

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

Report to:	Pensions Committee
Date:	08 March 2017
Subject:	Asset Pooling Update

Summary:

This paper updates the Pensions Committee on the latest activity with the asset pooling requirements.

Recommendation(s):

That the Committee note the report and give consideration to the communications on scheme member representation on the BCPP Joint Committee.

Background

1. As previously reported, Border to Coast Pensions Partnership (BCPP) received approval from the Government for their asset pooling proposal in December 2016. This has enabled the project to continue to work towards the Government's deadline of April 2018.
2. Members received a presentation at the January Committee detailing the governance structure of BCPP, and how the Committee would be able to hold the pool to account for the management of its investments.
3. The paragraphs below update the Committee on progress on pooling since the January Committee.

Member Steering Group

4. A meeting of the Member Steering Group (MSG) was held on 31st January in York. Papers from the meeting were circulated to all Committee and Board members on 8th February for information.
5. The January meeting agenda items were:
 - Update on Phase 3 project delivery, including high level risk register
 - Governance workstream update

- Progress of Individual Authority Approvals including legal documentation; future governance structures and implementation timetable
 - Update and Advice from Squire Patton Boggs Legal Advisor Appointed to the Administering Authorities on progress and next steps
 - Operating model workstream - Update on advisor selection processes and Asset Template Progress
 - People workstream
 - Update on work towards securing location, pensions guarantee
 - Update on Executive Search and Remuneration
 - Feedback from Officers from the BCPP on National Working Groups
6. The next meeting of the MSG is arranged for 24th March 2017.

Senior Officers Group (SOG)

7. Since the last update report, there have not been any meetings of the Senior Officers Group (SOG), which is made up of the Funds S151 and Legal/Monitoring officers. However they have been involved in reviewing and agreeing the papers to go to the Full Council meetings of each Fund, and also in the Executive remuneration discussions.
8. Two S151 Officers from the partner Funds now work alongside the workstream Member sub-groups and attend the MSG meetings.
9. The next SOG meeting is arranged for 3rd April in Northallerton.

Officer Operations Group (OOG) and Project team

10. The Officer Operations Group (OOG) has continued to meet regularly, however the majority of the work has now passed to the project team that are managing the various workstreams.
11. The project team now have a dedicated office in Northallerton, at the North Yorkshire Council offices.

Full Council's Approvals

12. The two Legal Advisors appointed to work on behalf of the Funds and BCPP have completed the drafting of 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. David Coleman, Head of Legal Services, was heavily involved in agreeing the final documents, to ensure that they were fit for purpose for Lincolnshire County Council.
13. A briefing note was sent to all County Councillors on 15th February, in advance of the papers for Full Council being sent out for Lincolnshire's

meeting on 24th February. This provided background to the paper tabled, and offered Councillors the opportunity to ask questions or receive a more detailed briefing ahead of the Council meeting. The briefing note is attached at appendix A. The full Council report and appendices (90 pages) can be found on the Council's website.

14. The Council was asked to approve the recommendations in the paper at its meeting, as set out below:

That the Council as administering authority of the Lincolnshire Local Government Pension Fund:

- 1) approve the adoption of Border to Coast Pensions Partnership (BCPP) Pooling Arrangement as the Council's chosen approach to meet the requirement to pool assets in the LGPS;
- 2) approve inclusion within the Lincolnshire LGPS Investment Strategy Statement of the BCPP Pooling Arrangement as the Council's approach to pooling investments in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the Guidance on Preparing and Maintaining an Investment Strategy Statement;
- 3) approve the subscription by the Council as administering authority for 1 class A voting share in Border to Coast Pensions Partnership Limited;
- 4) appoint the Executive Director for Finance and Public Protection to exercise the Council's rights as a shareholder in Border to Coast Pensions Partnership Limited on behalf of the Council as the administering authority of the Lincolnshire Local Government Pension Fund;
- 5) approve the subscription by the Council as administering authority for such number of class B non-voting shares in the Border to Coast Pensions Partnership Limited as shall be necessary to ensure that the Lincolnshire LGPS contributes by way of equity one twelfth of the minimum regulatory capital requirement of the company as determined in accordance with the requirements of the company's regulators;
- 6) approve the entering into of a Shareholder Agreement between the Council and the Administering Authorities of the other Pool Funds and the company generally in the form attached at Appendix E and described within the Report;
- 7) approve the entering into of an Inter-Authority Agreement between the Council and the Administering Authorities of the Partner Funds generally in the form attached at Appendix C and described within the Report;

- 8) approves the establishment as a formal Joint Committee under section 102 of the Local Government Act 1972 of the Border to Coast Pensions Partnership Joint Committee in accordance with and to carry out the functions set out in the Inter-Authority Agreement;
 - 9) appoint the Chairman (or Vice Chairman in their absence) of the Pension Committee to represent the Council on behalf of Lincolnshire Local Government Pension Scheme on the Border to Coast Pensions Partnership Joint Committee;
 - 10) approve the changes to the Constitution set out in Appendix D this Report to enable Lincolnshire to be a partner on the Border to Coast Pensions Partnership Joint Committee and undertake all Fund activities in regards to being an investor in Border to Coast Pensions Partnership Limited in its capacity as an Asset Management Company;
 - 11) authorise the Executive Director for Finance and Public Protection in consultation with the Chairman of the Pensions Committee to finalise the approval and execution, where required, of all legal documents necessary to give effect to the above decisions including the Articles of Association of Border to Coast Pensions Partnership Limited, the Shareholder Agreement and the Inter-Authority Agreement
15. The expectation is that all Funds in BCPP will have full approval by the end of March 2017, to enable the Joint Committee to have its first meeting on 25th April.

