Wiltshire Council

Council

21 February 2017

Brunel Pension Partnership - Approval of Full Business Case

Executive Summary

Following the Government's budget announcements in July 2015 and the implementation of the Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 Administering Authorities of the Local Government Pension Scheme are required to pool investment assets to reduce investment costs by April 2018.

Significant work has been undertaken along with 9 other LGPS Funds in the South West (known as the Brunel Pension Partnership) to meet the Government's criteria. A Full Business Case (FBC) has been developed which illustrates a combined £550m of investment savings could be achieved over the next 20 years, representing £41m for the Wiltshire Pension Fund the equivalent of £2m p.a.

To implement this investment pooling proposal, the 10 participating authorities need to jointly set up a Financial Conduct Authority (FCA) regulated company for the appointment, monitoring and termination of investment managers and new governance arrangements to establish client side joint shareholder oversight and joint contract management responsibilities.

Proposals

In its capacity as the Administering Authority for the Wiltshire Pension Fund, and having received and reviewed the recommendation of the Wiltshire Pension Fund Committee on 15 December 2016 and the Business Case attached to it, Wiltshire Council hereby resolves to enter into investment pooling as part of the Brunel project with respect to the Wiltshire Pension Fund's investments.

Such Resolution is made on and subject to the following terms and conditions:

a) That the Brunel Pension Partnership investment pool be developed, funded and implemented substantially in accordance with the terms and provisions described in the Business Case considered by the Wiltshire Pension Fund Committee, and more particularly that:

- a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited be established and operated with all necessary and appropriate arrangements as to its ownership, structure, governance and services capability.
- a new supervisory body comprising representatives of the Council and all other participants in the Brunel Pension Partnership be established to ensure oversight of Wiltshire Pension Fund

investments and participation in the Brunel Pension Partnership.

b) That subject to the continued viability of investment pooling, financial or otherwise the Wiltshire Pension Fund Committee is authorised to undertake such tasks, after consideration of advice from its Chief Legal Officer, Chief Financial Officer and Pension Fund Manager, as it thinks appropriate to progress implementation of investment pooling. To take such decisions and do all other things deemed necessary in order to promote the interests of the Administering Authority with respect to pooling, which without limitation shall include agreeing and authorising any documentation, contracts, terms of reference, financial expenditure or investment that may be required consequential upon the Fund's participation in the Brunel Pension Partnership. For the avoidance of doubt this includes the right of the Wiltshire Pension Fund Committee to authorise the Chief Legal Officer and Chief Financial Officer to take such steps as are necessary to progress the project.

c) That subject to the above, all such matters be carried out with the aim of achieving a target date for beginning investment pooling of 1 April 2018, and otherwise subject to such intermediate steps and timescales as may be considered appropriate and necessary by the Wiltshire Pension Fund Committee.

Reason for Proposal

This proposal affects only the appointment, termination and on-going monitoring of individual investment managers currently undertaken by officers and the Wiltshire Pension Fund Committee. The implementation of the high level strategic investment strategy (e.g. which types of assets classes the Fund invests in) will remain with the Wiltshire Pension Fund.

The Full Business Case was considered and approved by the Wiltshire Pension Fund Committee on 15 December 2016 to support the implementation of a FCA regulated company, Brunel Pension Partnership Limited. The rationale for being proactive in the establishment of an investment pool enables the Fund to retain a controlling influence in this process and provides the best current available option.

Carolyn Godfrey
Corporate Director

Wiltshire Council

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Purpose of Report

1. Wiltshire Council is the administering authority of the Wiltshire Pension Fund which manages and administers the statutory Local Government Pension Scheme (LGPS) on behalf of its employees and over 170 other employer organisations including Swindon Borough Council, Fire and Police services civilians, academies, housing associations, colleges, and outsourced companies. Although the same legal entity, the operation and responsibility for the Wiltshire Pension Fund is delegated directly from Council to the Pension Fund Committee.

2. In the July 2015 budget statement the Government announced they intended to work with LGPS administering authorities to ensure that they pool investments to significantly reduce investment costs. Work has since been undertaken to set up the Brunel Pension Partnership (BPP) comprising ten LGPS Funds geographically located mainly in the South West.

