

PENSION FUND COMMITTEE – 11 MARCH 2016

COLLABORATION UPDATE

Report by Chief Financial Officer

Introduction

1. At their additional meeting on 29 January 2016, the Committee agreed a submission to the Government on their intentions towards future pension investment collaboration. The submission was a joint submission on behalf of the 10 administering authorities signed up to Project Brunel.
2. The submission was agreed by the respective Pension Fund committees of all 10 administering authorities and subsequently sent to the Government by their deadline of 19 February 2016. At the time of writing this report, there has been no formal response to the submission.
3. On the assumption that the Government will accept the submission as the basis for a full proposal from Project Brunel, this report looks at the next steps in developing the final submission by the 15 July 2016 deadline.

Informal Feedback and Next Steps

4. Whilst we have not received any formal response to the submission since 19 February 2016, members of the Project Brunel team met with key officials from Her Majesty's Treasury and the Department for Communities and Local Government to discuss the submission. The two key areas these discussions focussed upon were the commitment to future investment in infrastructure and the governance arrangements. There was no discussion on the fact that the pool falls below the £25bn criteria, at just under £23bn.
5. In respect of feedback, the officials were keen to understand the commitment of the Brunel funds to future investments in infrastructure. This followed up from the previous statements from the Chancellor, and the inclusion of infrastructure investment as the fourth criteria against which collaboration proposals will be judged.
6. The position was confirmed that whilst the Brunel funds are happy to support future infrastructure investment in principle, actual decisions on the level of infrastructure investment could not be pre-determined. They would be dependent on the asset allocation decisions made by the local Pension Fund Committees in light of their own pension liability profiles, and the availability of infrastructure investments which provided investment returns consistent with these pension liabilities.

7. The clear message given to the officials was that it was critical to develop a supply line of appropriate infrastructure proposals available to be considered by the Brunel funds. To this end, it is noted that in the proposals submitted by the Manchester Pension Fund and the London Pension Fund Authority, there is a wish to develop a centre of excellence around investing in infrastructure, including exploring the potential to develop a clearing house for major infrastructure investments.
8. The development of a national infrastructure investment model would be consistent with the findings of the Project Pool work supported by Hymans Robertson, and as such, the officers within Project Brunel would support working closely with the other proposed pools to develop a single solution to support future infrastructure investments.
9. In respect of governance, the challenge from the Government Officials centred on the appropriateness of going forward with an unregulated model. On this point, it was explained that the current position in Project Brunel is that developing a full Authorised Contractual Scheme arrangement regulated by the Financial Conduct Authority is not necessary to deliver the proposed collaborative arrangements, and therefore adds unnecessary cost and time to the implementation on the proposal. Moving to a regulated model is not ruled out in the future, if the needs of the collaborative model so require.
10. It was also stated that in so far as possible, the Collective Asset Pool and Joint Committee model would be developed to incorporate as many of the policies and practices that would be required under a regulated model, to ensure the efficiency and effectiveness of the model.
11. Officials were keen to understand how the model would ensure sufficient control moved from the individual local Pension Fund Committees to the Collective Asset Pool, and where the key investment decisions would be made in the future.
12. In the view of Project Brunel, the best way of moving the issues forward and demonstrating how the model will work is to set up shadow governance arrangements. This will provide more robust governance arrangements for the Project, improve communication flows and help clarify future roles and responsibilities.
13. To this end, the Project has drafted terms of reference for a Shadow Joint Committee Oversight Board, and these are contained at Annex 1 to this report. It is hoped that this Board can meet on a monthly basis until the July submission has been finalised, and an initial meeting date has been set for 22 March 2016. Each of the local Pension Fund Committees are invited to nominate a representative to sit on this Board and a named substitute to attend in their absence.
14. The lead officers for each Fund are continuing to meet, and it is intended to re-construct these meetings as a shadow Operations Group. It is intended to support the Board and the Operations Group through the appointment of a

Project Manager. It has also been suggested that the Project will need to appoint a Chief of Operations and a Risk and Compliance Officer who will act to co-ordinate the work of the officers from the individual funds.

15. The Operations Group is next due to meet on 10 March 2016, and will look to develop its own terms of reference, and job descriptions for the Chief of Operations and the Risk and Compliance Officer and clarify the key decision making processes within the new arrangements.
16. The Committee will need to consider how the information discussed at the Shadow Board and Shadow Operations Group is best fed back, so that all members have the ability to understand and influence the final proposal. One suggestion will be to run informal briefings for all Committee and Pension Board members following each meeting of the Oversight Board.
17. Given the changes to delegations involved in setting up the new Collective Asset Pool, it has been advised that the final agreement of the proposal needs to be made by full Council, on the recommendation of the Pension Fund Committee. The final submission will need to be signed off by full Council at its meeting on 12 July in advance of the Government deadline of 15 July 2016. The Pension Fund Committee is scheduled to meet on 10 June 2016, which is likely to be in advance of the final submission being completed. The Committee will therefore need to consider whether they would wish for an additional meeting to consider the final submission, or delay the scheduled meeting until the final week in June.

Other Pooling Submissions

18. At the time of writing the report, the Government have not published any details of the submissions received. Any analysis of the submissions is therefore based on information provided by the individual funds and pools.
19. It is understood that in addition to the submission from Brunel, submissions were made by Access (central and south east funds), Central, Borders to Coast (with funds the length of the Country), the Welsh Funds, the London Common Investment Vehicle, the Northern Powerhouse, and the Local Pension Partnership (LPFA and Lancashire). These last two pools have also indicated a willingness to work together as a single pool.
20. It is understood that not all funds have made a firm commitment to a single pool, and indeed it is understood that at least one Fund has indicated a wish to invest across more than one pool.
21. In terms of size, the proposals from Brunel, the Welsh funds and the Local Pension Partnership fall short of the £25bn criteria. In terms of governance models, many of the submissions suggest more work is required. The Northern Powerhouse (the three big funds of Greater Manchester, Merseyside and West Yorkshire) has indicated an intention not to follow the Authorised Contractual Scheme but to develop a shared service model, though will look at alternatives as appropriate to each asset class. The Central, Access and

Borders to Coast pools are looking to commission a joint legal report on potential governance models. The London Boroughs submission is based around the London Collective Investment Vehicle which they have already established, whereas the Local Pension Partnership has also established an Authorised Contractual Scheme.

RECOMMENDATION

22. **The Committee is RECOMMENDED to:**

(a) note the current position;

(b) agree a nominee and a named substitute to represent the Committee on the Shadow Joint Committee Oversight Board; and

(c) consider the requirement for monthly informal briefings to follow on from meetings of the Oversight Board and the arrangements for the agreement of the final submission.

Lorna Baxter
Chief Finance Officer

Contact Officer: Sean Collins, Service Manager, Pensions, Insurance & Investments; Tel: (01865) 897224

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