




Executive Decision Report

Decision maker(s) at each authority and date of Cabinet meeting, Cabinet Member meeting or (in the case of individual Cabinet Member decisions) the earliest date the decision will be taken	Full Cabinet Date of decision: 7 April	 h&f hammersmith & fulham
	Full Cabinet Date of decision (i.e. not before): 1 May Forward Plan reference: KD04232 (not a key decision)	 THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
	Full Cabinet Date of decision: 7 April	 City of Westminster
Report title (decision subject)	COLLECTIVE INVESTMENT VEHICLE FOR LONDON LOCAL AUTHORITY PENSION FUNDS	
Reporting officer	Tri-Borough Director of Pensions & Treasury	
Key decision	No	
Access to information classification	Public	

1. EXECUTIVE SUMMARY

- 1.1. London Councils is seeking to establish a Collective Investment Vehicle for London Local Authority Pension Funds to pool certain funds (on a voluntary basis) and as a result, benefit from economies of scale and cheaper investment costs.
- 1.2. The decision for each Council to be a party to the proposed vehicle is a decision for the Executive rather than the relevant pension committees.

2. RECOMMENDATIONS

That the Cabinets agree with regard to their respective authorities:

- 2.1. that a private company limited by shares be incorporated to be the Authorised Contractual Scheme Operator (the “ACS Operator”) of the Common Investment Vehicle and that the Council become a shareholder in the ACS Operator;
- 2.2. to contribute £1 to the ACS Operator as initial capital;
- 2.3. the establishment of a London Councils “Pensions CIV Joint Committee”, to be formed under the Local Government Act 1972 and the Local Government Act 2000 and to delegate to the 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;
- 2.4. agree that Mayor Pipe, Councillors O’Neill and Dombey, Mr Chris Bilsland (Chamberlain, City of London), Mr Chris Buss (Finance Director, LB Wandsworth), Mr Ian Williams (Finance Director, LB Hackney), and Mr John O’Brien (Chief Executive, London Councils) be appointed as the interim Directors of the ACS Operator, subject to the consent of their relevant authorities to the appointments. These directors may be replaced once FCA authorisation is formally applied for;
- 2.5. In the case of RBKC, the Cabinet appoints the Chairman of the Investment Committee to the Joint Committee and to delegate to him the authority to act for the Council in exercising its rights as a shareholder of the ACS Operator;
- 2.6. In the case of LBHF, the Cabinet appoints the Chairman of the Audit, Pensions & Standards Committee to the Joint Committee and to delegate to him the authority to act for the Council in exercising its rights as a shareholder of the ACS Operator; and,
- 2.7. In the case of WCC, the Cabinet appoints the Chairman of the Superannuation Committee to the Joint Committee and to delegate to him the authority to act for the Council in exercising its rights as a shareholder of the ACS Operator.

3. REASONS FOR DECISION

- 3.1. The Cabinet needs to decide whether or not to participate in the CIV, and in the event that it decides to do so, it will need to the establishment of a Joint Committee. In addition, the Cabinet will need formally to delegate powers to the Joint Committee to act as a representative body on behalf of the shareholders of the ACS Operating Company.

4. BACKGROUND

- 4.1. The government is currently undertaking a review of the structure of the Local Government Pension Scheme (LGPS) and is expected to issue a consultation on a number of proposals in the near future. One of the principal aims is to reduce the cost of investment management fees incurred by the scheme as a whole, either through merging funds or encouraging them to work together to achieve economies of scale.
- 4.2. The three separate Tri-Borough pensions committees have been aware of this issue for some time and are supportive of approaches which allow the funds to remain independent, with a view to keeping accountability local so that Council Tax payers are not required to support deficits which have been incurred elsewhere.
- 4.3. 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 collectively some or all of their pension funds would be likely to produce significant savings. The three Tri-Borough pensions committees all support the establishment of a collective investment vehicle (CIV) for London with the aim of reducing fund management costs while allowing them to make their own investment decisions.
- 4.4. This will require a framework for capital allocation to the CIV operating company, and a framework for the appropriate pensions committee to delegate relevant functions to a Joint Committee to enable the governance of the CIV to operate effectively. London Councils Leaders' Committee approved the formation of the CIV on 11 February 2014, so it is necessary for the Cabinets to consider, on behalf of their respective Councils, whether to join the CIV company and participate in a new Joint Committee.
- 4.5. 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 Collective Investment Vehicle, in the form of a UK based, Financial Conduct Authority approved, Authorised Contractual Scheme be set up.

5. PROPOSAL AND ISSUES

- 5.1. At its 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 (the company that would manage the ACS). For this to happen, London boroughs would need to agree to become shareholders in the ACS Operator and delegate oversight of the ACS Operator to a Joint Committee hosted by London Councils. A copy of the paper submitted to London Councils Leaders Committee is attached as appendix 1.
- 5.2. It should be noted that participation by each borough is voluntary and, even if a borough decides to participate in the ACS Operator, each borough's pension fund will make separate decisions to invest, disinvest or not invest at all for each asset mandate in the same way that its Committee does 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.
- 5.3. The business case considered by London Councils analysed the savings, benefits and costs for a variety of different levels of collective assets under management ranging between £5-£24 billion which produced estimated annual net savings between £21-£112 million. It is anticipated that a reasonable minimum target size of assets under management for the ACS around £5 billion. 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.
- 5.4. The London Councils Leaders Report sets out the likely governance structures and key principles. The principles confirm that investment in the ACS should be voluntary; and that each pension fund will be able to choose how much to invest in individual asset classes. The London boroughs will collectively control the ACS Operator 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 Terms of Reference for this Joint Committee, as proposed in a paper by London Councils to Leaders Group at a meeting on 11 March 2014 is attached as Appendix 2.
- 5.5. 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

Council's 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.

6. CONSULTATION

- 6.1. The substance of this proposal has been discussed at each of the relevant pensions committees, with JMT and individual Cabinet Members where possible.

7. LEGAL IMPLICATIONS

- 7.1. Sections 1 and 4 of the Localism Act 2011 provide the powers to set up the ACS Operator which provide the powers to set up the company and trade. As it is anticipated that the ACS Operator will be wholly owned by the local authorities that will receive services from it the Public Contracts Regulations 2006 would not apply. If the requirements of the FCA cause this arrangement to change this would need to be reviewed. The Joint Committee will be set up by the participating authorities using their powers under sections 101 and 102 of the Local Government Act 1972 and section 9EB of the Local Government Act 2000.

8. FINANCIAL AND RESOURCES IMPLICATIONS

- 8.1. In broad terms, the proposed structure is that the London 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 may increase once the operator is authorised and investments are made in the ACS.

Jonathan Hunt
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Local Government Act 1972 (as amended) – Background papers used in the preparation of this report

None