

## Business Plan and Budget Quarterly Update



### ACCESS Joint Committee

Date: 18 March 2019

Report by: Officer Working Group

<b>Subject:</b>	<b>Business Plan and Budget Update</b>
<b>Purpose of the Report:</b>	To provide an update on the activities undertaken since the last Joint Committee and associated spend
<b>Recommendations:</b>	The Committee is asked to note the updated business plan and 2018/19 forecast spend, and to approve the 2019/20 budget for recommendation to individual ACCESS Authorities
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### 1. Purpose

- 1.1 The Joint Committee is required to make recommendations to the ACCESS Authorities about the annual strategic business plan for the Pool. The strategic plan was agreed by the Joint Committee in April 2018 and has now been referred to the relevant ACCESS Authorities.
- 1.2 The Joint Committee also determined the budget necessary to implement the business plan during 2018/19 (insofar as the costs will not be paid by ACCESS Authorities direct to the Operator) at their meeting in April 2018 and this has been charged to the relevant ACCESS Authorities.
- 1.3 This report updates the Joint Committee on the work undertaken to date and costs incurred in 2018/19.
- 1.4 The Joint Committee is also requested to agree the updated plan which includes activities planned for 2019/20 and determine the 2019/20 budget required to fund these activities.

### 2. Business Plan Update

- 2.1 The key activities undertaken are as follows:

**2018/19**

- Access Support Unit (ASU) recruitment in progress
- ASU functions mainly undertaken by 3rd parties
- Tranches 1 and 2 sub fund onboarding

**2019/20**

- ASU recruitment completes
- ASU functions mainly undertaken by ASU officers and technical leads
- Tranches 3, 4 and 5 sub fund onboarding
- Consideration of non-listed / illiquid assets

2.2 The table below shows progress against key items anticipated to be delivered since the last Joint Committee and due to be completed by end March 2019, as well as the proposed activity in 2019/20.

2.3 It should be noted that in 2019/20 ACCESS Support Unit (ASU) Officers employed by Essex as the Host Authority, together with the Technical Leads, will be taking over most of the functions of the ASU from the 3<sup>rd</sup> party providers.

2.4 It is anticipated that external advisors will be engaged in relation to the further work on the Governance arrangements for the ACCESS pool as well as in relation to the set-up of further ACS sub-funds as well as any arrangements for the pooling of illiquid assets.

<b>ACCESS Strategic Business Plan</b>		
<b>Key Milestone</b>	<b>2018/19</b>	<b>Anticipated 2019/20</b>
<b>Consider Legal Entity</b> Consider the benefits and drawback of legal entity model for ACCESS pool.	Completed	N/A
<b>Complete Governance Manual</b> Work with external advisers to reflect decision making principles, communication strategy, policies and procedures, code of conduct etc in the Governance Manual	Substantially Completed	Will have residual cost relating to training.
<b>Complete Review of Inter Authority Agreement</b> Work with external advisers to reflect any changes resulting from the completion of the Governance Manual and review	Initial redrafting undertaken	Further redrafting required to reflect changes; mainly to the current operational elements of the Pool
<b>Agree and establish ACCESS Support Unit</b> Identify ASU resource requirements, roles and responsibilities for activities, scope and run recruitment activity and appoint	Third party providers appointed as interim ASU	ASU functions will be mainly undertaken by ASU Officers and Technical Leads

