

BRUNEL PENSION PARTNERSHIP – PROGRESS REPORT

Report of the County Treasurer

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

Recommendations: (i) That the Devon representative on the Brunel Pension Partnership Oversight Board and the Devon shareholder representative for the Brunel Pension Partnership Limited company be appointed at the Devon County Council Annual Meeting on 25 May 2017.

(ii) That the Committee notes the progress with establishing the Brunel Pension Partnership Limited company

1. Introduction

- 1.1. At the Investment and Pension Fund Committee meeting on 2nd December 2016 the Committee approved the full business case for the setting up of a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited (BPP Ltd.). This was then ratified by Council on 8th December 2016.
- 1.2. In addition to Devon's approval, the full business case had also been approved by 6 of the other 9 participating administering authorities as at the 15th February. The other three authorities, Bath and North East Somerset (Avon Pension Fund), Buckinghamshire and Wiltshire will have held their meetings by the 24th February, and the outcome of those meetings will be reported at the Committee.
- 1.3. This report outlines the further work that is now underway to form the company, and the decisions that will be required over the next four months.

2. Recruitment of the Company Board

- 2.1 The first step in forming the new company is to begin the process of appointing the board. Korn Ferry, an executive search agency, have been appointed to carry out recruitment processes, and have embarked on the initial task of organising the recruitment of the Chair and 2 external Non-Executive Directors. An advertisement was placed in the Sunday Times on 16th January, with a deadline for applications of 30th January.
- 2.2 The applications received are now being evaluated and it is envisaged that the Chair will be appointed during March, and two Non-Executive Directors will be appointed in April / May. A panel drawn from the Shadow Oversight Board and the Finance and Legal Assurance Group

will undertake the final interview process, advised by Korn Ferry and Pricewaterhouse Coopers (PwC).

- 2.3 The next step will then be to recruit the Chief Executive Officer. This is a vital role and the newly appointed Chair will need to play a key part in the recruitment process. It is envisaged that this will take place during May. Recruitment of other operational directors and staff will then follow.
- 2.4 A key aspect of the recruitment of the Board and key staff will be the contractual arrangements for the appointments, and the company's remuneration policies. These will need to be signed off as the recruitment process progresses. One of the issues to be determined is whether BPP Ltd. should be an admitted body in the LGPS. This will be part of the decision on the remuneration packages for staff and will also be influenced by whether TUPE considerations / principles apply to any staff that may be appointed from the current administering authorities. If BPP Ltd. does become an admitted body then a decision will be required as to which Fund admits them.

3. Legal Agreements

- 3.1 A key part of setting up the company will be the agreement of various legal agreements between the ten administering authorities, as shareholders, that govern the operations of BPP Ltd. These documents are being worked on by a Legal Services group comprising representatives of Osborne Clark, who have been providing legal support to the project, and legal officers from three of the ten authorities, including Devon. The required documents include the following.
- 3.2 The **Articles of Association** of the BPP Ltd. (the "Articles"). This document is required by company law, and will set out the constitution and governance arrangements of the company. The Articles will be filed at Companies House and be publicly available.
- 3.3 The **Shareholders' Agreement** between the Administering Authorities and BPP Ltd. This regulates the relationship between the Funds as shareholders of BPP Ltd. and it will define contractually the manner in which the shareholders will run BPP Ltd.
- 3.4 The pooling and asset management services agreement (the "**Services Agreement**"). This will set out the pooling and other services BPP Ltd. will perform on behalf of each Administering Authority and the relevant terms.
- 3.5 Other documents. There will be various other documents of importance to the structure and governance arrangements. These include terms of reference, the terms of appointment of key personnel, BPP Ltd.'s internal policies and agreements with third party providers of back office support. This will include the terms of reference of the Oversight Board.
- 3.6 These documents will need to be agreed by each of the ten administering authorities under the delegation arrangements in place, to enable BPP Ltd. to become operational. The Articles and the Shareholders' Agreement are likely to be agreed in interim form at the outset. They will include details of reserved matters that cannot be

changed without the agreement of shareholders, and for each reserved matter what level of agreement (e.g. unanimity or 75% of shareholders) is required for a change to be made. Reserved matters would include significant issues such as the admission of a new shareholder or a move to internal management of assets.

- 3.7 **The Oversight Board.** At present there is a Shadow Oversight Board comprising a membership of representatives from each administering authority's respective Investment Committee. Once it loses its shadow status and becomes a formal body it will simply be known as the Oversight Board and the Devon Fund will need to formally appoint a representative to serve on it. In addition, while the Investment and Pension Fund Committee will continue to have a key role in monitoring the performance and activities of BPP Ltd. for practical purposes an individual will need to take responsibility to make shareholder decisions for Devon County Council. It is proposed that the appointment of Devon's representative to the Oversight Board and Devon's Shareholder representative for the BPP Ltd are made by the Devon County Council Annual Meeting on 25 May 2017.

4. Appointment of Administrator

- 4.1 Each LGPS Fund employs a custodian bank to safeguard its investment assets and process transactions. The Devon Fund currently use Northern Trust as their custodian. Going forward BPP Ltd. will need to appoint a custodian. However, the nature of the business they will be undertaking and the requirement for FCA regulation will mean that the role will be wider than the custodian's current role. As a result, the role is defined by the FCA as an "administrator" rather than a custodian, as it encompasses other tasks beyond the custodian role.
- 4.2 The administrator will need to be in place before the FCA will authorise BPP Ltd to operate. Therefore the administrator needs to be appointed before the application for authorisation is made to the FCA. Work is under way to draw up the specification for an invitation to tender, which will need to be signed off by 1 April. This should then enable the administrator to be appointed by the target date of the 1 August. Any delay is likely to delay the application for FCA authorisation.

5. Budgeted Costs 2017/18

- 5.1 Project costs on the development of the proposals have been split equally between the ten authorities on the basis of 10% each. For the 2017/18 financial year a budget for the project of £680,000 has been agreed by the Shadow Oversight Board and the Finance and Legal Assurance Group. This equates to £68,000 per Fund. Any significant variance against individual budget items will need to be signed off by each Fund through their Section 151 Officer.
- 5.2 However, this only includes the project costs, not the running costs of BPP Ltd, once the company is established. This will be dependent on the remuneration policies agreed, the results of the administrator procurement and other contractual arrangements still to be determined.

The full business case allowed for total costs of around £4m for 2017/18, plus the provision of £2m working capital. A pricing policy is being developed for charging the ongoing overhead running costs of BPP Ltd. These will not be charged purely on equal shares, but will be partly based on the total Assets Under Management (AUM), and on any additional services that the Fund may use over and above the core service.

6. Conclusion

- 6.1 Decisions on the issues listed above will be required over the next four months in order to achieve the timeframe required by Government, such that BPP Ltd. can be established, achieve FCA authorisation and begin to transition assets from 1 April 2018. The legal documents and activity required to set up BPP Ltd. over that period will be signed off on behalf of Devon by the County Treasurer and the County Solicitor, under the delegation agreed by the Committee and Council in December.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

Contact for Enquiries: Mark Gayler

Tel No: (01392) 383621 Room G97