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PENSIONS PARTNERSHIP

BCPP JOINT COMMITTEE

AGENDA

Venue: Grand Meeting Room, County Hall, Northallerton, DL7 8AD

Date: Tuesday 16 January 2018

Time: 11.15 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
Cllr Mel Worth	Cumbria Pension Fund
Cllr Mark Davinson	Durham 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

Terms of Reference of the BCPP Joint Committee

1. The primary purpose of the Joint Committee is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.

The Joint Committee will provide effective engagement with the Authorities as the BCPP Pool vehicles are established and ultimately operated. It will encourage best practice, operate on the basis that all partners have an equal say and promote transparency and accountability to each Authority.

The remit of the Joint Committee is:

1.1 First phase – Period to April 2018 or operational commencement of the BCPP Pool (whichever is the later)

- 1.1.1 To provide support and guidance to the work being undertaken by the Officer Operations Group to give effect to the pooling arrangements.
- 1.1.2 To consider issues and provide feedback on relevant proposals as they are developed, ensuring effective engagement with the Authorities to scrutinise and monitor project management arrangements and proposals for the appointment of advisers by the Authorities.
- 1.1.3 To oversee costs to deliver the BCPP Pool, obtaining approval from individual Authorities where necessary.
- 1.1.4 To monitor and scrutinise responsibilities for delivery of the project and relevant support arrangements.
- 1.1.5 To oversee and provide feedback on positions and conclusions deriving from work streams adopted by the Officer Operations Group.
- 1.1.6 To formulate processes and policies for the appointment and termination of membership to the Joint Committee.
- 1.1.7 To propose and confirm contracts and policies required by the Authorities to commence transition to the BCPP Pool arrangements.
- 1.1.8 To provide support and guidance to the work being undertaken by the Officer Operations Group to do all things necessary to implement the final proposal, including preparatory work for asset transition.
- 1.1.9 To consider the initial range of sub-funds to be provided by the ACS and to make recommendations to the BCPP Board for the creation of those sub-funds.
- 1.1.10 To review and comment on the draft ACS prospectus and supporting documents on behalf of the Authorities prior to the Financial Conduct Authority approval.

AGENDA

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Minutes of the BCPP Joint Committee

Friday 20 October 2017 - North Yorkshire CC, Grand Meeting Room, County Hall, Northallerton, DL7 8AD

Present

Members

Councillor John Weighell (Chair)
Councillor Mark Davinson, Councillor Sue Ellis, Councillor Tim Evans, Councillor John Holtby, Councillor Eileen Leask, Councillor Doug McMurdo, Councillor Bob Stevens, Councillor Eddie Strengiel, Councillor Jeff Watson and Councillor Mel Worth

BCPP Ltd

Representatives Rachel Elwell and Chris Hitchen

Fund Officers

Amanda Alderson, Ian Bainbridge, Stephen Barrett, Paul Campbell, Clare Gorman, David Hayward, Mark Lyon, Fiona Miller, Nick Orton, Jo Ray, Gill Richards and Phil Triggs

Statutory Officer Representative(s) Andy Watkins

Apologies for absence were received from Councillor Steve Bloundele

1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

The Chair welcomed everyone to the meeting. Apologies were noted as above.

2 MINUTES OF THE MEETING HELD ON 6 JUNE 2017

The minutes of the inaugural meeting of the BCPP Joint Committee held on 6 June 2017 were considered and approved as a correct record.

3 MEMBER BRIEFING - FORMAL WELCOME TO THE CHAIR/CEO (IN WAITING) & CONSIDERATION OF THEIR VISION FOR THE FUTURE OF BCPP LTD - CHRIS HITCHEN, CHAIR, RACHEL ELWELL CEO (IN WAITING)

The Chair of the Joint Committee welcomed Chris Hitchen, Chair of BCPP Ltd and Rachel Elwell, Chief Executive Officer (in waiting) of BCPP Ltd. It was noted that the CEO's formal appointment would commence on 20 November 2017.

C Hitchen commented that he was delighted with his appointment as Chair of BCPP Ltd. He was aware of the history to get to that point and recognised that it

had been a difficult journey for some and that others would not be completely happy with the situation.

His hope was that in the future, Funds would look back and see that it had been a great opportunity that had achieved good long-term outcomes for members and taxpayers. His vision was for BCPP Ltd to be a beacon among the LGPS with committed and engaged clients.

R Elwell remarked that she was excited to be taking the work forward and appreciated all the hard work done by Members and the project teams; solid foundations were in place from which to build. The Committee considered a mind map which set out the CEO's vision for the future of BCPP Ltd.

The CEO would visit each Fund as soon as possible to get an understanding of customers' needs.

The CEO had recently been involved in an informal Shadow Board meeting and also the recruitment process of the Chief Operating Officer which Fiona Miller had accepted.

R Elwell informed the Committee that she would also be involved in the recruitment process for the Chief Investment Officer and the Chief Risk Officer but other than that would find it difficult to devote any more time to BCPP Ltd until 20 November.

Exclusion of the Public and Press

At this point M Lyon and D Hayward declared an interest and left the meeting.

4 UPDATE ON EXECUTIVE & NON-EXECUTIVE APPOINTMENTS - IAN BAINBRIDGE/CLARE GORMAN

The Committee considered a report which gave an update on Executive and Non-Executive recruitment and remuneration for BCPP Ltd.

The Committee were informed that of the seven key roles identified, all but the Chief Investment Officer, Chief Risk Officer and the Compliance Officer had been appointed.

Members noted the recruitment process and timeline for the two remaining Chief Officer positions as set out in the report. It was further noted that once BCPP Ltd.'s initial Board was in place there would be no further role for the Joint Committee to play in recruitment to BCPP Ltd including for the appointment of the Compliance officer.

RESOLVED - That the Committee

- a) Note the appointments made to date and processes followed, as set out in section 5 of the report.

- b) Agree the timeline and process for the recruitment of the two remaining key posts (namely CIO and CRO), as set out in section 6 of the report.

5 UPDATE ON GENERAL STAFF TERMS AND CONDITIONS (INCLUDING PENSION OFFERING & ASSOCIATED GUARANTEE REQUIREMENTS) FOR EMPLOYEES OF BCPP LTD (NEW & TRANSFERRING STAFF)- NICK ORTON

A report was submitted to provide an update on options for the terms and conditions for BCPP Limited, including consideration of the potential financial impact of the company providing access to the Local Government Pensions Scheme to new recruits to the company.

The report also contained details of a draft staff structure for BCPP Limited.

The Committee considered a table that compared some of the current terms and conditions of employment of the investment staff who would potentially transfer under TUPE terms to BCPP Limited, along with a suggested set of terms and conditions that could apply to new recruits to the company. These were discussed at length by the Committee, along with pension provision for new recruits.

RESOLVED – That the Committee note:

- a) The range of options on employer terms and conditions that would be determined by BCPP Ltd.'s Board following the decisions made at the last Joint Committee meeting.
- b) The Statutory Officer Group would agree the final wording of the pension guarantee following a further report to the Joint Committee regarding cost sharing.
- c) The proposed draft structure upon which the budget would be based for shareholder approval – this structure was subject to further refinement by BCPP Ltd.'s Board.

At this point the meeting reopened to the Public and Press.

M Lyon and D Hayward returned to the meeting.

