Phil Norrey
Chief Executive

To: The Chairman and Members of the Investment and Pension Fund Committee

(See below)

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Your ref :
Our ref :

Date : 24 November 2016
Please ask for : Stephanie Lewis

Email: stephanie.lewis@devon.gov.uk

INVESTMENT AND PENSION FUND COMMITTEE

Friday, 2nd December, 2016

A meeting of the Investment and Pension Fund Committee is to be held on the above date at 10.00 am in the Committee Suite - County Hall to consider the following matters.

P NORREY
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies for Absence

2 Minutes (Pages 1 - 4)

Minutes of the meeting held on 16 September 2016, attached.

3 Items Requiring Urgent Attention

Items which in the opinion of the Chairman should be considered at the meeting as matters of urgency.

4 Devon Pension Board (Pages 5 - 10)

Minutes of the meeting held on 20 October 2016, attached.

The Committee's attention is drawn in particular to the following Minutes and the request/suggestions set out therein, for consideration:

Minute 22(b) (Funding Strategy Statement)
Minute 24 (Devon Pension Fund Risk Register)

5 Actuarial Valuation (Pages 11 - 14)

Report of the County Treasurer (CT/16/103), attached.

6 Investment Management Report (Pages 15 - 20)

Report of the County Treasurer (CT/16/104), attached.

7 Applications for Admitted Body Status

The following applications for admitted body status have been approved since the last meeting of the Committee:

(a) DYS Space Ltd has won a contract to run Devon County Council's Youth Services. Approximately 80 staff will transfer on 1 February 2017. The admission agreement will be on a closed basis.
(b) South Hams District Council and West Devon Borough Council have awarded a contract for leisure services to Fusion Lifestyle. On 1 December 2016, 74 current LGPS members will transfer from Tone Leisure. The admission agreement will be on a closed basis.

8 Committee Training

A training event has been arranged for Friday 3 February 2017 from 10.00am to 4.00pm. The key focus of the day will be on the strategic investment review agreed by the Committee on 16 September 2016. The consultants will provide a presentation of their draft report to give Members a chance to comment and provide feedback before the final report is formally considered by the Committee at the meeting on Friday 24 February.

9 Brunel Pension Partnership - Approval of Full Business Case (Pages 21 - 62)

Report of the County Treasurer (CT/16/105), attached.

PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND PUBLIC ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED

10 Exclusion of the Press and Public

Recommendation: that the press and public be excluded from the meeting for the following item of business under Section 100(A)(4) of the Local Government Act 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act, information relating to the financial or business affairs of an individual other than the County Council and, in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

11 Brunel Pension Partnership - Full Business Case

Report of the County Treasurer (CT/16/106), attached.

Members are reminded that Part II Reports contain confidential information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s).
Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Democratic Services Officer at the conclusion of the meeting for disposal.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership

Devon County Council
Councillors R Gilbert (Chairman), R Edgell, D Hannon, R Hill, R Hosking and C Channon (Vice-Chair)

Unitary and District Councils
Councillors P Edwards (Exeter - LGA Devon), L Parker-Delaz-Ajete (Plymouth City Council), J O'Dwyer (Torbay Council), M Fox (Plymouth City Council) and M Hicks (Exeter LGA)

Other Employment Rep
D Healy (Datmoor National Park Authority)

Union and Retired Members: Observers Non-Voting
R Francecshini, C Lomax and J Rimron

Declaration of Interests

Members are reminded that they must declare any interest they may have in any item to be considered at this meeting, prior to any discussion taking place on that item.

Access to Information

Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact Stephanie Lewis on 01392 383691.
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INVESTMENT AND PENSION FUND COMMITTEE

16 September 2016

Present:-

Devon County Council
Councillors R Gilbert (Chairman), C Channon, R Edgell, R Hill and R Hosking.

Other Employers
P Edwards, D Healy, J O'Dwyer and L Parker Delaz Ajete

Unison and Retired Members: Non Voting Observers
R Franceschini, C Lomax and J Rimron

Apologies:-

Councillors D Hannon and J O'Dwyer

12 Minutes

RESOLVED that the minutes of the meeting held on 24 June 2016 be signed as a correct record.

* 13 Devon Pension Board

The Committee further considered suggestions previously made by the Devon Pension Board relating in particular to the adoption of a statement similar to that accepted by the Board and other Councils, to visibly demonstrate its status as an impartial decision maker, recognising the need to avoid conflicts of interest.

It was **MOVED** by Councillor Parker Delaz Ajete, **SECONDED** by Councillor Edgell and

RESOLVED that the proposed statement of impartiality enshrined in Minute 5 of the Devon Pension Board of 14 April 2016 be acknowledged subject to clarification of the wording at the next meeting.

* 14 Pension Fund Annual Report and Accounts 2015/16

The Committee considered the report of the County Treasurer (CT/16/73) together with the Annual Report and Accounts, summarising the performance of the Fund's external managers, including stewardship activity and the market outlook, followed by the Statement of Accounts.

Mr Shaw from Grant Thornton attended for this item and advised there were no major issues with the Pension Fund accounts and that the draft financial statements had been prepared to a high standard.

It was **MOVED** by Councillor Channon, **SECONDED** by Ms Healy and

RESOLVED that the Pension Fund Annual Report and Accounts for 2015/16 be adopted.

[NB: In accordance with Standing Order 32(4) Councillor Edgell requested that his abstention from voting on this decision be recorded.]

* **15** **LGPS Pooling of Investments**

The Committee received the report of the County Treasurer (CT/16/74) on the significant work undertaken to set up the Brunel Pension Partnership which comprised ten LGPS Funds. A joint submission from the ten Brunel funds had been made in February 2016, with a more detailed response submitted in July 2016 outlining the business case. Work continued on developing a more detailed final business case for each of the ten funds to consider in November/December 2016.

It was **MOVED** by Councillor Hosking, **SECONDED** by Councillor Parker Delaz Ajete and

RESOLVED that

(a) progress on the Brunel Partnership full business case be noted;

(b) the County Treasurer, in consultation with the Chairman, be delegated to write to the Department of Communities and Local Government raising concerns around the delay in the laying of the new Investment Regulations;

(c) in order to consider the full business case of the Brunel Partnership, the next meeting be postponed from 18 November 2016 until Friday 2 December 2016 at 10.00am.

* **16** **Actuarial Valuation and Section 13 Report**

The Committee received and noted the report of the County Treasurer (CT/16/75) on the 2016 valuation which would set employer contribution levels for the financial years 2017/18, 2018/19 and 2019/20. In addition, a Section 13 valuation would be carried out by the Government Actuary's Department (GAD) which reviewed whether funding valuations and employer contribution rates had been set to meet targets and objectives.

* **17** **Investment Management Report**

The Committee received and noted the Report of the County Treasurer (CT/16/76) on the current Pension Fund value and asset allocation against target. Following the EU Referendum there had been a fall of the value of the pound and therefore an increase in the value of the Fund's overseas assets, resulting in an increase of £162,000,000 over the last quarter. The allocation to each asset class remained within 2.5% of the target allocation. The Fund had achieved an absolute return of 4.6% for the quarter which was ahead of the strategic benchmark of 4.5%.

* **18** **Long Term Investment Performance and Strategic Review**

The Committee considered the Report of the County Treasurer (CT/16/77) examining the Fund's longer term performance and, in particular, why performance over the past 10 years was below the average achieved by LGPS funds in total. The Report also proposed the commissioning of a strategic asset allocation review, conducted by external consultants who would assess the appropriate strategic asset allocation, including the split between 'growth' assets and 'fixed interest' type assets, geographical allocations and currency hedging issues.

It was **MOVED** by Councillor Edgell **SECONDED** by Councillor Hosking and

RESOLVED that the commissioning of a strategic asset allocation review, using the South West investment consultancy framework, be approved.

* **19** **Pension Fund Risk Register**

The Committee received and noted the Report of the County Treasurer (CT/16/78) highlighting the key risks in relation to the Devon Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. The Report incorporated the risk register of both the Investments Team and Peninsula Pensions.

* **20** **Applications for Admitted Body Status**

The Committee noted the action of the County Treasurer in approving an application for admitted body status, approved under delegated powers, from Barnardo's in respect of its new contract with Plymouth City Council for the provision of children centre services.

* **21** **Committee Training**

The County Treasurer reported that a joint briefing event with Cornwall, Dorset and Somerset Committees would take place on Friday 7 October 2016 at Exeter Racecourse, which would comprise of a briefing and opportunity for comment on the full business case for the Brunel Pension Partnership before it was presented to the Committee in December.

22 **Dates of Future Meetings**

Friday 2 December 2016 at 10.00am and Friday 24 February 2017 at 10.00am.

***DENOTES DELEGATED MATTER WITH POWER TO ACT**

The Meeting started at 10.00 am and finished at 11.15 am

DEVON PENSION BOARD

20 October 2016

Present

Fund Employer Representatives
Councillors B Greenslade and S Randall-Johnson
Mr C Hearn and Mr G Smith

Independent Member
Mr W Nicholls

Fund Employee Representatives
Mr A Bowman, Ms H Keightley and Mr C Shipp

18 Chairman

RESOLVED that Councillor Greenslade be elected Chairman for the remainder of the 2016/17 Municipal Year.

19 Minutes

RESOLVED that the minutes of the meeting held on 14 April 2016 be approved and signed as a correct record.

20 Items Requiring Urgent Attention

There was no item raised as a matter of urgency.

21 Membership

The Chairman welcomed Councillor Randall Johnson to her first meeting of the Board and also reported the recent resignation of Ms C Lewis (Fund Member Representative) indicating that a replacement representative would be sought in the usual way, following an open competition.

MATTERS FOR CONSIDERATION AND REVIEW

22 Statutory Statements

(a) Communications Policy

The Board considered the Report of the County Treasurer (CT/16/81) together with the Communications Policy most recently updated and approved by the Investment & Pension Fund Committee, in 2015.

It set out the Pension Fund's policies relating to the provision of information and publicity to members, their representatives and employing authorities and key organisations and summarised, inter alia, the format, frequency and method of distributing such information or publicity. The policy reflected the value placed by the Pension Fund on communications and the professional expertise available to it. The Board was advised that the Plan had, during 2015/16, also received a good level of assurance from the Devon Audit Partnership.

Members noted that this was one of four statutory statements the Fund was required to have in place which the Board was required to scrutinise and comment upon to the Council's Investment & Pension Fund Committee.

In reviewing operational aspects of this matter, Board Members sought assurances that Peninsula Pension's Quarterly Newsletter was indeed made available to fund members as indicated in the Annual Report through, for example, the County Council's internal '*Insider*' staff newsletter.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Randall Johnson, and

RESOLVED that the Report be noted and the Communication Policy be endorsed.

(b) Funding Strategy Statement

The Board considered the Report of the County Treasurer (CT/16/82) together with the Funding Strategy Statement most recently updated and approved by the Investment & Pension Fund Committee in September 2014 and previously reviewed by the Pension Board in October 2015. The Statement outlined the Pension Fund's funding objectives and the management of the cost of the benefits provided under the Local Government Pension Scheme and the objectives/strategy for setting employer contribution rates.

The Statement had been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 and was due to be revised in 2017 - after the 2016 Actuarial Valuation - to ensure it reflected any significant changes to funding assumptions arising therefrom. That revised statement would necessarily be presented to the Board for review.

Members noted that this was one of four statutory statements the Fund was required to have in place which the Board was required to scrutinise and comment upon to the Council's Investment & Pension Fund Committee.

In reviewing related operational matters, Board Members drew attention to the emphasis within the Statement to the Funds 'relationship' with employers rather than with members, commenting also on the desirability of the Fund being seen to build 'trust' in its members of its financial viability and security (i.e that it was safe to invest their money in the Fund) and that this could usefully be expounded both in this Strategy Statement and the Communications Policy at Minute 22(b) above.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Mr Shipp, and

RESOLVED that the current Funding Statement and the process of review be noted subject to the view outlined above also being drawn to the attention of the Investment & Pension Funds Committee.

23 External Audit Findings Report

The Board noted the Report of the County Treasurer (CT/16/83) on the outcome of the audit of the Pension Fund for 2015/16 outlining the work undertaken by Grant Thornton (the Council's external auditors) to address the risks identified in the Audit Plan endorsed previously by the Council's Audit Committee in March 2016.

The Auditor's Report, a copy of which was appended to the County Treasurer's Report, had been presented to and endorsed by the Audit Committee on 7 September 2016 and the Investment and Pension Fund Committee on 16 September 2016; it had not identified any significant issues and had given an unqualified opinion upon the Fund's financial statement.

While Members recognised it was in line with standard industry practice, some concerns were expressed at the apparently arbitrary financial levels specified by the Council's external auditors of 'materiality' set out in the Annual Report. The County Treasurer's professional advice was that the current levels were both appropriate and proportionate and that no change could be supported, advising also that the Council could neither dictate nor enforce and such change.

24 Devon Pension Fund Risk Register

The Board received the Report of the County Treasurer (CT/16/84) together with the current Pension Fund Risk Register delineating actions to militate and mitigate identified risk(s); the Register had been reviewed previously at the last Board meeting.

Members noted that the Investment & Pension Fund Committee had, on 17 June 2016, accepted the Boards previous suggestion* that the Risk Register should incorporate references/additional risks relating to the Brunel Pooling Partnership/Arrangements, as incorporated in the Risk Register Report now submitted. The Board was assured that timelines for specific actions or target set out in the Register were on targets or had been met. Members also acknowledged the potential impact on the operation of the Fund of:

- should asset pricing fall to pre 'quantative-easing' levels;

- of constituent authorities externalising pension administration;

- on the potential impact of the leaving the EU (Brexit) and any consequential changes to regulatory frameworks; and

- on the outcome of the Actuarial Valuation for 2017/18-209/20; and.

The County Treasurer assured the Board that the Risk Register was regularly monitored and revised to reflect changing circumstances and that where changes occurred every effort was made to protect the Fund and, for example and in the case of externalisation, that the resulting burden rested with the relevant authority.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Mr Hearn, and

RESOLVED that the Report be noted and the Investment & Pension Funds Committee be asked to consider further variations to the Register in respect of the issues identified above.