3. Regular reports have been brought to the Pension Fund Committee at all stages of the process, with additional engagement events also being held to provide the opportunity for the Committee to provide input to the proposals. As required by Government an initial joint submission from the ten LGPS (Brunel) Funds was approved by the Pension Fund Committee on 1 February 2016 and a further more detailed response was approved and submitted to the Government by them in July 2016.

4. Following the July submission of an outline business case, work has continued developing a Full Business Case (FBC) for the BPP. The FBC has now been completed and needs to be approved by each of the ten administering authorities (Brunel Funds) in order that the establishment of a Local Authority Company to operate the partnership can be progressed.

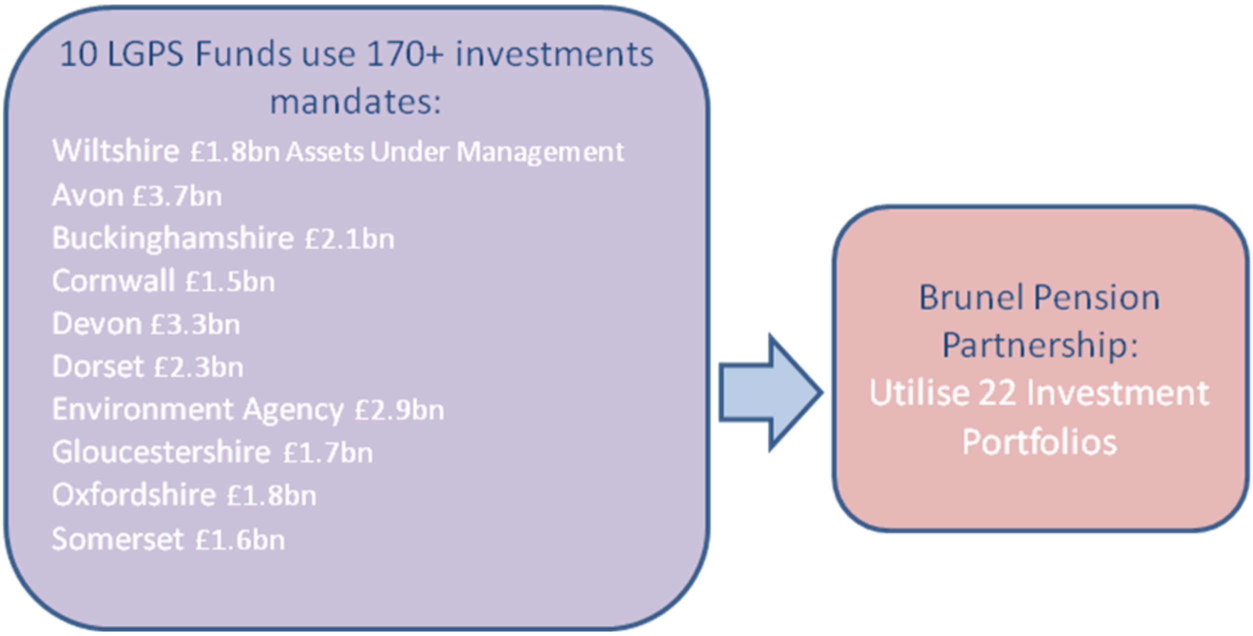
5. The FBC sets out the strategic, economic, commercial, management and financial cases which outline the individual costs and benefits for each of the ten participating funds (see Appendix 1).

Background

6. The FBC seeks approval to establish a company called Brunel Pension Partnership Ltd (Brunel Company), regulated by the Financial Conduct Authority (FCA), and the new governance arrangements to establish client side joint shareholder oversight and joint contract management.

