

LGPS Pooling of Investments

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<i>Executive Portfolio Holder:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

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.

2. Issues for consideration

- 2.1 The Committee are asked to recommend to full council a process for the appointment of the Somerset representative to the Brunel Pension Partnership oversight board and use of shareholder rights. The officer recommendation is that the position on the Oversight Board is formally included in the specification for the Chair of the Pensions Committee post the May 2017 County Council elections and the Chair be allowed to exercise Somerset’s shareholder rights in respect to Brunel Pension Partnership Limited in consultation with the Pensions Committee.

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 6 of the other 9 participating administering authorities as at the 15th February. The other three authorities, Bath and North East Somerset (Avon Pension Fund), Buckinghamshire and Wiltshire will have held their meetings by the 3rd March, and the outcome of those meetings will be reported at the Committee.
- 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 four months.

4. Recruitment of BPP Ltd board

- 4.1 The first step in forming the new company is to begin the process of appointing the board. Korn Ferry, an executive search agency, have been appointed to carry out recruitment processes, and have embarked on the initial task of organising the recruitment of the Chair and 2 external Non-Executive Directors. An advertisement was placed in the Sunday Times on 16th January, with a deadline for applications of 30th January.
- 4.2 The applications received are now being evaluated and it is envisaged that the Chair will be appointed during March, and two Non-Executive Directors will be appointed in April / May. A panel drawn from the Shadow Oversight Board and the Finance and Legal Assurance Group will undertake the final interview process, advised by Korn Ferry and Pricewaterhouse Coopers (PwC).
- 4.3 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.
- 4.4 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 by whether TUPE considerations / principles apply to any staff that may be 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.

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 are being 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. 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 and regulate the relationship between the Administering Authorities as shareholders and BPP Ltd. 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. Some of its content can overlap with the Articles, and there are some provisions which can be moved from one to the other.
- 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. 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.
- 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.
- 5.7 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. It is proposed that these roles are formally attached to the Chair of Pensions Committee post when it is appointed post-election.

6. Appointment of investment administrator

- 6.1 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.
- 6.2 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. This should then enable the administrator to be appointed by the target date of the 1 August. Any delay is likely to delay the application for FCA authorisation.

7. Budgeted costs for 2017-2018

- 7.1 Project costs on the development of the proposals have been split equally between the ten 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 the Shadow Oversight Board and the Finance and Legal Assurance Group. 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.
- 7.2 This only includes the project costs, not the running costs of BPP Ltd, once the company is established. This 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 ongoing overhead 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 service.

8. Next steps

- 8.1 Decisions on 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 Somerset by senior officers under the delegation agreed by the Committee at its December 2016 meeting.

9. Consultations undertaken

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

10. Financial Implications

- 10.1 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.
- 10.2 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.

11. Background Papers

- 11.1 None

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