6 AMENDMENTS TO BCPP BOARD STRUCTURE - DAVID HAYWARD/CHRIS HITCHEN

A report was submitted to allow the Joint Committee to consider and comment on proposed changes to the composition of the Company Board.

The Committee were reminded that when the corporate structure and governance was initially considered it was intended there should be six directors, namely the Chair, 2 x Non-Executive Directors, the Chief Executive Officer (CEO), Chief Operating Officer (COO) and the Chief Investment Officer (CIO).

It was the view of the Chair of the Company and the CEO that it would be more appropriate for the CIO to sit outside the Board structure and be left to concentrate on the task of getting all the eligible assets into the pool as quickly as possible and generating good long-term performance. The Committee was informed that legal advice had been given that this would not breach the terms of the shareholder agreement if this decision was made.

The Chair of the Company suggested appointing two shareholder directors to the Board with full standing including voting rights. It was believed that this would assist in keeping the Joint Committee and the Partner Funds sighted on the governance of the Company and would ensure that a proper connection was maintained with shareholders at all times.

A lengthy discussion ensued around conflicts of interest, whether shareholder directors, if approved, should be rotated and the issue of remuneration.

The Committee felt that these matters should be pursued further in the Governance Sub-Group with advice from Monitoring Officers.

In response to a question by Sue Ellis regarding scheme member representation on the Board, the discussion on this was postponed until a more opportune time.

RESOLVED:

- a) That the Chief Investment Officer Role holder no longer be asked to sit on the BCPP Board and that this should be reflected in the ongoing recruitment process.
- b) That the principle of appointing two shareholder directors be adopted and that officers be asked to work with the Governance Sub-Group to bring a report back to the Joint Committee with suggestions for the method of selection of the said directors and associated issues after taking the advice of monitoring officers.
- c) That the Board be requested to invite the Chair and Vice-Chair of the Joint Committee to attend Board meetings with full participatory rights save for formal voting until such time as shareholder directors are formally appointed.

7 UPDATE ON FINANCIAL CONDUCT AUTHORITY PERMISSIONS SUBMISSION - FIONA MILLER

F Miller presented a report which updated the Committee on Financial Conduct Authority (FCA) Permissions submission.

The paper advised Members of the progress towards submission of the documentation, the associated risks and assured Members that, while challenging, progress currently remains on track to meet the required timelines for approval to enable to go-live in June 2018.

F Miller informed the Committee that the initial plan had been to bring the draft budget to the meeting for shareholder approval prior to submission to the FCA but unfortunately it had not been possible to meet the deadline.

The reasons for the delay were:

- The three largest expenditure items (excluding pay) were not sufficiently progressed in the tender process and therefore only estimated figures were available.
- S151s along with their Fund Officers need to be given time to review the final proposed budgetary requirement and assess the implications on their individual Funds before they could recommend it for approval.
- Provisional agreement was required to the outline staffing structure before costs could be quantified.
- The CEO is not yet in a position to have ownership of the regulatory business plan and the resultant cost base so that both the BCPP Ltd Board and the funds as clients can hold her accountable for delivery.

Members noted the risks with mitigations caused by this delay and also a proposed revised timeline for Shareholder budgetary approval. It was further noted that the FCA application was progressing to plan other than the presentation of the business plan and budget to the meeting.

RESOLVED:

- a) That Members note the progress to date and the proposed timeline for FCA regulatory approvals submission.
- b) That Members approve the submission to the FCA of the application with a draft regulatory business plan as detailed.

8 UPDATE ON PROJECT DELIVERY AND IMPLEMENTATION BUDGET - FIONA MILLER

A report was submitted that updated Members on the high level activities undertaken since the last meeting toward the delivery of phase three of the BCPP implementation plan. The paper also provided the Joint Committee with the current high level risk register which highlighted by exception any key areas for consideration by Members.

With regard to the premises search, the Committee were informed that a final shortlist of two properties in Leeds city centre which met the operational specification was being progressed.

With regard to the Spring update submitted to DCLG, the joint departmental response was received by all pools and circulated to Members by email in August.

Clarification had since been received from DCLG that references to Pools not pressing on as expected was actually only relevant the three Funds, none of which was BCPP.

Members noted that the Autumn update was due for submission on 20 October; the BCPP update submission was attached as an appendix to the report.

RESOLVED - That Members:

- a) Approve the BCPP Project Implementation Risk Register and mitigating actions detailed in the report.
- b) Note the projected implementation budgetary outturn and agree to seek required approval through their individual governance structures following the next Joint Committee meeting when this could be fully quantified.
- c) Note the high level project activity during the period.
- d) Approve the proposed activities to be completed by the project team and sub-groups over the next period.
- e) Approve the submission of the Autumn Update to DCLG as shown at Appendix 3.
- f) Agree that upon the CEO taking up post in November that responsibility for project delivery move to the CEO with the transfer of remaining budgetary provision.

9 **UPDATE ON DEVELOPMENT OF TARGET OPERATING MODEL AND TRANSITION PLAN - MARK LYON**

M Lyon presented a report which provided an update on the work that had been undertaken within the Operating Model Workstream since the last meeting.

Members noted:

- The design phase of the Target Operating Model had been completed and the tender for the two main service providers had been issued with preferred suppliers expected to be identified by the end of 2017.
- The FCA application pack was currently being prepared and was expected to be submitted in November 2017.
- The asset allocation template had been finalised and was presented at Appendix A to the report for approval by the Joint Committee.
- The draft transition plan had been prepared and would be subject to further review during the transition period. Due to capacity constraints and the relatively high risks associated with asset transitions it had been decided to use a phased approach to transition assets over a period of 2-3 years.
- The process for Administration Authorities opting up from retail status to elective professional status under MiFID II had been simplified.

RESOLVED – That Members:

- a) Note the progress to date and support the outlined plan to progress the work on the Operating Model Workstream including the implementation of the operating model and the procurement of suitable service providers for the next period.
- b) Approve the Asset Allocation Template, provided at Appendix 1.
- c) Note the progress on transition planning provided at Appendix 2, and support the development of the transition management arrangements.

10 PROPOSED BCPP LTD RESPONSIBLE INVESTMENT POLICY AND CORPORATE GOVERNANCE & VOTING GUIDELINES - MARK LYON

A report was submitted which outlined the proposed BCPP Ltd policy to enable Partner Funds to achieve their Responsible Investment and stewardship responsibilities.

The Committee were informed that the attached RI Policy and Corporate Governance and Voting Guidelines had been developed to reflect best practice; J Firth had worked hard to bring these documents together. They had been arrived at by reviewing Partner Funds current policies along with those of a number of asset managers seen as leaders in the area. The policies were high level documents which would require detailed procedures on implementation; these would be developed as soon as was practicable.

The proposed process would be to annually review the proposed BCPP Ltd policy each year. This would enable the partner Funds to make any changes required to their policies to ensure alignment.

RESOLVED:-

That Members approve the Responsible Investment Policy and the Corporate Governance and Voting Guidelines and recommend to their Committees that their individual policies in this regard are aligned to the policy so as to ensure all could comply with the LGPS Investment Regulations.

11 FEEDBACK ON NATIONAL WORKING GROUPS - JO RAY

A report was submitted to inform Members of the work of the National Working Groups.

