

Brunel Pension Partnership

Business Plan 2017 - 18



Chair's Forward

The Local Government Pension Scheme (LGPS) provides for the pensions of people who are or have worked for local authorities and associated public services and, in the case of Brunel Pension Partnership's shareholder funds, the Environment Agency. The LGPS is a funded defined benefit scheme and it is very important for both members and employers to invest well and responsibly.

The formation of Brunel Pension Partnership Limited is the start of an exciting new era of investment opportunity, bringing together the assets of our 10 founding funds, in order to save on investment fees, provide opportunities to access wider asset classes collectively, create enhanced asset performance and to leverage the power that being responsible asset owners can bring in managing long term financial risks.



Denise Le Gal

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Our Objectives

The 10 funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset, Wiltshire and the Environment Agency came together as Brunel Pension Partnership following the directive from government for LGPS pension funds in England and Wales to create assets pools of £25 billion. The work started on developing the pool in September 2015 and by February 2017 the business case was approved on the basis of the following benefits and objectives:







- Establish an investment management company and gain FCA authorisation in order to be able to start servicing its clients by April 2018
- Develop investment portfolios* that will meet the needs of all its clients' investment strategies
- Make fee savings, whilst maintaining investment performance, of £27.8 million (8.9 basis points) by 2025
- Manage transition and operational costs to achieve break even by 2023, and cumulative net savings of £550 million to 2036

* In the region of 22 portfolios, with initial limit of no more than 30

The business case provided the financial case through to 31 March 2036 and the management case to establish BPP Ltd. The operating model provides how BPP Ltd will operate.

This business plan provides for what BPP Ltd needs to do to:
2017 – 2018 Establish itself, working within the operating model, as an FCA regulated company by April 2018, and
2018 – 2019 Start transitioning assets into the investment portfolios and complete first service year.

The business plan includes:

-  Finance plan
-  Resource plan
-  Action plan
-  Risks and opportunities
-  Key performance indicators
-  Supporting information

Finance Plan - introduction

The business case provided for a budget for each financial year through to 2036 both in terms of the clients financial year (ending 31 March) and BPP Ltd's financial year (ending 30 September).

The costs are split between:

September 2015 – March 2018: Development costs, funded by equity share (stage 1 – 3c)

April 2018 onwards: Operational budget, paid for by service charge or portfolio fee as per the pricing policy (stage 4).

The 5 development stages are:

Stage 1 – Pooling options and 1st submission to DCLG

Stage 2 – Specification development and 2nd submission to DCLG

Stage 3a – Operating model and business case

Stage 3b – Legal formation of BPP Ltd and initial resourcing

Stage 3c – FCA authorisation and preparing for first service year

Finance Plan - comparison

Shareholders require a comparison to previous business plans. In this, the first business plan, we compare the finance plan to the financial model that supported the business case. Development costs have risen by £187k (within the tolerance of £200k agreed in December 2016).

Operational budget is as per business case.

Business Case £'000					Business Case £'000					Variance to Business Case
Client's FY	2015 - 16	2016 - 17	2017 - 18	2018 - 19	Client's FY	2015 - 16	2016 - 17	2017 - 18	2018 - 19	
Stage 1	164				Stage 1	128				36
Stage 2	280				Stage 2	41	279			(40)
Stage 3a		725			Stage 3a		679			46
Stage 3b		1500			Stage 3b		606	1004		(110)
Stage 3c			2681		Stage 3c			2800		(119)
Dev. Costs	5350				Dev. Costs	5523				(187)
Stage 4				6095	Stage 4				6091	4

Finance Plan – revenue expenditure

Expenditure on stages 1 to 3a is complete. This business plan will focus on the expenditure for BPP Ltd as per the client’s financial years 2017–18 and 2018–19.

	£'000 <u>2017-18</u>	£'000 <u>2018-19</u>
Stage 3b	1004	-
	Stage 3c	Stage 4
Non-executives	132	138
Staff	1202	2502
Administrator	734	1800
Investment costs	108	833
Operational costs	624	818
Total	<u>3804</u>	<u>6091</u>

These are the figures that require shareholder sign off as a special reserve matter (SRM) or reserve matter (RM). The tolerance being set at 10% on any line or 5% in totality for each stage before returning as an SRM or RM.

