

Agenda Item

Subject	Border to Coast Funding Model	Status	For Publication
Report to	Authority	Date	7 th September 2023
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

- 1.1 To secure approval for changes to the legal agreements concerned with the operation of Border to Coast to accommodate a change in the company's funding model.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Support the proposed changes to the funding model for the Border to Coast operating company.**
 - b. **Authorise the Head of Governance in consultation with the Director and subject to the receipt of appropriate legal advice commissioned by the 11 Partner Funds to execute the relevant legal documents on behalf of the Authority.**

3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Border to Coast is central to the delivery of all the Authority's investment related corporate objectives, and it is important that changes to the relationship between the Authority and the company are considered in a transparent way.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report do not specifically address any risks identified in the Corporate Risk Register.

5 Background and Options

- 5.1 In its set-up phase the Border to Coast operating company utilised a form of subscription model to fund its operations. This meant that all partners contributed to all costs, incentivising take up of pooled products to offset cost, and the operating company had financial certainty in the early stages of its existence. It was always planned to change this funding model to a more conventional one based largely on charges related to the scale of assets managed on behalf of individual partner funds (AUM) once the set-up phase was concluded. Following consultations with the Senior Officer Group it is intended to make this change from 1st April 2024.
- 5.2 Work has been going on over the last 12 months to identify how an AUM charging system will operate and the implications for the Company and Partner Funds. This has now been completed and the new model will comprise a relatively small fixed Governance charge met equally by each Partner at the beginning of the year with all other costs invoiced either directly or via the relevant investment structure. Development costs of new products will continue to be met equally by all partners although given the stage of development that has been reached these are unlikely to be significant in future. All costs will continue to be agreed by Partner Funds as part of the annual budget and strategic plan.
- 5.3 To give effect to these changes it is necessary to make changes to a number of the legal agreements which underpin the Company's operation.
- The Shareholder Agreement requires amendment in relation to the definition of the charges to be made by the Company each year and in relation to arrangements for an exiting shareholder.
 - The Pensions Cost Sharing Agreement contains the principles for cost allocation requires amendment given that the principles will change. The new principles will be incorporated in the Shareholder Agreement leaving this agreement concerned only with pensions issues and making future changes easier to implement.
 - The Prospectus for the investment products will need to be changed to incorporate a maximum bps charge rate which will require regulatory approval.
- 5.4 Tyne and Wear Pension Fund on behalf of all Partner Funds are seeking legal advice on the proposed changes.
- 5.5 The key issue here is the principle of changing to a more conventional charging model which was always envisaged when Border to Coast was created rather than the specific legal wording of the relevant agreements and therefore the recommendations at the head of this report seek approval of the principles involved and delegate authority to the Head of Governance, as the Authority's Monitoring Officer to execute the relevant agreements once the relevant legal advice has been received.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	At this stage the scale of any change in the distribution of costs between Partner Funds cannot be precisely identified as this will depend on the distribution of both costs and assets between individual products at 1 st April 2024. However, it does seem likely that SYPA will see some increase in costs as it has the largest amount of AUM managed by the company and has the largest exposure to the internally managed funds which is where most of the costs to be redistributed will fall.
Human Resources	None
ICT	None
Legal	Changes to the Company's funding model require amendments to both the shareholder documentation and the various FCA approved documentation related to the investment products, which are subject to a separate notification process.
Procurement	Border to Coast is constructed as a Teckal company which means that it is possible for SYPA to directly award work to the company in the same way as an internal department without further procurement.

George Graham

Director

Background Papers	
Document	Place of Inspection