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13 March 2014

To: All Members of the Cabinet

Dear Member,

Cabinet - Tuesday, 18th March, 2014

Please find attached the report set out below, which was not available at the time of collation of the agenda:

**13. PENSION FUND: LONDON COLLECTIVE INVESTMENT VEHICLE
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Yours sincerely

Xanthe Barker
Principal Committee Coordinator

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Haringey Council

Report for:	Cabinet 18 th March 2014	Item number	
Title:	Pension Fund: London Collective Investment Vehicle		
Report authorised by :	 Assistant Director – Finance (CFO)		
Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions george.bruce@haringey.gov.uk 020 8489 3726		
Ward(s) affected: N/A		Report for Non Key Decision	

1. Describe the issue under consideration

- 1.1 London Council working through the Leaders Committee has agreed to form a Collective Investment Vehicle (“CIV”) that will facilitate the combined management of pension scheme assets across London. The establishment of a CIV is designed to reduce investment management fees and also to improve returns through selection of superior fund managers.
- 1.2 Discussions at the London Leaders Committee reached agreement that the establishment of the CIV should proceed and that individual local authorities agree the planned structure, contribute introductory share capital and nominate a member to represent each borough. This paper seeks agreement to these next steps.

2. Introduction by Cabinet Member for Finance, Employment and Carbon Reduction – Councillor Joe Goldberg

- 2.1 London Council’s Leaders Committee has investigated the merits of the Government’s challenge to improve the performance of Local



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Government Pension Schemes. They have agreed that closer working through jointly procuring investment management services will help address concerns of high fees and poor performance.

- 2.2 The Corporate Committee fully supports participation in the proposed CIV and jointly with other boroughs has funded the investigation and set up costs.
- 2.3 Cabinet is asked to continue the process by agreeing to the establishment of the CIV structure. Decisions to invest pension assets through the CIV will be considered by the Pensions Committee once established later in the year.

3. Recommendations

3.1 That Cabinet resolve to:

- a) agree the planned structure of the Collective Investment Vehicle;
- b) become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the “ACS Operator”) of the Collective Investment Vehicle;
- c) contribute £1 to the ACS Operator as initial share capital;
- d) delegate to the Leader of the Council authority to act for the Council in exercising its rights as a shareholder of the ACS Operator, and to authorise the Chair of the Pensions Committee, once established, to act in her absence; and,
- e) agree to join the London Boroughs “Pensions CIV Joint Committee”, to be formed under section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors.

4. Other options considered

4.1 The Society of London Treasurers has considered a range of options for increased collaborate working in London to enhance the efficiency of individual London Funds. A report was commissioned from the accountancy firm PWC in 2012 to look at a range of options including business as usual to a full blown merger. The options set out were:

- Shared procurement – easy to implement, but relatively low impact and savings limited
- Shared procurement with fund manager oversight – relatively easy to implement, savings higher than option 1, but still not significant



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- Collective Investment Funds – less easy to implement, but significant potential for cost savings, whilst at the same time enabling funds to maintain local governance of funds
- Scheme merger of London funds – whilst cost savings are high, this would be very difficult to implement and would have a major impact on local accountability and governance.
- Centralised administration – again cost savings would be high, but issues around accountability and governance.

4..2 Consideration of the options led to the decision to explore ways of working more closely together to develop a collective investment vehicle for pension funds in London to achieve benefits of scale, bringing cost savings, but maintaining local decision making, governance and accountability.

