

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

## TEESSIDE PENSION BOARD REPORT

7 NOVEMBER 2016

### STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

#### LGPS INVESTMENT REFORM (POOLING ASSETS) – UPDATE

#### 1. PURPOSE OF THE REPORT

- 1.1 To follow up the reports on LGPS Investment Reform presented at previous meetings and inform Members of the Teesside Pension Board (the Board) of the latest developments in setting up the new Pool (BCPP – Border to Coast Pension Partnership).

#### 2. RECOMMENDATION

- 2.1 That Members note the report.

#### 3. FINANCIAL IMPLICATIONS

- 3.1 The exact financial implications are not known at this time since only high level proposals have been produced. It is known there will be costs:

- To set up BCPP, particularly if it is required to be regulated by the Financial Conduct Authority (FCA) as anticipated;
- To transfer the Fund's assets to the chosen Pool; and
- Once up and running, there will be management expenses for managing the new Pool shared by the Pool's partners.

- 3.2 A detailed estimate of the implementation costs was set out in the BCPP proposal (page 38). Within this estimate, a worst case scenario cost to set up BCPP of approx. £4.2 million is calculated. This estimate was provided by Deloitte as part of their cost benefit analysis for BCPP's final submission. This cost is shared equally among the 12 shareholders/partners of BCPP, which equates to £350,000 each.

- 3.3 It is anticipated that there will also be potential savings and other benefits:

- If an Authorised Contractual Scheme (ACS) structure is used, there are further savings to withholding tax on dividends received from French and Swedish equity investments;
- The scale of BCPP will potentially reduce the management costs of externally managed funds, including infrastructure related investments, to a lower cost that make these funds more attractive investments than they are currently; and

- Access to a larger pool of investment professionals than is currently available to the Fund should improve resilience and provide a greater range of investment asset types available to the Fund.

#### **4. BACKGROUND**

4.1 In his speech on the Comprehensive Spending Review on 25th November 2015, the Chancellor announced the release of the awaited consultation on pooling. Paragraph 1.138 states:

*“The government will today publish guidance for pooling Local Government Pension Scheme Fund assets into up to 6 British Wealth Funds, containing at least £25 billion of Scheme assets each. The government is now inviting administering authorities to come forward with their proposals for new pooled structures in line with the guidance to significantly reduce costs while maintaining overall investment performance, with the wider ambition of matching the infrastructure investment levels of the top global pension funds”.*

4.2 In summary, the DCLG’s criteria are:

- Asset pools achieve the benefits of scale – Pools should be £25 billion as a minimum.
- Strong governance and decision making – Pools need to be capable of managing investments and risk on behalf of Funds.
- Reduced cost and excellent value for money, i.e. saving must be made across the LGPS.
- Improved capacity to invest in infrastructure – This is implied with the pools having greater scale than single Funds.

4.3 A report was presented to the Panel meeting held on 9 February 2016 and Members agreed to partner with the Borders to Coast Pension Partnership (BCPP) pool. It was also agreed at that meeting that the Fund would submit the BCPP initial proposal to the DCLG, which was done on 19 February 2016. The initial proposal was well received, and provided the foundation to continue with the more detailed final submission.

4.4 The detailed proposal was presented to the Panel at the meeting held on 29 June 2016. The Panel agreed this version of the proposal and delegated authority to the Chair to review the final version and sign it on behalf of the Fund. The final BCPP proposal was submitted to DCLG on 15 July 2016 for further consideration. Representatives from the DCLG, HM Treasury and independent advisors met on 8 September 2016 to consider BCPPs submission. At the time of writing this report, the outcome of this meeting is unknown.

#### **5. NEXT STEPS FOR BCPP**

5.1 Although no further expenditure is committed until after the DCLG has agreed the proposal and given the go ahead for the formation of BCPP, the proposed timetable (see Appendix A) is very tight so preparation work has begun with meetings with potential

suppliers of legal advice, finance/tax advice, FCA registration support and Heads of Legal from each administering authority. The Investment Panel agreed to a revised budget of £350,000 as the share of cost appropriate for Teesside, which can only be spent once approval of the BCPP submission is received from the DCLG. At the time of writing the report, approval has not been received.

5.2 A Member Steering Group meeting was arranged for 30 September 2016. At this meeting it was agreed to set up a detailed project plan, create three Member sub groups who will report back to the main Member Steering Group, and begin preparation work in these areas:

- Operating Model – Asset servicing, ICT systems sourcing and implementation, FCA compliance, asset structuring, etc.
- People – Setting remuneration packages for senior executives, TUPE transfer of existing staff, recruitment of senior executives & staff, and securing suitable premises.
- Governance and Monitoring – Co-ordinating final approvals to approve the creation of the Joint Committee and final commitment by each Partner Fund to the acquisition of an equal voting shareholding in BCPP.

5.3 The next Member Steering Group meeting is planned for 18 November 2016.

5.4 Board Members will be kept up to date with the outcome of the BCPP submission from the DCLG, and the project plan and progress at future meetings.

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High level timeline for establishing BCPP:

BCPP	Summary Timeline for Establishing the Pool
July 2016	Submit consultation response
Sept 2016	Government approval of proposal
Oct 2016	Approval of detailed project plan by Funds
Oct 2016	Formal creation of governance structure
Oct 2016	Commence regulatory approval process
Dec 2016	Recruit senior executives & non-executives
Jan 2017	Commence asset transition planning
Jan 2017	Amendments to consultations as required
Dec 2017	Complete asset transition planning
Dec 2017	Receive regulatory approval
Dec 2017	Start TUPE transfer of staff from existing Funds
Dec 2017	Recruit additional investment and operational staff
April 2018	Commence operations