


Pension Fund Investment Transfer 2019/20

Final Report



Issue Date: 21st July 2020

Executive Summary

Audit Opinion		Recommendation Summary	
	<p>The assurance opinion we have been able to offer in relation to this audit is Substantial.</p> <p>The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.</p>	Priority	Number
		Priority 1	0
		Priority 2	0
		Priority 3	1
		Total	1

Audit Conclusion

We have provided substantial assurance in relation to the Pension Fund Investment Transfer and confirmed that:

- Regular monitoring and reporting of the project's progress is undertaken by the relevant parties against the milestones or targets and budget set out in the project plan. We recognise that the original business plan was amended and that revised targets are now monitored including a revised breakeven target from 2023 to 2024;
- Monitoring and recording of the anticipated benefits and savings that the project was expected to deliver takes place on a regular basis;
- Brunel Pension Partnership Limited has a governance framework in place that clearly sets out the structure of the Council's Pension Fund Committee; and
- From a review of the relevant reports and documentation for the two transfers that took place in 2019-20, , we are satisfied that there are formal arrangements in place for the transfer of assets to Brunel Pension Limited.

We have made one recommendation in support of the Council's need for clear and transparent reporting of fees from Brunel.

Background

In May 2014, the Government published a consultation which set out how savings might be achieved by Local Government Pension Scheme (LGPS) funds through greater use of pooled investment. As a result of this, Brunel Pension Partnership Ltd was created in July 2017 with representatives from ten LGPS administering authorities, including Wiltshire Council. Brunel Ltd received authorisation in March 2018 from the Financial Conduct Authority (FCA) to act as a full scope investment firm.

As at 30th June 2020 Wiltshire Council had approximately £2.828 billion of funds held in eleven portfolios, including cash and property.

At the time of the audit, four portfolios had been transferred to Brunel. This was since the partnership was formed. In the financial year 2019-20 Wiltshire carried out two transfers to funds managed by Brunel:

- Active Global Equities - valued at £472.1 million as at 31 December 2019 representing 17.2% of total asset allocation; and,
- Passive low carbon equities - valued at £602.1 million as at 31 December 2019, representing 21.9% of total allocation.

The next transfer is planned for early 2021.

This audit has reviewed the two funds transfers carried out by Wiltshire in the financial year 2019-20:

Transfer 1 - Movement of assets previously managed by Baillie Gifford. These were high alpha funds that were transferred to Brunel's Global High Alpha Equities portfolio on 15th November 2019.

An independent review of this fund transfer was carried out and reviewed by Brunel. This concluded that there had been some small delays in the process that could be improved upon in future exercises. It also explained that the actual costs were higher than the pre-trade estimate which had resulted in Wiltshire paying £8,243 more as its share of unexpected cost.

A further cost to Wiltshire Council followed this transfer as the Council had a contractual commitment to pay the investment house, Baillie Gifford an accrued performance fee on termination of them managing the funds. This totalled £10.3 million and represents the fees that were held back to allow for fluctuations in performance over the years. The level of fees reflects a period of good performance from which the pension funds benefited, and these had to be paid at the point the arrangement was terminated with Baillie Gifford. The contract was entered into prior to the composition of the current Pension Team and there was no knowledge of the terms and conditions that applied on contract termination.

We were informed by the Pensions Team that such a large unexpected invoice will not be presented for future transfers to Brunel because none of the assets remaining in the Wiltshire pension fund are managed by a contract with accrued performance fees as was arranged with Baillie Gifford.

Transfer 2 - The transfer of Wiltshire's Global Passive Equities into the already pooled LGIM UK fund portfolio (which had been created by Brunel in July 2018) and the consolidated portfolio was simultaneously moved across to Brunel's Low Carbon Passive Equities portfolio. This took place on 2nd December 2019.

Unlike transfer 1 above, this was not a big transfer and was specific to Wiltshire, so it was not reviewed by Brunel. Wiltshire Council commissioned its own independent review. This concluded that it was a very good outcome in terms of investment basis points. However, it also found that an error was made in the pre-trade estimate which resulted in a higher than expected transfer fee. Intervention from the report authors led to Brunel securing a fee rebate of £50,000 for the Council.

Corporate Risk Assessment

Objective

To review whether the Pension Fund Investment Transfer project is progressing as it should with anticipated benefits and savings being achieved as planned. A review of governance structure and the security surrounding the transfers will also take place.

Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
1. The Pension Fund Investment Transfer project does not progress as it should resulting in the anticipated benefits and savings not being achieved as planned	High	Medium	Low
2. The assets are not transferred securely or on time resulting in financial loss to the Pension Fund.	High	Medium	Low

Scope

We reviewed documents and minutes to gain assurance that the project to pool pension funds:

- Is progressing as intended and if not, to see who is made aware of any slippages;
- There is regular monitoring of the anticipated benefits and savings that the project was expected to deliver;
- The Council's Pension Fund Committee has a role within the governance framework; and
- There are formal arrangements in place for transferring assets to Brunel Pension Partnership Limited.

We reviewed the following documents:

- The latest review of the Brunel business plan – dated 21st November 2019;
- Head of Pension Fund Investments quarterly progress report for periods ending 31st December 2018 to 31st December 2019;
- Head of Pension Fund Investments monthly updates to Council Members and Officers from March 2019 to April 2020;
- Published minutes of the Wiltshire Pension Fund Committee from March 2019 to March 2020;
- Full minutes of the Investment Sub Committee from February 2019 to February 2020;
- Minutes of the Brunel Oversight Board from four meetings held between January 2019 to November 2019;
- Terms of reference for the Brunel Oversight Board and the Client Group*; and
- Post transition reports following funds transfers from independent advisors.

Enquiries were also made about the technical detail with the Head of Pension Fund Investments.

*The terms of reference for the Brunel Oversight Board and the Client Group came from previous audits and we have not had confirmation as to whether they have since been changed or revised. We did not see any minutes from the Client Group or the minutes of the last meeting of the Brunel Oversight Board held on 19th March 2020.

Findings and Outcomes

Summary of Control Framework

The Council's Pension Fund Investment and Accounting Team sits in the centre of the control framework. This Team comprises four officers led by the Head of Pension Fund Investment and includes a Fund Investment & Accounting Officer, Investment Officer and Accounting Technician.

The Head of Pension Fund Investment attends the Brunel Oversight Board and the Client Group. The Client Group sees the work of the Responsible Investment sub-Group that reports to the Client Group and is well placed to challenge technical aspects of pension funds activities including the transfers from Wiltshire to the Brunel Partnership Limited and the performance of the funds managed by Brunel.

The Head of Pension Fund Investment updates appropriate Council officers and the Chairman and Vice Chair of the Wiltshire Pension Fund Committee and Investment sub Committee on all pension investment activity by email. This provides current information based around the meetings that have been attended and regular communications with Brunel staff. The Head of Pension Fund Investment produces and presents a Quarterly Progress Report to the Council's Investment sub Committee, which is also sent to the next meeting of the Wiltshire Pension Fund Committee.

The Chairman of the Wiltshire Pension Fund Committee/Investment Sub-Committee maintains oversight and involvement in the activities of the Brunel Partnership as a member of the Brunel Oversight Board.

There is a Local Pension Board made up from employer pension member representatives and pension scheme member representatives, with an independent Chairman, which meets quarterly throughout the year. They see the Part 2 minutes (not available to the public) of the Wiltshire Pension Fund Committee and Investment Sub Committee to ensure compliance with the Regulations relating to the governance and administration of the Wiltshire Pension Scheme and to ensure the effective and efficient governance and administration of the Scheme.

1.	The Pension Fund Investment Transfer project does not progress as it should resulting in the anticipated benefits and savings not being achieved as planned.	Low
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1.1	Finding and Action
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Issue	Risk
Brunel’s management fees are not transparent preventing accurate calculation of savings.	Measuring the progress of the project is hindered and inaccurate risking poor or late decision making that results in financial loss to the Wiltshire Pension Fund.

Findings

From our review of the documents provided during the audit we are satisfied that there is regular monitoring and recording of the anticipated benefits and savings that the project is expected to deliver.

It is evident from the minutes of the Brunel Oversight Board that Wiltshire Council raised concerns over the way Brunel has presented their management fees. It was felt that these were not transparent at the outset and the Head of Pension Fund Investment says that Brunel has not provided their fee charges in time to complete the Council’s year-end accounts for both 2018/19 and 2019/20. The Pension Fund team has relied on estimates for these financial years which is not in compliance with CIPFA guidance.

Recommendation

We recommend that the Head of Pension Fund Investment seeks clarification from Brunel on the full costs involved in managing assets transferred from the Wiltshire pension fund. These should be made clear and in time to allow accurate reporting to Wiltshire Council Members of the relative savings and benefits from participation in the Brunel Partnership. <i>(SWAP Ref: 43809)</i>	Priority Score	3
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Agreed Action	Timescale	30 th April 2021
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We accept the recommendation and will communicate our expectations and requirements to Brunel.	Responsible Officer	Head of Pension Fund Investment
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Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Authors and Distribution

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