

## AGENDA

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**Meeting:** Wiltshire Pension Fund Committee  
**Place:** The West Wiltshire Room - County Hall, Trowbridge BA14 8JN  
**Date:** Thursday 15 December 2016  
**Time:** 11.30 am

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Please direct any enquiries on this Agenda to Libby Beale, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718214 or email [elizabeth.beale@wiltshire.gov.uk](mailto:elizabeth.beale@wiltshire.gov.uk)

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<b>Chairman's Briefing</b>	15 December	9:30am	West Wilts Room
<b>Committee Briefing</b>	15 December	10:30am	West Wilts Room

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### Membership:

#### Voting Membership

##### Wiltshire Council Members:

Cllr Tony Deane (Chairman)  
Cllr Charles Howard (Vice Chairman)  
Cllr Gordon King  
Cllr Sheila Parker  
Cllr Roy While

##### Substitute Members

Cllr Richard Britton  
Cllr Chris Hurst  
Cllr Bob Jones MBE  
Cllr Fleur de Rhé-Philippe  
Cllr Ian Thorn  
Cllr Philip Whitehead

##### Swindon Borough Council Members

Cllr Steve Allsopp  
Cllr Steve Weisinger

##### Substitute Members

Cllr Timothy Swinyard

##### Employer Body Representatives

Linda Stuart  
Diane Hall

#### **Non-voting Membership**

##### Observers

Tony Gravier  
Mike Pankiewicz

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## **PART I**

### **Items to be considered when the meeting is open to the public**

1 **Membership**

To note any changes to the membership of the Committee.

2 **Attendance of non-members of the Committee**

To note the attendance of any non-members of the Committee.

3 **Apologies for Absence**

To receive any apologies for absence or substitutions for the meeting.

4 **Minutes** (*Pages 7 - 20*)

To confirm the Part 1 minutes of the meeting held on 29 September 2016 and the special meeting held on 13 October 2016.

5 **Declarations of Interest**

To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.

6 **Chairman's Announcements**

To receive any announcements through the Chairman.

7 **Public Participation and Councillors' Questions**

The Council welcomes contributions from members of the public.

#### **Statements**

If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named above for any further clarification.

#### **Questions**

To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named on the front of this agenda no later than 5pm on **Thursday 8 December 2016** in order to be guaranteed of a written response. In order to receive a verbal response questions must be submitted no later than 5pm on **Monday 12 December 2016**.

Please contact the officer named on the first page of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent. Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

8 **Local Pension Board Update** *(Pages 21 - 30)* **11:30am**

To consider the Part 1 minutes, and recommendations arising, from the Local Pension Board meeting held on 20 October 2016. The confidential minutes are attached to Part 2 of this agenda.

The Board's current Work Plan is available [here](#).

9 **Local Pension Board Code of Conduct and Conflict of Interest Policy** *(Pages 31 - 48)* **11:35am**

A report presents the Conflicts of Interest policy for the Local Pension Board that is reviewed annually by the Committee.

10 **Update on the Fund's Stewardship Code Statement** *(Pages 49 - 56)* **11:45am**

A report is provided to update the Committee on the revised Stewardship Code statement that is included in the Statement of Investment Principles.

11 **Actuarial Valuation and Funding Strategy Statement Update** **11:55am**

A verbal update is provided by the Head of Pensions on the progress of the 2016 Triennial valuation and feedback from the consultation on the Funding Strategy Statement.

12 **Pension Fund Risk Register** *(Pages 57 - 64)* **12:05pm**

The Committee is asked to note the attached Risk Register and measures being taken to mitigate risks.

13 **Brunel Pension Partnership Full Business Case** *(Pages 65 - 100)* **12:15pm**

A report presents the Full Business Case for the Brunel Pension Partnership in response to the Government's Investment pooling consultation, and proposes recommendations to Council for the establishment of the Company for Committee approval.

14 **Date of Next Meeting** **12:30pm**

To note that the next regular meeting of the Committee will be held on 23 March 2017.

15 **Urgent Items**

Any other items of business which, in the opinion of the Chairman, should be considered as a matter of urgency. Urgent items of a confidential nature may be considered under Part II of this agenda.

16 **Exclusion of the Public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 17 – 20 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1 & 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

**PART II**

**Item(s) during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed**

17 **Brunel Pension Partnership Full Business Case** (Pages 101 - 236) **12:35pm**

The confidential supporting papers for the Full Business Case are circulated for Committee's consideration.

Background documents are available as a Part 2 Agenda Supplement.

18 **Investment Quarterly Progress Report.** (Pages 237 - 296) **13:10pm**

Three confidential reports are circulated updating the Committee on the performance of the Fund's investments as to the end of September 2016. These were considered by the Investment Sub-Committee at its meeting on 24 November 2016 and are circulated for information only.

The minutes of the Investment Sub-Committee are also attached for Committee consideration.



## **WILTSHIRE PENSION FUND COMMITTEE**

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### **DRAFT PART 1 MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 29 SEPTEMBER 2016 AT THE SALISBURY ROOM - COUNTY HALL, TROWBRIDGE.**

#### **Present:**

Cllr Steve Allsopp, Cllr Tony Deane (Chairman), Sue Eley, Cllr Charles Howard (Vice Chairman), Mike Pankiewicz, Cllr Sheila Parker, Linda Stuart and Cllr Roy White

#### **Also Present:**

Bob Summers

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#### **57 Membership**

It was noted that Cllr Gordon King had replaced Cllr Mark Packard on the Wiltshire Pension Fund Committee and Investment Sub Committee.

#### **58 Attendance of non-members of the Committee**

There were no non-members of the Committee present.

#### **59 Apologies for Absence**

Apologies for absence were received from Cllr Steve Weisinger, Cllr Gordon King, Michael Hudson (Treasurer to the Fund) and Jim Edney (Independent advisor) who was substituted by Bob Summers.

#### **60 Minutes**

##### **Resolved:**

**To confirm the Part 1 minutes of the meeting held on 30 June 2016.**

61 **Declarations of Interest**

There were no declarations of interest.

62 **Chairman's Announcements**

The Chairman considered the benefits of working electronically.

**Resolved:**

**To request that external attendees be given access to electronic Committee papers.**

63 **Public Participation and Councillors' Questions**

There was no public participation.

64 **Local Pension Board Update**

The Committee considered the minutes and recommendations arising from the Local Pension Board meeting held on 20 July 2016. It was highlighted that Counsel view was that the Board was not a Committee of the Council and therefore not covered by the Council's insurance indemnity cover. The Committee agreed this presented minimal risk and it was noted that further advice from the Scheme Advisory Board on insurance indemnity cover was awaited. The Committee noted the Board's recommended upgrading for PEN020 on the Risk Register and the Head of Pensions advised that the Board's recommendations in respect of the Business Plan would be included as part of the Risk Register. Members noted the Board's request that an exit-strategy for Brunel Pension Partnership be developed; however commented that the intention behind pooling arrangements was that there would be an element of permanency.

**Resolved:**

**To note the recommendations arising from the Local Pension Board meeting held on 20 July 2016.**

**To note the current work plan for the Board.**



65 **External Audit Report**

The Committee was presented with the final Audit report for the Fund and noted there were no issues arising.

**Resolved:**

**To note the final audit report.**

66 **Annual Report 2015-16**

Members considered the Fund's annual report and noted the Local Pension Board annual report included as an annex. The annual report contained the financial statements approved at the June meeting and would be uploaded to the Fund's website. The Fund's independent advisor commented that the content in the report was of a very high standard.

**Resolved:**

**To approve the draft Wiltshire Pension Fund Annual Report 2015-16, with the inclusion of a link to the Local Pension Board Annual Report.**

**To thank officers for their hard work in supporting the Fund and in producing the report.**

67 **Additional Voluntary Contributions Fund Choice**

The Committee was asked to consider adding an additional fund choice to the range of Additional Voluntary Contribution (AVC) options currently offered to members. An AVC provided members the option to increase their benefits upon retirements and any return on their investment; deductions were taken from pay before tax and sent across to the provider making it a tax efficient way to save. Pension fund members were currently able to choose from a range of investment options depending on their risk profile, one additional fund from Prudential had been highlighted as of potential interest. The Prudential Ethical fund invested in shares of UK companies which demonstrated good environmental, social and governance policies. The fund would be actively managed against its benchmark, the FTSE4Good UK INDEX, which was limited to those companies in the FTSE All-share Index which met set ethical criteria.

Officers advised that the option had a medium-to-high risk rating and so complimented additional options, however did not pose risk to the Fund itself. Following questions from members it was confirmed that officers were in early stage discussion with Scottish Widows about giving legacy Clerical Medical members the option of more choice of funds.

**Resolved:**

**To approve the addition of the Prudential Ethical Fund as an option to the range of funds offered to members by Prudential.**

68 **Budget Monitoring 2016-17 Report**

Officers presented the Fund's Budget Monitoring report for 2016/17 and advised that the Fund was £411,000 overspent due to a performance management fee from Baillie Gifford and commissioning resource to support Brunel Pension Partnership. It was noted that the costs incurred through Brunel were recorded as 'Investment Consultancy' and a breakdown of the returns the Fund would expect to see from Brunel would be provided at the next ordinary meeting.

**Resolved:**

**To note the report on the latest budget monitoring position for the Wiltshire Pension Fund.**

69 **Annual Benefit Statement Update**

The Head of Pensions updated the Committee on the 2016 Annual Benefit Statement exercise. Although some Annual Benefit Statement's had been sent by the August deadline, the majority were sent two weeks later due to printing issues. This was not considered to be a significant breach of regulations however it would be reported to the Local Pension Board for consideration.

**Resolved:**

**To note the update on the Annual Benefit Statement exercise.**

70 **Pension Fund Risk Register**

The Head of Pensions advised on updates and additions to the Risk Register. Five key changes had been made since the last report on 30 June 2016.

The main change was the grading of 'PEN020: Pooling of LGPS assets' which had been upgraded from medium to high as Brunel Pension Partnership project presented a risk to the Fund through increased workload and officers having less time to devote to other administrations activities. Similarly, Brunel presented the potential for the movement of staff out of the Fund to become involved in the future pooling arrangements, impacting upon 'PEN012: Over-reliance on key officers' and 'PEN011: Lack of expertise of Pension Fund Officers'; consequently these two risks had been raised to medium. The Fund's independent advisor commented that he supported the changes to the Risk Register as he continued pooling to carry high risk.

'PEN002: Failure to collect and account for contributions from employers and employees on time' had been increased from low to medium risk as a result of increased pressure of monitoring contribution due to a greater number of employers in the fund. 'PEN017: Lack of expertise on the Pension Fund Committee' had recently been graded medium following the resignation of one long standing member and advice that the Vice Chairman would not seek re-election in 2017.

The Chairman advised that he had raised the issue of Committee succession planning with the Leader of the Council. Following questions it was confirmed that two employers were currently behind on their contributions payments however this was considered to be an administration error rather than intentional. Officers also advised that they were awaiting further guidance on the implications of the public sector exit cap which would come into force in April 2017; once guidance was received this would also be provided within the newsletter the Fund sent to employers.

**Resolved:**

**To note the Risk Register and measures being taken to mitigate risks.**

71 **Date of Next Meeting**

It was noted that a special meeting of the Committee was to be held on 13 October 2016, the next ordinary meeting of the Committee would be on 15 December 2016.

72 **Urgent Items**

There were no urgent items.

73 **Exclusion of the Public**

**Resolved:**

**That in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Numbers 74- 81 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1 & 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.**

74 **Minutes**

**Resolved:**

**To confirm the Part 2 minute of the meeting held on 30 June 2016.**

75 **Investment Sub-Committee update**

Members were presented with an update from the Investment Sub Committee meeting held on 15 September 2016 and requested to consider recommendations arising from that meeting.

**Resolved:**

- **To note the minutes of the Investment Sub-Committee and report from Mercer on effectiveness of the Sub-Committee**
- **To note the report on risk management options.**
- **To agree that the Committee takes a training session on the use of LDI which sets out the nature and size of the risks the Fund is facing; and**
- **To explore in more detail by way of an initial training session on the options available for equity protection strategies in comparison to investing in a lower volatility equity strategy; and**
- **To note the recommendations of the Investment Sub Committee in relation to currency hedging and consider these as part of the formal review of Berenberg dynamic currency hedging mandate.**

76 **Proposed Class Action Update**

The Head of Pensions updated on the latest position of a class action case the Fund was participating in.

**Resolved:**

**To note the update from the Head of Pensions on the class action case.**

77 **Funding Strategy Statement**

Members were presented with a Funding Strategy Statement which had been updated.

**Resolved:**

**To approve the draft Wiltshire Pension Fund Funding Strategy Statement 2016 as attached in the Appendix.**

**To publish the Funding Strategy Statement following the completion of the consultation period and update to the Committee on 15 December 2016.**

78 **Scheme Advisory Board Funding Metrics**

The Head of Pensions updated on funding metrics being submitted to the Shadow Advisory Board ahead of the formal valuation results being reported to Committee in October.

**Resolved:**

**To note the update on funding metrics and request that officers report concerns to Hymans Robertson and seek advice from the Actuary on the requirement to report this figure to the Scheme Advisory Board.**

**To decline the submission of funding metrics to the Shadow Advisory Board by 30 September, unless advised by the Section 151 officer that there are legal reasons requiring the release of the metrics by this**

deadline, and to reconsider funding metrics as a high priority on 13 October 2016 valuation meeting.

79 **Pooling of Investment Assets**

The Committee received an update on the Government's proposals on the pooling of investment assets.

**Resolved:**

**To note the update by the Head of Pensions on the progress of the Brunel Pension Partnership.**

**To request that the independent assurance report be circulated as part of the Full Business Case for pooling to Committee members.**

**To note the recommendations of the Local Pension Board in respect of pooling.**

80 **Review of Berenberg Dynamic Currency Hedging Mandate**

The Head of Pensions introduced a review of the Berenberg Dynamic Currency Hedging Mandate and related recommendations from the Investment Sub Committee.

**Resolved:**

**To request that the Berenberg dynamic currency hedging mandate is terminated; and**

**The strategic dynamic currency overlay programme is replaced with a 50% passive currency overlay on its overseas equity exposure; and**

**That 50% of the overseas equity exposure is hedged through the use of Legal and General hedged global equities and Legal & General hedged RAFI 3000 pooled vehicles.**

81 **Investment Quarterly Progress Report**

The Committee was presented with the Investment Quarterly Progress Report for information.

**Resolved:**

**To note the report on performance of the Fund's investments as to the end of June 2016.**

(Duration of meeting: 10.30 am - 1.00 pm)

The Officer who has produced these minutes is Libby Beale, of Democratic Services, direct line 01225 718214, e-mail [elizabeth.beale@wiltshire.gov.uk](mailto:elizabeth.beale@wiltshire.gov.uk)

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## WILTSHIRE PENSION FUND COMMITTEE

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### PART 1 MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 13 OCTOBER 2016 AT KENNET ROOM, COUNTY HALL.

#### **Present:**

Cllr Steve Allsopp, Cllr Tony Deane (Chairman), Cllr Charles Howard (Vice Chairman)  
Cllr Roy While, Linda Stuart, Sue Eley and Mike Pankiewicz.

#### **Also Present:**

Catherine McFadyen, Robert McInroy and Mitch Johnstone (Hymans Robertson).

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#### 82 **Membership**

There were no changes to the membership of the Committee.

#### 83 **Attendance of non-members of the Committee**

There were no non-members of the Committee present.

#### 84 **Apologies for Absence**

Apologies for absence were received from Cllr Gordon King and Cllr Steve Weisinger. Jim Edney (Independent Advisor to the Fund) had sent his apologies and Bob Summers was instead attending as the substitute Independent Adviser from CIPFA Business Services.

#### 85 **Declarations of Interest**

There were no declarations of interest from members of the Committee.

#### 86 **Chairman's Announcements**

There were no Chairman's Announcements.

#### 87 **Public Participation**

There were no members of the public present.

88 **Date of Next Meeting**

The next ordinary meeting of the Committee was to be held on 15 December 2016.

89 **Urgent Items**

There were no urgent items.

90 **Exclusion of the Public**

**Resolved:**

**That in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute 91 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1& 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.**

91 **Wiltshire Pension Fund - Actuarial Valuation 2016**

The Committee was presented with the results of the 2016 valuation.

**Resolved:**

- a) To note the paper and verbal report of the Actuary;**
- b) To note the assumptions that had been agreed with the Actuary as set out in paragraphs 13-23 of the report;**
- c) To note the summary outcomes of the valuation as set out in paragraphs 32 to 33 of the report;**
- d) To approve the employer contribution rates for the next three years as summarised in the Appendix, for presentation to the employer bodies on 13 October 2016; and**
- e) To note that discussions will be held with employer bodies to finalise the implementation of the employer contribution rates, taking account of any risk based review, and that an update will be presented to the March Committee meeting.**
- f) Not before the formal release of the Valuation, to release the HMT funding level to the Scheme Advisory Board with a request for an explanation as to how the figure will be used.**

(Duration of meeting: 10.30 am - 12.30 pm)

The Officer who has produced these minutes is Libby Beale, of Democratic Services,  
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## **LOCAL PENSION BOARD**

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### **PART 1 MINUTES OF THE LOCAL PENSION BOARD MEETING HELD ON 20 OCTOBER 2016 AT THE KENNET ROOM - COUNTY HALL, TROWBRIDGE BA14 8JN.**

#### **Present:**

Lynda Croft, Sarah Holbrook, Cllr Christopher Newbury, Mike Pankiewicz, Howard Pearce (Chairman) and Barry Reed

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#### **70 Membership**

There had been no changes to the membership of the Board.

#### **71 Attendance of non-members of the Board**

Members of the public and officers of the Pension Fund were in attendance.

#### **72 Apologies**

There were no apologies for absence.

#### **73 Minutes**

Stylistic corrections to the minutes of the meeting held on 20 July 2016 were discussed. Members also considered the attached action log.

#### **Resolved:**

**To confirm the minutes of the meeting held on 20 July 2016, subject to the following amendments:**

- **Minute 59- 'straining costs' to be 'strain costs'**
- **Minute 60 – deletion of 'and the' and the correction of the 'United Nations Principles of Responsible Investment'**

**To request that pending items on the Action Log be coded amber.**

**To request that items coded 'Red' on the Action Log, where no update is available for this meeting, be considered at the next meeting .**

#### **74 Declarations of Interest**

There were no declarations of interest.

