

BRUNEL PENSION PARTNERSHIP

1. Introduction

- 1.1. 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, extensive work has been undertaken to set up the Brunel Pension Partnership comprising ten LGPS Funds.
- 1.2. Regular reports have been brought to the Pensions Committee at all stages of the process, with additional events for the Pension Committee and Pension Board Members also being held to provide the opportunity for further input to the proposals. As required by Government an initial joint submission from the ten Brunel funds was approved by the Pensions Committee in January, and a further more detailed response was approved by the Committee in July and submitted to the Government in July.
- 1.3. Following the July submission of what was in effect an outline business case, work has continued to develop a full business case for the Brunel Pension Partnership. The full business case is now complete 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.

2. Full Business Case and Cost Model

- 2.1 The full business case together with detailed appendices and risk register, seeking 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 are to be considered by Pensions Committee on 2nd December 2016.
- 2.2 This follows a review by the Finance/Legal Assurance Group (FLAG), comprising the s151 and Monitoring Officers/Head of Legal Services of each of the ten administering authorities, on 8th and 16th November and a subsequent review and approval by the

Shadow Oversight Board, comprising the chairs of the ten funds on 23rd 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). The detailed business cases and risk register are not for publication by virtue of paragraphs 3 and 5 of part 1 of schedule 12A of the Local Government Act 1972 and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

- 2.3 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 the 1st November 2016. These regulations provide the legal basis which requires LGPS funds to pool their investments.
- 2.4 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.
- 2.5 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 set up as a Teckal Company and fall within the exemption in the Public Contracts Regulations 2015.

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 committees.

- 2.6 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.

2.7 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 forecast 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.

2.8 In summary the position for the Gloucestershire Fund compared with the combined pool is summarised in the table below:

Core model	Breakeven year	Total 20 years net gain to the end of 2035/36		Running annual rate of net saving in 2024/25	
		£m	Discounted value £m	£m	bps of AUM
Gloucestershire	2027/28	11.5	3.4	0.7	3.0
Combined pool	2022/23	550.1	279.5	27.8	8.9

2.9 This table shows that the breakeven year for the Gloucestershire Fund is 2027/28 compared with the breakeven year for the combined pool of 2022/23. It also shows that the total net gain forecast for the Gloucestershire Fund by 2035/36 is £11.5 million (discounted net present value of £3.4 million).

Finally the table shows that by 2024/25 annual net savings for the Gloucestershire Fund are forecast to be £0.7 million, which is equivalent to a saving of three basis points for all assets under management.

2.10 The financial case also sets out positive and negative sensitivity analysis in relation to 5 different variables which are modelled as follows:

- Fee Savings - increase and a reduction in fee savings of 2 basis points per annum (0.02%)
- Asset Transition Costs – an increase and decrease of £15 million
- Brunel Company Running Costs – increase of £1 million
- Transition delay of one year
- Asset Performance increase and decrease by 1% and the impact of a market crash.

The outcome of this sensitivity analysis for the Gloucestershire Fund, in terms of the impact on the breakeven year, is set out in the following table.

Gloucestershire		Breakeven year	Total 20 years net gain to 2035/36		Running annual rate of net saving in 2024/25	
			£m	Discounted value £m	£m	bps of AUM
Core model		2027/28	11.5	3.4	0.7	3.0
Variable 1: fee savings	- 2bps pa saving	2037/38	-0.8	-3.5	0.2	0.7
	+ 2 bps pa saving	2023/24	23.9	10.4	1.3	5.4
Variable 2: asset transition costs	+ £15m on total transitional costs	2028/29	10.1	2.1	0.7	3.0
	- £15m on total transitional costs	2025/26	13.0	4.7	0.7	3.0
Variable 3: + £1m pa Brunel Company running costs		2028/29	9.5	1.9	0.6	2.6
Variable 4: transition delay		2028/28	10.0	2.6	0.7	2.9
Variable 5: asset performance	Equity market crash in FY20	2028/29	8.2	1.5	0.6	2.7
	-1% pa (3% pa total)	2028/29	7.6	1.2	0.6	2.8
	+1% pa (5% pa total)	2026/27	16.2	6.0	0.8	3.3

2.10 Brunel 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.

- 2.11 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 illiquid alternative assets will need a longer transition timetable. However, from a Gloucestershire Pension Fund perspective, an overall increase of £15 million in transition costs would only move out the breakeven point from 2028 to 2029.
- 2.12 The main savings outlined in the business case 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 the case of the Gloucestershire Pension Fund these savings are lower than those forecast for the other funds. The key reason for this is that the management fees currently paid by the Gloucestershire Fund are already some 30% below the average for all of the funds in the Brunel partnership.

3. Conclusion

- 3.1 Government policy, now brought into effect by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, requires the Gloucestershire 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 Committee. The Committee and the Council now need to approve the full business case to set up the Brunel Pension Partnership Limited company, in order that the pooling proposals can progress to the implementation phase.
- 3.2 Although investment pooling is being driven by the central government agenda, the financial modelling that has been undertaken forecasts that there are net savings opportunities for the Gloucestershire Pension Fund in entering into the Brunel Pension Partnership, albeit at lower levels than other funds. The detailed business case sets out the structures and governance arrangements that will be put in place, which will seek to ensure

that the Brunel company provides value for money to the Gloucestershire Fund.

- 3.3 The Pensions Committee has therefore been asked to recommend the resolutions below to set up the Brunel Pension Partnership Ltd at its meeting on 2nd December to Council. Further reports will be brought to Pensions Committee as the project progresses.

4. Resolution

Brunel Pension Partnership and LGPS Investment Pooling – Resolution

In its capacity as the Administering Authority for the Gloucestershire Pension Fund, and having received and reviewed the Report and the Business Case attached to it, the Pension Committee recommends to the County Council to enter into investment pooling with respect to the Gloucestershire Pension Fund.

Such Resolution is made on and subject to the following terms and conditions:

- **THAT** the Brunel Pension Partnership investment pool be developed, funded and implemented substantially in accordance with the terms and provisions described in the said Business Case, and more particularly that:
 - a 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 the Council's investment and participation in the Brunel Pension Partnership.
- **THAT** the Pensions Committee be authorised and granted delegated powers to undertake such tasks as it thinks appropriate to progress implementation of investment pooling, and to take 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, terms of reference, financial expenditure or investment that may be required consequential upon the Council's participation in the Brunel Pension Partnership.
- **THAT** the Director of Strategic Finance and the Head of Legal Services be similarly authorised and granted delegated powers to undertake such

tasks to progress implementation of investment pooling, and to take such decisions and do all things deemed necessary in order to support the Pensions Committee and to promote the interests of the Council with respect to pooling,

- **THAT** subject to the above, all such matters be carried out with the aim of achieving a target date for 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.