to meet the Government's imposed deadline of April 2018, 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. Overseeing the whole project is Fiona Miller (Cumbria) and she is supported by Steve Halford (Cumbria) as the project manager.
20. 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 Yorkshire)
21. In addition to the officers, each workstream has a Member Sub Group to work with. Membership of these sub groups is:
 - Operating Model – Cllr Mark Allan (Lincolnshire), Cllr Denise Le Gal (Surrey), Cllr Stephen Bloudele (Teesside) and Cllr Bob Stevens (Warwickshire)
 - People – Cllr Doug McMurdo (Beds), Cllr Mark Davinson (Durham), Cllr John Holtby (East Riding) and Cllr Tony Reid (Northumberland)
 - Governance and Monitoring – Cllr Mel Worth (Cumbria), Cllr John Weighell (N Yorkshire), Cllr Sue Ellis (S Yorkshire) and Cllr Eileen Leask (Tyne & Wear)
22. The main responsibilities of each workstream are:

Operator 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

23. Officers have been very diligent 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.

Service Provider Tenders

24. In addition to the Legal Advisors that have been appointed (as mentioned at paragraph 14 above), progress is also being made within the operating and regulatory model workstream. At the time of writing, specifications are being finalised for two tenders; an Operating and Regulatory Model Advisor and a Tax and Financial Services Advisor.
25. The Tax and Financial Services Advisor will be called off from the ConsultancyOne framework, and is expected to be appointed in early February.
26. The Operating and Regulatory Model Advisor will be a full OJEU procurement, and timetables are still being finalised.

Asset Structuring

27. The initial asset structure for BCPP was set out in the July submission. Since then, this has been refined following discussions with Officers.
28. 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.

29. Paul Potter (Hymans Robertson), the Lincolnshire Investment Consultant, attended one of the meetings and will present today to this Committee on his thoughts of the structure on offer, and how the Lincolnshire investment strategy will fit.

Government Approval

30. At the Cross Pool Collaboration Group (CPCG) meeting on 20th 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.
31. The BCPP meeting was held on 24th 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.
32. The letter of approval was received on 12th December, and was circulated to Committee and Board members.
33. At the time of writing, letters of approval have also been received by the LGPS Central pool and the Wales pool.

BCPP Budget

34. To enable BCPP to complete the final submission due in July 2016, 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.
35. 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 meeting of this Committee that authority be 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.

36. All other partner funds have gained similar approvals for the total budget.

Conclusion

33. Work continues across all areas to progress the creation of BCPP in the required timescale. The next critical date is to have all administering authorities having approved the creation of the new company and the Joint Committee by April 2017.

Consultation

a) Have Risks and Impact Analysis been carried out??

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Background Papers

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