**ASU Operation and BAU**

Third party providers appointed	ASU functions will be mainly
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ASU Operation plus professional advice and support	as interim ASU	undertaken by ASU Officers and Technical Leads
<b>Determination of Reporting Framework</b> Reflecting investments within the sub-funds work with Link to ensure that reporting meets Authority, Pool, CIPFA and Government requirements		Work to be undertaken by the ASU but potential for training.
<b>Agreement to joint policies</b> Including communication, environmental social and governance and responsible investment.	N/A	Work to be undertaken by the ASU
<b>Approval and launch of Sub-Fund Tranche 1</b> Ensure initial sub-fund meets Link's due diligence requirements and ACCESS Authorities value for money criteria (including transition activity). Work with Link to submit application to the FCA for approval of the ACCESS ACS and initial sub-fund set-up. Launch.	Completed with overspend on legal due diligence and consultancy advice	N/A
<b>Approve and launch of Sub-Fund Tranche 2</b> As above	Completed	N/A
<b>Approve and launch of Sub-Fund Tranche 3</b> As above	Substantially completed	Transition activity only.
		No further due diligence required.
<b>Establish Stock Lending Programme for ACCESS ACS</b> Commission work from third party experts on the appropriate balance between risk and income for Link to implement for the ACCESS ACS sub-funds	Completed following appointment of Mercer. Programme in place.	N/A
<b>Determine, approve and launch Phase 2 Sub-Funds</b> As above but to also include manager search and selection activity by Russell.	Work commissioned from Russell	Further due diligence required
<b>Consideration of approach to illiquid investments</b> Consideration of requirements and implementation options for ACCESS Authorities' current and proposed investments to illiquid asset classes, including infrastructure.	Joint Committee agreed initial scope of work to be undertaken by Officers	Further work required
<b>Communication with MCHLG</b> Providing updates to Government and responding to consultations	Completed	Work to be undertaken by the ASU using 3 <sup>rd</sup> party suppliers as required
<b>Pool Wide Activities</b> Professional support in relation to ACCESS Governance Structure includes JC, S151 and OWG and workstream meetings	Work commissioned from Hymans	Work to be undertaken by the ASU using 3 <sup>rd</sup> party suppliers as required

### **3. 2018/19 Budget Update and 2019/20 Proposed Budget**

- 3.1 In agreeing the strategic business plan for 2018/19 the Joint Committee determined the budget necessary to implement the outcomes of the plan and meet the expenses of undertaking the Specified Functions. The costs set out in the 2018/19 budget were indicative based on the understanding of the resource requirements at the time.
- 3.2 In line with the terms of the Inter Authority Agreement, each administering authority has already paid £105,000 being their share of the costs budgeted for the 2018/19 financial year.
- 3.3 At the end of the current financial year the actual cost of the services will be determined, and the Host Authority will invoice each Council for its further share of the costs (if any) payable.
- 3.4 At its meeting in September 2018 when the Committee agreed the revised 2018/19 budget they resolved that:

The spend approval is delegated to the relevant lead officer in consultation with the Chair. Should the officer and Chair feel that additional costs are significant to justify reconsideration by the Committee prior to progressing, then the matter should be deferred until the next meeting or, if urgent but still too significant to progress without full Committee approval then an additional meeting may be convened.

Once appointed the ACCESS Director will take over responsibility for management of the agreed budget.

- 3.5 For the Committee's information a schedule of forecast costs for 2018/19 compared with the original budget and revised budget as well as details of actual spend to date is included in the table below.
- 3.6 The table below also includes the budget considered necessary to implement the strategic business plan for 2019/20. This has been shared with S151 officers and their views have been taken into account in this report.
- 3.7 It is anticipated that the cost of delivering the 2019/20 business plan will be lower than in 2018/19 mainly as the result of the establishment of the ASU hosted by Essex and reduced use of external support, as described in paragraphs 2.3 and 2.4 above.