7. The FBC has been reviewed by the s151 and Monitoring Officers of each of the ten administering authorities on 8 November 2016 and supported by the Shadow Oversight Board, comprising the chairmen of the ten Brunel Funds on 23 November 2016. The FBC has been put together with significant work by officers of the ten Brunel Funds supported by professional expertise provided by Price Waterhouse Cooper (PwC) (operational and financial support), Osborne Clark (legal support), Alpha (FCA expertise), JLT (project support) and Bfinance (investment advice). This work has supported and informed the views in this report and recommendations. The Brunel Company currently exists as a legal entity managed by Osborne Clarke until the company can be transferred to the Brunel Funds when directors have been appointed.

8. The rationale for pooling is that it will lower the cost of investment management. Currently each of the 10 Brunel Funds operates over 170 different investment mandates. The proposal is to reduce this to 22 portfolios to make larger mandates that attract lower fees.



9. It's anticipated this will save the 10 LGPS Funds a total of £550m forecast cumulative savings over the next 20 years, representing £41m (£2m p.a.) for the Wiltshire Pension Fund.

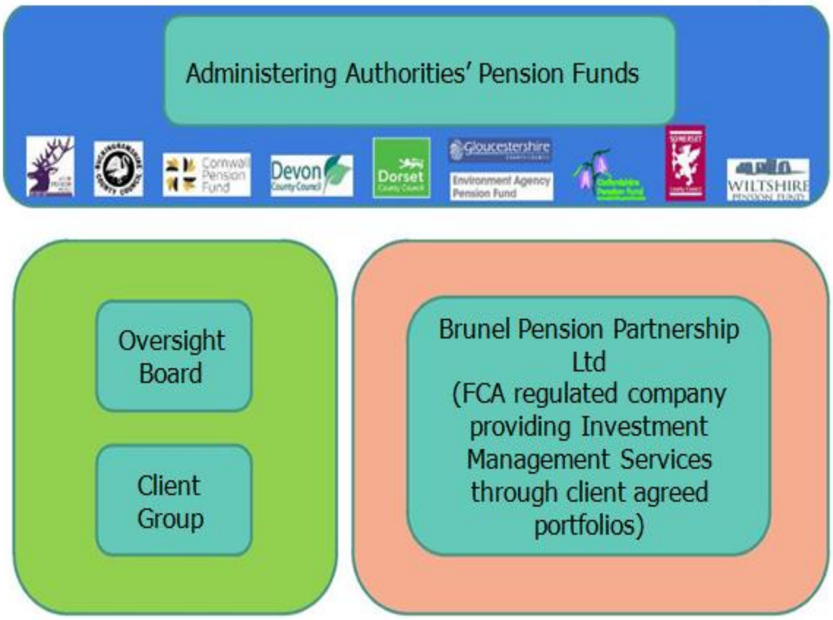
10. The BPP also ensures a more resilient approach to the management of investments on a consistent basis and in line with best practice through the use of a regulated company. This Brunel Company will be owned equally and on behalf of the 10 Brunel Funds.

11. The BPP approach also provides capacity for the 10 Brunel Funds to invest in more alternative asset classes such as infrastructure at a much lower cost than currently available individually through economies of scale.

12. The Wiltshire Pension Fund will retain control over its strategic investment strategy which will be implemented by the Brunel Company. The responsibilities for the payment of pension liabilities and the administration of the LGPS benefits will remain the responsibility of the Wiltshire Pension Fund and will be unaffected by this proposal. Consequently, no changes to the pension team are currently anticipated.

13. As new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016 No 946) came into force on 1 November 2016 there is now a legal basis which requires LGPS funds to pool their investments.

14. The FBC sets out the structure of the Brunel Company, and the governance and contractual arrangements that will exist. These will incorporate any provision for future exit. The company will be managed by the Brunel board with a chairman, three other non-executive directors and three operational directors. The governance arrangements will include an **Oversight Board** representing each participating fund's pensions committee while officers and the Pension Committees will form the **Client Group.** The Client group are establishing the arrangements for governance of the BPP by the Administering Authorities.



