

PENSION FUND COMMITTEE – 10 JUNE 2016

COLLABORATION UPDATE

Report by Chief Financial Officer

Introduction

1. Since the March meeting of this Committee, considerable work on developing the Brunel Pension Partnership has been completed, though at the time of writing this report, a significant amount still remains to be achieved to enable a full submission to be sent to the Government by their 15 July 2016 deadline.
2. This report provides an outline of the latest position. Due to the speed and scale of developments, more details will be provided at the Committee itself. We have also arranged a Joint Seminar to which members of both this Committee and the Oxfordshire Pension Board will be invited, alongside members of the Gloucestershire and Buckinghamshire Committees and Boards. This Seminar will take place at 10:00 on 13 June 2016.

Current Position on Work-Streams and Response Template

3. Project Brunel in conjunction with the other seven potential pools has worked with the Local Government Association and the Government to develop a single response template for the July submissions. This template reflects the 4 key criteria set out by the Government, against which the submissions will be assessed, namely:
 - Size and structure of the pool
 - Governance Arrangements and Decision Making
 - Cost Reductions and Value for Money and
 - Infrastructure Capacity and Capability
4. Within the Brunel Pension Partnership, we have set up six work-streams to develop the responses. These work-streams cover:
 - High Level Structure and Governance
 - Operating Structure, Resources etc
 - Investment Approaches, Objectives and Wider Policies
 - Investment Modelling and Asset Transition
 - Infrastructure
 - Reporting
5. Responses developed through the work-streams are shared initially with the Shadow Operations Group which consists of the leading Pensions Officers for each of the 10 Funds. The Shadow Operations Group is currently meeting on a fortnightly basis in Bristol, with weekly catch up calls. Responses are then

shared with the Shadow Oversight Board which consists of a Member representative from each of the 10 Funds and which is independently chaired by John Finch, a recently retired consultant from the JLT Group, where he specialised in advising on LGPS matters. The Board has currently met on three occasions, with Cllr Lilly representing the Oxfordshire Fund at the first and third meetings, and Cllr Hards at the second meeting.

6. Briefing sessions have also been arranged for the Chief Financial Officers and a representative is invited to each meeting of the Shadow Operations Group and Oversight Board. Regular briefings are also held with officers from Her Majesty's Treasury and from the Department of Communities and Local Government, and a representative of DCLG attended the most recent Oversight Board.
7. Throughout the process, the Brunel Pensions Partnership is being advised by Osborne Clarke on legal matters and by Price Waterhouse Coopers on wider LGPS issues. Ad Hoc advice has also been sought from investment managers, and custodians particularly in respect of the work of work-streams 1, 3 and 4.
8. In respect of the high level structure, the latest model is based around a Brunel Manager, which will be a company established by the 10 Funds (all who will become shareholders in the new entity). The Brunel Manager will seek the appropriate regulatory approvals from the Financial Conduct Authority dependent on the final models developed for each asset class.
9. The requirement for a regulated company at the heart of the new business model has developed since the initial thinking on the delivery model. The clear advice from Government was that they were unlikely to accept any proposal which did not centre around a company regulated by Financial Conduct Authority.
10. A recent Court ruling found in favour of the Financial Conduct Authority where a company had not sought appropriate regulatory approval. The Court found the company were operating regulated activities even though they had sought to structure them to avoid the need for regulatory approval. The Court fined both the company and individual Directors. Our clear legal advice is that given the nature of the activities to be undertaken by the Brunel Manager, we do need to obtain the appropriate regulatory approvals. This in turn requires the establishment of a legal entity to be regulated and to employ approved staff.
11. It remains our current thinking that the Authorised Contractual Scheme favoured by the London CIV and the Local Pension Platform established by the Lancashire and London Pension Fund Authorities is not the most cost effective model to meet the investment requirements of the Brunel Pension Partnership. For some asset classes it will be our intention to invest in pooled funds operated by fund managers. In such cases, the Brunel Manager would need to be regulated as an Investment Manager, to enable it to select the underlying fund managers and monitor their performance.