5. Background information

- 5.1 In recent years there have been a number of discussion papers supported by academic research which has intimated that the LGPS would be more efficient if it was operated as a smaller number of larger funds. It has been argued that those larger funds would have lower unit administration costs and have better investment returns.
- 5.2 The Government initiated in summer 2013 a Call for Evidence of the impact of different LGPS structures in London with ministers indicating that they believe the current structure was sub optimal. In response London Councils have been discussing closer working arrangement that can achieve the fee savings and performance improvements sought by the Government without merging individual funds. As yet there has been no Government announcement from the Call for Evidence.
- 5.3 Discussions across London at Leader and CFO level have concluded that a Collective Investment Vehicle (“CIV”) that takes responsibility for the identification of fund managers and the negotiation of fees for London funds can achieve the above goals.
- 5.4 The Corporate Committee discussed their willingness to participate in a CIV at the September 2013 meeting and agreed (a) to support further investigations into the potential establishment of a London-wide Collective, and (b) approve expenditure of up to £25,000 as a contribution towards the legal and other related costs in connection with the possible establishment of the CIV. The approved expenditure on set up costs has been paid to London Councils.
- 5.5 London Councils Leaders’ Committee has considered the issue of collective investments for London Pension Funds throughout 2012 and



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2013. They have concluded that more collaboration between boroughs that wished to collectively invest some or all of their pension funds would be likely to produce significant savings.

- 5.6 The London Councils Leaders' Committee has approved the detailed business case and a proposed governance structure. They have also approved that a London Local Government Pension Scheme (LGPS) CIV in the form of a UK based, Financial Conduct Authority approved, Authorised Contractual Scheme (ACS) be set up. This report details the action that the Cabinet needs to take to enable participation.
- 5.7 At their meeting on 11 February 2014, London Councils Leaders' Committee approved that they should recommend to the London boroughs that they proceed to establish an Authorised Contractual Scheme (ACS) and the ACS Operator (which is the company that would manage the ACS). For this to occur, London boroughs will need to agree to become shareholders in the ACS Operator and delegate oversight of the company to a Joint Committee hosted by London Councils.
- 5.8 It should be noted that, participation is voluntary by boroughs, and even if a borough decides to participate in the formation of the ACS (which is the purpose of this paper) each borough will make separate decisions to invest, disinvest or not invest at all for each asset mandate in the same way that Pensions Committees do currently. It is expected that the decision as to whether to invest in the ACS would be made by the pension committees of individual boroughs later in the year.
- 5.9 Authorities seeking to invest in the ACS will also take a shareholding interest in the Operator (and have membership of the Pensions CIV Joint Committee). This Joint Committee will be established under the existing London Councils arrangements to represent the participating boroughs' shareholder interest, such as assisting in the appointment of directors to the ACS Operator. The Pensions CIV Joint Committee will comprise elected Councillors nominated by participating boroughs as provided for under the existing London Councils Governing Agreement. The London Council's report proposes in the event that all 33 boroughs decide to join then existing London Councils Leaders Committee can undertake the role. In the event that all boroughs do not participate it is nevertheless recognised that typically the borough Leader might be appointed as representative on the joint committee. However, it is suggested that in the event that meetings are required to deal with specialist matters it may be appropriate that a member with particular experience would act as deputy to attend such meetings, such as the chair of the relevant Pensions Committee.



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- 5.10 It was previously agreed that the most appropriate structure for the CIV is a UK based FCA authorised ACS fund, and nothing has emerged to suggest that that recommendation should change. During the ACS establishment process, some regulatory clarifications will be required although it is not currently expected that there will be any material difficulties. In particular, it will be important to confirm that no changes will be made that would prevent any LGPS from investing substantially all of its assets in a single ACS vehicle. Restrictions currently apply to certain other investment vehicles such as unit trusts and Open-ended investment companies and accordingly it will be important to confirm that changes to legislation will not be put in place that would impact the operation of the ACS, or that the legislation is amended to carve out from those restrictions ACSs operated by local authorities.
- 5.11 The ACS will require an FCA regulated ACS Operator to be established. Typically this is in the form of a limited liability company which is proposed here. The board and employees of this company will be responsible for the overall operation of the ACS, including its investment management. The composition of the board and its activities will need to comply with FCA regulations.
- 5.12 It is proposed that shares in the ACS Operator are owned by the participating local authorities. Initially, this would require boroughs that wish to participate at this stage to make a £1 investment in the share capital of the ACS Operator. At a later date, additional capital will be required for the ACS Operator to meet its regulatory capital obligations. It is currently expected that this capital will be invested by those boroughs that wish to make a pension investment into the ACS. No further capital would be required from any boroughs who participate at this stage but whose pension funds subsequently choose not to invest in the fund; indeed such boroughs could transfer their interests to those participating boroughs. Further details of how capital investments would need to be made for boroughs that choose to invest pension money will be considered in due course.
- 5.13 There is the potential to see significant financial benefits from greater collaboration amongst pension funds and the formation of a CIV will enable these to be delivered without the need for merger which itself could prove to significantly increase costs in the short term. It has been estimated that cost savings across London under a CIV could be as high as £120m and it is anticipated would help to deliver some of the savings that CLG are seeking from LGPS funds. The benefits of the CIV are that it will enable the cost savings to be delivered whilst continuing to enshrine the key objectives of maintaining local accountability and decision making for individual local authority pension funds. A collaborative approach provides opportunities to potentially invest in types of assets that smaller individual funds may