Since the last Joint Committee meeting, Officers had attended meetings of the Cross Pool Collaboration Group, the Cross Pool Infrastructure Group, the Cross Pool Responsible Investment Group and the Cross Pool Tax Group.

Cross Pool Collaboration Group

Jeff Houston (LGA) had updated the group on the Ministers' letter, fund and pool reporting requirements, cost transparency, MiFID II and fund resourcing.

Cross Pool Infrastructure Group

Discussions centred on progress to date and the proposed response to each pool to the DCLG Autumn Submission. Meeting dates for the Group would need to become more regular so that any national platform agreed could align with pool go live dates and their ability to invest in it.

Cross Pool Responsible Investment Group

LAPFF Chair Cllr Kieran Quinn attended the July meeting and explained how LAPFF worked with its fund members and set out how it could work for pools in the future.

Cross Pool Tax Group

The first meeting of the group was held on 26 September. Its role was to look across the various tax areas and the implications and considerations for the pools and funds. The issues discussed were set out in the report.

RESOLVED – That the report be noted.

12 STANDING ITEM - UPDATE ON EMERGING MATTERS - FIONA MILLER

Fiona Miller informed the Committee that following her acceptance of the position of COO, she had resigned as Chair of the Officer Operations Group; Ian Bainbridge would chair the Group in the future.

13 ANY OTHER BUSINESS

None.

14 DATE OF FUTURE MEETINGS

Future meeting dates were noted as:

16th January 2018
13 March 2018
10 July 2018

It was agreed that in future meetings would commence at 11.15am to better fit with train timetables.

CHAIR



BCPP Joint Committee

Date of Meeting: 16 January 2018

Report Title: Partner Fund Director Proposals

Report Sponsor: Governance Sub-Group

Report Author: Governance Sub Group Secretary – David Hayward

1.0 Executive Summary:

- 1.1 This report sets out the recommendations of the Governance Sub Group regarding the appointment of additional director(s) to the BCPP Limited Board at the request of the Company.
- 1.2 At the last meeting of the Joint Committee the Governance sub group was asked to meet and consider how the resolution of the Joint Committee could best be implemented. Such a meeting was held and its recommendations are set out in the body of this report.

2.0 Recommendation:

- 2.1 That Members consider the report and adopt the following recommendations for the reasons set out in detail in this paper.
 - 2.1.1 That two representatives of the Partner Funds be nominated by the Partner Funds through the operation of the Joint Committee at its next meeting and that those nominations be adopted by the Board of BCCP Limited and appointed as directors subject to the approval of shareholders.
 - 2.1.2 That the directors should be designated Partner Fund Directors and their nominations should be made by the Joint Committee who should adopt an exhaustive ballot procedure to select those nominees.
 - 2.1.3 That the ballot should take place at the next (March) Joint Committee meeting to allow potential candidates to consider their position
 - 2.1.4 That any member of the Joint Committee appointed to the BCPP board should stand down in favour of another representative of their fund such as a deputy or vice chair for the duration of their appointment.
 - 2.1.5 That until the nominations are confirmed the Board be requested to invite the Chair and Vice Chair of the Joint Committee to attend Board meetings as representatives with full participatory rights save for formal voting until such time as Partner Fund Directors are formally appointed.

3.0 Background:

3.1 At the last joint committee the Chair of BCPP asked the committee to consider the appointment of two additional directors. The Joint Committee agreed to this as an in principle decision and asked its own Governance Sub Group to meet and consider the implications and mechanics of appointing the said directors and who those directors might be. The minute reflecting this is set out in Appendix A to this report and formed the background to the Governance Sub Group's discussion

3.2 The Sub Group met on 4 December and reached the following conclusions:

3.2.1 The number of Directors was set by the Articles as a maximum of 8, at present it is contemplated that BCPP will have 5 in its initial complement, so the number of directors can be increased by the Company within the existing structure and without shareholder approval for change to the Articles being required.

It was noted that the number of 8 directors was introduced to allow some flexibility to meet this particular need and to ensure that if additional directors were required for proper governance of the Company that they could be introduced. There was a particular concern about the manning of the committees required to run the Company.

3.2.2 The Company suggested to the Joint Committee that it would like 2 of the Board is a matter for the Company subject to the shareholders having the right to approve any new Director. The Shareholder Agreement signed by the administering authorities provides that the initial directors (the 5 – Chair, x2 NEDs, CCEO and COO) be subject to 100% approval and subsequent directors be approved by a minimum of 75% of shareholders (9). This was noted by the Sub Group.

3.2.3 The Governance Sub Group first considered the status of the directors/appointees in the light of the three suggestions outlined in the prior resolution. The consensus was that it would be preferable (with certain provisos noted below) that the new directors should enjoy full director status which in turn would enable the nominated individuals to fully participate in the Board and to provide an LGPS input to the strategic direction of the Company. The alternative of attending representatives or observers without votes was not thought to provide the required commitment to the Board and the Company and would lend itself to standing aside and criticising rather than participating and influencing as was thought desirable.

The Sub Group were strongly of the view that any representation on the Board of the Company should be drawn from elected members of the partner funds. It was considered that neither officers nor "LGPS" representatives from outside the pool would meet the requirement to represent the viewpoint of the Partner Funds and the lack of democratic accountability for such persons would be undesirable. It would be a qualification of retaining the directorship that the Partner Fund directors remained elected members of their administering authority.

3.2.4 It was also concluded that the Joint Committee should democratically select candidates to be put forward to the Company. Selection should be by exhaustive ballot and should take place as soon as reasonably practicable. In practice it was felt that this meant that members should have the opportunity to consider their own candidacy and discuss with their administering authorities before committing to

seeking selection. This means that the ballot process should be designed to allow selection at the Joint Committee meeting next following this meeting (prospectively March 2018). It was thought that the Joint Committee should recommend to the Company that each director should serve an initial two year term with extension subject to re-election. Consideration could be given to one director having an initial one year term to avoid coincident retirements from the Board.

The Company would have to produce a role profile for consideration by potential candidates. Such a role profile would cover the requirement to meet CF2 standards. <https://www.fca.org.uk/firms/approved-persons/requirements> The requirements are set out in the FCA handbook:

<https://www.fca.org.uk/firms/approved-persons/requirements>

It is understood that experience of chairing a pensions committee would be likely to provide a sound base for any individual seeking to take on these roles.

3.2.5 The Sub Group considered whether there was a prospective conflict of interest between being a member of the scrutiny body (the Joint Committee) and the strategic direction body of the Company. It concluded that it would be inconsistent for the Partner Fund directors to maintain a position on the Joint Committee and the Board and that accordingly any member of the Joint Committee appointed to the Board should step down from the Joint Committee for the duration of that appointment and that their alternate should attend Joint Committee in their stead. This conclusion was supported by the Monitoring Officer from North Yorkshire Council who attended the meeting to provide regulatory input. It is therefore recommended that any appointment should be subject to agreement on this point.

It would be a matter for funds to determine how any conflicts within their own committees were managed. It is possible that if the performance of the Company were being discussed in a Fund's pension committee that a nominated director would have to stand aside from any decision at that time.

