



Department for
Communities and
Local Government

Baron Kerslake
Chair
London Collective Investment Vehicle

Marcus Jones MP
Minister for Local Government

**Department for Communities and Local
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Dear Baron Kerslake,

LONDON COLLECTIVE INVESTMENT VEHICLE (CIV): FINAL PROPOSAL

I would like to thank you and all the authorities involved in the London CIV for your final proposal, which we discussed at our meeting on 12 December. I congratulate you on the savings already achieved since the London CIV became operational in 2015, and appreciate the hard work and commitment from elected members and officers which this represents.

It is now over a year since we set the framework for reform of the investment function of the local government pension scheme (LGPS), through the guidance and criteria for pooling published in November 2015. I am pleased that authorities across the scheme have responded to the challenge and come together to form partnerships of their own choosing based on a shared view of investment strategy. We do not underestimate the scale of the changes required, but the Government remains committed to pooling in order to deliver reduced costs while maintaining performance as well as to develop capacity and capability for greater investment in infrastructure.

I appreciate that overall costs are likely to rise in the early years, and that salaries are likely to be high for key senior roles within pool operators. But I consider that this is a price worth paying in order to achieve substantial savings, already estimated by the pools at £1-2 billion by 2033 or up to £200 million pa in the medium term. I am confident that as the reform beds in, there are further savings to be achieved.

I therefore expect every administering authority in England and Wales to participate in a pool. I also expect authorities to place all assets in their chosen pool, unless there is a strong value for money case for delay, taking into account the potential benefits across the pool. Individual funds will continue to be responsible for their investment strategies and asset allocation and will continue to require high standards of governance.

However I note that on current forecasts the transition of assets into the London CIV pool will be unacceptably slow. In order to deliver greater scale and the full potential for savings, I expect the participating funds to work with you to ensure faster progress on transition, and I will review progress in the spring. As many of the participating funds have raised the issue with me, I must also underline that funds may not use multiple pools in order to access a preferred investment manager. Pools may of course procure services from other pools, especially where a particular asset class is not yet available. On that basis I am pleased to confirm that I am content for you to proceed as set out in your final proposal.

Turning to the future, I appreciate there has been some delay this autumn, but I have no plans to extend the deadline for pools to become operational in April 2018. I will be reviewing progress of all the pools in spring and autumn 2017 and will expect to see a core team in place in spring 2017 and an application for Financial Conduct Authority authorisation, where not already in place, in autumn 2017. I look forward to seeing more detailed plans for delivering savings, and increasing your infrastructure investment in line with your stated ambition. I will also expect detailed plans for reporting, including on fees and net performance in each listed asset class against an index, standardised across the sector.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Marcus Jones', written in a cursive style.

MARCUS JONES MP