

Committee: Policy & Resources	Date: 16 March 2017
Subject: London LGPS CIV Ltd - Funding	Public
Report of: The Chamberlain	For Information
Report author: Kate Limna – Corporate Treasurer	

Summary

At your meeting on 24 September 2015 it was agreed that the City as a shareholder in the London LGPS CIV Ltd (the London CIV) would adopt the new Articles of Association, enter into the shareholder agreement and that the Financial Investment Board would meet the cost of regulatory capital of £150,000 by way of subscription for B shares from the Pension Fund. It also agreed that *“any subsequent costs such as the annual service charge and additional regulatory capital be the subject of a further report for consideration by the Committee.”*

This report advises Members that the Pensions CIV Sectoral Joint Committee, which your Chairman chairs, has agreed the London CIV’s budget proposals for 2017/18 and the medium term financial strategy for the years through to March 2022. Based on these proposals the annual service charge per authority is £25,000 per annum for the planning period and that from 2017/18 a Development Funding Charge will be introduced. This charge will initially be set at £75,000 per annum (per authority) declining year on year to £10,000 in 2021/22 and covers the investment needed to develop the London CIV’s fund offering and organisational infrastructure. Both the service charge and the Development Funding Charge will be met from the pension Fund.

Recommendation

Members are asked to note the service charge and development funding charge for 2017/18 and the on-going charges through to 2021/22.

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 for an ordinary share in the company.

2. The Court agreed also that a representative body – a ‘Pensions CIV Sectoral 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 nominated the Chairman of the Committee as the City of London Corporation’s representative on the London Councils’ Pensions CIV Sectoral Joint Committee with the Chairman of the Financial Investment Board as the deputy representative. The City’s representative chairs the Pensions CIV Joint Committee.
3. At your meeting on 24 September 2015 approval was given to the following:
 - (i) that the City Corporation as a shareholder in the London LGPS CIV Limited would adopt the new Articles of Association and enter into the shareholder agreement
 - (ii) recommend that the Financial Investment Board meet the cost of regulatory capital of £150,000 by way of subscription for B shares from the Pension Fund and
 - (iii) any subsequent costs such as the annual service charge and additional regulatory capital be the subject of a further report for consideration by the Committee.
4. The London CIV was originally established to 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 in additional types of asset classes, such as direct investment in infrastructure. Participation was on a voluntary basis.
5. However, in the July 2015 budget, the Chancellor announced that it was the Government’s intention to invite administering authorities of England and Wales to bring forward proposals for pooling the Local Government Pension Scheme (LGPS) investments to deliver significantly reduced costs, whilst maintaining investment performance. The initial indications were for 5-6 pools of investments of £25-30bn. The London CIV is now one of these pools.

Current Position

6. All 33 London authorities are now part of the London CIV and under the Shareholders Agreement budget proposals for 2017/18 and the medium term financial strategy for the years through to March 2022 has to be agreed by the Pensions CIV Sectoral Joint Committee.
7. At its meeting on 8 February 2017 the Pensions CIV Sectoral Joint Committee agreed the budget proposals for 2017/18 and the future strategy. This included setting the annual service charge (per authority) at £25,000 per annum for the planning period and introducing a Development Funding Charge (DFC). This will be introduced from 2017/18 and initially set at £75,000 per annum (per authority) declining year on year to £10,000 (per authority) in 2021/22.

8. The DFC will cover the investment needed to develop the London CIVs fund offering and organisational infrastructure. The DFC level will be set through the annual planning process and proposed to the shareholders when the Annual Budget for each financial year is set. It will be invoiced in two parts with 66% (£50,000 for 2017/18) of the charge invoiced in April with the remaining 33% (£25,000) to be invoiced in December of each financial year, with the December invoice being adjusted according to the prevailing budget and business needs.
9. Both the annual service charge and the Development Funding Charge will be met by the Pension Fund.

Conclusion

10. The City of London Pension Fund is a shareholder in the London LGPS CIV Ltd and as such will meet its financial obligations as set out in paragraph 6 above.

Appendices

None

Background Papers

- Report of the Policy & Resources Committee to the Court of Common Council - *London Councils: London Local Government Pension Scheme (LGPS) Collective Investment Vehicle* – 6 March 2014
- Report of the Policy & Resources Committee - *London Councils' Pensions CIV Sectoral Joint Committee - City of London Corporation Membership* – 11 December 2014
- Report of the Finance and Policy & Resources Committee – *London Councils: London LGPS Collective Investment Vehicle – Funding* – 13/22 January 2015
- Report of the Policy & Resources Committee & Financial Investment Board– *London Councils: London LGPS CIV Ltd – Funding* - 24 September 2015/Urgency

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