#### **75 Chairman's Announcements**

The Chairman reminded the meeting that the role of the Board was to ensure compliance with LGPS regulations and the Pensions Regulator (tPR). It was noted that tPR was currently very active in sending out communications and it was suggested that members should forward correspondence to the Head of Pensions so that he may circulate it to the wider membership of the Board or Committee.

#### **76 Public Participation and Councillors Questions**

The Chairman invited Alison Craig and Theresa Fallon to speak to the meeting in respect of item 11 on the agenda relating to the Fund's Risk Register.

Alison Craig requested that climate change risk be added to the Risk Register and that the public be given a channel to express concerns about fossil fuel investment to the Fund. Ms Craig also noted that the Fund's Position Statement on Fossil Fuel Divestment had not been published on its website and expressed concern with the Fund's investment in the oil and gas sector by way of its mandate with Legal and General.

Theresa Fallon expressed concern that she had not received a response to a letter sent to the Pension Fund Committee in July and had not yet met with the Chairman of the Committee to discuss its role in managing the Fund's investments.

The Chairman apologised that the fossil fuel Position Statement was not available on the Fund's website and advised that officers would look into this.

The Head of Pensions reassured the meeting that the Fund was always keen to receive input from members and that it considered fossil fuel investment as part of its Statement of Investment Principles. It was confirmed that the AGM date for the Fund was in the Business Plan for 2016, and although the intention was to hold this by the end of the year, it depended on available resources.

The Chairman explained that the Wiltshire Pension Fund Committee was responsible for the Fund's investments, however new investment regulations would come into effect in November and a new Investment Strategy Statement would need to be published by the Fund by April 2017. At that point the Board would be able to review whether the Fund was compliant with the regulations.

**Resolved:**

**To thank the members of the public for attending and to investigate points raised in their statements.**

**To request that the Fund's Position Statement on Fossil Fuel Divestment be published on the website.**

**77 Minutes and Key Decisions of the Wiltshire Pension Fund Committee**

The Board considered the minutes of the Wiltshire Pension Fund meeting held on 29 September 2016 and noted that the Committee had considered recommendations proposed by the Board.

**Resolved:**

**To note the minutes and key decisions of the Wiltshire Pension Fund Committee held on 29 September 2016.**

**78 Scheme Legal, Regulatory and Fund update**

The Head of Pensions updated that the Fund was still waiting for guidance on the public sector exit cap from HM Treasury. Other updates included that changes to reclamation of VAT on fund management costs would come into effect in 2018 and new DCLG investment regulations would facilitate asset pooling. Other updates included that the Fund had received its valuation results and early indications were that the Fund was well-positioned in line with the average in comparison to others. PricewaterhouseCoopers (PwC) was undertaking a piece of work and would report back to the Scheme Advisory Board with its views on the impact of academisation of schools on LGPS Funds. The Fund was still awaiting guidance from the Scheme Advisory Board on

insurance indemnity for the Local Pension Board, the Head of Pensions also advised that the Fund had met the Pensions Regulator (tPR) requirements on publishing scheme information. Members discussed the tPR checklist and considered it a useful tool to use in future annual reports.

The Board was asked to review its Code of Conduct and Conflict of Interest Policy which was due for review by the Wiltshire Pension Fund Committee on a yearly basis. It was considered that most members were comfortable with the policy document however it was noted that reference to the Scheme Advisory Board as a 'shadow' body was out of date. Cllr Newbury expressed concern that the Code of Conduct and Conflict of Interest Policy went beyond the statutory requirements, other key concerns included that it was not clear what constituted a conflict of interest and why the interests of a spouse of a Board member where relevant, the requirement to report declaration to the Board during a meeting was also questioned. The councillor also did not agree with the format of the Register of Interest form in that it required a date, signature and separated the interests of the member and their spouse.

The Chairman advised that he would review how the Conflict of Interest Policy and Code of Conduct compared to those for other Boards and would seek advice from the Council's legal team about points raised.

**Resolved:**

**To note the update on scheme, legal, regulatory and fund matters in the report.**

**To request that officers circulate the CIPFA guidance notes on investment pooling to members.**

**To request that the tPR checklist on publishing scheme information is used for the next Annual Report.**

**To request that Cllr Newbury submit his concerns with the Code of Conduct and Conflict of Interest Policy in writing to the Chairman of Board so that a comparison with the policies of other Local Pension Boards may be undertaken and that legal advice on the policy document may be sought in respect of these concerns prior to review by the Committee.**

**To request that references to the Scheme Advisory Board in the Code of Conduct and Conflict of Interest Policy are updated.**



## 79 Annual Benefit Statement Update

The Head of Pensions advised that the majority of the Annual Benefit Statements to employee members of the Fund had been circulated later than the 31 August statutory deadline. The delay was not considered to be a material concern however officers were required to report this to the Board and had also reported it to Committee. The Board was satisfied that the lateness of the statements was not a material issue, however considered that since the same problem had happened in 2015, if the same or another systemic problem occurred in 2017, leading to the Statements being issued late again for the third year in a row, this must prompt further investigation and potential reporting to the Pensions Regulator.

### **Resolved:**

**To note the update on the Annual Benefit Statement exercise and strategy agreed for 2017.**

## 80 Risk Register

The Head of Pensions advised on updates and additions to the Risk Register. Five key changes had been made since the last report in July. The main change was the grading of 'PEN020: Pooling of LGPS assets' which had been upgraded from medium to high as Brunel Pension Partnership project presented a risk to the Fund through increased workload and officers having less time to devote to other administrative activities. Similarly, Brunel presented the potential for the movement of staff out of the Fund to become involved in the future pooling arrangements, impacting upon 'PEN012: Over-reliance on key officers' and 'PEN011: Lack of expertise of Pension Fund Officers'; consequently these two risks had been raised to medium.

'PEN002: Failure to collect and account for contributions from employers and employees on time' had been increased from low to medium risk as a result of increased pressure of monitoring contribution due to a greater number of employers in the fund. 'PEN017: Lack of expertise on the Pension Fund Committee' had recently been graded medium following the resignation of one long standing member and advice that the Vice Chairman would not seek re-election in 2017.

Following questions from the Board it was explained that the academisation of schools would mean they become a separate employer within the fund, thus increasing administrative and governance pressures on the Fund. The Chairman was concerned by the resource-intensity of pooling on the Fund and noted the Board had recommended to the Committee that it keep this under review.

**Resolved:**

**To note the Risk Register and measures being taken to mitigate risks.**

**To note the comments from the public in respect of the Risk Register as detailed above.**

**81 2016 Valuation Update**

The Head of Pensions gave a presentation on the 2016 valuation for the Fund which had indicated that the funding level had increased 11% from the last valuation to 82% funded. It was explained that the funding level would be used to set contribution rates for employers and that each employer would have a different rate. Initial meetings had already been held with employers and they would be asked to sign off their rates by March 2017, it would be explained to employers that it would benefit them in the long term if they increased contribution rates as soon as possible rather than phasing them in.

It was noted that some members of the Board had been in attendance at the employer meeting and it was requested that the presentation delivered by officers at that meeting be circulated to attendees.

**Resolved:**

**To note the update on the valuation process provided by the Head of Pensions.**

**To request that the presentation delivered to employers at the meeting on 13 October be circulated to attendees at that event to assist them in relaying the information to colleagues.**

**82 Review of the Pension Fund Annual Report and Financial Statements**

The Board considered the Annual Report of the Wiltshire Pension Fund which had been agreed by the Committee on 29 September 2016. Fund membership levels were discussed and it was noted that the Annual Report was primarily aimed at employer members within the Fund. Members commented that the Observer members on the Wiltshire Pension Fund Committee were non-voting members and it was discussed that this governance arrangement should be reviewed in light of the new CARE scheme and national cost cap mechanism.

Questions were raised over the Statement of Accounts and action that could be taken against £1.85m in late contributions over the year. The Head of Pensions

advised that this was not a particular concern to the Fund as contributions were usually a couple of days late and there was not one regular offender, however the issue was picked up in the Risk Register. Member's considered that the situation should be reviewed and requested it be looked into for the next meeting. Members considered 'Local Pension Board' section of the Annual report could be brought forward to earlier in the report to highlight the governance change. Following questions, the officer explained that Wiltshire and Dorset Fire Service pension schemes were separate schemes.

**Resolved:**

**To request that an update be provided to the next meeting on late employer contributions and measures that could be taken to manage this.**

**To note the Annual Report and Financial Statements and to recommend the following stylistic changes:**

- **References to 'Wiltshire County Council' be amended to 'Wiltshire Council'.**
- **Paragraphs in the 'Local Pension Board' sections be brought forward to page 6 of the report.**

**To recommend that the Fund's Annual Report and Local Pension Fund Annual Report be separate documents on the website.**

**83 Review of External Audit Report**

The Board was presented with the External Audit Report for 2015/16, there were no issues or recommendations arising from the Audit.

The Chairman expressed concern that the Fund was only audited against accounting standards and guidance for local authority audits and not against 2014 LGPS regulations, Pensions Statement of Recommended Practice, CIPFA 2014 guidance on LGPS funds annual report, and LGPS funds 2015/16 accounting disclosures.

**Resolved:**

**To note the Fund is audited against accounting standards and guidance for local authority audits, and on this basis, to note the External Audit Report 2015-16.**

**84 Training Plans Update**

Members considered the training plan for the Board and it was noted that the Pensions Regulator toolkit had not yet been completed by all members, it was possible that this would be picked up by the internal auditors of the Fund. A draft members Training Handbook was discussed and the Chairman encouraged members to access this document. Members were also encouraged to inform the Head of Pensions if they had attended training events, and to pass on details of events they were invited on, to the Head of Pensions, so that details may be circulated to all members. It was agreed that if possible at least one member of the Board should attend the LGE LGPS 'Trustees' Training Fundamentals 3 day course.

**Resolved:**

**To note the progress of the implementation of the current Board Training Plans and to revisit training plans at the January meeting**

**To request that the Training Handbook be published online and that members are encouraged to make use of this resource.**

**That members notify the Head of Pensions of training sessions they have attended and events they are invited to in the future.**

**That Board members complete the Pensions Regulator toolkit before the end of 2016 and update the Head of Pensions accordingly.**

**That at least one member of the Board attend the LGE LGPS 'Trustees' Training Fundamentals three-day course and to ask members to express their interest to the Head of Pensions.**

**85 How did the Board do?**

The Board considered its progress and was satisfied that items considered at meetings were appropriate to its remit.

**86 Urgent items**

There were no urgent items.

**87 Date of next meeting and Forward Plan**

The next meeting of the Board was to be held on 25 January 2017. The Board considered its Forward Work Plan and it was noted that pooling arrangements would feature as a standing item on agendas.

**Resolved:**

**To request that meeting dates for 2017/18 be included on the Forward Plan.**

**88 Exclusion of the Public**

**Resolved:**

**That in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Numbers 89-92 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.**

**89 Minutes**

**Resolved:**

**To confirm the minutes of the meeting held on 20 July 2016, subject to amendments to Part 1 minutes as detailed above.**

**90 Review of Funding Strategy Statement**

The Board considered the Wiltshire Pension Fund Funding Strategy Statement.

**Resolved:**

**To note the Funding Strategy Statement and confirm that the approval of the Statement complies with the Scheme's requirements.**

**To request that members feedback further comments following the publication of CIPFA guidance.**

91 **Brunel Pension Partnership Update**

The Head of Pensions gave a high-level summary of progress with the Brunel Pension Partnership.

**Resolved:**

**To note the update provided by the Head of Pensions.**

**To request that the legal assurances on Brunel are released with the Business Case.**

**To request that the consequence of asset pooling proposals on staffing and the auditing arrangements within the Fund be considered with the Business Case.**

92 **Minutes and Key Decisions of the Wiltshire Pension Fund Committee and Investment Sub Committee**

The Board considered the minutes and key decisions from the last meetings of the Wiltshire Pension Fund Committee and Investment Sub-Committee.

**Resolved:**

**To note the minutes and key decisions of the Wiltshire Pension Fund Committee and Investment Sub Committee meetings.**

**To encourage the Fund to engage in dialogue with the Scheme Advisory Board in respect of funding metrics.**

(Duration of meeting: 10.35 am - 1.20 pm)

The Officer who has produced these minutes is Libby Beale, of Democratic Services, direct line 01225 718214, e-mail [elizabeth.beale@wiltshire.gov.uk](mailto:elizabeth.beale@wiltshire.gov.uk)

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## WILTSHIRE COUNCIL

### WILTSHIRE PENSION FUND COMMITTEE

15 December 2016

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#### **Code of Conduct and Conflict of Interest Policy for the Local Pension Board**

##### **Purpose of the Report**

1. The purpose of this report is to request the Wiltshire Pension Fund Committee review the attached Code of Conduct and Conflict of Interest Policy guidelines for the Local Pension Board (LPB).

##### **Background**

2. To ensure sound governance of the LPB, there are certain principles that LPB Members must follow, particularly in relation to code of conduct and conflicts of interest.
3. The Regulations, along with the Pension Regulators Code of Practice (no14), and the Scheme Advisory Board's guidance, outline a duty on Wiltshire Council to satisfy itself that LPB Members don't have conflicts of interest on appointment or whilst they are Members of the LPB. LPB Members need to be made aware of their duties under a code of conduct.
4. To fulfil this obligation officers, with assistance from Wiltshire Council legal services and Hymans Robertson, developed a Code of Conduct and Conflicts of Interest Policy which was endorsed by the Local Pension Board in October 2015 and agreed by this Committee in December 2015.
5. Training was provided to Board members as to its purpose and application of the policy document. In essence the guidelines place a requirement on all LPB Members to act in accordance with the Seven Principles of Public Life and to notify Democratic Services of any potential conflict of interest arising as a result of their position on the Board.
6. It is stated in the Code of Conduct and Conflict of Interest Policy that the document will be reviewed at least annually by this Committee. Prior to this meeting the Local Pension Board was provided the opportunity to comment upon any updates to the document that may be required. The comments of the Local Pension Board are summarised below and available in full [here](#).

##### **Considerations for the Committee**

7. The LPB recommended that references in the Policy Guidelines be updated to reflect the new status of the Scheme Advisory Board. The attached document presented to this Committee is updated with track changes to reflect that the SAB is now an established body. The SAB has not yet formally adopted the Shadow SAB Guidelines.
8. Questions were raised at the LPB as to the following:
  - (i) whether the scope of the Policy Guidelines is in excess of the statutory requirements;
  - (ii) whether the Policy Guidelines specify what constitutes a conflict of interest;
  - (iii) the requirement to report interests during a meeting of the Board;

- (iv) the requirement for the Register of Interest form in its current format, including need for a date, signature and separated interests of the member and their spouse.
9. The Council's legal team have provided further advice as to the above questions which is summarised as follows:
- i. The Policy Guidelines reflect:
- Protocol 2 of Wiltshire Council's constitution (the Terms of Reference of the LPB), as adopted by full council at its meeting of 24 February 2015 (minute 22). In particular, Term of Reference 56 requires the administering authority to ensure that any potential conflict is effectively managed in line with the internal procedures of the administering authority and the requirements of relevant legislation and guidance. Once the Policy Guidelines are approved, they become the internal procedure referred to in Term of Reference 56 and must be complied with by all LPB members. Furthermore, LPB members must follow Term of Reference 7 which states that "The Board should at all times act in a reasonable manner in the conduct of its purpose. In support of this duty Board members should be subject to and abide by the code of conduct for Board members."
  - Section 5 of the Public Service Pensions Act 2013 and regulation 108 of the LGPS Regulations 2013 which includes the requirement for each member of the Board to provide the administering authority with "such information as the authority reasonably requires" to satisfy itself that he or she does not have a conflict of interest at any time during office on the Board.
  - Paragraphs 61 to 89 of the Pensions Regulator's Code of Practice No 14; and
  - Section 7 of the Shadow Scheme Advisory Board Guidance on the code of conduct for LPB members and conflicts of interest.
  - The administering authority considered all the above elements when drafting the Policy Guidelines and deciding what information it reasonably requires for the purposes of the LGPS Regulations 2013.
- ii. As stated in Section 2 of the Policy Guidelines: Section 5(5) of the 2013 Act defines a conflict of interest as: *A financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)*. Examples are provided within the Policy as to possible conflicts of interest. In addition to this, under Section 2.1 of the guidelines, members may seek advice from Democratic Services if they are uncertain about a potential or perceived interest.
- iii. As stated in Section 2.1 of the Policy Guidelines, interests should normally be declared to Democratic Services in advance of a meeting unless an interest comes to light during a meeting, at which point the interest would be declared to the Board (or Chairman as appropriate) in the presence of Democratic Services. There is a standing item on all agendas for members to declare interests.
- iv. Regulations 108(3) and 108(4) of the LGPS Regulations 2013 require each member of the Board to provide the administering authority with "such information as the authority reasonably requires" to satisfy itself that he or she does not have a conflict of interest at any time during office on the Board. The administering authority



considered the legislation and statutory guidance when deciding what information it reasonably requires for the purposes of the LGPS Regulations 2013. In view of the wide definition of conflict of interest, the information required by the Declaration of Interest Form is proportionate and reasonable for the purposes of satisfying the administering authority that there is no actual or perceived conflict of interest.

A date on the Register of Interest form is reasonable to assist the administering authority in ensuring that the register of interests is current. Signature is reasonable to ensure that the information can be verified as correct. Separating the interests of member and spouse assists the administering authority in determining whether any conflict is actual or perceived, and the most appropriate and proportionate way to deal with it. All of these elements are reasonably required for openness and transparency, so that the public can be assured that the LPB is acting properly.

10. At the LPB in October 2016 it was questioned how Wiltshire's policies compared to those of other Boards, in response to this a benchmarking exercise was undertaken against six similar funds which revealed that the funds (with the exception of one) overall had similar, or the same, requirements in their Code of Conduct and Conflict of Interest Policy, and similar or the same format for a Register of Interest Form. Key differences between the funds were the guidance on potential conflicts of interest in respect of advisors and officers, and the guidance/restrictions on gifts and hospitality. Wiltshire's policies on both issues were towards the higher end of the scale in terms of guidance/restrictions. Oxfordshire was the only Local Pension Board contacted which did not have a Code of Conduct or Conflict of Interest Policy in place to support the guidance in its Terms of Reference. Further information is available at Appendix A.
11. This Committee is requested to approve the attached Code of Conduct and Conflict of Interest Policy Guidelines in relation to the LPB as updated to reflect the status of the Scheme Advisory Board.

### **Environmental Impact of the Proposal**

12. There are no known environment implications from this report.

### **Financial Considerations & Risk Assessment**

13. There are no significant financial implications from this report.
14. The Code of Conduct and Conflict of Interest Policy Guidelines will assist in mitigating the reputational risk should an issue arise which hasn't been identified or managed.