Finance Plan – capital expenditure

BBP Ltd will have limited fixed assets (and therefore limited capital expenditure). The expense for this business plan is included in development costs for:






 Furniture

 IT hardware - bought

Any further capital expenditure in excess of £100k would be a RM.

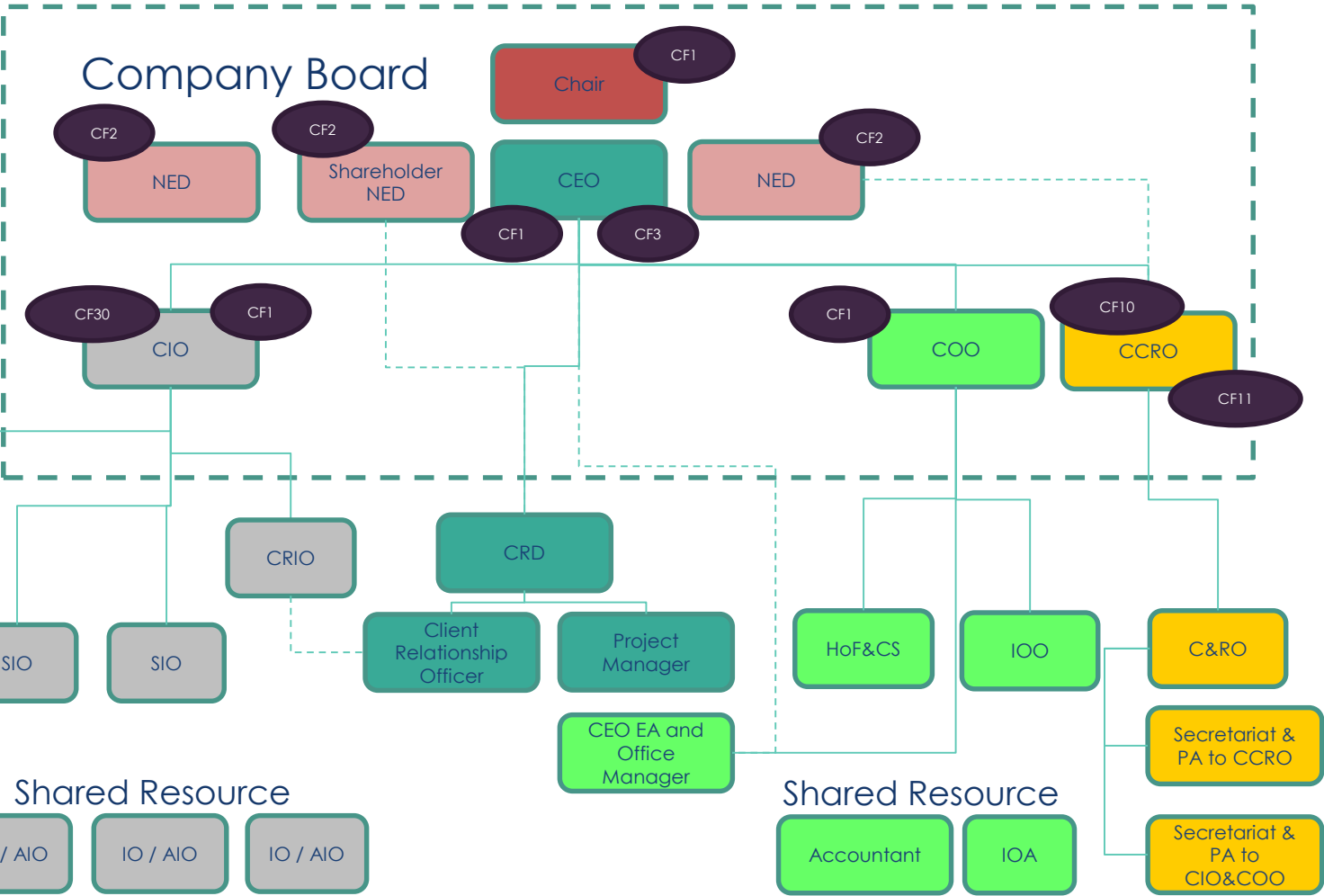
Resource Plan – introduction

The operating model highlights that in order to deliver the services to the clients, as per the service agreement, BPP Ltd will have both internal and external resource. The following are provided for in the financial plan:

