

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

Report to:	<b>Lincolnshire Pension Board</b>
Date:	<b>26 March 2018</b>
Subject:	<b>Asset Pooling Update</b>

**Summary:**

This report updates the Board on progress of the creation of Border to Coast, the Fund's chosen asset pool.

**Recommendation(s):**

That the Board notes the report.

### Background

1. As the Board are aware, the Lincolnshire Fund has been working closely with 11 other partner funds since 2015, to create the asset pool now known as Border to Coast Pensions Partnership Ltd (Border to Coast). Since the last update in given at the January meeting of this Board, much progress has been made in ensuring that Border to Coast will be operational in June 2018. This paper will summarise the key progress points to date, and the work being done to meet the June deadline.

### Joint Committee Meetings

2. The Joint Committee (JC) last met on 16<sup>th</sup> January 2018, and the papers were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the key decisions made from each paper:
  - Partner Fund Director proposals – the expectation is that two representatives nominated by the Partner Funds and approved by the Joint Committee will be proposed to the Border to Coast Board, and then agreed by shareholders. The process will be brought to the next JC to be held on 13<sup>th</sup> March.
  - Joint Committee budget – the proposed budget was agreed, with the cost shared equally across all partner funds.

- Cost sharing principles – the principles and high level approach were approved, subject to a change in relation to the long term allocation of Pensions Past Service Deficiency costs.
- Regulatory update – progress in the FCA application was noted, and the provision of a CASS waiver (client money provisions) was approved subject to each authorities S151 agreement.
- Responsible investments initiatives - the JC approved the governance process for supporting Responsible Investment initiatives and noted Border to Coast's stance in supporting the Financial Stability Board Task Force on Climate-related Financial Disclosures.
- Project update – it was agreed to recommend the increase in the implementation budget of an additional £75k cost per Fund (see paragraph 6 below).
- Draft three year operating budget – the draft budget was approved and recommended to shareholders for approval of the Border to Coast annual operating charge, and noted the risks and sensitivities of cost items currently estimated or reliant upon asset management transition.
- Pensions - the details of the proposals regarding the establishment of pension schemes which will be made by the Company to shareholders for approval was noted, and authority was delegated to the Chair and Vice Chair of the JC to sign off on the final proposal to be put to shareholders.

### **Key Milestones**

3. The key milestones achieved so far in 2018 are shown below:

#### **Governance**

- Board and Committees up and running
- Partner Fund Directors concept agreed
- Risk framework drafted, risk capital calculated
- External Auditor appointed: KPMG
- FCA application submitted

#### **Investment**

- Platform provider appointed: Bloomberg
- Outline ACS prospectus drafted

#### **Operations**

- Third Party Administrator and depository appointed: Northern Trust
- Initial multi-party implementation workshops held
- Finance system chosen: Sage
- Corporate ICT ITT issued
- Banking relationship established: Lloyds

## People

- Significant recruitment activity
- TUPE discussions underway with affected Local Authorities
- Cultural design work underway
- Property chosen and design complete

## Next steps

4. The next stage involves six workgroups being set up to cover the areas listed below, with the outcomes required. Funds will be working with Border to Coast employees to resource these groups, and timescales are very tight to ensure that the June deadline is met.

<b>Workshop</b>	<b>Outcomes</b>
Internally managed sub-funds	Detailed investment specifications ACS Prospectus – FCA Investment Management Agreements Agreement that assets will be transitioned if funds launched (subject to the governance and transition workstreams)
Externally managed sub-funds and selection of external managers	Confirmation that OJEU process is required (to get approval from the Board) OJEU tender documentation ACS Fund Factsheets ACS Prospectus – FCA Investment Management Agreements
Transition management	Transition strategy Transition plan for sign-off
Alternatives	Agreement on what, how and when of alternatives capability build
Governance	Identification of conditions required to approve transition of assets Identification of governance routes for each of the partner funds, including key governance meeting dates and approach to delegated authorities

	<p>Agree content of information pack for each scheme to enable officers to achieve necessary approvals</p> <p>Approach to any due diligence requirements (shared duty of care, one provider, procurement process etc)</p>
Reporting and Required Authority Accounting Information	<p>Identification of standard reporting requirements</p> <p>Identification of reporting timelines</p>

### **Delegated authority**

5. There will be a number of time-critical implementation decisions which will have to be made over the coming months, regarding the sub-fund structure, transition plans and other implementation actions. To ensure that any decisions can be made in a timely manner, a recommendation has been made to the Pensions Committee to request that authority to make these decisions is delegated to the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee.
  
6. As explained in the JC Project Update paper of 16<sup>th</sup> January, the implementation budget was originally expected to be £350k per partner Fund. This figure was the estimated total cost of ensuring that the Border to Coast company would be in a position to start managing assets within the Government's timeframe. At the October 2016 Pensions Committee, it was agreed to delegate authority to the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee, to allow expenditure up to that amount. For the reasons detailed in the JC paper, and with the greater visibility on actual costs, the implementation budget has increased and Funds are asked to approve an additional £75k each to ensure that the timescale for Border to Coast to begin managing assets can be met. Therefore delegated authority has again been requested of the Pensions Committee for the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee, to agree expenditure up to an additional £75k. Actual implementation costs will be reported to the Committee once known.

### **Conclusion**

7. Significant progress has been made on the asset pooling project, and the pace is increasing as the deadline of June 2018 looms closer. To enable this deadline to be met, delegated authority has been sought from the Pensions Committee for time-critical decision making and additional expenditure to the implementation budget.

## **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**

Not applicable.

This report was written by Jo Ray, who can be contacted on 01522 553656 or [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk)

This page is intentionally left blank