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.

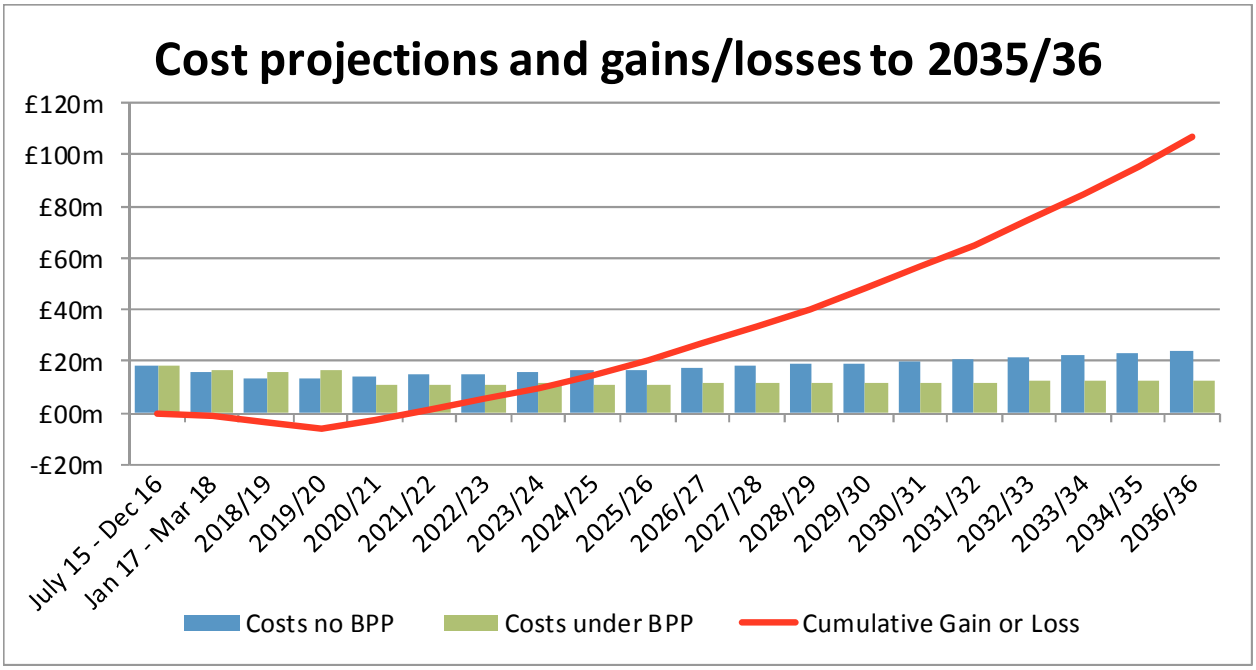
3. Devon Pension Fund Costs and Benefits

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
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Appendix 1

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:	**Equity market crash in FY20**	FY23	458	228	23.5	8.7
market asset performance	**-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:	**Equity market crash in FY20**	FY23	85.7	43.2	4.2	11.0
market asset performance	**-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

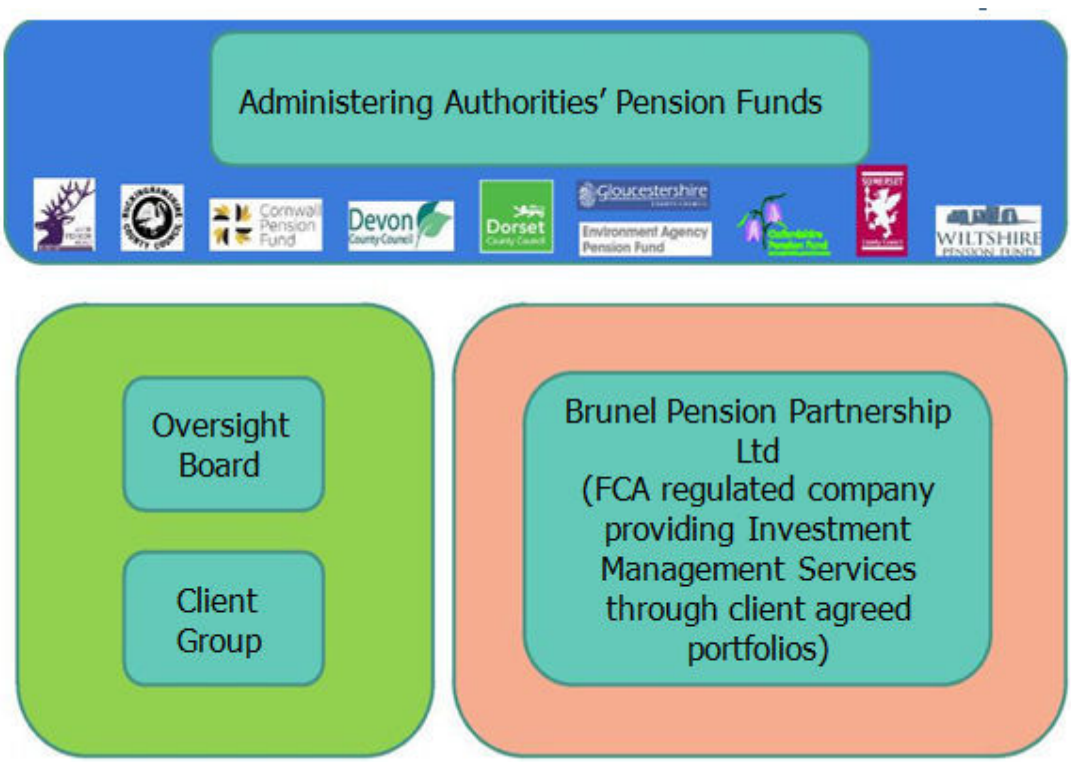
of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers.

