



PENSIONS PARTNERSHIP

BCPP JOINT COMMITTEE

AGENDA

Venue: County Hall, Northallerton

Date: Tuesday 6 June 2017

Time: 11.00 am

Membership:

Chair:-

Cllr John Weighell North Yorkshire Pension Fund

Vice Chair:-

Cllr Sue Ellis South Yorkshire Pension Fund

Membership:-

Cllr Doug McMurdo	Bedfordshire Pension Fund
TBC	Cumbria Pension Fund
Cllr John Holtby	East Riding Pension Fund
Cllr Eddie Strengiel	Lincolnshire Pension Fund
Cllr Jeff Watson	Northumberland Pension Fund
Cllr Tim Evans	Surrey Pension Fund
Cllr Steve Bloundele	Teesside Pension Fund
Cllr Eileen Leask	Tyne & Wear Pension Fund
Cllr Bob Stevens	Warwickshire Pension Fund

AGENDA

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10	BCPP Company Committee Structures and the Roles of Non-Executive Directors (NEDs) - David Haywood	81 - 88
11	Member Information Briefing	
	Presentation from Andrew Glessing (Director - Head of Compliance) Alpha FMC on governance requirements for BCPP Ltd as an FCA regulated entity (including Committee Structures and the role and skill sets required of the Non-Executive Directors of BCPP Ltd and how these feed into the FCA application process).	
*12	Update on Executive Search and Remuneration - Ian Bainbridge/Clare Gorman (Exemption Paragraph 3)	
	To be distributed separately (excluding individuals declaring a potential conflict)	
13	Standing Item - Verbal Update on Emerging Matters	
14	Any Other Business	
15	Date of Next Meeting	
	TBC – Proposed 5 th September 2017	
	Close of Meeting	



BCPP Joint Committee

Report Title: Minutes of the Member Steering Group Meeting 24th March 2017, Royal Hotel, York

Present

Members: Councillor John Weighell (Chairman), Councillors Doug McMurdo, Mel Worth, Mark Davinson, John Holtby, Mark Allan, Tony Reid, Denise Le Gal, Stephen Bloundele, Eileen Leask, Bob Stevens and Sue Ellis.

Officers: Matt Dawson, Geoff Reader, David Hayward, Paul Campbell, Mark Lyon, Nick Orton, Phil Triggs, Jo Ray, Fiona Miller, Steve Barrett, Ian Bainbridge, Amanda Alderson, Tom Morrison, Gary Fielding, Steve Loach, Stephen Ellis and Martin McCarthy.

1. Minutes

1.1 The Minutes of the meeting held on 31 January 2017 were agreed as a true record, subject to the correct spelling of Councillor Mark Davinson's surname.

2. Update on Project Delivery and Implementation Budget

2.1 The Chair of the Officer Operation Group provided a report updating Members on the high level activities undertaken since the previous meeting towards the delivery of Phase 3 of the BCPP Implementation Plan.

2.2 The report also outlined the high level activity across the three work-streams and focused on the key deliverables over the next 12 weeks, including the procurement and initial engagement with the Asset Service Adviser, Executive recruitment and property/ICT requisition.

2.3 Details of the current high level Risk Register, highlighting, by exception, any key areas for consideration by Members were provided.

2.4 It was noted that the project go live date has slipped to June 2018. The issues relating to the delayed go-live date were detailed within the report. It was noted that, due to the nature of BCPP Limited and the timing of the transition of internally managed assets it was expected that this slippage would be acceptable to DCLG officials.

2.5 The key risks surrounding the current milestones were outlined and the mitigating controls put in place by officers were detailed in an Appendix to the report.

- 2.6 An update on the project budget was provided with a predicted overspend of £115k against the total implementation budget of £4.2m. It was emphasised, that at this early stage there was a level of uncertainty over certain costs so it was not proposed to seek additional budgetary provision from the partner funds at this time.
- 2.7 Details of the activity during the initial planning phase and the updated timeline for project implementation were detailed in the report.
- 2.8 Key work-stream activity planned during the next period included:
- The meeting of the first Joint Committee on 25 April 2017.
 - The establishment of the shell company following this meeting.
 - The commencement of the BCPP Executive and non-Executive Director appointment processes. Engagement with the advisors to review work to date and mobilise resources, in line with the project plan.
 - Working with the operator adviser commence work on the target operating model.
 - Development of draft premises specification documents and agree process to acquire premises.
 - Development of draft Corporate ICT specification document.
 - Commence activity on general terms and conditions for workforce.
 - Initial engagement with staff potentially transferring.
- 2.9 The following points and issues were raised during discussion of the report:-
- The difficulties faced by the Funds in addressing MiFID II at the same time as implementing pooling.
 - The commitments to infrastructure and the definition of infrastructure.
 - Ensuring that MiFID II is reflected appropriately in the Risk Register.
- 2.10 Resolved -
- (i) That the proposed new delivery date of June 2018 be approved.
 - (ii) That the attached high level BCPP Risk Register and mitigating actions proposed by the Officer Operations Group be approved.
 - (iii) That the high level project activity to date be agreed and the delays in the procurement of support contracts be acknowledged.
 - (iv) That the projected overspend of £115k, to enable the delivery of the project up to the proposed go-live date of June 2018 be noted.

3. Feedback on National Working Groups

- 3.1 The report provided updates on working group meetings attended by officers as follows:-
- Cross Pool Collaboration Group - 24 February 2017
- Highlights of the meeting included:-
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- An update from DCLG.
- SAB advice on scheme member representation on pools.
- All pools now had permission to proceed with July 2016 proposals.
- National frameworks update.
- The establishment of a new sub group to consider tax issues.
- An update on scheme member representation on each pool.
- Details of a letter sent to HMT requesting a stamp duty holiday for pools.
- SAB considering the resources impact of pooling on Funds.

3.2 MiFID II Working Group - 20 February 2017

Highlights of the meeting included:-

- Confirmation by the FCA that local authorities would be classified as retail investors.
- The opt-up process would be to “elective professional” status.
- Whether the FCA was aware that the opt-up process did not reflect the decision-making process and regulatory requirement of LGPS Administering Authorities.
- Each Investment Manager may be required to assess each fund.
- Clarification required on whether assessment was based on person or corporate body.
- Further consideration to be given to unregulated and regulated collective investment schemes.
- Decision to be made on whether directive would extend to cover non-MiFID business.
- Clarification to be provided on existing investments where opt-up was not successful.
- Full implications for individual Funds and BCPP not clear until FCA publishes final requirements.
- A detailed note on the events of the meeting was appended to the report.

3.3 The following up-coming meetings were highlighted as follows:-

- Responsible Investment Sub-Group - 27 March 2017.
- Cross-Pool Collaboration Group - 30 March 2017.
- Infrastructure Sub-Group - 30 March 2017.
- MiFID II LGPS Working Group - date to be confirmed.

3.4 The following issues and points were raised during discussion of the report:-

3.5 Concerns were raised regarding the potential issues for LGPS Funds in terms of the proposed opt-up process and it was suggested that further

discussions with the FCA were required to ensure the strongest case possible is made.

Resolved -

That the report be noted.

4. Governance Workstream Update

(a) Consideration of the roles of Host Authority and Secretariat within the BCPP Joint Committee

4.1 The Governance Sub-Group developed a statement of the proposed obligations of the partner fund approved to act as the host authority, under the Inter-Authority Agreement (“IAA”), and partner fund approved to provide the secretariat function to the BCPP Joint Committee. The Tyne and Wear Pension Fund (South Tyneside Council) was proposed to act as host authority and the South Yorkshire Pension Fund (through the Joint Authorities Governance Unit operated by Barnsley MBC) was proposed to provide secretariat services.

4.2 An Appendix to the report provided Members with the rationale and detail behind the drafting of the IAA, which were explained to the MSG.

4.3 It was noted that costs for the provision of these services would be equally shared by the 12 partner funds.

Resolved -

(i) That the proposed statement of obligations for the partner fund selected to undertake the role of host authority and for the partner funds selected to undertake the provision of secretariat services to the BCPP Joint Committee be approved.

(ii) That the offer from Tyne and Wear Pension Fund (through South Tyneside Council) to undertake the role of host authority for the BCPP Joint Committee be accepted and approved.

(iii) That the offer from South Yorkshire Pension Fund (through the Joint Authorities Governance Unit operated by Barnsley MBC) to undertake the provision of the secretariat services to the BCPP Joint Committee be accepted and approved.

(b) Proposed Procedures for Electing a Chair/Vice-Chair to BCPP Joint Committee

4.4 The Governance Sub-Group, at its meeting on 6 March 2017, developed a proposed procedure for the election of the Chair and Vice-Chair of the BCPP Joint Committee which was outlined in the report. It was proposed that the election of the Chair and Vice-Chair be by secret ballot under the exhaustive ballot mechanism. Should the process be agreed

arrangements would be undertaken to carry this out immediately following the conclusion of today's Member Steering Group meeting.

Resolved -

- (i) That the proposed process to elect the Chair and Vice-Chair of the BCPP Joint Committee, as detailed in Appendix 1 to the report, be approved and implemented immediately following today's meeting.
 - (ii) That the proposed role profile of the Chair and Vice-Chair of the BCPP Joint Committee, as set out in Appendix 2 to the report, be approved.
- (c) **Update on Proposed Development of Engagement and Communications Strategies with BCPP Interested Parties and Stakeholders**
- 4.5 The report provided details of the current governance structure of BCPP, how that was developed and the proposed next steps to formulate a wider engagement strategy to encompass engagement with all key interested parties, which was envisaged to be scheme members; wider employer base representatives; Central Government agencies, etc.
 - 4.6 A Communications' Strategy was also being developed which would deal with external communication with the press and internal communications and engagement with both staff, who may be transferring into BCPP Limited, and other staff across the partner Funds affected by the creation of BCPP Limited.
 - 4.7 An external Communications' Strategy was currently being drafted and was intended to provide wider guidance on engagement with the press and for representations on the pool that may be invited to speak at conferences. Current operations would continue in the interim.
 - 4.8 The internal Communications' Policy would aim to provide consistency and structure and ensure that matters were transparently handled with regards to the communication with the staff anticipated to transfer into BCPP Limited. The Policy was being drawn up by the People Sub-Group but would be reviewed by the Governance Sub-Group to ensure consistency across similar protocols.
 - 4.9 The report highlighted details in relation to the following issues:-
 - Structures within other pools.
 - External national professional guidance and governance structures - CIPFA guidance issued in October 2016 entitled "Investment Pooling/ Governance Principles".
 - Consultation and engagement strand 1 - within BCPP to wider interested parties (scheme members and employers).
 - Consultation and engagement strand 2 - with Government and regulatory agencies - pooling general - infrastructure; MiFID II, investment management association.
 - External engagement with other pools - strand 3.
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Resolved -

- (i) That the proposed wider stakeholder engagement proposals, detailed in the body of the report be supported and delegated back to the Governance Sub-Group for development in the coming months.
- (ii) That the proposed small revision to the IAA, detailed in the report, which would introduce flexibility for the Joint Committee, allowing them at any time in the future, to co-opt additional members to the BCPP Joint Committee, who could attend without voting rights, be approved and submitted to the SOG taking place on 3 April 2017 for their consideration, with no change to the makeup of the Joint Committee at this time.

5. Update on Operating Model Work-stream

- 5.1 The report provided details on work that had been undertaken within the operating model work-stream since the previous meeting of the MSG.
 - 5.2 It was reported that the tender for the operating and regulatory model adviser had been issued, moderated, and Alpha FMC had been selected as the preferred supplier.
 - 5.3 A project scoping day had been arranged with the BCPP Project Team and the advisers in order to develop a detailed project plan for the design and implementation of the operating model.
 - 5.4 Initial planning on the transition of assets into BCPP, including an indicative timeline, had commenced and would be developed further alongside the asset allocation template.
 - 5.5 The key areas of scope within the work-stream were highlighted as follows:-
 - Tax and financial services tender.
 - Operating and regulatory model tender.
 - Operating model.
 - Asset allocation template.
 - Sub-fund prospectuses.
 - Transition planning.
 - Resource planning.
 - 5.6 Appendix 1 to the report provided a timeline for the various processes. The timetable would need to be aligned to the overall BCPP Project Plan and key inter-dependencies were outlined as follows:-
 - Definition of the target operating model.
 - Selection of ICT and TPA (transfer party administrator) providers.
 - Availability of premises and associated infrastructure.
 - FCA approval process.
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- Approval of the BCPP operational budget.
- 5.7 Details of the timescales for internally and externally managed assets and the differences and reasons for those differences were outlined.
- 5.8 During discussion of the report the following issues and points were raised:-
- The tax implications of the transition process and the careful work that would be required to minimise those implications.
 - The costs of transition - it was noted that transition costs would be borne equally between each of the Funds investing in a sub-fund when it is first invested in, but subsequent transitions into a sub-fund would require individual Funds to pay their full transition costs.
 - Issues around stamp duty and the potential impact that could have on transition and related costs were outlined. It was noted that the matter was being considered and representations were being made at the highest level in an attempt to offset this potential cost.

Resolved -

- (i) That the work on the operating model work-stream, including the design and implementation of the operating model and the procurement of suitable service providers, continue to be progressed.
- (ii) That the work on the asset allocation template and associated transition planning continue to be progressed.

6. People Work-stream Update

(a) Update on Work towards Securing Location and Pension Position for BCPP Limited

- 6.1 The report provided an update on activity undertaken within the people work-stream since the last meeting with much of that focused on the recruitment and remuneration of the Directors for BCPP which would be dealt with later in the meeting.
- 6.2 Details of work that continued, or had started on other aspects' was detailed as follows:-
- Determining the location and securing premises for BCPP Limited.
 - Collating information and comparing terms and conditions of staff expected to transfer under TUPE terms from the three Funds with internal management.
 - Seeking further clarity on how BCPP Limited would participate as an employer in the Local Government Pension Scheme (LGPS) to provide access to the LGPS for certain employees, and how its participation in the LGPS may need to be underwritten by the partner funds.
 - Details of the appointment of a property agent to obtain appropriate premises for BCPP in the Leeds area were outlined.

Details of the premises search including the property agent were provided.

- Issues covering staff to be recruited externally by BCPP Limited and whether they should have access to the Local Government Pension Scheme, the potential requirement for an admission agreement, and the funded status of BCPP were raised.

6.3 The following issues and points were raised during discussion of the report:-

- Issues around cost, risk, ethos and recruitment/retention in relation to BCPP Limited offering access to the LGPS to new entrants were discussed.
- Members had mixed views in relation to LGPS access for BCPP Limited employees and it was suggested that a detailed report, in relation to this matter, be submitted to the Joint Committee. The report would outline the advantages and disadvantages of this. It was emphasised that TUPE protected the pension rights of transferring staff.

Resolved -

- (i) That progress of the work on the People workstream continue, with the primary focus for the next 12 weeks being to work with a property agent to source a suitable property for BCPP Limited in the Leeds area.
 - (ii) That work also be carried out in the following areas:-
 - (a) to appropriately source a payroll provider to ensure BCPP Limited would be in a position to pay the Directors and other staff as and when they were appointed (a bank account was also a pre-requisite for this)
 - (b) to work with legal and financial advisers to prepare an options paper for the Joint Committee to allow a decision to be taken on what pension provision would be offered to new employees to BCPP Limited (those that are recruited to posts and have not transferred from one of the partner funds), the paper would include an analysis of the operational and financial risks and benefits of allowing new employees to participate in the LGPS
 - (c) continuing the work on the three funds with internal management, to finalise the list of staff expected to TUPE transfer, and to compare details of terms and conditions and working practices
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- (d) to draft the terms of an LGPS guarantee, working on the general principle that any liabilities at the point of transfer should remain the responsibility of the Funds transferring staff, but liabilities built up going forwards would be underwritten by all partner funds, in an equitable manner.

7. Verbal Updates on any Emerging Matters

- 7.1 Details of a letter from Unison regarding TUPE transfers were provided. It was noted that this was sent to Cumbria Pension Fund, but was addressed to BCPP. In relation to this Members suggested that it was for each local administering authority to reply, should letters be received.
- 7.2 Issues relating to the possibility of observers being appointed to the Joint Committee were again raised and it was requested that this be the subject of a future discussion of by the Joint Committee.
- 7.3 The possibility of organising a training session for new Members of the Committees and Boards was being considered, based on the three day LGA course currently available, and expressions of interest in relation to that were invited.

8. Other Business

- 8.1 It was suggested that, as all 12 stakeholders in BCPP were Members of LAPFF, they should request support from them in relation to MiFID II. Members concurred that this would be useful for the pool.
- 8.2 It was noted that this would be the final meeting of Councillor Denise Le Gal, as she would not be standing for re-election, and Members thanked her for the service to the Member Steering Group.

9. Dates of next meetings

Resolved -

- (i) That the BCPP Joint Committee be held on 25 April 2017 at a venue to be determined.

10. Declarations of Conflict

- 10.1 Fiona Miller, Mark Lyon and David Hayward declared conflicts of interest in the following item and left the room during consideration of this. There were no other declarations of conflict.

11. People Workstream Update

(a) Update on Executive search and Remuneration

Confidential item – to be circulated separately.

The meeting concluded at 12.55 pm.