**ACCESS Latest Spend vs Budget 2018/19 and Estimated Budget 2019/20**

	<b>Original budget 2018/2019</b>	<b>Sept Revised Budget 2018/2019</b>	<b>Actual Cost as at Jan 19 2018/2019</b>	<b>Latest Forecast 2018/2019</b>	<b>Budget 2019/2020</b>	<b>Note</b>
	£	£	£	£	£	
<b>Interim ASU / ASU Total</b>	<b>361,000</b>	<b>472,773</b>	<b>350,908</b>	<b>456,707</b>	<b>467,300</b>	<b>1</b>
<b>Professional Costs</b>	-	-	-	-		
<i>Internal Professional Costs</i>						
Internal Professional Costs	21,000	21,000	15,872	25,765	8,000	2
<i>External Professional Costs</i>						
Strategic and Technical	330,000	395,595	272,270	327,270	364,000	
Legal and Governance	215,000	290,647	255,102	340,293	207,250	
Project Management	230,000	247,205	148,090	168,090	156,000	
<i>External Professional Costs</i>	775,000	933,447	675,462	835,653	727,250	
<b>Professional Costs Total</b>	<b>796,000</b>	<b>954,447</b>	<b>691,334</b>	<b>861,418</b>	<b>735,250</b>	
<b>Total Costs</b>	<b>1,157,000</b>	<b>1,427,220</b>	<b>1,042,242</b>	<b>1,318,125</b>	<b>1,202,550</b>	
<b>Cost Per Authority</b>	<b>105,182</b>	<b>129,747</b>	<b>94,749</b>	<b>119,830</b>	<b>109,323</b>	
<b>Cost Per Authority (rounded)</b>	<b>105,000</b>	<b>130,000</b>	<b>95,000</b>	<b>120,000</b>	<b>109,000</b>	

Note

1 A detailed breakdown of the ASU costs is at Appendix 1.

2 Includes Kent costs to September incl. those related to the handover. From July JC support will be captured within ASU Essex Support

#### **4. Risks**

- 4.1 A summary of the key risks is attached at Appendix 2. This summarises risks which have an amber or red status[excluding fund manager challenge risk].

#### **5. Recommendations**

- 5.1 That the Joint Committee notes the progress against the business plan and the forecast outturn for 2018/19.
- 5.2 That the Joint Committee agrees the updated business plan and budget necessary to implement the business plan during 2019/20 and agrees to recommend the business plan to each authority.

#### **6. Consultation with Key Advisers**

- 6.1 Hymans Robertson has been appointed to provide general / project support and technical advice to the ACCESS pool.

#### **7. Background Papers**

None

## ACCESS ASU Latest Spend vs Budget 2018/19 and Estimated Budget 2019/20

	Original budget 2018/2019 £	Sept Revised Budget 2018/2019 £	Actual Cost as at Jan 19 2018/2019 £	Latest Forecast 2018/2019 £	Estimated Budget 2019/2020 £	Note
Interim ASU Support	360,000	451,773	302,864	342,864	-	1
ASU Salaries (incl. on cost)			15,819	31,637	295,000	2
ASU Operational	1,000	21,000	26,832	57,832	20,500	3
ASU Host Authority Recharge			3,365	6,846	42,000	4
ASU JC Secretariat Support					16,800	5
Technical Lead Recharge Costs			2,028	17,528	93,000	6
<b>Interim ASU / ASU Total</b>	<b>361,000</b>	<b>472,773</b>	<b>350,908</b>	<b>456,707</b>	<b>467,300</b>	





## Note




- 1 Support provided by Hymans Robertson
- 2 Includes salary and on cost for ASU positions
- 3 Includes travel expenses, recruitment and website licence
- 4 Recharge for hosting and providing servicing to the ASU including accommodation, IT and HR support
- 5 JC secretariat and meeting support
- 6 Recharge on cost/time basis for work undertaken on workstreams by technical leads and reimbursement of travel expenses
- 7 Project management which will sit under the ASU is shown currently under external professional services

