

# Pension Fund Committee

**Dorset County Council**



Date of Meeting	1 March 2017
Officer	Pension Fund Administrator
Subject of Report	<b>The Brunel Pensions Partnership – project progress report</b>
Executive Summary	At its meeting 7 January 2017, the Pension Fund Committee approved the Full Business Case (FBC) for the establishment of the Brunel Pensions Partnership. This report provides an update to the Committee on progress in implementing the FBC.
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: Extensive use of finance industry expertise has been drawn on during the development of the Full Business Case.
	Budget: Details of the expected costs of implementing the project are included in the report.
	Risk Assessment: Details of the expected risks of implementing the project are included in the report
	Other Implications: None.

Recommendation	That the Committee notes the progress establishing the Brunel Pension Partnership.
Reason for Recommendation	To ensure that the Fund has the appropriate management arrangements in place.
Appendices	None.
Background Papers	Brunel Pensions Partnership Full Business Case
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## **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, considerable work has been undertaken by the Fund, in conjunction with nine neighbouring funds, to set up the Brunel Pension Partnership.
- 1.2 Regular reports have been brought to this Committee at all stages of the process, with additional engagement events also being held to provide the opportunity for Committee members to provide input to the proposals. As required by Government an initial joint submission from the ten Brunel funds was approved by this Committee in February 2016 and a more detailed response in June 2016 which was submitted to the Government in July 2016.
- 1.3 At the additional meeting on 9 January 2017 the Committee resolved that the Brunel Pension Partnership investment pool be developed, funded and implemented in accordance with the Full Business Case (FBC), including the setting up of a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited (BPP Ltd.). This was then ratified by Council on 16 February 2017. The FBC had also been approved by six of the other nine participating administering authorities as at the 16 February. The other three authorities, Bath and North East Somerset (Avon Pension Fund), Buckinghamshire and Wiltshire will have held their meetings by 24 February 2017, and the outcome of those meetings will be reported at the Committee.
- 1.4 This report provides members with update on progress against implementing the FBC, in particular work that is now underway to form the company, and the decisions that will be required over the next four months in order to keep to the project implementation timetable.

## **2. Recruitment of the BBP Ltd Company Board**

- 2.1 The first step in forming the new company is to begin the process of appointing the board. Korn Ferry, an executive search agency, has been appointed to carry out recruitment processes, and has embarked on the initial task of organising the recruitment of the Chair and two external Non-Executive Directors (NEDs). An advertisement was placed in the Sunday Times on 16 January 2017, with a deadline for applications of 30 January 2017.
- 2.2 The applications received are now being evaluated and it is envisaged that the Chair will be appointed during March, and two NEDs will be appointed in April / May. A panel drawn from the Shadow Oversight Board (SOB) and the Finance and Legal Assurance Group (FLAG) will undertake the final interview process, advised by Korn Ferry and Pricewaterhouse Coopers (PwC). A third, shareholder representative, NED will be appointed at a later date, and members will be informed of the process and deadlines when agreed.
- 2.3 The next step will then be to recruit the Chief Executive Officer. This is a vital role and the newly appointed Chair will need to play a key part in the recruitment process. It is envisaged that this will take place during May. Recruitment of other operational directors and staff will then follow.
- 2.4 A key aspect of the recruitment of the Board and key staff will be the contractual arrangements for the appointments, and the company's remuneration policies. These will need to be signed off as the recruitment process progresses. One of the issues to be determined is whether BPP Ltd. should be an admitted body in the

LGPS. This will be part of the decision on the remuneration packages for staff and will also be influenced should TUPE principles apply to any staff appointed from the current administering authorities. If BPP Ltd does become an admitted body, then a decision will be required as to which Fund admits them.

### **3. Legal Agreements**

- 3.1 A key part of setting up the company will be the agreement of various legal agreements between the ten administering authorities, as shareholders, that govern the operations of BPP Ltd. These documents are being developed by a Legal Services group comprising representatives of Osborne Clark, who have been providing legal support to the project, and legal officers from the administering authorities. The required documents include the following:
- 3.2 The **Articles of Association** of BPP Ltd. (the "Articles"): This is required under company law, and will set out the constitution of the company and regulate the relationship between the Administering Authorities as shareholders and BPP Ltd. The Articles set out the powers and procedures of BPP Ltd., and will be filed at Companies House and be publicly available.
- 3.3 The **Shareholders' Agreement** between the Administering Authorities: This regulates the relationship between the Funds as shareholders of BPP Ltd. It will define contractually the manner in which the shareholders will run BPP Ltd., rather than limiting the power of the company itself. Some of its content can overlap with the Articles, and there are some provisions which can be moved from one to the other.
- 3.4 The pooling and asset management services agreement (the "**Services Agreement**"): There will be one agreement between the Funds and BPP Ltd. setting out the pooling and other services BPP Ltd. will perform and the relevant terms.
- 3.5 These documents will need to be agreed by each of the ten administering authorities under the delegation arrangements in place, to enable BPP Ltd. to become operational. The Articles and the Shareholders' Agreement are likely to be agreed in interim form at the outset. They will include details of reserved matters that cannot be changed without the agreement of shareholders, and for each reserved matter what level of agreement (e.g. simple majority or 75% of shareholders) is required for a change to be made. Reserved matters would include significant issues such as the admission of a new shareholder or a move to internal management of assets.
- 3.6 There will be various other documents of importance to the structure and governance arrangements covering the terms of reference for the Oversight Board and other bodies, the terms of appointment of key personnel, and BPP Ltd.'s internal policies and agreements with third party providers of back office support.
- 3.7 Once SOB loses its shadow status and becomes a formal body, the Dorset Fund will need to formally appoint a representative to serve on it. In addition, while the Pension Fund Committee will continue its key role in monitoring the performance and activities of BPP Ltd. an individual will need to be identified to formally take shareholder decisions on behalf of Dorset County Council.

