



Full Council
3 March 2014

**Report from the Chief Finance
Officer**

For Action

Wards Affected:
All

**Joining a collective investment vehicle for London
pension funds and commitments for capital**

1. Summary

- 1.1 The Council's Pension Fund Sub-Committee has been supportive of a collective investment vehicle for London. At its meeting of 19 November 2013 the sub-committee showed its commitment to collaborating with other London pension funds by agreeing to make a contribution of £25,000 (borne by the Brent Pension Fund) in order to engage expert legal and financial services advisers to perform the necessary financial and regulatory work. In the first instance this has included developing a robust business case relating to the investigation and set up of a London-wide Collective Investment Vehicle (CIV). In the longer term, costs incurred in operating the CIV would be recoverable from participating boroughs which would be more than paid for from reduced fees.
- 1.2 To date, a total of £625,000 has already been contributed by the boroughs (25 boroughs x £25,000 each). The objective of the CIV is to harness the joint purchasing power of the participating boroughs to drive down fund managers' fees and improve investment performance. The CIV would provide an expedient way of enhancing investment objectives of the Brent Pension Fund without undermining Member control and autonomy.
- 1.3 The Government's review of the future structure of Local Government Pension Schemes is on-going, and could involve reducing the number of locally administered LGPS schemes through merger. It is important that the boroughs can demonstrate progress in working collaboratively in setting up the CIV as a viable alternative to merger to inform the Government's deliberations.

- 1.4 The London Councils prepared a report for the Leaders' Committee (see appendix) which provided an update on progress towards establishing a London LGPS CIV. It asked the Leaders' Committee to recommend to the boroughs that they proceed and establish an Authorised Contractual Scheme (ACS) and an ACS Operator (which is the company that would manage the ACS), together with establishing a representative body in the form of a Pensions CIV Joint Committee which will comprise OF elected Councillors nominated by participating boroughs.
- 1.5 The London Councils Leaders' Committee approved the formation of the CIV on 11 February 2014, so it is necessary for the Council to apply that framework and formally consider whether to join the CIV company and participate in a new Joint Committee.
- 1.6 Chief Finance Officers would provide advice to both the borough Pension Committees (as they do now) and to their Authority's representative on the Pensions CIV Joint Committee.
- 1.7 It should be noted that the proposals are based on voluntary participation by boroughs, and the decision as to whether to invest in the ACS would be made by individual boroughs later in the year. There is nothing in the report that locks any borough into any level of commitment to invest.
- 1.8 All London boroughs are expected to respond in writing to the London Councils Chief Executive by 14 April 2014 to advise their decision on whether to endorse the proposed recommendations included in the report.

2. Recommendations

- 2.1 Members of Full Council are asked to resolve to:
 - a) become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the ACS Operator") of the Collective Investment Vehicle;
 - b) contribute £1 to the ACS Operator as initial capital;
 - c) delegate to the Chair of the Pension Fund Sub-Committee authority to act for the Council in exercising its rights as a shareholder of the ACS Operator, and to authorise the Vice Chair of the Pension Fund Sub-Committee to act in their absence; and
 - d) agree to join the London boroughs "Pensions CIV Joint Committee", to be formed under section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors.

