

<b>Committee:</b> Finance Committee	<b>Date:</b> 18 October 2016
<b>Subject:</b> London Collective Investment Vehicle (CIV) – Admission to The Local Government Pension Scheme with the City of London Corporation	<b>Public</b>
<b>Report of:</b> The Chamberlain and Comptroller and City Solicitor	<b>For Decision</b>
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### **Summary**

The City of London Corporation has, together with all other London boroughs, formed the London Collective Investment Vehicle (CIV) to pool pension fund assets. The CIV has approached the City Corporation to admit its staff into the Local Government Pension Scheme (LGPS).

The CIV has now taken on nine staff with the expectation that the staffing establishment will increase to 12 full-time equivalent posts (FTE) by March 2017. It is envisaged that up to 25 FTE staff could be employed in the future, once the CIV is managing all potential pension fund assets. This report considers the pension arrangements for those staff.

There are 33 individual London authorities in the CIV, each of which is a pension scheme employer and an administering authority in its own right, but the City Corporation is the best placed to act as the Administering Authority for the CIV.

In the event that CIV staff are to be admitted to the City Corporation fund, it will be necessary to secure adequate arrangements for the fund in order to protect the pension scheme from the risk of financial loss in the event of liquidation or of default on the part of the CIV. Officers will seek advice on the manner in which this can be secured. This could be by securing an indemnity or bond from the CIV if the existing shareholder’s agreement does not already make provision for the necessary protection.

### **Recommendation**

The Committee is requested to approve:

- (a) in principle, the proposal to allow CIV employees to access the City Corporation’s pension scheme;
- (b) that advice is sought from Eversheds LLP in relation to legal issues described in the report below;
- (c) that the estimated expenditure on external legal fees of up to £6,250 is paid from the Finance Committee’s contingency fund.

## **Main Report**

### **Background**

1. The City Corporation, in conjunction with all other London boroughs, has formed the London Collective Investment Vehicle (CIV) in order to pool pension fund assets. This complies with the current Government strategy, which is aimed at reducing the costs of administering the Local Government Pension Scheme (LGPS) without adversely impacting on the performance of funds.
2. The CIV has now taken on staff and has approached the City Corporation to enquire whether the staff can enter the City Corporation's LGPS fund. They have been advised that this should be possible, subject to the precise method being determined, minimum cost and risk being placed on the City Corporation, and subject to Committee approval. This report deals with the pension arrangements for those staff.

### **Current Position**

3. There are currently nine staff employed by the CIV with the expectation that the staffing establishment will increase to 12 full-time equivalent posts (FTE) by March 2017. A revised business plan is being considered by the CIV Member Joint Committee in October, and it is envisaged that up to 25 FTE staff could be employed over the 18 month period from April 2017.
4. Advice has been sought from the City Corporation's actuaries, Barnett Waddingham. They recommend that, if the decision is to allow entry into the City Corporation scheme, an employer contribution rate of 17.5% should be set initially, and a bond or indemnity to the value of £2-3m should be sought from the CIV to protect the fund against future liabilities if the CIV should become insolvent or cease to exist. The precise value of the bond or indemnity would depend upon projections of employee numbers, but should be set at a maximum level to avoid the need for repeated reviews.
5. As a result of drafting inconsistencies within the Local Government Pension Scheme Regulations 2013 (the 2013 Regulations), the correct route for managing the pensions of CIV staff is not clear and requires clarification.
6. However, it is likely that the CIV meets the definition of an 'Admission Body' under the 2013 Regulations, which would enable the CIV to access the LGPS under Paragraph 1 of Part 3 of Schedule 2 to the 2013 Regulations. This would then allow staff to remain in (and new staff to join) the LGPS. In this case, a single Administering Authority will need to be selected.

### **Options**

7. The London Pensions Fund Authority and/or London Councils may, at first glance, appear to be the logical choice to act. Neither, however, are an option in this case as they are not part of the CIV and therefore not Scheme Employers.

8. The City Corporation, as lead authority and as payroll provider to the CIV, seems to be the obvious choice out of the 33 London authorities.
9. In adopting this role, if the correct route is found to be the Admitted Body route, the CIV would be required to enter into an Admission Agreement with the City Corporation. This is a legal document and will need to be drawn up by the Comptroller and City Solicitor and signed on behalf of both parties.

## **Proposals**

10. It is proposed that Finance Committee approves, in principle, the proposal to allow CIV employees to access the City Corporation's pension scheme and that specialised external advice be sought in relation to legal issues as described below. Further, it is proposed that Finance Committee approves funding the expenditure on external legal advice from the Committee's contingency. Officers will report back when the advice has been received.
11. Eversheds LLP were retained by the CIV for the purposes of the company formation, including preparing and arranging for execution of the shareholder agreement. They have indicated they are able to assist the City Corporation, there being no conflict of interest, and it is proposed to seek their advice in relation to:
  - i) the correct method in the Pension Scheme Regulations to secure the CIV staff entry to the City Corporation's scheme; and
  - ii) the best way of managing the financial risk to the pension fund in the event of liquidation or of default on the part of the CIV, and the need to avoid the City Corporation fund adopting a disproportionate risk as compared to the other 32 local authorities. In particular, whether the existing shareholder agreement makes sufficient provision and, if not, what alternative provision can be made, such as a separate agreement with the 32 local authorities to spread risk, or the securing of an indemnity or bond from the CIV.
12. Eversheds have provided a quote of £6,250 for the work in relation to this. The non-public appendix to this report provides some information regarding the work which will be carried out.

## **Corporate and Strategic Implications**

13. The proposal to enable the CIV employees to enter the City Corporation's pension fund would provide further support for the CIV and the City Corporation's policy of developing the concept of the CIV in conjunction with all London local authorities.

## **Financial and Risk Implications**

14. Pension provision is always a key issue and, accordingly, advice has been sought on this, particularly from the Pension Fund Actuary. Should there be a deficit, the City Corporation will not bear the cost, other than its share as one of

the members of the CIV. The City Corporation Employer contribution rate is currently 17.5%. Our Actuary has stated that, on the basis that the employer will remain in the fund on an ongoing basis, given the small number of members it may be sensible to set a rate of 17.5% rather than the calculated theoretical rate of 15.1% (based on employee details currently held and on the assumption that any transfers received will be on an individual basis). Additionally the CIV will need to pay the capital costs of any early retirements, or excess ill health retirements.

## **Conclusion**

15. The report seeks in-principle approval to the entry of CIV employees to the City Corporation's pension scheme. If the Committee give that approval, then it is intended to obtain external legal advice as to the technical method by which entry would be achieved, and the best method of managing financial risks to the pension fund should the CIV default on its obligations to the fund or become insolvent. The Committee is also requested to approve funding of the external legal advice from the Committee contingency.

## **Appendices**

Appendix 1 – Eversheds' quote for legal advice

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