12. For other asset classes, we may invest through an ACS, limited partnerships of life funds. Where the Brunel Manager operates a Fund on behalf of the 10 Funds, it will need to be regulated as an Alternative Investment Fund Manager (AIFM).
13. Work continues in this area, including understanding the tax implications of each of the structures, before final decisions are made on the proposed structures. This work is being undertaken in consultation with the other pools, many of which wish to pursue similar lines, although the level of internal management within each pool leads to variations on the theme.
14. The work of the Brunel Manager will be overseen by the Oversight Board which is intended to continue on from its current shadow form. The Board will be responsible for holding the Brunel Manager to account in ensuring it develops solutions to meet the investment requirements of the individual pension committees, as well as playing a key role in ensuring appropriate communications back to the local committees. At the present time, it is envisaged that the Oversight Board will be supported in its role by a Operations Board, which will include key officer representatives from the individual funds.
15. The question of what happens in the event of poor performance by the Brunel Manager has been raised, especially in the context that the shareholders of the company will be the 10 founding funds. It is envisaged that consistent with our current approach to poorly performing fund managers, all efforts would initially be made to understand and address the causes of poor performance, recognising that most investment performance is cyclical, and there are significant costs in replacing managers, whether at pool or portfolio level. It is more likely that individual key officers within the Brunel Manager would need to be replaced than any wholesale changes to the Partnership arrangements themselves.
16. The development of the costs and staffing requirements of the new Brunel Manager are still very much at an early stage. Independent advice will need to be sought given the potential conflicts of interests for some members of the Shadow Operations Group, who will see their future with the Brunel Manager.
17. The structure will be part be determined by the final decisions on our investment portfolios, and therefore the governance structure of the Brunel Pension Partnership, and the corresponding requirements of the Financial Conduct Authority.
18. In terms of the work on investment modelling, the Shadow Oversight Board has now agreed a set of investment principles to be shared with each Committee, alongside a draft cost sharing model, and an initial set of investment portfolios. We will share the full detail of this at the Seminar on 13 June 2016.
19. The investment portfolios have been developed to try and ensure there is an appropriate option to meet all the investment requirements of individual funds

to enable them to meet their pension liabilities as they fall due. Local committees will still be able to allocate resources based on capital growth or income targets across different asset classes, with different levels of overall risk. They will not though be responsible for decisions about investment styles (e.g. growth or value managers) or indeed individual manager selection, tasks which will fall to the Brunel Manager.

20. The next key stage of work for work-streams 3 and 4 is the development of a transition plan and a cost/saving model. External advisers are currently undertaking work on our behalf, and the interpretation of their findings will be critical in determining the potential likely levels of net savings from the project as a whole.
21. The work on developing a response on infrastructure has largely been led by the Cross Pool Collaboration Group (CPCG), on which all of the 8 potential pools are represented. The area of infrastructure investment remains of key interest to the Government, although Marcus Jones MP, the Minister responsible with DCLG for the Local Government Pension Scheme was keen to point out in his recent speech to the Pensions & Lifetime Savings Association's Local Authority Conference, that the Government does not intend to instruct funds to invest in infrastructure, and recognises that any investment will not be limited to UK infrastructure alone.
22. The work of the CPCG on infrastructure is focused on ensuring that there is the capacity and capability to undertake an increased level of infrastructure investment if that is what the local Pension Fund Committees wish to undertake. At the present time, it is not envisaged that a single national platform will be the answer to all infrastructure investment needs, although it may well be a key part of an overall package of measures.
23. The development of responses within work-stream 6 on reporting is very much dependent on a number of the decisions elsewhere, so like work-stream 2 there is little concrete proposals at this stage.
24. There is an over-arching work-stream seven which is picking up all the project issues associated with a project of this scale. The Brunel Pension Partnership has appointed a full time Project Manager to co-ordinate the work across the work-streams, and she is also key in producing a regular status report, and risk register for the project. There are no critical concerns at the time of writing the report. This work-stream has also been responsible for developing the wider communications programme, branding for the Partnership and a Project website. These will also all be shared at the Seminar on 13 June 2016.

RECOMMENDATION

25. **The Committee is RECOMMENDED to note the latest position on developing the July submission, the detailed developments to date which will be shared at the Seminar on 13 June 2016; and the areas which require additional work before the final submission is submitted to this Committee at its special meeting on 1 July 2016.**

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