The importance of performing the role of director rather than representative or observer was also noted. It was agreed that the most appropriate reporting route for the Board to the Joint Committee would still be through regular appearances from the Chair (and the CEO) at the JC Meetings. The Partner Fund Directors would however act as liaison with the Joint Committee with a view to providing input into the Board rather than reporting from it. It was also noted that it would not be appropriate for the Partner Fund directors to report back to their own committees about the proceedings of the Board.

3.2.6 Remuneration for the role was also discussed. It would be for the Company to set the level of remuneration (subject to approval of budget by shareholders) but as an indicative figure it was thought that a Director fee of between £10,000 and £15,000 would be appropriate. This sum is not presently included in any budget as the provision has not been finalised.

Conclusion

4.0 The Sub Group recommended that:

- a) that the Board's wish to have two full director appointees designated as Partner Fund Directors should be accommodated
- b) that such appointees should be drawn from the Joint Committee (or potentially other suitably qualified members from administering authorities and should be elected by the Joint Committee, nominated to the Company and be subject to shareholder approval of the individuals
- c) that an election by means of exhaustive ballot should take place at the next joint committee meeting

Report Author:

David Hayward : David.Hayward@southtyneside.gov.uk

Further Information and Background Documents: N/A



BCPP Joint Committee

Date of Meeting: 16th January 2018

Report Title: Joint Committee Budget

Report Sponsor: Ian Bainbridge, Chair Officer Operations Group

1.0 Recommendation

1.1 Approval be given for a Joint Committee budget of £30,000 to cover the period July 2018 to March 2019, with the cost to be shared equally across the partner Funds.

2.0 Joint Committee budget

2.1 The proposed approach to pooling, submitted to and approved by Government in 2016 is based in part on a Cost Benefit Analysis report authored by Deloitte in June of that year. This report includes details of the establishment and operation of a supervisory entity, the purpose of which is to oversee the pooling arrangements and act as a conduit back to the partner Funds.

2.2 The Joint Committee was the recommended option of two being considered to fulfill this role, the other being a shareholder board of the company.

2.3 The report commented on costs expected to be incurred by the Joint Committee, including in relation to secretarial services to convene and run meetings, and for external advice which may be required from time to time. Although the remit of the Joint Committee was not clearly defined in the report, the overall costs were estimated to be in the region of £20,000 to 40,000 each year.

2.4 South Yorkshire Pension Fund, through the Joint Authorities Governance Unit operated by Barnsley Metropolitan Borough Council is providing secretariat services for the Joint Committee. Until June 2018 these costs will be met from the money each partner Fund has committed to pooling setup costs. Thereafter, alternative arrangements will be required.

2.5 Although it has not been considered necessary so far, the Joint Committee may wish to engage external advisers on an adhoc or regular basis. It is reasonable to expect that advice at meetings may be required, and the Joint

Committee may wish to commission specific pieces of work particularly over the next few years as the arrangements of BCPP Ltd evolve.

- 2.6 It is impossible at this stage to say with an clarity what the requirements for expenditure will be, but based on the likelihood that there will be some, it is recommended that approval be given for a Joint Committee budget of £30,000 for the period from July 2018 to March 2019.
- 2.7 In line with the cost sharing principles covered elsewhere on the agenda for this meeting, it is also recommended that Joint Committee costs be shared equally between the partner Funds and that they each be asked to set aside £2,500 for this purpose.

Report Author:

Ian Bainbridge

ian.bainbridge@southtyneside.gov.uk

Further Information and Background Documents:

N/A



BCPP Joint Committee

Date of Meeting: 16th January 2018

Report Title: Cost Sharing Principles

Report Sponsor: Ian Bainbridge, Chair Officer Operations Group

1.0 Recommendation

1.1 Members approve the cost sharing principles and the high level approach to transition costs, described in the appended report entitled “Cost Sharing Principles”.

2.0 Background

2.1 The overriding principle set out in the BCPP submissions to Government in February 2016 and July 2016 was that costs should be shared on a fair and equitable basis.

2.2 This needs to take account of the fact that each administering authority has an equal vote on all control and governance matters whilst investment costs are primarily driven by the assets being managed by BCPP and the complexity and nature of each asset class.

2.3 The first point to note is that all set up costs of establishing BCPP are being split between each administering authority on an equal one twelfth basis.

2.4 At the Joint Committee meeting on 6th June 2017 a report was presented on the cost sharing principles to be adopted going forward. At this meeting an approach was proposed whereby:

- All governance related costs of operating a financial services company with the agreed FCA permissions should be split on an equal one twelfth basis. This a continuation of the principle adopted for the set up costs.
- All other costs and any associated income should be allocated to the individual sub funds in which the assets are held and therefore, netted off the investment return as an expense. There will be full reporting of these costs and expenses.

- 2.5 It was further noted that transition costs would either be shared between Funds transferring assets into a sub-fund at the initial inception or would be borne in full by a Fund transferring assets alone at a later date.
- 2.6 It was always understood that further work will be required to analyse the range of operational costs to be incurred by the company, and agree a suitable basis for apportioning them to sub-funds in each case. It was also understood that there will be a need for interim arrangements until the company is fully operational, with costs such as rent for the office premises being due from the date of occupancy rather than increase as the company's assets under management increases. In addition, precise arrangements for sharing transition costs would need to be agreed.

3.0 Proposed Cost Sharing Principles Background

- 3.1 To progress these issues a Cost Sharing Principles paper was discussed at the Officer Operations Group meeting on 27th November 2017. This paper was also circulated to the Section 151 Officers in advance of this meeting so their views could be fed through to their Pensions Officers for this meeting.
- 3.2 All twelve funds attended the meeting. This paper set out the context and proposed methodologies for allocating operational costs. It also described a high level approach to transition costs where further work is required.
- 3.3 A consensus was reached by the Officer Operations Group on these methodologies and the high level approach to transition costs, and the amended paper, appended to this report, was further circulated to the Section 151 Officers for comments. No comments have been received.
- 3.4 The Joint Committee is therefore asked to approve the cost sharing principles and the high level approach to transition costs, described in the appended report.
- 3.5 BCPP will use these principles in setting establishing the cost estimates for each administering authority going forward.

Report Author:

Ian Bainbridge

ian.bainbridge@southtyneside.gov.uk

Further Information and Background Documents:

Previous Paper To Joint Committee on 6th June 2017



Cost Sharing Principles

- 1.1 High level cost sharing principles have been reviewed and agreed by the Joint Committee at the meeting on 6th June 2017. At this time it was recognised that further work was needed to refine these principles and determine how costs are allocated. This is a discussion paper to help progress these principles before this is taken back to the Joint Committee for final agreement.
 - 1.2 The first point to note is that all set up costs of establishing BCPP are being split between each administering authority on an equal one twelfth basis.
 - 1.3 The overriding aim going forward is to establish an equitable costs sharing framework which combines the fact that each administering authority has an equal standing (vote) on all control and governance matters with the need to link most of the costs to the overall asset values of each fund and the complexity of the asset classes in which they invest.
 - 1.4 To achieve this it is believed that the following charging mechanisms should be adopted.
 - All governance related costs of operating a financial services company with the agreed FCA permissions should be split on an equal one twelfth basis. This a continuation of the principle adopted for the set up costs. On a steady state on-going basis this will be charged as an up-front annual fee.
 - All other costs and any associated income should be allocated to the individual sub funds in which the assets are held and therefore, netted off the investment return as an expense. There will be full reporting of these costs and expenses.
 - 1.5 These charging mechanisms are considered entirely appropriate once BCPP and all of the sub funds are up and operational. However, it should be recognised that alternative charging methods will need to be considered in the
-

period up to getting the sub funds operational to ensure the company remains cash flow positive.

