

## LGPS POOLING OF INVESTMENTS

### Report of the County Treasurer

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

- Recommendations:**
- (a) That progress on the Brunel Pension Partnership full business case be noted.**
  - (b) That the County Treasurer, in consultation with the Chairman, writes to the Department of Communities and Local Government raising concerns around the delays in the laying of the new Investment Regulations.**

## 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, significant work has been undertaken to set up the Brunel Pension Partnership comprising ten LGPS Funds.
- 1.2. As required by Government an initial joint submission from the ten Brunel funds was made in February, and a further more detailed response was made in July. The July submission was in effect an outline business case, and work is now continuing on putting together a more detailed business case for each of the ten funds to consider in November/December.
- 1.3. This report updates the Committee on current progress.

## 2. Progress on Detailed Business Case

- 2.1 A number of workstreams are taking forward the work that needs to be completed for the outline business case:
  - **Workstream 1 - Structure process and people** – this will define the resources needed by the Brunel Company to operate, including directors, staffing structures and external resources. It will specify the services that Brunel will provide to the participating funds, and outline recruitment processes and the location for the company. Each of the ten participating LGPS funds will hold 10% of the shares of the new company.
  - **Workstream 2 - Portfolio cost allocation and asset transition** - initial work was done on the portfolios, potential savings and transition plan as part of the July submission. This will now be broken down into more detail, with costs and savings calculated for

each participating LGPS fund, so that the business case shows the costs and benefits for each individual fund, not just in aggregate for the pool.

- **Workstream 3 - Infrastructure** – this involves collaboration with the other pools to look at how opportunities for investment in infrastructure can be accessed.
- **Workstream 4 - Internal Management** – this is examining the current internal provision of passive management of equities within the Somerset and Dorset funds and whether this can be incorporated into the Brunel Pension Partnership.
- **Workstream 5 - Monitoring and reporting** – this workstream is defining the reporting that will be provided from Brunel to each of the participating funds.

- 2.2 The intention is that the full business case will be ready by the end of October for approval by each of the funds during November and December. In advance of completion of the business case there will be a further opportunity for the Committee and the Pension Board to engage with the process at an event organised jointly with the Cornwall, Dorset and Somerset Funds at Exeter Racecourse on Friday 7 October. The other Brunel funds are holding similar joint events in Keynsham and Oxford.
- 2.3 The current estimated cost of the work to produce the full business case is £625,000. This includes the costs of project support, investment, legal and regulatory consultancy work. The total cost of the project within the 2016/17 financial year, including the work already completed on the July submission and initial work on setting up the Brunel company from January onwards is forecast to be in the region of £984,000. This cost will be split equally between the ten participating funds, and hence the Devon Fund will incur 10% of these costs.
- 2.4 Following approval of the full business case, it is envisaged that the new company will be established in early 2017. It will then work on putting in place the staff and resources required to gain FCA approval, in order to commence full operation in 2018. The first assets will be transitioned as soon as possible after April 2018.

### 3. Investment Regulations

- 3.1 In November 2015, in conjunction with the pooling guidance, the Government published new draft LGPS investment regulations for consultation. The draft regulations provided powers for the Secretary of State to intervene in certain circumstances, with particular emphasis on forcing funds to pool their investments where they failed to meet the expectations of the Government's pooling agenda. The initial expectation was that the new regulations would be in place by April 2016, with the requirement that funds put in place a new Investment Strategy Statement by October 2016.
- 3.2 However, there was significant response to the consultation, including an on-line petition that has exceeded the 100,000 responses required for consideration to be given to a debate on the issue in Parliament. The main focus of the responses has been around the Secretary of State's powers to intervene, particularly where LGPS funds decide to ban certain investments contrary to UK foreign policy.

- 3.3 While it is right that these issues are fully debated, it is also vital for progression of the pooling agenda that the new regulations are put in place, as they provide the legal framework for the pooling of investments to take place. The letter attached at Appendix 1, signed by the Chairs of each of the Brunel funds was submitted to the Department of Communities and Local Government in August.
- 3.4 It is proposed that the Devon Fund should also write to the Department of Communities and Local Government raising the concerns around the delays in laying the new Investment Regulations, as set out in the Brunel letter.