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not be able to easily access, for instance direct investment in appropriate infrastructure projects, which is also a particular focus for the current government.

- 5.14 There are clearly risks attached to the project given that funds need to be committed to establish the CIV - £25,000 to date. However, these are relatively minor in the context of a £900 million pension fund and would clearly be offset by the cost savings which can be delivered going forward. The risks of inaction or non-participation in this collaborative venture are seen as far more significant, particularly if the outcome were to be a merger of funds which could see decisions being taken by external bodies and resulting in loss of accountability and potential to increase costs to local taxpayers.

6. Comments of the Chief Financial Officer and financial Implications

- 6.1 At this stage the Council is being asked to contribute £1 share capital and the time of Members and Officers to the further development of a London-wide Collective Investment Vehicle (CIV). The proposed structure offers financial benefits through to the Council from lower pension fund investment management fees. If the structure is a success it can be expected that further centralisation on a voluntary basis will be offered.

7. Assistant Director of Corporate Governance Comments and Legal Implications

- 7.1 The Assistant Director Corporate Governance has been consulted in the preparation of this report, and makes the following comments.
- 7.2 The recommendations contained in the report are considered, on balance, to relate to the exercise of executive functions, and thus in need of decisions to be made by Cabinet.
- 7.3 Section 1 of the Localism Act 2011 (the Act) gives a local authority power to do anything that individuals of full capacity may generally do. Accordingly, the Council is able to use the power under the Act to implement the recommendations contained in the report.
- 7.4 Sections 101 and 102 of the Local Government Act 1972 and section 9EB of the Local Government Act 2000 give Local Authorities power to set up a representative body to act on their behalf. London Councils has an existing Governing Agreement dated 13th December 2001, as amended, through which the representative body will be set up. This Governing Agreement sets out the Standing Orders, Financial Regulations and the administrative framework under which all London Councils' activities operate.



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7.5 Section 101 of the Local Government Act 1972 and Part 4 of the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2012 allow Cabinet to delegate the functions necessary for the proper functioning of the ACS Operator to the Pensions CIV Joint Committee.

7.6 In view of the permissive legislative framework referred to above, the Assistant Director Corporate Governance advises that there is no legal bar to Cabinet adopting the recommendations contained in the report.

8. Equalities and Community Cohesion Comments

8.1 The Local Government Pension Scheme is a defined benefit open scheme enabling all employees of the Local Authority to participate. There are no impacts in terms of equality from the recommendations contained within this report.

9. Head of Procurement Comments

9.1 Not applicable

10. Policy Implications

10.1 None.

11. Reason for Decision

11.1 The London Borough of Haringey is the Administering Authority of the London Borough of Haringey Pension Fund and has delegated responsibility for decisions regarding the Pension Fund to the Corporate Committee.

11.2 The Pensions Working Group has previously considered discussion papers on the formation of a CIV for London along with the recent 'Call for Evidence from Communities and Local Government (CLG) to consider structural reform of the LGPS. There is pressure on LGPS funds to demonstrate efficiency savings and work collaboratively.

12. Use of Appendices

12.1 Not applicable

13. Local Government (Access to Information) Act 1985

12.1 Not applicable.

