



Pensions Investments Pooling

Thursday 16 February 2017

Report from Cabinet Member for Resources

Purpose of this Report

To agree that Buckinghamshire Pension Fund enters into pension investments pooling with 9 other Local Government Pension Scheme pension funds for the purposes of delivering savings and meeting government pensions pooling requirements.

Background

Local Government Pension Scheme Asset Pooling is a government requirement under the LGPS (Management and Investment of Funds) Regulations 2016. Project Brunel was established to deliver these requirements with the founding Funds being the Environment Agency Pension Fund, and the local government Funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire. The collective assets of the pool are approximately £23 billion, which is sufficient to meet the Government's requirement of pools having combined assets of approximately £25 billion. The regulations provide for Secretary of State intervention if pooling is not embraced sufficiently by pension funds, which could include a direction to join a pool other than the Brunel pool.

The investment strategy will remain the responsibility of the LGPS Pension Funds, with an FCA regulated Local Authority Company (Brunel Pension Partnership Ltd) being created on an equal share basis to appoint the fund managers and manage the investments of the pension funds in order to deliver their investment strategies. The objective of the pooling arrangements is to deliver savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the collaboration initiative will provide.

The financial modelling indicates that net cumulative savings of £122.7m can be achieved by 2035/36 for the Buckinghamshire Pension Fund, with a breakeven point during the 2020/21 financial year and net annual savings of £6.1m from 2024/25.

Governance will be provided through an oversight board, which will consist of a representative from each Pension Fund Committee, as well as the regular review of performance at Pension Fund Committees. Formal approval is required by the Cabinet and the County Council as administering authority in order to proceed with the proposal and to enter into the implementation phase of creating the Local Authority Company. The other Funds are going through the same process during December, January and February.

At its meeting on 9th November 2016, the Pension Fund Committee agreed to recommend to Cabinet the entering into investment pooling, the establishment of an FCA regulated company and establishment of a Brunel oversight board.

The Brunel Shadow Oversight Board commended the full business case at its meeting on 23 November 2016 and this included as Appendix 1. The Environment Agency, Gloucestershire, Devon, Oxfordshire, Somerset, Cornwall and Dorset Board/Councils have already formally agreed to proceed.

The recommendations being proposed to Council were agreed by Cabinet at its meeting on 9th January 2017.

RECOMMENDATION

That Council APPROVES:

- a) The Buckinghamshire Pension Fund to enter into investment pooling with the other Brunel Pension Funds;**
- b) That a Financial Conduct Authority (FCA) regulated company be established with equal share ownership with the other Brunel Administering Authorities;**
- c) The establishment of a new supervisory body comprising representatives of the Council and all other participants in the Brunel Pension Partnership to provide effective oversight of the Council's investment and participation in the Brunel Pension Partnership;**
- d) That all actions required to enter into the Brunel Pension Partnership and establish Brunel Pension Partnership Ltd be delegated to the Chairman of the Pension Fund Committee, the Director of Assurance (s151 Officer) and the Monitoring Officer, including taking such decisions and do all other things deemed necessary in order to promote the interests of the Council with respect to pooling, which without limitation shall include agreeing and authorising any documentation, contracts, financial expenditure or investment that may be required consequential upon the Council's participation in the Brunel Pension Partnership.**
- e) The arrangement by the Monitoring Officer for the execution of all necessary legal agreements and documentation in accordance with the requirements of the business case.**

Narrative setting out the reasons for the decision

In 2015 the Government announced that they wanted the 89 Local Government Pension Scheme funds to pool their investments into larger pools in order to achieve savings in investment management costs. The LGPS (Management and Investment of Funds) Regulations 2016 were laid in September 2016, and came into effect on 1st November 2016, with Regulation 8 providing for Secretary of State intervention if it is deemed the regulations and guidance have not been implemented properly by a pension fund.

In response to the Government agenda, Project Brunel was set up to explore the options for pooling investment assets across ten Funds. The founding Funds include the Environment Agency Pension Fund, and the local government Funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire. The collective assets of the pool are approximately £23 billion as illustrated in the table below.