1.6 Any costs incurred in establishing the sub funds and before they are operational will be invoiced directly to those administering authorities who ultimately will be investing in these sub funds. It will be necessary for the costs incurred in establishing the sub funds to be invoiced prior to the sub fund being available. It is proposed that an estimate of these costs will be made every six months and an invoice raised and payable upfront . At the end of the six month period a further calculation of the actual costs incurred will be undertaken and either a rebate or additional invoice will be raised.

1.7 Set out below is a table which shows each of the broad cost centres for BCPP and the proposed mechanism for allocating those costs to either, governance and therefore charged on a one twelfth basis or a cost related to investment and charged to a sub fund. In a number of cases the cost allocation methodology and charging mechanism is different in the short term to the long term. The long term is once the sub fund is up and operational, therefore the short term period will differ for each sub fund.

Cost Heading	Short Term	Long Term
NEDs	Governance cost to be split evenly and invoiced at the start of the year.	Governance cost to be split evenly and invoiced at the start of the year.
CEO/COO ; company secretary plus exec assstant	Governance cost to be split evenly and invoiced at the start of the year.	Governance cost to be split evenly and invoiced at the start of the year.
CIO	Governance cost to be split evenly and invoiced at the start of the year.	Assessment of workload across all sub funds.
CRO and Compliance	Governance cost to be split evenly and invoiced at the start of the year.	Governance cost to be split evenly and invoiced at the start of the year.
Investment staff	The CIO will estimate their workload for the upcoming period across all sub funds, based on the agreed business plan. The costs will be charged out to the administering authorities based on the notional assets in the sub fund structure and asset allocation provided by each administering authority.	Assessment of workload across all sub funds.
Implementation Consultancy Support	These are set up costs which will still be being incurred. These costs will be split evenly and invoiced directly to administering authorities.	Not applicable.
ICT & Projects team and Finance	The costs will be charged across all administering authorities based on the	The costs will be charged across all administering authorities based on the

staff	notional assets in the sub fund structure and asset allocation provided by each administering authority.	actual assets in the sub fund structure and asset allocation provided by each administering authority.
Legal staff (ex co secretary)	<p>There will be an estimate of workload for the upcoming period across all sub funds, based on the agreed business plan.</p> <p>The costs will be charged out to the administering authorities based on the notional sub fund structure and asset allocation provided by each administering authority.</p>	Assessment of workload across all sub funds.
Company Secretary	Governance cost to be split evenly and invoiced at the start of the year.	Governance cost to be split evenly and invoiced at the start of the year.
Client liaison	The costs will be charged across all administering authorities based on the notional assets in the sub fund structure and asset allocation provided by each administering authority.	The costs will be charged across all administering authorities based on the actual assets in the sub fund structure and asset allocation provided by each administering authority.
Operations	<p>There will be an estimate of their workload for the upcoming period across all sub funds, based on the agreed business plan.</p> <p>The costs will be charged out to the administering authorities based on the notional assets in the sub fund structure and asset allocation provided by each administering authority.</p>	Assessment of workload across all sub funds.
All other staffing costs eg, pensions (FSR and past service deficiency), travel costs, training etc	This will follow the allocation of the direct costs for each staff member.	This will follow the allocation of the direct costs for each staff member.
Insurance	Governance cost to be split evenly and invoiced at the start of the year.	Governance cost to be split evenly and invoiced at the start of the year.
Marketing and Recruitment	The costs will be charged across all administering authorities based on the notional assets in the sub fund structure and asset allocation provided by each administering authority.	The costs will be charged across all administering authorities based on the actual assets in the sub fund structure and asset allocation provided by each administering authority.
Premises costs	Allocation per the headcount on the proposed staffing structure.	Headcount in place.
Investment Platform – Trading System	Initial assessment of usage by the sub funds.	Allocated directly to sub funds based on usage.
Corporate platform ; web hosting; etc	The headcount on the proposed staffing structure.	Headcount in place.

Procurement portal	Governance cost to be split evenly and invoiced at the start of the year.	Governance cost to be split evenly and invoiced at the start of the year.
Subscriptions	The costs will be charged across all administering authorities based on the notional assets in the sub fund structure and asset allocation provided by each administering authority.	The costs will be charged across all administering authorities based on the actual assets in the sub fund structure and asset allocation provided by each administering authority.
External Legal and Professional Support	These are external costs and will be charged on receipt of the invoice to each sub fund or to a governance head depending on the nature of the expenditure incurred.	These are external costs and will be charged on receipt of the invoice to each sub fund or to a governance head depending on the nature of the expenditure incurred.
Investment Costs, including research custodian etc	These costs will be charged directly to the sub funds.	These costs will be charged directly to the sub funds.
FCA Fees	Governance cost to be split evenly and invoiced at the start of the year.	Governance cost to be split evenly and invoiced at the start of the year.
Company Board Costs including board pack	Governance cost to be split evenly and invoiced at the start of the year.	Governance cost to be split evenly and invoiced at the start of the year.
External Audit - Corporate	Governance cost to be split evenly and invoiced at the start of the year.	Governance cost to be split evenly and invoiced at the start of the year.
External Audit - Investments	These costs will be charged directly to the sub funds.	These costs will be charged directly to the sub funds.
Internal Audit – Corporate	Governance cost to be split evenly and invoiced at the start of the year.	Governance cost to be split evenly and invoiced at the start of the year.
Internal Audit - Investments	These costs will be charged directly to the sub funds.	These costs will be charged directly to the sub funds.
External Management Fees	These costs will be charged directly to the sub funds.	These costs will be charged directly to the sub funds.
Stock Lending	This income will be credited direct to the sub funds.	This income will be credited directly to the sub funds.

NB – In the table where costs are to be allocated into sub funds based on either actual assets or notional values from information supplied, this will only apply to assets transferring into the BCPP pool. For the avoidance of doubt this will exclude the passive assets. Where a reference is made to notional assets this means the assets as at 31st March 2017 which the administering authorities have indicated will be invested in the asset allocation sub fund structure.

Transition Costs

2.0 The table above is not intended to cover the costs of transitioning the assets from the individual funds into the sub fund structures. It is recognised that further work on this area needs to take place to ensure that the costs of

transition are clearly identifiable and each administering authority pays its appropriate share.

2.1 The following high level principles have already been agreed.

- **Transition costs on initial inception of a sub fund.**

Day one transition costs will be shared based on the value of each sub funds' assets under management (AUM) transferring into each sub fund (all costs of transitioning in will be allocated out by AUM within each sub fund). This applies to both internally and externally managed sub funds.

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 administering authorities as the most equitable basis as all will have access to future savings generated from improved fee structures, and therefore it would be unfair to benefit from savings of scale without sharing the costs required to access those savings.

- **Transitions after inception of the sub fund.**

Where an administering authority undertakes a future strategy review or assets reallocation and moves sub funds, the administering authority will bear the full costs of the transition.

2.2 It is assumed that all administering authorities will act in good faith. However, if there is evidence to suggest that an administering authority undertakes not to enter a sub fund at inception to avoid their share of allocation of initial costs, but requests to join at a later date, then, through the Joint Committee, the other administering authorities reserve the right to request that a proportionate "late joiners" fee is applied.