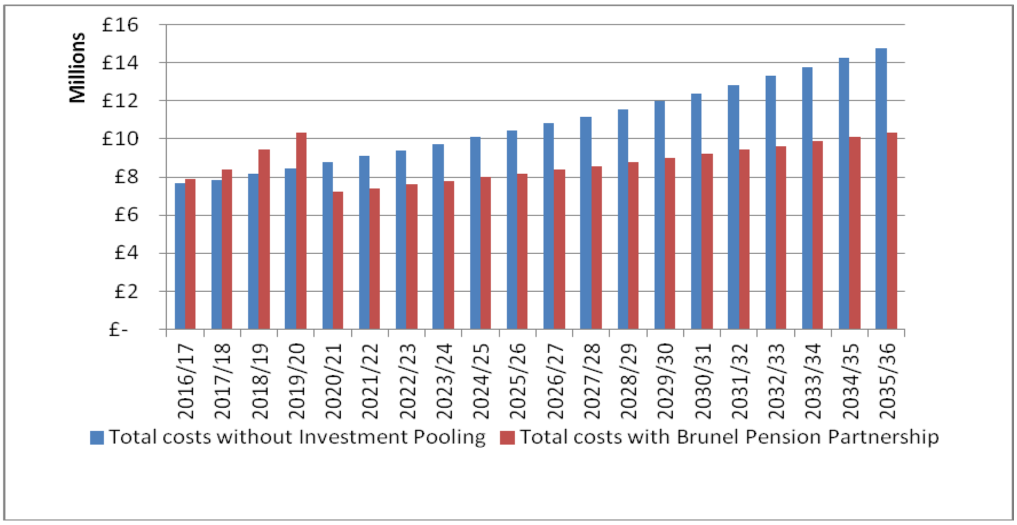
Main Considerations for the Council

15. The financial case for the BPP has been derived from the financial model that has been developed in conjunction with PwC, analysing the costs and savings for the partnership as a whole and for each of the individual funds. The model allows scenario testing, changes to individual assumptions and the removal of individual funds from the partnership for sensitivity analysis and stress testing the proposal.

16. The core model forecasts cumulative savings for the Wiltshire Pension Fund of £41m over the next 20 years, which has a discounted present value of £20m (discount rate of 3%). This results in a breakeven point in the 2023 financial year. The savings are summarised in the following table and graph:

Core model	Breakeven year	Total 20 years net gain to FY36		Running annual rate of net saving in FY25	
		£m	Discounted value £m	£m	bps of AUM
Wiltshire Pension Fund	FY23	41.0	20.2	2.1	8.3
Combined Pool	**FY23**	**550.1**	**279.5**	**27.8**	**8.9**

<u>Wiltshire Pension Fund Total Costs With / Without Pooling</u>



17. The graph above does show increased cost over the next three years due to the set up of the Brunel Company and initial transition of assets while the savings start in 2020/21. This short term cost increase will not materially impact the funding level of the Wiltshire Pension Fund and subsequent employer contribution rates and is more than offset by later saving gains.

18. The BPP costs include estimated costs of transitioning assets, which are apportioned on an individual portfolio basis between all the Brunel Funds investing in them to ensure that no individual fund is disadvantaged by, or benefits from, fund manager selection by the Brunel Company. The costs of developing the Brunel Company are shared on an equal basis between Brunel Funds, and its operating costs will be a combination of 50% as a fixed cost and 50% Assets under Management.

19. Taxes and stamp duty arise when certain assets are bought and sold and these have been accounted for within the costs that occur over the two year transition plan. These are liabilities the Pension Fund would incur due to portfolio churn over a longer period regardless. Despite this, the BPP is attempting to persuade the Government to reduce this liability that will now be paid earlier as a direct result of their directive for pooling of investments. As part of this process letters are being sent to both the Government and the Brunel Fund's local MPs over the next two weeks. The actual asset transition costs for the BPP will not be known until the Fund Managers have been appointed and will depend on the number of funds needing to be transitioned and the market conditions on the day of transition. The transition of assets is expected to begin in April 2018

through to 2020 for the majority of assets, although those illiquid alternative assets (which are less easy to sell quickly as there is not a defined exchange like the stock market, e.g. infrastructure / property) will need a longer transition timetable. However, from a Wiltshire Pension Fund perspective, even an increase of 50% in transition costs would only move out the breakeven point from 2023 to 2024.