### **4. Appointment of Administrator to BPP Ltd**

- 4.1 Each LGPS Fund employs a custodian bank (or banks) to safeguard its investment assets and process transactions. The Dorset Fund employs HSBC and Banque Pictet as their custodians for UK and overseas holdings respectively. BPP Ltd. will also need to appoint a custodian. However, the nature of the business they will be

undertaking and the requirement for FCA regulation will mean that the role will be wider than the custodian's current role. As a result, the role is defined by the FCA as an "administrator" rather than a custodian, as it encompasses other tasks beyond the custodian role.

- 4.2 The administrator will need to be in place before the FCA will authorise BPP Ltd to operate. Therefore the administrator needs to be appointed before the application for authorisation is made to the FCA. Work is under way to draw up the specification for an invitation to tender, which will need to be signed off by 1 April 2017. This should then enable the administrator to be appointed by the target date of 1 August 2017. Any delay is likely to delay the application for FCA authorisation.

## 5. Project Costs

- 5.1 Project costs on the development of the proposals have been split equally between the ten administering authorities on the basis of 10% each. For the 2017/18 financial year a budget for the project of £680,000 has been agreed by SOB and the FLAG. This equates to £68,000 per Fund. Any significant variance against individual budget items will need to be signed off by each Fund through their Section 151 Officer. Also the Funds continue to lobby government for an exemption to the application of Stamp Duty Land Tax (SDLT) on the transfer of assets from individual funds to pooled vehicles.

- 5.2 This only includes the project costs, not the running costs of BPP Ltd, once the company is established. These will be dependent on the remuneration policies agreed, the results of the administrator procurement and other contractual arrangements still to be determined. The Full Business Case allowed for total costs of around £4m for 2017/18, plus the provision of £2m working capital. A pricing policy is being developed for charging the on-going running costs of BPP Ltd. These will not be charged purely on equal shares, but will be partly based on the total Assets Under Management (AUM), and on any additional services that the Fund may use over and above the core services.

## 6. Project Risks

- 6.1 The Full Business Case included a risk register for the project, which will be maintained and updated by the project office. The highest risks for each stage of the project are summarised below:

- 6.2 The high risks that need to be reduced by the time the Administering Authorities become shareholders of BPP Ltd are:

- **Pool Structure and Sustainability:** the collaboration/ partnership between the funds breaks down.
- **Resources and Skills:** resources required for BPP implementation are not engaged in line with the project schedule or become unavailable.
- **Governance:** the legal requirements or delegations for each Fund to pool are not in place or insufficiently scoped.

- 6.3 The high risks that need to be reduced in the next 9 – 12 months are:

- **Resources and Skills:** key resources in funds become unavailable, and/or Funds are unable to retain or recruit staff.

- 6.4 The high risks that that need to be reduced by the time BPP Ltd is ready to start transitioning assets are:

- **Pool Structure and Sustainability:** proposal is rejected by one or more administering authorities, and/or FCA authorisation not achieved.
- **External drivers:** changes in local government impact on decision making.

- **Resources and Skills:** delays to delivery of key products impact critical path or interdependencies, and/or BPP Ltd is unable to recruit or retain staff.

6.5 The remaining high risks when BPP Ltd is fully operational are:

- **Governance:** the pool does not meet its liabilities, and/or does not deliver on the Services Agreement with a Fund or Funds.
- **Assets and performance:** cost benefit ratio not achievable in pool, and/or transition management is ineffective or excessive in costs, and/or increased investment with large managers squeezes out smaller fund managers from market

## 7. Conclusion

7.1 Decisions relating to the issues listed above will be required over the next four months in order to achieve the timeframe required by Government, such that BPP Ltd. can be established, achieve FCA authorisation and begin to transition assets from 1 April 2018. The legal documents and activity required to set up BPP Ltd. over that period will be signed off on behalf of Dorset by the Chief Financial Officer and the Chief Legal Officer as appropriate, in consultation with the Chairman, under the delegation agreed by the Committee in January.

**Richard Bates**  
**Pension Fund Administrator**  
February 2017