### **Legal Implications**

15. There are no material legal implications arising from this report. Legal Services have been consulted regarding the legislation referred to in this report and have assisted with drafting.
16. As explained in the body of this report, the Policy Guidelines in the form attached have been drafted to reflect the requirements of Wiltshire Council's constitution, legislation and the guidance of regulatory bodies including the Pension Regulator's Code of Practice No 14 and the Shadow Scheme Advisory Board guidance.
17. If the administering authority fails to ensure that each LPB member follows Policy Guidelines which fulfil the requirements of the constitution, legislation and guidance, the following risks may apply:

- a) the LPB may actually act improperly or be perceived to have acted improperly;
- b) there may be a challenge to the work carried out by the LPB, for instance, challenge by judicial review as a result of failure to comply with statutory obligations;
- c) there may be intervention by the Regulator;
- d) there may be adverse comment by the Scheme Advisory Board, and associated reputational harm.

18. Any individual LPB member who fails to follow Policy Guidelines adopted by the administering authority may be in breach of:

- a) regulations 108(3) and (4) of the LGPS Regulations 2013; and
- b) Protocol 2 of Wiltshire Council's constitution,

which may also lead to the risks set out at paragraph 17 above.

### **Safeguarding Considerations/Public Health Implications/Equalities Impact**

19. There are no known implications at this time.

### **Reasons for Proposals**

20. To ensure the LPB has an up to date policy to direct members' conduct and to address any conflicts of interest.

### **Proposals**

21. The Committee is requested to approve the attached Code of Conduct and Conflict of Interest Policy Guidelines in relation to the LPB , as updated to reflect the status of the Scheme Advisory Board.

MICHAEL HUDSON  
Treasurer to the Pension Fund

Report Author: Libby Beale, Senior Democratic Services Officer

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Unpublished documents relied upon in the production of this report: NONE

## Code of Conduct and Conflict of Interest Policy Guidelines for Members of the Wiltshire Pension Fund Local Pension Board

### Status of this document

The Terms of Reference for the Board set out:

- the Board's code of conduct requirement; and
- the Administering Authority's conflict of interest policy for the Board (the Conflict Policy):

#### Duties of the Board

7. The Board should at all times act in a reasonable manner in the conduct of its purpose. In support of this duty Board members should be subject to and abide by the code of conduct for Board members.

#### Conflicts of interest

54. All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

55. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme.

56. On each appointment to the Board and following any subsequent declaration of potential conflict, the Administering Authority shall ensure that any potential conflict is effectively managed in line with the internal procedures of the Administering Authority, the requirements of the 2013 Act, the requirements of the Code and the requirements of Relevant Legislation on conflict of interest for Board members.

This document contains the Committee's policy guidelines on conduct of Board members and conflicts of interest. These guidelines will be reviewed and approved by the Committee at least annually.

### Objectives of this document

1. To set out the principles and internal procedures that the Administering Authority and all Board Members are expected to follow in order to comply with the Terms of Reference, relevant legislation, codes of practice, government guidance and public law principles.
2. To ensure that all Board members are aware of their duty to act independently and carry out their roles to a high ethical standard.
3. To set out procedures for identifying, monitoring and managing potential conflicts to ensure they do not become actual or perceived conflicts of interest.
4. To ensure that a Register of Member Interests is kept, reviewed and published.
5. To remove any perception that the actions of a Board member have been influenced by a conflict of interest.
6. To ensure that public confidence in the governance of the Fund is maintained.

### Definitions used in this document

<b>“2011 Act”</b>	The Localism Act 2011 (as amended from time to time)
<b>“2013 Act”</b>	The Public Service Pensions Act 2013 (as amended from time to time)
<b>“Administering Authority”</b>	The administering authority for the Fund, Wiltshire Council. The Administering Authority is the scheme manager for the purposes of the 2013 Act.
<b>“Board”</b>	The Wiltshire Pension Fund Local Pension Board
<b>“Code”</b>	The Pensions Regulator’s Code of Practice no. 14: Governance and administration of public service pension schemes (as amended from time to time)
<b>“Committee”</b>	The Wiltshire Pension Fund Committee
<b>“Conflict Policy”</b>	The conflict of interest policy of the Board set out in the Terms of Reference (as amended from time to time)
<b>“Councillor”</b>	An elected or co-opted member of a local authority
<b>“Declaration of Interest Form”</b>	The form used to declare Relevant Interests as amended from time to time, currently as attached to this document at Appendix 1
<b>“Fund”</b>	The Wiltshire Pension Fund within the LGPS, managed and administered by the Administering Authority
<b>“Relevant Interest”</b>	Any company directorship, trusteeship, other post (whether remunerated or not), financial interest or personal interest belonging to a Board member or a Board member’s spouse, civil partner or cohabitee, where such interest is likely to be affected by, or relevant to, the work of the Board.
<b>“Register of Member Interests”</b>	The register of member interests kept by Democratic Services to record Relevant Interests. Democratic Services is the Board Secretary for the purposes of the Terms of Reference
<b>“Regulations”</b>	The Local Government Pension Scheme Regulations 2013 (as amended from time to time)
<b>“Scheme Advisory Board”</b>	The Local Government Pension Scheme Advisory Board set up under section 7 of the 2013 Act
<b>“<del>Shadow</del> SAB Guidance”</b>	Local Government Pension Scheme (LGPS): Guidance on the creation and operation of Local Pension Boards in England and Wales

## 1. Code of Conduct for Board members

### Government guidance on conduct of local pension board members

The Scheme Advisory Board provides advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the LGPS and their pension funds. The Scheme Advisory Board's predecessor was the Shadow Scheme Advisory Board. The Shadow Scheme Advisory Board published will be adopting the Shadow SAB Guidance. Therefore the Administering Authority and the Board should have regard to the Shadow SAB Guidance to assist with the effective and efficient administration and management of the Fund. Section 7 of the Shadow SAB Guidance deals with conduct of local pension board members.

### Code of Conduct

Board members must have regard to the "Seven Principles of Public Life" (also known as the Nolan Principles). As members of a publicly-funded body involved in the discharge of public business, all Board members must comply with these principles in the exercise of their functions. The principles require the highest standards of conduct.

The Seven Principles of Public Life are:

**Selflessness** - Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

**Integrity** - Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

**Objectivity** - In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

**Accountability** - Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

**Openness** - Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands it.

**Honesty** - Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

**Leadership** - Holders of public office should promote and support these principles by leadership and example.

Information provided to a Board member in the course of his or her duties is confidential and must only be used for the purposes of the Board. Board members must not disclose any information given to them in confidence without the written consent of a person who is authorised to give it, or unless required by law to do so. Board members must seek the advice of Democratic Services before disclosing any information given in confidence.

Board members should not accept any personal gifts or hospitality from any individual or organisation (including contractors and/or outside suppliers) which has or may have a specific interest in the work of the Board.

Regulation 107 of the 2013 Regulations allows Councillors to sit on a local pension board in certain circumstances. Councillors are subject to the separate code of conduct adopted by their local authority in accordance with the 2011 Act. This separate statutory requirement will continue to apply to any Board members who are Councillors in addition to the code of conduct above.

## 2. Conflict of Interest Policy Guidelines

### What is a Conflict of Interest?

The 2013 Act makes it a legal requirement that members of local pension boards do not have a conflict of interest. Section 5(5) of the 2013 Act defines a conflict of interest as;

*A financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)*

A conflict of interest may arise when a member of a local pension board:

- must fulfil their legal duty to assist the Administering Authority; and
- at the same time has:
  - a separate personal interest (financial or otherwise); or
  - another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility as a local pension board member.

A possible conflict could also arise due to a member's partner, family member or close associate having a specific responsibility or interest in a matter.

The key issue for a Board member is to consider whether they are subject to a conflict of interest which prevents them from acting entirely independently in their capacity as Board member. It is recognised that from time to time a person may have interests or responsibilities which are not aligned with their responsibilities as a Board member, but these do not prevent the person from fulfilling their responsibilities as a Board member. This situation may occur when the separate interest is sufficiently immaterial and so does not conflict with the member's first obligation to the Board.

### Relevant Legislation

The Regulations effect the requirements of section 5 of the 2013 Act in relation to the LGPS.

Regulation 108 of the Regulations states:

#### **108 Local pension boards: conflict of interest**

(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest.

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Regulations 108(1) and (3) prohibit conflicts and require information from each Board member at the time of their appointment, and regulations 108 (2) and (4) deal with the same requirements during office.

Regulation 107 allows for Councillors to sit on a local pension board in certain circumstances. The 2011 Act imposes a legal obligation on Councillors to disclose certain pecuniary interests in a register maintained by their local authority's monitoring officer. This separate statutory requirement will continue to apply to any Board members who are Councillors in addition to the relevant legislation, codes of practice and government guidance referred to in the Conflict Policy and these guidelines. Nothing in the Conflict Policy or these guidelines in any way supersedes or replaces the separate statutory requirements for Councillors.

### **The Pensions Regulator's Code: Conflicts of Interest**

The Pensions Regulator has responsibility for regulatory oversight of the governance and administration of public service pension schemes, including the LGPS. The Pensions Regulator has published guidance in the Code. Paragraphs 61 to 89 of the Code deal with conflicts of interest.

### **Other Guidance on Conflicts of Interest**

The Administering Authority and the Board should have regard to the ~~Shadow~~-SAB Guidance to assist with the effective and efficient administration and management of the Fund. Section 7 of the ~~Shadow~~-SAB Guidance deals with conflicts of interest.

### **Policy Guidelines**

#### **1. Identifying and monitoring Conflicts of Interest**

##### **The Board must:**

- identify, monitor and manage dual interests and responsibilities which are or have the potential to become actual or perceived conflicts of interest. In determining how to manage conflicts of interest the Board must comply with the 2013 Act, the Regulations, the Code and other relevant guidance from the Pensions Regulator, the Conflict Policy and these guidelines;
- ensure that conflicts of interest are considered at every Board meeting;
- ensure that a report is sent to the Administering Authority after each Board meeting and at other times upon the Administering Authority's reasonable request detailing declared interests and mitigation action taken;
- ensure that Democratic Services (the Board Secretary) is notified at the earliest opportunity of any declared interests;
- seek further advice from Democratic Services wherever the Board has any doubt about the duties set out in these guidelines;

- consider obtaining legal advice when assessing any option to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of the Board.

#### All Board members must:

- be familiar with the Conflict Policy, these guidelines, relevant legislation, the Code and the ~~Shadow~~-SAB Guidance;
- be conscious of the need to be open about potential, perceived and actual conflicts;
- before appointment to the Board, disclose to Wiltshire Council all Relevant Interests using the Declaration of Interest Form;
- during office, disclose to the Board all Relevant Interests as soon as they arise by submitting the Declaration of Interest Form to Democratic Services;
- during any meeting of the Board, disclose any Relevant Interest to the Board prior to the commencement of the Board's discussion of that matter. This requirement applies regardless of whether the interest is already recorded in the Register of Board Members' Interests. In cases of exceptional sensitivity, a Board member may make a notification of a Relevant Interest to the Chair of the Board rather than to the full Board;
- provide any information reasonably requested by the Administering Authority in connection with the Authority's duty to ensure that conflicts of interest do not exist.

#### Democratic Services (the Board Secretary) will:

- record declared interests in the Register of Member Interests;
- ensure that the Register of Member Interests (as updated from time to time) is published on the Board's webpage on the Administering Authority's website;
- ensure that the Register of Member Interests (as updated from time to time) is circulated to all Board members for review prior to each Board meeting;
- ensure that all Board meetings open with a standing item titled Declarations of Interest. This will allow Board members to notify existing and new Relevant Interests, so that potential conflicts can be considered for each agenda item and managed as set out below;
- minute any disclosure by a Board member made during a Board meeting together with all decisions of the Board relating to that disclosure;
- ensure that all Board meetings include a standing item titled Forward Work Plan, to consider decisions to be taken and work to be carried out by the Board over the next year. This will allow mitigations to be put in place so that potential conflicts can be managed as set out below.

#### The Administering Authority must:

- be satisfied that no potential Board member has a conflict of interest at appointment;
- be satisfied that no Board member has a conflict of interest during office;
- use an appointment process which considers all applications from potential Board members prior to approval in order to ensure that no conflict exists. The potential for a conflict to arise at some point in future will not in itself be reason to exclude an individual from membership of the Board, unless the Administering Authority considers that the likelihood of a conflict arising is so high or



the conflict itself is likely to arise persistently and frequently enough that it is likely to compromise an individual's ability to participate meaningfully on the Board;

- keep this document under regular review.

## **2. Managing Conflicts of Interest**

In the event that the Board is of the view that a potential conflict of interest may become an actual or perceived conflict in respect of one or more of its members, the Board must determine the appropriate mechanism for managing that conflict. The approach taken will depend on the nature and extent of the potential conflict. Some possible methods for the management of potential conflicts are given below:

- Requiring that the Board member for whom the conflict exists takes no part in discussions or votes in respect of the matter for which they are conflicted, or leave the meeting;
- If practical, the Board member may relinquish or divest themselves of a personal interest which is the source of a conflict of interest with their Board responsibilities;
- If the conflict is likely to persist and continue in such a way that it is likely limit a Board member's meaningful participation in the Board, that member should consider resigning from their position.

The Administering Authority may remove any Board member where it considers there is an actual or potential conflict of interest which is impractical to manage.

## **3. Perceived Conflicts of Interest**

Board members should be aware that even if no actual conflict of interest exists, it is important to guard against the perception among, for example, Scheme members, the Pensions Regulator, elected members or the general public that a real conflict of interest exists.

If there is the possibility that a perceived conflict of interest may exist, it should be managed by the Board in the same way as a real conflict of interest.

## **4. Confidential Information**

A Board member may, by virtue of their employment by an employing authority within the Fund, have access to confidential information about their employer.

A Board member is not obliged to reveal this information as part of their role on the Board.

However, if an affected Board member considers that the information to which they are party may:

- a) adversely affect the Fund or an employer within the Fund;
- b) reasonably cause the Board to interpret a decision by the Pension Committee differently or act in a different way were the information to be known at the time; and
- c) the information will not be made available to the Board through some other means within such time as the Board is able fully to act upon it,

that Board member shall withdraw from all discussion in relation to that issue and notify the Board that a conflict of interest exists. The details of the conflict need not be disclosed.

This scenario may occur where a Board member is aware of legally confidential negotiations around, for example, the takeover of a Fund employer which may radically alter that business and have a corresponding effect on its participation in the Fund or the size of its liabilities.

## 5. Adviser and Officer Conflicts

The Board will be supported and advised by officers of the Fund in its day to day business. Similarly the Board may, if appropriate, seek independent or professional advice, for example legal advice or governance advice.

The Board must be confident that the advice it receives from officers and advisers is independent and truly in the best interests of the Fund. For this reason officers and advisers giving advice to the Board must also declare any situation where a potential, perceived or actual conflict exists, in order that it can be appropriately managed.

## 6. Examples of conflicts of interest

The following are intended to be examples of potential conflicts for illustrative purposes. The list is not exhaustive and is not intended to provide all the scenarios in which a conflict of interest may arise.

### Example 1

There may be situations where a member of a local pension board who is also an officer for the relevant administering authority or some other employer in the LGPS pension fund faces conflicting priorities by virtue of their two roles. For example, as a local pension board member they may make or scrutinise a decision which requires the use of greater employer resource in order to improve the administration and efficiency of the relevant fund. However, at the same time they may be facing departmental pressure to cut budgets and spend less on pension administration matters.

### Example 2

A local pension board is reviewing a decision by an administering authority to levy an additional charge under the Regulations to a group of employers whose poor performance in carrying out their statutory functions in respect of the LGPS has caused the administering authority additional costs. Any employer representative on the local pension board who is employed by an employer who falls into this category would need to declare their interest and the resulting conflict of interest would need to be managed.

### Example 3

It is possible that a scheme member representative is also employed by a firm to whom an LGPS pension fund's administration has been outsourced. Such a member is likely to face a conflict of interest when the performance of that company in respect of their administration performance is discussed.

### Example of where a declared interest may not constitute a conflict of interest

A representative on a local pension board holds shares in a company that provides outsourced pension administration services as part of a varied portfolio. The shares are valued at a few hundred pounds and the company's value is many tens of millions. The local pension board is reviewing the decision to outsource the relevant LGPS pension fund's administration staff to that company.

In this case the local pension board may consider that on grounds of materiality, no conflict of interest exists. The local pension board is not responsible for the decision and the impact of the outsourcing will have no effect on the company's share price. The local pension board member in question should, however, still declare their interest.

## Appendix 1: Declaration of Interest Form

I, .....

a member of the Wiltshire Pension Fund Local Pension Board (the "Board") give notice that I, and to the best of my knowledge my spouse, civil partner, person with whom I live as husband or wife, or person with whom I live with as a civil partner have the following Relevant Interests as defined in the Committee's conflict of interest policy guidelines (Please state none where appropriate)

### 1. Employment, office, trade, profession or vocation

You should disclose any employment, office (e.g. director or trustee), trade, profession or vocation carried on whether or not for profit or gain, including the name and address of the employer/appointor.

Member

--

Spouse/Civil Partner/Cohabitee

--

### 2. Contracts

You should detail any current contract under which goods or services are to be provided or works are to be executed and where any other party to the contract may be affected by the work of the Board.

Member

--

Spouse/Civil Partner/Cohabitee

--

### 2. Securities

You should detail any beneficial interest in securities which may be a Relevant Interest where either the total nominal value of the securities exceeds £25,000 or one hundredth of

the total issued share capital, or one hundredth of the total issued share capital of any class of shares issued.

Member

--

Spouse/Civil Partner/Cohabitee

--

### 3. Disclosure of Gifts and Hospitality

You should reveal the name of any person from whom you have received a gift or hospitality with an estimated value of at least £50 which you have received in your capacity as a member of the Board.

Date of receipt of Gift/Hospitality	Name of Donor	Reason and Nature of Gift/Hospitality

### 4. Other Interests which may be Relevant Interests under the Committee's Conflict of Interest Policy Guidelines

Member

--

Spouse/Civil Partner/Cohabitee

--

### 5. Changes to Registered Interests

I understand that I must notify the Board Secretary at the earliest opportunity of any changes

or additions to my Relevant Interests.

Signed:

Board Member

Date:

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## **Appendix A- Benchmarking exercise**

### **Avon Pension Board**

The same Policy and Register of Interest form as Wiltshire available [here](#).

### **Merseyside Pension Board**

A similar standard of Policy to Wiltshire and similar format Register of Interest form available [here](#).

