



London LGPS CIV: Briefing for Local Authority Officers

The report to Leaders'
Committee from the Pensions
Working Group

5 February 2014



Recommendations

Leaders' Committee is asked to:

1. Consider the report and the underlying business case supporting the establishment of a collective investment vehicle, in the form of an authorised contractual scheme (the “ACS”), for local authority pensions in London (“the Arrangements”); AND
2. Endorse and recommend to each local authority which decides to participate that, they resolve that:
 - a) a private company limited by shares be incorporated to be the Authorised Contractual Scheme Operator (the “ACS Operator”), structured and governed as outlined in this report, and that the local authority agrees –
 - i. to become a shareholder in the ACS Operator, and
 - ii. to contribute £1 to the ACS Operator as initial capital, and
 - iii. to appoint an elected Councillor who will have power to act for the local authority in exercising its rights as a shareholder of the ACS Operator, and
 - iv. 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; and
 - b) a representative body, in the form of a new sectoral joint committee (the “Pensions CIV Joint Committee”), is established (pursuant to the existing London Councils Governing Agreement, dated 13 December 2001 (as amended)) to act as a representative body for those local authorities that resolve, in accordance with 2(a) above, to participate in the Arrangement (or in the alternative, should all 33 London authorities resolve to participate, that Leaders’ Committee exercise these functions and the Governing Agreement be varied accordingly); and
 - c) All London local authorities respond in writing to the London Councils Chief Executive, by 14 April 2014, or before the day of the local government elections (22 May 2014), to advise of their decisions regarding the matters set out at paragraphs 2(a) and 2(b) above.

Overarching Principles

In considering the proposed structure of the ACS and its Operator, the PWG have sought to adhere to the following overarching principles, in order that the arrangement can best meet the requirements of the boroughs:

- Investment in the ACS should be voluntary. A borough should be able to decide they do not wish to participate, or to the extent they initially decided to participate, to choose to withdraw their investment.
- If a borough chose to invest, it will be able to choose which asset classes to invest into, and how much they might invest into each asset class.
- The boroughs should have sufficient control over the ACS Operator, in order to be assured that it will be acting in their best interests.
- The ACS Operator would provide regular information to participating boroughs regarding the performance of managers, investment options, and other areas, so that information continues to be available to the same extent it is currently in order for boroughs to make investment decisions.
- Authorities seeking to invest in the ACS will also take a shareholding interest in the Operator (and have membership of the Pensions Joint committee).
- The ACS will not increase the overall investment risk faced by boroughs.

The governance arrangements and lines of communication between various interested parties are illustrated in the diagram below.