*[NB *See also the Board's 'Action Log' referencing information or data previously circulated to the Board electronically or by other means arising from earlier consideration of this matter and discussed at the informal briefing session preceding the meeting]*

MATTERS FOR INFORMATION

25 Pension Fund Annual Report & Accounts 2015/16

The Board considered the Report of the County Treasurer (CT/16/85) together with the Pension Fund's Annual Report and Accounts for 2015/16, summarising and commenting upon the Fund's performance during the year; the latter having also been approved previously by the Council's Audit Committee.

Members noted that, for the first time, the Fund's Annual Report had also included information about the Pension Board including a brief summary of it's activities and deliberations over the period in question (and the action taken by the Fund/Fund Manager as a consequence) in scrutinising and satisfying itself with the operation and management of the Fund during that period. It was acknowledged that the timeline for production of any future Annual Report and the work of the Board could usefully be reviewed.

Board Members expressed the view that the Annual Report could also more usefully show performance against comparable authorities or Funds rather than solely against internally set benchmarks and benefit from the use of 'plain English' . The publication of a short summary document for fund members outlining the key issues in the Annual Report was welcomed.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Randall Johnson, and

RESOLVED that the 2015/16 Pension Fund Annual Report and accounts be noted and consideration be given to more effective means of summarising performance in future Annual Reports in line with the views expressed at the meeting as summarised above.

26 **Devon Pension Board: Budget Monitoring 2016/17**

The Board considered the Report of the County Treasurer (CT/16/86) monitoring the Board's budget at Month 6, in respect of accommodation; training; legal, technical, administrative and professional support which showed a forecast underspend of £1,647.00.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Randall Johnson, and

RESOLVED that the budgetary position at Month 6 be noted.

27 **Actuarial Valuation 2016 and Section 13 Report**

The Board considered the Report of the County Treasurer (CT/16/87) on the work being undertaken in respect of the next three yearly valuation of the Pension Fund, due for publication by 31st March 2017, which would establish employer contributions for the period 2017/18 – 2019/2020.

Members noted that in addition to the formal actuarial valuation carried out the by the Fund the Department of Communities and Local Government would commission a Section 13 (Public Sector Pensions Act 2103) valuation by the Government Actuary's Department to examine the 2016 valuation results to see if, in their opinion, valuations were (a) compliant with the LGPS Regulations, (b) not inconsistent with other Funds and (c) would ensure solvency and long-term cost efficiency.

The County Treasurer's Report indicated that the Government Actuary's Department had already carried out a 'dry run' of the process using the 2013 valuation results which could be taken into account by the Fund and fed into its process for the 2016 valuation. Members noted that while the 'dry run' had revealed a standardised funding level of 82% (which was not significantly at variance from the 2013 level of 84%) it had identified a number of areas which could give rise to concerns in the formal Section 13 valuation. While, at least in part, those arose from the application of different assumptions and methodologies applied by different Actuaries and in order to prevent that happening, the Fund Manager had taken action to adopt a more prudent approach to the actuarial valuation. This would include, for example, reducing the period over which the current pension deficit would be reduced and the impact of that on the Fund's investment strategy which the County Treasurer confirmed, would be addressed in the forthcoming strategic review.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Randall Johnson, and

RESOLVED that the Board notes the Section 13 'dry run' report produced by the Government Actuary's Department and the resulting approach to the 2016 triennial valuation of the Pension Fund; the potential impact of which should also be reflected in the Fund's Risk Register (Minute 24 above refers) .

28 **Admitted Bodies Process**

The Board received the Report of the County Treasurer (CT/16/88) outlining the process for admitting bodies (e.g. the County Council) to admit other bodies into the Devon Fund, to enable existing members of the LGPS to remain in the scheme and continue to accumulate benefits under their existing LGPS arrangements whilst their employment was transferred between different contractors and as long as they remained employed in connection with the delivery of the outsourced service.

Members also noted the potential impact of proposed changes to the current Regulations which would necessarily be reflected in existing processes.

29 Peninsula Pensions Performance Statistics

The Board received the Report of the County Treasurer (CT/16/89) incorporating performance data relating to Peninsula Pensions administration and action taken to ensure compliance within accepted industry norms and best practice.

Members acknowledged and welcomed the work being done to reduce previous backlogs by around 20% and cases older than 10 days by 28% and while recognising the difficulties and practicability of Peninsula Pensions being asked to provide discreet or disaggregated data, welcomed the data set out in Report CT/16/89 relating specifically to the Devon Fund area* for the current financial year, to assist Members in making a judgement as to the adequacy or otherwise of administrative costs for the Devon Fund.

The Head of Peninsula Pensions re-iterated that where specific performance targets had not been met these were kept under review and monitored to ensure action was taken within an acceptable period. She also outlined current and proposed arrangements for obtaining customer feedback* and commented further on such feedback and of any disputes logged or complaints received referred to in the County Treasurer's Report now submitted, confirming also that future performance management reports would provide more qualitative information as far as was practicable, would contain more detail on those PIs not governed by the 10 day rule and on complaints received by subject/themes.

The Board noted that further information on comparative data with other funds would be made available to members direct, following the recent publication by CIPFA of its Benchmarking data. That showed, inter alia, that Peninsula Pensions costs were below average and deficit backlogs were in line with the national average.

*[NB *See also the Board's 'Action Log' referencing information or data previously circulated to the Board electronically or by other means arising from earlier consideration of this matter and discussed at the informal briefing session preceding the meeting]*

30 Local Government Pension Scheme Pooling of Investments: Brunel Pension Partnership - Progress Report

The Board received the Report of the County Treasurer (CT/16/90) on progress with the establishment of the proposed 'pooling' arrangement for South West LGPS schemes, under the aegis of *Project Brunel,* and the preparation of the full business case for approval by the Investment & Pension Funds Committee and the County Council later this year. All Members of the Board would receive a copy of the final business case and were encouraged to attend the Investment & Pension Fund Committee on 2 December 2016 when the matter would be under discussion.

31 Investment and Pension Fund Committee

The Board received and noted the minutes of the Investment & Pension Fund held 16 September 2016.

32 Future Work Programme

The Board considered the Report of the County Treasurer (CT/16/91) outlining the proposed future work programme* and reviewed the suggestions therein and discussed at the meeting for inclusion in the Programme.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Randall Johnson, and

RESOLVED that the proposed work programme be approved and the Board reflect further, after the County Council elections in 2017, on its role and programme of activity (e.g. the Annual Report) and revisit the scheduling of it meetings.

*[NB *See also the Board's 'Action Log' referencing information or data previously circulated to the Board electronically or by other means arising from earlier consideration of this matter and discussed at the informal briefing session preceding that meeting]*

33 **Future Meetings/Diary Dates**

The County Solicitor reported that the next meeting of the Board had been re-scheduled for 10 April 2017 (in place of 24 April) to avoid close proximity to the County Council Quadrennial Elections on 4 May 2017.

Dates of future meetings of the Board and of the Investment & Pension Fund Committee are published on the County Council's Calendar of Meetings, which is available on the Council's website at: http://democracy.devon.gov.uk/mgCalendarMonthView.aspx?GL=1&bcr=1

The Meeting started at 10.32 am and finished at 12.38 pm

CT/16/103
Investment & Pension Fund Committee
2 December 2016

ACTUARIAL VALUATION 2016

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Committee note the content of this report.

1. Introduction

1.1. Every three years Devon County Council (as the administering authority) is required to have an actuarial valuation of the Devon Pension Fund conducted by a qualified independent actuary. The Council has appointed Barnett Waddingham to act as the Fund Actuary.

1.2. The purpose of the valuation is to establish the Fund's liabilities in relation to its assets and determine the current funding level, and to set contribution rates for the Fund's employers for the next three years. The approach to the Valuation has to take into account Section 13 of the Public Sector Pensions Act 2013.

1.3. The timetable and process for the current valuation was outlined in a report to the previous meeting of this Committee. The Actuary met with officers in September to confirm the assumptions to be used for the valuation.

2. Factors taken into consideration

2.1. The triennial actuarial valuation examines how the assumptions built into the previous valuation have fared and then considers future prospects for the Fund. The Actuary has to certify levels of contribution to secure the solvency of the Devon Fund, but also have regard to the desirability of maintaining as stable a contribution rate as possible.

2.2. The Actuary also has to take into account Section 13 of the Public Sector Pensions Act 2013. This provides for an independent review (by the Government Actuary's Department (GAD)) of the valuation and employer contribution rates to check that they are appropriate and requires remedial action to be taken where that review identifies a problem. The Actuary will therefore aim to ensure that the assumptions applied will lead to contribution rates that ensure the long term cost efficiency of the fund and achieve solvency over an appropriate period, and thereby avoid any red flags when GAD carry out their review. Long term cost efficiency is now seen as a requirement while stability of contribution rates is only "desirable".

2.3. The following factors, outlined in paragraphs 2.4 to 2.6, have been considered by the Actuary and have been taken into account in the current valuation, and calculation of the level of deficit and future contribution levels.

2.4. ***Inter-valuation experience*** – The valuation will be impacted by what has happened over the three years since the last valuation, compared to the assumptions made by the actuary at the time. These are summarised in the following table:

	Expected	Actual	Effect on Funding Level
Investment Returns	6.10%	4.80%	Negative
Pay Increases	3.30%	2.20%	Positive
Pension Increases	2.70%	1.30%	Positive
Deaths - Pensions Ceasing	£8,185k	£11,196k	Positive

Investment returns have been below the expected level, which has had a negative impact on the funding level. However, the level of pay and pension increases have both been below the level assumed in 2013, and the value of pension cessations has been higher than anticipated, which will have reduced the Fund's liabilities.

2.5. ***Revised Assumptions*** – These include:

(a) Price Inflation – based on the Bank of England's 20 year inflation curve, average CPI estimated at 2.4% in projecting future liabilities. This compares with an estimate for CPI of 2.7% at the 2013 Valuation.

(b) Salary Increases – Assumed to be equivalent to CPI until 31 March 2020, and CPI + 1.5% thereafter. The level of pay increases takes into account the effect of increments and promotions for individual members of the Fund, not just the national pay awards. This is a lower assumption than that made in 2013.

(c) Statistical Assumptions – The key factor influencing pension liabilities is pensioner mortality, i.e. how long pensioners will be receiving their pension. For this valuation Barnett Waddingham have produced an analysis specific to Devon, looking at the mortality experience of the Fund and a socio-economic analysis, based on postcodes and other fields in our member data. This has resulted in an adjustment to 90% of the statistical values in the tables published by the Actuarial Profession's Continuous Mortality Investigation for both males and females. An assumption of a 1.5% long term improvement in life expectancy has been made. This equates to a life expectancy beyond the age of 65 of a further 25.4 years for females and 23.3 years for males retiring now.

(d) Discount Rates – In determining the value of accrued liabilities and future contribution requirements it is necessary to discount future payments to and from the Fund. There are a number of different approaches which can be adopted to derive the discount rate. Barnett Waddingham's approach is to reflect the investment return expected to be achieved from the underlying investment strategy. The investment return going forward has been assumed to be 5.5%, which compares with an assumption of 6.1% at the last valuation. This is summarised in the following table:

Actuarial Valuation 2016 - Breakdown of Discount Rate

Asset Class	Percentage of Fund	Assumed Return	Real (relative to CPI)
Gilts	6%	2.4%	0.0%
Other Bonds	8%	3.3%	0.9%
Cash/temporary investments	2%	1.8%	-0.6%
Equities	55%	7.4%	5.0%
Property	14%	5.9%	3.5%
Diversified Growth Funds	15%	5.8%	3.4%
Expenses (deduction)		-0.2%	
Neutral estimate of discount rate based on long-term investment strategy		**6.1%**	**3.7%**
Prudence allowance		-0.6%	
Discount rate assumption		**5.5%**	**3.1%**

2.6. ***Deficit recovery period*** – At the last valuation the length of the recovery period was reduced from 30 to 25 years. At this valuation the Actuary has reduced the average recovery period back to 22 years. There is some logic to this, in that the ultimate aim is to reach 100% funding, and as we are three years further on since the last valuation, a reduction of three years in the recovery period demonstrates that the Fund is progressing towards that goal. Reducing the recovery period will decrease the level of risk to the Fund, and reduce the cost of meeting the deficit.

3. Overall results

3.1. The Actuary has determined that the Devon Fund has a funding level of 84%. The Fund's assets were valued at £3,311m against future pension liabilities assessed at £3,939m, giving a deficit for this valuation of £628m. This, along with the comparative figures for the previous valuation in 2013, is shown in the table below:

	2013 Results	***2016 Results***
Assets	£2,970m	£3,311m
Liabilities	£3,589m	£3,939m
Deficit	(£619m)	(£628m)
Funding Level (whole Fund)	83%	84%

3.2. The Actuary has determined that an overall employer rate of 20.9% (of pensionable payroll) is required to meet future service accruals and to clear the current deficit:

	2013 Results	***2016 Results***
Future Service Rate	13.6%	14.9%
Deficit Contribution	5.2%	6.0%
Total Employer Contribution Rate	18.8%	20.9%

4. Effects on Individual Employers

4.1. The 20.9% contribution figure and the 22 year recovery period are the average required across the fund. Individual employers within the fund will have their own individual rates and recovery periods reflecting their own unique circumstances. The recovery period for individual employers will be set in a range between 17 and 24 years.

4.2. At the 2010 and 2013 Valuations it was recognised that payrolls were likely to fall as a result of a reduction in funding levels for local services. This would have had an impact on the level of cash coming in to meet the deficit. Therefore, the deficit amounts for each employer have been certified as a cash figure, rather than a percentage of pay, in order to address this issue. The same approach will be adopted at this Valuation.

4.3. Given the increase in the overall rate from 18.8% to 20.9%, all employers are likely to see an increase in their contribution rates. This will vary between employers, according to the profile of their individual liabilities and past experience. For example, where employers have made additional deficit contributions, this will have had the effect of reducing their deficit and the level of their ongoing deficit contributions. An initial analysis of the results for the major employers suggests increases to their overall contributions ranging from 1% to 3.8% of pensionable pay.