2.3 Due to the sensitivity of this issue and as it is an administering authority issue rather than a BCPP issue, it is deemed appropriate that the Officer Operations Group pull together the required guidance on how this will be monitored. Ultimately there are dispute resolution measures incorporated in the Shareholder Agreement that could be used to make final determinations where consensus cannot be achieved.

2.4 The proposed approach to transitions assumes a sharing of costs to ensure that each administering authority picks up its fair share of the transition costs. This could be classified as cross subsidisation and it has been agreed appropriate legal advice will need to be sought in advance of any transition.

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Joint Committee

Date of Meeting: 16th January 2018

Report Title: Border to Coast Regulatory Update

Report Sponsor: BCPP CEO – Rachel Elwell

1 Executive Summary:

- 1.1 The purpose of this document is to outline to Joint Committee the requirements of the FCA for authorising firms and to describe the steps taken by the project team to complete the application process.
- 1.2 Good progress is being made towards the submission to the Financial Conduct Authority of the request for approval of BCPP Ltd as an Alternative Fund Investment Manager. This is expected by the end of January, with approval typically taking up to 3 months (as long as the submission answers the questions raised by the FCA). See section 3 for details.
- 1.3 As part of the submission, BCPP Ltd will be confirming that it will not be caught by the client money provisions, CASS. In order for this assertion to be valid, the local authorities will be asked to provide a waiver in respect of these provisions. Legal advice has been sought on this on behalf of the local authorities (provided by Squires, independent from the advice provided to BCPP Ltd by Eversheds). See section 4 for details.
- 1.4 Approval for the sub-funds that are to be established in order to allow the pooling of assets will follow later in 2018. This approval typically takes up to 30 days.

2 Recommendations:

- 2.1 The Joint Committee is asked to note this regulatory update and progress towards the filing of the regulatory application for approval by the Financial Conduct Authority of BCPP Ltd as an Alternative Fund Investment Manager.
- 2.2 The Joint Committee is asked to note and recommend for approval by the local authorities the provision of a waiver for BCPP Ltd in respect of the client money provisions under CASS.

3 FCA Requirements

- 3.1 The FCA threshold conditions represent the minimum conditions for which the FCA is responsible, which a firm is required to satisfy, and continue to satisfy, in order to be given and to retain overall Part 4A permission (permission to carry on regulated activities). The FCA will ensure a firm meets the threshold conditions for all of the regulated activities for which it will have permission. The Threshold Requirements are:
1. **Location:** must carry out business in the UK.
 2. **Effective Supervision:** must be capable of being effectively supervised by the FCA having regard to; the nature and complexity of the regulated activities, the complexity of products provided, the way in which the business is organised, membership of any groups and close links with other persons.
 3. **Appropriate Resources:** resources must be appropriate in relation to the regulated activities carried out having regard to; the nature and scale of the firm, the risks to the continuity of services provided and membership of any group.
 4. **Suitability:** must be fit and proper having regard to the nature (including the complexity) of any regulated activity, the firm's affairs are conducted in an appropriate manner, having regard in particular to the interests of consumers and the integrity of the UK financial system, whether those who manage the firm's affairs have adequate skills and experience and act with probity, and whether the firm's business is being managed in such a way as to ensure that its affairs will be conducted in a sound and prudent manner.
 5. **Business Model:** the firm's business model (that is, the strategy for doing business) must be suitable for carrying on the regulated activities that the firm carries on or seeks to carry on. This includes; whether the business model is compatible with the affairs being conducted, and continuing to be conducted, in a sound and prudent manner, the interests of consumers and the integrity of the UK financial system.
- 3.2 The FCA application being made by BCPP Ltd to the FCA is intended to demonstrate how it meets, and will continue to meet, these Threshold Conditions.
- 3.3 In order to deliver the objectives of the LGPS pooling initiative, the services that BCPP Ltd will provide its Clients that require FCA permission are:
1. Managing UK Authorised Investment Funds (the ACS) that do not qualify as UCITS,
 2. Managing UK Unauthorised Investment Funds, and
 3. Activities permitted by article 6(4) of AIFMD

4 Application Approach

- 4.1 The project to form and launch BCPP Ltd has followed a logical process of requirements definition, decision making and operating model design. The approach taken to the FCA application has followed the same principles of logic and clarity.
- 4.2 The approach to completing and submitting the required FCA application has 3 phases: Design, Iterations and Submission
- 4.2.1 Design:** the operating model design decisions from the previous stages of the project will determine the complexity of the application and the permissions required from the FCA. During the Design phase key aspects of the operating and business model will be confirmed, including; types of services to be offered, capital regime, governance and organisation structure, and ownership and key relationships.

4.2.2 Iterations: the key activities during the Iterations phase are documenting the details deriving from the outcome of the Design. Stakeholders will be consulted to sign-off the key decisions from the iterative sub-phases:

1. The Regulatory Business Plan
2. Key compliance arrangements including the final governance structure and individuals performing controlled functions
3. Compliance policies and documented Compliance Monitoring Programme
4. Confirmation of the applicable FCA fee block based on the proposed authorised business
5. Obtaining/producing the necessary financial statements and forecasts

4.2.3 Submission: this phase will ensure that the application is complete and ready to be submitted to the FCA. This will include signed-off documents, FCA forms and the supporting/supplementary information (required to be ready but not submitted at the time of application).

5 Application Status

5.1 The principle activities of the project to this point have been on the Design and Iteration phases, with the aim of getting the project to a point where BCPP Ltd has a defined operating model, proposed investment structure and suitable governance and oversight.

5.2 The Iterations phase of the application process is currently underway and the policies and documents required for BCPP Ltd to adequately demonstrate its model and be granted the necessary FCA permissions are being drafted. The principle documents of the application are outlined below:

Document	Description
Core Details Form	This form is required by the FCA so that they can contact BCPP appropriately during the application and thereafter, as well as ensuring that BCPP meet the threshold conditions (COND 2.2).
Variation of Permissions (VoP)	This form is required by the FCA to outline the permissions being sought by BCPP and the controls, resources and personnel in place to manage the business. There is significant overlap with the Supplement, but VoP takes precedent.
Supplement for Investment Managers	This form is required to inform the FCA of the nature of the business BCPP intends to carry out so that BCPP is authorised for the correct regulated activities, investment and client types as well as ensuring the adequacy of BCPP's resources.
Detailed IT Controls Form	This form is required by the FCA to demonstrate that BCPP's IT systems and controls meet the standards and requirements set out in SYSC (particularly SYSC 1) of the FCA handbook.
Schedule of AIFs	This form is required to give details of the funds being created and offered by BCPP, including legal wrappers and asset class mix.
FUND 3.2.2R Disclosure Checklist	A checklist to ensure BCPP have the required information available to provide to investors, for each AIF managed. This refers to the other documents and should be completed after the rest of the application.
Checklist & Declaration	This form is required by the FCA as an attestation by BCPP that all required documents are included in their application and that all information provided is correct. This form outlines the FCA fees applicable to BCPP.
Compliance Monitoring Programme	A programme of tests carried out to establish and maintain compliance with policies and procedures relevant to the regulated activities undertaken by the firm.