Greater detail on Gifts and Hospitality available [here](#).

### **Devon Pension Board**

A similar standard of Policy to Wiltshire (to be read in conjunction with the Council's standing orders) and similar format Register of Interest form available [here](#).

Lesser guidelines on Gifts and Hospitality and potential conflicts of interest in respect of officers and advisers.

### **Cornwall Pension Board**

A similar standard of Policy to Wiltshire available [here](#) and [here](#).

A similar format Register of Interest form to Wiltshire available [here](#).

Lesser guidelines on Gifts and Hospitality and potential conflict of interest in respect of officers.

### **Cardiff and Vale of Glamorgan Pension Board**

A similar standard of Policy and Register of Interest form to Wiltshire outlined in the Board's Terms of Reference [here](#) when read in conjunction with the Council's [standing orders](#).

Lesser guidelines on potential conflicts of interest in respect of officers and advisers.

### **Oxfordshire Pension Board**

The Board does not have any Policies on Code of Conduct or Conflict of Interest over and above its [Terms of Reference](#).

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## WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE  
15 December 2016

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### **STEWARDSHIP CODE COMPLIANCE STATEMENT**

#### **Purpose of the Report**

1. This report provides Members with an updated Stewardship Code Compliance Statement.

#### **Background**

2. The voluntary requirement for the Fund to produce a compliance statement with the Stewardship Code was introduced by the Financial Reporting Council (FRC) in 2010. This compliance statement outlines how institutional investors disclose and discharge their stewardship responsibilities with reference to the assets it owns.
3. The Fund first published a statement in September 2011 and has reviewed this annually as part of the Fund's Statement of Investment Principles.

#### **Considerations for the Committee**

##### *The Revised Statement*

4. In December 2015, the FRC announced it would write to all signatories to the Stewardship Code with an initial assessment of the quality of their reporting against the Code.
5. In June 2016, the Fund received a letter stating that initially the Fund had been assessed as a Tier 2 signatory. A Tier 2 signatory was assessed as not currently meeting the expectations of the code.
6. The Fund was invited to engage directly with FRC and to meet with their representatives to discuss how the Fund's statement could be redesigned and amended.
7. Officers met with representatives in August 2016 and resubmitted a revised statement in September 2016 (Annex 1).
8. The revised statement has now been assessed as Tier 1. A Tier 1 assessment means the Fund now meets the reporting expectations of FRC in the way they disclose their stewardship responsibilities.

#### **Environmental Impact of the Proposals**

9. Not applicable

#### **Financial Considerations & Risk Assessment**

10. There are no significant financial implications from this report.
11. This paper does not include new policy proposals. The Stewardship Code Statement attempts to mitigate the risks outlined in PEN007 *Significant rises in employers contributions due to poor investment returns* outlined in the Fund's Risk Register.

**Safeguarding Considerations/Public Health Implications/Equalities Impact**

12. There are no known implications at this time.

**Reasons for Proposals**

13. To ensure the Wiltshire Pension Fund is compliant with the Stewardship Code.

**Proposal**

14. The Committee is asked to note the revised Stewardship Code Statement.

MICHAEL HUDSON  
Treasurer to the Wiltshire Pension Fund

Report Author: Catherine Dix, Strategic Pension Manager

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Unpublished documents relied upon in the production of this report:       None

## **Annex 1**

### **Wiltshire Pension Fund, Statement of Compliance with Stewardship Code 2016**

#### **WILTSHIRE PENSION FUND**

##### **Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

Wiltshire Pension Fund takes its responsibilities as a shareholder seriously. Our stewardship responsibilities extend over all assets of the Fund. All of our global equities managers currently comply fully with the code.

The Fund has published policy documents which identify how we meet our Stewardship responsibilities and these include, but are not limited to, our Statement of Investment Principles, our Voting Policy and our Governance Compliance Statement. These documents cover the following areas:

- Monitoring of manager decisions
- The exercise of voting rights
- Risk measurement and management
- ESG consideration in the Tender selection, retention and realisation of investments.
- Statement of compliance with the Myners Principles
- Stock lending

In practice the Fund's policy is to apply the Code both through its arrangements with asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF). In addition, the Fund expects its Asset Managers to take account of social, environmental and ethical considerations when making investment decisions. The objective of LAPFF is to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the forum brings together a diverse range of local authority pension funds with combined assets of over £175 billion.

The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this in Partnership with Pensions & Investment Research Consultants Limited (PIRC).

We have amended our Statement of Investment Principles in recognition of the revised Stewardship Code which came into effect in October 2012. Furthermore, The Wiltshire Pension Fund published its compliance with the Code during 2011 and this is reviewed annually.

All new investment management agreements will now include the requirement for managers to observe the FRC's UK Corporate Governance Code and UK Stewardship code. Due diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Conduct Authority's registration.

All relevant managers have published a Statement of Commitment to the code (see appendix 1 which lists the links to these statements) and all appropriate managers, (or in the case of one manager, their parent company), are signatories to the UN PRI, as evidenced on the UN PRI website.

**Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

Wiltshire Pension Fund encourages all its asset managers to have effective policies in place to address potential conflicts of interest. The need to avoid conflicts of interest is also highlighted in our asset manager mandates and contracts with external parties.

All equity managers are instructed to vote in line with PIRC recommendations. Should a conflict arise the asset manager would notify the Fund and the ultimate decision would be made by officers in consultation with the Chairman of the Pension Committee.

In respect of conflicts of interests within the Fund, Committee members are required to make declarations of interest at the start of all Committee and Investment sub-group meetings. A public register of interests is maintained for all Councillors and could be subject to audit inspection at any time. Members are responsible for updating their register as and when their interests change. This is overseen by the Monitoring Officer. If a member declares that they have an interest at the start of a meeting, then the context would determine the action that would be taken i.e. if they declare that they have an interest that is either personal or financial to an item on the agenda, then they would more than likely be asked to leave the room for that item and would be excluded from any voting activities. It is also worth noting that all members, including members of the Wiltshire Pension Fund Committee, are covered by a code of conduct and this can be viewed on the Council's website at the following link <http://cms.wiltshire.gov.uk/documents/s120932/Part%2012%20-%20Code%20of%20Conduct.pdf>

Wiltshire Pension Fund is administered by Wiltshire Council. All non-teaching employees of Wiltshire Council (which includes members of staff employed by Wiltshire Pension Fund) are governed by the Council's Code of Conduct which is published on the Council's website. The Code of Conduct includes a section on conflicts of interest and the expectations placed upon Council employees (the requirement to handle public funds in a responsible and lawful manner for example). Any member of staff found to be in breach of the policy may be the subject of disciplinary action and could be subject to dismissal. This includes staff who administers the investment side of the Fund. The Council also has a whistleblowing policy to enable staff to raise any concerns that they may have.

All of the Fund's managers have confirmed that they have conflict of interest policies in place and these are subject to regular review. All managers have confirmed that they have a conflict of interests board/ separate Committee to monitor and investigate conflicts of interest.

**Principle 3 – Institutional investors should monitor their investee companies.**

Day-to-day responsibility for managing our equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on engagement activities. Reports from our asset managers detailing engagement activities are available for the Pensions Committee on a quarterly basis. The Fund understands that regardless of this delegation, we retain overall responsibility for the Stewardship and responsible investment of the Fund assets.

The Fund engages with its asset managers on a regular basis using a variety of means including phone, email, in person and using formal written correspondence. The Fund uses its engagement with managers to monitor performance, evaluate risk, and to become aware of any ESG issues and opportunities.

Wiltshire Pension Fund monitors its asset managers very closely. We receive quarterly performance reports from each manager and information in the reports is discussed with managers at our meetings with them and also reported to and reviewed by Committee every quarter. The Fund also employs the services of an investment consultant. The investment consultant assists the Fund in the monitoring of its managers and produces a Quarterly Performance Update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. Each of the managers meets with Committee once a year, and also with officers of the Fund once a year. Additional meetings with managers may also be arranged on an ad-hoc basis according to need. Manager performance is also reported annually in the Fund Annual Report which is published on the Fund website and made widely available to stakeholders.

The Fund receives Internal Control Reports from managers and our custodian every year and these are reviewed by officers of the Fund annually.

The Fund expects its managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments and believes that this forms part of the manager's fiduciary duty to protect long term shareholder value. As such, the Fund has a commitment to ensuring that companies that it invests in adopt a responsible attitude toward the environment, and adopt high ethical standards and behave in a socially responsible manner by taking into account the interests of all stakeholders. The Fund seeks to achieve this objective by raising issues with companies in which it invests, to raise standards in a way that is consistent with long term shareholder value. Again, the Fund primarily uses its membership of LAPFF to affect this policy.

Wiltshire Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which has enabled us to develop our approach to shareholder engagement and responsible investment. Collective engagement through LAPFF enables us to maximise our influence. Officers of the Fund regularly attend LAPFF business meetings, which include presentations from expert speakers and detailed updates on engagement and policy work.

Wiltshire Pension Fund manages its ownership responsibilities in partnership with PIRC. The Fund receives quarterly reports from PIRC and these are published and made available to members in a secure area on the Wiltshire Pension Fund website. Furthermore our membership of PIRC enables us to benefit from their voting alerts service which highlights companies with material corporate governance failings. Full details of the alerts can be viewed on the LAPFF website in the members' area.

As an asset owner, Wiltshire Pension Fund owns a proportion of the assets we invest in and thus we seek to use our influence as an asset owner to encourage the companies we invest in to act in a responsible manner.

**Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.**

As highlighted above, responsibility for day to day interaction with companies is delegated to the fund managers, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statement of adherence to the Stewardship Code (see appendix 1 below) and may include the following activities:

1. Additional Meetings with management
2. Intervening jointly with other institutions – e.g. Fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGM's

3. Promotion of UNPRI principles
4. Writing a letter to the board or meeting the board
5. Submitting resolutions at general meetings and actively attending to vote
6. Divestment of shares

Occasionally, the Fund may choose to escalate activity directly, principally through engagement activity by the Local Authority Pension Fund Forum. When this happens the Chairman of the Pension Committee, in communication with the Vice Chairman, Treasurer to the Pension Fund and Head of Pensions will decide whether to participate in the proposed activity. Any concerns with the managers are added for discussion in the Investment Committee agenda and where there are specific concerns, the relevant managers will be invited to Investment Subcommittee to discuss concerns. As mentioned above, the Fund employs the services of an investment consultant, who, along with officers of the Fund, closely monitors the performance of the Fund Asset Managers. They help the Fund to monitor performance of the Fund and flag up any issues that it feels require consideration. The Investment Consultant will attend Committee meetings and assist the Committee in the questioning of the managers and in the discussions that follow, helping the Committee by providing any guidance they need to help them to make the right decisions for the Funds interests. Further details are contained within the SIP which is available on the Wiltshire Pension Fund website and can be found on the following link

<http://www.wiltshirepensionfund.org.uk/statement-of-investment-principles-2015.pdf>.

**Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.**

Wiltshire Pension Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund acts collectively with other Funds and organisations through a variety of means. This includes (but is not limited to) networking with other Funds, through participation in the Brunel Pension Partnership project (pooling of LGPS investment activities) and through our membership of the Local Authority Pension Fund Forum, LAPFF, which engages with companies over environmental, social and governance issues on behalf of its members.

The Fund also works closely with its asset managers, engaging with them on a regular basis and with other organisations such as LAPFF and PLSA. All of our managers work closely with other organisations as part of their collaborative engagements, advocacy and research activities, details of which are given in their quarterly and annual reports which are reported to Committee.

Each year, various officers and members of the Pension Committee attend LAPFF business meetings which include presentations from expert speakers and detailed updates on engagement and policy work. The Fund uses its membership of LAPFF to work collaboratively with other organisations, to engage in the companies in which it invests, the idea being that the Fund will wield more influence by collaboratively engaging with other investors.

The Fund collaborates and works closely with other Funds on various projects such as the National Pooling Initiative. Representatives from the Fund regularly attend various pension forums and conferences in order to stay abreast with the latest developments affecting LGPS pensions and investment markets and to use it as an opportunity to network and collaborate with other Funds and organisations connected to the LGPS and in doing so, benefit from the opportunities this presents.

The Fund's contact in relation to Stewardship activities is Rozalyn Vernon, Pension Fund Accountant.

**Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activities.**

Wiltshire Pension Fund manages its ownership responsibilities in partnership with PIRC. The Wiltshire Pension Fund committee have reviewed and agreed to adopt PIRC's shareholder voting guidelines. These voting guidelines are regularly updated and publicly available on their website. PIRC provide a proxy voting service across the holdings of all our global equity managers. PIRC's voting guidelines, which have been approved by the Fund, are based on their expertise and track record of monitoring and developing corporate governance best practice spanning environmental, social and governance factors. They link their underlying Shareholder Voting Guidelines to the UK Corporate Code, published by the Financial Reporting Council in 2010 and subsequent revisions. PIRC's approach to best practice in corporate governance also in some areas goes beyond the existing legal and regulatory requirements. The Fund receives proxy research and voting recommendations for each company AGM and EGM holding the Fund has that can be voted. PIRC reports quarterly on its voting activity and these reports are available to Committee members through the website. PIRC are also available to present to the Committee which assists Members to play a more active role in the Fund's voting activities.

As outlined in the paragraph above, Wiltshire Pension Fund manages its ownership responsibilities through PIRC and Investment Managers do not have any voting discretion. There are on occasion times when managers put forward proposals. These will be considered by the Fund with the ultimate decision being made in consultation with the Chairman of the Pension Committee.

**Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.**

Wiltshire Pension Fund annually reviews and updates its Statement of Investment Principles, which sets out the Fund's approach to responsible investing.

Wiltshire Pension Fund uses the Local Authority Pension Fund Forum (LAPFF) to undertake engagement activity. The activity undertaken by LAPFF is regularly made available to Committee.

Voting activity is reported to members of Committee via reports received from PIRC who provide a proxy voting service to the Fund and are made available on a secure area of the WPF website that members can access. Members and officers of the Fund receive voting alerts from PIRC and full details are available on the LAPFF website in the members' area.

The Fund's managers provide reports on an annual and quarterly basis, detailing their performance against benchmark along with details of collaborative engagements, advocacy and research activities. These are reported to Committee and made available to members on a secure area of the WPF website.

We ask that all our managers provide us with a copy of their latest regulatory control report each year and these are reviewed by officers of the Fund annually and subject to periodic audit. These reports form part of the Fund's controls against the loss of Fund assets through misappropriation or fraud.

All of the Fund's managers are independently verified by an external auditor, details of which are found in their ISAE 3402 made available by request or publically on their websites.

Where there are exceptions the Fund would seek clarification from managers and reports its findings to the Committee.

**Wiltshire Pension Fund  
September 2016**

Appendix 1

**Manager Stewardship Code Statements**

Manager	Link
<b>Baillie Gifford</b>	<a href="https://www.bailliegifford.com/about-us/literature-library/corporate-governance/global-corporate-governance-principles-and-guidelines/">https://www.bailliegifford.com/about-us/literature-library/corporate-governance/global-corporate-governance-principles-and-guidelines/</a> (see page 8)
<b>Barings</b>	<a href="http://www.barings.com/ucm/groups/public/documents/policiesprocedures/170433.pdf">http://www.barings.com/ucm/groups/public/documents/policiesprocedures/170433.pdf</a>
<b>CBRE</b>	Document is held directly with Wiltshire Pension Fund and is available on request
<b>M&amp;G</b>	<a href="http://www.mandg.com/en/corporate/about-mg/responsible-investment/the-uk-stewardship-code/">http://www.mandg.com/en/corporate/about-mg/responsible-investment/the-uk-stewardship-code/</a>
<b>Investec</b>	<a href="http://www.investecassetmanagement.com/united-kingdom/professional-investor/document/pdf/Investec-UK-Stewardship-Compliance-Statement.pdf">http://www.investecassetmanagement.com/united-kingdom/professional-investor/document/pdf/Investec-UK-Stewardship-Compliance-Statement.pdf</a>
<b>Legal &amp; General</b>	<a href="http://www.lgim.com/uk/en/capabilities/corporate-governance/policies/">http://www.lgim.com/uk/en/capabilities/corporate-governance/policies/</a>
<b>Loomis</b>	<a href="http://www.loomissaylesinvestmentslimited.co.uk/uk/internet.nsf/content?readform&amp;ctype=landing&amp;channel=about&amp;id=5-4">http://www.loomissaylesinvestmentslimited.co.uk/uk/internet.nsf/content?readform&amp;ctype=landing&amp;channel=about&amp;id=5-4</a>

N.B. Signatories from time to time will update their policies. In the instance that the above links are no longer active the most recently submitted statements can be located on the FRC website:

<https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code/UK-Stewardship-Code-statements.aspx>



## WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE  
15 December 2016

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### WILTSHIRE PENSION FUND RISK REGISTER

#### Purpose of the Report

1. The purpose of this report is to update the Committee in relation to changes to the Fund's Risk Register (see Appendix).

#### Background

2. The Committee approved a Risk Register for the Wiltshire Pension Fund at its meeting on 12 May 2009. Members requested that the highlights, particularly upward/downward movements in individual risks, be reported back to the Committee on a quarterly basis.

#### Key Considerations for the Committee / Risk Assessment

3. The significance of risks is measured by interaction of the likelihood of occurrence (likelihood) and the potential impact of such an occurrence (impact). This register uses the Council's standard "4x4" approach, which produces a risk status of Red, Amber or Green (RAG).
4. There are two changes to the risks since the last report on 29 September 2016. All these changes relate to the regulatory and governance aspects of the Fund.
5. **PEN006b: Significant rises in employer contributions for non-secure employers due to increases in liabilities.** This has moved from amber to green following the results of the 2016 triennial valuation being presented to Committee in October. The increases in non-secure employers contributions rates has for the majority been limited as a result of better than expected investment returns, improved membership liability experience and changes to the actuarial assumptions. For those few employers that have seen larger increases the risk based framework for the review of employer covenant strength is now in place that can be utilised, if required, to phase in the increases.
6. **PEN011: Lack of expertise of Pension Fund Officers.** This has reduced from amber to green following the appointment of the Technical & Compliance Manager to cover the Benefit's Manager maternity leave, with Hymans Robertson providing additional technical support over the next 6-9 months. This will ensure, in the short term levels of expertise are maintained at adequate levels for the provision of service. Over the longer term, this position will be reviewed once the impact from Brunel Pension Partnership pooling is better understood.
7. Also to note is that **PEN020: Pooling of LGPS assets** remains a red risk. There is significant amount of resource required by officers to progress this project should the full business case be approved. However, additional support has now been arranged with the Fund's benefits consultants to provide extra resources over the next 6-9 months. This position will be kept under review as a better understanding of the potential movement of staff out of the Fund to the Brunel pool should be known by mid 2017.
8. Work continues to mitigate where possible the risks above along with the other remaining medium risks highlighted on the risk register.