4.4. It is recognised that contribution increases will place extra pressure on employers at a time of reduced funding from Government, but as outlined in paragraph 2.2 above the Fund needs to ensure that sufficient contributions are being paid to ensure long term cost efficiency and achieve full funding over an appropriate period. The requirement of Section 13 of the Public Sector Pensions Act 2013 for GAD to review the Fund's 2016 Valuation makes this an even more important requirement. It should be noted that the recent "dry-run" analysis of the 2013 Actuarial Valuation conducted by GAD showed that Devon was in the bottom quartile for contribution rates, i.e. 75% of LGPS funds charge higher rates than Devon. This is still likely to be the case even with the increases proposed.

4.5. In order to achieve as stable a rate as possible, groups of smaller employers have been put together in pools to even out their contribution rates. This reduces the level of volatility in their contributions. This will include a pool for academies in line with the response submitted to the DCLG consultation, subject to the result of that consultation process.

5. Conclusion

5.1. The 2016 Valuation demonstrates that the Fund is making progress towards the long term objective of 100% solvency, with the funding level increasing from 83% to 84%, and the deficit recovery period reducing from 25 to 22 years. The reduction in the average recovery period will help to reduce the cost of pensions in the longer term. The approach adopted to the Valuation should ensure that the Devon Fund receives a clean bill of health when the Section 13 review is conducted by GAD.

5.2. It is anticipated that employers will be provisionally notified of their individual rates by the end of December. The formal certification of the rates will not be until the end of March, in order to take into account any issues that are identified in the intervening period. However, it is unlikely that the results will change significantly from the provisional results.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
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CT/16/104
Investment & Pension Fund Committee
2 December 2016

INVESTMENT MANAGEMENT REPORT

Report of the County Treasurer

All recommendations contained in this report are subject to confirmation by the Committee before taking effect.

Recommendations:

(i) **That the action taken to rebalance the asset allocation to within the target ranges be noted;**

(ii) **That the County Treasurer, in consultation with the chairman, be authorised to put in place additional currency hedging strategies, as outlined in section 3 of the report.**

(iii) **That the Committee note compliance with the 2016/17 Treasury Management Strategy.**

1) FUND VALUE AND ASSET ALLOCATION

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at **30 September 2016**.

Fund Value and Asset Allocation

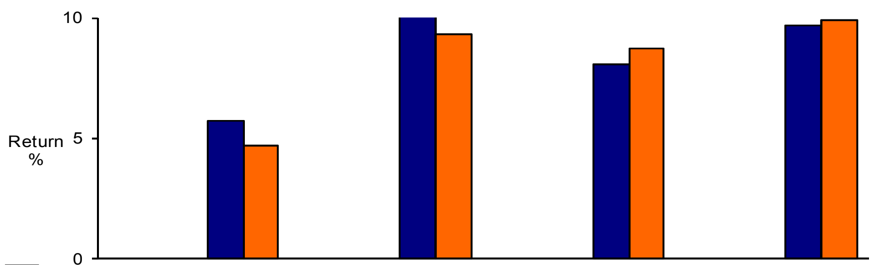
	Fund Value as at 30.9.16	Target allocation	Fund asset allocation at 30.9.16	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	426.4	14.0	11.6	
Cash	51.0	2.0	1.4	
	477.4	**16.0**	**13.0**	**-3.0**
Equities				
Passive Equities	1,612.0	40.0	43.7	
Active Equities	558.3	15.0	15.1	
	2,170.3	**55.0**	**58.8**	**+3.8**
Diversified Growth Funds	**518.3**	**15.0**	**14.1**	**-0.9**
Alternatives				
Property	372.5	10.0	10.1	
Infrastructure	148.9	4.0	4.0	
	521.4	**14.0**	**14.1**	**+0.1**
Total Fund	**3,687.4**	**100.0**	**100.0**	

- The Fund value as at 30th September 2016 stood at £3,687.4 million, an increase of £190m over the quarter, and an increase of £350m since 1st April.
- As a result of the rise in equity markets, assisted by currency gains as a result of the fall in value of Sterling, the allocation to equities was 3.8% above target at the end of September. In accordance with the Fund's rebalancing policy, agreed by the Investment and Pension Fund Committee in June 2013, if an asset class is more than 2.5% above or below the target allocation, this should prompt a decision by officers, in discussion with the Fund's adviser, as to whether any action is required to rebalance the fund back to its target allocations. Following discussion it was concluded that now would be a good point at which to take some profit from the increase in equity values, and £50m was redeemed from the passive mandates managed by SSgA, which brought equities back to within the 2.5% threshold.
- The decision was taken to reinvest the £50m redeemed from the passive equities allocation by increasing the allocation to Diversified Growth Funds by £40 million and to cash by £10 million. This would have the effect of bringing the allocation to Diversified Growth Funds back up to the 15% target.
- The fixed interest allocation was 3% below target at the quarter end, mostly as a result of the global bonds mandates managed by Lazard and Wellington being below their target allocation. A reallocation to global bonds was therefore also considered, but it was concluded that low current yields on fixed interest made them a less attractive asset class for additional investment. The Committee had previously agreed to maintain the allocation to fixed interest below its target level at the meeting in May 2014.

2) FUND PERFORMANCE

The performance of the Total Fund over the last quarter, the financial year to date, and on a rolling three and five year basis are shown in the following chart.

Longer Term Fund Performance Summary



	Latest Quarter	From 31/3/16	3 Years % pa	5 Years % pa
Fund	5.7	10.6	8.1	9.7
Benchmark	4.7	9.3	8.7	9.9
Relative Return	1.0	1.3	-0.6	-0.2

The performance statistics quoted are net of fees for the current financial year, but the three year and five year figures shown combine gross performance up to 31 March 2014 and net of fees performance from 1 April 2014 onwards.

The six months to 30 September 2016 has seen an absolute return of +10.6%. This is ahead of the Fund benchmark of +9.3%.

A breakdown of the performance of the Total Fund for the **six months to 30 September 2016** and the comparative Index returns are shown in the table below:

Performance for the six months to 30 September 2016

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	8.3	8.8	BarCap Global Bonds / MSC
Cash (inc Foreign Currency)	0.4	0.1	GBP 7 Day LIBID
Passive Equities	13.1	13.1	Devon Bespoke Passive Index
Active Equities	19.3	18.0	FTSE World
Diversified Growth Funds	6.7	2.1	Devon Multi Asset Benchmark
Infrastructure	8.0	0.1	GBP 7 Day LIBID
Property	0.0	-0.6	IPD UK PPF All Balanced Funds

Total Fund	**10.6**	**9.3**	**Devon Bespoke Index**

Key issues over the quarter include:

- Following the outcome of the referendum and the decision to leave the European Union, a major casualty of the result was a significant fall in the value of Sterling. This has had a positive effect of increasing the value of the Fund's overseas assets in Sterling terms and pushing up the value of UK shares where companies benefit from overseas earnings. Bond values have also risen as a flight to quality and fears about growth and inflation have compressed yields yet further.
- Returns would have been higher but for the impact of the partial currency hedging in place on the Fund's overseas passive equities and global bonds mandates. The currency hedges in place reduced the returns during a period when it would have been better to have been unhedged.
- The diversified growth funds (DGFs) outperformed their cash plus benchmarks at a time of positive returns in equity and bond markets.
- Property has seen reductions in capital values as a result of uncertainty following the referendum result, but the income yield has resulted in an overall flat return over the 6 months, while the benchmark has been negative.

3) CURRENCY HEDGING

(a) A significant factor in the positive returns over the period since the EU Referendum has been the fall in the value of Sterling. This has had the effect of increasing the value of the Fund's overseas assets. Forecasting currency movement is always difficult, and it appears likely that the value of Sterling could remain low for some time to come, and could still go lower. However, it may be that the majority of the impact of the vote to leave the EU on the value of Sterling has now been factored into its value and that any further fall in value will be significantly less than that experienced over the last four months.

(b) The biggest currency risk to the Fund, therefore, would be that if Sterling begins to rise in value against the US Dollar and the Euro, the currency gains that have been made over the last four months could be reversed. The precise currency exposure of the total fund is difficult to calculate, as most of the managers have some discretion to vary currencies, and the currency exposure of DGFs or multi asset funds like Baillie Gifford, Barings and Wellington can vary. But a rough approximation, based on a transparent look-through analysis of underlying assets, suggests a total unhedged overseas currency exposure of around 30-35%

of the assets of the Fund. It would therefore be sensible to consider managing that risk by increasing the extent of the currency hedging in place on the Fund's overseas assets. The risks associated with currency will be considered as part of the upcoming strategy review, but it is likely to be several months before any changes resulting from the review will be implemented.

(c) There are two areas of potential focus for increased currency hedging. Firstly the overseas passive funds managed by State Street. Currently there is a dynamic hedge in place over half the assets in each of North America, Europe and Japan. The dynamic hedge is actively managed and the level of hedge will be varied by State Street according to whether their model perceives Sterling to be under or overvalued. There is a static 50% hedge in place over the remaining half of the assets, and it would be possible to increase the hedge from 50% up to 75% or 100% on this part of the portfolio. There would be a small additional cost, but it would reduce the risk of a rise in Sterling having a negative impact on the value of the assets.

(d) The other area where additional currency hedging could be beneficial would be in relation to the Specialist Funds. The RWC European Focus Fund and the First State European Diversified Infrastructure Fund are both denominated in Euros, and while the Montanaro Smaller Companies Fund has a Sterling share class, the underlying investments have significant exposure to the Euro. These three funds between them have a value of around £140m and it would be possible to put in place a currency overlay to reduce the impact of currency moves on the Sterling valuation of these funds. While two of the other specialist funds (the UBS International Infrastructure Fund and the FPP Emerging Markets Fund) are both denominated in USD they are of lower value and have significant underlying exposure to other currencies, so a hedge on these funds would be less effective.

(e) The remainder of the Fund's other overseas assets would be more difficult to hedge. Both the Aberdeen Asset Management mandates have global holdings in a variety of currencies. Aberdeen have indicated that trying to put a hedge in place would be extremely costly due to the wide variety of currencies. The global bonds funds managed by Wellington and Lazard already have a 50% hedge in place, and the remaining currency risk is actively managed. The Baillie Gifford and Barings diversified growth funds both already make extensive use of currency hedging to manage risk.

(f) It is therefore proposed that the County Treasurer, in consultation with the chairman, be authorised to put in place the additional currency hedging strategies, as outlined in paragraphs (c) and (d), as and when market conditions seem appropriate. This would have the effect of reducing the unhedged overseas currency exposure from around 30-35% to around 25%.

4) BUDGET FORECAST MONITORING AND CASH MANAGEMENT

(a) Appendix 1 shows the actual to date and revised forecast for 2016/17 against the original budget forecast. This shows a deficit of £13.1m between contributions received and benefits paid out in the first half of the year. In addition £5.9m in management expenses has been incurred over the six months. This is offset by the receipt of £11.6m investment income from property and infrastructure, with a further £7.9m being reinvested by the Fund's investment managers.

(b) The revised forecast shows an increased forecast for transfers in from other pension funds, where the original forecast has already been achieved. The same is true for payments to and on account of leavers. The Investment Oversight and Accounting heading includes an additional £50,000 Brunel costs.

(c) At 14 November 2016 the unallocated cash on deposit amounted to £43.6m. The cash held is being maintained at a lower level than in the past, and it is therefore necessary to ensure its liquidity for cashflow purposes. Hence the majority of cash is held in money market funds or call accounts with immediate or short term access. The cash figure includes an additional £10m as a result of the rebalancing outlined in section 1 of the report, and this has been placed into a longer term 6 months deposit.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/16	Average Interest Rate	Current as at 14/11/16	Average Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	39.2	0.41	12.6	0.33
	2 Day Notice			21.0	0.48
Term Deposits	<30 Days	0.0		0.0	
	>30 Days	0.0		10.0	0.60
TOTAL (at 14th November 2016)		**39.2**	**0.41**	**43.6**	**0.47**

(d) The weighted average rate being earned on cash deposits, as at 14 November 2016, was **0.47%.** This reflects the current low interest rate environment and the need to ensure liquidity as a result of the low level of cash being maintained. The rates available have fallen further following the Bank of England's decision to reduce the base rate to 0.25%. However this has been offset to a certain extent by the use of a money market fund with a 2 day notice period for the withdrawal of cash that offers a better rate, and the use of a six month term deposit.

(e) The deposits in place during the year fully complied with the Fund's Treasury Management and Investment Strategy for 2016/17.