SL/JR



BCPP Joint Committee

Date of Meeting: 6th June 2017

Report Title: Update on Project Delivery and Implementation Budget

Report Sponsor: Programme Lead – Fiona Miller

1.0 Executive Summary:

- 1.1 This report updates Members on the high level activities undertaken since the last meeting towards the delivery of phase three of the BCPP implementation plan, i.e. to establish a fully regulated asset management company that is ready to accept the transition of assets.
- 1.2 The paper outlines the high level activity across the three key work streams, i.e. the three member sub-groups. A more detailed analysis of activity is provided where appropriate through the individual work-stream update reports elsewhere on today's agenda.
- 1.3 As agreed at the last meeting, the spring update (copy attached at Appendix 1) was submitted to DCLG on 21st April. A follow up call between Officers from DCLG and BCPP workstream leads is scheduled for the 1st June, due to report publication timings a verbal update will be given as to the content and any outcomes from that call at today's meeting.
- 1.4 The current project implementation focus is on key deliverables over the next 12 weeks through to September 2017, including the procurement and initial engagement with the asset service adviser around the target operator modelling, executive recruitment, procurement of banking services, appointment of auditors and property/ICT requisition.
- 1.5 In addition, the paper provides the Joint Committee with the current high level Risk Register, highlighting by exception any key areas for consideration by Members. The changes since the last report to Members being the

appointment Operator and Property Advisory Services, and revised timescales for executive recruitment.

- 1.6 There are no changes to the projected implementation budgetary outturn as reported at the last meeting. As per the last meeting, currently the only area where it is anticipated there may be a budgetary overspend is for the Executive / Non-Executive recruitment. Once there is greater line of sight as to when individuals may commence their roles this will be revised accordingly.

2.0 Recommendation:

2.1 That Members:-

- 2.1.1 approve the attached high level BCPP Project Implementation Risk Register and mitigating actions proposed by the Project Team.
- 2.1.2 note the increase in the projected implementation budgetary outturn.
- 2.1.3 following the changes to the Joint Committee Membership following the Local Government elections, confirm the proposed allocation of Members to each work streams or agree a realignment of positions.
- 2.1.4 note the high level project activity during this period, and
- 2.1.5 approve the proposed activities to be completed by the project team and sub-groups over the next period.

3.0 Background:

PROJECT PLAN – ACTIVITY DURING THE PERIOD (FEBRUARY TO MAY 2017)

- 3.1 As agreed at the last meeting, the spring update (copy attached at Appendix 1) was submitted to DCLG on 21st April.
- 3.2 As agreed at the last meeting of the Member Steering Group, the BCPP spring update informed DCLG that the implications of the late receipt of confirmation of the BCPP proposal from the Minister have now been fully worked through. Working with our implementation advisors (Eversheds, Alpha and Deloitte) the key activities and inter-dependencies have been realigned and the project implementation timetable has now been revised to reflect the resultant rescheduled operational “go-live” of June 2018.

- 3.3 Officers at DCLG with GAD, Treasury and Cabinet Office have reviewed the submissions.
- 3.4 Whilst Officers were informed that we should not expect a response from the Minister, Officers at DCLG have made a general comment on all the submissions that “It has been good to see that senior appointments are beginning to be made and it is encouraging developments on infrastructure investment continue”.
- 3.5 Officers at DCLG have requested a follow up call with Officers of each pool in order to enable them to provide “an up to date briefing to new Ministers following the outcome of the national elections”. Specifically DCLG have requested that the call cover any changes following the local elections. Due to timing of this call a verbal update will be given at today’s meeting as to the content and any outcomes.
- 3.6 A number of key activities have been completed since the last meeting, and good progress has been made by the work teams on agreed tasks.
- 3.7 As reported at the last meeting some activity was delayed due to receipt of Government support to ensure effective control of project risks and costs, i.e. procurement of advisory services. All advisory services are now in place so the pace of the work has significantly increased during the current period. The High Level Project Plan is shown in Appendix 2.

<i>Agreed Activity to be undertaken in the period to the 19th May 2017</i>	<i>Progress of Activity Against Project Plan</i>
Target Operating Model (TOM)	<p>Following the appointment of the final advisor, Alpha Financial Advisory Consultants, detailed scoping and analysis is underway to define the high level TOM and FCA requirements.</p> <p>Paper at item 8 on today’s agenda provides the detail of the work progressed during the period in this area.</p>
Set up of the BCPP Ltd company	<p>This will proceed immediately following the receipt of all authorised establishment documentation from the Partner Funds.</p> <p>As agreed four statutory officers are to be appointed as interim directors to facilitate the company being incorporated, these are :-</p> <ul style="list-style-type: none"> • Gary Fielding – North Yorkshire • Julie Crellin – Cumbria • Caroline Lacey – East Riding • Mike Harding – Tyne and Wear <p>Further detail on this is included at item 5 on today’s agenda.</p>
Premises Search	A property agent has been appointed to assist in securing the required premises for BCPP Ltd. operations.

	<p>Further work has been undertaken during the period to refine both short and medium term staffing and operational requirements which will be used to further inform the property design and fit out now a shortlist of properties has been established.</p> <p>A shortlist of potential properties in the Leeds area against this BCPP Ltd operational specification has been formulated and full details of the work undertaken and the shortlisted properties are given at item 7 on today's agenda for Members consideration.</p>
<p>Member appointment of the senior company Executive and Non-Executive Director (Chairman and Chief Executive Officer).</p>	<p>Job roles; responsibilities; remuneration and contracts have all been finalised during the period.</p> <p>Adverts for the Chair and CEO have been placed in the FT with a closing date for applications of the 2nd June with expected interview dates of:-</p> <ul style="list-style-type: none"> • Chair June, • CEO July <p>Appointed recruitment advisors have progressed with the initial shortlisting activities for both roles. Paper at item 12 on today's agenda gives greater detail on progress against this Workstream activity.</p>

UPDATE ON MEMBERSHIP OF BCPP JOINT COMMITTEE (JC) AND SUB-GROUPS FOLLOWING MAY LOCAL COUNCIL ELECTIONS

- 3.8 Due to local elections in May, in seven of the twelve Authorities, there are some changes to the membership of the MSG / Joint Committee (JC) and therefore its sub groups.
- 3.9 The Membership of the BCPP JC is shown below (para 3.10), with proposed allocations to sub-groups (para 3.11) based on those in place prior to the elections. Members are asked to consider these and agree any changes they wish to make.

AUTHORITIES REPRESENTATION ON THE BCPP JOINT COMMITTEE

3.10

- Bedfordshire - Doug McMurdo
- Cumbria - TBC
- Durham – Mark Davidson
- East Riding – John Holtby
- Lincolnshire - Eddie Strengiel
- North Yorkshire - John Weighell
- Northumberland – Jeff Watson

- South Yorkshire - Sue Ellis
- Surrey – Tim Evans
- Teesside – Steve Bloudelle
- Tyne & Wear – Eileen Leask
- Warwickshire – Bob Stevens

3.11

GOVERNANCE SUB-GROUP		
Members	North Yorkshire	John Weighell
	Tyne & Wear	Eileen Leask
	South Yorkshire	Sue Ellis
	Cumbria	TBC
Officers	Tyne & Wear	David Hayward
	Cumbria	Fiona Miller
PEOPLE		
Members	Bedfordshire	Doug McMurdo
	Durham	Mark Davidson
	East Riding	John Holtby
	Northumberland	Jeff Watson
Officers	Durham	Nick Orton
	South Yorkshire	Steve Barrett
OPERATING MODEL		
Members	Teesside	Steven Bloudelle
	Warwickshire	Bob Stevens
	Surrey	Tim Evans
	Lincolnshire	Eddie Strengiel
Officers	East Riding	Mark Lyon
	Lincolnshire	Jo Ray
	Tyne & Wear	Tom Morrison

KEY PROJECT IMPLEMENTATION ACTIVITIES UPDATE

3.12 The table below shows the key activities being progressed and the updated high level timeline for the project implementation identifying any time critical dates / key milestones.

Outcome	Current Status	Risks / mitigations to project implementation	Revised Timeline (March 2017)
Overall Project Delivery "Go Live"	<p>MSG agreed go-live revised date of June 2018.</p> <p>All project plans re-profiled to new date.</p> <p>Reported to DCLG 21st April in spring up-date report, feedback expected 1st June.</p>	<p>All project time contingency removed.</p> <p>Minimal impact on implementation budget.</p> <p>Risk of adverse comment from DCLG.</p>	June 2018
Establish Joint Committee (JC)	<p>All documentation being sealed.</p> <p>First JC scheduled for 6th June 2017.</p>	<p>One authority fails to meet signing date.</p> <p>Project proceeds under MSG guidance.</p> <p>Company formation proceeds.</p>	6 th June 2017
Design TOM and Appoint Asset Servicing Provider	<p>On-going full update at item 8 on today's agenda.</p> <p>Template TOM and associated documents.</p>	<p>This is the core project requirement to establish BCPP Ltd as a functioning FCA asset manager – as such any slippage will have implications to overall go-live date.</p> <p>Successful appointment and implementation of the asset servicing provider will be the core driver of future operating cost base for the business and as such all decisions are being taken with full support of the</p>	<p>Design TOM July 2017</p> <p>Tender for asset servicer published July 2017</p> <p>Appoint Asset Servicer - Sept 2017.</p> <p>Complete implementation and data population of systems - March 2017</p>

		<p>appointed advisors.</p> <p>Mitigation – tight project management with extensive external professional support to ensure BCPP can position itself as an educated client in procurement and implementation activities.</p>	
FCA regulatory approval process.	<p>Work commenced in April following the appointment of Alpha.</p> <p>Initial contact with FCA undertaken by Alpha on our behalf.</p> <p>Submission pack to FCA in initial stages of being populated.</p>	<p>Resourcing issues at FCA due to Mifid II opt up processes hamper FCA approval processes.</p> <p>Mitigation early engagement and delivery of proposal in Sept 2017 to FCA.</p>	<p>Agreement by JC of FCA submission pack Sept 2017.</p> <p>Submission of proposals to FCA Sept 2017.</p> <p>Receipt of FCA Approval Dec 2017</p>
Remuneration and recruitment process for Senior Exec. and Non-Exec.'s	<p>Knock on of government delays in approval have hampered securing Members to fill recruitment panels due to Local elections.</p> <p>Terms and conditions agreed.</p>	<p>If revised timetable not met FCA application will be delayed.</p> <p>In the absence of the executives, decisions need to be made by the project team that will be prohibitively expensive to revise at a later date should the execs wish to do so.</p> <p>Mitigation – decisions taken are on receipt of advice from advisors and confirmed by input from sub-groups and OOG</p>	<p>Anticipated start date September 2017 (Chair / CEO)</p> <p>NEDS Sept 2017</p> <p>October 2017 (CIO / COO / Compliance)</p>

	Revised schedule shown in paper 12		
Agree Asset Template Offering	<p>Proceeding per plan.</p> <p>Outline template in paper 8 on today's agenda.</p> <p>OOG meeting scheduled for 20th June to finalise detail in initial offering.</p>	<p>Initial template offering required to inform asset servicing procurement – delays will prevent FCA application.</p> <p>Mitigation – involvement by OOG and Fund Advisors to ensure initial offering meets Fund's needs.</p>	<p>Outline template agreed by JC. June 2017.</p> <p>Detailed template required July 2017 to inform asset servicing tender.</p>
Acquire BCPP Premises	<p>BCPP project Leads and external property agent have undertaken an initial shortlisting listing process.</p> <p>Further refinement of operational requirements to enable spatial planning at shortlisted premises on going.</p> <p>Paper 7 on today's Agenda.</p>	<p>Delays to securing appropriate accommodation space will delay project implementation.</p> <p>Too much space is acquired, incur unnecessary cost.</p> <p>Too little space is acquired, does not allow for planned expansion & results in additional costs to move.</p>	<p>JC agree premise (plus alternative) Sept 2017.</p> <p>Contract negotiations, leading to signing of lease agreement Nov 2017.</p> <p>Premises available for fit out Dec 2017</p> <p>Occupation for testing and team integration from April 2018.</p>
Establish Corporate Services	Ongoing Procurement Exercises in this	All these are corporate enabling services and delays will inhibit core interdependencies elsewhere in the project	April 2018

<p>Functions</p>	<p>period :-</p> <ul style="list-style-type: none"> • Banking Services • External Auditors • Payroll / HR • Web provider • Interim Corporate ICT <p>Future Periods:-</p> <ul style="list-style-type: none"> • Operational ICT • premises servicing (utilities; cleaning; catering; confidential waste; • Office supplies, • Photocopiers/M FD, • Investment research • Brokers • Office furniture / fit out • Recruitment Services 	<p>delivery.</p> <p>Mitigation – detailed project planning to ensure all independencies are tracked and realigned as required.</p>	
<p>Acquire Corporate</p>	<p>Scoping and specification for</p>	<p>Execs. will be hampered from working effectively due to limited IT. Mitigation</p>	<p>Interim solution for Execs Aug 2017.</p>

ICT	<p>interim executive requirements underway.</p> <p>Specification for permanent solution to commence in July/Aug 2017.</p>	<p>council resource would be used as a short term measure.</p> <p>Company cannot go-live without full corporate ICT. Mitigation - early work being undertaken with regular updates to Workstream of any potential slippage or blockages.</p>	Full solution March 2018
Complete Asset Transition Planning	<p>Work currently progressing ahead of schedule.</p> <p>OOG scheduled for June 20th to progress build of the more complex asset classes.</p>	Ahead of plan.	Dec 2017
Start TUPE transfer of staff from existing Funds	<p>Initial information and legal advice received.</p> <p>Initial written communications with staff & information sessions undertaken.</p> <p>Funds affected undertaking work required to ensure their processes / legal requirements are met.</p> <p>Work undertaken to</p>	On schedule	June 2018

	collate all T&C's from each Fund.		
Recruit additional investment and operational staff	Discussions on going re terms and conditions prior to initiating recruitment processes. Paper 9 on today's agenda	Proceeding per revised plan	Members agree company ethos of content of general staff T&C's to enable officers to progress detailed costings etc. June 2017 Approve final T&C;s Sept 2017 Start additional recruitment from September 2017



PROJECT IMPLEMENTATION – ACTIVITY IN THE NEXT PERIOD

3.13 There are a number of key activities during the next period, with the main focus being on building the Target Operator Model which will shape the Depository/Custodian and ICT investment systems procurement process, and feed the FCA submission. Key work stream activity planned in the next period:

- Registration of Company following the first Joint Committee on 6th June 2017.
- Continuation of the BCPP Executive and Non-Director Appointment processes and remuneration as per revised project plan.
- Working with Operator Advisers to accelerate work to define the high level Target Operating Model and FCA submission requirements.
- Build the Asset Servicer and Depository specification in readiness for procurement.
- Working with the Premises Advisers to refine operational requirements and shortlist potential properties against a detailed specification which will allow Member to consider final property options.
- Development and delivery of interim corporate ICT solution to allow BCPP executives to function once appointed.
- Development of draft corporate ICT specification document.
- Continue activity on general T's and C's for workforce, specifically decide on pensions offering for new staff.
- Continue to engage with transferring staff as the project continues.
- Procure corporate banking services; external auditors; interim corporate ICT solutions and payroll / HR service providers.

HIGH-LEVEL PROJECT IMPLEMENTATION TIMETABLE

3.14 As agreed at the last MSG and SOG the project implementation target “go-live” date has been delayed to June 2018.

3.15 All project implementation activities and inter-dependencies have now been realigned to this date and the revised high level project plan is attached at appendix 2.

PROJECT RISKS

3.16 Appendix 2 provides the high level project Risk Register for the BCPP, Members input is welcomed on items they would like added or expanded on. Key risks surrounding current milestones are:

- Impact of proposed changes to MiFID across both the Pool and Funds.
- Risk that company infrastructure is not established within launch timeline, e.g. ICT, Premises.
- Impact on key deliverables if executive recruitment process encounters delays.
- Impact of revised operational live date of June 18.

Mitigating controls in place by Officers are detailed in Appendix 3.

PROJECT EXPENDITURE

- 3.17 The project budget including any predicted overspends is shown below. As reported to the last meeting, current planning expectations to deliver the project up to the proposed go-live date of June 2018 are showing a predicted overspend of £0.175m on the total agreed implementation budget of £4.2m (£0.350m per Partner Fund). The increase from the last report to MSG is to accommodate the increase in the salaries approved by Members for the NED's, the appointment of an advisor to assist with the interviews and the additional national advert costs for the Chief Risk Officer. However, due to the level of uncertainty regarding appointment dates of the executives and other areas of the budget where there is potential underspends it is not proposed at this stage to seek additional budgetary provision from the Partner Funds. If required this will amount to £14.5k per Fund.
- 3.18 A full update on projected spend will be presented to the next meeting and to the monthly SOG update calls scheduled to start from June onwards.

