


Pension Fund Investments Transfer

Final Report

Issue Date: 21st May 2019

Executive Summary

Audit Opinion		Recommendation Summary	
	<h2 style="margin: 0;">Substantial</h2> <p style="margin: 0;">The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.</p>	Priority	Number
		Priority 1	0
		Priority 2	0
		Priority 3	0
		Total	0

Audit Conclusion

Overall the Pension Fund Investment transfer project is progressing in line with the set timeframes and is on track to achieve the planned benefits and savings by 2023, with the final transfer due in July 2021.

The development of Brunel’s business plan for 2019-20 involved a detailed review of the assumptions in the original Full Business Case (FBC), resulting in a revised transition and resources plan to ensure the objectives of the original business case are achieved. The review was subject to a high level of scrutiny by both the Client Group (CG), and the Brunel Oversight Board (BOB). It was agreed to stretch the plan to three years with changes to some of the order. The outcome for Dorset will still however be the same as Brunel are projecting break even in 2023 for Dorset as initially predicted.

In July 2018 Dorset’s internally managed passive UK equities portfolio and Dorset’s global equities were transferred. There are seven active portfolios, of which two initial active equities concluded in September 2018, with transition to the new portfolios in November 2018. Brunel have commenced the process for appointing suitable Fund Managers by issuing ‘Manager Search Launch Papers’ for Emerging Markets Equity and High Alpha Equity and LDI portfolios, with activity taking place for other portfolios.

There is a clear governance structure in place with clear lines of reporting and formal arrangements in place for the transfer of assets to Brunel Pension Partnership Ltd. The transfers are well monitored and scrutinised by both the Dorset Council and Brunel.

It should be noted that this audit has given as assurance opinion as at this point in time and the transfers are on-going.

Background

In May 2014, the Government published a consultation which set out how savings might be achieved by Local Government Pension Scheme (LGPS) funds through greater use of pooled investment. As a result of this, Brunel Pension Partnership Ltd was created in July 2017 with representatives from ten LGPS administering authorities, including Dorset County Council (now Dorset Council). Brunel Ltd received authorisation in March 2018 from the Financial Conduct Authority (FCA) to act as a full scope investment firm. A full business case was prepared setting out how the planned savings would be achieved for Dorset following the transfer of all pension assets, with the exception of the direct property holdings.

Dorset's internally managed passive UK equities portfolio successfully transitioned to the Brunel portfolio on 11 July 2018 and Dorset's global equities under the management of Allianz successfully transitioned to the Brunel Smart Beta portfolio on 18 July 2018. There are seven active portfolios, of which two initial active equities concluded in September 2018, with transition to the new portfolios in November 2018. This equates to approximately £800m of investments transferring to the pool's management, representing nearly 30% of the Fund's total assets of £2.8bn. The final transfer is expected to be completed in July 2021.

Corporate Risk Assessment

Objective

To review whether the Pension Fund Investment Transfer project is progressing as it should with anticipated benefits and savings being achieved as planned. A review of governance structure and the security surrounding the transfers will also take place.

Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
The Pension Fund Investment Transfer project does not progress as it should resulting in the anticipated benefits and savings not being achieved as planned.	High	Medium	Low
The assets are not transferred securely or on time resulting in financial loss to the Pension Fund.	High	High	Low

It should be noted that the Manager's initial assessment of risk being 'High' was due to the large value of assets and the fact that, at the time of scoping the audit, no assets had been transferred so the planned process had not been undertaken.

Scope

This review considered:

- Whether the Pension Fund Investment transfer project is progressing as intended and whether key milestones as set out in the business case have been met.
- What were the anticipated benefits and savings that the project was expected to deliver and to what extent these are being realised?
- The governance in place within Brunel Pension Partnership Ltd and the role that the Dorset Pension Fund Committee has within this structure.
- The security arrangements in place for the transfer of assets to Brunel Pension Partnership Ltd.

Findings and Outcomes

Summary of Control Framework

Brunel Ltd was formally created on 18 July 2017, with representatives from the administering authorities of each of the ten founding funds signing the shareholders agreement to establish the company. Brunel Pension Partnership Ltd (BPP Ltd) received authorisation on 16 March 2018 from the Financial Conduct Authority (FCA) to act as a full scope investment firm, allowing it to provide advisory and discretionary investment management services to Dorset and the nine other client funds.

Brunel have overall responsibility for the project delivery; however the Dorset Council will scrutinise and ensure decisions are made in the best interests of the Dorset Pension Fund. The Brunel Oversight Board (BOB) generally meets every two months and they have the responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling across the 10 LGPS funds comprising the Brunel Pension Partnership. Membership of the Board includes a representative from the DC Pensions Committee and the Senior Finance Manager (Treasury and Investments) listens into the meetings via the telephone.

There is a Project Client Group which act for the administering authorities in their capacity as shareholders in, and clients of, BPP Ltd. The Client Group provides practical and technical support, guidance and assistance to the Oversight Board in its strategic role of ensuring that BPP Ltd delivers the services required to achieve investment pooling across the 10 LGPS funds. The Dorset Council Pension Fund Committee used to meet quarterly and received 'The Brunel Pension Partnership – project progress report' prior to the meeting from the Senior Finance Manager (Treasury and Investments). With the new Dorset Council a Pension Fund Committee has yet to be set up, but it is expected that this update report will continue to be considered by the new Committee when established.

Regular monitoring and reporting of the Brunel project progress is being undertaken by relevant parties against the milestones and budget set out in the project plan. These reports monitor and record the anticipated benefits and savings that the project is expected to deliver. There is also a clear governance framework in place within Brunel Pension Partnership Ltd, clearly setting out Dorset Councils role within this structure.

There are formal arrangements in place for the transfer of assets to Brunel Pension Partnership Ltd, the transfers are well monitored and scrutinised by both the Dorset Council and Brunel. There are no recommendation to raise for this audit review.

Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Authors and Distribution

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At the point of issue the new Dorset Council had not established a Pension Fund Committee so it has not been issued to Members.