

LONDON PENSIONS COMMON INVESTMENT VEHICLE (CIV) Proposals

Contact Officers

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Papers with this report

SUMMARY

London Councils has been working closely with London Boroughs on potential collaboration across London on pension investment and are now moving towards the creation of a Common Investment Vehicle (CIV). This report explains the latest position.

RECOMMENDATION

That Committee notes the progress made to date in relation to the Common Investment Vehicle initiative and will maintain a watching brief over future developments.

INFORMATION

Background

In 2012, PwC were commissioned by London Councils and the Society of London Treasurers to prepare a report which set out options for the reconfiguration of the London LGPS funds, and indicated the possible financial benefits of a Collective Investment Vehicle (CIV). Since then, the matter has been discussed several times at London Councils Leaders' Committee, who agreed that further consideration should be given to creating a CIV, and that the most appropriate structure for the CIV would be an Authorised Contractual Scheme (ACS). A number of London Boroughs agreed to contribute £25-£50k towards exploring the proposal, and those funds are held in a designated fund by London Councils. These contributions were to fund the professional costs associated with development of the proposed ACS and its Operator.

Then during 2013, the Government issued a call for evidence on the future structure of the LGPS and sought professional advice to consider either Collective Investment Vehicles or merger of funds as potential routes forward. As part of this exercise, central government commissioned Hymans Robertson to undertake some detailed work on these options. The results of the call for evidence have not yet been published and so central government have not yet issued any guidance on how they expect to move this issue forward.

Latest Position

PART I - MEMBERS, PRESS & PUBLIC

It is the opinion of London Councils that when the government publish final information and guidance that it is unlikely that the benefit of CIVs will be fundamentally challenged. As a result, they are now formally proposing the creation of a London Pensions CIV and are asking all London Boroughs to make a decision on whether they now wish to formally sign up to the formation of an ACS in order to operate a London wide CIV.

London Councils' proposal is that a new joint committee, the 'Pensions CIV Joint Committee', will be set up to act as a representative body to act collectively on behalf of the local authorities participating in the ACS. The Pensions CIV Joint Committee will be formed of representatives of those local authorities participating in the ACS. Should all the London local authorities participate, this role would be performed by the Leaders' Committee.

The decision to invest through the ACS in the future, as well as the size of investment and mix of assets, will remain with each Borough Pensions Committee. Any such investments will, of course, need to comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which contain certain restrictions on the type of assets that can be invested in and the amount of fund property that can be invested in these assets. However, these are not matters which the local authorities are being asked to agree at this time. The decisions boroughs need to take now relate solely to the establishment of the ACS Operator and the associated Pensions CIV Joint Committee.

London Boroughs are asked to respond by 14 April (or before 22 May 2014) on whether the Council will resolve to:

- (i) become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the ACS Operator);
- (ii) contribute £1 to the ACS Operator as initial capital;
- (iii) appoint a Member of Pensions Committee and delegate authority to that Member to act for the local authority in exercising its rights as a shareholder of the ACS Operator; and
- (iv) 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 and the appointment of Directors.

The legal advice provided through London Councils' recommends that the decision to participate should be taken by Cabinet. The Pensions Committee does not have the power to agree to the Council's participation in the Common Investment Vehicle.

This report to Pensions Committee is recommending that London Borough of Hillingdon keep a watching brief on progress for the reasons explained below.

Firstly, as central government have yet to publish the results of their call for evidence there is a possibility that they may legislate either for collaboration between funds or indeed they

may prefer to formally merge funds. Until their view is clarified it would appear untimely to commit the Pension Fund to expense.

A further concern is around the business case for the CIV and the potential savings it could deliver to London Pension Funds. The potential savings have been costed to come from reduced management fees and improved performance. The minimum investment required to make the CIV feasible is around £5bn. However, as the total value of all London Borough Pension Funds (as at 31 March 2013) is £23bn, this equates to 20% of the cumulative value of all funds. Whilst many authorities have expressed interest in taking this proposal forward, there is as yet no clear indication of how much funds would be willing to invest. 20% of Hillingdon's assets is just under around £150m. Initially, it is proposed that investment mandates would be passive. But passive mandates already have lower management fees and performance is tracked against the index. Therefore any benefit on these types of mandate would be lower.

The option to join will remain open to London Boroughs and so not committing at this stage will not preclude the Fund from joining at a later date. Once the CIV is established and the level of commitment is known, the Fund will be in a better position to evaluate the merits of joining.

FINANCIAL IMPLICATIONS

There are no financial implications contained within the report

LEGAL IMPLICATIONS

As the Council is not participating in the Common Investment Vehicle at this stage, the Borough Solicitor is not providing detailed legal comments in this report.

The external legal advice commissioned by London Councils states that the decision as to whether the Council should participate in the Pensions Common Investment Vehicle Joint Committee is one for the Cabinet to take. However, the matter should also be reported to full Council and the Pensions Committee for information purposes.

Should a decision be made in the future to the effect that the Council should participate in the Joint Committee, full legal implications will be provided by the Borough Solicitor.

BACKGROUND DOCUMENTS

None.