

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

	£	£
Expenditure committed to date		
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>

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

Estimated expenditure to Mar 2015		
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>

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

Estimated expenditure Apr 2015 - launch		
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>

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

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