- **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.

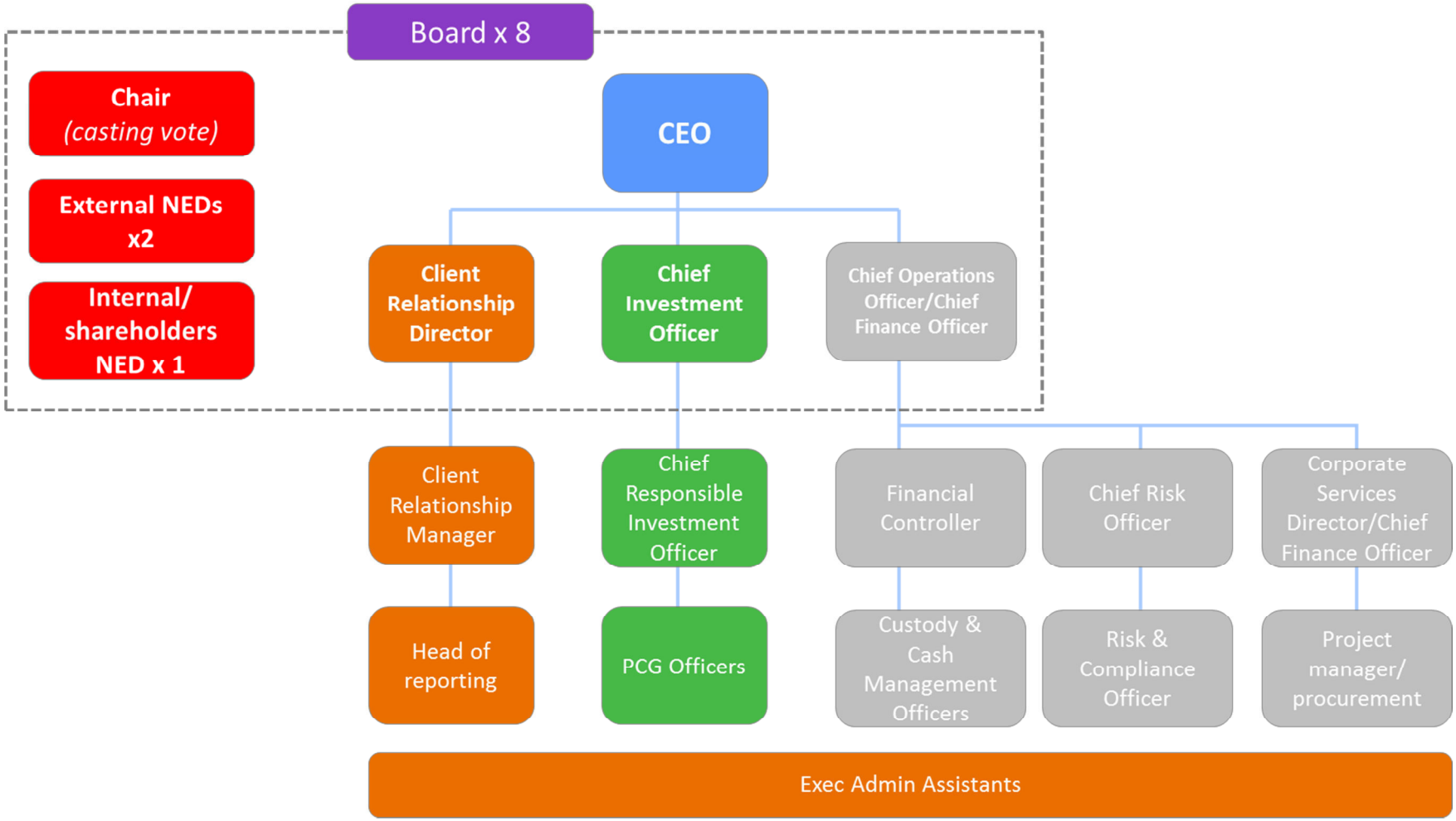
Standing behind these key documents will be the other requisite documents such as conflict of interest policy and terms of reference for the Brunel company's committees. Its FCA regulated status will require it to have high standards of internal governance and compliance, with a particular focus on risk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