Mary Davis

Local Government Act 1972
List of Background Papers Nil
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Appendix 1

Devon County Council Pension Fund Budget / Forecast 2016/17

	Actual 2015/16 £'000	Original Forecast 2016/17 £'000	Actual to Sept 16 £'000	Revised Forecast 2016/17 £'000	Variance from Original Forecast £'000
Contributions					
Employers	(117,079)	(117,000)	(53,247)	(117,000)	0
Members	(36,201)	(36,000)	(17,794)	(36,000)	0
Transfers in from other pension funds:	(4,766)	(3,000)	(3,310)	(4,500)	(1,500)
	(158,046)	(156,000)	(74,351)	(157,500)	(1,500)
Benefits					
Pensions	132,435	135,000	67,805	135,000	0
Commutation and lump sum retirement benefits	30,035	32,000	14,975	32,000	0
Lump sum death benefits	3,777	4,000	2,067	4,000	0
Payments to and on account of leavers	443	200	288	400	200
Payments for members joining state scheme	6,986	6,000	2,321	6,000	0
	173,676	177,200	87,457	177,400	200
Net Withdrawals from dealings with fund members	**15,630**	**21,200**	**13,105**	**19,900**	**(1,300)**
Investment Income					
Received as Cash	(19,021)	(19,100)	(11,645)	(19,100)	0
Reinvested by Fund Manager	(16,722)	(14,300)	(7,921)	(14,300)	0
	(35,743)	**(33,400)**	**(19,566)**	**(33,400)**	**0**
Administrative costs					
Peninsula Pensions	1,523	1,713	718	1,713	0
	1,523	**1,713**	**718**	**1,713**	**0**
Investment management expenses					
External investment management fees - invoiced	5,242	5,950	2,070	5,950	0
External investment management fees - not invoiced	2,994	3,000	1,442	3,000	0
Custody fees	140	115	25	115	0
Transaction costs	3,508	3,510	1,354	3,510	0
Stock lending income & commission recapture	(94)	(85)	(52)	(85)	0
Other investment management expenses	50	25	11	25	0
	11,840	**12,515**	**4,849**	**12,515**	**0**
Oversight and governance costs					
Investment & Pension Fund Committee Support	85	92	48	92	0
Pension Board	21	27	15	26	(1)
Investment Oversight and Accounting	288	333	241	383	50
Legal Support	43	43	(7)	43	0
Actuarial Services	41	60	67	60	0
Investment Performance Measurement	24	42	8	42	0
Subscriptions	38	41	11	41	0
Internal Audit fees	13	14	0	14	0
External Audit fees	29	29	0	29	0
	582	**681**	**383**	**730**	**49**
Total Management Expenses	**13,945**	**14,909**	**5,950**	**14,958**	**49**

CT/16/105
Investment and Pension Fund Committee
2 December 2016

BRUNEL PENSION PARTERNSHIP – APPROVAL OF FULL BUSINESS CASE

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendations: That the County Council be recommended to approve the following resolution:-

In its capacity as the Administering Authority for the Devon Pension Fund, and having received and reviewed the recommendation of the Investment and Pension Fund Committee and the Business Case submitted to it, the Council hereby resolves to enter into investment pooling as part of the Brunel Project with respect to the Devon Pension Fund's investments.

Such Resolution is made on and subject to the following terms and conditions:

- **That the Brunel Pension Partnership investment pool be developed, funded and implemented substantially in accordance with the terms and provisions described in the Business Case considered by the Investment and Pension Fund Committee, and more particularly that:**
    - **a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited be established and operated with all necessary and appropriate arrangements as to its ownership, structure, governance and services capability.**
    - **a new supervisory body comprising representatives of the Council and all other participants in the Brunel Pension Partnership be established to ensure oversight of Devon Pension Fund investments and participation in the Brunel Pension Partnership.**
- **That the Investment and Pension Fund Committee be authorised and granted delegated powers to undertake such tasks as it thinks appropriate to progress implementation of investment pooling, and to take such decisions and do all other things deemed necessary in order to promote the interests of the Council with respect to pooling, which without limitation shall include agreeing and authorising any documentation, contracts, terms of reference, financial expenditure or investment that may be required consequential upon the Fund's participation in the Brunel Pension Partnership.**
- **That the County Treasurer and the County Solicitor be similarly authorised and granted delegated powers to undertake such tasks as they think appropriate to progress implementation of investment pooling, and to take such decisions and do all things deemed necessary in order to support the Investment and Pension Fund Committee and to promote the interests of the Council with respect to pooling, which without limitation shall include informing and advising the Investment and Pension Fund Committee on the continued viability and suitability of investment pooling in the light of any developments, financial or otherwise, in the period up to the establishment of the Brunel Pension Partnership.**
- **That subject to the above, all such matters be carried out with the aim of achieving a target date for beginning investment pooling of 1 April 2018, and otherwise subject to such intermediate steps and timescales as may be considered appropriate and necessary by the Investment and Pension Fund Committee.**

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, much work has been undertaken to set up the Brunel Pension Partnership comprising ten LGPS Funds.

1.2. Regular reports have been brought to the Committee at all stages of the process, with additional engagement events also being held to afford the opportunity for the Committee to provide input to the proposals. As required by Government an initial joint submission from the ten Brunel funds was approved by the Committee in February, and a further more detailed response was approved by the Committee in June and submitted to the Government in July.

1.3. Following the July submission of what was in effect an outline business case, work has been continuing on putting together a full business case for the Brunel Pension Partnership. The full business case has now been completed and needs to be approved by each of the ten administering authorities in order that the establishment of the Local Authority Company can be progressed. The full business case sets out the individual costs and benefits for each of the ten participating funds. The main Full Business Case is attached at Appendix 1 to this report, with the detailed cases included in Part II of the agenda.

2. Full Business Case and Cost Model

2.1 The full business case seeks approval to establish a company called Brunel Pension Partnership Ltd (Brunel company or BPP Ltd), regulated by the Financial Conduct Authority (FCA), and the new governance arrangements to establish client side joint shareholder oversight and joint contract management. The Full Business Case comprises five sections:

- The Strategic Case;
- The Financial Case;
- The Economic Case;
- The Commercial Case;
- The Management Case.

2.2 The full business case has been subjected to review by the Finance/Legal Assurance Group (FLAG), comprising the s151 and Monitoring Officers of each of the ten administering authorities. It was then signed off by the Shadow Oversight Board, comprising the chairmen of the ten funds on 23rd November. The business case has been put together with significant work by officers of the ten administering authorities, supported by professional expertise provided by PwC (operational and financial support), Osborne Clark (legal support), Alpha (FCA expertise), JLT (project support) and Bfinance (investment advice).

2.3 The strategic case focuses on the legal and regulatory requirements as well as the costs and benefits of pooling. The Local Government

Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016 No 946) came into force on the 1st November 2016. These regulations provide the legal basis which requires LGPS funds to pool their investments.

2.4 The financial case is drawn from a complex financial model that has been developed by the Brunel Partnership in conjunction with PwC, which analyses the costs and savings for the partnership as a whole and for each of the individual funds. The model allows scenario testing, changes to individual assumptions and the removal of individual funds from the partnership for sensitivity analysis and stress testing the proposal. The core model analysis shows the breakdown between funds of a total of £550m forecast cumulative savings over the next 20 years. The financial case also sets out the opportunity for further benefits if the Brunel company is able to achieve asset outperformance of 5 basis points above the return on assets assumption, and the additional benefits that might be achieved if the Brunel company undertakes internal management of 50% of active equity investments internally from the 2022/23 financial year.

2.5 The economic case examines two potential models for how to set up the Brunel company, either to rent it from a commercial provider or build it. An analysis was carried out in Stage 2 of the project to consider the relative merits and limitations of each model, examining them against three groups of issues: accountability; procurement and staffing; and costs. The analysis showed that the build model would have advantages over the rental model, especially on accountability.

2.6 The commercial case sets out the structure of the Brunel Pension Partnership company, and the governance and contractual arrangements that will exist. A legal review has concluded that a decision by the administering authorities to procure the services of the Brunel company will be exempt from the application of the public contract procurement procedures as set out in the Public Contracts Regulations 2015. The company will be managed by the company board with a chairman, three other non-executive directors, a chief executive officer and three operational directors. The governance arrangements will include an Oversight Board representing each participating fund's pensions committee.

2.7 The management case looks at the project management that will be required:

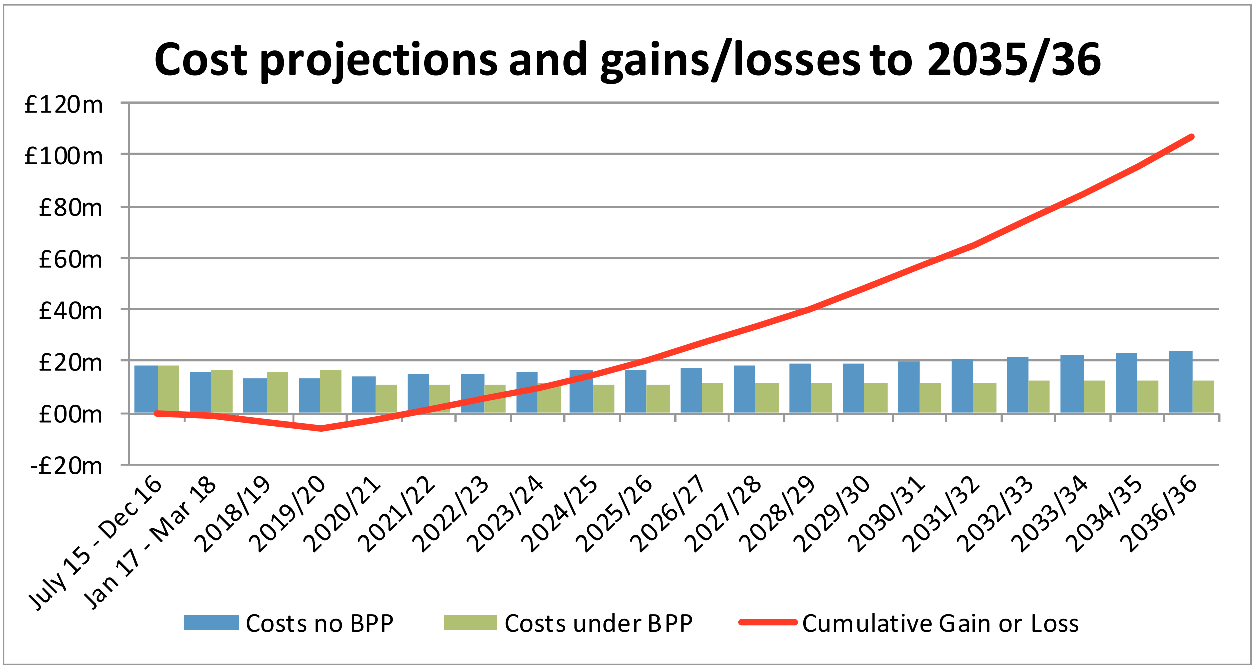
- to set up the FCA regulated company within the Brunel Pension Partnership encompassing recruitment of staff, legal and physical set up, procurement of third party providers, definition and set up of the services, and obtaining FCA authorisation;
- to establish the arrangements for governance of Brunel Pension Partnership Ltd (BPP Ltd / Brunel company) by the Administering Authorities;
- to implement the client side governance, organisation and process changes.

3. Devon Pension Fund Costs and Benefits

3.1 The financial case for Brunel has been derived from the financial model put together by PwC. The core model forecasts cumulative savings for the Devon Fund of £107m over the next 20 years, which has a discounted present value of £55m. This results in a breakeven point in the 2021/22 financial year. The savings are summarised in the following table and graph:

Costs and Savings to the Devon Pension Fund 2015/16 to 2035/36

Year	Costs without pooling			Costs under the Brunel proposals					Savings / (Costs)
	Manager Fees £m	Devon Costs £m	Total £m	Manager Fees £m	Devon Costs £m	Brunel Costs £m	Asset Gains £m	Total £m	£m
July 15 - Dec 16	14.86	3.60	18.45	14.86	3.60	0.12	0.00	18.57	-0.12
Jan 17 - Mar 18	12.72	3.09	15.81	12.72	3.09	0.81	0.00	16.62	-0.81
2018/19	10.65	2.55	13.20	10.24	2.47	2.81	0.00	15.52	-2.32
2019/20	11.04	2.62	13.67	8.58	2.54	5.07	-0.02	16.18	-2.51
2020/21	11.45	2.70	14.15	7.51	2.62	0.79	-0.12	10.80	3.35
2021/22	11.88	2.78	14.66	7.80	2.70	0.79	-0.28	11.01	3.65
2022/23	12.32	2.86	15.18	8.03	2.78	0.82	-0.45	11.18	4.00
2023/24	12.77	2.95	15.72	8.28	2.86	0.84	-0.64	11.34	4.38
2024/25	13.24	3.04	16.28	8.11	2.95	0.87	-0.85	11.09	5.20
2025/26	13.73	3.13	16.86	8.35	3.04	0.90	-1.09	11.20	5.67
2026/27	14.24	3.22	17.47	8.59	3.13	0.93	-1.35	11.31	6.16
2027/28	14.77	3.32	18.09	8.92	3.22	0.97	-1.63	11.48	6.61
2028/29	15.32	3.42	18.74	9.26	3.32	1.00	-1.92	11.65	7.09
2029/30	15.88	3.52	19.41	9.47	3.42	1.03	-2.24	11.68	7.73
2030/31	16.47	3.63	20.10	9.84	3.52	1.07	-2.59	11.83	8.26
2031/32	17.08	3.74	20.82	10.21	3.63	1.10	-2.96	11.98	8.83
2032/33	17.71	3.85	21.56	10.60	3.73	1.14	-3.35	12.13	9.43
2033/34	18.37	3.97	22.33	11.01	3.85	1.18	-3.77	12.26	10.07
2034/35	19.05	4.08	23.13	11.43	3.96	1.22	-4.21	12.40	10.73
2036/36	19.75	4.21	23.96	11.87	4.08	1.26	-4.69	12.52	11.44
						TOTAL SAVINGS			**106.84**
						DISCOUNTED VALUE			**55.10**



3.2 The Brunel costs include estimated costs of transitioning assets, which are being shared by all the Pension Funds to ensure that no individual fund is disadvantaged by, or benefits from fund manager selection by the Brunel company. Other costs include the taxes involved in transitioning assets into the Brunel company and the operating costs of the Brunel company itself.

3.3 The actual asset transition costs for the Brunel pool will not be known until the Fund Managers have been appointed and will depend on the number of funds that need to be transitioned and the market conditions on the day of transition. The transition of assets is expected to begin in April 2018 through to 2020 for the majority of assets, although illiquid alternative assets will need a longer transition timetable. However, from a Devon Pension Fund perspective, an increase of 50% in transition costs would only move out the breakeven point from 2021/22 to 2022/23.

3.4 The savings are achieved through reduced direct investment costs, predominantly investment manager fees, expected to be payable by the Brunel Authorities once the Brunel Company is operational. In addition there are the savings that the Authorities expect to make as a result of no longer needing to carry out tasks internally because of services provided by the Brunel company. In the case of the Devon Pension Fund, this will be through reduced custodian and performance reporting costs. The asset gain figures reflect that the fee savings made remain invested in the Fund and will achieve an investment return.

3.5 In addition to the model's core estimate of savings, the financial case also outlines the opportunity for additional benefits from improved performance. This would result from improved diversification between managers and better risk management that could be achieved from investing in greater scale. A modest increase in returns of 5 basis points (0.05%) would increase the overall benefit to the Devon Fund over 20 years from £107m to £167m. In addition, there is a further opportunity to make savings should the Brunel company undertake internal management of 50% of active equity investments internally from 2022/23. This would increase the savings on external manager fees, and could therefore further increase the benefits to the Devon Fund from £107m to £120m. The two opportunities in combination would increase savings to £181m.