Brunel LGPS Pension Funds

Pension Fund	Assets as at 31.3.15 (£bn)
Avon	3.9
Buckinghamshire	2.2
Cornwall	1.5
Devon	3.4
Dorset	2.3
Environment Agency	2.9
Gloucestershire	1.7
Oxfordshire	1.9
Somerset	1.6
Wiltshire	1.8
Total Assets	23.3

The objective of pooling the assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the collaboration initiative will provide. Local accountability will be maintained as each individual fund will remain responsible for strategic decisions including asset allocation. The pooling of assets will only affect the implementation of the investment strategy in terms of manager appointments. A Local Authority Company (Brunel Pension Partnership Ltd) will be established in which Buckinghamshire County Council as an administering authority will own an equal share with the other administering authorities of the Brunel founder funds.

Governance will be provided through a Brunel oversight board, which will have a representative from each Pension Fund Committee, which is likely to be the Chairmen of the Pension Fund Committees or their nominated deputy. There is a contract management responsibility for each of the funds in terms of the direct services received from the Brunel Company and the performance of the managers selected to deliver the Investment Strategies of the funds. Any issues will be brought together at the oversight board by the Pension Fund Committee representative for review and action where appropriate.

Each administering authority has to formally approve working within the Brunel partnership and the establishment of the Local Authority Company and this is due to be formally taken at County Council on 16th February 2017.

The full business case was commended by the Brunel Shadow Oversight Board at its meeting on 23 November, following a detailed review by the Brunel Finance/Legal Assurance Group (FLAG), consisting of s151 and Monitoring Officer representatives from each of the founder funds on 08 November 2016.

The Pension Fund Committee considered the provisional business case for the Brunel Pension Partnership at its meeting on 09 November 2016 and agreed to recommend recommendations (a) to (c) to Cabinet, subject to no significant changes in the final business case. I can confirm there were no significant changes to the business case between 09 November and the final business case agreed at the Brunel Shadow Oversight Board on 23 November.

Other options available, and their pros and cons

There have been 8 pools established for the 89 LGPS funds and Buckinghamshire could have looked to join one of the other pools. The London CIV, Wales and Northern Pool have been established on a strong geographical basis. The LPP consisting of Lancashire, Berkshire and the London Pension Fund Authority only have combined assets of £13bn compared to the Government's aspiration of having pools with assets in the order of £25bn. The London CIV and LPP had already been established as pooled investment arrangements, and although the LPP invited other Funds to join its pool, there would have been no voting rights or influence on the operation of the pool.

At the time of consideration Buckinghamshire were in conversation with the ACCESS pool as well as Brunel, with the attraction of the Brunel Partnership being that they were already at an advanced stage of development having pre-empted the Government's direction of travel, there was no single dominant fund, all funds expressed similar values and were committed to making the partnership work.

The government expectation is that all LGPS Pension Funds will join a pool, with the LGPS (Management and Investment of Funds) Regulations 2016 providing for Secretary of State intervention if they do not. Therefore if the County Council decided not to join the Brunel Partnership, it would have to find an alternative pool to join, with the risk of having less influence than that pool's founding funds, or being directed to do so by the Secretary of State.

Resource implications

The costs and savings associated with Pension Pooling will accrue to the Buckinghamshire Pension Fund.

The financial issues relating to the Brunel Pension Partnership have been considered at regular Finance/Legal Assurance Group (FLAG) meetings, which is attended by s151 and Monitoring Officer representatives as well as the lead officers of the Brunel Shadow Operations Group project team. PWC have provided independent financial advice to the project and 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 at Section 3 p6 of the Business Case attached at Appendix 1. This has been checked and assessed by each Administering Authority's Chief Finance Officer/ Section 151 Officer.

The project costs in developing the Brunel pension pooling proposal are being met equally by each of the Pension Funds, together with a significant level of officer support provided in addition across the Brunel partnership.

A complex financial model has been developed by PWC on behalf of the Brunel partnership, modelling the costs and savings for the partnership as a whole and for each of the individual funds. It allows for various scenarios to be modelled, which has been used to perform a sensitivity analysis on the proposed partnership and which is summarised for the Brunel Partnership as a whole in Table 1.3.4a on page 10 of the Business Case attached at Appendix 1, with the impact on the Buckinghamshire Fund alone shown in Table 1.3.4b on page 13. The sensitivity analysis indicates that the breakeven year for Buckinghamshire Pension Fund could move out by a year to financial year 2021/22.