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RISK SUMMARY

Risks		February 19	November 18	(Current Amber or Red risks)
	Total Risk Score	69	66	
	Red	0	0	
	Amber	8	8	
	Green	9	7	
<p>Risk 1: Amber</p>  <p>REMAINS STATIC AT AMBER</p>	<p><b>Pool Governance - Decision making:</b> There is a risk that Funds / JC do not agree on key decisions around asset pooling (sub-funds / investment managers) / governance etc. This could lead to delays in FCA application, strategic decisions etc which could cause project delays and missed milestones.</p> <ul style="list-style-type: none"> <li>- Robust drafting, review and approval process of all proposals / recommendations.</li> <li>- Regular JC meetings scheduled / ad hoc meetings as required, to enable JC to receive regular updates / share views.</li> <li>- OWG to seek delegation from JC to progress proposals where appropriate.</li> <li>- Apply IAA principle, i.e. require a simple majority of those members of the Councils represented in the room at the time.</li> <li>- Review of ACCESS governance arrangements (phased approach) to consider delegation / escalation points.</li> </ul> <p><b>Updates:</b></p> <ul style="list-style-type: none"> <li>- JC to consider the following recommendations and updates on 18 March: progress with finalising the Governance manual and training proposals; recommendations on IAA review; Host Authority progress with on ASU recruitment.</li> <li>- JC to consider the following recommendations and updates on 18 March: progress with Phase 1 sub-fund implementation; progress on Fixed Income and DGF sub-funds and existing Global and UK Equity managers; progress with Russell's search for a suitable Global Equity Value manager; progress on illiquids and infrastructure investment</li> </ul>			
<p>Risk 2: Amber</p>  <p>REMAINS STATIC AT AMBER</p>	<p><b>Pool Governance - Establishment phase resource:</b> A substantial amount of Officer resource will be required to support the project plan workstreams / tasks etc. Increased demand on Officer time could result in delays if progress is slowed due to resource constraints or increased costs if there is a requirement to outsource.</p> <ul style="list-style-type: none"> <li>- Interim ACCESS Support Unit function put in place to provide support.</li> <li>- Gap analysis to be undertaken to identify Officer resource requirements.</li> <li>- Workstreams to be allocated to Officer sub-groups to co-ordinate work.</li> </ul> <p><b>Updates:</b></p> <ul style="list-style-type: none"> <li>- Technical Lead Officers have now been agreed and are in place. Time commitments from each officer have been agreed and technical areas have been allocated.</li> <li>- Sub-groups continue to rely on third parties to support and progress establishment phase deliverables, e.g. Hymans, Muse and Squires to progress Phase 3 Governance priorities and Hymans and Squires to progress On-boarding workstream activities. Governance activities will now be extended until June 2019 and additional support will be sought from Muse and Squires to support this work.</li> <li>- Recruitment process is underway for the ACCESS Programme Director (interviews are scheduled for 19 and 26 March) and the ACCESS Support Officer (advert made live on 13<sup>th</sup> February with a closing date of 28<sup>th</sup> February).</li> </ul> <p><b>Recommend risk remains at Amber until full ASU established and/or governance deliverables are completed.</b></p>			
<p>Risk 6: Amber</p>  <p>REMAINS STATIC AT AMBER</p>	<p><b>Sub-fund / ACS Establishment - Seeding process:</b> The initial seeding process has now been tested but changes are required for future exercises. Initial phase of sub-fund / IM seeding is still being done in tranches to manage the process.</p> <p><b>Update:</b></p> <p>Tranche 2 sub-funds have now all been launched on time. However, feedback from Officers has indicated that there are still parts of the process that do not meet expectations and these need to be addressed. These points have been fed back to Link, who will review these and ensure learning is incorporated for future tranches. A formal review meeting has also been scheduled for 6 March.</p> <p><b>Recommend risk is not closed or lowered to Green until further sub-funds have launched (Tranche 3 launch due May 2019) and/or the tranche 2 review meeting has taken place and reconciliation reports have been received from Investment Managers.</b></p>			
<p>Risk 7: Amber</p>  <p>REMAINS STATIC AT</p>	<p><b>Permanent ACCESS Support Unit:</b> The JC agreed a budget (29 Jan) to support interim ASU arrangements until June 2018. There is a risk that the permanent ASU function is not established by this deadline and interim measures may need to be extended / further budget agreed. A handover period will also be needed.</p> <ul style="list-style-type: none"> <li>- Interim ASU arrangements to be put in place until June 2018, with action to handover to the permanent ASU function included in the project planning.</li> <li>- Permanent ASU function to be recruited prior to June 2018. Gap analysis to be undertaken to identify other needs.</li> </ul> <p><b>Updates:</b></p> <ul style="list-style-type: none"> <li>- Technical Lead Officers have now been agreed and are in place. Time commitments from each officer have been</li> </ul>			