20. The savings are achieved through reduced direct investment costs, predominantly investment manager fees, expected to be payable by the Pension Funds once the Brunel Company is operational. In addition there are the savings that the Pension Funds expect to make as a result of no longer needing to carry out tasks internally because of services provided by the Brunel Company. In the case of the Wiltshire Pension Fund, this will be through reduced custodian, performance reporting costs and other investment administration costs although these are materially small savings in comparison to the investment manager fee costs.

Overview and Scrutiny Engagement

21. Not applicable.

Safeguarding Implications

22. There are none.

Public Health Implications

23. There are none.

Procurement Implications

24. There are none. Specialist legal advice has been taken which has confirmed that there are no procurement law issues with the proposed structure.

Equalities Impact of the Proposal (detailing conclusions identified from Equality Analysis, sections 4 and 5)

25. There are none.

Environmental and Climate Change Considerations

26. There are none.

Risk Assessment

27. Government has signalled its clear intention that LGPS investment assets should be pooled and backstop legislation has been implemented to ensure funds invest in a pooling vehicle should proposals not be forthcoming or be ambitious enough. The FBC proposes a company structure that allows the Wiltshire Pension Fund to retain control over the governance and implementation of its future investment strategies through

representation on the oversight board and through its rights under a Shareholders' agreement. The proposals submitted to Government have been received with a positive response and the project team continue to liaise with them over the latest developments.

28. Participation in the pool also provides additional resilience and access to increased investment resources which can mitigate the investment risk to the Fund.

Risks that may arise if the proposed decision and related work is not taken

29. The Council could be directed by the Secretary of State to pool its investment through the powers outlined in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. On this basis Wiltshire may not be involved in the governance of any pool it was instructed to invest in.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

30. There are no significant risks arising from the proposals.

Financial Implications

31. The attached FBC includes the financial considerations associated with this proposal and the main financial considerations are outlined above. A payback period of 5 years is the normal basis for approving a Wiltshire Council project in line with its invest to save policy. Although the current projected break even period for the Wiltshire Pension Fund in the FBC is 2023 (effectively 7.5 years), from the commencement of the transition of assets in April 2018, this falls within the 5 years timeframe, at which point investment fee savings are projected to be £1.8m per annum for Wiltshire. The assumptions used in this assessment have been set at prudent levels and stress testing reflected to show various scenarios. This still suggests a similar payback period for most changes in assumptions and consequently still validates the FBC proposal.

Legal Implications

32. The legal implications arising from the FBC have been informed by the external legal adviser Osborne Clarke and the advice has been taken into account in drafting the proposal.

33. The Brunel Company will need to get Financial Conduct Authority (FCA) approval as required by central government, which is currently timetabled to commence between July 2017 and September 2017.

34. Under this FBC the decisions on strategic investment stay with the individual administering authority via the annual strategic investment statement. However by this proposal it is anticipated that implementation of those investment strategies will be carried out by the Brunel Company which benefit from economies of scale.

35. The consideration and approval of this FBC will confirm in principle the strategic and financial merits of this pooling proposal and will authorise the move to the implementation stage.

36. The resolution delegates to the Pension Committee the implementation of the proposal but limits that delegation to substantially in compliance with the FBC.

Options Considered

37. Not applicable

Conclusions

38. Government policy, outlined by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, requires the Wiltshire Pension Fund to pool its assets. Following the recommendation by the Pension Fund Committee, the Council now need to approve the FBC to move forward with setting up the Brunel Company in order that the pooling proposals can progress to the implementation phase.

39. Although investment pooling is being driven by the central government agenda, the financial modelling that has been undertaken demonstrates that there are net savings opportunities for the Wiltshire Pension Fund in entering into the BPP. The detailed business case sets out the structures and governance arrangements that will be put in place, which will ensure that the Brunel Company provides value for money to the Wiltshire Pension Fund.

40. The Council is therefore asked to resolve to enter into investment pooling as part of the Brunel Pension Partnership as outlined in the resolution above.

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2 February 2017

Background Papers

None

Appendices

Appendix 1 – Brunel Pension Partnership – Full Business Case