



**Haringey** Council

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## Special Pensions Committee

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THURSDAY, 20th November, 2014 at 19:00 HRS - CIVIC Centre, High Road, Wood Green, N22 8LE.

**MEMBERS:** Councillors Diakides (Chair), Bevan (Vice-Chair), Berryman, Doron, Marshall and Ross

**Non-voting Members:** Keith Brown, Michael Jones and Roger Melling

Quorum: 3 Councillors

### **AGENDA**

**1. APOLOGIES (IF ANY)**

To receive any apologies for absence.

**2. URGENT BUSINESS**

The Chair will consider the admission of any late items of Urgent Business to be dealt with under Item 5 below.

**3. DECLARATIONS OF INTEREST**

A member with a disclosable pecuniary interest or a prejudicial interest in a matter who attends a meeting of the authority at which the matter is considered:

(i) must disclose the interest at the start of the meeting or when the interest becomes apparent, and

(ii) may not participate in any discussion or vote on the matter and must withdraw from the meeting room.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Register of Members' Interests or the subject of a pending notification must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal interests and prejudicial interests are defined at Paragraphs 5-7 and Appendix A of the Members' Code of Conduct.

**NOTE FROM THE ASSISTANT DIRECTOR OF CORPORATE GOVERNANCE AND MONITORING OFFICER**

When considering the items below, the Committee will be operating in its capacity as 'Administering Authority'. When the Committee is operating in its capacity as an Administering Authority, Members must have due regard to their duty as quasi-trustees to act in the best interest of the Pension Fund above all other considerations.

**4. PENSION FUND: LONDON COLLECTIVE INVESTMENT VEHICLE (PAGES 1 - 8)**

The report refers to the costs of establishing a Collective Investment Vehicle ('CIV') for the London Local Government Pension Scheme (LGPS), and seeks approval for an additional contribution towards the cost of establishing the London CIV.

**5. ANY OTHER BUSINESS OF AN URGENT NATURE**

To consider any items admitted at item 2 above.

**6. DATE OF NEXT MEETING**

Monday 15 December 2014 at 7.00pm.

Bernie Ryan  
Assistant Director – Corporate Governance and  
Monitoring Officer  
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River Park House  
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Wood Green  
London N22 8HQ

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Wednesday, 12 November 2014



**Haringey** Council

<b>Report for:</b>	Pensions Committee 20 <sup>th</sup> November 2014	<b>Item number</b>	4
<b>Title:</b>	Pension Fund: London Collective Investment Vehicle		
<b>Report authorised by :</b>	Assistant Director – Finance (CFO)		
<b>Lead Officer:</b>	George Bruce, Head of Finance – Treasury & Pensions george.bruce@haringey.gov.uk 020 8489 3726		
<b>Ward(s) affected:</b> N/A	<b>Report for Key /Non Key Decision</b> N/A		

### 1. Describe the issue under consideration

- 1.1 The Corporate Committee agreed at the September 2013 meeting to contribute up to £25,000 towards the costs of establishing a Collective Investment Vehicle (“CIV”) for London LGPS that aimed to assume responsibility for the appointment of fund managers. The establishment of a CIV is designed to reduce investment management fees and also to improve performance for those funds that select active fund management. A further funding request has been received and authority is requested to pay an additional £50,000.

### 2. Cabinet Member Introduction

- 2.1 Not applicable.

### 3. Recommendations

- 3.1 That the Committee approve the additional payment of £50,000 towards the cost of establishing the London Collective Investment Vehicle.



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#### **4. Other options considered**

- 4.1 The alternative to continuing to support the CIV is to withdraw and retain independent investment mandates. The CIV has argued that the additional costs will be more than recovered from the 1<sup>st</sup> year's fee savings. Although the scope to save fees is uncertain, the additional cost equates to ½ basis point of assets, which is well within the possible annual fee savings. Thus it appears reasonable to continue to support the CIV.
- 4.2 Providing the additional contribution does not prevent discussions with fund managers to see if more favourable fee levels can be negotiated outside of the CIV.

#### **5. Background information**

- 5.1 The Committee has previously agreed (September 2013) to support the establishment of a London collective Investment Vehicle ("CIV") that will take on, where a Fund specifically delegates this function, responsibility for the identification of fund managers and the negotiation of fees for London funds. The CIV will not be involved in strategy or the design of mandates i.e. active v passive, but once these decisions are made by individual schemes will assume the role of appointing and monitoring fund managers if the Fund decides to delegate these functions to the CIV. The goal being to save fees through scale discounts and to improve appointments for those funds that retain active management. All but two or three London boroughs have supported the CIV to date.
- 5.2 Attached (appendix 1) is a letter from the CIV explaining progress to date. Included in the letter is an estimate of £1.7 million for the cost of establishing and running the CIV until the point when it starts to function and is able to fund itself through charges from managing assets. The CIV is seeking a further cost contribution of £50,000 from each Council.
- 5.5 If all Councils pay the additional contribution, the CIV will raise £2.25 million and have a surplus of £536,000 (appendix 2). This appendix also contains additional comments from Chris Buss, of Wandsworth Council.
- 5.6 The proposal is to pay the additional contribution, and following the outcome of the strategy discussion at the December meeting to enter into a dialogue with fund managers to see if the current fee arrangements can be improved on a stand alone basis.