-  Non-executives
-  Staff
-  Administrator and custodian
-  IT service provider
-  HR payroll and service provider
-  External Auditor
-  Internal Auditor
-  Banking and procurement card services
-  Office facilities
-  Website provider
-  Software support provider
-  Legal service provider
-  Investment consultants, tools and benchmarking services
-  Insurers

Resource Plan – staff structure

SRM or RM apply for change to board structure, cost of staff outside of financial plan tolerances or remuneration policy.

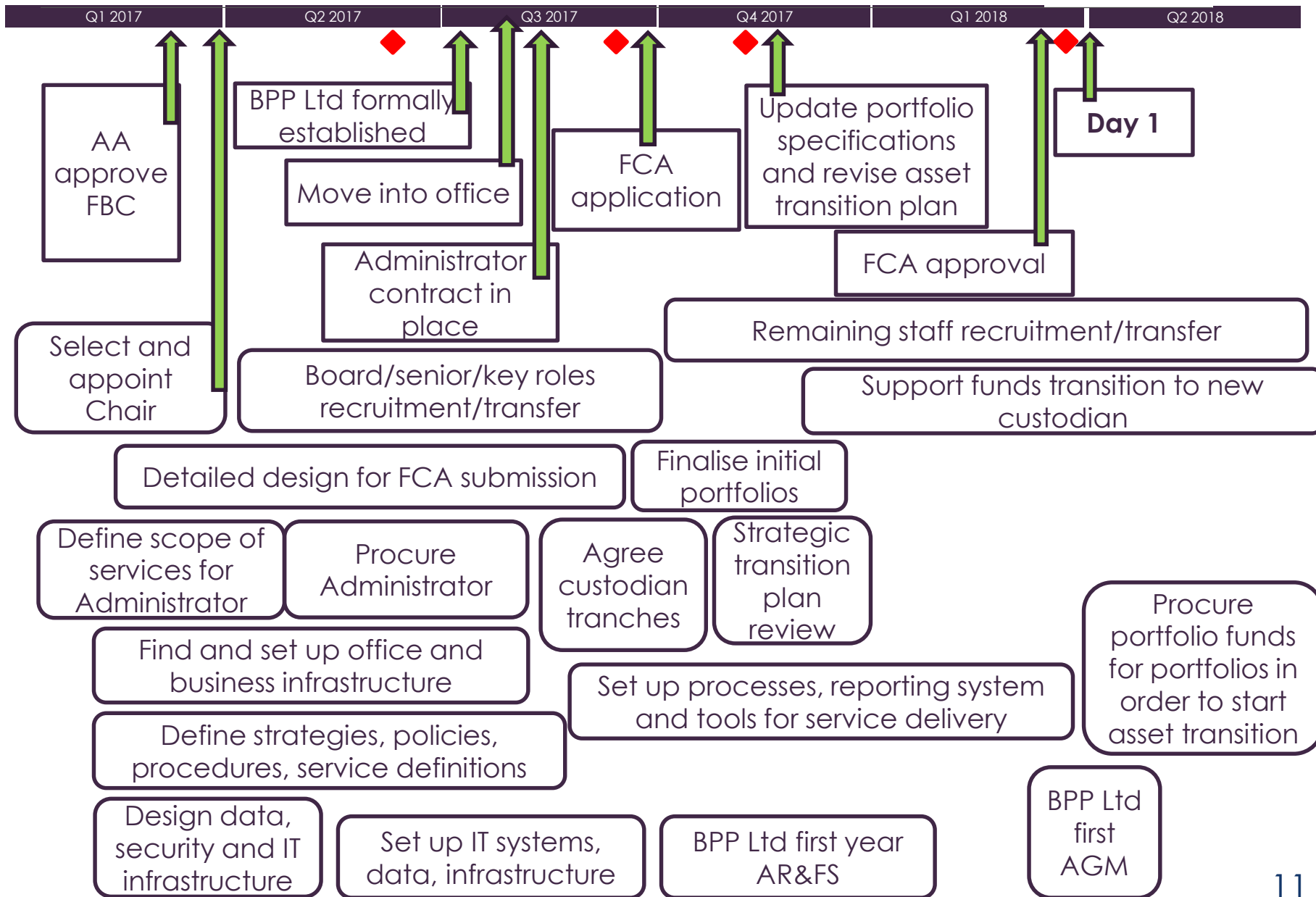


Action Plan – BPP Ltd implementation

◆ = key review points

Key milestones

BPP Ltd



Action Plan – shareholder and client dependency

Q1 2017

Q2 2017

Q3 2017

Q4 2017

Q1 2018

Q2 2018

Governance

Draw up governance and contractual documents

Formalise initial BPP Oversight Board / Client Group arrangements

New shadow arrangements in place under revised MOU

Inaugural OB and CG meeting

Funds

Preparations for Fund changes

Implement governance and organisational changes, update processes

Agree custodian tranches

On board to new custodian

The key high risks are mainly financial in nature that significantly deviate from the business case.

Transition costs, there is a risk that the transition costs are significantly higher than the level assumed within the business case. **Mitigation**, implement robust strategic transition management, controls and practical flexibility.

Investment cost and fee savings, there is a risk that the fee savings, whilst maintaining performance, are not achieved. **Mitigation**, wide research and stimulation of the market, investment team have strong negotiation skills and intelligent consideration of balance between performance and fees.

Assets under management, there is a risk that clients delay the transition of assets into the pool limiting economies of scales and diminishing the value of the pool structure. **Mitigation**, clear pooling and investment principles within shareholders and service agreements. Excellent communications from BPP Ltd to clients.

FCA application, there is a risk that BPP Ltd application is rejected or is delayed significantly. **Mitigation**, use of expert advisers to support the application both in terms of detailing operations and ensuring that BPP Ltd resources can carry out functions and controls.

Operational costs, there is a risk that the required on-going operational costs are significantly higher than the business case. **Mitigation**, robust remuneration policy and clear communication of the benefits of working for BPP Ltd, quality procurement procedures and experienced financial management resource within BPP Ltd.