**Financial Implications**

9. There are no known implications from the proposals.

**Legal Implications**

10. There are no known implications from the proposals.

**Environmental Impacts of the Proposals**

11. There is no known environmental impact of this report.

**Safeguarding Considerations/Public Health Implications/Equalities Impact**

12. There are no known implications at this time.

**Proposals**

13. The Committee is asked to note the attached Risk Register and measures being taken to mitigate risks.

MICHAEL HUDSON  
Treasurer to the Pension Fund

Report Author: David Anthony, Head of Pensions

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Unpublished documents relied upon in the production of this report: NONE

Wiltshire Pension Fund Risk Register							06-Dec-16			Current Risk Rating			Target Risk Rating						
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN001	Failure to process pension payments and lump sums on time	Benefits Administration	Non-availability of ALTAIR pensions system, SAP payroll system, key staff, or error, omission, etc.	Retiring staff will be paid late, which may have implications for their own finances. It also has reputational risk for the Fund and a financial cost to the employers if interest has to be paid to the members.	David Anthony	Maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. Adherence to Pension Administration Strategy and regular monitoring of performance. Documentation of processes and reconciliations.	2	2	4	Low	None	David Anthony		2	2	4	Low	6 Dec 16	→
PEN004	Inability to keep service going due to loss of main office, computer system or staff	Benefits Administration	Fire, bomb, flood, etc.	Temporary loss of ability to provide service	David Anthony	Business Continuity Plan reviewed in Dec 2015 and in place. The team have the ability to work from home or remotely if required. The pension system is also hosted by its supplier, which reduces the risk should Wiltshire Council's IT servers fail. The Fund also operates a paperless office.	4	1	4	Low	None	David Anthony		4	1	4	Low	6 Dec 16	→
PEN005	Loss of funds through fraud or misappropriation	Benefits Administration	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the Fund	David Anthony	Internal and External Audit regularly test that appropriate controls are in place and working. Regulatory control reports from investment managers, custodian, etc, are also reviewed by audit. Due Diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Services Authority registration.	4	1	4	Low	None	Catherine Dix		4	1	4	Low	6 Dec 16	→
PEN014	Failure to provide the service in accordance with sound equality principles	Benefits Administration	Failure to recognise that different customers have different needs and sensitivities.	Some customers may not be able to access the service properly or may be offended and raise complaints. At worst case, this could result in a court case, etc.	David Anthony	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	2	1	2	Low	None	David Anthony		2	1	2	Low	6 Dec 16	→
PEN021	Ability to Implement the Public Sector Exit Cap	Benefits Administration	Introduction of exit cap will require an additional burden on the administration team.	Changes need to be communicated to individuals and employers and systems adapted once the revised regulations have been approved	David Anthony	Currently monitoring the progress of the current consultations and responding where appropriate. Briefings being provided to team and stakeholders. Concern that further information is still pending from Government.	2	2	4	Low	Discussions with employers on how to implement. Training for the team on how to implement. Project to amend systems and letters to accommodate changes. Not anticipating implementation until April 2017.	Craig Payne	Apr-17	1	3	3	Low	6 Dec 16	→
PEN022	Reconciliation of GMP records	Benefits Administration	From 1 April 2016 SERPS will cease and HMRC no longer provide GMP data on members. Fund will be unable to check accuracy of its GMP records.	If GMP records for members is inaccurate there is the potential for incorrect liabilities being paid by the Fund.	David Anthony	Project has been set up and 2 Data Analysts employed to assist with resources. Additional software from Heywood's to process amendments in bulk has been purchased.	2	4	8	Medium	Reconciliation project on-going. Need to agree policies for tolerances with Committee.	Mark Anderson	Dec-17	1	3	3	Low	6 Dec 16	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN003	Insufficient funds to meet liabilities as they fall due	Funding & Investments	Contributions from employees / employers too low, failure of investment strategy to deliver adequate returns, significant increases in longevity, etc.	Immediate cash injections would be required from the scheme employers. This shouldn't be an issue for the Fund but it looks likely that investment income might need to be used within the next 12 months.	David Anthony	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, modelling of future cash flows.	2	2	4	Low	None	David Anthony		4	1	4	Low	6 Dec 16	→
PEN006a	Significant rises in employer contributions for secure employers due to increases in liabilities	Funding & Investments	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current price of gilts lead to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g. early retirements, augmented service, etc). Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers.	2	1	2	Low	The Stabilisation Policy has limited increases for secure employer. This approach has been used for the 2016 Valuation.	David Anthony		2	2	4	Low	6 Dec 16	→
PEN006b	Significant rises in employer contributions for non-secure employers due to increases in liabilities	Funding & Investments	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current price of gilts lead to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc). Quarterly monitoring as described above. The 2016 Valuation will set employer rates for the 3 years from April 2017.	2	2	4	Low	The rates for the 2016 Valuation were presented in October. The better than expected investment performance along with improving membership experience and reviewing of assumptions has meant most increases have not been significant.	David Anthony		2	2	4	Low	6 Dec 16	↓
PEN007a	Significant rises in employer contributions for secure employers due to poor/negative investment returns	Funding & Investments	Poor economic conditions, wrong investment strategy, poor selection of investment managers, poor consideration of all financial & non-financial risks including ESG issues.	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). Monthly review of % of Fund held in each mandate. Also a flight path strategy implemented to take off risk as funding levels improve. Fund member of LAPFF & uses PIRC to proxy vote on shares in line with agreed policy for ESG issues. Compliance with Stewardship code.	2	1	2	Low	The implementation of the Stabilisation Policy limits increases for secure employer. This policy has continued in the 2016 Valuation. A new Investment Strategy Statement will be implemented by April 2017.	David Anthony		2	2	4	Low	6 Dec 16	→
PEN007b	Significant rises in employer contributions for non-secure employers due to poor/negative investment returns	Funding & Investments	Poor economic conditions, wrong investment strategy, poor selection of investment managers, poor consideration of all financial & non-financial risks including ESG issues.	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). Monthly review of % of Fund held in each mandate. Also a flight path strategy implemented to take off risk as funding levels improve. Fund member of LAPFF & uses PIRC to proxy vote on shares in line with agreed policy for ESG issues. Compliance with Stewardship code.	2	2	4	Low	A risk based framework is now in place to review employers long term financial stability. This informs the policy for stepping in contribution rates to assist in affordability issues where requested by an employer. A new Investment Strategy Statement will be implemented by April 2017.	David Anthony		2	2	4	Low	6 Dec 16	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN015	Failure to collect payments from ceasing employers	Funding & Investments	When an employer no longer has any active members a cessation valuation is triggered and a payment is required if a funding deficit exists to meet future liabilities	Failure to collect cessation payments means the cost of funding future liabilities will fall against the Wiltshire Pension Fund	David Anthony	The Pension Fund Committee approved a new Cessation Policy in March 2016 to provide an updated agreed framework for recovery of payments. All new admitted bodies require a guarantor to join the Fund. It also provides additional flexibilities for the Fund dealing with employers cessation payments.	2	2	4	Low	Concern over ability for Head of Pensions to spend sufficient time covering the strategic employer issues with the on-going Brunel project. Additional time to be planned to assist in training Employer Relations Manager.	David Anthony		2	1	2	Low	6 Dec 16	---->
PEN016	Treasury Management	Funding & Investments	The Fund's treasury function is now segregated from Wiltshire Council. This includes the investment of surplus cash in money markets.	Exposure to counterparty risk with cash held with external deposit holders could impact of Funding level of the Fund	David Anthony	The Pension Fund agreed an updated Treasury Management Strategy at the March meeting which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £6m.	3	1	3	Low	The Council uses Sector's credit worthiness service using ratings from three rating agencies to provide a score. Surplus cash is transferred to the Custodian at month end ensuring cash balances are minimal.	Catherine Dix		3	1	3	Low	6 Dec 16	---->
PEN024	Impact of EU Referendum	Funding & Investments	The impact of the EU referendum	A vote to exit the EU may produce short term volatile market movements which could impact on asset performance.	David Anthony	The Fund has liaised with its investment managers on the potential impact of an exit. The Fund has agreed to revert to a 50% overseas equities hedged position for the current timeframe to reflect the current weakness of sterling.	3	2	6	Medium	Markets have appeared to have settled since the BREXIT vote. Concern still high that longer term investment returns might be adversely affected. Risk mitigation tools be considered by Investment Sub Committee to protect Fund from future downside risk.	Catherine Dix	Mar-17	3	1	3	Low	6 Dec 16	---->
PEN032	Failure to collect and account for contributions from employers and employees on time	Regulatory & Governance	Non-availability of SAP systems, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. LGPS 2014	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports and to the Fund's own year-end accounts.	David Anthony	Robust maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. We constantly work with employers to ensure they understand their responsibilities to pay by 19th of the month. The Breaches framework now require the Fund to log material late payments.	2	3	6	Medium	Undertaking review of framework for monitoring contributions. The amount of employers (170) to review and monitoring is too high for current resource level and in order to ensure compliance with TPR Code, need to ensure each missed payment is reported to Regulator after 90 days. A revised contributions framework is being implemented for January 2017.	Roz Vernon	Jan-17	2	2	4	Low	6 Dec 16	---->
PEN008	Failure to comply with LGPS and other regulations	Regulatory & Governance	Lack of technical expertise / staff resources to research regulations, IT systems not kept up-to-date with legislation, etc	Wrong pension payments made or estimates given. Investment in disallowed investment vehicles or failure to comply with governance standards. Effect: Unhappy customers, tribunals, Ombudsman rulings, fines, adverse audit reports, etc	David Anthony	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants. Technical & Compliance post reviews process and procedures and maintains training programme for the team. The Pension Regulator now has responsibility from 1 April 2015 for Public Sector Pension Schemes. Their code of practice includes a number of new requirements which the Fund has assessed itself against	2	3	6	Medium	Work continues to ensure the Fund can comply fully with the tPR Code of Practice requirements but this may lead to areas of non-compliance in the short term. Any "material" non-compliance will be reported to the Regulator. The Fund has reported to Committee the minor delay in the delivery of the Annual Benefit Statements. An audit report on the Fund's compliance will be reviewed by this Committee in March	David Anthony	Dec-16	2	2	4	Low	6 Dec 16	---->

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating			Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating			Date of Review	Direction of Travel	
							Impact	Likelihood	x				Level of risk	Impact	Likelihood			x
PEN009	Failure to hold personal data securely	Regulatory & Governance	Poor procedures for data transfer to partner organisations, poor security of system, poor data retention, disposal, backup and recovery policies and procedures.	Poor data, lost or compromised	David Anthony	Compliance with Wiltshire Council's Data Protection & IT Policies. Annual Data Protection training given to the team. On-going cleansing of data undertaken by Systems Team.	2	2	4	Low	Martin Downes		2	1	2	Low	6 Dec 16	→
PEN010	Failure to keep pension records up-to-date and accurate	Regulatory & Governance	Poor or non-existent notification to us by employers and members of new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	David Anthony	Systems Team constantly working to improve data quality, data validation checks carried out through external partners (e.g. the Fund's actuaries and tracing agencies), pro-active checks done through national fraud initiative.	2	3	6	Medium	Martin Downes	Jan-17	2	1	2	Low	6 Dec 16	→
PEN011	Lack of expertise of Pension Fund Officers and Service Director, Finance	Regulatory & Governance	Lack of training, continuous professional development and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments.	David Anthony	Officers ensure that they are trained and up-to-date in the key areas through attendance at relevant courses and seminars, reading, discussions with consultants and peers, etc. The Technical & Compliance Manager has formulated annual Training Plans and Relevant officers are also reviewed against the CIPFA Knowledge & Skills Framework to ensure adequate expertise exists.	2	2	4	Low	David Anthony		2	1	2	Low	6 Dec 16	↓
PEN012	Over-reliance on key officers	Regulatory & Governance	The specialist nature of the work means that there are inevitably relatively experts in investments and the local authority pension regulations	If someone leaves or becomes ill, a big knowledge gap if less behind.	David Anthony	Key people in the team are seeking to transfer specialist knowledge to colleagues. In the event of a knowledge gap, however, we can call on our external consultants and independent advisors for help in the short-term.	2	3	6	Medium	David Anthony	Mar-17	2	1	2	Low	6 Dec 16	→
PEN017	Lack of expertise on Pension Fund Committee	Regulatory & Governance	Lack of structured training and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments. There is also a requirement for Fund's to 'Comply or Explain' within their Annual Report on the skills knowledge of members of the Committee	David Anthony	Members are given Induction Training when they join the Committee, as well as subsequent opportunities to attend courses/seminars and specialist training at Committee ahead of key decisions. There is a Members' Training Plan and Governance Policy. Further training and advice can be called on from our consultants, independent advisors and investment managers too.	2	3	6	Medium	David Anthony		2	1	2	Low	6 Dec 16	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN019	Establishment of Local Pension Board & Investment Sub-Committee	Regulatory & Governance	Failure for Wiltshire Council to establish a Local Pension Board, from finding suitable representatives and the officer time required to support this Board and the newly formed pension sub-committee.	Reputational risk from a national perspective and failure to adhere to legislation resulting in action by the Government or the Pension Regulator. Ineffective operation of the Investment sub-Committee leading to bad decision making.	David Anthony	Local Pension Board, approved by Wiltshire Council on 24 February. Following. Recruitment has taken place and all places filled with first meeting scheduled for 16 July 2015, following induction session on 2 July 2015. These Boards will place additional demands on both Members, in particular the need to undertake training and the pension officers time in the support and provision of information.	2	2	4	Low	A review of the effectiveness of the Investment Sub-Committee was undertaken which indicates its effectiveness and positive contribution in considering investments in more detail and freeing up Pension Committee agenda time. The Local Pension Board Annual Report has shown how its been effective over the past 12 months in assisting in the effectiveness of administration of the Fund.	David Anthony		1	3	3	Low	6 Dec 16	---->
PEN020	Pooling of LGPS assets	Regulatory & Governance	The Fund needs to respond to the Government's consultation for significantly ambitious proposals for pooling of LGPS assets	If not involved in forming proposals the Government may impose of pooling arrangement on the Fund over which it has not control. If implemented incorrectly this could be costly in terms of additional fees and poor investment returns.	David Anthony	The Fund is being proactive in exploring options with Project Brunel on the potential feasibility of setting up a pooling arrangement. Progress and updates regularly reported to Committee. The Fund approved the submission to Government in response to the consultation in July 2016. A full business case is now being developed by Brunel supported by officers for consideration by Committee at this meeting.	3	4	12	High	There is significant amount of resource required by officers to progress this project following approval of the full business case. Additional support is being provided by benefits consultants to provide extra resources over the next 3-6 months. A better understanding of the potential movement of staff out of the Fund to the pool will be known by mid 2017. .	David Anthony	Jun-17	1	3	3	Low	6 Dec 16	---->
PEN023	Resources of Officers and Members to meet the expansion of business items	Regulatory & Governance	The recent expansion of business items resulting from continued consultations, pooling of assets, and additional governance requirements.	It is increasingly more difficult for officers to thoroughly consider issues and to deliver concise agenda papers covering all the relevant issues, while members are faced with larger report packs trying to cover the pertinent details.	David Anthony	More use of web links within the Committee papers to reduce the size of the packs. The adequacy of officers resources to support the Fund's 3 committees, the on-going pooling agenda and the additional complexities arising from regulatory scheme changes will need to be monitored through work planning and appraisals.	2	3	6	Medium	Additional benefits consultant resource is being utilised in the short term to provide cover for officers supporting both Brunel and the on-going Fund workloads. This will be reviewed in 3-6 months time. .	David Anthony	Jun-17	1	2	2	Low	6 Dec 16	---->
PEN025	Academisation of Schools	Regulatory & Governance	The recent proposals from the Government to encourage all school to convert to academy status.	Additional governance and administration risk. If all schools were to convert then the number of employers in the Fund could jump from 170 to between 400 and 500.	David Anthony	Regular communications with schools to understand their intentions. Questionnaires recently sent to Schools.	2	3	6	Medium	If the number of employers increases significantly the Fund will need to consider resources for managing this increased administration and governance workload. To be kept under review.	Denise Robinson	Apr-17	1	1	1	Low	6 Dec 16	---->
PEN013	Failure to communicate properly with stakeholders	Communication	Lack of clear communications policy and action, particularly with employers and scheme members.	Scheme Members are not aware of the rights and privileges of being in the scheme and may make bad decisions as a result. Employers are not aware of the regulations, the procedures, etc, and so the data flow from them is poor.	David Anthony	The Fund has a Communications Manager and Employer Relationship Manager dedicated to these areas full-time, including keeping the website up-to-date, which is a key communications resource. The Fund also has a Communications Policy.	2	2	4	Low	Member communication continues to be developed and the current round of pension clinics are being held. Both Employer and Members newsletters have been sent out during March / April. Employer forums were held in April and September with an AGM being planned for the New-year.	Zoe Stannard / Denise Robinson	Jan-17	1	1	1	Low	6 Dec 16	---->

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## **WILTSHIRE COUNCIL**

WILTSHIRE PENSION COMMITTEE  
15 December 2016

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### **BRUNEL PENSION PARTNERSHIP – APPROVAL OF FULL BUSINESS CASE**

#### **Purpose of the Report**

1. Following the Government's announcement in the July 2015 budget statement that they intended to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs, significant work has been undertaken to set up the Brunel Pension Partnership comprising ten LGPS Funds.
2. Regular reports have been brought to the 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 Brunel funds was approved by the Committee on 1 February, 2016 and a further more detailed response was approved by the Committee in June and submitted to the Government in July 2016.
3. Following the July submission of what was in effect an outline business case, work has been continuing developing a Full Business Case (FBC) for the Brunel Pension Partnership. The FBC has now been completed and needs to be approved by each of the ten administering authorities in order that the establishment of the Local Authority Company can be progressed.
4. The FBC sets out the individual costs and benefits for each of the ten participating funds. The FBC is attached at Appendix 1 and other appendices are included in Part II of the agenda.

#### **Background**

5. The FBC seeks approval to establish a company called Brunel Pension Partnership Ltd (Brunel company or BPP Ltd), regulated by the Financial Conduct Authority (FCA), and the new governance arrangements to establish client side joint shareholder oversight and joint contract management. It comprises five sections:
  - The Strategic Case;
  - The Financial Case;
  - The Economic Case;
  - The Commercial Case;
  - The Management Case.

