

LGPS Pooling of Investments

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Executive Portfolio Holder: Not applicable
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1. Summary

- 1.1 Under guidance published by the Government on “LGPS: Investment Reform Criteria and Guidance” in November 2015 we are required to work towards the pooling of the Fund’s investment assets with other LGPS funds with pooling beginning in April 2018.
- 1.2 For the purposes of pooling SCC has aligned itself with 9 other funds in South West England and is working with those funds to create an FCA regulated investment Company, Brunel Pension Partnership Ltd. (BPP).

2. Issues for consideration

- 2.1 To note that under the delegations provided to officers as part of the approval of the business plan for BPP at the December 2016 Pensions Committee meeting officers will be executing various legal documents on behalf of the Fund that will formally establish BPP as a Company with SCC owning shares.
- 2.2 The Committee is asked to formally confirm who will hold SCC Pension Fund’s Shareholder rights and who will be our nominated representative on the Shareholder Oversight Board and the Client Group.
- 2.3 At the time of writing officers have not been provided with a definitive list of issues which may need committee approval by the Brunel project. As a result it may be necessary for officers to table other issues relating to pooling or the establishment of BPP for consideration at the meeting.

3. Introduction

- 3.1 At the Pensions Committee meeting on 2nd December 2016 the Committee approved the full business case for the setting up of a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited (BPP Ltd.) on behalf of the Somerset Fund.
- 3.2 In addition to Somerset's approval, the full business case had also been approved by all of the other 9 participating administering authorities.
- 3.3 This report outlines the further work that is now underway to form the company, and the decisions that will be required over the next three months.

4. Recruitment of BPP Ltd board

- 4.1 The process for the appointment of a non-executive Chair was successfully concluded in mid-April with the announcement of the appointment of Denise Le Gal. The processes for the appointment of 2 further NEDs and a shareholder NED are well advanced and should be completed shortly.
- 4.2 The process for the recruitment of the 4 most senior executive positions, the Chief Executive Officer, Chief Investment Officer, Chief Compliance and Risk Officer and the Chief Operations Officer is being supported by Moon Consulting in Bristol. All of these positions have been advertised and the closing date for applications is 9th June.

5. Legal agreements

- 5.1 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 have been worked on by a Legal Services group comprising representatives of Osborne Clark, who have been providing legal support to the project, and legal officers from four of the ten authorities. Following the drafting the key documents have been the subject of review and revision by the 3 key groups that are overseeing the project. The required documents include the following.
- 5.2 The **Articles of Association** of the BPP Ltd. (the "Articles"). This document is required by company law, and will set out the constitution of the company. It sets out the powers and procedures of the BPP Ltd., and will be filed at Companies House and be publicly available.
- 5.3 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. 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.

- 5.4 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.
- 5.5 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. It is currently anticipated that this will happen in late June or early July.
- 5.6 **Other documents.** There will be various other documents of importance to the structure and governance arrangements. These include terms of reference, the terms of appointment of key personnel, BPP Ltd.'s internal policies and agreements with third party providers of back office support. This will include the terms of reference of the Oversight Board.

6 Appointments to be made by SCC

- 6.1 Once the Shadow Oversight Board loses its shadow status and becomes a formal body, the Somerset Fund will need to formally appoint a representative to serve on it. In addition, while the Pensions Committee will continue to have a key role in monitoring the performance and activities of BPP Ltd. for practical purposes an individual will need to take responsibility to make shareholder decisions for Somerset County Council.
- 6.2 At the March 2017 meeting of Pensions Committee it was recommend to full Council that these powers be formally attached to the Chair of Pensions Committee but this was not taken further by full Council.
- 6.3 With respect to the exercise of shareholder responsibilities there are considerations that would indicate that these may be more practically delegated to the SCC Section 151 Officer, namely that it is unusual within SCC for delegated powers to be placed directly with a Councillor as opposed to officers and that formal arrangements for deputising the Section 151 officer's powers are already in place to cover absence etc.. Irrespective of who is appointed to carry these powers on behalf of SCC it is advised that they be required to consult Pensions Committee members as far as is reasonably possible.
- 6.4 Whilst not a requirement it has been envisioned that the SCC representative of the Oversight Board would be a member of the Pensions Committee.
- 6.5 The client group is anticipated to be a more technical group dealing with day to day matters of detail and as such it is expected that an officer would be appointed to this group. It is recommended that for SCC that this is the Funds and Investments Manager.

7. Appointment of investment administrator

- 7.1 Each LGPS Fund employs a custodian bank to safeguard its investment assets and process transactions. The Somerset Fund currently uses JP Morgan as their custodian bank. Going forward BPP Ltd. will 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 our 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.
- 7.2 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. The tender process is underway with the deadline for bids having expired.

8. Consultations undertaken

- 8.1 Both the Pensions Committee and the Pensions Board have been consulted regularly as part of the project process of reaching this point
- 8.2 An overview briefing on the project was provided to the Fund's Employers meeting in September 2016.
- 8.3 The Full Somerset County Council meeting received a paper on the pooling at its meeting on 30th November 2016.

9. Financial Implications

- 9.1 It is anticipated that the Brunel Pensions Partnership will allow the fund to make significant saving over time with the Somerset County Council Pension Fund estimated to make savings of £27.8m in the period to 2036 after costs. A significant portion of the likely costs are front loaded and it is anticipated that the Somerset Fund will breakeven in 2024.
- 9.2 By definition these are forecasts and there are significant risk to their timing and delivery. They are based on a core set of assumptions and actual savings could be significantly greater or smaller over time.

10. Background Papers

- 10.1 None

Note For sight of individual background papers please contact the report author.