	Working Budget (£'000)	Predicted Outturn (£'000)	Variance to Budget (£'000)
People			
Salaries - Executives (including Compliance Officer)	675	675	-
Non-executives	-	95	95
Project management costs (inc. officer secondments)	500	500	-
Recruitment of executives and non-executives	150	230	80
Recruitment of other staff	150	150	-
Governance			
Legal advisers	350	350	-
Procurement support	30	30	-
Operating Model			
Tax and Operating Model advisers	850	850	-
Asset Servicer appointment	150	150	-
External rather than internal Project Support	325	325	-
Legal costs for regulation and fund documents - ACS	100	100	-
Other legal agreements - ACS	200	200	-
Tax and operational advice - ACS	80	80	-
Procurement support	70	70	-
ICT and Infrastructure	500	500	-
FCA fees	25	25	-
Other costs	45	45	
TOTAL SPEND	4,200	4,375	175
Total Implimentation Budget £350k per Partner Fund			
Potential additional for charge per Fund £14.5k			

PROJECT EXPENDITURE

3.20 Project spend up to 31 May 2017 is shown in the table below

Payment to	Description	Which Fund paid the bill / incurred the expenditure?	Amount (£)
Squire Patton Boggs	Advice - Period to 26 May 2016 (SPB)	Tyne and Wear	1,222.35
	Advice - 30/11/2016 to 21/12/2016		16,063.75
Eversheds Sutherland	Advice (to 31/01/2017)	Tyne and Wear	23,060.00
Deloitte	Cost Benefit Analysis (Deloitte)	Tyne and Wear	61,000.00
Tyne and Wear PF	Legal officer's time (to 16/9/2016)	Tyne and Wear	1,000.00
Surrey PF	Initial legal spend	Surrey	21,770.00
Surrey PF	Logo design	Surrey	450.00
Cumbria PF	Project officer's time (to 16/9/2016)	Cumbria	2,000.00
Tyne and Wear PF	Member Steering Group meeting 29 / 30 September	Tyne and Wear	3,168.33
Tyne and Wear PF	Member Steering Group meeting 18 November	Tyne and Wear	567.17

Payment to	Description	Which Fund paid the bill / incurred the expenditure?	Amount (£)
Various Funds	Chargeable officer time (to 10/11/2016)		5,400.00
	Chargeable officer time (11/11/2016 to 21/01/2017)		32,024.00
	Chargeable officer time (22/01/2017 to 31/03/2017)	Various Funds	43,122.00
	Chargeable officer time (01/04/2017 to 31/05/2017)		41,852.00
	Chargeable officer travel/expenses (01/04/2017 to 31/05/2017)		2,246.00
Odgers Berndtson	Retainer payment	Tyne and Wear	29,925.00
	Adverts for CEO/Chair and NEDs		20,265.00
Total Spend to Date			305,135.60
Budget			4,200,000.00
Remaining Budget			3,894,864.40

Note: expenditure is only shown that has been invoiced for as at 26th May 2017. Further work incurred (and not invoiced) by advisers is not included. Officer time for the final week of May 2017 is estimated.

4.0 Conclusion:

- 4.1 The Partner Funds of BCPP gave their support to the project approach and approved the detailed project plan at their meeting on 18th November 2016, which is supported by dedicated internal funded project co-ordination resource.
- 4.2 The project team is now heavily supported by industry experts from three disciplines Legal (Eversheds Sutherland), Tax and financial planning (Deloitte and TOM, asset servicing and investment ICT procurement and FCA registration (Alpha FMC)
- 4.3 Key activities, milestone timescales, and risks are now being delivered operationally by the three Sub-Groups within the project methodology to the revised project “go-live” date of June 2018.

Report Author:

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Local Government Pension Scheme pooling: progress report

Please report against each of the areas outlined below as at 31 March 2017, highlighting significant changes since your final proposal.

The deadline for submission is Friday 21 April 2017. We will follow up any questions or concerns with individual pools as necessary.

Pool: Border to Coast Pension Partnership

Date: 21st April 2017

Criterion A: Scale

For pools in development

- Scale – please state the estimated total value of assets included in your transition plan for investment through the pool structure, with date of estimate
- *Estimated value at December 2016 – c. £41.2bn.*
- Assets outside the pool - please state the estimated total value of assets to be invested outside of the pool structure by participating funds
- *Once transition is fully complete, the assets in excess of the above to remain outside of the pool are (as previously agreed this excludes passive mandates which are to be managed collectively):*
 - *Cash – c. £0.4bn (held for transactional purposes).*
 - *Agriculture investments directly held by South Yorkshire Pensions Authority: c. £0.2bn.*
 - *Assets held to support a bespoke liability-driven investment strategy held by South Yorkshire Passenger Transport Fund: c. £0.1bn.*

- Progress towards go live by April 2018
 - please provide an updated high level project plan to achieve delivery by April 2018 including progress with operator procurement/build, design of sub funds, recruitment of core team, appointment of depository and FCA authorisation
 - *See Appendix A – The appointment of the various advisors to BCPP was later than expected as a result of the approval from Government not being received until December 2016. Having now appointed all of the advisors, and following discussions with them, the Member Steering Group, and the Statutory Officers Group, the expected go live date is now June 2018. This will ensure that all appropriate due diligence can be completed in the creation of BCPP Limited. Following the go live date it is envisaged that c. £9 – 10bn of assets can be transferred into the pool relatively quickly.*
 - *please identify risks or issues which may delay delivery by April 2018, and any plans to mitigate risks and/or manage issues*
 - **Key Risks and Mitigations**
 - *Risk – Failure to appoint suitable senior Executives and Non-Executives in a timely manner.*
 - *Mitigation – recruitment consultant appointed, timetable considerations of local elections.*
 - *Risk – FCA authorisation process being more complicated and time consuming than expected.*
 - *Mitigation – Advisors appointed to assist with process.*
 - *Risk – Adverse regulatory changes having an impact on investment opportunities – e.g. MiFIDII as currently proposed could prevent Funds from investing in Infrastructure.*
 - *Mitigation – Continuing discussions with FCA, LGA, DCLG and investment managers.*
 - *Risk – MiFIDII requiring project staff to be re-diverted back into their Funds to deal with opt up processes.*
 - *Mitigation – Standardised templates to be agreed with Investment Management Association.*
 - *Risk – Timetable pressures resulting in sub-optimal structure being developed and therefore incurring additional costs at a later stage, or savings not being fully realised.*

- *Mitigation – Appointing appropriate levels of external advice and under that advice adjusting the timetable as required.*

Criterion B: Governance

For pools in development

- Progress with governance arrangements - please provide an updated high level project plan for the implementation of governance arrangements.
- *See appendix A – As at 31st March 2017 all Funds have approved arrangements for joining BCPP. All shareholder documentation is expected to be signed by the end of April 2017 and the first Joint Committee meeting and Shareholder Group meeting is expected to be held in June 2017.*

Criterion C: Reduced costs and value for money

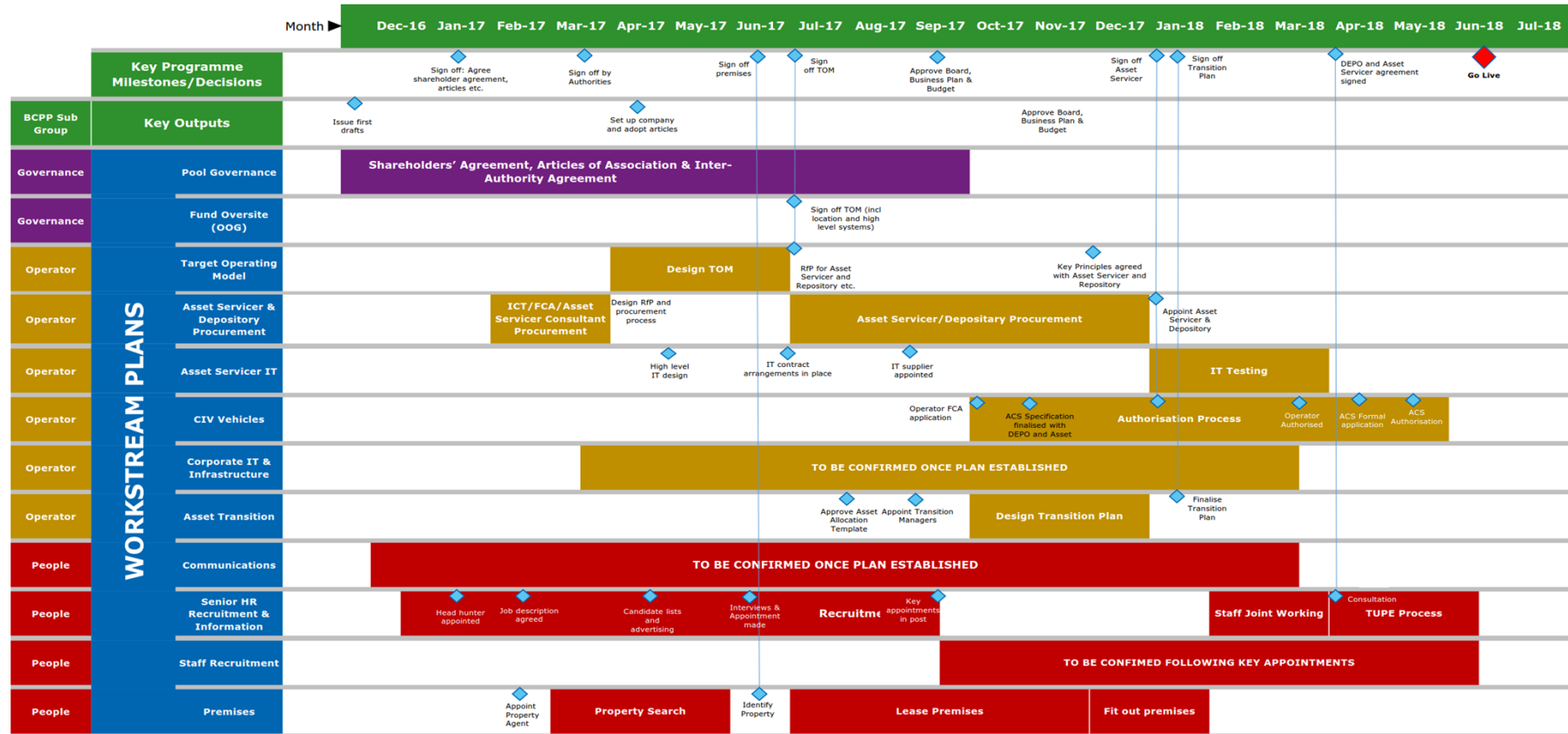
For all pools:

- Update on costs/savings estimates – please state current high level estimates for implementation costs and eventual annual savings
- *Savings remain as based on the assumptions, set out in the July submission. However, due to the increase in asset values, total savings will be higher.*
- *Implementation costs are expected to be marginally higher than proposed in the July submission due to the requirement to meet higher than anticipated senior executive salaries.*
- Plans for delivering savings – please set out your high level plan and timescales for delivering the annual savings above
- *As per the July submission.*
- Plans for reporting including on fees and net performance in each listed asset class against an index – In particular please set out how the pool will report fees to participating funds on a fully transparent basis and using comparative performance and/or cost data.
- *As stated in the July submission, there will be full transparency in reporting performance and costs at each sub-fund, in line with industry best practice, and this will be available to all partner funds, and published on the BCPP website.*
- *Detailed design and layout of reporting templates is currently being undertaken in the detailed target operating model design.*

Criterion D: Infrastructure

For all pools:

- Progress on infrastructure investment – please state your target allocation for infrastructure and committed funds at the pool level and/or across pools. Please also set out your plans for the platform/product/and/or external manager arrangements to achieve that target
- *Long term target allocation and plans to achieve it are as per the July submission. Current strategic allocations to Infrastructure as a separate asset class across the Funds total 2.7% (£1.13bn) and committed funds total 2.3% (£0.96bn). When the wider definition of Infrastructure, which was agreed for the July submission, is used the amount committed is 5.9% (c. £2.5bn) compared to 4.1% included in the July submission.*
- *Following completion of the triennial valuation cycle many Funds will be entering strategic asset allocation reviews and an update on this position will be given in the Autumn progress report.*
- *BCPP is an active member on the Infrastructure Cross Pool Sub-group which is exploring the opportunities for joint infrastructure investing. Discussions are continuing across the various pools as to the most appropriate structure to adopt and a further update will be given in the Autumn progress report.*
- Timetable to achieve stated ambition – please provide a high level project plan for the implementation of the platform/product/and/or external manager arrangements described above
- *The ambition of BCPP remains per the July submission on building the capability and capacity within BCPP Ltd to service an ambition of up to 10%. The Partner Funds retain strategic asset allocation choice in regard to this and all other asset classes.*
- *There will be one or more Infrastructure sub-funds available to partner funds once BCPP is fully operational, with the intention that a part of this offering will be satisfied by the solution identified within the Infrastructure Cross Pool Sub-Group.*
- *To ensure that we can be an active participant in any cross pool solution we continue to both Chair and have senior investment professionals on the Cross Pool Infrastructure sub-group. The group continues to make steady progress towards the creation of an effective solution. The group continues to develop its thinking by learning from solutions currently being developed within the LGPS and through wider engagement with industry participants, to ensure that we access Infrastructure investments in the most effective manner. The intention remains for operational delivery of a solution in line with the go-live dates of the pools.*



Appendix 3

BCPP Project Delivery Risk Register													
Responsibility		BCPP Officer Operations Group											
Date last reviewed		17th May 2017											
Reviewed by		Steve Halford - BCPP Programme Manager											
Version		Version 9											
No	Risk	Risk Type	Risk description	Risk Rating without control			Controls in place	Responsible Officer	Work Stream	Risk rating with control			Risk Closed Date
				L	I	O				L	I	O	
GM1	Govt Approval Not Received	External	Risk of BCPP proposal being rejected by government.	2	5	10	Outside BCPP's control	Fiona Miller & David Hayward	Governance & Monitoring	2	5	10	12/12/2016
GM2	Funds choose to withdraw from BCPP Project	Internal	Risk of a Fund(s) withdrawing from the BCPP	1	5	5	1. Clear governance within the Member OSG. 2. Commitment by funds to the BCPP. 3. Pool value estimated at £42bn, threshold £25bn so formation of pool not dependent on any fund. 4. Secure contribution agreements for all costs.	Fiona Miller & David Hayward	Governance & Monitoring	1	5	5	
GM3	Delays in decision by government on Pooling	External	Impact of delay in the formal approval by government to proceed on 1st April 2018 deliverable	4	5	20	1. Project Planning and procurement ongoing to mitigate the impact of delays on reviewing formal approval. 2. All funds schedule meetings to the end of March 17.	Fiona Miller & David Hayward	Governance & Monitoring	3	5	15	12/12/2016
GM4	Unexpected costs	Financial, Project & Deliverables	Risk that programme implementation costs will exceed budget due to unexpected costs.	4	4	16	1. Ensure VFM is gained from every 3 rd party contract. 2. Expenditure reported quarterly against initial estimated at MSG.	Fiona Miller	Operating Model	3	4	12	
GM5	April 18 Government Deadline	External	Implications for late delay to recommended deadline.	4	5	20	1. Proposed delivery date of June 18 being proposed by BCPP. 2. Potential for government disapproval of revised delivery date	Fiona Miller & David Hayward	Governance & Monitoring	3	3	9	



BCPP Project Delivery Risk Register

Responsibility	BCPP Officer Operations Group
Date last reviewed	17th May 2017
Reviewed by	Steve Halford - BCPP Programme Manager
Version	Version 9



No	Risk	Risk Type	Risk description	Risk Rating without control			Controls in place	Responsible Officer	Work Stream	Risk rating with control			Risk Closed Date
				L	I	O				L	I	O	
GM6	Political - May Elections	Internal	Changes to key committee members following the elections	4	3	12	1. Awareness by lead officers of current impact following elections	Fiona Miller & David Hayward	Governance & Monitoring	4	3	12	
GM7	Political - Executive recruitment	Internal	Running executive recruitment over election period	4	3	12	1. Use of members likely to in post pre and post election to ensure consistency and reduce impact of delays.	Ian Bianbridge	Governance & Monitoring	3	2	6	
OM1	Investment Regs Not Laid	External	No formal mechanism to require Funds to pool resulting in delays to implementation	2	5	10	Outside BCPP's control	Mark Lyon	Operating Model	2	5	10	01/11/2016
OM2	Project Resource	Internal & Operational	1. Risk that project resource capacity will not be in place. 2. Risk of non effective project resource.	3	5	15	1. Internal project resource in place, initial consideration regarding alignment to work stream external resource undertaken. 2. Intelligent Client - the procurement of extended resource provision for key activities.	Fiona Miller	Operating Model	1	3	3	
OM3	Delays to Admin Auth Approvals	Internal	Key date of March 2017 for formation of Joint Committee missed resulting in a minimum 6 month delay to implementation due to local elections at some authorities	2	5	10	1. Within BCPP's control but dependent on Partner Funds meeting the required timetable. 2. Regular updates at OOG and MSG meetings to ensure BCPP are aware of potential delays in Funds' governance processes. 3. Ultimate sanction of BCPP continuing with the implementation phase but without those Partner Funds that cannot meet the timetable.	Mark Lyon	Operating Model	2	5	10	24/03/2017

BCPP Project Delivery Risk Register

Responsibility	BCPP Officer Operations Group
Date last reviewed	17th May 2017
Reviewed by	Steve Halford - BCPP Programme Manager
Version	Version 9