Operational delivery, there is a risk that the development of BPP Ltd is delayed and service cannot start 1 April 2018. **Mitigation**, approving legal documentation, employ excellent project management processes, resource BPP Ltd in line with recruitment plan and leverage appropriate external resources to fill gaps.

FCA application, there is an opportunity that BPP Ltd application is approved earlier than March 2018. **Enabling**, use of expert advisers to support the application to minimise the questions that FCA have to raise. Prepare strategic transition plan and research market such that development of portfolios can start as soon as authorisation is obtained. Early focus on detailed processes, procedures and delivery tools.

Reduced costs, there is an opportunity that any of the costs are less than the business case. **Enabling**, engagement with and stimulation of the market, strong negotiation skills within the internal team and strong financial management and controls.

Resources, there is an opportunity that BPP Ltd recruit quality staff that enable improved delivery in terms of speed, cost and performance. **Enabling**, strategic use of quality recruitment agencies, good office location and clear vision and communications on BPP Ltd to attract diverse and value add staff.

Collaboration, there is an opportunity to collaborate with other pools and wider pension funds to gain wider access to investments, reduced costs through use of same service providers and finding solutions to cross pool risks, issues and opportunities e.g. tax costs and stewardship. **Enabling**, participation and take lead roles in cross pool collaboration groups and other associated committees and groups e.g. Chair is Deputy Chair of LAPFF.








Enhanced performance, there is an opportunity that investment performance is significantly improved. **Enabling**, outcome focused specifications for a fit for purpose number of portfolios that will maximise the advantages of diversification both reducing risk and increasing the chances of alpha performance.

Reputation, there is an opportunity that BPP Ltd gains a strong reputation and thus gaining benefit through the market wanting to be associated with BPP Ltd. **Enabling**, open and transparent communication, focused engagement plan for stakeholders and participation in thought leadership events.

Key Performance Indicators

The development of the BPP pool has been successful through good governance, clear communications, quality and diverse resource, collaboration, leverage of experience, focus on value for money, excellent project management and sheer determination. These attitudes and behaviours provide the cultural foundation to BPP Ltd and alongside the detailed financial and management plans, summarised in this business plan, provide BPP Ltd with confidence that it will deliver well for its clients.

The key performance indicators by which to measure successful delivery of this business plan are:

-  Delivering within budget
-  Obtaining FCA approval
-  Establishment of first portfolios in 2018
-  Application of the investment principles
-  Control of transition costs
-  Selection of fund managers that indicate investment cost and fee savings with maintained or enhanced performance
-  Compliance and risk management
-  Feedback from clients and reputation



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Forging new futures by working together

Supporting information

The business case provided significant details of the options for development and the recommended approach and the consequential financial and business management requirements.

BPP Ltd will continue to use the business case as a foundation for its development and implementation whilst further developing the necessary processes and procedures needed for an FCA regulated company to function.

The business plan is a summary of detailed financial and management plans within BPP Ltd. The detailed plans are operational drivers and controls for BPP Ltd. The supporting information of recruitment plan and expenditure plan are provided to enable the shareholder to further understand components that feed into the summarised financial plan, but are not in themselves subject to approval as part of the business plan.

Recruitment plan

The recruitment plan has been developed to reflect the resource requirements of the action plan. Changes that increase the people cost by more than 10% in a FY would be a SRM or RM.

BPP Ltd Recruitment Plan	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Total
NEDs	1	3	0	0	0	0	0	4
Executive Board	1	4	-1	0	0	0	0	4
Investment Directorate	0	0	2	8	2	0	0	12
Operations Directorate	0	3	1	1	0	0	0	5
Compliance and Risk Directorate	0	1	2	0	0	0	0	3
Client Relations Directorate	4	0	0	-1	0	0	0	3
FTE	6	11	4	8	2	0	0	31
Total FTE	6	17	21	29	31	31	31	31

Expenditure plan

The expenditure plan reflects the resource requirements of the action plan and ongoing service delivery. Changes that increase the bolded lines by more than 10% in a FY would be a SRM or RM.

Quarter	1	2	3	4	5	6	7	8	9
Period Start	01/01/2017	01/04/2017	01/07/2017	01/10/2017	01/01/2018	01/04/2018	01/07/2018	01/10/2018	01/01/2019
Period End	31/03/2017	30/06/2017	30/09/2017	31/12/2017	31/03/2018	30/06/2018	30/09/2018	31/12/2018	31/03/2019
1a. People - Staff	-	39.3	246.0	379.2	538.1	612.3	624.6	629.5	635.1
Base salaries	-	28.8	187.4	287.9	397.5	450.0	459.0	462.6	466.7
Other direct employment costs	-	10.6	58.5	91.2	140.6	162.3	165.6	166.9	168.4
1b. People - Board	-	33.0	33.0	33.0	33.0	36.8	35.5	33.0	33.0
Base salaries	-	30.0	30.0	30.0	30.0	33.8	32.5	30.0	30.0
Other direct employment costs	-	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
2. Administrator	-	-	66.7	316.7	350.0	450.0	450.0	450.0	450.0
3. Investment costs	-	-	-	10.0	98.3	207.5	207.5	207.8	210.5
External advisers	-	-	-	-	8.3	117.5	117.5	117.5	117.8
External services	-	-	-	10.0	90.0	90.0	90.0	90.3	92.7
4. Operational costs	-	-	224.0	224.9	174.9	195.0	204.9	209.1	209.1
Professional services	-	-	134.3	129.4	79.4	62.0	68.8	72.0	72.0
Facilities and equipment	-	-	26.5	26.5	26.5	30.3	31.0	31.0	31.0
Finance costs	-	-	15.7	21.5	21.5	34.0	34.5	34.6	34.6
Other costs	-	-	47.5	47.5	47.5	68.8	70.6	71.4	71.4
Total	-	72.3	569.7	963.7	1,194.3	1,501.6	1,522.5	1,529.4	1,537.7
					2017/18 = 2,800.0			2018/19 = 6,091.2	