4. Conclusion

4.1 Government policy, now brought into effect by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, requires the Devon Pension Fund to pool its assets. In the light of this agenda the Fund has already committed to participating in the Brunel pool through the resolutions agreed at previous meetings of the Committee. The Committee and the Council now need to approve the full business case to set up the Brunel Pension Partnership Ltd company in order that the pooling proposals can progress to the implementation phase.

4.2 Although investment pooling is being driven by the central government agenda, the financial modelling that has been undertaken demonstrates that there are net savings opportunities for the Devon Pension Fund in entering into the Brunel Pension Partnership. The detailed business case sets out the structures and governance arrangements that will be put in place, which will ensure that the Brunel company provides value for money to the Devon Fund.

4.3 The Committee is therefore asked to recommend the resolution to set up the Brunel Pension Partnership Ltd to Council. Further reports will be brought to the Committee as the project progresses.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers – Nil
Contact for Enquiries: Mark Gayler
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Project Title: Project Brunel

Brunel Pension Partnership

Full Business Case

VERSION HISTORY

Version	Date Issued	Brief Summary of Change	Owner's Name
Final Draft	08/11/16	Final Draft presented to BPP Finance and Legal Assurance Group (FLAG)	Dawn Turner
Final V1.0	15/11/16	Updates from FLAG feedback	OC/PwC/Project Office
Final v1.1	17/11/16	Incorporating feedback following FLAG review	Project Office
Final v1.2 Devon	18/11/16	Updated in line with Financial model v5 Financial details for Devon fund added.	Project Office

Contents

1. INTRODUCTION

1.1 Background and Context

The Full Business Case **(FBC)** has been prepared to inform a decision by Devon County Council on a proposal for Pension Fund investment pooling by means of a newly established pooling arrangement, to be called the Brunel Pension Partnership **(the BPP)**. At its core will be a new Financial Conduct Authority **(FCA)** regulated company, Brunel Pension Partnership Limited **(the Brunel company).**

Having first explained the background to investment pooling for Pension Funds in the Local Government Pension Scheme (**LGPS**), and also the essential features of the BPP proposal, the main focus of the FBC is on the financial viability and economic merits of that proposal. The outcomes of a detailed Financial Model are set out and have been subjected to ***independent professional assurance***. The impacts of legal and other matters relating to the formation, governance and operation of the BPP and the Brunel company are also set out and subjected to ***independent professional assurance***. All aspects have also been subjected to review by Chief Finance Officer/ Chief Legal Officer representatives from the 10 bodies engaged in the Brunel pool.

A summary of the key conclusions emerging from the FBC is provided immediately below. A major point to be emphasised at the outset is that ***the FBC indicates that there are significant financial savings and other efficiencies to be gained which support accepting the proposal to continue to establish an investment pool for the 10 bodies*** (i.e. quite apart from any regulatory imperative to pool). These derive principally from the ***enhancement in scale, skills, and resources that investment pooling will bring***. The pooled investment of approximately £25bn of assets under the BPP model ***will open up new opportunities across a range of performance metrics***.

Having listed the key conclusions, the remainder of this FBC is divided into five sections dealing with the Strategic, Financial, Economic, Commercial and Management Cases. Detailed consideration of these has been undertaken by Chief Finance and Chief Legal Officers on behalf of Devon County Council.

1.2 Key conclusions from the Full Business Case

These are, as follows:

- On an aggregated basis, the Financial Model indicates that net savings exceeding £0.5 billion are achievable by 2036, with annual savings exceeding annual costs by March 2021 and breakeven two years later.

The timing is largely down to the timetable to transition active fund management after 2019 as this yields the largest saving potential.

- On an individual Fund basis, the Financial Model indicates that net savings are achievable, with the level of such savings varying between Funds mainly to reflect the historic differing approaches to investment and risk resulting in different portfolios. This means there will inevitably be differing savings that will be obtained on fee renegotiations.
- New Regulations have set out a clear legal framework making investment pooling mandatory for all LGPS funds in England and Wales, from April 2018.
- Regulations are very clear that the responsibility for individual fund investment strategy remains with the individual Administering Authorities.
- The BPP will represent a collaboration of Devon County Council and nine other LGPS Administering Authorities based broadly in the South West of England.
- The Brunel company will be set up as a new FCA regulated entity, to be owned equally by each of the ten Administering Authorities.
- The Brunel company will implement the investment strategy of each BPP Pension Fund by selecting and monitoring external Manager Operated Funds.
- An initial review of the set-up, governance and operation of the BPP investment pool has confirmed its legal robustness and viability.
- Further development work, including on financial, legal and FCA regulatory matters, will be undertaken in the next development phase of the BPP investment proposal (i.e. up to anticipated implementation in April 2018).
- The current proposals and the documents associated with the current proposals are first drafts which are yet to be properly discussed and scrutinised by the Administering Authorities.
- The next phase of the BPP project will be work-intensive, and continued project resource will be required to ensure its successful delivery.

1.3 Professional advice and assurance

Professional advice and assurance on the financial elements of the BPP investment pooling proposal has been provided by PricewaterhouseCoopers

LLP (**PwC**) and other advisers. From PwC, this has primarily related to preparation of the Financial Model and its outcomes, the financial case and taxation advice. Bfinance UK Limited (**bfinance**) has advised on potential investment fee savings and investment transition costs. Additional financial markets advice has been provided by Alpha Financial Markets Consulting (**Alpha**).

Professional advice and assurance on the legal elements of the BPP investment pooling proposal has been provided by Osborne Clarke LLP (**Osborne Clarke**). This has primarily related to the law and investment pooling, the set-up of the Brunel company, FCA authorisation, procurement and employment matters. Further legal assurance has been provided by obtaining the legally privileged opinions of Leading Counsel (QCs) on the FCA authorisation and procurement law aspects.

Both PwC and Osborne Clarke have provided a statement of assurance to each of the BPP Administering Authorities.

2. STRATEGIC CASE

2.1 Introduction

The purpose of the Strategic Case is to identify the drivers for investment pooling. It sets out the case for change, taking into account in particular the Government's policy imperatives and the regulatory requirements relating to pooling.

2.2 Background to LGPS investment pooling

In May 2014, the Government published a consultation which set out how savings might be achieved by LGPS funds through greater use of passive management and pooled investment. Following that consultation, the Government invited all LGPS Administering Authorities to develop ambitious proposals for pooling of their assets.

In July 2015 the Budget Red Book contained a statement as to what was required, and in November 2015 more detailed guidance was issued. A key point to emerge was that each pool should have assets of around £25 billion.

The proposal to establish the BPP developed accordingly. Through project based joint-working initiatives led by the local pension officers and overseen by two sponsoring bodies[1] the 10 Administering Authorities comprising the BPP have collaborated to test the proposition of establishing a new LGPS

[1] Shadow Oversight Board with representatives from each Administering Authority; and Finance and Legal Assurance Group comprised of Chief Finance Officers and Chief Legal Officers.

investment pool. This will include the Funds of the Environment Agency (Active and Closed) and those of nine Local Authorities (Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire).

In February 2016 eight pools, including the BPP, submitted their proposals to the Government. These submissions were strategic statements of intent. They were followed in July 2016 by much more detailed submissions from each pool, setting out how they were intending to pool their assets and the rationale for the approach being adopted. Each of the Administering Authority's Pensions Committees approved the BPP submission to Government.

The BPP submission included details about the key structural elements for the BPP pool. Since July, work has been ongoing to develop the BPP proposal in readiness for launching the new pool in April 2018.

2.3 **Regulatory reform**

The regulatory framework for investment pooling has been confirmed in the recently made Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (**LGPS Investment Regulations 2016**). These provide that each Administering Authority must formulate an Investment Strategy Statement which must (a) be in accordance with Secretary of State (**SoS**) guidance, and (b) include "the authority's approach to pooling of investments, including the use of collective investment vehicles and shared services". The guidance states that "all authorities must commit to a suitable pool to achieve benefits of scale", and they "must confirm that their chosen investment pool meets the investment reform and criteria published in November 2015".

The SoS is given back-stop powers to intervene if an authority fails to act in accordance with the guidance and following consultation with the authority. These permit the SoS to make a direction requiring: that the authority changes investment strategy; that the authority invests specified assets as directed; that the investment functions of the authority are exercised by the SoS; that the authority complies with an instruction from the SoS relating to the exercise of its investment functions.

Legal advice from Osborne Clarke has confirmed that these regulatory provisions mean that the Government has set out a clear framework making investment pooling mandatory for all LGPS funds in England and Wales.

2.4 The case for change

The consultation for the new draft LGPS Investment Regulations 2016 was accompanied by criteria for pooling. This outlined four areas that underpin the case for change. These are now described, along with a brief statement (in bold) of how the BPP measures up against those criteria:

- Benefits from economies of scale to be derived from large pools of assets of a minimum of £25 billion. The total LGPS assets under management (**AUM**) in England and Wales at that time were in the region of £180 billion.

  Funds in the BPP pool had assets of about £23 billion at 31 March 2015, and these were valued at over £25 billion at 31 October 2016.

- Improved decision making and better risk management, achieved from stronger governance, for the long-term interest of Funds' members.

  The BPP has agreed 12 investment principles that will underpin all the governance and operating arrangements across the whole partnership. These were reported to all fund Committees/ Boards in earlier phases of this project and include long termism, responsible stewardship and openness and transparency. The BPP's governance arrangements will be constructed to meet the highest standards, including those required by the FCA for a regulated entity.

- Reduction in costs and improved value for money from both the fee savings achieved by funds investing together and reducing manager churn by focusing on long term performance.

  The BPP Funds currently have almost 100 different managers and around 170 mandates between them. These will be replaced by about 22 outcome focused investment portfolios, which will deliver the BPP Funds' investment strategy requirements and significantly reduce the number of managers and mandates. Annual fee savings of £20 million are projected to be made by March 2021, rising to £30 million by March 2027.

- Increasing capacity and capability to invest in infrastructure by making long term strategic collaborative plans across the LGPS to invest in infrastructure making this asset allocation more attractive (lower risk) and beneficial (increased returns for less cost).

  The eight LGPS pools have formed a Cross Pool Collaboration Group, with an Infrastructure sub-group looking at a national approach to infrastructure. While in its infancy, this is likely to yield improved access to better infrastructure investment, both from the collective opportunity BPP brings as well as a national investment vehicle.

2.5 Imperative of investment pooling

The main strategic driver for investment pooling is the Government's decision to progress this as a policy, as now required under the LGPS Investment Regulations 2016. The case for change is underpinned by legal advice from Osborne Clarke, and has been recognised by all other Administering Authorities in England and Wales and the other pools they have formed or are now forming.

3. FINANCIAL CASE

3.1 Introduction

The purpose of the Financial Case is to set out the financial implications of investment pooling. It is informed by a detailed Financial Model, which focuses on the estimated savings from pooling both on a whole pool basis and an individual Fund basis. It represents the key evidence supporting this Business Case and the BPP proposal generally.

3.2 The BPP financial model – three key metrics

PwC have created a sophisticated Financial Model that has been provided to each Administering Authority's pension and financial officers. The Financial Model compares the current situation for each Administering Authority to the situation following the transition of assets into the Brunel company, projecting annual net costs or net savings until 2036.

There are three key metrics from the Financial Model:

- **The annual running rate of net saving once the initial structural development and asset transition costs have been met**. Net savings are fee savings plus other savings less operational costs, each evaluated on an annual basis. The metric can be expressed as a cash amount or as a percentage of assets under management in the relevant year: we have used the year to March 2025 (FY25).
- **The year of breakeven**. This metric estimates when each of the BPP Pension Funds will reach the point when the anticipated fee and other savings will start to exceed the set-up (structural development and asset transition) costs and operational costs.
- **The total net savings measured against a broadly 20 year period** to financial year ending 31 March 2036 (FY36). This metric measures the net savings each of the Brunel Funds will accrue, both on a discounted and an undiscounted basis, over that period.

The information and assumptions underlying the Financial Model are described in more detail in the Financial Case.

3.3 The core model

The core model presents a base case of the financial outputs, and is intended as a prudent and reasonable projection of the total anticipated savings from the transitioning of assets into the BPP pool. The core model relies on the key assumption that fee savings will be driven by fewer investment mandates and an extensive programme of fee negotiations, with other savings accruing from reduced expenditure by Administering Authorities.

On that basis, the core model projects-:

- that annual net savings by FY25 will be **£27.8 million pa** across the Administering Authorities, representing 0.089% (**8.9** basis points **bps pa**) of assets then under management;
- the breakeven year, by which cumulative savings will have exceeded cumulative costs will be the year to March 2023, **FY23,** in fact relatively early in that year; and
- an aggregate net saving to FY36 across all ten Administering Authorities of **£550 million**, which has a discounted present value of **£280 million**.

The position on the three metrics (i.e. the annual running rate of net savings, the breakeven year, and the net savings by FY36) differs between the ten Administering Authorities, depending mainly on differing projected fee savings. These differing fee savings depend on the differences between the projected fee levels, after renegotiation, and existing fee levels, with fee savings harder to achieve if existing fee levels are already low. This is largely due to individual Administering Authorities having historically taken differing approaches to investment strategy and risk. This independence will remain and the base core model simply looks at savings from today's position. The other information on which projections are based varies much less between Administering Authorities.

For ease of comparison, the following table states assets under management (AUM) in March 2016 and the annual running rates of savings projected by the core model for FY25, both on a combined pool basis and on an individual Administering Authority basis.