AMBER	<p>agreed and technical areas have been allocated.</p> <ul style="list-style-type: none"> <li>-Sub-groups continue to rely on third parties to support and progress establishment phase deliverables, e.g. Hymans, Muse and Squires to progress Phase 3 Governance priorities and Hymans and Squires to progress On-boarding workstream activities. Governance activities will now be extended until June 2019 and additional support will be sought from Muse and Squires to help deliver this work.</li> <li>-Recruitment process is underway for the ACCESS Programme Director (interviews are scheduled for 19 and 26 March) and the ACCESS Support Officer (advert made live on 13<sup>th</sup> February with a closing date of 28<sup>th</sup> February).</li> </ul> <p><b>Recommend risk remains at amber pending further recruitment.</b></p>
<p>Risk 8: Amber</p>  <p>REMAINS STATIC AT AMBER</p>	<p><b>Sub-fund / ACS Establishment - Investment Manager (IM) challenge:</b> No formal procurement process will be undertaken as part of the sub-fund seeding process. Therefore there is a risk that some IMs may challenge the seeding process used, if they are not subsequently selected.</p> <ul style="list-style-type: none"> <li>- This is a new way of working so there will remain a certain level of uncertainty on how this will work in practice and how the investment managers may react.</li> <li>- Discuss seeding process Squire Patton Boggs and Link / their lawyers.</li> <li>- Initial phase of sub-fund / IM seeding being done in tranches to manage the process.</li> </ul> <p><b>Updates:</b></p> <ul style="list-style-type: none"> <li>- Tranche 2 Funds sub-funds have now transitioned.</li> <li>- Tranche 3 Funds will transition in May 2019.</li> <li>- Link have commenced discussions with Managers identified for tranches 4 and 5.</li> <li>- Officers have a thorough understanding of Link's procurement process for sub-fund Managers.</li> </ul> <p><b>Recommend risk is not closed or lowered to Green until further sub-funds have launched (Tranche 3 launch due May 2019).</b></p>
<p>Risk 12: Amber</p>  <p>REMAINS STATIC AT AMBER</p>	<p><b>Link risk – Conflicting requirements:</b> Due to the number of parties involved in ACCESS, there may be conflicting requirements for the new funds which could delay approvals and impact the timeline.</p> <ul style="list-style-type: none"> <li>- Ensure there is a clear escalation mechanism for obtaining approvals when the constituent authorities cannot reach a mutual agreement.</li> </ul> <p><b>Update:</b> Funds have agreed all Phase 1 sub-funds with Link. Managers for tranches 4 and 5 have also been identified and Link have commenced discussions with these Managers. A further update will be shared with the JC on 18<sup>th</sup> March.</p>
<p>Risk 16: Amber</p>  <p>REMAINS STATIC AT AMBER</p>	<p><b>Sub-fund / ACS Establishment - Optimal sub-fund design:</b> It is critical that ACCESS is able to demonstrate the benefits of pooling (VFM / cost savings). There is a risk that Funds may incur higher costs overall than they do currently for investing in specific sub-funds, once in the Pool.</p> <ul style="list-style-type: none"> <li>- Sub-funds to be designed optimally, ensuring where the economic criteria is not met, those specific assets remain outside the Pool.</li> <li>- Link to undertake appropriate analysis (mandate type, current charging structure, tax analysis, fee negotiations, transition fees etc.) on proposed sub-funds prior to making a recommendation including analysis of total cost and breakdown by Fund.</li> </ul> <p><b>Updates:</b></p> <ul style="list-style-type: none"> <li>- Funds have agreed all Phase 1 sub-funds with Link. Managers for tranches 4 and 5 have also been identified and Link have commenced discussions with these Managers. A further update will be shared with the JC on 18<sup>th</sup> March. Full Cost Benefit Analysis documents will accompany recommendations from Link on tranches 4 and 5</li> <li>- Discussions with S151 officers on VFM will continue.</li> </ul>