

**REPORT FOR: Pension Fund Committee**

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<b>Date of Meeting:</b>	19 March 2014
<b>Subject:</b>	London Pensions Collective Investment Vehicle
<b>Responsible Officer:</b>	Simon George, Director of Finance and Assurance
<b>Exempt:</b>	No.
<b>Enclosures:</b>	Appendix I – London Councils Leaders’ Committee report of 11 February 2014 Appendix II – Summary of Questions and Answers from officers’ meeting of 5 February 2014 Appendix III – Advice from Eversheds

**Section 1 – Summary and Recommendations**

The report advises the Committee of the latest developments in the establishment of a Collective Investment Vehicle to be available for London boroughs pension funds to access should they wish. It seeks the Committee’s agreement to request that the Council resolves that Harrow becomes a shareholder in the company to be charged with setting up and managing the Vehicle.

**Recommendations:**

The Committee is invited to recommend to the Council that it resolves to:

1. 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;
2. contribute £1 to the ACS Operator as initial capital;
3. delegate to the Chairman of the Pension Fund Committee authority to act for the Council in exercising its rights as a shareholder of the ACS Operator and to authorise the Deputy Chairman of the Pension Fund Committee to act in his absence and;
4. 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.

Subject to the Council agreeing the above recommendations the Committee is asked to authorise the Director of Finance and Assurance to consider any requests for additional capital and, if he assesses that a capital commitment is likely to be beneficial to the Pension Fund, to seek agreement from the Committee

## **Section 2 – Report**

### **Introduction**

5. At their meeting of 25 June 2013 the Committee received a report from the Director of Finance and Assurance which considered the Government's plan to consult on views relating to the collaboration and merger of London local authority pension funds. They were advised that proposals to set up a voluntary Collective Investment Vehicle (CIV) were being developed by the London Leaders. ( **Note:** In some documents CIV is said to be an acronym for Common Investment Vehicle rather than Collective Investment Vehicle but they are one and the same products).
6. The Committee were invited to agree:
  - to support the investigation and establishment of voluntary collaboration models for London pension funds, including a CIV, and
  - to delegate authority to the Section 151 officer after consultation with the Chairman to approve expenditure relating to the investigation and set up costs of the CIV up to a limit of £50,000.
7. As minuted, the Meeting considered the matter as follows:

*An officer introduced the report and reminded the Committee that Members had not been enthusiastic about the proposal when first presented. However, some authorities were now in favour of exploring the scope for collaboration and Wandsworth had offered to lead on one such scheme.*

*Members discussed the advantages and disadvantages of collaboration and the pooling of funds and considered the political dimension, nationally and locally. They discussed the possibility that such a scheme would counter the Government's stated preference for a single London pension fund and queried whether early involvement on the part of Harrow Council would constitute an "expression of interest" which might mitigate against the imposition of other, unwelcome initiatives.*

*It was agreed that there would be economies of scale in pooled funds and shared management but Members voiced concerns about retaining autonomy and flexibility and doubted the need to be in the vanguard of authorities signing up to the scheme. Members were also unwilling to commit a nominal fee of up to £50,000 to the scheme at this stage and, while generally supportive of the proposals, agreed to retain a “watching brief” and await further information.*

**RESOLVED:** That

*(1) the investigation of voluntary collaboration models for London pension funds, including a collective investment vehicle, be supported;*

*(2) the Committee be kept informed of future developments.*

## **Current Position**

8. Since the Committee last discussed the matter considerable progress has been made and officers have been kept informed through attending various briefing meetings, most recently on 5 February 2014, and receiving written advice from London Councils and the London Borough of Wandsworth. The remainder of this report reflects these briefings and, in part, has been prepared from a template supplied by Wandsworth.
9. London Councils Leaders' Committee have 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 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) CIV, in the form of a UK based, Financial Conduct Authority (FCA) approved, Authorised Contractual Scheme (ACS) be set up.
10. At their meeting on 11 February 2014, London Councils Leaders' Committee agreed that they should recommend to the London boroughs that they proceed to establish an ACS and the ACS Operator, which is a company that would manage the ACS. For this to occur 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 the Leaders' Committee is attached as Appendix I. Attached as Appendix II is a “Summary of Questions and Answers” arising from the most recent officers' meeting held on 5 February 2014.
11. It should be noted that participation by boroughs is voluntary and even if Harrow decides to participate it will continue to make separate decisions to invest, disinvest or not invest at all for each asset mandate in the same way that the Pension Fund Committee do currently.
12. 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 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 an 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. 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.

13. The London Councils Leaders' Committee 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 boroughs investing and their Pensions committees and officers and the Pensions CIV Joint Committee. Directors of Finance will provide advice to both the borough Pensions Committee and to their borough'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, the Leader fulfils this role, as in that event, the existing London Councils Leaders' Committee can undertake the role.
14. In order that Harrow can participate in the CIV the full Council must agree a resolution. In addition the Council will need to delegate powers formally to the Joint Committee in respect of pensions investments. This would be done by giving the Pension Fund 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.
15. 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.
16. Eversheds LLP has been asked to prepare a "high level note" to provide additional clarity for borough legal advisers in relation to the governance requirements proposed and the FCA regulation of the proposed ACS Operator. This was intended to supplement the legal advice set out in the report to the Leader's Committee on 11 February 2014 and is attached as Appendix III.

17. So far as the capital costs of setting up and operating the company are concerned, at this stage, there are a number of uncertainties with the issues being discussed in paragraphs 14- 24 in Appendix I. It is recommended that the Director of Finance and Assurance be authorised to consider any requests for additional capital and, if he assesses that a capital commitment is likely to be beneficial to the Pension Fund he will seek agreement from the Pension Fund Committee.
18. In addition to agreeing to the proposal in paragraph 14 above the Committee is asked to recommend to the Council that it resolves 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 Chairman of the Pension Fund Committee authority to act for the Council in exercising its rights as a shareholder of the ACS Operator and to authorise the Deputy Chairman of the Pension Fund Committee to act in his 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.
15. London Councils have asked that boroughs respond on their Council’s decision before 22 May 2014. The next meeting of the Council is not scheduled until 12 June hence it is proposed that a reply be sent based on the decision of the Committee but with the proviso that it needs to be formally resolved by the Council.

### **Financial Implications**

16. Financial implications are discussed in paragraph 14 and Appendix I.

### **Risk Management Implications**

17. Risk included on Directorate risk register? No
18. Separate risk register in place? No
19. Setting risk tolerances and measuring outcomes is central to the strategy.

### **Equalities implications**

20. Was an Equality Impact Assessment carried out? Yes
21. There are no direct equalities implications relating to the pension fund.

### **Corporate Priorities**

22. Corporate Priorities are not applicable to the Pension Fund as it does not have a direct impact on Council resources.

### **Section 3 - Statutory Officer Clearance**

Name: Simon George



Chief Financial Officer

Date: 5 March 2014

Name: Linda Cohen



on behalf of the  
Monitoring Officer

Date: 5 March 2014

### **Section 4 - Contact Details and Background Papers**

**Contact:** Ian Talbot (Treasury and Pension Fund Manager) Tel: 020-8424-1450 / Email: [ian.talbot@harrow.gov.uk](mailto:ian.talbot@harrow.gov.uk)

**Background Papers:** Nil