#### **4. Conclusion**

- 4.1 Work on the detailed full business case for the Brunel Pension Partnership is progressing well. The business case will be presented to the Devon Committee on 18 November for formal approval, before the project moves on to the implementation of the proposals.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

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## Brunel Pension Partnership

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Minister for Local Government  
DCLG  
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Our Reference : Brunel Pension Partnership Project Office  
Date : 16 August 2016

*Copied to John Glen MP  
Rt Hon Sajid Javid MP  
Rt Hon Phillip Hammond MP*

Dear Marcus

**Local Government Pension Scheme Reform:** Draft Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the new Investment Regulations)

The nine Local Authority Funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire and the Environment Agency Pension Fund (collectively the Funds) are actively participating in the LGPS asset pooling proposal for Brunel Pension Partnership (BPP). The Funds wish to ensure it can successfully deliver to the new Investment Regulations, currently in draft form, and provide value to all our scheme members and employers. The BPP proposal clearly shows the intent (subject to each Fund's decision on a full business case later in this financial year) to deliver a permanent FCA regulated structure (the Brunel company), committed to the highest standards of governance in order to meet the investment strategy needs of each fund in a cost effective and efficient manner.

However, as Chairs of each Fund's Pension Committee we have the following specific concerns:

1. The timeframe set out by the government to establish the FCA structure by 1 April 2018 is particularly challenging given the requirement for administering authorities to approve the full business case and the establishment of an FCA regulated company.

The delay in having the new Investment Regulations in place is a serious risk which administering authorities will have to consider at the point when the full business case is ready for approval, which in itself is a substantial undertaking. Following discussions with Councils' Monitoring Officers and the Environment Agency's Director of Legal Services, we have concluded that each administering authority will find it very difficult to consider and approve the full business case and proposal to set up the Brunel company if the regulatory framework

remains uncertain. Given the weighty and financially significant nature for administering authorities of the pooling proposals, such regulatory uncertainty would seriously undermine the legal basis for taking the decision to proceed. We are not convinced that a 'comfort letter' from DCLG will be sufficient as that would still leave a large measure of uncertainty.

The cost of establishing the Brunel company is significant, and in this respect it is difficult to justify further spending unless absolute assurance can be given over the timetable for parliamentary approval of the new Investment Regulations. This is now of significantly greater concern given the key challenges the government faces following the decision to leave the EU. Can you therefore confirm that the new Regulations will certainly be laid in the Autumn of 2016, no later than November 2016? If this is not to be the case when will the Regulations be in place?

2. As stated above, significant costs are being incurred in delivering this project, and as we progress to the full business case the costs are increasing substantially. Assuming approval of the full business case, further costs will be incurred with the next phase development of the Brunel company in readiness for transition of assets to start in April 2018. Apart from the obvious costs arising from internal management time and external professional fees, there will be other costs such as underwriting the company's capitalisation and risk requirements. Any delays brought about by regulatory uncertainty will have the effect of increasing costs as the project planning will slip, with consequential inefficiencies and strain on our delivery of what is required.

With these points in mind, can you provide assurance that any additional cost burdens on the administering authorities, brought on by delay in finalising the new Investment Regulations, would be funded by government? If this is not the case then there is a material risk that the entire project will have to be put into exception (i.e. all work would be put on hold pending full clarity on the regulatory framework being provided, including the Criteria and Guidance).

Clearly these matters are of pressing significance to the administering authorities in enabling them to make timely and effective decisions.

We look forward to receiving your response as a matter of some urgency.

Yours sincerely,

*Chairs of Pension Committees for:*

Avon                      Councillor David Veale      Signature:

Buckinghamshire      Councillor John Chilver      Signature:

Cornwall                Councillor Derek Holley      Signature:

Devon                    Councillor Rufus Gilbert      Signature:

Dorset                    Councillor John Beesley      Signature:

Environment Agency      Mr Clive Elphick              Signature:

Gloucestershire      Councillor Ray Theodoulou      Signature:

Oxfordshire              Councillor Stewart Lilly      Signature:

Somerset                Councillor Graham Noel      Signature:

Wiltshire                Councillor Tony Deane      Signature: