



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

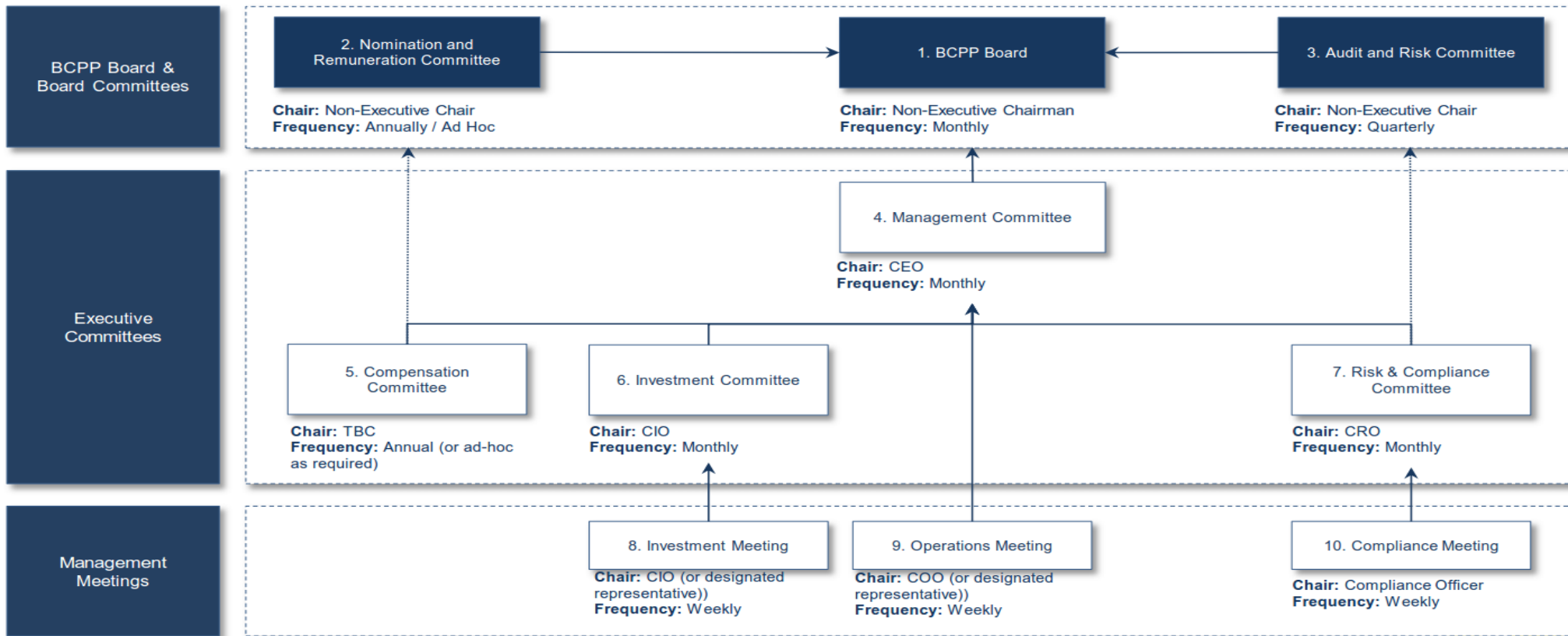
- 3.17 As an operational rather than Board committee, it would likely be chaired by the CIO and consist of other senior investment professionals – these could be the heads of the various asset classes e.g. Equities, Fixed Income, Alternatives, Property, Manager Selection. In terms of remit it would take 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.



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)
