



BCPP Joint Committee

Date of Meeting: 16 January 2018

Report Title: Additional Non-Executive 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 a proposed role profile for two additional non-executive directors to be selected by the Joint Committee. The paper then makes proposals for the selection of those directors and deals with ancillary matters such as the conduct of the selection process and length of term to be served by the selected individuals.

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 Members should agree the Role Profile as set out in Annex 1 to this paper

2.1.2 That Administering Authorities should be sent an invitation to put forward suitably qualified candidates for election to non-executive director roles

2.1.3 That those candidates should be asked to circulate a short supporting statement to all members of the Joint Committee (through the Secretariat) not less than 14 days before the next meeting of the Joint Committee

2.1.4 That Members should be balloted at the July meeting of the Joint Committee to select two candidates to be put to the Company's board for approval and then to the Shareholders for consent to their appointment

3.0 Background:

3.1 At the last Joint Committee the Company were asked to prepare a Role Profile for the proposed additional non-executive directors. The Profile was then to be circulated to the Administering Authorities to allow potential candidates to consider whether they wished to put themselves forward as potential directors in the light of the role description.

3.2 The Profile has been developed in consultation with the Company and is attached at Annex 1. It will be circulated to Administering Authorities if it is approved by the Joint Committee. The Profile reflects the wishes of the Board in establishing the principle

of additional directors and of the Joint Committee as discussed at the last meeting on the detail of the appointment and term.

- 3.3 Where the Joint Committee has been asked to select candidates for roles in the past it has done so by exhaustive ballot and this is deemed to be an appropriate method here if there are more than two candidates for the roles. It is noted that the roles of Chair and Vice-chair of the Joint Committee will be due to be selected at the same meeting. As it has been agreed that the members selected as directors should not continue to sit on Joint Committee it is suggested that the ballot for the directors should be held first. For the avoidance of doubt the any selected candidates from the Joint Committee will be eligible to continue to participate in the meeting as they will not be directors of the Company until approved by the Company Board and Shareholders.
- 3.4 The Company Board has considered the question of remuneration for these roles (which ultimately is a matter for determination by the Company subject to overall budget approval by Shareholders) and has determined that this will be in region of £10-15k per annum.
- 3.5 The Company has requested that appointments should give a degree of continuity for the Board. To that end one of the initial appointments will be for two years and the other for one. In the absence of agreement between the selected candidates it is suggested that this determined by drawing lots. No director appointed through the Joint Committee will be allowed to serve more than two consecutive terms.

Conclusion

- 4.0 It is recommended that:
- a) that the Joint Committee, having accepted the Company's wish to have additional directors nominated by the Administering Authorities, should adopt the role description put forward by the Company;
 - b) that candidates for the roles should be invited to apply and be subject of a selection procedure at the next meeting of the Joint Committee and then subsequently be formally adopted by the Company and subjected to shareholder consent.

Report Author:

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Further Information and Background Documents:

Draft Role Profile

Draft Role Profile

Role Profile for Additional Non- Executive Directors

The Company is seeking nominations for two additional Non-Executive Directors.

What the Company is seeking

When the concept was first introduced to the Joint Committee the Chris Hitchen said:

“However, it is the view of the Chair of BCPP that direct shareholder involvement in the Board would be invaluable, particularly at this critical stage in the company’s development. Unity of purpose and alignment of interest are vital if BCPP is to win and retain the confidence of its clients and shareholders, and, even more importantly, build a successful long-term-oriented investing institution. A shareholder voice in the Boardroom would greatly mitigate the risk of the Company setting itself at odds, however unintentionally, with stakeholder concerns, and would greatly assist mutual understanding. Shareholder involvement would also mitigate a concern that the Board as currently structured may not have sufficient numbers to populate the necessary committees whilst minimising conflicts of interest.” (Paper to Joint Committee October 2017)

This has since been discussed at successive Joint Committee meeting and officers are presently charged with developing the Role Profile for use in selection of the two additional non-executive directors.

Process

The process which selection will follow and the stages are as follows:

1. Nominations will be sought from Partner Funds through the Joint Committee. The criteria are that:
 - The nominee be an elected representative
 - The nominee be a fit and proper person in terms of FCA requirement
 - The nominee be able to commit a reasonable amount of time to the performance of the Director role
 - The nominee has the agreement of their “home” Council
2. The Joint Committee will select two candidates by a vote at their July Committee Meeting by exhaustive ballot.
3. Those nominees will be put to the Board and the Board will vote to accept their nomination.
4. The Shareholders will then be asked to approve the nominees by way of formal consent pursuant to the Shareholder Agreement. As these are additional directors at least 75% of the Funds must approve the nomination.

The Commitment

At present the Board is meeting most months in person and allowance is made for telephone meetings where urgent matters are under consideration. The full meetings usually last about 5 hours and meetings of the Remuneration and Nomination and the Audit and Risk Committee are

usually held (alternately) on the same day. Telephone meetings are shorter and are held to deal with urgent business.

From May it is intended that all meetings in person be held in the Company's office in Leeds.

Papers are circulated a week before the meeting and some reading time is required.