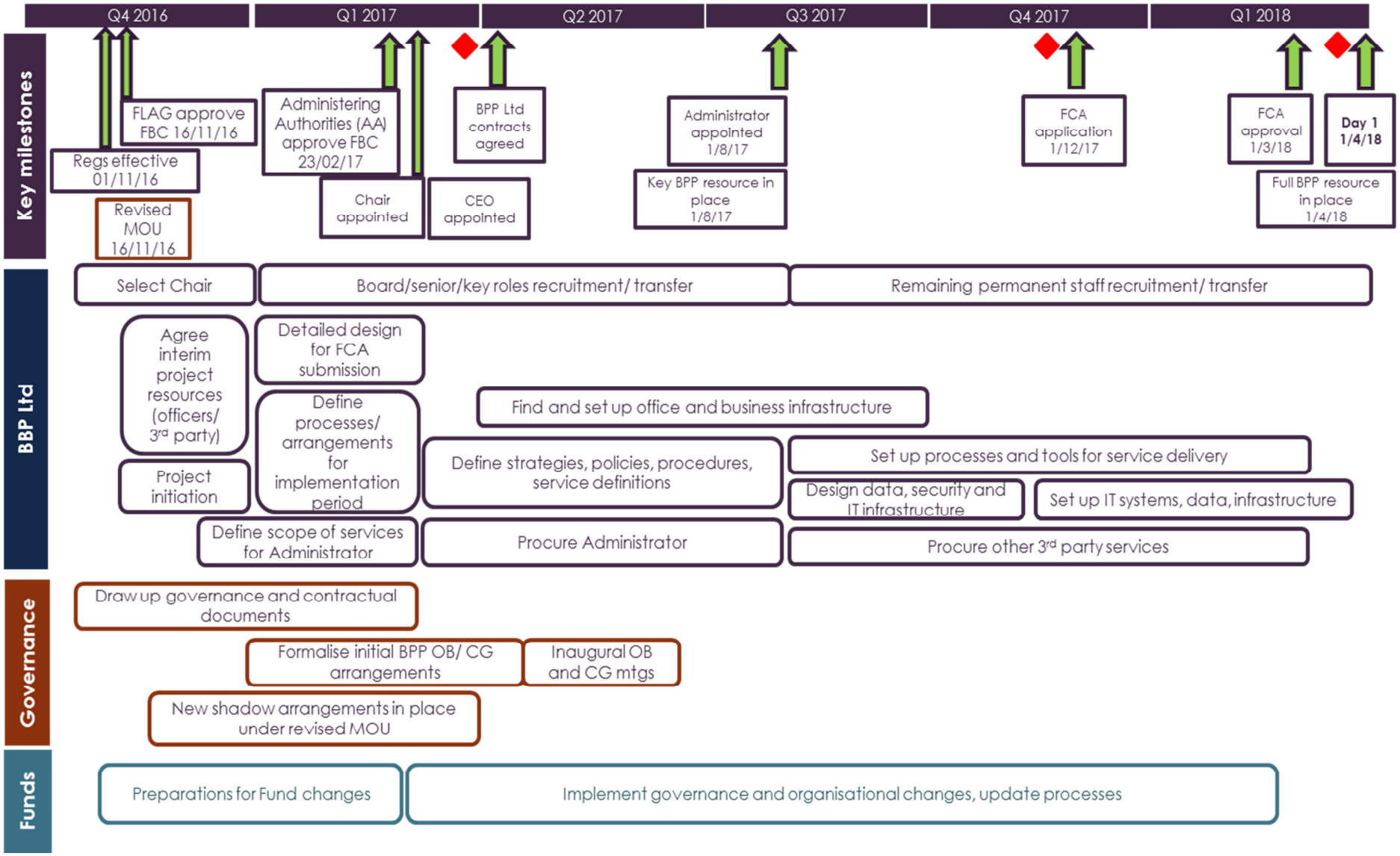
during the lifecycle of the project. They will be key in providing continuity of leadership and direction while other resource changes are underway.

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							
	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	0				
		ED	0				
		RS	0				
		G	0				
		AP	0				
	1	PSS	0	0			
		ED	0	0			
		RS	0	0	1		
		G	0	0			
		AP	0	0			
			1	2	3	4	5
			Likelihood				

TARGET RISK SCORE

Impact							
	5	PSS ED RS G AP	1				
	4	PSS ED RS G AP	3				
	3	PSS ED RS G AP	1 3 1	3 2 3	1		
	2	PSS ED RS G AP	0 0 0 1 1	1 4 2 3			
	1	PSS ED RS G AP	0 0 1 0 0	0 0 0 0 0			
			1	2	3	4	5
			Likelihood				

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 managemen t 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.