No	Risk	Risk Type	Risk description	Risk Rating without control			Controls in place	Responsible Officer	Work Stream	Risk rating with control			Risk Closed Date
				L	I	O				L	I	O	
OM4	Procurement Delays and Market Capacity	Operational	Risk of delays due to government decision to proceed with pooling agenda.	4	4	16	1. Early activity to procure Legal Advisory, Tax & Accountancy Advisory, Executive Recruitment, and Operator Advisory services have been undertaken and contracts awarded. 2. Specifications for Asset Servicer Advisory tender written, NEPRO approach agreed by Officer Group and will proceed w/c 13th February. 3. Premises Advisory Services appointed and property search underway.	David Hayward	Operating Model	1	4	4	01/05/2017
OM5	FCA Authorisation	External & Reputational	1a) Risk that FCA will delay the CIV application 1b) Risk that FCA will reject the CIV application	3	5	15	1. BCPP using specialist advisors to advise on FCA application process, this work is underway. 2. Senior Executives will provide capacity in this area.	Mark Lyon	Operating Model	1	5	4	
OM6	Not delivering savings	Financial, Reputational & Deliverables	Risk that BCPP will not deliver savings to the funds.	4	5	20	1. Ensure project has clear focus on delivering savings. 2. Effective Monitoring and performance measures to be developed. 3. Effective Delivery Team & Programme Management.	Fiona Miller & Mark Lyon	Operating Model	1	5	5	
OM7	MiFID	External	Impact of proposed changes to MiFID across both the Pool and Funds	4	5	20	1. BCPP responded to the consultation and dialogue with FCA and Government about impacts, and is awaiting a response in June/July 2017. 2. Supplemental legal advice may be required depending on outcome of consultation. 3. BCPP representation on cross pool MiFID group.	Mark Lyon	Operating Model	3	5	15	
OM8	Incomplete Tax Documentation	Internal	Incomplete tax documentation resulting in leakage at pool level.	2	3	6	1. Pool will monitor tax documentation required for each sub fund. 2. Additional share class to avoid contamination of the funds.	Officer Group	Operating Model	2	3	6	

BCPP Project Delivery Risk Register													
Responsibility		BCPP Officer Operations Group											
Date last reviewed		17th May 2017											
Reviewed by		Steve Halford - BCPP Programme Manager											
Version		Version 9											
No	Risk	Risk Type	Risk description	Risk Rating without control			Controls in place	Responsible Officer	Work Stream	Risk rating with control			Risk Closed Date
				L	I	O				L	I	O	
P1	Executive Recruitment	Internal	Risk that key company positions will not be filled in line with FCA application authorisation timeline. Market Availability of key roles a key risk.	4	4	16	1. Executive Recruitment Advisory tender awarded and recruitment ongoing in line with project plan. 2. Appointment of some executive posts has slipped to September.	Ian Bainbridge	People	2	4	8	
P2	TUPE Resource	Internal	Failure to secure effective and sufficient transfer of in house staff to manage service at go live	2	3	6	1. Continued dialogue and communication with existing staff.	Nick Orton	People	2	3	6	
P3	Corporate Infrastructure - Premises	Operational	Risk that Premises are not established in time for both ICT testing, and launch timescale	4	5	20	1. Tender awarded for advisory services, longlisting process complete.	Nick Orton	People	3	4	10	
P4	Pensions Admissions Agreement	Internal & External	Failure to agree route to provide LGPS access to transferring staff, and agree suitable pensions solution for new recruits.	2	5	10	1. taking legal advice, and discussing with DCLG/LGA.	Nick Orton	People	1	5	5	
P5	General External Recruitment	Internal	Failure to recruit adequate staff to company.	2	4	8	1. Ensuring competitive terms and conditions. 2. Premises to be in vibrant financial services district.	Nick Orton	People	1	4	4	
P6	Corporate infrastructure - ICT	Operational	Risk that ICT infrastructure is not established within launch timeline.	4	5	20	1. Project plans in place to deliver corporate infrastructure within timeframe. 2. External advisors advising on interim corporate solution for executives.	Steve Halford	People	1	5	5	





BCPP Joint Committee

Date of Meeting: 6th June 2017

Report Title: Feedback on National Working Groups

Report Sponsor: Chair Officer Operation Group – Fiona Miller

1.0 Executive Summary:

1.1 Since the 24th March 2017 Member Steering Group meeting, Officers have attended meetings of the Cross Pool Collaboration Group, Cross Pool Infrastructure Group and the Responsible Investment (RI) sub-group.

2.0 Recommendation:

2.1 The Joint Committee is asked to note this update report.

2.2 Members are asked to consider the suggestion from Cllr Quinn that a Member Cross Pool Information and Collaboration Group be created. If they are supportive of this, members are asked to provide officers with their views on how they would wish this to be taken forward.

3.0 Background:

3.1 The highlights from each of the national working groups attended since the 24th March 2017 Member Steering Group meeting are shown below:

3.2 *Cross Pool Collaboration Group – 27th April 2017*

- Teresa Clay Department for Communities and Local Government (DCLG)
 - confirmed receipt of spring updates from all pools.
 - The question was raised about what support is available on the regulatory side (both investment and administrative) from DCLG. Teresa responded that they are aware that the level of service has not been as expected due to 100% turnover of staff, and they were still playing catch up. Teresa asked that any issues should be raised with her directly.
- HM Treasury (HMT) / Cabinet Office no updates.
- Local Government Association (LGA) (Jeff Houston) attended and updated the group on the following:

- MiFID II – confirmed Financial Conduct Authority (FCA) board meeting is 25th May. Nothing has changed, FCA is attending Pension and Lifetime Savings Association (PLSA) conference as a break out session. Once decisions approved at board meeting, can send out update to everyone.
- Working with managers and the regulator towards a standard template for the opt-up process. Expecting to receive something in June about the opt-up process, working with investment managers and the Investment Association to develop standardised forms.
- Expect Chair of Scheme Advisory Board (SAB) to announce formal launch of Code of Transparency at PLSA conference. Board will check the templates are being filled in properly but don't expect it to be used for benchmarking.
- Pooling of Passive – DCLG reviewing life funds and passive. Noted the pools' view that the benefits already been delivered via life funds and that there was no need to review this further.
- National Frameworks (Nigel Keogh) attended and updated on the following:
 - The framework for Investment Performance and Cost Monitoring was announced
 - Transition management framework – lot structure now agreed, and tender process due to run during May/June. Timetable allows for framework to be in use from end of August 2017.
 - Performance reporting frameworks – all contracts should be in place by the end of next week.
 - Passive management framework – final round of discussions on terms and conditions.
 - Investment consultancy framework – renewal aimed to be delivered by end of the autumn complete, and available for use.
 - The 3rd Party administration framework was launched.
- Updates were provided by each Pool.

3.3 **Cross Pool Infrastructure Group – 27th April 2017**

- Discussions centred on how to establish what types of infrastructure offering the individual Funds would want from any national platform. A template questionnaire was agreed that will be used by the pools to seek the views of their individual Funds. This is to be circulated and the results collated prior to the next meeting.
- Louise Minford from the Infrastructure Agency attended to seek views on what Funds would want to see as investment opportunities if the Government decides to expand / develop the government debt guarantee scheme

3.4 Cross Pool RI Group – 27th March 2017

- Purpose of the meeting was to update on Pool progress on RI, Environmental, Social and Governance (ESG) and Stewardship related issues and receive presentation on United Nations Principles of Responsible Investment and the resources it can offer the pools.
- Additional Matters – The Pensions Regulator (TPR) referral – ShareAction. SAB to engage to restate TPR boundaries of control which do not extent to investments.
- Stewardship Code – meetings had been had with the Financial Reporting Council (FRC) which confirmed they are not looking to change the Stewardship Code but it is likely that the asset manager tier 1 assessment will be tightened. It was noted that guidance states that funds have to declare a position and ‘should’ sign up to the Code. All agreed it would be prudent to have an audit trail that demonstrates compliance with the code (e.g. recording when a check of managers is made).

3.3 Cross Pool Collaboration Group – 25th May 2017

- DCLG were not represented:
- HMT / Cabinet Office reiterated that they are keen to support where ever may be appropriate.
- Kiran Quin (SAB) attended to discuss the issue previously raised of establishing a Member group to run alongside this Officer Group “to help wider education and engagement across the LGPS on pooling”. Officers discussed with Cllr Quinn what worked well in this group and its remit. After further discussion Officers decided they needed to refer the matter back to their individual Pools to seek their Members’ views on the establishment of such a group and what would be its purpose etc. before expressing any opinion on such a matter.
- LGA (Jeff Houston) attended and updated the group on the following:
 - Scheme Advisory Board's (SAB)
 - Letter sent to TPR to clarify the SAB’s understanding of their remit with regards to investment matters for the LGPS per the regulations (Shareholder Client Earth complaint).
 - Code of Transparency published last week and as managers sign up their names will be added to the website. It is expected that all pools will sign up as asset managers.
 - Academies – SAB are seeking a solution with the Department for Education (DfE) that is within the Scheme, and confirmed that they are aware of the implications to both Funds and pools if this involved large transfers of assets even within the LGPS. As such there is no intention to destabilise Funds in such a manner.
 - Passive Management – if negotiations and fee savings have been secured before the go live of the pool there will be no requirement to revisit these arrangements post creation of the pool.

- Progress with the FCA regarding MiFID II – update in agenda item 8 on today’s agenda. Further to that the FCA will meet on the 26th to review the proposed opt up criteria. Due to amendments to the handbook requiring a statutory instrument to be lodged, their release will be delayed until after the election. The new Cross Pool Collaboration Tax Group agreed at the last meeting is in the process of arranging a meeting with HMT and several property managers to review the specific tax issues associated with this asset class. Officers from BCPP will be attending this meeting.
- Legal opinion has been received by the LGA regarding the issue of regulated / unregulated structures & their application to LGPS Funds. Confirmed that the HMT override for unregulated structures applies and that when investing in these structures LGPS Funds are deemed professional clients. This will be published shortly on the website and will be available for all Funds / Pools to use.
- National Frameworks (Nigel Keogh) attended and updated on the following:
 - the framework for Investment Performance and Cost Monitoring was complete, and available for use.
 - The 3rd Party Administration Framework was launched.
 - Framework for passive management and transition management have been launched.
- Updates were provided by each Pool.

4.0 Conclusion:

4.1 Substantive work and engagement with different agencies continues to be progressed on a range of matters to ensure the LGPS can secure best value and exercise its collaborative influence wherever appropriate.

4.2 Dates of the next meetings are as follows:

- Cross Pool Collaboration Group 29th June
- Cross Pool Infrastructure Sub Group 29th June
- Cross Pool RI Sub Group TBC
- Cross Pool Tax Sub Group TBC
- MiFID II Manager Opt-Up Group TBC

5.0 Report Author:

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BCPP Joint Committee

Date of Meeting: 6th June 2017

Report Title: Update on Completion of Governance Documentation and Incorporation of BCPP Ltd

Report Sponsor: Governance Sub Group Lead – David Hayward

1.0 Executive Summary:

1.1 The report sets out progress against the final implementation requirements agreed by each authority to complement the establishment of the corporate structures which will constitute BCPP henceforth.

2.0 Recommendation:

2.1 The Joint Committee is asked to note the content of the report.

Background:

3.1 Since the last meeting of Members the documents required to set up BCPP Limited have been finalised, circulated and completed. A brief summary of the changes made to the documents from those originally circulated is appended to this report.

3.2 The changes to the original documents circulated are considered minor and were in the main introduced to ensure the company would not be hampered from operating effectively. A briefing note detailing the changes which was circulated to the Authorities with the final documents is attached at Appendix 1.

Incorporation

3.3 BCPP Limited is, at the time of writing, in the process of being incorporated. By the time that Joint Committee meets it will be established as registered company limited by shares. It will have twelve shareholders in the form of the twelve Administering Authorities and will have a shadow board comprising four officers drawn from the Authorities.

3.4 The interim board will be replaced in the coming months by the board members appointed through the ongoing recruitment process.

- 3.5 The Company will be able to employ staff, make applications to FCA and enter into contracts from this point onwards.

Shareholder Agreement

- 3.6 The Shareholder Agreement will have been completed immediately before the Joint Committee meeting. It will therefore have immediate effect and any decisions listed in “List A” or “List B” will henceforth be a matter for decision by the twelve shareholders. The working assumption is that for the time being at least that shareholder consent will be sought in writing. The first example of this will be the approval of the Chair of the company which will be sought following the recruitment process which is scheduled to take place week commencing 12 June 2017.
- 3.7 The Shareholder Agreement is the key document for dealing with the relationships between the Authorities/Shareholders and contains the relevant dispute resolution provisions

Inter Authority Agreement – Joint Committee

- 3.8 The Inter Authority Agreement has recently been completed. The effect of the agreement is to create the Border to Coast Pensions Partnership Joint Committee. By prior agreement of the Member Steering Group (and thereby the authorities constituting it) the Chair and Vice Chair of the Joint Committee have already been agreed upon.
- 3.9 The Joint Committee will now assume the oversight role envisaged for the creation and future operation and performance of the Company.

Articles of Association

- 3.10 The Articles of Association prescribe the way in which the Company conducts its business and, to a degree, dictate the relationship between the Board and the Shareholders. Any future changes to these Articles will be subject to the agreement of all of the shareholders

4.0 Conclusion:

- 4.1 On completion of all the above processes it will be concluded that the Company will have been effectively established and that it has appropriate governance arrangements to implement and control operational matters going forward.
- 4.2 The appointment of Executive and Non-executive members to the Board over coming months will complete this process.

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Further Information and Background Documents:

Briefing Note on changes to core documents

Briefing Note

Border to Coast Pensions Partnership (BCPP)

Summary of Changes to Core Legal Documents February to Finalisation (June 2017)

INTRODUCTION

In January 2017 there was an extended period of negotiation of the core legal documents underpinning the establishment of the BCPP Joint Committee and Operating Company. That resulted in draft documents together with an explanatory note and a legal opinion being circulated to the Partner Funds to facilitate the internal approval process. Those documents were circulated by email on 25 January 2017 by Squire Paton Boggs LLP. No changes were agreed to those documents subsequently and all of the Partner Fund approvals have been obtained on the basis that the documents will be completed substantially in the form circulated.

All of the resolutions to proceed with the establishment of the pool contain a provision reserving final approval of the documents to individuals in the Partner Funds – usually the s151 Officer – save for one exception where final approval was reserved to the Pensions Committee.

In the period since the circulation of the “best” drafts discussions have continued and feedback has been received from Partner Funds. In the light of that feedback and in particular to address concerns about the operability of the Company it is now proposed to promote some amendments to the core documents for approval by the delegated officers/bodies.

The purpose of this note is to provide a summary to the changes made to the documents so that Partner Funds can consider the impact of those further changes without having to re-visit entire documents.

INTER AUTHORITY AGREEMENT (IAA)

The changes to the IAA are minimal.

- Clause 7 has been amended to reflect the decision of Member Steering Group (MSG) and the agreement of the affected Authorities that the South Tyneside Council act as Host Authority until further notice and that South Yorkshire Pension Authority should provide the Secretary to the Committee and associated services. The costs of these services will be borne equally between the Partner Funds.
- The Joint Committee constitution has had an additional power added to it (at Schedule 1 para 8.). This power permits the Joint Committee (JC) to co-opt any additional members that it sees fit on a non-voting basis. It is not contemplated that there will be any immediate need to rely on this provision but it allows the flexibility to do so in the future by approval of the JC only and

without further reference to Partner Funds and their respective administering authorities.

ARTICLES OF ASSOCIATION

The changes to the Articles of Association are driven by a wish to “future-proof” the constitution of the Company to a degree.

- During the Council approval process it became clear that there was a possibility that there may be a requirement due to potential workloads for additional non-exec directors in the future. Whilst there is little appetite and no intention to increase the size of the Board (and by extension its cost) it was felt prudent to increase the maximum number of directors to eight whilst initially only intending to have a board of six (Art. 17).
- Further analysis of committee representation supported by work of the appointed legal advisors (Eversheds Sutherland) has subsequently been undertaken and further advice sought regarding FCA compliance has been sought and received from Alpha FMC which leads supports the view that an independent Chair and two additional independent non-executive directors can meet BCPP’s initial requirements. However, it is still thought prudent to allow for additions to the Board in future. Any additional directors appointed would have to be approved by the Shareholders. (see below)
- Quorum now requires 50% of directors present to be non-execs and not 2 (Art 11.2) which ensures good governance of having a majority of non-execs taking onto account the chair’s casting vote.

SHAREHOLDER AGREEMENT

The Shareholder Agreement has undergone the most alteration and it is easier to describe the rationale for this.

- Most of the changes come about because of a change in expectation for the timing of appointment of the Chair, the CEO and the other Board members. BCPP Ltd will not have any of these available at the time of incorporation and so the agreement has been amended to take account of this and to allow the Company to be as fully formed and functional as possible as quickly as possible. In order to do that we have provided for an initial appointment of four non exec “placeholder” directors recruited from the Fund’s s151 and Monitoring Officers. There are a number of changes made to reflect this which have not been detailed in this note. These do not materially effect the long term operation of the agreement
- References to the South Yorkshire Passenger Transport Fund have been removed as following their transfer they are no longer participating in the pool.
- The other major change to the circulated draft is to push certain decisions in the ongoing operation of the company from 100% decision to “shareholder majority” decisions. This has been understood in the Pool for some time but was not provided for in the original draft documents. For the avoidance of doubt this now means that the first “proper” set of Board members will be

subject to 100% approval and any changes to that will be a 75% issue. The approval of the first business plan will again be a 100% issue and then subsequent plans will require only shareholder majority approval.



BCPP Joint Committee

Date of Meeting: 6th June 2017

Report Title: Refinement of BCPP Corporate Entity and Transition Cost Sharing Principles (Version 3 - June 2017)

Report Sponsor: Chair Officer Operations Group – Fiona Miller

1.0 Executive Summary:

- 1.1 The report sets out the further refinement of the broad principles that are proposed to be applied in assigning the costs of operating the BCPP to the Partner Funds. It is intended to be a dynamic document that will be further enhanced and remitted back to this group for approval as and when key project implementation decisions are made and as such the detail of the type and quantum of all costs become fully known.
- 1.2 The overriding principle as outlined in the submission is to establish an equitable costs sharing framework. The aim has been to establish a process that recognises that each Partner Fund has an equal vote on all control and governance matters (regardless of size) whilst accounting for investment costs which are driven by assets being managed by BCPP Ltd and complexity / underlying costs of the assets classes being chosen.
- 1.3 Therefore core to these principles has been to separate what are referred to in BCPP as “governance overhead costs” i.e. those costs required to operate a financial services company with the agreed FCA permissions (regardless of the assets under management or the types of investments offered) as opposed to those costs that are associated with the actual investing of client money.
- 1.4 The governance overheads are to be allocated and charged on an up-front annual fixed charge, split on an equal one twelfth basis. Whilst the investment costs and any associated income are to be allocated on a variable basis based on assets under management with the charging periods yet to be defined but probably incorporating a mixture of charging periods depending on the asset class.

1.5 An underlying objective has been to try to ensure that the company can succeed for the benefit of all Partner Funds, to do this it must remain cash flow positive at minimal cost. This means, that as would be expected in any commercial company, whilst BCPP Ltd can enter into overdraft and short term loan arrangements to cover operating purposes, as this would be at commercial interest rates, and therefore ultimately at the clients expense, it is to be avoided as it is not in the Partner Funds interests.

2.0 Recommendation:

2.1 Members are recommended to:-

2.1.1 note the further refinement of the BCPP cost sharing principles

2.1.2 approve the proposed further work to be undertaken by Officers required to complete the principles. Specifically in regards to allocation of transition costs and assets classes outside securitised markets.

2.1.2 approve the refined cost allocation principles as at June 2017 (Version 3) shown at Appendix 1.

3.0 Background:

Ongoing Development of Principles May 2017 (Appendix 1)

3.1 As was intended, following the continued progress of the build of the operating model (including external legal, tax and accountancy advice), the initial cost principles have been refined and expanded to further clarify cost allocation methodologies proposed.

3.2 None of the proposed additions alter the intent of the initial principles agreed. Rather, as was anticipated, as the development and greater understanding of the project build and required implementation decisions have become known, the cost sharing principles have been supplemented to add clarity to areas that were previously not fully formulated.

3.3 These principles are not intended to be a definitive list of costs to be charged to the Partner Funds by BCPP Ltd, but rather are the allocation principles to be used for determining how categories of costs will be allocated.

3.4 They do not cover associated governance costs outside the corporate BCPP Ltd entity e.g. the running of the Joint Committee which have been addressed previously.

3.5 It is intended the proposed cost allocation principles will be used to assign costs to categories and subsequently allocate them to the Partner Funds through the Annual Up-Front Fixed Operating Charge and the variable investment management charges.

- 3.6 Whilst substantially complete there remain areas that require further refinement (as outlined in the current document). It is proposed that the Officer Operations Group continues to consider and develop these in conjunction with the on-going project work to complete the target operating model design.
- 3.7 Whilst not yet fully formed Officers considered this to be of such significance to the Partner Funds that continual Member and Statutory Officer engagement and input throughout the process of their development is essential. The further development of the cost sharing principles will coincide with decisions taken throughout the project build of the target operating model and asset transition. Therefore they will be updated and further refined as the specific types and quantum of costs become better understood.
- 3.8 As such this is intended to be a dynamic document and will be updated with additions and clarifications throughout the project build and initial asset transition, as required. It is proposed that any further amendments will be formulated by OOG prior to being presented to the Joint Committee for the approval of both Members and representatives of the Statutory Officers.
- 3.9 The principles outlined below have been discussed in depth and agreed at the OOG (23rd May 2017).

4.0 Conclusion:

- 4.1 A great deal of work has been undertaken to develop the corporate entity cost sharing principles. Particular attention has been made to ensure actual procures put in place to allocate costs continue to adhere to the core beliefs that all Partner Funds initially signed up, that were then later reaffirmed and submitted to DCLG in July 2016 in the “BCPP proposal”.
- 4.2 While well-developed there is still work required to further develop these particularly in the areas of transition management and invest cost allocation outside of the securitised asset classes.

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6.0 Further Information and Background Documents:

Appendix 1 – BCPP Corporate Entity and Transition Cost Sharing Principles

BCPP Corporate Entity and Transition Cost Sharing Principles

Version 3 - June 2017

1.0 Main Cost Allocation Categories

1.1 Fixed cost, split on an equal share basis.

- a) project / initial build costs of creating BCPP Ltd, charged quarterly in arrears throughout the period of the project build.
- b) on-going operational costs otherwise known as “governance overhead costs”. These are the costs that will form the basis of the on-going annual operating charge. They are fixed costs, agreed annually by shareholders and charged to each Partner Fund in advance, allocated on an equal share basis. There will be a transitional period where some expenditures such as buildings costs which are not fully utilised will be allocated on a fixed cost basis, these will be reviewed each year and approved in the budget setting.

1.2 Variable costs, allocated based on assets under management (AUM), dependent on the cost driver these costs may either be charged in advance (e.g. on committed capital) or in arrears as appropriate.

- c) transition costs on pooling and post initial transfer of assets and
- d) on-going investment costs,

2.0 The above categories are then further sub-categorised as shown below:-

a) Initial BCPP Ltd Project Build / Set-Up Costs

2.1 **Class A - £1 voting nominal share** – each Authority to subscribe to a £1 share to secure voting / control rights. Only those parties named in the Shareholder Agreement and Inter Authority Agreement can subscribe.

2.2 **Class B - Regulatory Capital Shares** - each Authority to subscribe for an equal value of shares which sum to the expected level of regulatory capital (€10m maximum). As it has been determined this will be held in sterling further work on how currency fluctuations will be managed is ongoing through the OOG.

2.3 **“Revenue” Set Up Costs**, An equal split per Authority of the anticipated set up costs, broadly encompassing the following types of expenditure:- planning and due diligence, internal project resource (time, travel and expenses), procurement costs, consultancy services, property acquisition and fit out, ICT (hardware and software) and ancillary implementation expenses.

- 2.4 Project budget agreed up to £4.2m / £350k per Fund. Spend will be monitored and approved up to the allocated budgets through each of the sub-groups.
- 2.5 Members and Statutory Officers will be kept apprised of spend to date and anticipated outturn at each Joint Committee.
- 2.6 These costs are to be settled quarterly in arrears by invoice to / reimbursement from Tyne and Wear Pension Fund.
- 2.7 The total budget has now been split between the three sub-groups (Governance, People, Operating Model). If expenditure is anticipated to exceed an allocated budget, as per the agreed operating protocols of the sub-groups, this must be approved by the Joint Committee (each individual having received due approval from their individual Authority) prior to being committed.
- 2.8 **BCPP Ltd Set-Up Potential Capital Requirements** e.g. Computers etc. These costs are included in the £4.2m and therefore will be allocated on an equal, i.e. one twelfth split.
- 2.9 However, to ensure adherence to accountancy regulations and in the interest of securing the most economically advantageous tax treatment they may be categorised and charged differently to the bulk of the set up costs above. The deciding factor will be if the assets / services are to be acquired or leased and, furthermore, if leased the type of lease (i.e. finance or operating). The two allocation methods would then be either to charge as above to the previous set up budget or, if the assets are acquired, procured by BCPP Ltd and capitalised as assets of the company.
- 2.10 If they are to be capitalised and therefore required to be purchased by BCPP Ltd, this will be undertaken by securing a loan. This could be provided either from the market or from one or more of the Authorities. The associated capital and interest repayments would then be re-charged to each Partner Fund via the on-going annual operating charge. This option has the advantage that the costs can be off set against any tax liability that the company may generate, but only because it is at additional costs e.g. in the additional interest charge.
- b) On Going BCPP Ltd - Governance Overhead Costs – “Annual Operator Charge”**
- 2.11 Per the Shareholder Agreement (June 2017) this will form part of the Annual Business Plan and Budget and will therefore require an initial 100% approval with subsequent years requiring 75% approval.
- 2.12 To ensure the company remains cashflow solvent, payment will be required in full at the start of each year, as agreed in the shareholder agreement. These costs are to be allocated equally to each Partner Fund, as they are intended to cover Company Governance costs. Whilst not jeopardising BCPP Ltd remaining cash flow solvent, the core principle is to keep these costs to a minimum and to allocate costs directly by assets under management (AUM) wherever they can be accurately identified.
-

2.13 Whilst not an exhaustive list, from the work to date by Officers and advisors it is anticipated that these will include such cost items as –

- Executive & Non-Executive Director remuneration and expenses.
- Company corporate administrative expenses e.g. preparation, audit and registration of company accounts, shareholders meetings, non-investment related company legal fees, corporate bank charges, etc.
- Compliance and risk management costs not directly associated with an individual sub-fund e.g. costs of the risk / compliance officer, maintenance of FCA registration, etc.
- Premises, corporate technology costs, HR/ payroll services etc – in total these are to be collated and allocated on staff headcount. Therefore, a proportion of the total of such costs will be allocated to the individuals nominated as undertaking corporate governance and operational company roles (e.g. Executive, Non-Executive Directors, Risk Officer etc.) included in the governance overhead will be charged accordingly.

c) Transition Costs.

2.14 This is an area that continues to be developed so as to identify how the principles agreed can be applied in practice.

2.15 The key matters yet to be resolved are to ensure that the:-

- charging methodology adopted is not subject to challenge due to cross-Fund subsidisation issues.
- costs of transition attributable to either the externally managed or internally managed Funds are clearly identifiable, and therefore do not suffer cross-contamination.

2.16 **Transition costs on initial inception of a sub-fund:-** principle established is that these are to be shared based on the value of each of the Partner Funds' assets under management (AUM) transferring into each sub-fund (all costs of transitioning in will be allocated out by AUM within the sub-fund). This applies to both internally and externally managed sub-funds.

2.17 This cost-sharing will be in the sub-fund where the assets are moved into, not the asset class where they have come from. This has already been agreed by the Partner Funds as the most equitable basis as all will access future savings generated from reduced fee structures, and therefore it would be unequitable for a single Fund to benefit from the potential savings generated through future scale without sharing the costs required to access those savings.

2.18 **Transitions after initial inception of a sub-fund.** - Where a Partner Fund undertakes a future strategy review or asset reallocation resulting in movement of assets between sub-funds, the Partner Fund will bear the full costs of transition – there will be no sharing of costs.

2.19 It is assumed that all Funds will act in good faith. However, if there is evidence to suggest that a Fund undertakes not to enter a sub-fund at inception to avoid their allocation of initial costs, but requests to join at a future date then, through the Joint Committee, the Funds that entered at inception reserve the right to request that a proportionate “late joiners fee” is applied. Due to the sensitivity of this issue and as it is an Partner Fund matter not a BCPP Ltd issue, it is deemed appropriate that the OOG (rather than the project team) undertake the work required to devise the required guidance on how this will be monitored and enforced through the Joint Committee. Ultimately there are dispute resolution measures incorporated in the Shareholder Agreement that could be used to make final determinations where consensus cannot be achieved.

d) **On-Going BCPP Ltd – Investment Costs**

2.20 The basic principle is that “investment costs” and any associated income will, where it can be identified, be allocated to the lowest possible sub-fund level and charged on AUM.

2.21 Work continues on determining the timing of how these costs will be charged, (e.g. some will simply be adjustments through the valuation of the assets) but as above a core consideration will be ensuring BCPP Ltd remains solvent.

2.22 ***On Going Investment Costs – CIV Level*** – i.e. costs at the highest legal structuring level e.g. ACS; LP, etc. It is intended that costs will be allocated to the lowest sub-fund level and only allocated at a CIV level when they cannot be accurately attributed to a sub-fund. Some costs will be applicable to the structuring of the CIV regardless of the number, operational date or asset type of sub-funds that are housed within it e.g. ACS FCA registration costs. It may include an element of asset servicing, legal, tax, staff, buildings and technology etc. In addition, it may be more financially beneficial to procure investment research that can be used by the managers of several sub-funds and where this is the case these costs may also be allocated at this level.

2.23 ***On Going Investment Costs – Sub-Fund Level – General e.g. Securitised Markets*** - both costs and any associated income will be allocated based on AUM.

2.24 ***On-Going Investments Sub-Fund Level - Private Markets / Infrastructure / Global Property/ etc.*** – These types of investments often have up-front pre-investment internal and external due diligence and, potentially, abortive costs e.g. legal and professional expenses. The allocation of these costs is yet to be determined and will, to some extent, depend upon the asset sub-fund structuring solution and investment periods chosen. As a result, more research is required. The basic principles above will be applied, but additionally the issues of up-front and abortive costs and the impact of funds investing in a particular sub-fund at a date subsequent to the first close will need to be addressed.

N.B. - Part of the selection criteria for the chosen operating model / asset servicing provider will be associated with clearly being able to identify and separate investment costs and income to the levels above.

As At 6th June 2017



BCPP Member Steering Group

Date of Meeting: 6th June 2017

Report Title: Development of Target Operating Model and Asset Template Progress

Report Sponsor: Operating Model Sub Group Lead – Mark Lyon

1.0 Executive Summary:

- 1.1 This report provides an update on the work that has been undertaken within the Operating Model Workstream since the last meeting on 24th March 2017.
- 1.2 All advisors for the workstream are now in place.
- 1.3 A project scoping day has been held with all the Workstream leads from the BCPP Project Team and all of the advisors to develop the high level project plan. Further meetings have been held with AlphaFMC, the lead advisor on this workstream, to develop the planning phase further.
- 1.4 The proposed asset allocation template has been revised following feedback from the funds' investment consultants and advisors and further discussions within the Officer Operations Group. A further Officer Operations Group meeting will be held in June with the aim of resolving the outstanding issues on the more complex investment sub-funds so that the template can be incorporated into the design of the Operating Model and structuring of the investment sub-funds. While the full details of each sub-fund prospectus will not be required until late 2017, the sub-fund framework is required to be formulated in outline now to enable a successful tender process for the asset servicing requirements to be conducted.
- 1.5 There have been positive developments with regards to the implication of MiFID II on administering authorities which should simplify the opt-up process and enable LGPS funds to continue to access the widest range of possible investments.

2.0 Recommendation:

- 2.1 Members note progress to date and support the outlined plan to progress the work on the Operating Model Workstream including the design and implementation of the operating model and the procurement of suitable service providers for the next period.
- 2.2 Members approve the changes to the asset allocation template and support the plan to progress the work on the asset allocation template (notably the Multi-Asset Credit and Property asset classes) and associated transition planning for the next period with the Officer operations group, advisors and the sub-group.
- 2.3 Members approve that “legacy” investments (i.e. investments where it is not possible or cost effective to transfer into BCPP) will continue to be managed at the individual Fund level. This decision will be reviewed post-full implementation.
- 2.4 Members note the progress and support the continued liaison with the FCA and the Investment Association in order to ensure that the opt-up process for administering authorities is relatively straightforward.

3.0 Background:

- 3.1 The key areas of scope within this Workstream are summarised in the table below:

Core Activity	Description	Status	Lead Officer
Tax and Financial Services tender	Tender for external consultancy services covering the tax and financial considerations relating to the Operating Model and asset structuring	Completed	Mark Lyon/ Jo Ray
Operating and Regulatory Model tender	Tender for external consultancy services covering the selection of the depositary, FCA compliance, and ICT design and implementation	Completed	Mark Lyon/ Jo Ray
Operating Model	FCA approval process, selection of depositary and associated service providers, and design, testing and implementation of ICT (in conjunction with external adviser(s))	Ongoing to plan	Mark Lyon/ Jo Ray
Asset allocation template	Design of the asset allocation template detailing the sub-funds to be offered – to be	Ongoing to plan	Mark Lyon/ Jo Ray

	approved by the Joint Committee		
Sub-fund prospectuses	Drafting of the prospectus for each sub-fund – to be approved by the Joint Committee and reviewed/approved by the FCA	Plan to commence next period	Mark Lyon/ Jo Ray
Transition planning	Timetable for transition of assets and selection of appropriate external transition managers	Plan to commence next period	Mark Lyon/ Jo Ray
Resource planning	Determining the appropriate level of resources to manage the proposed sub-funds – this will link into the People work stream	Plan to commence next period	Mark Lyon/ Jo Ray

External advisors

3.2 All external advisors for the workstream are now in place:

- Legal (Eversheds Sutherland);
- Tax and Financial Services (Deloitte); and
- Operating and Regulatory Model (AlphaFMC)

Planning Phase

3.3 An initial two day project planning meeting was held on the 5th and 6th April 2017 with the BCPP Project Team and the three advisors in order to review the high level project plan for the workstream including ownership of tasks, responsibilities, interdependencies, both within the workstream and to the wider project, and project delivery timescales. AlphaFMC will be the lead advisor with Eversheds and Deloitte contributing where necessary. Further meetings have been held with AlphaFMC to progress the planning phase further.

3.4 The operating model design determines the overall structure of the entity and how it operate once established including which activities are performed internally and which are performed through outsourced service providers. The design of the operating model has been split into six sections:

- **Business Strategy and Design Principles.** These are the overriding principles that will guide the design and implementation of the business model.

- **Business and Entity Model.** This includes the corporate entity, the level and type of interaction between the entity and the funds, the products and services that the business will provide e.g. types of investment, the legal structure of investments and how they will be recorded, and the regulatory requirements.
- **Governance and Organisation Model.** This defines the governance model and terms of reference of the key committees that will manage and control the business; defines the key functions, management and reporting lines for the business; defines the key roles and responsibilities in the senior management team; and outlines the policy documents that will be required e.g. regulatory policy requirements and risk framework.
- **Functional Model.** This defines the key roles and responsibilities of each function within the business model including internal and outsourced functions; the capabilities required to deliver the business model including personnel, process and procedures, technology, and controls and reporting; and the entity's approach to outsourcing.
- **Technology and Data Model.** This defines the key components of the technology and data requirements required.
- **Infrastructure Model.** This includes technology hardware, office locations and physical resources required to support the business.

3.5 The core principle being applied throughout the design and build of the target operating model, (which will be used to inform the asset servicing tender due to be published at the end June) is that a standardised approach and therefore service offering to the future Partner Funds (i.e. clients of BCPP Ltd) will be applied. This approach is predominantly to ensure that BCPP Ltd can operate on the lowest cost base going forward but also to ensure it can maximise the benefits of scale where applicable.

3.6 Standardised ICT build and future operating processes drive efficiencies and maximise potential influence when applied at scale, but they can only be implemented effectively when the partners have similar beliefs and requirements.

3.7 Currently there are two main areas where design decisions fall within this context e.g. that as the owner of the shares BCPP Ltd the company will undertake stock lending across appropriate investments held and that shareholder voting will be undertaken by BCPP Ltd across all assets to a single policy, to be agreed in advance of trading and thereafter reviewed and approved annually by the Joint Committee.

- 3.8 Stock lending permissions will form part of each sub-fund prospectus for which the individual Funds will have input into their design, and will sign up to when they agree to transfer assets.
- 3.9 With shareholder voting - the aim here is to implement the agreed principles as submitted in the July proposal of maximising influence through collaborate voting at scale, while delivering efficiencies by limiting the use of the need for all Funds to have advisory service providers but while also retaining Fund discretion in exception circumstances *“There may be occasion when an individual fund wishes to exercise its right to vote contrary to an agreed policy, and where possible a mechanism will be put in place to facilitate this.”* use a collaborate voting policy and thereby maximise the benefits and influence that can be exercised through voting shareholdings at scale. This is similar to the approach adopted by all Partner Funds through their membership of LAPFF, which BCPP Ltd will continue to work alongside.
- 3.10 To ensure BCPP operates in accordance with the wishes of the Partner Funds in this area the BCPP Ltd voting policy will be agreed in advance of trading and reviewed annually by the Joint Committee. Due to the significance of this piece of work Jane Firth from SYPF is to join the project team to ensure both the BCPP Ltd collaborate RI / Shareholder Voting policy takes into account the views of all the Partner Funds and that the subsequent design and procurement of the asset servicing piece reflects those requirements.
- 3.11 There may be exceptional circumstances where a Partner Fund may wish to have its proportionate holding of shares voted outside the terms of the collaboratively agreed policy. To accommodate these exceptional circumstances rather than build an unnecessarily bureaucratic and expensive asset servicing solutions it is intended that a manual process will be offered by BCPP Ltd to the Partner Funds. To ensure this process can operate reasonable notice of the Partner Funds requirement will be needed to enable the BCPP through its custodian to split the vote as required. The administrative costs of this will be charged directly to the Partner Fund requiring it.
- 3.12 The focus to date has been on populating the above sections with information that is already available through work undertaken to date from various sources and determining additional information requirements.
- 3.13 The Project Team and AlphaFMC are holding weekly meetings or conference calls to progress the design phase. It is intended that this phase will be completed by the end of June 2017, and the project is broadly in line with the expected timescale.

- 3.14 The implementation phase will then commence which will include tendering for the key service providers, such as the depositary and the specialist ICT software, and the FCA authorisation application.
- 3.15 A key decision required to be made now is that “legacy” investments (i.e. investments where it is not possible or cost effective to transfer into BCPP) will continue to be managed at the individual Fund level. The option for BCPP to manage these assets on behalf of the underlying funds in an advisory capacity was considered. However, advice from AlphaFMC and Eversheds is that the FCA would consider managing investments on behalf of external clients at the same time as setting up an ACS and other collective investment vehicles as a relatively high risk business model and would not be favourably supported by the FCA in any application process.

Asset Allocation template

- 3.16 The asset allocation template has been amended to reflect the issues that were raised by the Funds’ investment consultants and advisors meetings and further discussions within the Officer Operations Group. The changes that have been made relate to the following areas:
- **Multi-Asset Credit (MAC).** A second sub-fund has been added in order to offer a sub-fund that will consist of external MAC funds as well as an internally managed sub-fund which would invest in a diversified range of credit investments.
 - **Property.** The sub-fund for UK property has been sub-divided into Direct and Indirect sub-funds. The rationale for this is that there is currently c. £1.5bn of direct property holdings across four funds. Although these could be treated as legacy investments and remain with the underlying funds there are potential economies of scale to be gained if they are transferred, particularly as, depending on the legal structure of the sub-fund, stamp duty (currently 5%) would not be payable on any properties transferred as initial “fund ceding assets”. Ceding assets are subject to tax rules on initial holding periods etc. but these conditions are not considered onerous or contrary to what BCPP would want to do from an investment perspective.
- 3.17 Some issues remain with the proposed sub-funds for MAC and Property. As a result, a further Officer Operations Group meeting is planned for 20th June 2017 to resolve these outstanding issues. It is important that the template is finalised relatively quickly as it feeds into the design of the Operating Model, associated sub-fund structuring and forms a major driver in the information required to run the asset servicing procurement. For example, in order to benefit from the stamp duty exemption for direct property the investments would have to be held within the Authorised Contractual Scheme (ACS). If the current direct investments were not transferred into BCPP other legal structures are considered to be more

suitable but the benefits of investing in direct property at scale would potentially be lost.

3.18 Once the asset allocation template has been finalised further work can be performed on transition planning.

3.19 The asset allocation template, shown at Appendix 1, has been updated to reflect asset values as at 31st March 2017. The combined value of assets of the funds within BCPP has increased from £35.9bn (at 31st March 2015) to £43.3bn.

Update on MiFID II

3.20 The LGPS MiFID II working group has been liaising with the FCA, LGA, and Investment Association (IA) regarding the criteria for local authorities to opt-up from retail client status to elective professional status.

3.21 Points to note since the last update are:

- The FCA board meeting on 25th May 2017 will consider a new policy statement with regards to MiFID II. This is expected to include a fourth criterion in the quantitative test which will be satisfied if the entity is an administering authority of an LGPS fund. As investors have to satisfy two of the four criteria, an administering authority only needs to meet the minimum size criteria (minimum assets of £15m) to pass the quantitative test. It has previously been felt that a large proportion of administering authorities may not be able to meet either of the other two criteria (number of transactions per quarter and financial experience).

It is also expected that the FCA will clarify that the qualitative test will continue to reference the individual but will make clear that this can include legal entities as well as natural persons and that the collective decision making structure of the client can be taken into account.

- The IA is in the process of drafting a template questionnaire which will then be shared with the LGPS and the LGA for comments. This is to ensure that administering authorities only have to provide a standard suite of documents to each investment manager rather than having to tailor it for each manager. The initial template is expected to be issued by the end of May 2017 with a final version targeted by the end of June 2017. Once the final questionnaire has been approved the IA are happy for this to be shared with investment managers who are not currently members of the IA.
- Discussions with asset managers leading on this work with the IA have indicated that this will require an assessment of the investment capabilities of the “decision makers” even where they are a collective e.g. a Committee. While this will make opting up easier than initially

anticipated there will still be a process and information requirement from the Administering Authorities. Asset managers representing the IA on this indicated that to make an assessment they may still require evidence of the experience and capacity of the individuals of the collective, possibly supported by training policies, professional advice, etc. of those party to the collective decision making process.

- It is expected that investment managers will periodically review the information provided by the administering authorities to satisfy the opt-up criteria, probably on an annual basis.

3.22 Following the above developments it is anticipated that the opt-up process for the LGPS funds will be much simpler than originally feared. A verbal update will be provided at the meeting to highlight any further developments.

4.0 Next Steps:

4.1 Further regular meetings will be held with AlphaFMC, and the other advisors where necessary, to progress the design phase of the Operating Model.

4.2 The outstanding issues regarding the asset allocation template will be resolved so that it can feed into the Operating Model design and sub-fund structuring.

4.3 Representatives from BCPP will continue to liaise with the FCA and the Investment Association with regards to the criteria and supporting documentation required to complete the opt-up process in relation to MiFID II.

5.0 Conclusion:

5.1 The design phase of the Operating Model is progressing according to the high level project plan with all milestone activities on track for the agreed overall project implementation date of June 2018.

5.2 Further work is required in order to finalise the asset allocation template which can then be reflected in the design of the Operating Model and associated sub-fund structuring.

5.3 Major risks to the delivery of this workstream at present are:-

- Not reaching agreement on the asset allocation template in a timely manner which could impact the timescales for sub-fund structuring; and
- Not receiving data or information from underlying funds, at a time when resources are being directed to annual accounts closedown and reporting,

in order to assist with the tender specifications for outsourced service providers.

- 5.4 An acceptable solution to the MiFID II issue appears to have been found and representatives from BCPP will continue to work with the FCA and the Investment Association to finalise the documentation required to satisfy the opt-up criteria.
- 5.5 Further work will be performed on transition planning and this will link into the further development of the asset allocation template.

6.0 Report Author:

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7.0 Further Information and Background Documents:

Appendix 1: BCPP proposed asset allocation template

BCPP Proposed Asset Allocation Template

FUND NAME					
BORDER TO COAST PENSION PARTNERSHIP		43,310,470	100.0%		
BCPP	INTERNAL	EXTERNAL			
ASSET ALLOCATION TEMPLATE	ACTIVE	ACTIVE - MODERATE RISK	ACTIVE - HIGHER RISK	PASSIVE	
<u>EQUITIES</u>					Deemed to be held outside of the formal pool due to current legal structure
UK - FTSE 100	1,027,939				
UK - FTSE 250	342,646	312,784		62,040	
UK - FTSE ALL SHARE	2,738,663	773,506	1,320,983	2,263,830	
EUROPE EX-UK	1,397,883	475,690		328,862	
NORTH AMERICA	1,621,838	343,718		590,271	
JAPAN	528,344	354,528		168,881	
PACIFIC EX-JAPAN	1,333,019	258,671		198,861	
EMERGING MARKETS	480,127	315,158		362,711	
GLOBAL		2,983,574	1,372,978	1,569,448	
GLOBAL - NON-MARKET CAP/FACTOR INVESTING		1,158,207		1,605,746	
<u>FIXED INCOME</u>					
UK GOVERNMENT	140,201	428,180		131,781	
UK INDEX-LINKED	898,495			1,238,966	
UK CORPORATE	199,712	1,237,968	522,000	377,110	
OVERSEAS GOVERNMENT	148,390			-	
MULTI-ASSET CREDIT	548,592	1,804,931			
EMERGING MARKETS				47,352	
<u>ALTERNATIVES</u>					
PROPERTY - UK DIRECT	1,319,274				
PROPERTY - UK INDIRECT	1,693,204				
PROPERTY - GLOBAL	677,466				
PRIVATE EQUITY	1,534,207				
INFRASTRUCTURE	692,372				
DIVERSIFIED GROWTH FUNDS		1,599,547			
OTHER ALTERNATIVES	603,200				
CASH	1,176,617				
TOTAL	43,310,470				



BCPP Joint Committee

Date of Meeting: 6th June 2017

Report Title: Update on Property Search

Report Sponsor: Lead Officer People Sub Group – Nick Orton,
Project Manager - Steve Halford

1.0 Executive Summary:

- 1.1 This report provides an update on the search for office accommodation for BCPP Limited.
- 1.2 A property agent has been appointed to help source and acquire an office to rent in the Leeds area. Officers from the Project Team and the property agent have viewed 22 properties in the city centre and 3 at an out of town business park. Insufficient parking to meet the needs of all prospective staff makes out of town business parks impractical. Seven city centre properties have been selected for further viewing / consideration.

2.0 Recommendations:

- 2.1 The Committee is asked to note the report and advise whether they would like to participate in viewings once a final shortlist of properties has been decided upon.

3.0 Background:

- 3.1 Following a targeted procurement process, WSB Property Consultants LLP were appointed to help source an appropriate property for BCPP Limited. WSB has been tasked with:

- Providing assistance in finalising BCPP's property requirement

- Sourcing appropriate properties for consideration by BCPP in central and outer Leeds
- Assisting BCPP in selecting and securing the chosen property
- Negotiating acceptable terms on the property
- Where necessary liaising with BCPP's legal representatives (Eversheds Sutherland)

3.2 WSB were given the following outline property requirement:

- Leeds location – either city centre or out of town business park
- Office accommodation for 60 staff (initially around 40, expected to grow to 60 over 18 months or so)
- Open plan main space plus meeting rooms, ideally a flexible layout
- Excellent ICT connectivity
- Would consider good quality refurbished space as well as new space

3.3 The initial outline timetable WSB provided for acquisition of the property was as follows:

- We will firm up a brief with you defining the parameters of your requirement including location, size and specification. You have broadly outlined the key points in your tender request but more detail will be necessary – (Week 1 - 3 April 2017)
- We will issue a search to all local property agents, developers and targeted building owners and property investors - (Week 3-4 April 2017)
- We will prepare a schedule of properties that meet your needs within the context of the agreed brief - (Week 1-3 May 2017)
- A number of properties can then be short listed for viewings – generally we suggest limiting these to say 6 or so depending upon the location criteria - (Week 4 May 2017)
- We will arrange and undertake viewings of the initial short listed options with you - (Week 1-3 June 2017)
- We then review your preferred options and together we agree the strategy for taking forward negotiations - (Week 4 June to week 1 July 2017)
- Once your preferred property has been selected terms are negotiated on your behalf with the Landlord or their agent - (July-August 2017)
- Detailed Heads of Terms are then prepared and solicitors instructed - (August - Sept 2017)
- We monitor progress on your behalf liaising with BCPP's legal representatives (Eversheds Sutherland) along with the landlord's agent to ensure your required time scales are met. (Sept - Nov 2017)

- 3.4 Robin Beagley, partner at WSB, met with members of the project team to discuss the property requirements in more detail. This included investigating whether the possibility of buying, instead of leasing, a property was a viable alternative. It quickly became apparent that while there is a thriving market in office space to lease in and around Leeds, there were no suitable properties for sale, and given the need to acquire a property within the next six to nine months, buying a property was not a possibility. After the scoping meeting Robin Beagley provided an initial list of 32 properties for lease in Leeds that matched the outline requirement – 24 in the city centre and 8 in business parks on the outskirts of Leeds. Following further discussion it was agreed that an initial assessment day would be arranged in which 25 properties would be viewed – 22 in the city centre and 3 in the Thorpe Park business park.
- 3.5 Initial discussions with the property adviser had confirmed the major difficulty relating to office space located out of town was how employees would access the property. Parking spaces are restricted by planning requirements within modern business parks and public transport to them is typically poor. This can mean, for example, that office space large enough for 60 people on a business park will only have around 20 parking spaces. Solutions other businesses use to deal with this issue involve promotion of car-sharing schemes or provision of company transport to and from the business park. Neither of these options appear practical for BCPP and consequently it seems likely that a business park location will not be appropriate as it will not facilitate the recruitment and retention of staff. Nevertheless, it was felt important to still consider several business park properties in the initial assessment day, primarily to get an understanding of the nature of the properties available in those locations.
- 3.6 The property advisor recommended a typical space requirement for a modern office with its own independent facilities and meeting room space was around 100 square foot per individual. Working on the assumption that most of the staff will be largely office based, it would still be possible to apply an 8:10 desk ratio to take account of the time individuals would be away from the office (for example holidays or working flexibly from home). However it would also seem prudent to acknowledge that allowing some capacity for future growth would be reasonable – particularly in illiquid investments which will drive a significant proportion of the expected savings from pooling. Assuming an initial head count of around 60, an 80% desk occupancy ratio and a 20% growth potential gives a required area of $100 \text{ square feet} \times 60 \times 80\% \times 120\% = 5,760 \text{ square feet}$. The properties identified were all around this area, or were larger but subject to subdivision to a similar sized area. The exact size requirement will become clearer as a clearer picture of the staffing requirement comes through from the work on the BCPP operating model. This work should be advanced enough to inform the final choice of property.

- 3.7 Officer Operations Group members Mark Lyon, Fiona Miller, Steve Barrett, Steve Halford and Nick Orton were present on the initial assessment day (11th May 2017) accompanied by Robin Beagley of WSB. A list of the properties viewed on the initial assessment day is included in Appendix A, including details of the rent, service charge and rates for each property, brief comments on suitability and an indication of whether they property would be kept on the list for further consideration.
- 3.8 All of the city centre properties are within a 10 minute walk of the train station, and the expectation is that most staff would use public transport if a city centre location is chosen. A small number of parking spaces are available to rent with most city centre properties at a typical additional rent of around £2,500 a year per space. This compares with a season ticket cost for NCP's Leeds centre car parks of around £1,800 a year.
- 3.9 Office space is usually provided as what is effectively a blank canvas – an open space into which interior walls can be added as needed. More detail on the potential room layouts, including meeting rooms, break-out areas and the need for a separation of private markets and public market activity, has been provided to WSB to allow the agents at selected properties to space plan the areas.
- 3.10 Property selection is not technically a reserved matter requiring shareholder agreement, and would ordinarily be a matter for the company board to decide. However, property costs form a significant part of the overall budget for BCPP Limited: the initial strategic plan (which will include the annual budget for the company) requires 100% shareholder approval, with subsequent revisions requiring shareholder majority (75%) approval. The cost of leasing the property will form a significant part of the initial (and subsequent) budgets. As the company board has not yet been formed and given the significance of the property decision to the ongoing budget of the company, it is appropriate for shareholders, and the Joint Committee, to be involved in the final decision relating to property selection.
- 3.11 Appendix A shows a significant range of prices between the remaining options, and it should be noted that WSB has advised that there will be room for negotiation with the landlords on price and on the rent-free period that is typically provided as part of a lease commitment of 5 years or more.
- 3.12 The list of outline costs for the project included within the July 2016 submission to Government listed 'IT and infrastructure' which would be 'predominantly premises and IT' as an estimated ongoing cost of between £900,000 and £1,300,000 a year. Further clarification of the budget is required

to determine the split of costs between IT, property and any other items that could constitute infrastructure. The prices listed for suitable office space in Appendix A suggest a budget of £300,000 a year for property will be sufficient and savings could realistically be expected against a budget set at that level.

- 3.13 Price should not be the only criterion when selecting an office location. The quality of a property and the ambience of the immediate environment it is situated in can have a significant bearing on the recruitment and retention of staff. The lighting and layout of an office also has a significant impact in this area, and it is important that an office space can be adapted to provide a modern working environment. Nevertheless, as a body which is ultimately publicly owned and funded it is important that BCPP demonstrates value for money in the lease terms eventually negotiated.

4.0 Next steps:

- 4.1 Officers will continue to work with the property agent to further refine the list of potential properties. This will include obtaining space-planning information from the agents at each potential property.
- 4.2 Viewings and negotiations will progress as outlined in line with the timetable set out at paragraph 3.3 above.
- 4.3 In the absence of a full company board, Joint Committee members will be consulted and the shareholders will confirm the final decision on property choice.

5.0 Conclusion:

- 5.1 The abundance of available office space in Leeds city centre, and the strength of covenant of BCPP Limited's shareholders means it should be possible to negotiate a deal that represents good value for money.
- 5.2 In the absence of a full company board, Joint Committee members will be consulted and the shareholders will confirm the final decision on property choice.

6.0 Report Author:

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Property	Size (sq. ft.)	Annual costs (subject to negotiation) (£)					Notes	Outcome
		Rent	Rates	Service Charge	Total (per sq. ft.)	Total		
1 East Parade	6,430	21.50	8.75	6.80	37.05	238,232	Good option - competitive price	Second Visit
10 South Parade	5,600	26.00	8.25	4.65	38.90	217,840	Good offering, new install, including kitchen, fronted glass. Expect to get deal on rent	Second Visit
Toronto Square	8,871	25.00	9.64	6.06	40.70	361,050	Subject to sub-division but reasonable c.5,500 to 6,000 sqft option available	Second Visit
St Pauls House	6,534	26.00	8.75	5.25	40.00	261,360	Subject to sub-division. Good, attractive park location, older building but still practical	Second Visit
21 Queen Street	6,469	24.00	9.00	4.50	37.50	242,588	Narrow floorplates but reasonable option	Second Visit
34 Lisbon Street	4,953	18.50	6.00	TBC	24.50	121,349	Rent 17.50, rates 6 sc prob 3 = 26.50. Good cheaper option. Columns close to windows	Second Visit
Riverside West	5,350	20.00	11.00	6.21	37.21	199,074	Good option. Landlord is private individual - rent & sc & rates = £37sq ft but could negotiate down (est to £35)	Second Visit

Property	Size (sq. ft.)	Annual costs (subject to negotiation) (£)					Notes	Outcome
		Rent	Rates	Service Charge	Total (per sq. ft.)	Total		
No.1 Whitehall (BNY Mellon)	6,684	24.00	10.40	6.00	40.40	270,034	Good option, but would consider only if direct lease from landlord could be arranged. Currently offered as sub lease from BNY Mellon until 2026 - provides no tenancy protection.	Further information required - can it be leased directly?
3150 Upstairs, Century way, Thorpe Park	4,090	5.00	7.33	TBC	22.33	91,330	Not enough parking. Keep on second viewing list if out of town option should be retained. However parking / transport issues for current and future staff likely to rule out any out of town location.	Further information required - service charge outstanding - can parking issue be resolved?
6 East Parade	8,008	25.00	6.75	3.55	35.30	282,682	Subject to sub-division, would want front of building?	Doesn't meet requirements
29 East Parade	5,419	24.50	9.30	5.50	39.30	212,967	Low running costs, energy efficient, doughnut shape, no raised floor (comms). Removed from possibles owing to restrictions caused by layout	Doesn't meet requirements
1 City Square	6,000	25.00	11.22	8.25	44.47	266,820	Dark interior. Impressive location and frontage but too expensive	Doesn't meet requirements
1 Park Row	9,527	25.00	9.00	6.00	40.00	381,080	Subject to sub-division - sub-division not attractive option	Doesn't meet requirements

Property	Size (sq. ft.)	Annual costs (subject to negotiation) (£)					Notes	Outcome
		Rent	Rates	Service Charge	Total (per sq. ft.)	Total		
Phoenix/Gallery House	5,750	16.50	7.22	6.23	29.95	172,213	poor comms, wall trunking,	Doesn't meet requirements
City Exchange	4,829	19.50	8.68	7.13	35.31	170,512	Good price, central, other gov't agency in occupation but too small	Doesn't meet requirements
Pinnacle	5,100	21.00	7.95	6.37	35.32	180,132	Large columns restrict layout flexibility	Doesn't meet requirements
Park Row House	4,939	16.50	10.60	6.00	33.10	163,481	Bad layout, lighting poor	Doesn't meet requirements
Yorkshire House	6,060	21.50	8.11	7.50	37.11	224,887	low ceiling, secondary glazing	Doesn't meet requirements
76 Wellington Street	5,293	22.50	8.00	6.00	36.50	193,195	Currently occupied by DWP - awkward space	Doesn't meet requirements
Apsley House	10,360	19.50	8.61	4.95	33.06	342,502	Subject to sub-division - sub-division not attractive option	Doesn't meet requirements

Property	Size (sq. ft.)	Annual costs (subject to negotiation) (£)					Notes	Outcome
		Rent	Rates	Service Charge	Total (per sq. ft.)	Total		
Platform	5,000	26.00	TBC	TBC	26.00	130,000	Extensive rebuild still underway. Expected to come to market at rent of £28 sqft - record high rent for Leeds. Too expensive	Doesn't meet requirements
No.1 Whitehall	5,998	24.00	11.00	6.21	41.21	247,178	Across two floors, too expensive?	Doesn't meet requirements
120 Wellington Street	6,100						Additional option added on the day. Second floor, one small lift, pillars at end of room restricting flexible use of space	Doesn't meet requirements
3320 Century Way, Thorpe Park	6,158	17.00	5.97	8.50	31.47	193,792	Not enough parking? Not best out of town option	Doesn't meet requirements
1175 Century Way, Thorpe Park	5,414	18.00	6.09	4.64	28.73	155,544	Not enough parking? Not best out of town option	Doesn't meet requirements

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BCPP Joint Committee

Date of Meeting: 6th June 2017

Report Title: Consideration of Options For Terms and Conditions of Employees of BCPP Ltd

Report Sponsors: Lead Officer People Sub Group – Nick Orton,
Support Officer People Sub Group - Steve Barrett

1.0 Executive Summary:

- 1.0 This report provides information on options for the terms and conditions for employees of BCPP Limited, including a proposal on the type of pension provision that should be offered to new recruits to the company.
- 1.1 In order to ensure BCPP Limited is able to recruit and retain the skilled staff it needs to function effectively, it should offer staff starting a new contract with the company the choice between access to the LGPS or access to a defined contribution pension scheme and higher take-home pay. This should be structured to ensure the overall cost to the company is equivalent under either option.
- 1.2 BCPP Limited's participation in the LGPS should be appropriately underwritten by the shareholders.

2.0 Recommendations:

- 2.1 Members agree to progress the proposal that BCPP Limited should participate in the Local Government Pension Scheme (LGPS) as an 'open' admission body, and should offer new employees (as well as employees transferring from the internally managed Funds) access to the LGPS, with the exception of senior staff. Final approval will be sought from the shareholders once all issues are resolved. Senior staff includes all executive directors and any staff paid at more than a specified level (initially set at £120,000 a year whole-time equivalent).

- 2.2 In order to provide a flexible offering that is attractive to a range of recruits across the public and private sector, employees should also be offered the alternative of employer contributions to a defined contribution pension scheme and additional salary instead of participation in the LGPS. This is on the proviso that the overall cost of employment is not increased as a result of this flexibility.
- 2.3 A package of other terms and conditions should be provided for new employees to BCPP Limited which are broadly similar to those typically provided within local government. Suitable external advice will be sought when determining the detail of the terms and conditions and the overall value of the remuneration packages to ensure they are appropriate and competitive.
- 2.4 The project team should draft and circulate an LGPS guarantee working on the general principle that any liabilities at the point of transfer should remain the responsibility of the original Fund, but liabilities built up going forwards should be underwritten by all partner Funds in an equitable manner.

3.0 Background:

3.1 Access to the Local Government Pension Scheme (LGPS)

- 3.2 When there is a transfer of employment following the sale or transfer of all or part of a business or undertaking, there is a degree of legal protection given to the terms and conditions of the transferring employees. This is mainly a consequence of the Transfer of Undertakings (Protection of Employment) Regulations 1982 (as amended) ('the TUPE regulations') which, broadly speaking, mean the terms and conditions of transferring staff cannot be worsened as a consequence of the transfer.
- 3.3 One exception to this is pensions and access to pension schemes. For transfers within the private sector there is no requirement for the receiving employer to provide the transferring staff with access to the same occupational pension scheme they participated in immediately before the transfer. Instead, there is a requirement for the receiving employer to provide access to a defined contribution (money purchase) pension scheme with matching employer contributions up to 6% as a minimum.
- 3.4 However, transfers within the public sector are covered by the Government's 'fair deal' approach, which for the Local Government Pension Scheme (LGPS) is dealt with by provisions made under the Local Government Act 2003.

- 3.5 The 2007 Directions Order made under the Local Government Act 2003 means that where there is a transfer of staff as a consequence of a transfer of an undertaking or assets from a local authority, the staff who transfer must be given continuing access to the Local Government Pension Scheme or a 'broadly comparable' scheme. In practical terms, as it is usually prohibitively expensive for an employer to set up a 'broadly comparable' scheme, these types of transfers usually result in the new employer becoming an admission body employer within the LGPS.
- 3.6 The staff whose employment transfers from the three internally-managed Funds (East Riding, South Yorkshire and Teesside) will be given continuing access to the LGPS. They will then individually be able to choose whether or not to combine their previous past LGPS service with their new period of service. The current position under the LGPS regulations is that unless they decide otherwise within 12 months of starting employment with BCPP Limited, their pension benefits earned while working for their original Fund would be aggregated with their BCPP Limited pension benefits.
- 3.7 Although any of BCPP's partner Funds could, in theory, become the administering authority for BCPP Limited, it would be logical for one of the three internally-managed Funds to take on this role. This would reduce the number of asset transfers that would need to take place between the Funds, as there would only need to be an internal reallocation of notional assets in respect of the staff belonging to the internally-managed Fund that takes on the role of administering authority. South Yorkshire Pensions Authority has indicated that it would be prepared to become the administering authority for BCPP Limited.
- 3.8 There are two possible routes in which BCPP Limited could become an employer within the South Yorkshire Pension Fund:
- a) As an 'automatic' employer under Schedule 2 Part 2 of the LGPS Regulations 2013: This would require the South Yorkshire Pension Fund Authority's auditors to determine that BCPP Ltd should be included within the SYPA accounts.
 - b) As an 'admission body' employer under Schedule 2 Part 3 of the LGPS Regulations 2013: The most likely 'admission body' route would require the consent and agreement of the Secretary of State. Eversheds Sutherland has advised that this consent should not be difficult to obtain.
- 3.9 With either option, BCPP Limited would have the discretion to choose whether to admit some or all new employees to the LGPS, or whether to restrict LGPS access just to the employees whose employment transfers from one of the Partner Funds.

- 3.10 BCPP Limited will need to provide LGPS benefits to the transferring staff. However, there is a choice to make on whether to allow access to the LGPS for employees that join after the transfer date, or (potentially) to transferring staff who voluntarily move to a new role after the transfer date.
- 3.11 The 31st January 2017 Member Steering Group approved employment packages for the senior appointees which specifically excluded access to the LGPS. The rationale for this approach was because of the comparatively high salary packages being offered, and the fact that the tax rules around high earners mean that membership of the LGPS is significantly less beneficial to those earning more than around £120,000.
- 3.12 A paper presented to the 24th March 2017 Member Steering Group identified the main issues to consider when deciding on whether or not to extend access to the LGPS beyond those with a legal entitlement to be in the scheme as cost, risk, ethos and recruitment/retention. A further update on these issues is as follows:
- 3.13 **Cost:** Provided BCPP Limited's participation in the LGPS is appropriately underwritten by the Partner Funds through the provision of a written guarantee, the administering authority and actuary of the LGPS fund BCPP Limited participates in should not require BCPP Limited to obtain and maintain a guarantee bond. In addition, the ongoing contribution rate set for BCPP Limited should be broadly in line with the rates the three internally managed funds pay in respect of their staff. The actual rate paid would depend on the demographic profile of the transferring staff and whether or not the scheme is open or closed to new entrants – actuaries typically adopt a different valuation methodology for a closed scheme which often results in a higher ongoing contribution rate being required. The results of the 31 March 2016 valuations for the three internally managed funds show that the following ongoing contribution rates are currently being paid in respect of the staff that are expected to transfer to BCPP Limited:

Fund	Employer (from Rates and Adjustments Certificate)	Ongoing employer contribution rate
East Riding Pension Fund	East Riding of Yorkshire Pool (Non-Schools)	15.3%
South Yorkshire Pension Fund	South Yorkshire Pensions Authority	14.9%
Teesside Pension Fund	Middlesbrough Borough Council	15.3%

It would be reasonable to assume the employer rate set for BCPP Limited should be around 15% of pensionable pay if it is treated as underwritten by

existing scheme employers, is open to new entrants and has a demographic profile similar to the original employers.

3.14 **Risk:** Deloitte has provided initial verbal feedback on the issue of whether building up additional defined benefit pension liabilities will adversely impact BCPP Limited's financial position. Initial advice has been that the following two factors mean BCPP Limited's financial stability should not be affected by a decision to provide wider access to the LGPS:

- BCPP Limited will initially be 'fully funded' on an ongoing valuation basis, or if the way asset transfers are determined under the regulations means it is not possible to ensure this, an appropriate contribution plan will be in place to achieve full funding over a defined time period.
- BCPP Limited's participation in the LGPS will be ultimately underwritten by the Partner Funds (this will be evidenced in a guarantee document). This means any pension debt identified either on an ongoing valuation basis or an accountancy basis can be balanced off in BCPP Limited's accounts by a credit amount representing the value of the guarantee.

At the time of writing this report, written advice from Deloitte confirming this assessment is still outstanding. An update will be provided to members at the meeting.

3.15 **Ethos:** As a private sector company wholly owned by public bodies, operating in the financial services sector but not required or expected to win new business, BCPP Limited will be distinct from local authorities and from other asset management companies. The shareholders all provide access to the LGPS to new entrants to their organisations, and have all been required to produce a communications strategy which includes a policy on "the promotion of the Scheme to prospective members and their employers" (LGPS Regulations 2013, regulation 61(2) (c)). Although BCPP Limited's culture will develop over time, some of the decisions made by the shareholders and senior management at the outset will influence the culture of the organisation. Whether or not to allow access to the LGPS to new recruits is one of these decisions.

3.16 **Recruitment** – Open defined benefit pension schemes are very unusual within the private sector, and recruits from that sector will not be expecting to be offered access to one. However, BCPP Limited (at least in its initial years of existence) is likely to be competing for staff not just with 'traditional' private sector financial services organisations, but also with quasi-public sector bodies, namely the other LGPS pool companies. Our understanding is that all the other LGPS pools will be offering access to the LGPS to their new recruits, albeit with a salary cap for some in line with that proposed a

paragraph 3.11. If BCPP Limited does not offer LGPS as an option to new staff, this will deter staff from other funds and pool companies from choosing to come and work for BCPP Limited, and will make it harder to attract the people with the range of skills required to ensure the company delivers an excellent service to its shareholders. Conversely, staff from the private sector may prefer the flexibility offered by higher salary with a lower cost (to the employer) pension scheme

3.17 **Retention** – The July 2016 submission to Government identified the need for BCPP Limited to retain and develop the skills of the internally managed funds. This included reference to “development of the range of skills ...to enhance professional expertise, and breadth of asset coverage”. If BCPP Limited operates as a ‘closed’ scheme within the LGPS, and those moving to new roles in the organisation are not able to access LGPS membership, this will inhibit the ability of the transferring staff to progress and develop their skills as they may be reluctant to move to a more senior role if that means giving up their ability to contribute to the LGPS.

3.18 **Pension flexibility proposal**

3.19 In practice, unlike the administering authorities of the Partner Funds (who are required by the LGPS regulations to automatically put almost all staff into the LGPS when they start employment), BCPP Limited will have the scope to decide which new employees (if any) to put into the LGPS. The Government’s auto-enrolment regulations mean that if BCPP Limited employees are not brought into the LGPS they will need to be automatically enrolled into a defined contribution pension scheme which provides a specified minimum level of employer contributions – this is currently 1% (rising to 3% by April 2019) of earnings between certain limits (currently between £5,876 and £45,000 a year).

3.20 In order to provide flexibility while ensuring compliance with auto-enrolment regulations it is proposed that BCPP Limited could offer new recruits, or those moving to a new role in the organisation after the transfer, the following pension options:

- a) Access to the LGPS
- b) Access to a defined contribution pension scheme with 5% matching employer contributions

3.21 In order to ensure the overall remuneration package is broadly similar for both options, a lower basic salary would be offered if staff wanted access to the LGPS. So, as an example, assuming an employer contribution rate of 15% to the LGPS or an employer contribution rate to a defined contribution rate

pension scheme of 5% possible salary options for someone paid around £60,000 a year that would result in the same overall cost to the company would be as follows:

Pension scheme	Annual salary	Employer pension cost	Employer National Insurance cost	Total cost to employer
LGPS	£60,000	£9,000	£7,153	£76,153
Defined Contribution	£65,050	£3,253	£7,850	£76,153

So under this proposal, someone taking up a new position within BCPP Limited would have the choice between access to the LGPS or access to a defined contribution pension scheme with employer contributions of 5% along with 8.4% higher annual salary.

3.22 Terms and conditions

3.23 BCPP Limited is expected to initially have staff operating under at least five different sets of terms and conditions. This is partly a consequence of the need to ensure staff transferring in from the internally managed funds do not have their existing terms and conditions worsened as a consequence of the transfer. It also reflects the fact that BCPP Limited's directors / senior staff will have different terms and conditions to the other new recruits to the organisation.

3.24 Most of the terms and conditions of the staff at the internally managed funds are consistent with the standard 'green book' local government terms and conditions. However there are significant variations in three key areas: salary, bonus and holiday entitlement. Officers will continue to work with legal advisers to understand what options exist regarding eventual alignment of these terms and conditions in a way that is cost-effective and complies with TUPE requirements.

3.25 Project group officers have visited staff at all three of the internally managed funds and given a presentation to those staff likely to be affected by the transfer. These were informal information sharing meetings and were not part of any formal consultation process. Consultation under TUPE will take place nearer to the expected transfer date and has to take place with employee representatives, not with employees themselves.

3.26 One issue that has arisen during the consultation is whether the transferring staff (whose work location will move to Leeds) should receive a temporary 'disturbance' payment to recognise the additional travel costs incurred through

the change of work location. Information supplied so far suggests that none of the internally managed funds has an existing policy which would apply to this scenario, however BCPP Limited would be able to decide to devise its own policy to make this type of payment. This will be an issue for the incoming executive team to consider and the cost of any such allowance would need to be included within BCPP Limited's initial plan and budget.

- 3.27 After salary and pensions, other significant terms and conditions of employment include holiday entitlement, flexible working arrangements, sick pay entitlement and parental leave entitlement. These would all ordinarily be determined by the company board but there may be a requirement for a limited amount of recruitment to take place before the board members have been recruited. The Joint Committee is asked to confirm that the terms and conditions agreed in these areas should be broadly consistent with those currently provided to the staff transferring in from the internally managed funds. Where decisions are require on this before the board is in place, shareholder agreement will be sought through written resolution.

4.0 Next steps:

- 4.1 Officers will continue to work with legal advisor, actuaries and government as necessary to agree the best approach to ensure BCPP Limited can participate in the LGPS and its pension liabilities are appropriately guaranteed.
- 4.2 Work will continue with legal advisors and HR specialists as necessary to draft standard terms and conditions for new recruits to BCPP Limited.

5.0 Conclusion:

- 5.1 Subject to final written advice from Deloitte, ongoing 'open' access to the LGPS can be achieved without incurring additional risk or significant additional cost to BCPP Limited, provided the participation is underwritten by the shareholders. Having an 'open' scheme will ensure BCPP Limited is best placed to acquire and retain the staff necessary to fulfil its objectives.

6.0 Report Author:

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BCPP Joint Committee

Date of Meeting: 6th June 2017

Report Title: **BCPP Company Committee Structures and the Roles of Non-Executive Directors (NEDs)**

Report Sponsor: **Governance Sub-Group Lead – David Hayward**

1.0 Executive Summary:

1.1 The report sets out a proposal for the internal company committee structures to be adopted by BCPP Ltd and how they fit within the overall corporate governance structure of the partnership.

2.0 Recommendation:

2.1 The Joint Committee is asked to note the content of the report and to have this in mind whilst undertaking the selection of non-executive directors and the Chair for the BCPP operating company

3.0 Background:

BCPP Overarching Corporate Governance Framework

3.1 Corporate Governance and shareholder oversight is another area where the partnership is seeking to bring together the best aspects of both Local Government (transparency, independence, objectivity, openness and accountability) and the ever developing controls being applied to the regulated financial services sector (control, process, risk management and “putting the shareholder / client interests first”).

3.2 As has been discussed many times throughout the on-going creation of the BCPP governance framework, combining these two governance and regulatory control frameworks is not always easy or intuitive. This has not been undertaken before outside the current LGPS pooling agenda and as such there is no template model for how such a framework will best operate going forward. As a wholly owned company neither the public nor the private regulatory frameworks take precedence. Both have areas that must be adhered to. There will need to be an understanding across the company executive team of these touch points as they will have to develop the current structure to find ways to ensure BCPP Ltd is not only established but

continues to operate within the bounds of both regulatory regimes so as not to cause the Partner Funds either financial or reputational damage.

- 3.3 However, this should not be seen as a negative. The development of the LGPS pools is truly leading edge in the areas of corporate governance, regulatory control, shareholder engagement and client servicing and therefore offers us a real opportunity to set the industry framework for best practice across the pensions sector. The key over the coming three years as the company becomes established and each part of the governance framework grows into being will be to ensure that those in control demonstrate flexibility in their approach and understanding of the touch points and their resultant sensitivities in this area.

BCPP Ltd Company Board Committees – Governance Requirements

- 3.4 This paper considers the corporate governance framework and committees within BCPP Ltd and therefore the primary regulatory framework applicable in this regard is that of the corporate sector, regulated financial services sector. Specifically the corporate governance structures and key person competencies that the regulator will require to see demonstrated in the BCPP Ltd regulatory application. However, this must be kept in the context of the overall regulatory framework of the partnership. When the principles for establishing BCCP Ltd were originally discussed by the Partner Funds it was considered desirable to demonstrate best practice in the operation of BCPP Ltd corporate governance arrangements by complying, where appropriate, with the UK Corporate Governance Code (“the Code”).
- 3.5 Whilst the Code is written for public companies i.e. large companies with diverse and distant shareholdings, its principles hold true for BCPP Ltd. To ensure we do not develop a governance structure that is overly bureaucratic and therefore actually distances, rather than enhances shareholder engagement recognition needs be given to the fundamental differences of the BCPP structure compared to a large public company. BCPP has a tight, hands on share ownership and governance structure. The aim is to have an overall open and transparent governance structure through combining the client / shareholder oversight roles through the active management afforded to the clients / shareholders in BCPP through the Joint Committee and shareholder reserved matters with an efficient, appropriately skilled and transparent corporate governance structure within the company.
- 3.6 Whilst the code was primarily written to help address the shareholder control issues in public companies the Code does however make recommendations for smaller companies. Where companies are not listed / quoted the Code recommends a “comply or explain” approach to adherence which Officers propose be adopted for BCPP Ltd.

- 3.7 The Code suggests three committees are required for good corporate governance. These are:
- i. Risk and Audit,
 - ii. Remuneration and
 - iii. Nomination.

Agreed Executive / Non-Executive Structure

- 3.8 The governance documents approved by all Authorities in BCPP allows for the following corporate management structure. As required by the corporate code and as expected by the FCA the controlling vote rests with the Chair so as to ensure the balance of power always remains with the NED's. These posts are currently what is being recruited to (see item elsewhere on today's agenda):-
- i. Non – Executive Directors (N.E.Ds)
 - Chair
 - 2 NED's (with the option to create a further two posts should the need be identified.)
 - ii. Executive Directors
 - Chief Executive Officer
 - Chief Operating Officer (Chief Finance Officer)
 - Chief Investment Officer

Proposals for BCPP Ltd Risk and Audit Committee

- 3.9 The Code suggests that for a large business there should be three NEDs on the Risk and Audit Committee but for smaller companies two is sufficient. Neither of these can be the Chair of the Board. The Committee Chair will need some financial services experience. Therefore both the proposed independent NEDs of BCPP Ltd will be required to sit on this committee and as such it is desirable that both have financial services experience.
- 3.10 Officers have considered whether the role of this committee should be split into two committees but the independent advice received from both the legal and FCA appointed specialists is that this is generally only done in very large financial services companies and should not be necessary based on the relatively small size of the corporate set up of BCPP Ltd.

BCPP Ltd Remuneration and Nomination Committee

- 3.8 The Code again suggests that for a large business there should be three NEDs on the Remuneration and Audit Committees but for smaller companies two is sufficient. Similarly neither of these can be the Chair of the Board. For this reason both NED's will also be required on this Committee. It seems reasonable to provide that the independent NED who does not chair the Audit and Risk Committee should chair the Remuneration and Nomination Committee.

- 3.9 On the advice of the appointed experts Officers recommend that as the company is a relatively small concern (in terms of staffing and administration) that the roles of Remuneration and Nomination Committee can be combined into a single committee.
- 3.10 Remuneration of senior executives is a matter for the shareholders in BCPP. As such it is expected that the Remuneration and Nomination Committee, where considering salaries of those most senior executives, to make representations to the Board who in turn would make a representation to shareholders and seek their approval.
- 3.11 Remuneration for staff below director level will be considered by the Compensation Committee (See structure below). This is an executive rather than Board Committee but would be expected to take a lead from the Remuneration and Nomination Committee.
- 3.12 It would be possible to co-opt additional members onto the Remuneration and Nomination Committee. We are proposing that two representatives of the participating funds should sit on this committee in order to create a link with the shareholders as investors and joint committee an oversight body. They would do so on a non -voting basis to preserve FCA compliance. The Committee would be expected to operate on a consensus basis in any event and the shareholders will retain control of the setting of salaries at this level.

FCA Application Process

- 3.13 For each of these Committees the Terms of reference and role profiles of each of the controlled functions (of which the all the proposed NED's are) will form part of the submission to be the FCA. The terms of reference will be developed by Officers and Alpha (as the advisors appointed to help with the FCA submission) and will be referred to the Governance Sub Group for their consideration and recommendation to the full Joint Committee.
- 3.14 Additionally as part of the process to gain approved person status for the NED's we will be required to submit the experience of the persons appointed to Chair the Audit / Risk and the Remuneration and Nomination Committee.
- 3.15 The full FCA application pack, including all the terms of reference and membership of these committees will be brought to the Joint Committee for ratification in September.

BCPP Ltd Investment Committee

- 3.16 In addition to these Corporate Governance Committees the Company will also require an Investment Committee. This fulfils an operational role rather than a company oversight and corporate function. It is anticipated that it would meet more frequently i.e. at least monthly and perhaps even more frequently on an

ad-hoc basis. It could also meet on relatively short notice depending on when investments were being made or if external factors are occurring.

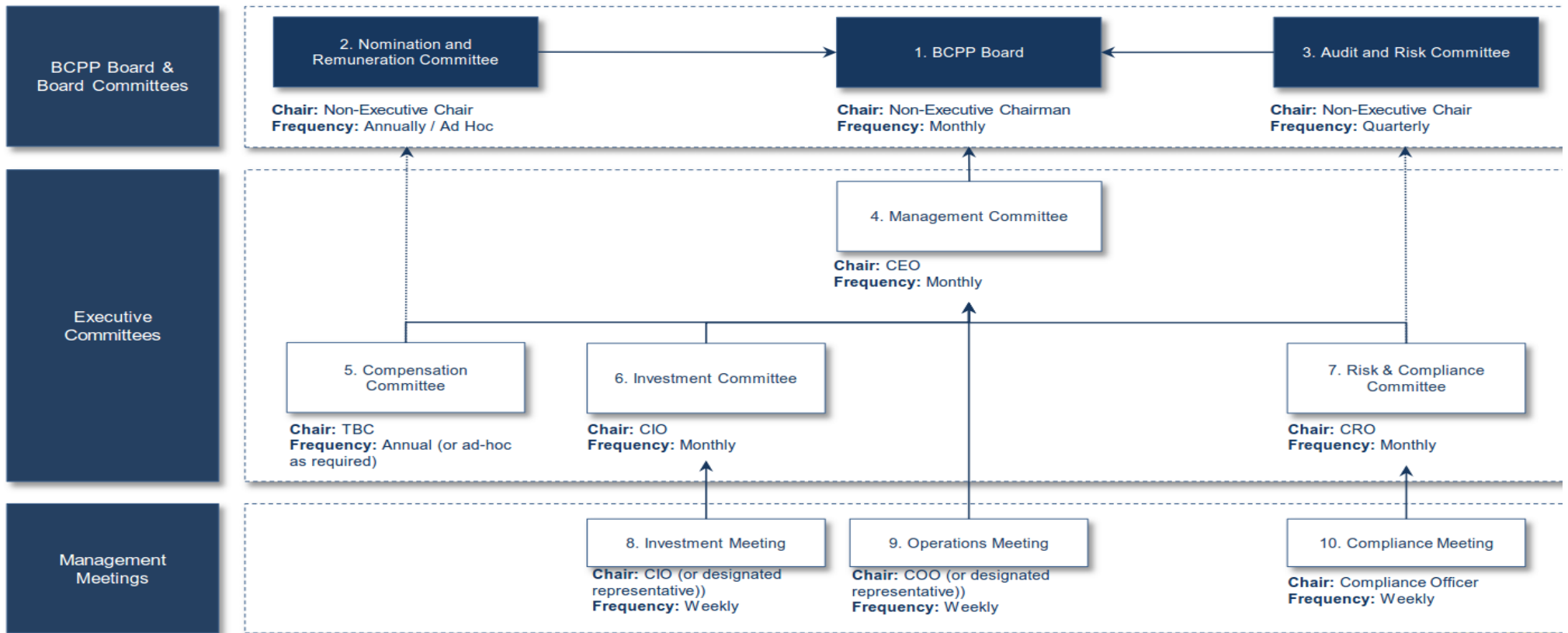
- 3.17 As an operational rather than Board committee, it would likely be chaired by the CIO and consist of other senior investment professionals – these could be the heads of the various asset classes e.g. Equities, Fixed Income, Alternatives, Property, Manager Selection. In terms of remit it would take the role of approving major investment decisions i.e. for Equities and Fixed Income the major sector, stock, country, and factor weighting decisions and for Property/Alternatives/External Managers etc. all major investments.
- 3.18 The precise make up and remit of the Investment Committee will be finalised once the CIO is appointed, in consultation with the Chair and CEO and other members of the Board.
- 3.19 Details of the other Executive Committees that are thought to be required and their Chairs are set out in the organisational chart below.

3.1 Governance Model

3.1.1 BCPP Governance and Management Structure

Governance at BCPP is led by the BCPP Board (1). It will be informed by the two secondary board committee's focusing on Nomination and Remuneration (2) and Audit and Risk Management (3). It will delegate Executive Management of the business to the Management Committee (4) from whom it will receive ongoing reporting.

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4.0 Conclusion:

- 4.1 It will be seen from the above that it is possible to meet the requirement of the Corporate Governance Code and the FCA with the two independent directors presently proposed.
- 4.2 It will be necessary to keep the chairing of the Risk and Audit and the Remuneration and Nomination Committee in mind in carrying out the recruitment of non-executive directors and the need for the skills to chair these committees has been reflected in the role profiles prepared for that recruitment.

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Further Information and Background Documents:

(Detail any appendices or reference to previous papers)

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