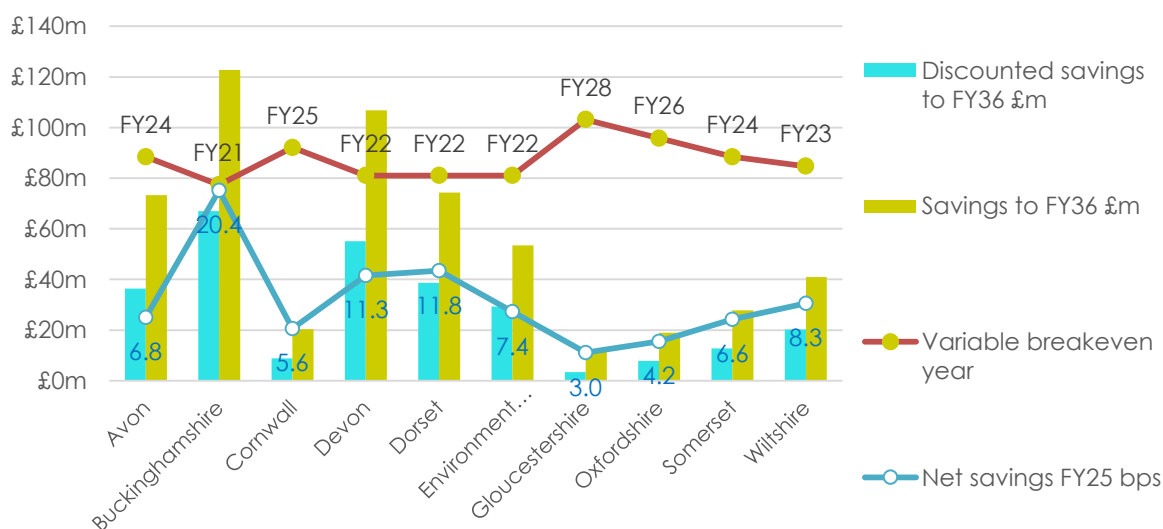
6. The FBC was reviewed by the Finance/Legal Assurance Group (FLAG), comprising the s151 and Monitoring Officers of each of the ten administering authorities, on 8 November 2016. It was supported by the Shadow Oversight Board, comprising the chairmen of the ten funds on 23<sup>rd</sup> November. The business case has been put together with significant work by officers of the ten administering authorities, supported by professional expertise provided by 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.
7. The strategic case focuses on the legal and regulatory requirements as well as the costs and benefits of pooling. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016 No 946) came into force on 1 November 2016. These regulations provide the legal basis which requires LGPS funds to pool their investments.
8. The financial case is drawn from a complex financial model that has been developed by the Brunel partnership in conjunction with PwC, which analyses 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. The core model analysis shows the breakdown between funds of a total of £550m forecast cumulative savings over the next 20 years.
9. The financial case also sets out the opportunity in the future if the Brunel company undertakes internal management of 50% of active equity investments internally from the 2022/23 financial year, but this decision would require the agreement of the 10 Shareholders funds.
10. The economic case examines two potential models for how to set up the Brunel company, either to rent it from a commercial provider or build it. An analysis was carried out in Stage 2 of the project to consider the relative merits and limitations of each model, examining them against three groups of issues: accountability; procurement and staffing; and costs. The analysis showed that the build model would have advantages over the rental model, especially on accountability.
11. The commercial case sets out the structure of the Brunel Pension Partnership company, and the governance and contractual arrangements that will exist. The Brunel company will be a new Financial Control Authority (FCA) regulated company wholly owned by the Administering Authorities. The company will be managed by the company 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.
12. The management case looks at the project management that will be required:
  - to set up the FCA regulated company within the Brunel Pension Partnership (BPP) encompassing recruitment of staff, legal and physical set up, procurement of third party providers, definition and set up of the services, and obtaining FCA authorisation;
  - to establish the arrangements for governance of Brunel Pension Partnership Ltd (BPP Ltd / Brunel company) by the Administering Authorities (AAs);
  - to implement the client side governance, organisation and process changes.

## Main Considerations for the Committee

13. The financial case for Brunel has been derived from the financial model put together by PwC. 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:

### Costs and Savings to the Wiltshire Pension Fund 2015/16 to 2035/36

Year	Costs without pooling			Costs under the Brunel proposals					Savings/ (Costs) £m
	Manager Fees £m	Wiltshire Costs £m	Total £m	Manager Fees £m	Wiltshire Costs £m	Brunel Costs £m	Asset Gains £m	Total £m	
July 15 - Dec 16	8.64	2.82	11.46	8.64	2.82	0.12	0.00	11.58	-0.12
Jan 17 - Mar 18	7.40	2.42	9.82	7.40	2.42	0.64	0.00	10.46	-0.64
2018/19	6.19	2.00	8.19	5.85	1.85	1.76	0.00	9.46	-1.27
2019/20	6.42	2.05	8.47	5.27	1.90	3.14	-0.01	10.30	-1.83
2020/21	6.65	2.12	8.77	4.83	1.96	0.52	-0.06	7.25	1.52
2021/22	6.90	2.18	9.08	5.01	2.02	0.53	-0.15	7.41	1.67
2022/23	7.15	2.25	9.40	5.19	2.08	0.54	-0.21	7.60	1.80
2023/24	7.42	2.31	9.73	5.38	2.14	0.56	-0.30	7.78	1.95
2024/25	7.69	2.39	10.08	5.59	2.21	0.58	-0.40	7.98	2.10
2025/26	7.97	2.46	10.43	5.80	2.27	0.60	-0.50	8.17	2.26
2026/27	8.27	2.53	10.80	6.02	2.34	0.62	-0.61	8.37	2.43
2027/28	8.57	2.61	11.18	6.24	2.41	0.64	-0.72	8.57	2.61
2028/29	8.89	2.68	11.57	6.48	2.48	0.66	-0.84	8.78	2.79
2029/30	9.22	2.76	11.98	6.72	2.56	0.68	-0.97	8.99	2.99
2030/31	9.56	2.84	12.40	6.98	2.63	0.71	-1.12	9.20	3.20
2031/32	9.91	2.93	12.84	7.24	2.71	0.73	-1.26	9.42	3.42
2032/33	10.27	3.02	13.29	7.51	2.79	0.75	-1.42	9.63	3.66
2033/34	10.65	3.11	13.76	7.80	2.88	0.78	-1.59	9.87	3.89
2034/35	11.05	3.20	14.25	8.09	2.96	0.80	-1.75	10.10	4.15
2035/36	11.45	3.30	14.75	8.40	3.05	0.83	-1.95	10.33	4.42
<b>Total Savings</b>									<b>41.00</b>



14. The Brunel Partnership costs include estimated costs of transitioning assets, which are being shared by all the Pension Funds to ensure that no individual fund is disadvantaged by, or benefits from fund manager selection by the Brunel company. Other costs include the taxes involved in transitioning assets into the Brunel company and the operating costs of the Brunel company itself.
15. The actual asset transition costs for the Brunel pool will not be known until the Fund Managers have been appointed and will depend on the number of funds that need 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.
16. 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. The asset gain figures reflect that the fee savings made remain invested in the Fund and will achieve an investment return.
17. In addition to the model's core estimate of savings, the finance case also outlines the opportunity for additional benefits from improved performance. This would result from improved diversification between managers and better risk management that could be achieved from investing in greater scale. A modest increase in returns of 2 basis points (0.02%) would increase the overall benefit to the Wiltshire Pension Fund over 20 years from £41m to £54m. In addition, there is a further opportunity to make savings should the Brunel company undertake internal management of 50% of active equity investments internally from 2022/23. This would increase the savings on external manager fees, and could therefore further increase the benefits to the Wiltshire Pension Fund.

## **Conclusions**

18. Government policy, now brought into effect by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, requires the Wiltshire Pension Fund to pool its assets. In the light of this agenda the Fund has already committed to participating in the Brunel pool through the resolutions agreed at previous meetings of the Pension Committee. The Committee and the Council now need to approve the FBC to move forward with setting up the Brunel Pension Partnership Ltd company in order that the pooling proposals can progress to the implementation phase.
19. 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 Brunel Pension Partnership. 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.
20. The Committee is therefore asked to recommend the resolution to set up the Brunel Pension Partnership Ltd to Council. Further reports will be brought to the Committee as the project progresses.

## **Environmental Impact of the Proposal**

21. There is no environmental impact of this proposal.

## **Financial Considerations**

22. 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. As such the proposal is supported.

## **Risk Assessment**

23. 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.

24. There remains a possibility that the proposal submitted isn't approved by the Government, as it's an approach not previously considered. Continual dialogue and meetings with representatives from HM Treasury and DCLG is ensuring they are aware of the content of this proposal and have a clear understanding of the structure and its operations. From the feedback received to date this risk appears low.

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

## **Legal Implications**

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

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

28. 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 Local Authority Company which benefit from economies of scale.

29. 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.
30. The resolution delegates to the Pension Committee the implementation of the proposal but limits that delegation to substantially in compliance with the FBC.

### **Safeguarding Considerations/Public Health Implications/Equalities Impact**

31. There are no known implications at this time.

### **Reason for Proposals**

32. 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.
33. Following the agreement by this Committee on 30 June 2016 to support the Fund's joint submission of the Brunel Pension Partnership, this report considers the FBC to commence the implementation of an 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.

### **Proposals**

34. The Committee is requested to consider and recommend to Full Council the following:
35. 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.
36. 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 Pension 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 Wiltshire Pensions 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 Pension 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 Pensions Committee.

MICHAEL HUDSON  
Treasurer to the Pension Fund

Report Author: David Anthony – Head of Pensions

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# APPENDIX 1

## Project Title: Project Brunel Brunel Pension Partnership Full Business Case – Wiltshire

### VERSION HISTORY

Version	Date Issued	Brief Summary of Change	Owner's Name
Final Draft	08/11/16	Final Draft presented to BPP Finance and Legal Assurance Group (FLAG)	Dawn Turner
Final V1.0	15/11/16	Updates from FLAG feedback	OC/PwC/Project Office
Final v1.1	17/11/16	Incorporating feedback following FLAG review	Project Office
Final v1.2 Wiltshire	22/11/16	Updated in line with Financial model v5 Individual fund details and annex references for PCs included.	Project Office

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# 1. INTRODUCTION

## 1.1 Background and Context

The Full Business Case (**FBC**) has been prepared to inform a decision by the Wiltshire Council on a proposal for Pension Fund investment pooling by means of a newly established pooling arrangement, to be called the Brunel Pension Partnership (**the BPP**). At its core will be a new Financial Conduct Authority (**FCA**) regulated company, Brunel Pension Partnership Limited (**the Brunel company**).

Having first explained the background to investment pooling for Pension Funds in the Local Government Pension Scheme (**LGPS**), and also the essential features of the BPP proposal, the main focus of the FBC is on the financial viability and economic merits of that proposal. The outcomes of a detailed Financial Model are set out and have been subjected to **independent professional assurance**. The impacts of legal and other matters relating to the formation, governance and operation of the BPP and the Brunel company are also set out and subjected to **independent professional assurance**. All aspects have also been subjected to review by Chief Finance Officer/ Chief Legal Officer representatives from the 10 bodies engaged in the Brunel pool.

A summary of the key conclusions emerging from the FBC is provided immediately below. A major point to be emphasised at the outset is that **the FBC indicates that there are significant financial savings and other efficiencies to be gained which support accepting the proposal to continue to establish an investment pool for the 10 bodies** (i.e. quite apart from any regulatory imperative to pool). These derive principally from the **enhancement in scale, skills, and resources that investment pooling will bring**. The pooled investment of approximately £25bn of assets under the BPP model **will open up new opportunities across a range of performance metrics**.

Having listed the key conclusions, the remainder of this FBC is divided into five sections dealing with the Strategic, Financial, Economic, Commercial and Management Cases. Detailed consideration of these has been undertaken by Chief Finance and Chief Legal Officers on behalf of the Wiltshire Council.

## 1.2 Key conclusions from the Full Business Case

These are, as follows:

- On an aggregated basis, the Financial Model indicates that net savings exceeding £0.5 billion are achievable by 2036, with annual savings exceeding annual costs by March 2021 and breakeven two years later. The timing is largely down to the timetable to transition active fund management after 2019 as this yields the largest saving potential.
- On an individual Fund basis, the Financial Model indicates that net savings are achievable, with the level of such savings varying between Funds mainly to reflect the historic differing approaches to investment

and risk resulting in different portfolios. This means there will inevitably be differing savings that will be obtained on fee renegotiations.

- New Regulations have set out a clear legal framework making investment pooling mandatory for all LGPS funds in England and Wales, from April 2018.
- Regulations are very clear that the responsibility for individual fund investment strategy remains with the individual Administering Authorities.
- The BPP will represent a collaboration of the Wiltshire Council and nine other LGPS Administering Authorities based broadly in the South West of England.
- The Brunel company will be set up as a new FCA regulated entity, to be owned equally by each of the ten Administering Authorities.
- The Brunel company will implement the investment strategy of each BPP Pension Fund by selecting and monitoring external Manager Operated Funds.
- An initial review of the set-up, governance and operation of the BPP investment pool has confirmed its legal robustness and viability.
- Further development work, including on financial, legal and FCA regulatory matters, will be undertaken in the next development phase of the BPP investment proposal (i.e. up to anticipated implementation in April 2018).
- The current proposals and the documents associated with the current proposals are first drafts which are yet to be properly discussed and scrutinised by the Administering Authorities.
- The next phase of the BPP project will be work-intensive, and continued project resource will be required to ensure its successful delivery.

### 1.3 Professional advice and assurance

Professional advice and assurance on the financial elements of the BPP investment pooling proposal has been provided by PricewaterhouseCoopers LLP (**PwC**) and other advisers. From PwC, this has primarily related to preparation of the Financial Model and its outcomes, the financial case and taxation advice. Bfinance UK Limited (**bfinance**) has advised on potential investment fee savings and investment transition costs. Additional financial markets advice has been provided by Alpha Financial Markets Consulting (**Alpha**).

Professional advice and assurance on the legal elements of the BPP investment pooling proposal has been provided by Osborne Clarke LLP (**Osborne Clarke**). This has primarily related to the law and investment pooling, the set-up of the Brunel company, FCA authorisation, procurement

and employment matters. Further legal assurance has been provided by obtaining the legally privileged opinions of Leading Counsel (QCs) on the FCA authorisation and procurement law aspects.

Both PwC and Osborne Clarke have provided a statement of assurance to each of the BPP Administering Authorities.

## **2. STRATEGIC CASE**

### **2.1 Introduction**

The purpose of the Strategic Case is to identify the drivers for investment pooling. It sets out the case for change, taking into account in particular the Government's policy imperatives and the regulatory requirements relating to pooling.

### **2.2 Background to LGPS investment pooling**

In May 2014, the Government published a consultation which set out how savings might be achieved by LGPS funds through greater use of passive management and pooled investment. Following that consultation, the Government invited all LGPS Administering Authorities to develop ambitious proposals for pooling of their assets.

In July 2015 the Budget Red Book contained a statement as to what was required, and in November 2015 more detailed guidance was issued. A key point to emerge was that each pool should have assets of around £25 billion.

The proposal to establish the BPP developed accordingly. Through project based joint-working initiatives led by the local pension officers and overseen by two sponsoring bodies<sup>1</sup> the 10 Administering Authorities comprising the BPP have collaborated to test the proposition of establishing a new LGPS investment pool. This will include the Funds of the Environment Agency (Active and Closed) and those of nine Local Authorities (Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire).

In February 2016 eight pools, including the BPP, submitted their proposals to the Government. These submissions were strategic statements of intent. They were followed in July 2016 by much more detailed submissions from each pool, setting out how they were intending to pool their assets and the rationale for the approach being adopted. Each of the Administering Authority's Pensions Committees approved the BPP submission to Government.

The BPP submission included details about the key structural elements for the BPP pool. Since July, work has been ongoing to develop the BPP proposal in readiness for launching the new pool in April 2018.

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<sup>1</sup> Shadow Oversight Board with representatives from each Administering Authority; and Finance and Legal Assurance Group comprised of Chief Finance Officers and Chief Legal Officers.

## 2.3 Regulatory reform

The regulatory framework for investment pooling has been confirmed in the recently made Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (**LGPS Investment Regulations 2016**). These provide that each Administering Authority must formulate an Investment Strategy Statement which must (a) be in accordance with Secretary of State (**SoS**) guidance, and (b) include “the authority’s approach to pooling of investments, including the use of collective investment vehicles and shared services”. The guidance states that “all authorities must commit to a suitable pool to achieve benefits of scale”, and they “must confirm that their chosen investment pool meets the investment reform and criteria published in November 2015”.

The SoS is given back-stop powers to intervene if an authority fails to act in accordance with the guidance and following consultation with the authority. These permit the SoS to make a direction requiring: that the authority changes investment strategy; that the authority invests specified assets as directed; that the investment functions of the authority are exercised by the SoS; that the authority complies with an instruction from the SoS relating to the exercise of its investment functions.

Legal advice from Osborne Clarke has confirmed that these regulatory provisions mean that the Government has set out a clear framework making investment pooling mandatory for all LGPS funds in England and Wales.

## 2.4 The case for change

The consultation for the new draft LGPS Investment Regulations 2016 was accompanied by criteria for pooling. This outlined four areas that underpin the case for change. These are now described, along with a brief statement (in bold) of how the BPP measures up against those criteria:

- Benefits from economies of scale to be derived from large pools of assets of a minimum of £25 billion. The total LGPS assets under management (**AUM**) in England and Wales at that time were in the region of £180 billion.

**Funds in the BPP pool had assets of about £23 billion at 31 March 2015, and these were valued at over £25 billion at 31 October 2016.**

- Improved decision making and better risk management, achieved from stronger governance, for the long-term interest of Funds’ members.

**The BPP has agreed 12 investment principles that will underpin all the governance and operating arrangements across the whole partnership. These were reported to all fund Committees/ Boards in earlier phases of this project and include long termism, responsible stewardship and openness and transparency. The BPP’s governance arrangements will be constructed**

**to meet the highest standards, including those required by the FCA for a regulated entity.**

- Reduction in costs and improved value for money from both the fee savings achieved by funds investing together and reducing manager churn by focusing on long term performance.