Qualifications

The Role will be classified as a CF2 (Controlled Function) Non-Executive Director by the FCA. This requires an application for approval to FCA for approval which is usually done on papers. The following is extracted from the FCA Handbook as at May 2017:

Approved persons have to:

- *meet and abide by the rules of our fit and proper test*
- *comply with the Statements of Principle and the Code of Practice*
- *report anything that could affect their ongoing suitability to us and the authorised firm via Form D (PDF)*

Statements of Principle and Code of Practice

These are the standards of behaviour we expect of approved persons. The code of practice outlines the behaviour that, in the regulators' opinion, will or will not meet a statement of principle.

An approved person:

- *must act with integrity in carrying out their controlled function*
- *must act with due skill, care and diligence in carrying out their controlled function*
- *must observe proper standards of market conduct in carrying out their controlled function*
- *must deal with all regulators in an open and co-operative way and must disclose appropriately any information of which we or Prudential Regulation Authority would reasonably expect notice*
- *performing a significant influence function (SIF) must take reasonable steps to ensure that the business of the firm for which they are responsible in their controlled function is organised so that it can be controlled effectively*
- *performing a SIF must exercise due skill, care and diligence in managing the business of the firm for which they are responsible in their controlled function*
- *performing a SIF must take reasonable steps to ensure that the business of the firm for which he is responsible in his controlled function complies with the relevant requirements and standards of the regulatory system.*

The Company has sought advice from its advisors on the suitability of members of the Joint Committee to perform these roles and have been advised that a reasonably experienced Chair of a Pension Committee should meet the requirement of the FCA.

Shareholder Directors would enjoy the benefit of the Company's Directors and Officers Insurance policy to cover them for any liabilities incurred as a result of becoming a director. The cover does not extend to personal dishonesty or criminal liabilities.

The Role

It is emphasised that individuals will sit as directors of the Company and provide expert input as such based on their personal knowledge and experience. They are not holding office as representatives of individual funds and will be expected to act in their view of the best interests of the Company.

Reporting back to the Joint Committee will generally be undertaken by the Chair and CEO. The Directors will be asked to stand down from the Joint Committee for the period of the term of office. Funds will be able to send an alternate to Joint Committee.

Shareholder Director Role Profile (Based on NED Role Profile used for initial recruitment)

Core Purpose

- Challenging and contributing to the development of strategy, performance and the management of risk with Border to Coast.

Primary Responsibilities

- Provide the necessary support and guidance to the executive team.
- Provide an independent oversight and scrutiny of Border to Coast
- Provide insight to the Board on the workings of Local Government and LGPS Funds with particular regard to ethos and governance
- Provide a breadth of experience and specialist knowledge to the Board
- Support the Chair and the executive directors in instilling the appropriate culture, values and behaviours in the boardroom and beyond

Detailed Role Specification

- Provide a view of Border to Coast and its operations, removed from the day-to-day running of the business from the perspective of shareholders and pension fund members
- To assist the Chair and CEO in their reporting to Joint Committee and the Partner Funds generally
- Challenge and contribute to the development of the strategy of Border to Coast
- Draw on wider experience, in public office and in particular in participating on the governance of LGPS Pension Funds, to provide Border to Coast with a breadth of understanding of its clients and of LGPS investment generally
- Use specialist knowledge to input to decision making processes
- Scrutinise the performance of the Board and other management in meeting objectives, including monitoring financial controls and risk management systems
- Support management in developing a suitable succession plan
- Commit to building a full understanding of Border to Coast, especially in those areas of the business with a significant level of risk
- Provide insight into various stakeholder needs and ensure these are addressed at Board level
- To promote a culture of responsible investment and stewardship throughout the organisation

Requirements¹

- Elected member of the Pensions Committee (or equivalent) of an Administering Authority of one of the Partner Funds
- Demonstrable experience of working on pension committee of a partner fund
- Understanding of requirements of pooling and in particular the development of the pooling project by DCLG and Treasury
- Excellent inter-personal and communication skills
- Excellent understanding of working across multiple stakeholders
- Awareness of all of Border to Coast's clients and their particular needs (understanding of LGPS investment requirements).
- Ability to satisfy fitness and propriety test for Approved Person (and, in future, Senior Manager or Certified Person) status and to continue to satisfy test and comply with FCA Statements of Principle for Approved Person (and, in future, FCA Conduct Rules).

Commitment

- The candidate will be expected to attend (within reason) all meetings of Border to Coast's board. At present these occur on a six weekly cycle with occasional "telephone" boards. In steady state the Board will meet [6] times a year. The meetings will usually be held at the Leeds office once established.
- To attend, if invited, Board Committees. These will usually be held on the same day and location as Board Meetings.
- To attend the annual general meeting of Border to Coast.
- The Shareholder Directors will be appointed for a term of two years and with a maximum of one renewal of term. It is possible that one initial appointment will be for one year to avoid both directors retiring at once.

Remuneration

- To be determined in the range of £10-15,000 pa subject to budget approval by Partner Funds

¹ Successful candidates will be required to step down from the Joint Committee for the period of their membership of the Board.