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## **6. Comments of the Chief Financial Officer and financial Implications**

- 6.1. London Councils have considered in detail the business case for the establishment of a CIV and the potential for cost savings for Pension Funds across London. The proposals have received wide spread support from London Boroughs being prepared to commit funds to see the CIV established.
- 6.2. 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 not be able to easily access, for instance direct investment in appropriate infrastructure projects, which is also a particular focus for the current government.
- 6.3 There are clearly risks attached to the project given that funds need to be committed to establish the CIV, £75,000 if the proposal within the paper is accepted, 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 potentially delivered going forwards. 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.

## **7. Assistant Director of Corporate Governance and Legal Implications**

- 7.1 This report asks the Pension Committee to authorise the further sum total of £50,000 on top of the £25,000 contribution already made and to note the progress on the establishment of a London Collective Investment Vehicle.
- 7.2 Members should note the risk involved here of budgetary escalation and the lack of specific deadlines for achieving the objectives set in the letter from Chris Buss attached to the report.

## **8. Comments of the Independent Advisor**



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8.1 I concur with the comments made by the Officers in this report. In particular I would draw to the attention of Members the comments of the Chief Financial Officer at sections 6.2 and 6.3 of the report.

8.2 I would also emphasise that providing further financial funding to establish the London CIV, which I support, does not commit the Pensions Committee to delegate any functions to the CIV at a future date. Once established the CIV will only perform such functions for an individual London Borough as that borough specifically delegates to the CIV.

## **9. 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.

## **10. Head of Procurement Comments**

9.1 Not applicable

## **11. Use of Appendices**

11.1 Appendix 1 – Letter from Mayor Jules Pipe

11.2 Appendix 2 - CIV budget and comments from Chris Buss

## **12. Local Government (Access to Information) Act 1985**

12.1 Not applicable.

## London LGPS CIV Limited

«Full\_name»  
«Job\_title»  
«AddressBlock»

Contact: Hugh Grover  
Direct line: 020 7934 9942  
Email: Hugh.grover@londoncouncils.gov.uk

Our  
reference:  
Your  
reference:

Date: 20 October 2014

Dear «First\_name»,

### London LGPS CIV: progress update and next steps

The project towards establishing the CIV continues to make good progress, with the project team in London Councils, supported by the Technical Sub-Group of borough colleagues, taking forward a number of key workstreams, including:

- Working with the project's lawyers, Eversheds, to revise the company's Articles of Association. Eversheds are drafting a Heads of Terms which will inform the amendment of the Articles, and this will be shared with all participating boroughs shortly to ensure that everyone has the opportunity to raise any issues before the final Articles come to the Board and the CIV Joint Committee for adoption;
- Developing the company's operating model to design a sensible mix of in-house and outsourced arrangements that will ensure robust procedures, responsibilities and accountabilities, and that will be acceptable to the FCA;
- Procuring the Asset Servicer that will be a core partner in the arrangements, delivering fund administration, custodian and depository services; and
- Engaging with fund managers to begin the work of deciding what fund mandates might be suitable to come onto the fund for launch. Once a proposal has been worked up it will be presented to the boroughs for final decisions ahead of going to the FCA for authorisation.

You will be aware that a company has been incorporated (London LGPS CIV Ltd.) and that 23 boroughs are currently shareholders with seven more about to become so. The Board of Directors met for the first time on 14 October and received an update on a number of issues including on budget matters.

The initial fund that was established following the December 2013 and February 2014 Leaders' Committee meetings, with a view to "...exploring the proposal..." has taken the project well beyond exploration, but now is in need of topping up. Once all thirty boroughs have made their initial contribution we will have gathered a fund of £750,000. Of this £469,000 has been spent or committed, leaving a balance of £281,000. It is clear that this will be insufficient to take the project all the way to launch and that further funds are now needed, to cover for example further financial and legal advice, professional services to

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work on the detailed operating model, including drawing up procedures and operating manuals, initial costs covering salaries and so on ahead of fees flowing from operations.

Best estimates of future expenditure suggest that the total cost of implementation might be in the region of £1.7 million (the estimate presented in the 11 February report to Leaders' Committee was in the region of £1.5 million), and with that in mind the Board has agreed that the company should approach all the participating boroughs for a further £25,000 contribution now and a final top-up of £25,000 on 1 April next year, hence this letter. For clarity, this funding is separate to the regulatory capital requirement on which the Board will write to you later once the detail in this area has become clearer.

Subject to no objections, the company will raise an invoice during w/c 27 October for your attention for "services leading to the establishment of a London LGPS CIV". If you need to raise a purchase order ahead of an invoice being raised or wish it to be addressed to a different recipient please pass the details to Hugh Grover at the contact details above.