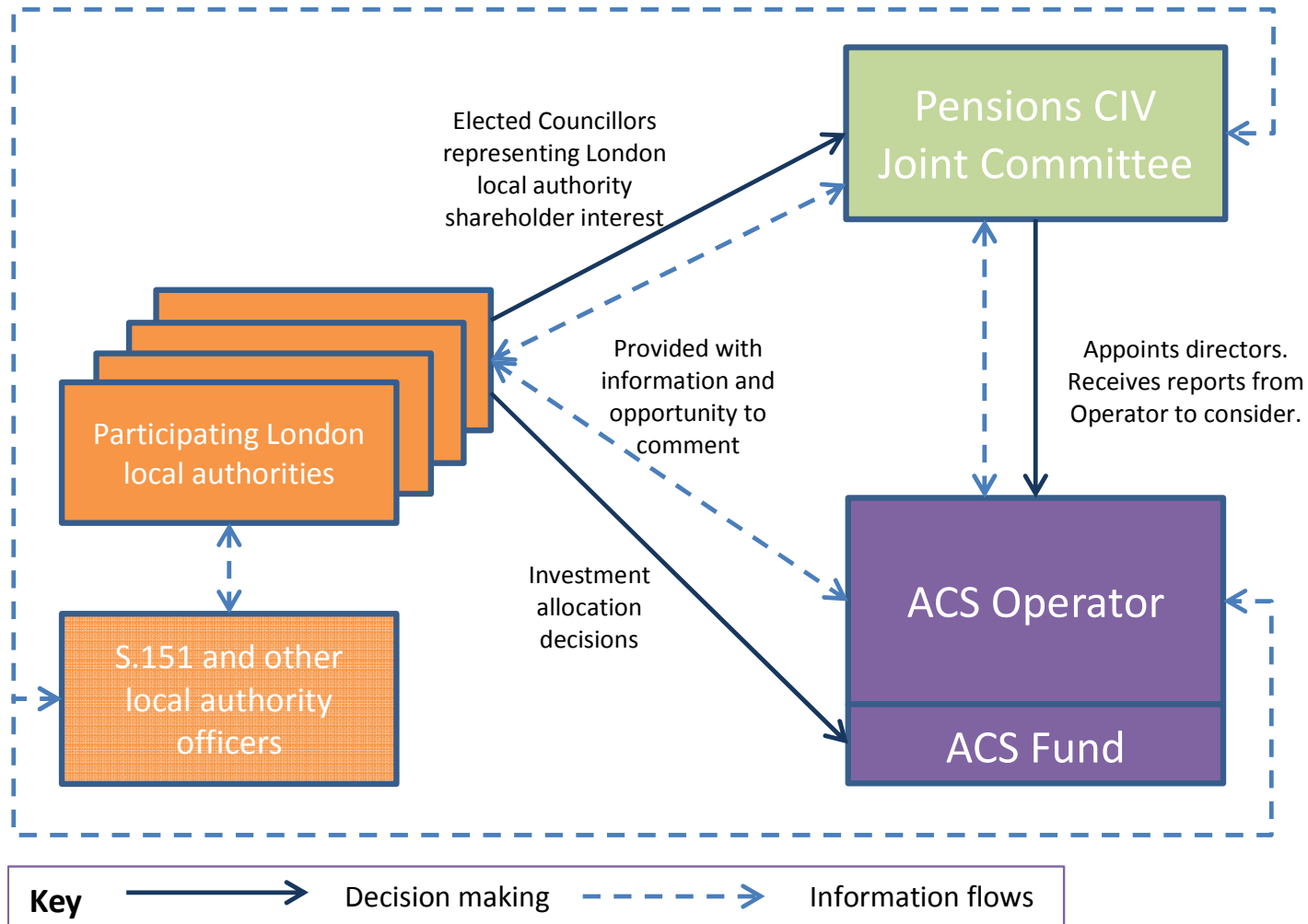
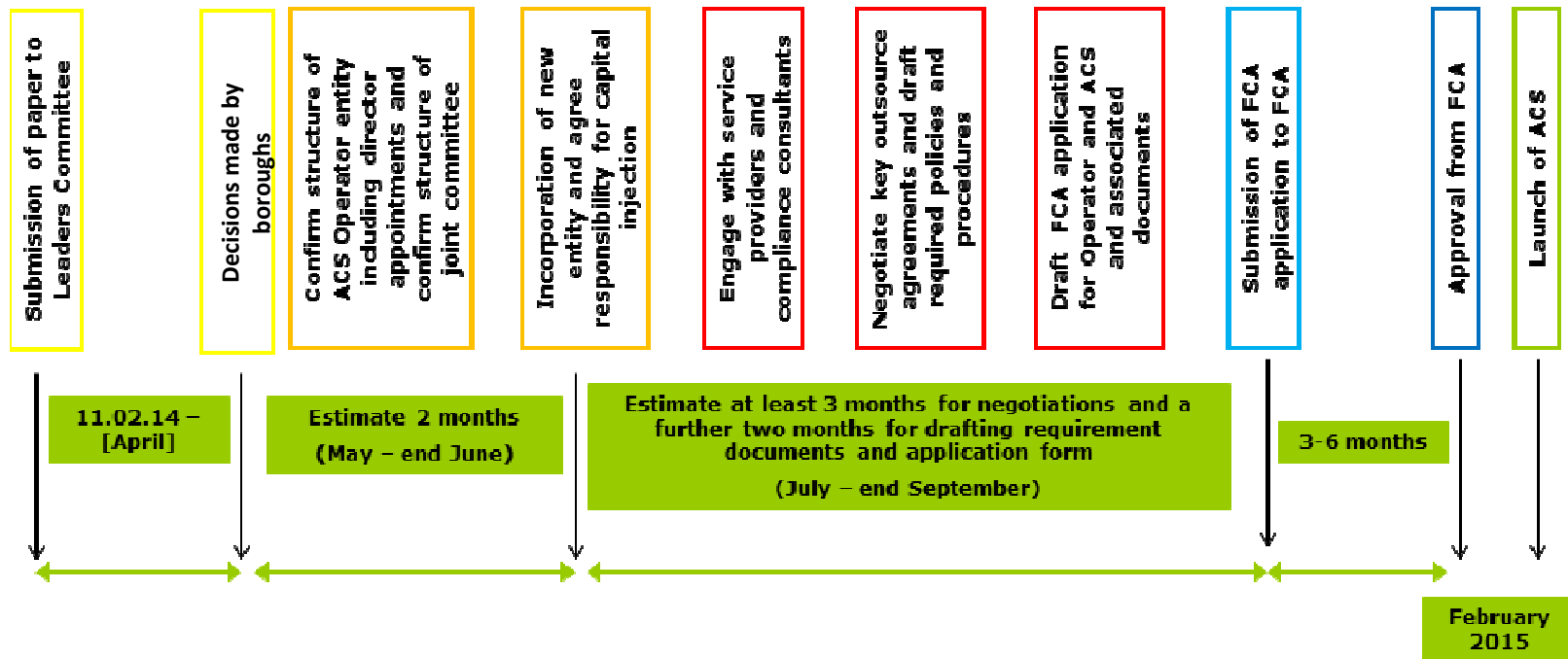


Fig 1 – CIV governance and communication lines

Proposed timetable for launch

The proposed timeline emphasises when certain decisions will need to be made. For example the fund mandates and strategies, and you will also note that certain service providers will need to be identified shortly following the incorporation of the ACS Operator entity, so that key commercial terms and service levels can be agreed.

Proposed timeline for launch of ACS and ACS Operator



Important note: The above timeline is an estimated timeline and assumes that there will be no undue delay in the project. We would suggest that 3 months prepare the FCA applications, to negotiate contracts and prepare documents is a minimum and this is more likely to take up to 6 months. The FCA can take up to 6 months to review the application for the ACS Operator (on the basis the application is complete) and usually an application for an ACS will not be considered by the FCA before the ACS Operator is approved however we would hope that the two applications can be run concurrently and that 6 months would be the maximum period for review, although this cannot be guaranteed.



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