3. Detail

- 3.1 London Councils Leaders' Committee has considered the issue of collective investments for London Pension Funds throughout 2012 and 2013. They have concluded that more collaboration between boroughs that wished to invest some or all of their pension funds collectively would be likely to produce significant savings. The London Councils Leaders' Committee has approved the detailed business case and a proposed governance structure. They have also approved that a London Local Government Pension Scheme (LGPS) Collective Investment Vehicle (CIV), in the form of a UK based, Financial Conduct Authority (FCA) approved, Authorised Contractual Scheme (ACS) be set up. This report details the action that the Council needs to take to enable participation.
- 3.2 At their meeting on 11 February 2014, London Councils Leaders' Committee approved that they should recommend to the London boroughs that they proceed to establish an Authorised Contractual Scheme (ACS) and the ACS Operator (which is the company that would manage the ACS). For this to occur London boroughs would need to agree to become shareholders in the ACS Operator and delegate oversight of the company to a Joint Committee hosted by London Councils. A copy of the paper submitted to London Councils Leaders Committee is appended.
- 3.3 It should be noted that, participation is voluntary by boroughs, and even if a borough decides to participate each borough will make separate decisions to invest, disinvest or not invest at all for each asset mandate in the same way that Pensions Committees do currently. It is expected that the decision as to whether to invest in the ACS would be made by individual boroughs later in the year.
- 3.4 The business case considered by London Councils analysed the savings, benefits and costs for a variety of different levels of collective assets under management: £24bn, £10bn and £5bn, producing estimated annual net savings of £112.2m, £44.9m and £20.9m respectively. It is considered that a reasonable minimum target size of assets under management for the ACS is in the range of £5bn. This is based on analysis of existing investments held by London borough funds and also takes into account that initially the majority of investment mandates are likely to be passive mandates. Over time, it is expected that actively managed mandates and investments into alternatives such as property and infrastructure assets may be added to the range of investments offered by the ACS.
- 3.5 The London Councils Leaders Report sets out the likely Governance structures and key principles. The principles include: investment in the ACS should be voluntary; ability to choose how much to invest in individual asset classes; boroughs should have sufficient control over the ACS Operator; the ACS Operator would provide regular information to participating boroughs; and Authorities seeking to invest in the ACS will also take a shareholding interest in the Operator (and have membership of the Pensions CIV Joint Committee). This Joint Committee will be established under the existing

London Councils arrangements to assist in the appointment of directors to the ACS Operator. The Pensions CIV Joint Committee will comprise elected Councillors nominated by participating boroughs as provided for under the existing London Councils Governing Agreement. Information will be provided regularly by the ACS and the ACS Operator to local authorities investing, and their Pension Committees and officers, and the Pensions CIV Joint Committee. Directors of Finance will provide advice to both the borough Pension Committees (as they do now) and to their authority's representative on the Pensions CIV Joint Committee. The London Councils' report proposes that the Chairman of the Pensions Committee represents the Council or in the event that all 33 boroughs decide to join then the Leader fulfils this role, as in that event the existing London Councils Leaders' Committee can undertake the role.

- 3.6 In order that the Council can participate in the CIV the Council will need to agree to join the Joint Committee, this requires a resolution of the Full Council. In addition the Council will need to formally delegate powers to the Joint Committee in respect of pension investments. This will be done by giving the Pensions Committee the ability to place funds with the CIV and to invest in one or more of the funds or fund managers selected by the CIV to manage various asset classes.
- 3.7 In broad terms, the proposed structure is that the boroughs will own all the share capital of the ACS Operator. Initially this will require minimal share capital (£1 per borough) but this capital requirement will increase once the operator is authorised and investments are made in the ACS.

4. Financial implications

- 4.1 Other than the commitment to the £1 initial share capital there are no immediate financial implications from accepting the recommendations of this report. The council will still have its existing freedoms and obligations to invest its pension fund assets as it considers most appropriate, whether via the CIV proposed in this report or elsewhere.
- 4.2 However, there are good grounds for believing that the CIV will be able to deliver significant reductions to fund managers' fees and hence that, over time, it will prove an attractive option in which to invest and deliver better net investment returns.

5. Legal implications

- 5.1 Advice has been given in relation to the governance structures which are contained within the report.
- 5.2 As the Company is owned and wholly controlled by London Authorities this could have procurement implications, advice will be provided to the company to ensure the most advantageous route is followed with respect to procurement activity.

5.3 Where officers or members serve as Directors of the Company conflict of interests and advice will be given as needed.

6. Diversity implications

6.1 None.

7. Background documents

7.1 Pension Fund Sub-Committee 25 February 2014 – Update on joining a collective investment vehicle for London Pension Funds and commitments for capital.

Contact officers

Persons wishing to discuss the above should contact the Treasury and Pension Investment Section, Governance and Corporate Services, on 020 8937 1472 at Brent Civic Centre.

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