Core model	Assets under management (AUM, £m, at 31 March 2016)	Running annual rate of net saving in FY25	
		£m	bps of projected AUM in FY25
Avon	3,739	3.5	6.8
Buckinghamshire	2,164	6.1	20.4
Cornwall	1,464	1.1	5.6
Devon	3,299	5.2	11.3
Dorset	2,273	3.7	11.8
Environment Agency*	2,954	2.8	7.4
Gloucestershire	1,687	0.7	3.0
Oxfordshire	1,824	1.1	4.2
Somerset	1,592	1.5	6.6
Wiltshire	1,826	2.1	8.3
Combined Pool	**22,822**	**27.8**	**8.9**

*includes £219m for the EAPF Closed Fund which is not expected to benefit from fee savings. Therefore the Closed Fund assets are not used in the calculation of the net saving as expressed in basis points of AUM.

On an individual fund basis this would mean a breakeven point for the combined fund and Devon of 2023 as follows:

Core model	Breakeven year	Total 20 years net gain to FY36		Running annual rate of net saving in FY25	
		£m	Discounted value £m	£m	bps of AUM
Devon Pension Fund	FY22	106.8	55.1	5.2	11.3
Combined Pool	**FY23**	**550.1**	**279.5**	**27.8**	**8.9**

PwC has provided financial assurance to the Administering Authorities that the core model has been constructed using prudent and reasonable assumptions. More detail of such assumptions and the modelling methodology is set out in the Financial Case. This has been checked and assessed by each Administering Authority's Chief Finance Officer/ Section 151 Officer.

3.4 Sensitivity on core model

A sensitivity analysis of the core model metrics has been undertaken. This analysis has considered several important variables, as follows:

- Variable 1: fee savings achieved by the Brunel company being plus/minus 2 basis points (0.02%) when compared with the midpoint the fee savings identified in the core model for each Administering Authority (the overall midpoint being 8.9 bps for the Combined Pool).

- Variable 2: asset transition costs, which include tax costs, being in total plus/minus £15 million when compared with the asset transition costs used for the core model.
- Variable 3: annual operational costs for the Brunel company being £1 million pa higher than the annual operational costs used for the core model.
- Variable 4: a transition delay such that liquid assets take three years to restructure rather than the two years used in the core model.
- Variable 5: underlying market asset performance differing significantly from the steady 4% pa growth used for the core model. Three variations are considered: a 20% equity market crash in 2020, and steady growth at rates of either 3% pa or 5% pa.

The table on the following page expresses the impact of these five variables on a combined pool basis. The top row, shaded, shows the core model. Other rows show individual variations, with downside sensitivities lightly shaded and upside sensitivities unshaded:

Table 1.3.4a Impact on Core Model of 5 Variables – Combined Pool Basis

Combined (all ten Administering Authorities)		Breakeven year	Total 20 years net gain to FY36		Running annual rate of net saving in FY25	
			£m	Discounted value £m	£m	bps of AUM
Core model		FY23	550	280	27.8	8.9
Variable 1: fee savings	**- 2 bps pa saving**	FY24	387	188	20.5	6.5
	+ 2 bps pa saving	FY22	714	371	35.2	11.2
Variable 2: asset transition costs, incl tax	**+£15m on total transitional costs**	FY24	535	266	27.8	8.9
	- £15m on total transitional costs	FY22	565	293	27.8	8.9
Variable 3: + £1m pa Brunel Company running costs		FY23	526	263	26.6	8.5
Variable 4: transition delay		FY24	507	256	26.3	8.4
Variable 5: market asset performance	**Equity market crash in FY20**	FY23	458	228	23.5	8.7
	-1% pa (3% pa total)	FY23	441	219	24.6	8.6
	+1% pa (5% pa total)	FY23	680	352	31.3	9.2

The key conclusions emerging from the sensitivity analysis are as follows, including comments on mitigation:

- **The fee renegotiations will be critical to the overall results.** The core model targets an overall improvement in fee savings that leads to net savings, after operational costs, of 8.9 basis points (0.09%) by FY25. A reduction of 2 basis points (0.02%) in savings in variable 1 is the largest effect illustrated, impacting all three key metrics of running annual rate of net saving, breakeven and 20 year net gain.

- **Fee renegotiations are a largely symmetrical sensitivity.** Hence the upside potential on the three key metrics in variable 1 further emphasises the importance of successful fee negotiations.

- **Asset performance by the markets is crucial.** The more assets under the aegis of the Brunel company, the more pooling will deliver; conversely, a lower asset base will render pooling less beneficial. There is an element of a fixed cost being spread here, as evidenced by the annual running rate of saving in FY25, if expressed as basis points of AUM (assets under management), changing little between the three scenarios considered within variable 5. At a high level, investment performance by markets cannot be altered by the Brunel company: some mitigation may be possible through strategic asset allocation at the Administering Authority level. Ultimately, investment performance has balancing contribution implications that have not been modelled.

- **Transition delay should be avoided.** Delay by a year, variable 4, would outweigh the impact of £15 million higher asset transition costs, variable 2. This can be seen in both breakeven year and total gain over 20 years. Neither variable has much impact on the running annual rate of saving projected by FY25.

- **Asset transition costs including tax could push back the breakeven year.** The £15 million extra indicated just moves breakeven from FY23 to FY24, so that there would be a substantial gain by the end of FY24. There will be choice as to how much cost to incur: more radical asset reorganisation may be justified in terms of higher fee savings or higher performance expectations. However, action to pursue recognition of this impact and alternative arrangements for UK tax impacts should and will be pursued with Central Government to see if some of this variable can be mitigated.

- **Asset transition costs including tax are a broadly symmetrical sensitivity**. So the upside potential demonstrates that a saving is possible. There would be a concern that pursuing some saving could reduce the longer term effectiveness of portfolio construction.

- **Brunel company operating costs should be controlled**. If they changed by £1 million a year as illustrated by variable 3, they would have a somewhat greater impact on the 20 year net gain than transitional costs increasing by £15 million

The table on the following page expresses the impact of these five variables for the Devon Pension Fund only. Commentary is being provided in individual covering papers and the text of this document, other than for the table itself, is not being altered between Administering Authorities:

Table 1.3.4b Impact on Core Model of 5 Variables – Devon Pension Fund Only

Devon Pension Fund		Breakeven year	Total 20 years net gain to FY36		Running annual rate of net saving in FY25	
			£m	Discounted value £m	£m	bps of AUM
Core model		FY22	106.8	55.1	5.2	11.3
Variable 1: fee savings	**- 2 bps pa saving**	FY23	82.8	41.6	4.1	9.0
	+ 2 bps pa saving	FY22	131.0	68.7	6.3	13.6
Variable 2: asset transition costs, incl tax	**+£15m on total transitional costs**	FY23	104.4	52.9	5.2	11.3
	- £15m on total transitional costs	FY22	109.2	57.2	5.2	11.3
Variable 3: + £1m pa Brunel Company running costs		FY22	103.9	53.0	5.0	11.0
Variable 4: transition delay		FY23	98.6	50.6	4.5	9.9
Variable 5: market asset performance	**Equity market crash in FY20**	FY23	85.7	43.2	4.2	11.0
	-1% pa (3% pa total)	FY22	85.8	43.3	4.6	10.9
	+1% pa (5% pa total)	FY22	131.9	69.1	5.9	11.7

3.5 Future opportunities – risk mitigation

There is international evidence that investment at greater scale can provide opportunities to improve overall investment performance through a range of mechanisms, including risk mitigation. This has not been examined in the core model. Nonetheless, the potential can be seen by considering the core model sensitivity analysis: if the opportunity can be captured to the extent of just 5 basis points (0.05%), then the total net gain projected by FY36 would increase by approximately 60%.

3.6 Future opportunities – internal management

Additional analysis has been undertaken to assess the opportunities that may be available if the Brunel company undertakes internal management (i.e. undertaking dealings in individual stocks and other assets, in addition to making investments into Manager Operated Funds). A move to internal management could only happen with the consent of all the Administering Authorities based on circumstances at the time. It is therefore only a prospective and contingent opportunity at this point.

Subject to that, the Financial Case analyses the potential opportunities that may be offered by internal management, which in summary are greater savings owing to the potential substantial reduction in fees.

Any decision to move to internal management would require the case to be made that the fee savings would be accompanied by investment performance expectations remaining at least in line with those that external managers were providing. Such a case would be easier to make for some asset classes than others.

3.7 Core model – foundation of the Full Business Case

The core model, including the sensitivity analysis outlined above, is foundational to the FBC. It is this core model which should substantially inform a decision to proceed with the BPP investment pooling proposal.

This section of the FBC has dealt with the headline points relating to the core model, and sets out the main conclusions. Further and more detailed analysis is set out in the Financial Case.

4. ECONOMIC CASE

4.1 Introduction

The purpose of the Economic Case is to describe the options considered for investment pooling, and to provide evidence that the most economically advantageous approach to meet the Administering Authorities service needs on a value for money basis.

4.2 Options considered for the pooling entity

The Project Brunel initial proposal, submitted in February 2016, suggested a structure whereby a Collective Asset Pool would be overseen by a Joint Committee. This proposed structure was an alternative to an overarching Authorised Collective Scheme (**ACS**), which would have had additional complexities and costs of establishment and operation and would not have provided a structure consistent with all types of pooling

This proposed structure was later developed following the Secretary of State's March 2016 response. This required that a single and separate entity be at the heart of final pooling proposals, and that it should have responsibility for selecting and contracting with investment managers independently of Administering Authorities (which would retain responsibility for setting their detailed Strategic Asset Allocation). A further clear requirement set out in the Secretary of State's response was that the pooling entity must be FCA regulated.

The Secretary of State's response led to a discussion of how best to operate this entity, now conceptualised as the Brunel company. Two models were under consideration, being either to rent it from a commercial provider or for the Administering Authorities to build it and shape its structure and governance through a shared ownership arrangement.

A detailed analysis was carried out by PwC to consider the relative merits and limitations of each model, examining them against three groups of issues: accountability; procurement and staffing; and costs. The PwC analysis showed that the build model would have advantages over the rental model, especially on accountability. It would also generate less uncertainty around the future roles of investment officers.

It was recognised that the build model brought its own challenges, particularly around procurement and staffing. These are considered further in the Commercial Case section that follows. Overall, however, the build model was the preferred option under the PwC analysis.

4.3 Operational costs of the Brunel company

Whilst the Commercial Case examines a wide range of issues, the Economic Case evaluates how the Brunel company development and operational costs affect the Financial Case. The key point has been consolidated into the sensitivity analysis in the Financial Case: additional operational costs will need to be evaluated against the additional asset performance or fee saving they can generate.

PwC has identified that the most economic case would suggest that the Brunel company is situated in the Bristol area (a formulation which includes Bath). This followed analysis that compared several geographies, including London, Swindon, Taunton and Exeter, evaluating them under the headings of infrastructure, human resources and operational matters.

The Bristol area includes the largest city in the Brunel geography, with good transport links to the Administering Authorities and acceptable links to suppliers, notably those in London. Office space is relatively affordable and staffing implications, including remuneration levels, are favourable. In building up costs used in the core model therefore, indicative costs have been used for prices of accommodation in the Bristol/ Bath area.

5. COMMERCIAL CASE

5.1 Introduction

The purpose of the Commercial Case is to set out the proposed structural arrangements for the BPP. The focus is on relevant ownership, governance and contractual matters, and how these will serve the requirements of the BPP Administering Authorities.

5.2 Brunel Pension Partnership structure

The main structural components of the BPP are, in summary:

- **BPP Administering Authorities:** They will each retain sole responsibility for setting the detailed Strategic Asset Allocation for their Fund and allocating their assets to the investment portfolios provided by the Brunel company.

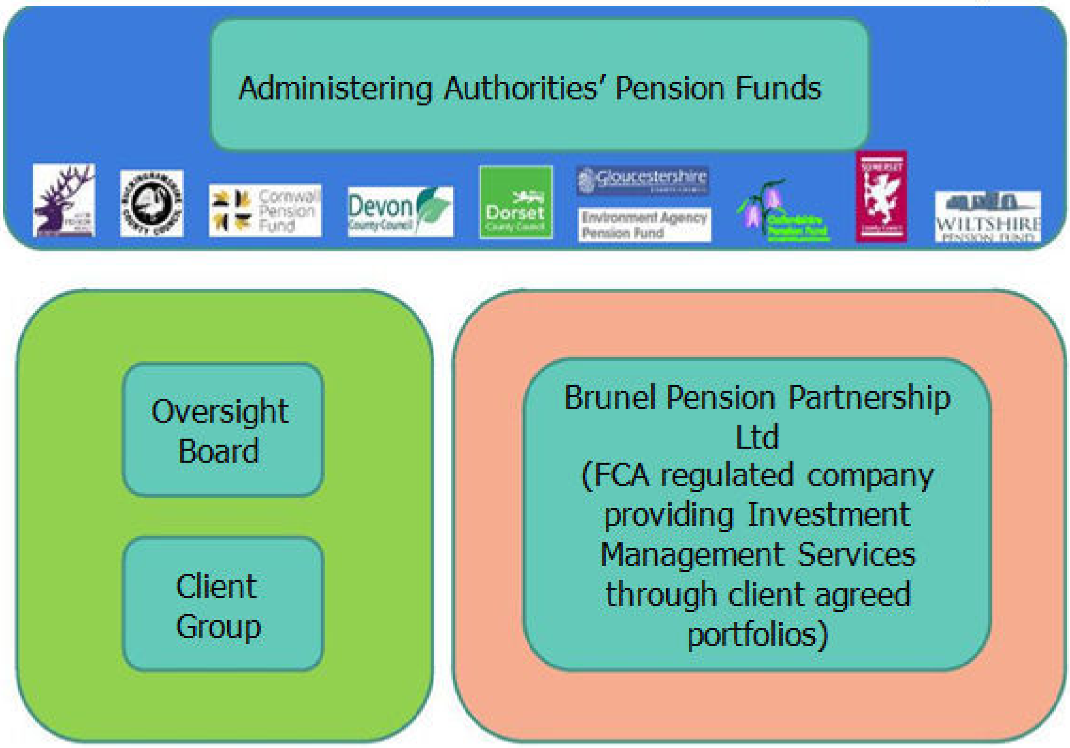
- **Brunel Pension Partnership Limited:** This will be a new FCA regulated company which will be wholly owned by the Administering Authorities. It will be responsible for implementing the detailed Strategic Asset Allocations of the BPP Funds by investing Funds assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers.