5.3 The information required to complete these forms is being gathered and produced both internally from the BCPP project team and from Alpha's external team of consultants and regulatory SME's. It is the current target of the project is to submit BCPP Ltd's application to the FCA in January 2018, which is in line with the overall launch date of June 2018.

- 5.4 There are several outstanding items, other the drafting of documentation, that are required to be completed on order for the FCA application to be sufficient for submission. These are outlined below along with the target timeline for their completion:

Item	Description	Target Date
Confirmation of Usual Place of Business	BCPP will need to list a usual place of business in their application. The office selection process is being led by the BCPP project team and heads of terms should be in place by January.	January 2018
Financial Resources	The revenue model for BCPP Ltd as well as draft financial statements for the first 12 months of trading and regulatory capital need to be included in the application. This is being provided by BCPP Ltd and Deloitte.	January 2018
Appointment of External Auditor	BCPP Ltd will need to give the FCA details of its external auditor	January 2018

- 5.5 The final full FCA application will be available for officer and members if desired, but we note that completion of the document is a BCPP Ltd responsibility and is a highly technical document.

6 CASS Waiver

- 6.1 Under the Client Money Rules, a “professional client” within the meaning of the FCA Handbook of Rules and Guidance may “opt out” of the protections which it would otherwise receive under the Client Money Rules. BCPP Ltd will only accept as Unitholders Eligible Investors whom it classifies as professional clients.
- 6.2 BCPP Ltd is not requesting approval from the FCA to hold money under the Client Money Rules (the controls and processes required are significant and will require further resource to manage them that are not within the budget submitted to the Board or shareholders for approval). Therefore, unless a Unitholder elects to “opt out” of the Client Money Rules, BCPP Ltd will not be able to accept any subscription from that Unitholder or pay the proceeds of any redemption to that Unitholder.
- 6.3 When a Unitholder “opts out” of the Client Money Rules, it will have to consent in writing that it understands that:
- any money which it has paid to the ACS Manager or any money that is due to the Unitholder from the ACS Manager will not be subject to the protections conferred by the Client Money Rules;
 - as a consequence, this money will not be segregated from the money of the ACS Manager in accordance with the Client Money Rules and may be used by the firm ACS Manager in the course of its own business; and
 - the Unitholder will rank only as a general creditor of the ACS Manager.
- 6.4 Given the particular circumstances of the relationship between BCPP Ltd, the shareholders and its customers, it is felt reasonable to ask for such a waiver. In particular, the insolvency of BCPP Ltd will only occur if the shareholders trigger it, in which case there is a protection against the risk of funds’ cash positions on insolvency. Legal advice on this has been sought and will be circulated to the shareholders to gain agreement in principle to providing the waiver.
- 6.5 The waiver itself can only be signed once BCPP Ltd has been approved by the FCA.

7 Conclusion

- 7.1 The Joint Committee is asked to note this project update and to provide agreement to the recommendations in section 2.

8 Author:

Rachel Elwell
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8 January 2018

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BCPP Joint Committee

Date of Meeting: 16th January 2018

Report Title: Responsible Investment Initiatives

Report Sponsor: Responsible Investment Lead - Jane Firth

1.0 Executive Summary:

- 1.1 This report provides extra detail on investor-led initiatives relating to Responsible Investment and the governance process involved.
- 1.2 Following requests for information and an update on Border to Coast's stance from Partner Funds this report also includes background specific detail surrounding the Financial Stability Board Task Force on Climate-related Financial Disclosures and how Border to Coast intends to support the initiative per the principles outlined in the Responsible Investment Policy agreed at the last meeting.

2.0 Recommendation:

- 2.1 That Members approve the governance process for supporting Responsible Investment initiatives.
- 2.2 That Members note Border to Coast's stance in supporting the Financial Stability Board Task Force on Climate-related Financial Disclosures.

3.0 Background:

- 3.1 The Responsible Investment (RI) Policy along with Corporate Governance & Voting Guidelines were agreed by the Joint Committee at the 20th October 2017 meeting. The policies are to be reviewed annually with the process involving Border to Coast, the Officer Operations Group and the Joint Committee. As a body responsible for investing public funds and also one of significant scale, it is likely that Border to Coast will be approached to support various investor-led initiatives relating to RI issues, especially those that are reflected in the RI policies of Border to Coast. As these policies have been agreed by the Partner Funds, and therefore a clear steer has been given to Border to Coast, it is proposed that, so long as the initiatives fall within the remit of existing policies, that Border to Coast progress active support of them.

- 3.2 To ensure resources are directed where it is most effective this will be judged on a case by case basis. A report will be presented to the Joint Committee and Officers Operation Group on a quarterly basis to update on any action taken.
- 3.3 One such initiative which Border to Coast has been directly approached to support is the Task Force on Climate-related Financial Disclosures (TCFD). Several of our Partner Funds have also requested an update on Border to Coast's stance on this. In December 2015 the G20 finance ministers and Central Bank governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues. Such information is needed by investors, lenders and insurance underwriters to be able to assess climate-related risks and opportunities. This led to the Task Force on Climate-related Financial Disclosures being established. Its remit was to develop a set of voluntary climate-related disclosures that would assist in understanding the associated material risks of climate change.
- 3.4 The final report was published in June 2017 with the recommendations based around four pillars: governance, strategy, risk management, and metrics. The recommendations are a strong indicator that climate-related risk is a material financial risk. It is currently a voluntary framework for both companies and investors to provide climate-related information in their main annual financial reporting. The greater disclosure is key to obtaining more meaningful, reliable and consistent data across companies and sectors and it will improve investors ability to assess climate related risks and opportunities.
- 3.5 The TCFD has received significant support from leading companies and organisations around the world since its voluntary recommendations were released in June 2017. There are a number of ways for organisations to show support for the TCFD recommendations; by supporting the TCFD directly and also by signing the Pension Fund Chairs letter of support actioned by Accounting for Sustainability.

4.0 Conclusion:

- 4.1 On a case by case basis BCPP will support RI initiatives as long as they are reflected in the standing RI policy as agreed by Joint Committee and individual partner funds. Reports will be presented to the Joint Committee on RI activity at quarterly meetings. Regular information will also be provided to the monthly Officers Operations Group meetings for input and feedback to Partner Funds.

Report Author:

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Further Information and Background Documents:

Border to Coast Pensions Partnership Responsible Investment Policy
(October 2017)

Border to Coast Pensions Partnership Corporate Governance & Voting
Guidelines (October 2017)

Task Force on Climate-related Financial Disclosures Report (<https://www.fsb-tcf.org/publications/final-recommendations-report/>)

Accounting for Sustainability
(<https://www.accountingforsustainability.org/en/activities/tcf.html>)

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BCPP Joint Committee

Date of Meeting: 16th January 2018

Report Title: Feedback on National Working Groups

Report Sponsor: Member of Officer Operation Group – Jo Ray

1.0 Executive Summary:

1.1 Since the last Joint Committee, Officers have attended meetings of the Cross Pool Collaboration Group, the Cross Pool Infrastructure Group, the Cross Pool Responsible Investment (RI) Group, the Cross Pool Tax Group and the Cost Transparency Working Group.