The core model indicates that the Buckinghamshire Pension Fund could achieve cumulative net savings of £122.7m by 2035/36, with annual savings of £6.1m by 2024/25 and breakeven during 2020/21.

Table 1 – Summary of Savings for Buckinghamshire Pension Fund (Core Model)

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
Buckinghamshire Pension Fund	FY21	122.7	67.0	6.1	20.4
Combined Pool	FY23	550.1	279.5	27.8	8.9

The 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.

The actual asset transition costs for the Brunel pool will not be known until the Fund Managers have been appointed and the number of funds that need to be transitioned is known and will be dependent on the market conditions at the time of transition. The transition of assets is expected to begin April 2018 through to 2020 for the majority of assets, although illiquid alternative assets such as private equity may need a longer transition timetable. However, from a Buckinghamshire Pension Fund perspective, these costs would need to increase by 28% for the breakeven to move out to 2021/22 and would still be during 2021/22 with a 50% increase.

The savings are achieved through reduced direct investment costs, predominantly investment manager fees, expected to be payable by the Brunel authorities once the Brunel Company is operational. In addition there are the savings that the authorities 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 Buckinghamshire Pension Fund, this

will be through reduced advice required from the Buckinghamshire Pension Fund's investment advisers and the use of a single custodian for the Brunel Partnership.

It has cost £1.2m (£0.12m per fund) to get to full business case stage. The projected future development costs up to April 2018 are £3.3m (£0.33m per fund), which includes £2m (£0.2m per fund) of working capital for the Brunel Company.

Value for Money (VfM) Self Assessment

Although pension pooling is a Government requirement, the financial modelling that has been undertaken demonstrates that there are net savings opportunities for the Buckinghamshire Pension Fund in entering into the Brunel Pension Partnership. The sensitivity analysis indicates that the benefits to the Buckinghamshire Pension Fund are reasonably stable, with the breakeven point only being pushed out by a year at most for some of the scenarios.

The establishment of the Brunel Company provides the future opportunity for some internal management of funds, which could be delivered at lower costs than external fund manager fees and which Buckinghamshire Pension Fund would not be able to do easily internally now.

Legal implications

The legal implications have been discussed at the regular FLAG meetings attended by the Monitoring/Chief Legal Officers, with independent legal advice and assurance being provided by Osborne Clarke.

The Local Authority Company will need to get Financial Conduct Authority (FCA) approval as required by central government, which is currently timetabled to be submitted by November 2017.

The Local Authority Company will be a Teckal Company and fall within the exemption in the Public Contracts Regulations 2015 in relation to its appointment by the founding funds to manage the investments of the funds.

Feedback from consultation, Local Area Forums and Local Member views

This is a government requirement, however the Buckinghamshire Pension Fund Committee and Buckinghamshire Pension Board has been kept up to date with the development of the project at each meeting. The Pension Fund Committee has reviewed the business case position at its meeting on 09 November. The Cabinet Member for Resources as Chairman of the Pension Fund Committee has been kept up to date with developments.

The Chairmen of the Pension Fund Committees are members of the Shadow Oversight Board and the Chairman of the Pension Fund Committee, or his nominated representative, has attended these meetings where the progress of the project and key decisions have been made.

Communication issues

Information is provided on the Buckinghamshire Pension Fund website, with a link to the Brunel Pension Partnership website which has been established. Information will also be communicated via the Employer and Pensions newsletters to staff and members of the Pension Fund. As the proposal relates purely to the investment of Pension Fund assets, there is no direct impact for employers or members of the fund. However, the Pension

Board has been kept up to date with developments and represents both employers and scheme members.

Progress Monitoring

Progress on the project is monitored by the Brunel Shadow Oversight Board and Brunel FLAG group.

Review

Once established the performance of the Brunel Company and the Buckinghamshire Pension Fund investments being managed by it, will be monitored on a regular basis by the Pension Fund Committee and fed into the Brunel Oversight Board wherever necessary.

**JOHN CHILVER
CABINET MEMBER FOR RESOURCES**

Appendix 1 – Brunel Pension Partnership Full Business Case - Buckinghamshire