

Committee: Finance Committee - For Decision Policy & Resources Committee - For information	Dates: 13 January 2015 22 January 2015
Subject: London Councils: London LGPS Collective Investment Vehicle - Funding	Public
Report of: The Chamberlain	For Decision
<p style="text-align: center;">Summary</p> <p>On 6 March 2014 the Court of Common Council endorsed, at the recommendation of the Policy & Resources Committee and the Finance Committee, the establishment of a London Local Government Pensions Scheme Collective Investment Vehicle (CIV).</p> <p>The project towards establishing the CIV continues to make good progress but the initial funding for exploring the proposal are now exhausted. Participating authorities are being asked to contribute a further £50,000 each (£25,000 now and £25,000 in April) take the project all the way to launch.</p> <p>Recommendation</p> <p>The Finance Committee is asked to agree that the City's contribution towards the cost of implementing the CIV, totalling £50,000 be met from the Finance Committee's City Fund contingency (£25,000 in 2014/15 and £25,000 in 2015/16).</p> <p>The Policy and Resources Committee is asked to note the report.</p>	

Main Report

Background

1. On 6 March 2014 the Court of Common Council endorsed, at the recommendation of the Policy & Resources Committee and the Finance Committee, the establishment of a London Local Government Pensions Scheme Collective Investment Vehicle (CIV) in the form of an authorised contractual scheme (ACS) and the incorporation of a private company limited by shares to act as the Authorised Contractual Scheme Operator (ASC Operator). It was also agreed that the City of London would become a shareholder in the ASC Operator and contribute £1 to the ACS Operator as initial capital.
2. The Court agreed also that a representative body (a 'Pensions CIV Joint Committee') be established pursuant to the existing London Councils Joint Agreement, to act as the representative body for those local authorities that resolved to participate in the CIV. At its meeting on 11 December 2014, the Policy & Resources Committee appointed the Chairman of the Committee as the City of London Corporation's representative on the London Councils' Pensions

CIV Joint Committee. The Chairman of the Financial Investment Board was appointed as the deputy representative.

3. A CIV will allow local authorities to benefit from economies of scale through reduced investment management fees, whilst providing for the first time the ability for local authorities to invest additional types of asset classes, such as direct investment in infrastructure. Unlike a straightforward merger, under a CIV local authorities will retain control of their investment funds and have the ability to choose from investment options drawn up by the CIV.

Current Position

4. A company has been incorporated (London LGPS CIV Ltd.) and 30 boroughs are currently shareholders. The Board of Directors (of which the Chamberlain is an interim Director) met for the first time on 14 October and received an update on a number of issues including on budget matters.
5. 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;
 - 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.
6. Following the December 2013 and February 2014 Leaders' Committee meetings, an initial fund was established with a view to "...exploring the proposal..." with boroughs being asked to contribute £25,000 each. The project is well beyond exploration, and the initial fund is in need of topping up. Once all thirty boroughs have made their initial contribution the fund will have gathered £750,000. Of this £469,000 has been spent or committed, leaving a balance of £281,000. This will be insufficient to take the project all the way to launch and further funds are now needed, to cover for example further financial and legal advice, professional services to work on the detailed operating model, including drawing up procedures and operating manuals, initial costs covering salaries and ahead of fees flowing from operations.
7. Best estimates of future expenditure suggest that the total cost of implementation might be in the region of £1.7 million and with that in mind the Board of Directors 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. For clarity, this funding is separate to the regulatory capital requirement and the Board of Directors will write to all participating boroughs once the detail in this area has become clearer.

8. The City initially contributed £25,000 in February 2014 and this was met from the Chamberlain's local risk budget. However, it is not possible for this next contribution or the contribution due on 1 April to be met from the Chamberlain's local risk budget. The Finance Committee is therefore being asked to agree that the contribution due now is met from the Finance Committee's 2014/15 City Fund Contingency with the contribution due on 1 April 2015 being met from the 2015/16 Contingency.
9. Prior to consideration of any requests on today's agenda, the uncommitted balances in the Finance Committee's 2014/15 and 2015/16 City Fund contingencies are £600,000 and £784,000 respectively.

Conclusion

10. As a shareholder of the ASC Operator the City is being asked to contribute a further £50,000 (£25,000 in 2014/15 and 2015/16) towards the one-off start-up costs. These costs are separate to the regulatory capital requirements that will be required.

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