- **Oversight Board:** This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference (however, it will not be a Joint Committee under S102 LGA). Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that the Brunel company delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function.

  Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually. Further work on issues such as how this will operate, the Shareholder Agreement, and appointments will be clarified and brought back to each Administering Authority to approve at a later date.

- **Client Group:** This will be comprised primarily of pension investment officers drawn from each of the Administering Authorities. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function. In effect, it will provide a client-side link between the Oversight Board and the Brunel company, and will draw on Administering Authorities finance and legal officers from time to time.

The following illustration shows the key structural components of the Brunel Pension Partnership in diagrammatic form:



5.3 Governance arrangements

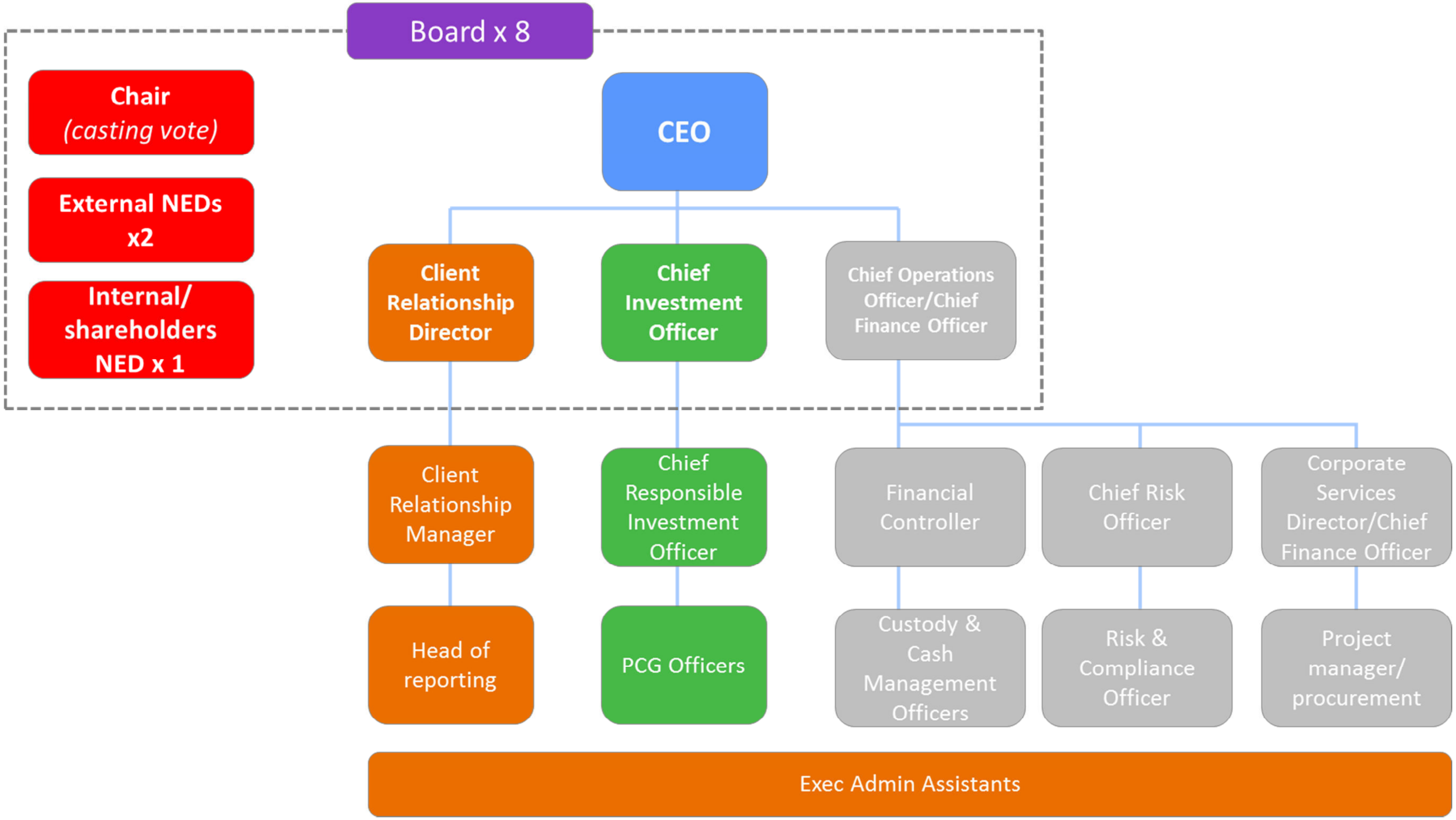
Much of the detail relating to the BPP's governance arrangements will be set out in three key documents: **Articles of Association** of the Brunel company; **Shareholders' Agreement** between the Administering Authorities; **Terms of Reference** for the Oversight Board. These documents will address issues such as powers of the company, shareholder control through reserved matters, exit arrangements and procedures of the company. The current proposals that are reflected in the commercial case are based on a first draft of documents produced by Osborne Clarke which are yet to be properly discussed and scrutinised. Osborne Clarke will advise on the drafting of these documents, working with Chief Legal Officers accordingly. The project timetable has an indicative time for these to be put in place of Spring 2017.

Standing behind these key documents will be the other requisite documents such as conflict of interest policy and terms of reference for the Brunel company's committees. Its FCA regulated status will require it to have high standards of internal governance and compliance, with a particular focus on risk management.

The proposed operating model for the Brunel company includes a board which will be made up of four non-executive directors (independent chair, plus two externally recruited non-executives and one shareholder representative non-executive), with three or four executive directors (chief executive officer, chief finance/operations officer, chief investment officer and (yet to be confirmed) client relationship director). Various committees (audit, remuneration, risk and compliance) will be required, as will other statutory roles, such a company / board secretary.

This board will be responsible for three business units, which will relate to the following: investments (including responsible investments), operations and finance (including risk and compliance), and client relationships (including reporting). A programme of external and internal recruitments will be implemented to ensure that the senior and other supporting roles are staffed by suitably qualified and experienced personnel.

The operational structure diagram below set outs the proposed high level operating structure of the Brunel Company.


Board x 8
Chair
(casting vote)
External NEDs x2
Internal/ shareholders NED x 1
CEO
Client Relationship Director
Chief Investment Officer
Chief Operations Officer/Chief Finance Officer
Client Relationship Manager
Chief Responsible Investment Officer
Financial Controller
Chief Risk Officer
Corporate Services Director/Chief Finance Officer
Head of reporting
PCG Officers
Custody & Cash Management Officers
Risk & Compliance Officer
Project manager/ procurement
Exec Admin Assistants

5.4 Contractual arrangements

The contractual relationship between the Administering Authorities and the BPP will be set out in a comprehensive **Services Agreement.** It will define the investment pooling and related services which the Brunel company will perform, and the contractual terms which will apply to the delivery of those services.

The core contractual obligation of the Brunel company will be to define and set up portfolios reflecting the detailed Strategic Asset Allocations of the BPP Administering Authorities, and to select investment managers who are capable of operating suitable Manager Operated Funds for each portfolio. The Brunel company will be required contractually to maintain its FCA regulated status.

In support of that core contractual obligation, the Brunel company will offer a number of subsidiary services to the Administering Authorities. These services will cover such matters as custody and investment administration, financial performance reporting, responsible investment, investment research, investment accounting, risk management, transition management, cash management, etc. Where appropriate and necessary, the Brunel company will contract with third party service providers to procure services that will not be provided internally (e.g. custody, transition management, HR services).

5.5 Brunel company and procurement issues

A legal review has concluded that a decision by the Administering Authorities to enter into the Services Agreement, and thereby procure the services of the Brunel company, will be exempt from the application of the public contract procurement procedures (as set out in the Public Contracts Regulations 2015). This legal review was undertaken by Osborne Clarke, and included obtaining a legally privileged opinion from Leading Counsel (a QC) who specialises in procurement law. The Osborne Clarke advice and the QC opinion have been provided to Chief Legal Officers.

5.6 Brunel company and FCA authorisation

In order to meet this core contractual obligation the Brunel company will need to be FCA regulated. A key consideration in that respect is being clear on the FCA permissions that will be required, taking into account the Brunel company's activities. A legal review has concluded that there is a very strong likelihood that the BPP will involve the creation of a Collective Investment Scheme, with the Brunel Company acting as the operator. This legal review was undertaken by Osborne Clarke, and included obtaining an opinion from Leading Counsel (a QC) who specialises in FCA regulatory law. The Osborne Clarke advice and the QC opinion have been provided to Chief Legal Officers.

The project timetable allows for the appropriate permissions to be obtained from the FCA. The Brunel company will be required contractually to maintain its FCA regulated status, and as such its board of directors will have to maintain compliance with the FCA's applicable rules and procedures for a regulated entity carrying out activities of the type envisaged.

5.7 **Personnel implications**

A legal review by Osborne Clarke of the relevant employment law has reached an initial conclusion that the Transfer of Undertakings (Protection of Employment) Regulations 2006 **("TUPE")** will not apply if employees currently employed in the pension functions of any of the Administering Authorities move to the Brunel company as a result of any selection and employment process. The position on TUPE will be confirmed when any employee migration from an Administering Authority to the Brunel company takes place.

The Cabinet Office Guidance on Staff Transfers in the Public Sector **(COSOP)** sets out a framework for TUPE-style protections to be afforded to employees involved in public sector reorganisations, in circumstances where there is not a relevant transfer within the meaning of the TUPE legislation. While local authorities are not legally bound to observe COSOP, it is intended that, so far as possible, the principles of COSOP will be adhered to.

In summary, subject to the detailed legal advice, it is envisaged at this stage any employees who move from employment with an Administering Authority to the Brunel company will receive TUPE-equivalent protection.

5.8 **Risk allocation**

Under the BPP structure, the Administering Authorities will retain the key investment risk of designing the detailed Strategic Asset Allocation for their Fund. Taking that into account, the Brunel company will provide to the Administering Authorities the key investment management services of selecting, appointing and monitoring the investment managers operating the various Manager Operated Funds. Related services, also provided by the Brunel company, will include such matters as custody, performance reporting and transition management services.

While as noted the key investment risk will be retained by the Funds, it is apparent that the Brunel company will take on a contractual risk for providing investment management and related services to the Administering Authorities. Previously, the tasks of selecting, appointing and monitoring fund managers has been undertaken by local pension funds, with input from external professional advisers where necessary.

Where relevant services cannot be provided by the in-house resources of the Brunel company third party service providers will be appointed (for example, providers of custody, performance analytics, data management and investment accounting services). To that extent, the risk transfer to the Brunel company will be mitigated by the appointment of third party service providers.

The directors of the Brunel company will owe the normal fiduciary and other duties that any director owes to an FCA regulated company. Additionally, all staff will owe contractual duties to the Brunel company as their employer, and as set out in their individual employment contracts. During the next development phase the use of possible risk mitigation arrangements, including Directors' & Officers' liability insurance and Professional Indemnity insurance, will be investigated and agreed.

5.9 Charging mechanism

In the Financial Model, Brunel company costs are assumed to be split between the ten Administering Authorities using an equitable approach to cost sharing. This allows for approximately half of the costs to be split equally between the ten Administering Authorities and the remainder to be split in proportion to assets under management. This modelling is intended to capture the ultimate reality of Brunel company operation, when the pricing policy for its services is likely to contain both fixed and marginal elements.

The charging mechanism that will actually apply when the BPP becomes operational will be decided after taking into account a range of alternative charging methodologies, and will be determined by agreement between the Administering Authorities.

5.10 Development costs and implementation timescale

Under the project timetable the indicative time for the Brunel company to be set up with appropriate ownership and governance arrangements is Spring 2017. Work on the development of its operational capability will continue in the interim period.

The Memorandum of Understanding (MoU) agreed between the Administering Authorities in September 2015 stated that the Brunel project development costs would be split equally between the participating funds (i.e. a tenth each). It has cost £1.2m (£0.12m per fund) to take matters to the FBC stage, including the preceding Strategic and Outline Business Cases (submissions to Government in February and July).

A new MoU has been drawn up and reviewed by the Finance and Legal Assurance Group (to be ratified by the Shadow Oversight Board), to cover the period from December 2016 until the permanent Brunel company arrangements are in place. This update will refresh arrangements on collaborative working, decision-making and cost allocation during that period. The MoU includes provision for charging the time of officers assigned to BPP project roles. Up to this point the cost of such officer time has been absorbed by each Administering Authority.

Development costs will continue to be allocated to Administering Authorities on an equal share basis. The initial projected future development costs up to April 2018 are £3.3m (£0.33m per fund). This includes working and regulatory capital for the Brunel company of £2.0m (£0.2m per fund). Any change in the development budget will be subject to approval by Administering Authorities. The Brunel company will also have operating costs as it builds capability from its inception in 2017, which will be invoiced separately.

6. MANAGEMENT CASE

6.1 Introduction

The purpose of the Management Case is to describe how the BPP proposal will be delivered successfully. The focus is on effective project management during the next phase, including proposals for addressing relevant risks for the Administering Authorities and the successful delivery of the challenges of change management for a project of this nature.

6.2 Project management arrangements

The level of project management resource required to ensure the successful delivery of the BPP proposal will be kept under regular review. The next development phase is likely to be demanding with a significant amount of work to be done on a range of matters. These will include setting up the Brunel company's governance and contractual arrangements, addressing all relevant operational matters including staff recruitment, and preparing for submission of the FCA application.

A particular challenge will be ensuring that these tasks can be delivered in parallel with the appointment of the Brunel company's leadership team, including the Chair. The permanent staff appointments will take place throughout the remainder of the project, so the project structure will evolve during the lifecycle of the project. They will be key in providing continuity of leadership and direction while other resource changes are underway.