While it is not yet possible to give completely accurate figures about the scale of savings expected through the CIV, some initial analysis of data and informal conversations with Fund Managers suggest fee savings in the area of 20 per cent might be achievable relatively easily. Obviously the extent of savings for each individual borough will depend on the extent of investments made, but across three of the managers we've spoken to informally, that have eight boroughs as clients, the savings appear to be somewhere in the region of £1 million per annum.

If you wish to discuss any of this, or raise any questions, please contact Hugh Grover.

Yours sincerely

A handwritten signature in black ink that reads "Jules Pipe". The signature is written in a cursive style and is underlined with a single horizontal line.

Mayor Jules Pipe  
Chair  
For and on behalf of London LGPS CIV Ltd.



**Collective Investment Vehicle- budget – 24 October 2014**

Colleagues,

I know a number of you have been in contact with Hugh Grover, following Mayor Jules Pipe's letter to you which included notification of likely future costs to completion on the CIV. Quite rightly some of you have asked to see where your money is being spent and this is appended to this email ( see pdf file). However, in addition to the base numbers I feel that you also need an explanation as to why the costs are being incurred and what they are being spent on and the benefit you will gain from this expenditure. Before I do that I would re-iterate the comment made in Mayor Pipe's letter that the original £25,000 per borough was for "exploring the proposal". We have gone much further than this with significant technical work being done on structures. A lot of this work has been done or supervised by the Technical sub Group (TSG) of borough pensions officers which I have chaired fortnightly this year.

We have however reached the stage where we will need further external advice. Over the summer the TSG has been giving some thought to the appropriate balance of in-house and out-sourced functions that might inform the company's operating model. This thinking is seeking to deliver an appropriate balance between speed to launch, the desire of the boroughs to have ownership and control, and the requirements of the FCA in the context of the company being a regulated body.

This work has included informal discussions with a number of organisations that may be able to partner with the company in a mixed economy of in-house and out-sourced functions and responsibilities. However, it is clear that the TSG does not have the necessary experience or knowledge to finalise this critical area of the project without calling on significant input from external advisors.

In order to take this forward a mini tender is being prepared to procure an advisor (consultant) with detailed knowledge of what the project is seeking to achieve combined with expert knowledge of the investment industry and this both new and complex type of investment vehicle. Overall the scope of this work will cover working with the TSG to design and build the operating model, procuring a third-party provider to deliver the outsourced functions, and taking us through the regulatory stages with the FCA including designing the various procedures and drafting the necessary manuals and so on.

The other large area of expenditure is the potential cost of Company officers and recruiting them. At present the exact date and whether these are part time or full time is to be determined by the Board of Directors in the near future but in order to get FCA approval for the ACS, we will need actual names on the doors rather than just an idea as to who we might like to do the job. The same applies to non Executive Directors.

You will I hope see from the budget that with a fair wind we are close to achieving the setting up for the original "finger in the air" estimate of £1.5 million but the permanent staff set up costs and the additional consultancy work on the ACS structure has brought this over the £1.5 million

Turning to the benefits of the CIV, discussions have started with the fund managers, initial indications are an average reduction on fees of 20% which will be further worked on. In addition to the above the CIV will give through the ACS structure additional benefits arising from the ability to reclaim withholding tax from a number of foreign domains that are not available through other structures. For those with overseas equities this increased income will not be insignificant. In addition there will be saving on procurement, FX transactions etc. It is quite clear to me that, even in year 1, the savings will significantly outweigh the £75,000 cost for most if not all boroughs, and as we go forward in future years the ROI will continue to grow.

Yours Sincerely

Chris Buss

## Costs through to launch

	£	£
<b>Expenditure committed to date</b>		
Deloitte - initial consultancy	-£150,000	
Eversheds	-£170,000	
Northern Trust	-£22,080	
Eversheds - procurement advice (inc. Counsel)	-£15,890	
Project Manager (to May 2015)	-£70,000	
Mercer	-£49,950	
Office equipment	-£911	
		<u>-£478,831</u>

<b>Income to date</b>		
Borough contributions (30 boros x £25k)	<u>£750,000</u>	£750,000
<b>Balance</b>		<b>£271,169</b>

<b>Estimated expenditure to Mar 2015</b>		
Tax Advice consultancy	-£144,000	
ACS set up costs ( currently out to tender )	-£320,000	
Legal costs	-£160,000	
Transition consultant	-£20,000	
Recruitment and anticipated employment costs of CEO/ CIO / COO and non exec board members	-£190,000	
		<u>-£834,000</u>

<b>Additional income from boroughs now</b> (30 boros x £25k)	<u>£750,000</u>	£750,000
<b>Balance</b>		<b>£187,169</b>

<b>Estimated expenditure Apr 2015 - launch</b>		
tax advice through to launch	-£36,000	
ACS set up	-£80,000	
Legal costs	-£40,000	
Transition consultant	-£80,000	
anticipated employment costs of CEO/ CIO / COO and non exec board members to launch	-£165,000	
		<u>-£401,000</u>

<b>Additional income from boroughs Apr 2016</b> (30 boros x £25k)	<u>£750,000</u>	£750,000
<b>Balance</b>		<b>£536,169</b>

**Total estimated expenditure to launch** **-£1,713,831**