



## Report of: Executive Member for Finance, Performance & Community Safety

Meeting of:	Date	Ward(s)
Executive	6 September 2018	n/a

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The appendices to this report are exempt and not for publication

## SUBJECT: THE LONDON COLLECTIVE INVESTMENT VEHICLE (CIV) – NEW GOVERNANCE STRUCTURES

### 1. Synopsis

- 1.1 At their meeting on 26 June 2018, the Pensions Sub-Committee considered a report from the Corporate Director of Resources on progress made at the London CIV in launching funds, running of portfolios and reviewing governance and investment structures. Following a governance review of the CIV, proposals have been made to clarify the purpose of the CIV and to establish new governance arrangements to reflect this.

The decision to establish the Pensions CIV Joint Committee under the London Councils Governing Agreement and to delegate functions to the Joint Committee was taken by the Executive on 3 April 2014. A decision to revoke that delegation is an executive function and therefore a matter for the Executive's consideration.

### 2. Recommendations

- 2.1 To accept and agree the new governance arrangements for the London CIV as summarised in paragraph 4 of the report and set out in the letter from the Chief Executive of the London CIV and the chief Executive of London Councils in the exempt Appendix.
- 2.2 To agree the revocation of the delegation of functions to the Pensions CIV Joint Committee under the London Councils Governing Agreement approved by the Executive on 3 April 2014 viz: "those functions of the Council necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors" and that the Acting Director of Law and Governance be authorised to sign the necessary notice on behalf of the Council.

### **3., Background**

#### **3.1 Setting up of the London CIV Fund**

All LGPS Pension Funds in England and Wales are participating in the Government's pooling agenda aimed at reducing investment costs, gaining economies of scale, improving governance and investing in infrastructure in the LGPS. Eight pools have been proposed by LGPS funds and the Government has agreed that these should all proceed to be established and regulated.

In London, all 33 of the London Borough Funds have joined the London CIV. The Pensions Sub-Committee has received regular reports on the establishment and progress of the London CIV and transfer of assets into it.

3.2 Since its inception, the London CIV has secured regulatory approval, established a team of 16 staff and, by the end of this year, will have brought £14bn of local authority assets under the CIV's oversight. In the current year, there will be an annualised £6m of savings to the LLAs in management fees as a result of the work of the CIV. This puts the CIV some way ahead of the other pooled funds that are currently being established.

3.3 However the wider context has changed radically since London Councils took its decision to establish the CIV. In particular, the Government has decided that pooling should be mandatory across the country and has set an ambitious timetable for this to be progressed. The London CIV was very consciously set up as a voluntary scheme with the decisions on investment lying with the individual LLA pension funds.

3.4 In order to respond to this changed context and take stock of progress, a Governance review was undertaken last year jointly by LCIV, the Joint Committee (PSJC) overseeing the work of the CIV, and the LLA Treasurers. Willis Towers Watson was commissioned to lead the review and presented their final report to the Governance Review Steering Group in December.

The Towers Watson report pointed to the need to both clarify the purpose of the CIV and establish new governance arrangements that reflected this purpose. At present, the CIV is reporting to multiple different stakeholders in a complex way with the risk that none of them feel entirely satisfied with their ability to influence it. The report also recommended that the CIV strengthen its capacity to engage with individual local authorities.

#### **4. New governance structure**

The London CIV was formally established two and half years ago.

The shareholder Governance of the London CIV will now move to the revised meeting structure of two General Meetings and Quarterly Shareholder Meetings in line with the Terms of Reference. The sectoral joint committee of London Councils is to be dissolved with the written agreement of all the participating local authorities, all being shareholders in the London CIV.

A joint letter from LCIV and London Councils (attached as Exempt Appendix A) details the new governance framework for London CIV to be implemented from 12 July 2018 onwards. The letter seeks support in moving to the next phase of formally implementing the changes to the governance of the London CIV that have been previously discussed.

Key points to highlight are:

- confirmation of the new arrangements at the AGM on 12 July 2018 and the transition to new arrangements starting with the September Board and Shareholder Committee meetings and approval of the next financial and business plan at the January Shareholder General meeting.
- ratification of the appointment of two new Non-Executive Directors, a Treasurer Observer, and members of the Shareholder Committee at the 12 July 2018 AGM.

- signing of the written notice revoking the delegation to the joint sectoral committee (the Pensions CIV Sectoral Joint Committee)

At the next AGM of the London CIV, the Chairs, Directors and members will be confirmed.

To complement the new shareholder governance arrangements set out in the letter, there will be an improved framework for client services, informed by shareholder consultation, including a Service Level Agreement and programme of events for clients collectively.

## **5. Implications**

### **5.1 Financial implications:**

Fund management and administration fees are charged directly to the Pension Fund. While the Council has like all the other London boroughs contributed to the running costs of the London CIV, it has also benefited from reduced fund manager fees from the funds on-boarded to the London CIV platform. With the pooling of pension investments being a mandatory requirement, it is in the Council's interest to improve the governance on the London CIV and the new shareholder governance arrangements are a step in that direction.

### **5.2 Legal Implications:**

As the administering authority for the pension fund, the Council is required to invest fund monies in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Council's Investment Strategy Statement sets out its approach to pooling investments, including the use of the London CIV for investment of funds and the structure and governance arrangements and the mechanisms by which it can hold the London CIV to account.

The decision to agree to the incorporation of the London CIV, establishment of the Pensions CIV Joint Committee under the London Councils Governing Agreement and the delegation of functions to the joint committee was taken by the Executive on 3 April 2014 pursuant to sections 101 and 102 of the Local Government Act 1972, section 9EB of the Local Government Act 2000 and Part 4 of the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2012. The functions delegated to the joint committee are executive functions and, therefore, revocation of that delegation is therefore a matter specifically for the decision of the Executive.

### **5.3 Environmental Implications**

None specific to this report.

### **5.4 Resident Impact Assessment:**

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

A Resident Impact Assessment has not been carried out on the proposals in this report as they are purely administrative arrangements and do not have a direct impact on residents.

## **6. Reason for recommendation**

The decision to establish the Pensions CIV Joint Committee under the London Councils Governing Agreement and to delegate functions to JC was taken by the Executive on 3 April 2014. A decision to revoke that delegation is an executive function and will therefore need to be agreed by the Executive.

**Exempt Appendices:** Correspondence from London Councils

**Background papers:** None

Final report clearance:

<b>Signed by:</b>		28 July 2018
	Executive Member for Finance, Performance & Community Safety	Date:

Report Author: Mary Green  
Tel: 0207 527 3005  
Email: [Mary.green@islington.gov.uk](mailto:Mary.green@islington.gov.uk)

Financial implications author: Alan Layton  
Tel: 0207 527 2835  
Email: [Alan.layton@islington.gov.uk](mailto:Alan.layton@islington.gov.uk)

Legal implications author: David Daniels  
Tel: 0207 527 3277  
Email: [David.daniels@islington.gov.uk](mailto:David.daniels@islington.gov.uk)