Workstreams

16. In order to meet the Government's imposed deadline of April 2018, a detailed project plan has been created and is updated as the project progresses. Within this plan, three workstreams have been identified and dedicated resource has been approved across some of the partner funds. Updates on each of the workstreams are shown below.

Operator Model

17. Since the last update report, the Tax and Financial Service Advisor tender have been completed and Deloittes appointed.
18. The tender for the Operator and Regulatory Model Advisor was issued on 16th February, with a closing date of 10th March. The submissions will be evaluated by the project team on 15th and 16th March, and a recommendation for appointment taken to the MSG on 24th March.
19. In order to progress the operator workstream as quickly as possible once the advisor has been appointed, a meeting has been diarised with Deloittes, Eversheds and the appointed operator advisor in early April.

People

20. Since the last update report, the Executive Search and Remuneration Advisor tender has been completed and Odgers Berndtson appointed. The advisor will assist with the recruitment and appointments of the three executive posts that will be on the company's Board. This is the Chief Executive Officer (CEO), Chief Investment Officer (CIO) and Chief Operating Officer (COO), and the three non-executive posts of Chair and two Non-Executive Directors (NED's). In addition, due to the specialist nature of the role, the Advisor will also assist in the recruitment and appointment of the Compliance Officer. These posts are expected to be appointed by early summer 2017.
21. Another key area for this workstream is setting up the company office. An advisor will be appointed to provide assistance in finding an appropriate location and negotiating a suitable lease and terms.

Governance and Monitoring

22. As detailed at paragraph 12 above, the documents required to get all Fund's approvals to join BCPP has been completed. The expectation is that approval for the final details within the various documents (e.g. shareholder agreement approval levels) will be delegated by each Council to Officers to agree, and they will be signed off at the first meeting of the Joint Committee.
23. Work will continue with the legal advisors and the Funds to ensure that all partners are satisfied with the documents, from both a client and a shareholder viewpoint.

Asset Structuring

24. No further work has been done on the asset structuring since the last update in January. However, all pools are working collaboratively with the National Frameworks group to create a framework for transition managers, which all Funds and pools will be able to use.

Cross Pool Collaboration Group (CPCG)

25. The Cross Pool Collaboration Group (CPCG) continues to meet monthly and share information and progress. The group invited the FCA to the January meeting to discuss the issues and concerns with the implementation of MiFID II in its current format (which was explained at the January Committee meeting). This was very productive and it is expected that the FCA will amend their requirements to assist Local Authority Pension Funds opting up to professional investor status.

BCPP Budget

26. The project spend to 22nd January was shown in the MSG papers on p14. The budget is reported at each MSG and is monitored by the OOG at each meeting.

Scheme Member Representation

27. The Chair of the South Yorkshire Pension Fund has contacted all of the Chairs of the partner Funds to raise their concerns about the lack of scheme member representation on the oversight body for BCPP, the Joint Committee. This followed the discussion at the December MSG meeting, where one of the recommendations put to the MSG was “Members to decide whether up to two non-voting scheme member positions should be created on the Joint Committee”. The minutes below show the decision that the twelve Chairs made:

7.0 Joint Committee Representation

- 7.1 The report sought direction on the proposed membership of the Joint Committee other than for partner Funds elected Member representation e.g. scheme member/union representation, employer representation and independent advisor positions.
- 7.2 After lengthy discussions, especially around scheme member representation and an independent advisor position, the following recommendations were agreed:
1. Any additional attendees of the Joint Committee beyond the 12 voting Funds will have observer status with the ability to participate in discussions but not able to vote.
 2. There will not be separate scheme employer representation on the Joint Committee.
 3. The Joint Committee will not have advisors as permanent additional members.
 4. There would be no Joint Committee members beyond the 12, that other individuals (e.g. advisers) may be invited to attend meetings from time to time, and that this approach would be revisited if/when the Scheme Advisory Board issues guidance.
28. The consensus view of the MSG was that the most appropriate place for scheme member representation was at the local Committee level, where the strategic decisions are made, and at the Board level, for the oversight of those decisions.
29. The Chairs of the Pensions Committee and the Pension Board received a letter in December from Unison requesting that scheme member representation, via Union representatives, be considered in the governance structure for BCPP, in addition to questions on cost transparency and valuation methodology. A joint response from both Chairs was agreed and is attached at appendix B.
30. At the time of writing this report, the Scheme Advisory Board has not issued any guidance, other than it is a decision for each individual pool to make.
31. The Chair of the Lincolnshire Pension Board has received similar communications from the Chair of the Tyne and Wear Pension Board, and this will be discussed at the next Pension Board meeting on 15th March.

Conclusion

32. 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.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Pensions Pooling Briefing Note
Appendix B	Response to Unison Letter

Background Papers

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