2.0 Recommendation:

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

3.0 Background:

3.1 The summarised highlights from the national working groups attended since the last meeting of this Member group are shown below:

3.2 *Cross Pool Collaboration Group (last meeting 30th November)*

- LGA (Jeff Houston) updated the group on the following:
 - MIFID II – one Fund fully opted up. Meetings with IA (Investment Association) and BVCA (British Private Equity and Venture Capital Association) about future relationships between managers and potential clients not opted up – LGA will issue guidance.
 - Cost transparency – next meeting of working group 13th December to discuss what reporting might look like. LGA liaising with CEM about how to define costs to ensure consistency of information collected.

- Cross Pool Member Group – an invitation from SAB will be sent out in the new year to all Pensions Committee and Local Pension Board Chairs.
- Resourcing at Funds – Following CIPFA's letter to S151 Officers about resourcing concerns, it was suggested that DCLG should also write out to administering authorities. New regulations within IORPII may introduce a fit and proper test, and within the regulation it states that everyone responsible for a retirement fund, as a collective, needs to be experienced, knowledgeable and qualified. Further conversations with DWP and Treasury need to take place.
- Central Government updated the group on the following
 - DCLG – happy with progress being made. There appear to be some delays around recruitment and FCA authorisation, but nothing is a significant concern. Given the large contracts being entered into, DCLG is concerned whether there is expertise in the client side contract management. Concerns should diminish as new governance and staffing structures are put in place and bedded in.
 - Treasury – no mention of LGPS in the budget, no concerns raised.
 - Cabinet Office – Keen to progress cost transparency. Hoping to see more progress in the infrastructure area.
- Updates were provided by each Pool.
- National Frameworks (Nicola Mark) attended and updated on the following:
 - The annual meeting was held in November, 84 funds have used frameworks and over £87m savings delivered since it began.
 - The framework for Transition Management was now live.
 - Consideration was being given to a framework on Administration system providers.
 - The Custody framework had been extended to April 2019. Funds will need to identify what they will need post pooling before this is retendered.

3.3 *Cross Pool Infrastructure Group (last meeting 6th November)*

- It was agreed that meetings would be monthly going forwards, in line with the main cross-pool meetings.
- A presentation was given on the progress of GLIL, the infrastructure vehicle created by LPP and GMPF. Going forwards, it is expected that GLIL will evolve into a regulated, open ended AIF (Alternative Investment Fund) structure. Discussion was had around funds existing investments,

and how new investors might access GLIL, and what its future offerings might be.

3.3 *Cross Pool Responsible Investment Group (last meeting 23rd November)*

- Positive feedback was received from the RI sessions presented at the LGA Fundamentals training, delivered by members of this group. A set of slides is available should anyone wish to use them to provide training to their committees. Jane Firth will provide them on request and will co-ordinate any updates.

- **LAPFF**

Approach to pools - still being discussed and they are seeking legal advice.

Constitution – will be taken to the January meeting, and this group will feed into the review – the key points of issue are:

- PIRC conflict of interest
- Tenure of Executive
- Diversity – mix of officer and Member representation

Climate Change Guidance – framework is now on the LAPFF website. Funds are encouraged to utilise the guidance.

- **FRC**

Corporate Governance Code – a consultation is expected before Christmas – will look to meet FRC to input into consultation.

Stewardship Code – a consultation is expected in the summer.

TCFD (Task Force on Climate-related Disclosures) – two members of the RI Cross Pool group are sitting on a sub-group looking at the recommendations, which are fully endorsed by UK Government.

- Fossil Fuel/Climate Change – Funds had received pressure from climate change group "Fuelling the Fire", responses would be shared to build up a response resource. Share Action were with Central Pool representatives in December. They will be looking to rank pools next year. Discussion was had about inviting Share Action to the next meeting to assist them in their understanding.
- Updates were provided by each Pool.

- Lothian and NILGOSC are keen to engage with the group – it was agreed to invite them to future meetings and share minutes.
- Communication with pools was discussed – a confidential location for sharing information would be explored.

3.4 *Cross Pool Tax Group (last meeting 29th November)*

- VAT
 - Central to consider collaborative approach to HMRC on the issue of whether VAT attributable to non-EU ACS costs is irrecoverable. Advice given is that calculating the EU/non-EU split on VAT incurred by the ACS, with the portion attributable to non-EU recoverable, is a relatively accepted practice – the mechanics are expected to be confirmed with the HMRC officer when Central get a meeting. The outcome of that meeting is needed before a decision on a collaborative approach can be made.
 - Central is still waiting to hear back from HMRC following the submission in September of a letter requesting a single VAT registration and confirmation that set up costs are an exempt supply. HMRC had issued a briefing note on the VAT treatment of pension fund management services provided by insurance companies.
- Corporation Tax
 - Central will be assessing the deductibility of pre-trading expenditure, building up a file of evidence for transfer pricing and building up a file of evidence for debt relief in Q1 18/19, when they will have a Head of Finance.
- ACS withholding tax (WHT)
 - Central shared a list of countries that their advisors are engaging with on WHT. LCIV to share their WHT rates for their Emerging Markets ACS.
- ACS transfer taxes
 - Central supplied a list of the overseas countries currently charging transfer taxes.
 - Brunel is still discussing a proposal for a SDRT (stamp duty reserve tax) exemption for all pools.
 - LCIV was refused exemption for Irish transfer tax.
 - PWC are working with Central on transfer tax clearances across a number of countries.
- ACS Non-Resident CGT (Capital Gains Tax)

- There are a number of high risk countries that Central's advisor, PWC has identified. It has proved difficult to collect all the relevant information required from the partner funds to assess possible tax liability.
- Property
 - Central discussed with its advisers a mechanism for sharing their tax advice in this area and the method of a collaborative approach to HMRC on the GDO requirement. PWC advised that HMRC's Funds' Team likes to look at each case on its merits and advised Central in the first instance to go it alone. Central expect to initiate conversations with HMRC in the next few months.

3.5 *Working Group on Transparent Reporting Post Pooling (last meeting 13th December)* – Proposals were discussed for LGPS fund reporting in a 'pooled world'

- CIPFA code of transparency – a template will go out to all managers to report costs. There is further consultation being had with IDWG (Institutional disclosure working group). This is not a FCA requirement so some managers may not comply.
- There was general agreement on the proposals for three investment vehicle types:
 - 1) LGPS Pools
 - 2) Other pools (Any other unit price derived)
 - 3) Segregated Mandates.

This allows ability to view shifts between pools over time. Further categories discussed: cash, or cash for cash for each propose vehicle.

- There was agreement on proposed asset category listing, although further details are needed on definitions of what should be included in each.
- Within derivatives, discussion was had as to what should be included here, e.g. risk overlays?
- Discussion was had around whether or not to split the global mandate, which will surely include some UK exposure as well. Majority opinion was towards leaving any global strategy under purely global.
- Costs – a number of issues around costs were discussed:

- What will be used as a baseline? Use CEM? Need to separate initial set-up costs and ongoing costs.
- How to report – Against vehicle? Asset class?
- Transaction Costs – currently only equities and FI, potential for property to be included.
- Accuracy of costs – Will funds be able to get gross and net performance figures?

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 – 25th January 2018

Infrastructure sub-group – 30th January 2018

Responsible Investments sub-group – 24th January 2018

Tax sub-group – late January 2018

Transparent Reporting Working Group – date to be confirmed

5.0 Report Author:

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