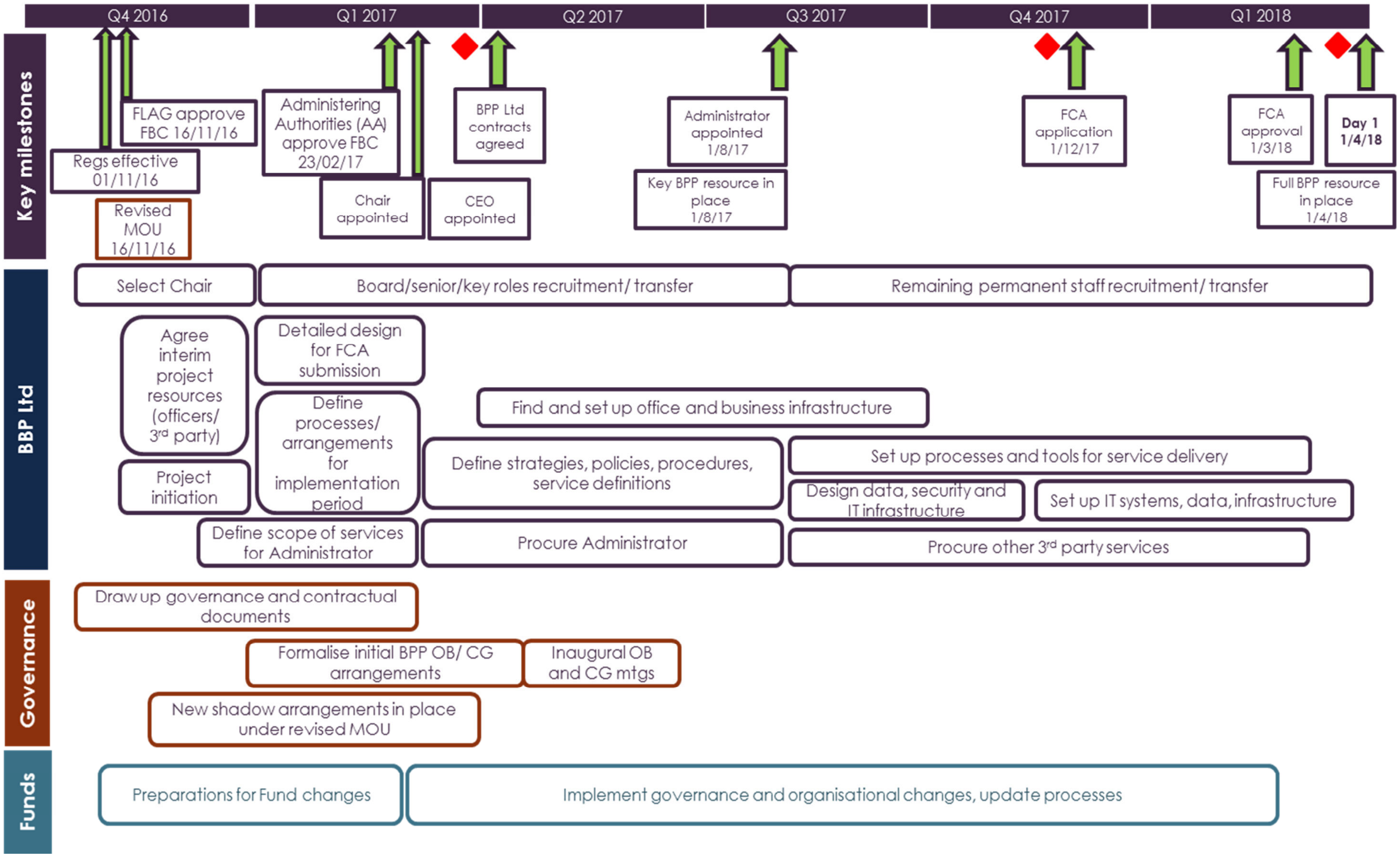
Any non-permanent assignments of officers to support the Brunel company set-up and resourcing will be progressed on an interim basis.

Conflicts of interest may emerge, and if so they will be carefully managed by establishing clear accountabilities and resource allocation.

The following diagram provides an indicative overview of the programme activities and the key milestones:

Brunel Pension Partnership – Stage 3b: implementation PLAN 1 - Key decision points and high level activities

◆ = formal review points



6.3 Benefits realisation and risk management

The delivery of the expected benefits of pooling will be through the operation of the Brunel company and the services it delivers to the Brunel Funds. It will be monitored by the Oversight Board and Client Group, using the reporting activities provided by the Brunel company.

A comprehensive risks register is already in place and will continue to be maintained by the Project Office. The risks will be further categorised to identify those risks directly to the Funds and those directly applicable to the Brunel company. The risks will be reported to the programme and project management teams through regular status reports. Very high risks or those requiring urgent action to manage will be escalated as needed. A summary of the risks and a copy of the risk register is attached at Annex 2.9.3a and 2.9.3b.

6.4 Project milestones and gateways

Meetings of the Brunel Administering Authorities are scheduled to take place between 2 December 2016 and 23 February 2017. At these meetings Resolutions for in principle decisions to approve investment pooling will be considered, with appropriate delegations being granted to progress the next development phase. The approval by Administering Authorities of these Resolutions will mark a key milestone in the establishment of the BPP investment pool.

Further formal reviews that the project has progressed in line with the provisions agreed in the FBC will be held prior to the key milestones. These include the appointment of the Brunel company Chair (early 2017), set-up of the Brunel company and agreement of the key shareholder and other corporate documents (by Spring 2017), submission of the Brunel company's FCA application (by November 2017), and operational readiness for commencement of pooling (by April 2018).

Project Title: Project Brunel
Brunel Pension Partnership
Full Business Case
Annex 2.9.3a [for PC] [Annex 2 for Council / Board]
Risk Register Summary

The Brunel Pension Partnership has created a formal risk register for the project and has assessed 31 risks with each being classified using a standard methodology; assigning a score of 1-5 in both Impact and Likelihood of each risk creating 5 levels of risk from very low to very high. The scoring criteria is provided below.

The individual risks can be viewed in the following ways:

Risk Category	Risk group	Timescale to realise target risk score	Risk Score
Our integrity	Pool Structure and Sustainability	4 months (end FBC review period)	Very low
Capacity to deliver	External drivers	9 months (Brunel company key appointments completed)	Low
	Resources and skills	12 months (FCA application)	Medium
	Governance	Stage 3b (programme implementation period)	High
	Assets and performance	Stage 3b & 4	Very high
		Stage 4 (transition of assets period)	

The number of risks from each category is shown in the table below.

Risk Count	Category	VH	H	M	L	VL	Total
Current	All	0	14	15	2	0	31
Target	All	0	0	10	18	3	31
Risk Count	**Timescale to realise target risk score**	**VH**	**H**	**M**	**L**	**VL**	**Total**
Current	4 months	0	3	3	0	0	6
Target	4 months	0	0	2	4	0	6
Current	9 months	0	1	0	0	0	1
Target	9 months	0	0	0	1	0	1
Current	12 months	0	1	1	0	0	2
Target	12 months	0	0	1	1	0	2
Current	Stage 3b	0	5	7	1	0	13
Target	Stage 3b	0	0	5	5	3	13
Current	Stage 3b&4	0	1	2	1	0	4
Target	Stage 3b&4	0	0	1	3	0	4
Current	Stage 4	0	3	2	0	0	5
Target	Stage 4	0	0	1	4	0	5
Risk Count	**Risk Category**	**VH**	**H**	**M**	**L**	**VL**	**Total**
Current	Our integrity	0	5	8	0	0	13
Target	Our integrity	0	0	2	9	2	13
Current	Capacity to Deliver	0	9	7	2	0	18
Target	Capacity to Deliver	0	0	8	9	1	18
Risk Count	**Risk Group**	**VH**	**H**	**M**	**L**	**VL**	**Total**
Current	Pool Structure and Sustainability	0	3	2	0	0	5
Target	Pool Structure and Sustainability	0	0	1	4	0	5
Current	External Drivers	0	1	2	1	0	4
Target	External Drivers	0	0	0	4	0	4
Current	Resources and Skills	0	5	3	1	0	9
Target	Resources and Skills	0	0	4	4	1	9
Current	Governance	0	2	4	0	0	6
Target	Governance	0	0	2	3	1	6
Current	Assets and Performance	0	3	4	0	0	7
Target	Assets and Performance	0	0	3	3	1	7

The details of all the risks are provided below, including the mitigating actions that are being taken to reduce or manage the risks to an acceptable level. During the development of the full business case very high risks have been mitigated. There are currently 14 high risks. The mitigating actions identified aim to reduce all the high risks.

The 3 high risks that need to be reduced by the time the AAs become shareholders of the Brunel company 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

The 2 high risks that need to be reduced in the next 9 – 12 months:
• Resources and Skills: key resources in funds become unavailable
• Resources and Skills: funds are unable to retain or recruit staff

The 5 high risks that need to be reduced by the time Brunel company is fully operational and ready to start transitioning assets are:
• Pool Structure and Sustainability: proposal is rejected by one or more administering authorities
• Pool Structure and Sustainability: 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
• Resources and Skills: BPP Ltd is unable to recruit or retain staff

The remaining four high risks will need to be reduced either during stage 3b and or stage 4:
• Governance: the pool does not meet its liabilities and/or does not deliver on the SLA with a fund or funds
• Assets and performance: cost benefit ratio not achievable in pool
• Assets and performance: transition management is ineffective or excessive in costs
• Assets and performance: increased investment with "large" managers squeezes out smaller fund managers from market

The risk grids for current risk scores and target risk scores are shown below indicating the number of risks in each risk group that fall within the 25 possible outcomes of assessing likelihood and impact of risk.

CURRENT RISK SCORE

Impact		Likelihood 1	Likelihood 2	Likelihood 3	Likelihood 4	Likelihood 5
5	PSS	1	2			
	ED					
	RS					
	G	1	1	1		
	AP					
4	PSS		1	1		
	ED	1	2	1		
	RS			5		
	G		1			
	AP		1	3		
3	PSS					
	ED					
	RS		1	2		
	G		1	1		
	AP		2	1		
2	PSS					
	ED					
	RS					
	G					
	AP					
1	PSS					
	ED					
	RS			1		
	G					
	AP					

TARGET RISK SCORE

Impact			Likelihood 1	Likelihood 2	Likelihood 3	Likelihood 4	Likelihood 5
Impact	5	PSS	1				
		ED					
		RS					
		G					
		AP					
	4	PSS	3				
		ED					
		RS					
		G					
		AP					
	3	PSS	1				
		ED	3				
		RS		3	1		
		G	1	2			
		AP		3			
	2	PSS					
		ED		1			
		RS		4			
		G	1	2			
		AP	1	3			
	1	PSS					
		ED					
		RS	1				
		G					
		AP					

Project Brunel risk scoring

Likelihood scoring

Score	Description	Estimated probability	History
5	**Very high**	More than 80% chance of occurring.	A regular occurrence, circumstances found frequently.
4	**High**	51 - 80% chance of occurring.	Has occurred from time to time and may do so again in the future.
3	**Medium**	21 - 50% chance of occurring.	Has occurred previously but not often and may have been in a limited way.
2	**Low**	6 - 20% chance of occurring.	Has only happened in a very limited way.
1	**Very low**	Less than 5% chance of occurring.	Has rarely or never happened.

Impact scoring

Score	Description	Our integrity	Capacity to deliver
5	**Very high** Requires almost total management attention to manage.	o Serious operational failure/disruption - > 1 month recovery.	o Total failure to achieve aims/objectives.
		o Long term effect and difficult and/or expensive to recover.	o Prevents continuing with "business as usual".
		o Prolonged national attention and media coverage.	o Financial impact on assets/liabilities > £100m
		o Substantial reputation damage.	o Massive intellectual impact linked to impairment to key people/skills/judgement/time
		o Serious stakeholder concern.	o Massive increase in cost of servicing funds - staff related costs/use of advisors/IT.
		o Serious fraud, corruption or irregularity.	o National Audit Office qualifies the accounts.
4	**High** Requires major effort in terms of resource, time and urgency to manage.	o Significant operational failure/disruption - =< 1 week recovery	o Significant impact on the achievement of aims/objectives
		o Medium to long term effect and difficult and/or expensive to recover.	o Significant damage to ability to continue "business as usual".
		o Prolonged internal attention (including corporate) with specialist pension media coverage.	o Financial impact on assets/liabilities > £30m
		o Significant reputation damage.	o Substantial intellectual impact linked to impairment to key people/skills/judgement/time
		o Significant stakeholder concern.	o Substantial increase in cost of servicing funds - staff related costs/use of advisors/IT.
		o Moderate fraud, corruption or irregularity	o National Audit Office Management Letter identifies issues.
3	**Medium** Requires some immediate resource commitment to manage.	o Moderate operational failure/disruption - =< 24 hours recovery	o Moderate impact on the achievement of aims/objectives.
		o Medium term effect which may be difficult and /or expensive to recover.	o Moderate damage ability to continue "business as usual".
		o Prolonged internal attention with brief media coverage.	o Financial impact on assets/liabilities > £10m
		o Some reputation damage.	o Moderate intellectual impact linked to impairment to key people/skills/judgement/time
		o Moderate stakeholder concern.	o Moderate increase in cost of servicing funds - staff related costs/use of advisors/IT.
		o Some fraud, corruption or irregularity.	o National Audit Office comment on the accounts.
2	**Low** Requires some non-urgent resource commitment to manage.	o Minor operational failure/disruption - =<1 hour recovery	o Minor impact on the achievement of aims/objectives.
		o Short to medium term effect.	o Manageable inconveniences to "business as usual".
		o Attention within local operations; no media coverage.	o Financial impact on assets/liabilities > £3m
		o Minor reputation damage.	o Small intellectual impact linked to impairment to key people/skills/judgement/time
		o Minor stakeholder concern.	o Small increase in cost of servicing funds - staff related costs/use of advisors/IT.
1	**Very low** No or minimal resource impact.	o Insignificant operational failure/disruption.	o No/minimal impact on the achievement of aims/objectives.
		o Minor or no effect.	o Does not damage ability to continue "business as usual".
		o Does not damage ability to continue "business as usual".	o Financial impact on assets/liabilities > £1m
		o Contained within the business unit.	o Minimal or no intellectual impact linked to impairment to key people/skills/judgement/time
		o No/minimal stakeholder concern.	o Minimal or no increase in cost of servicing funds - staff related costs/use of advisors/IT.