**The BPP Funds currently have almost 100 different managers and around 170 mandates between them. These will be replaced by about 22 outcome focused investment portfolios, which will deliver the BPP Funds' investment strategy requirements and significantly reduce the number of managers and mandates. Annual fee savings of £20 million are projected to be made by March 2021, rising to £30 million by March 2027.**

- Increasing capacity and capability to invest in infrastructure by making long term strategic collaborative plans across the LGPS to invest in infrastructure making this asset allocation more attractive (lower risk) and beneficial (increased returns for less cost).

**The eight LGPS pools have formed a Cross Pool Collaboration Group, with an Infrastructure sub-group looking at a national approach to infrastructure. While in its infancy, this is likely to yield improved access to better infrastructure investment, both from the collective opportunity BPP brings as well as a national investment vehicle.**

## 2.5 Imperative of investment pooling

The main strategic driver for investment pooling is the Government's decision to progress this as a policy, as now required under the LGPS Investment Regulations 2016. The case for change is underpinned by legal advice from Osborne Clarke, and has been recognised by all other Administering Authorities in England and Wales and the other pools they have formed or are now forming.

## 3. FINANCIAL CASE

### 3.1 Introduction

The purpose of the Financial Case is to set out the financial implications of investment pooling. It is informed by a detailed Financial Model, which focuses on the estimated savings from pooling both on a whole pool basis and an individual Fund basis. It represents the key evidence supporting this Business Case and the BPP proposal generally.

### 3.2 The BPP financial model – three key metrics

PwC have created a sophisticated Financial Model that has been provided to each Administering Authority's pension and financial officers. The Financial Model compares the current situation for each Administering Authority to the situation following the transition of assets into the Brunel company, projecting annual net costs or net savings until 2036.



There are three key metrics from the Financial Model:

- **The annual running rate of net saving once the initial structural development and asset transition costs have been met.** Net savings are fee savings plus other savings less operational costs, each evaluated on an annual basis. The metric can be expressed as a cash amount or as a percentage of assets under management in the relevant year: we have used the year to March 2025 (FY25).
- **The year of breakeven.** This metric estimates when each of the BPP Pension Funds will reach the point when the anticipated fee and other savings will start to exceed the set-up (structural development and asset transition) costs and operational costs.
- **The total net savings measured against a broadly 20 year period** to financial year ending 31 March 2036 (FY36). This metric measures the net savings each of the Brunel Funds will accrue, both on a discounted and an undiscounted basis, over that period.

The information and assumptions underlying the Financial Model are described in more detail in the Financial Case.

### 3.3 The core model

The core model presents a base case of the financial outputs, and is intended as a prudent and reasonable projection of the total anticipated savings from the transitioning of assets into the BPP pool. The core model relies on the key assumption that fee savings will be driven by fewer investment mandates and an extensive programme of fee negotiations, with other savings accruing from reduced expenditure by Administering Authorities.

On that basis, the core model projects-:

- that annual net savings by FY25 will be **£27.8 million pa** across the Administering Authorities, representing 0.089% (**8.9 basis points bps pa**) of assets then under management;
- the breakeven year, by which cumulative savings will have exceeded cumulative costs will be the year to March 2023, **FY23**, in fact relatively early in that year; and
- an aggregate net saving to FY36 across all ten Administering Authorities of **£550 million**, which has a discounted present value of **£280 million**.

The position on the three metrics (i.e. the annual running rate of net savings, the breakeven year, and the net savings by FY36) differs between the ten Administering Authorities, depending mainly on differing projected fee savings. These differing fee savings depend on the differences between the projected fee levels, after renegotiation, and existing fee levels, with fee savings harder to achieve if existing fee levels are already low. This is largely due to individual Administering Authorities having historically taken differing approaches to investment strategy and risk. This independence will remain and the base core model simply looks at savings from today's position. The other information on which projections are based varies much less between Administering Authorities.

For ease of comparison, the following table states assets under management (AUM) in March 2016 and the annual running rates of savings projected by the core model for FY25, both on a combined pool basis and on an individual Administering Authority basis.

Core model	Assets under management (AUM, £m, at 31 March 2016)	Running annual rate of net saving in FY25	
		£m	bps of projected AUM in FY25
Avon	3,739	3.5	6.8
Buckinghamshire	2,164	6.1	20.4
Cornwall	1,464	1.1	5.6
Devon	3,299	5.2	11.3
Dorset	2,273	3.7	11.8
Environment Agency*	2,954	2.8	7.4
Gloucestershire	1,687	0.7	3.0
Oxfordshire	1,824	1.1	4.2
Somerset	1,592	1.5	6.6
Wiltshire	1,826	2.1	8.3
<b>Combined Pool</b>	<b>22,822</b>	<b>27.8</b>	<b>8.9</b>

\*includes £219m for the EAPF Closed Fund which is not expected to benefit from fee savings. Therefore the Closed Fund assets are not used in the calculation of the net saving as expressed in basis points of AUM.

On an individual fund basis this would mean a breakeven point for the combined fund and Wiltshire of 2023 as follows:

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
<b>Wiltshire Pension Fund</b>	<b>FY23</b>	<b>41.0</b>	<b>20.2</b>	<b>2.1</b>	<b>8.3</b>
<b>Combined Pool</b>	<b>FY23</b>	<b>550.1</b>	<b>279.5</b>	<b>27.8</b>	<b>8.9</b>

PwC has provided financial assurance to the Administering Authorities that the core model has been constructed using prudent and reasonable assumptions. More detail of such assumptions and the modelling methodology is set out in the Financial Case. This has been checked and assessed by each Administering Authority's Chief Finance Officer/ Section 151 Officer.

### 3.4 Sensitivity on core model

A sensitivity analysis of the core model metrics has been undertaken. This analysis has considered several important variables, as follows:

- Variable 1: fee savings achieved by the Brunel company being plus/minus 2 basis points (0.02%) when compared with the midpoint the fee savings identified in the core model for each Administering Authority (the overall midpoint being 8.9 bps for the Combined Pool).

- Variable 2: asset transition costs, which include tax costs, being in total plus/minus £15 million when compared with the asset transition costs used for the core model.
- Variable 3: annual operational costs for the Brunel company being £1 million pa higher than the annual operational costs used for the core model.
- Variable 4: a transition delay such that liquid assets take three years to restructure rather than the two years used in the core model.
- Variable 5: underlying market asset performance differing significantly from the steady 4% pa growth used for the core model. Three variations are considered: a 20% equity market crash in 2020, and steady growth at rates of either 3% pa or 5% pa.

The table on the following page expresses the impact of these five variables on a combined pool basis. The top row, shaded, shows the core model. Other rows show individual variations, with downside sensitivities lightly shaded and upside sensitivities unshaded:

**Table 1.3.4a Impact on Core Model of 5 Variables – Combined Pool Basis**

Combined (all ten Administering Authorities)		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
<b>Core model</b>		FY23	550	280	27.8	8.9
<b>Variable 1: fee savings</b>	<b>- 2 bps pa saving</b>	FY24	387	188	20.5	6.5
	<b>+ 2 bps pa saving</b>	FY22	714	371	35.2	11.2
<b>Variable 2: asset transition costs, incl tax</b>	<b>+£15m on total transitional costs</b>	FY24	535	266	27.8	8.9
	<b>- £15m on total transitional costs</b>	FY22	565	293	27.8	8.9
<b>Variable 3: + £1m pa Brunel Company running costs</b>		FY23	526	263	26.6	8.5
<b>Variable 4: transition delay</b>		FY24	507	256	26.3	8.4
<b>Variable 5: market asset performance</b>	<b>Equity market crash in FY20</b>	FY23	458	228	23.5	8.7
	<b>-1% pa (3% pa total)</b>	FY23	441	219	24.6	8.6
	<b>+1% pa (5% pa total)</b>	FY23	680	352	31.3	9.2

The key conclusions emerging from the sensitivity analysis are as follows, including comments on mitigation:

- **The fee renegotiations will be critical to the overall results.** The core model targets an overall improvement in fee savings that leads to net savings, after operational costs, of 8.9 basis points (0.09%) by FY25. A reduction of 2 basis points (0.02%) in savings in variable 1 is the largest effect illustrated, impacting all three key metrics of running annual rate of net saving, breakeven and 20 year net gain.
- **Fee renegotiations are a largely symmetrical sensitivity.** Hence the upside potential on the three key metrics in variable 1 further emphasises the importance of successful fee negotiations.
- **Asset performance by the markets is crucial.** The more assets under the aegis of the Brunel company, the more pooling will deliver; conversely, a lower asset base will render pooling less beneficial. There is an element of a fixed cost being spread here, as evidenced by the annual running rate of saving in FY25, if expressed as basis points of AUM (assets under management), changing little between the three scenarios considered within variable 5. At a high level, investment performance by markets cannot be altered by the Brunel company: some mitigation may be possible through strategic asset allocation at the Administering Authority level. Ultimately, investment performance has balancing contribution implications that have not been modelled.
- **Transition delay should be avoided.** Delay by a year, variable 4, would outweigh the impact of £15 million higher asset transition costs, variable 2. This can be seen in both breakeven year and total gain over 20 years. Neither variable has much impact on the running annual rate of saving projected by FY25.
- **Asset transition costs including tax could push back the breakeven year.** The £15 million extra indicated just moves breakeven from FY23 to FY24, so that there would be a substantial gain by the end of FY24. There will be choice as to how much cost to incur: more radical asset reorganisation may be justified in terms of higher fee savings or higher performance expectations. However, action to pursue recognition of this impact and alternative arrangements for UK tax impacts should and will be pursued with Central Government to see if some of this variable can be mitigated.
- **Asset transition costs including tax are a broadly symmetrical sensitivity.** So the upside potential demonstrates that a saving is possible. There would be a concern that pursuing some saving could reduce the longer term effectiveness of portfolio construction.

- **Brunel company operating costs should be controlled.** If they changed by £1 million a year as illustrated by variable 3, they would have a somewhat greater impact on the 20 year net gain than transitional costs increasing by £15 million

The table on the following page expresses the impact of these the five variables for the Wiltshire Pension Fund only. Commentary is being provided in individual covering papers and the text of this document, other than for the table itself, is not being altered between Administering Authorities:

**Table 1.3.4b Impact on Core Model of 5 Variables – Wiltshire Pension Fund Only**

Wiltshire Pension Fund		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
<b>Core model</b>		FY23	41.0	20.2	2.1	8.3
<b>Variable 1: fee savings</b>	<b>- 2 bps pa saving</b>	FY24	27.8	12.7	1.5	5.9
	<b>+ 2 bps pa saving</b>	FY22	54.3	27.6	2.7	10.6
<b>Variable 2: asset transition costs</b>	<b>+£15m on total transitional costs</b>	FY24	39.5	18.8	2.1	8.3
	<b>- £15m on total transitional costs</b>	FY22	42.4	21.5	2.1	8.3
<b>Variable 3: + £1m pa Brunel Company running costs</b>		FY23	38.9	18.6	2.0	7.8
<b>Variable 4: transition delay</b>		FY24	37.8	18.4	2.0	8.0
<b>Variable 5: asset performance</b>	<b>Equity market crash in FY20</b>	FY23	33.2	15.8	1.7	8.0
	<b>-1% pa (3% pa total)</b>	FY23	32.4	15.4	1.8	7.9
	<b>+1% pa (5% pa total)</b>	FY23	51.3	25.9	2.4	8.6



### **3.5 Future opportunities – risk mitigation**

There is international evidence that investment at greater scale can provide opportunities to improve overall investment performance through a range of mechanisms, including risk mitigation. This has not been examined in the core model. Nonetheless, the potential can be seen by considering the core model sensitivity analysis: if the opportunity can be captured to the extent of just 5 basis points (0.05%), then the total net gain projected by FY36 would increase by approximately 60%.

### **3.6 Future opportunities – internal management**

Additional analysis has been undertaken to assess the opportunities that may be available if the Brunel company undertakes internal management (i.e. undertaking dealings in individual stocks and other assets, in addition to making investments into Manager Operated Funds). A move to internal management could only happen with the consent of all the Administering Authorities based on circumstances at the time. It is therefore only a prospective and contingent opportunity at this point.

Subject to that, the Financial Case analyses the potential opportunities that may be offered by internal management, which in summary are greater savings owing to the potential substantial reduction in fees.

Any decision to move to internal management would require the case to be made that the fee savings would be accompanied by investment performance expectations remaining at least in line with those that external managers were providing. Such a case would be easier to make for some asset classes than others.

### **3.7 Core model – foundation of the Full Business Case**

The core model, including the sensitivity analysis outlined above, is foundational to the FBC. It is this core model which should substantially inform a decision to proceed with the BPP investment pooling proposal.

This section of the FBC has dealt with the headline points relating to the core model, and sets out the main conclusions. Further and more detailed analysis is set out in the Financial Case.

## **4. ECONOMIC CASE**

### **4.1 Introduction**

The purpose of the Economic Case is to describe the options considered for investment pooling, and to provide evidence that the most economically advantageous approach to meet the Administering Authorities service needs on a value for money basis.

### **4.2 Options considered for the pooling entity**

The Project Brunel initial proposal, submitted in February 2016, suggested a structure whereby a Collective Asset Pool would be overseen by a Joint Committee. This proposed structure was an alternative to an overarching Authorised Collective Scheme (**ACS**), which would have had additional complexities and costs of establishment and operation and would not have provided a structure consistent with all types of pooling

This proposed structure was later developed following the Secretary of State's March 2016 response. This required that a single and separate entity be at the heart of final pooling proposals, and that it should have responsibility for selecting and contracting with investment managers independently of Administering Authorities (which would retain responsibility for setting their detailed Strategic Asset Allocation). A further clear requirement set out in the Secretary of State's response was that the pooling entity must be FCA regulated.

The Secretary of State's response led to a discussion of how best to operate this entity, now conceptualised as the Brunel company. Two models were under consideration, being either to rent it from a commercial provider or for the Administering Authorities to build it and shape its structure and governance through a shared ownership arrangement.

A detailed analysis was carried out by PwC to consider the relative merits and limitations of each model, examining them against three groups of issues: accountability; procurement and staffing; and costs. The PwC analysis showed that the build model would have advantages over the rental model, especially on accountability. It would also generate less uncertainty around the future roles of investment officers.

It was recognised that the build model brought its own challenges, particularly around procurement and staffing. These are considered further in the Commercial Case section that follows. Overall, however, the build model was the preferred option under the PwC analysis.

### **4.3 Operational costs of the Brunel company**

Whilst the Commercial Case examines a wide range of issues, the Economic Case evaluates how the Brunel company development and operational costs affect the Financial Case. The key point has been consolidated into the sensitivity analysis in the Financial Case: additional operational costs will need to be evaluated against the additional asset performance or fee saving they can generate.

PwC has identified that the most economic case would suggest that the Brunel company is situated in the Bristol area (a formulation which includes Bath). This followed analysis that compared several geographies, including London, Swindon, Taunton and Exeter, evaluating them under the headings of infrastructure, human resources and operational matters.

The Bristol area includes the largest city in the Brunel geography, with good transport links to the Administering Authorities and acceptable links to suppliers, notably those in London. Office space is relatively affordable and staffing implications, including remuneration levels, are favourable. In building up costs used in the core model therefore, indicative costs have been used for prices of accommodation in the Bristol/ Bath area.

## **5. COMMERCIAL CASE**

### **5.1 Introduction**

The purpose of the Commercial Case is to set out the proposed structural arrangements for the BPP. The focus is on relevant ownership, governance and contractual matters, and how these will serve the requirements of the BPP Administering Authorities.

### **5.2 Brunel Pension Partnership structure**

The main structural components of the BPP are, in summary:

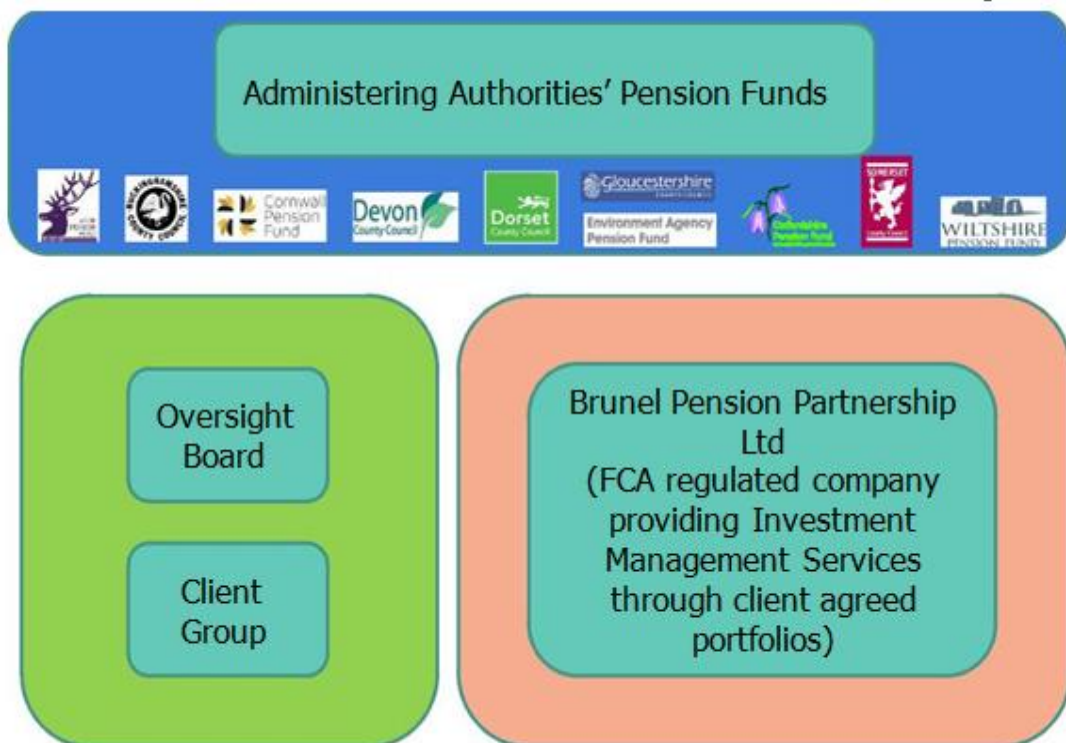
- **BPP Administering Authorities:** They will each retain sole responsibility for setting the detailed Strategic Asset Allocation for their Fund and allocating their assets to the investment portfolios provided by the Brunel company.
- **Brunel Pension Partnership Limited:** This will be a new FCA regulated company which will be wholly owned by the Administering Authorities. It will be responsible for implementing the detailed Strategic Asset Allocations of the BPP Funds by investing Funds assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers.
- **Oversight Board:** This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference (however, it will not be a Joint Committee under S102 LGA). Acting for the Administering

Authorities, it will have ultimate responsibility for ensuring that the Brunel company delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function.

Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually. Further work on issues such as how this will operate, the Shareholder Agreement, and appointments will be clarified and brought back to each Administering Authority to approve at a later date.

- **Client Group:** This will be comprised primarily of pension investment officers drawn from each of the Administering Authorities. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function. In effect, it will provide a client-side link between the Oversight Board and the Brunel company, and will draw on Administering Authorities finance and legal officers from time to time.

The following illustration shows the key structural components of the Brunel Pension Partnership in diagrammatic form:



### 5.3 Governance arrangements

Much of the detail relating to the BPP's governance arrangements will be set out in three key documents: **Articles of Association** of the Brunel company;

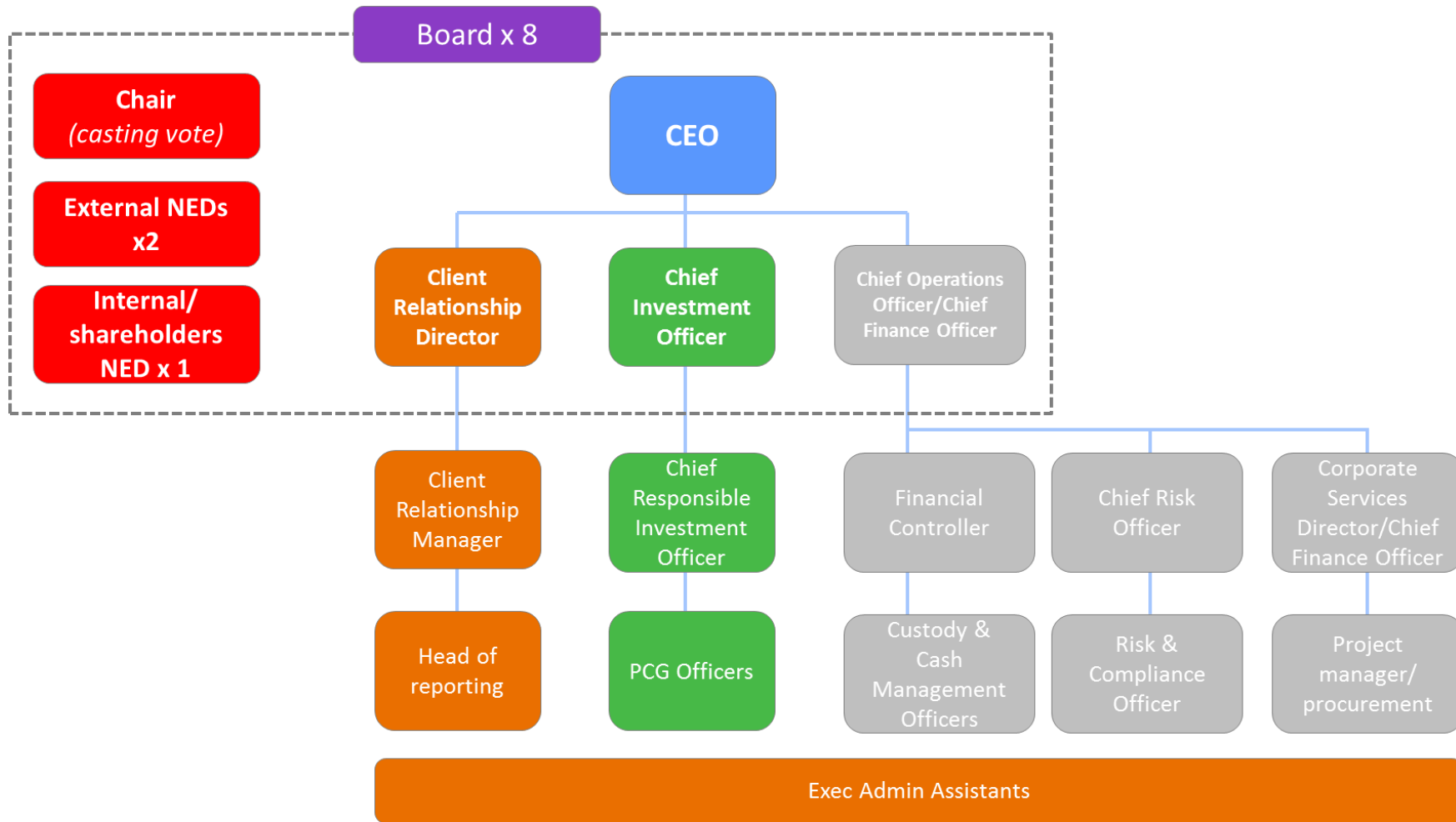
**Shareholders' Agreement** between the Administering Authorities; **Terms of Reference** for the Oversight Board. These documents will address issues such as powers of the company, shareholder control through reserved matters, exit arrangements and procedures of the company. The current proposals that are reflected in the commercial case are based on a first draft of documents produced by Osborne Clarke which are yet to be properly discussed and scrutinised. Osborne Clarke will advise on the drafting of these documents, working with Chief Legal Officers accordingly. The project timetable has an indicative time for these to be put in place of Spring 2017.

Standing behind these key documents will be the other requisite documents such as conflict of interest policy and terms of reference for the Brunel company's committees. Its FCA regulated status will require it to have high standards of internal governance and compliance, with a particular focus on risk management.

The proposed operating model for the Brunel company includes a board which will be made up of four non-executive directors (independent chair, plus two externally recruited non-executives and one shareholder representative non-executive), with three or four executive directors (chief executive officer, chief finance/operations officer, chief investment officer and (yet to be confirmed) client relationship director). Various committees (audit, remuneration, risk and compliance) will be required, as will other statutory roles, such a company / board secretary.

This board will be responsible for three business units, which will relate to the following: investments (including responsible investments), operations and finance (including risk and compliance), and client relationships (including reporting). A programme of external and internal recruitments will be implemented to ensure that the senior and other supporting roles are staffed by suitably qualified and experienced personnel.

The operational structure diagram below set outs the proposed high level operating structure of the Brunel Company.



#### 5.4 **Contractual arrangements**

The contractual relationship between the Administering Authorities and the BPP will be set out in a comprehensive **Services Agreement**. It will define the investment pooling and related services which the Brunel company will perform, and the contractual terms which will apply to the delivery of those services.

The core contractual obligation of the Brunel company will be to define and set up portfolios reflecting the detailed Strategic Asset Allocations of the BPP Administering Authorities, and to select investment managers who are capable of operating suitable Manager Operated Funds for each portfolio. The Brunel company will be required contractually to maintain its FCA regulated status.

In support of that core contractual obligation, the Brunel company will offer a number of subsidiary services to the Administering Authorities. These services will cover such matters as custody and investment administration, financial performance reporting, responsible investment, investment research, investment accounting, risk management, transition management, cash management, etc. Where appropriate and necessary, the Brunel company will contract with third party service providers to procure services that will not be provided internally (e.g. custody, transition management, HR services).

#### 5.5 **Brunel company and procurement issues**

A legal review has concluded that a decision by the Administering Authorities to enter into the Services Agreement, and thereby procure the services of the Brunel company, will be exempt from the application of the public contract procurement procedures (as set out in the Public Contracts Regulations 2015). This legal review was undertaken by Osborne Clarke, and included obtaining a legally privileged opinion from Leading Counsel (a QC) who specialises in procurement law. The Osborne Clarke advice and the QC opinion have been provided to Chief Legal Officers.

#### 5.6 **Brunel company and FCA authorisation**

In order to meet this core contractual obligation the Brunel company will need to be FCA regulated. A key consideration in that respect is being clear on the FCA permissions that will be required, taking into account the Brunel company's activities. A legal review has concluded that there is a very strong likelihood that the BPP will involve the creation of a Collective Investment Scheme, with the Brunel Company acting as the operator. This legal review was undertaken by Osborne Clarke, and included obtaining an opinion from Leading Counsel (a QC) who specialises in FCA regulatory law. The Osborne Clarke advice and the QC opinion have been provided to Chief Legal Officers.

The project timetable allows for the appropriate permissions to be obtained from the FCA. The Brunel company will be required contractually to maintain its FCA regulated status, and as such its board of directors will have to maintain compliance with the FCA's applicable rules and procedures for a regulated entity carrying out activities of the type envisaged.

## 5.7 **Personnel implications**

A legal review by Osborne Clarke of the relevant employment law has reached an initial conclusion that the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("**TUPE**") will not apply if employees currently employed in the pension functions of any of the Administering Authorities move to the Brunel company as a result of any selection and employment process. The position on TUPE will be confirmed when any employee migration from an Administering Authority to the Brunel company takes place.

The Cabinet Office Guidance on Staff Transfers in the Public Sector (**COSOP**) sets out a framework for TUPE-style protections to be afforded to employees involved in public sector reorganisations, in circumstances where there is not a relevant transfer within the meaning of the TUPE legislation. While local authorities are not legally bound to observe COSOP, it is intended that, so far as possible, the principles of COSOP will be adhered to.

In summary, subject to the detailed legal advice, it is envisaged at this stage any employees who move from employment with an Administering Authority to the Brunel company will receive TUPE-equivalent protection.

## 5.8 **Risk allocation**

Under the BPP structure, the Administering Authorities will retain the key investment risk of designing the detailed Strategic Asset Allocation for their Fund. Taking that into account, the Brunel company will provide to the Administering Authorities the key investment management services of selecting, appointing and monitoring the investment managers operating the various Manager Operated Funds. Related services, also provided by the Brunel company, will include such matters as custody, performance reporting and transition management services.

While as noted the key investment risk will be retained by the Funds, it is apparent that the Brunel company will take on a contractual risk for providing investment management and related services to the Administering Authorities. Previously, the tasks of selecting, appointing and monitoring fund managers has been undertaken by local pension funds, with input from external professional advisers where necessary.



Where relevant services cannot be provided by the in-house resources of the Brunel company third party service providers will be appointed (for example, providers of custody, performance analytics, data management and investment accounting services). To that extent, the risk transfer to the Brunel company will be mitigated by the appointment of third party service providers.

The directors of the Brunel company will owe the normal fiduciary and other duties that any director owes to an FCA regulated company. Additionally, all staff will owe contractual duties to the Brunel company as their employer, and as set out in their individual employment contracts. During the next development phase the use of possible risk mitigation arrangements, including Directors' & Officers' liability insurance and Professional Indemnity insurance, will be investigated and agreed.

## **5.9 Charging mechanism**

In the Financial Model, Brunel company costs are assumed to be split between the ten Administering Authorities using an equitable approach to cost sharing. This allows for approximately half of the costs to be split equally between the ten Administering Authorities and the remainder to be split in proportion to assets under management. This modelling is intended to capture the ultimate reality of Brunel company operation, when the pricing policy for its services is likely to contain both fixed and marginal elements.

The charging mechanism that will actually apply when the BPP becomes operational will be decided after taking into account a range of alternative charging methodologies, and will be determined by agreement between the Administering Authorities.

## **5.10 Development costs and implementation timescale**

Under the project timetable the indicative time for the Brunel company to be set up with appropriate ownership and governance arrangements is Spring 2017. Work on the development of its operational capability will continue in the interim period.

The Memorandum of Understanding (MoU) agreed between the Administering Authorities in September 2015 stated that the Brunel project development costs would be split equally between the participating funds (i.e. a tenth each). It has cost £1.2m (£0.12m per fund) to take matters to the FBC stage, including the preceding Strategic and Outline Business Cases (submissions to Government in February and July).

A new MoU has been drawn up and reviewed by the Finance and Legal Assurance Group (to be ratified by the Shadow Oversight Board), to cover the period from December 2016 until the permanent Brunel company arrangements are in place. This update will refresh arrangements on

collaborative working, decision-making and cost allocation during that period. The MoU includes provision for charging the time of officers assigned to BPP project roles. Up to this point the cost of such officer time has been absorbed by each Administering Authority.

Development costs will continue to be allocated to Administering Authorities on an equal share basis. The initial projected future development costs up to April 2018 are £3.3m (£0.33m per fund). This includes working and regulatory capital for the Brunel company of £2.0m (£0.2m per fund). Any change in the development budget will be subject to approval by Administering Authorities. The Brunel company will also have operating costs as it builds capability from its inception in 2017, which will be invoiced separately.

## **6. MANAGEMENT CASE**

### **6.1 Introduction**

The purpose of the Management Case is to describe how the BPP proposal will be delivered successfully. The focus is on effective project management during the next phase, including proposals for addressing relevant risks for the Administering Authorities and the successful delivery of the challenges of change management for a project of this nature.

### **6.2 Project management arrangements**

The level of project management resource required to ensure the successful delivery of the BPP proposal will be kept under regular review. The next development phase is likely to be demanding with a significant amount of work to be done on a range of matters. These will include setting up the Brunel company's governance and contractual arrangements, addressing all relevant operational matters including staff recruitment, and preparing for submission of the FCA application.

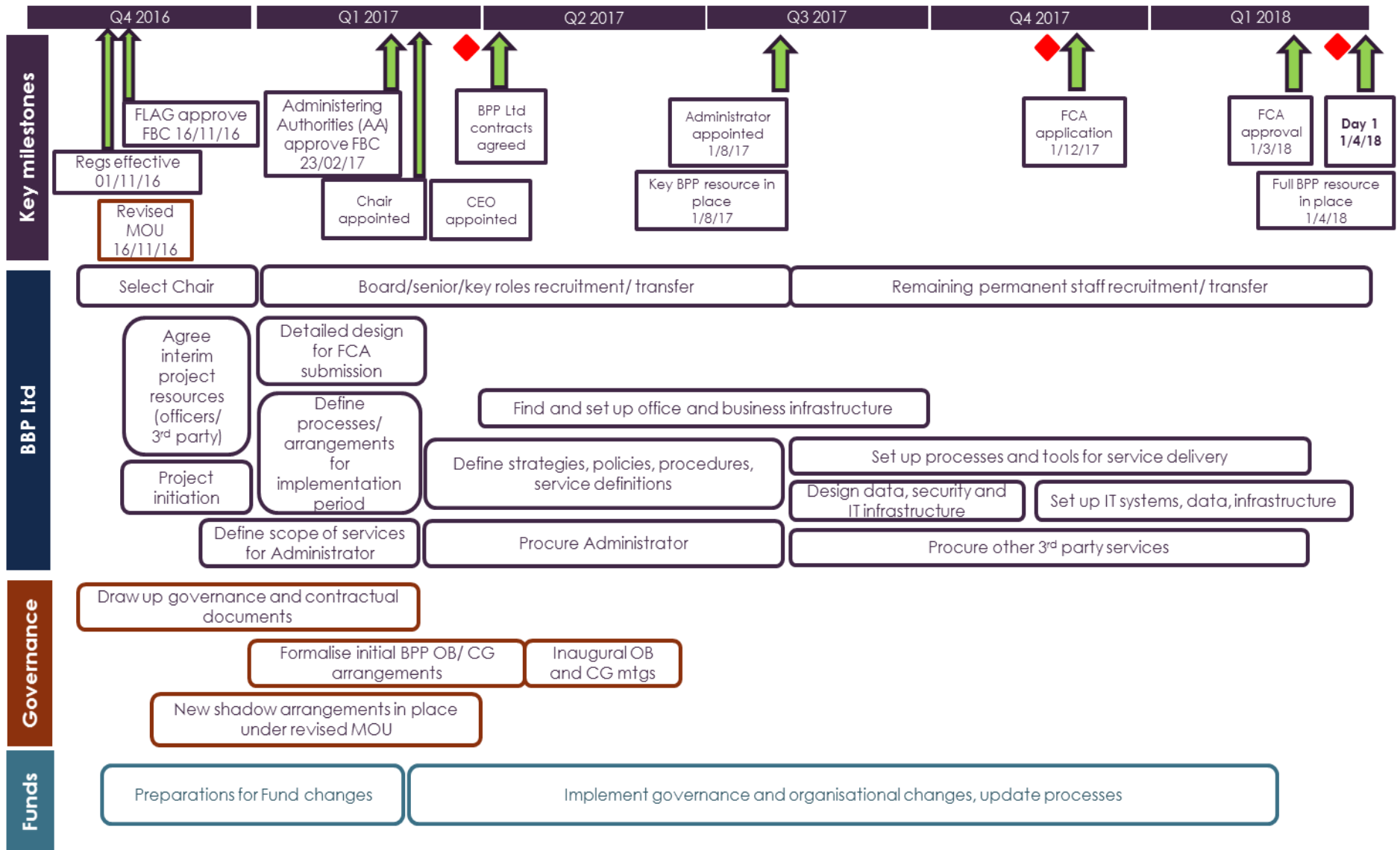
A particular challenge will be ensuring that these tasks can be delivered in parallel with the appointment of the Brunel company's leadership team, including the Chair. The permanent staff appointments will take place throughout the remainder of the project, so the project structure will evolve during the lifecycle of the project. They will be key in providing continuity of leadership and direction while other resource changes are underway.

Any non-permanent assignments of officers to support the Brunel company set-up and resourcing will be progressed on an interim basis.

Conflicts of interest may emerge, and if so they will be carefully managed by establishing clear accountabilities and resource allocation.

The following diagram provides an indicative overview of the programme activities and the key milestones:

**Brunel Pension Partnership – Stage 3b: implementation PLAN 1 - Key decision points and high level activities** ◆ = formal review points



### **6.3 Benefits realisation and risk management**

The delivery of the expected benefits of pooling will be through the operation of the Brunel company and the services it delivers to the Brunel Funds. It will be monitored by the Oversight Board and Client Group, using the reporting activities provided by the Brunel company.

A comprehensive risks register is already in place and will continue to be maintained by the Project Office. The risks will be further categorised to identify those risks directly to the Funds and those directly applicable to the Brunel company. The risks will be reported to the programme and project management teams through regular status reports. Very high risks or those requiring urgent action to manage will be escalated as needed. A summary of the risks and a copy of the risk register is attached at Annex 2.9.3a and 2.9.3b.

### **6.4 Project milestones and gateways**

Meetings of the Brunel Administering Authorities are scheduled to take place between 2 December 2016 and 23 February 2017. At these meetings Resolutions for in principle decisions to approve investment pooling will be considered, with appropriate delegations being granted to progress the next development phase. The approval by Administering Authorities of these Resolutions will mark a key milestone in the establishment of the BPP investment pool.

Further formal reviews that the project has progressed in line with the provisions agreed in the FBC will be held prior to the key milestones. These include the appointment of the Brunel company Chair (early 2017), set-up of the Brunel company and agreement of the key shareholder and other corporate documents (by Spring 2017), submission of the Brunel company's FCA application (by November 2017), and operational readiness for commencement of pooling (by April 2018).

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