



COUNCIL, 26 MARCH 2014

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: COLLECTIVE INVESTMENT VEHICLE

On the 11 February 2014 the Leaders Committee of London Council's approved a report and the underlying business case supporting the creation of a Collective Investment Vehicle (CIV) across London. All London Boroughs have been invited to join on a voluntary basis.

The Leaders Committee have endorsed the following in order to establish the CIV.

- a) A private company limited by shares be incorporated to be the Authorised Contractual Scheme Operator (ACS Operator)
- b) Local Authorities wishing to participate will :
 - o become shareholders in the ACS Operator
 - o contribute £1 to the ACS Operator as initial share capital.
 - o Appoint an elected Councillor to act for the Local authority in exercising its rights as a shareholder of the ACS Operator.
- c) A new Joint Committee (The Pensions CIV Joint Committee) will be established to act as the representative body for those London Boroughs wishing to participate in the arrangement.

The following overarching principles were adopted during the development of the proposed structure.

- 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 Pensions Committee will consider the proposals at its meeting on the 25th March. If the Committee supports the Council's involvement in the Collective investment Vehicle, then the Council will be requested to formally approve involvement in the CIV, becoming a shareholder in the Authorised Contractual Scheme Operator and participation in the Pensions CIV Joint Committee.

Financial Implications and risks:

The Council will contribute £1 in initial share capital. However, further contributions will be required to meet the initial set up costs.

Initial financial implications presented to London Councils suggest that savings will be achieved in management fees. These are expected to outweigh the costs of administration and still produce a net gain for member authorities. The exact position will be dependent upon a number of factors including the number of participating Councils and the sums invested in the ACS.

Whilst the Government is expected to support this form of partnership arrangement there remains a risk that it will produce alternative proposals to merge Local Authority Pension funds. This matter has been the subject of extensive consultation by the Government although there are no plans to bring forward legislation on this matter at present

Legal Implications and risks:

A decision to enter into the agreement for the ACS and to become a shareholder in the ACS operator company (which will be a company wholly owned by the member Councils) has limited legal implications for the Council as it gives the Council the opportunity to invest via the ACS, but not a legal commitment to do so. However it is clear that the intention is that members would make some use of the facility, and it is probable that it would be in the financial interest of the pension scheme to place some funds with the ACS, particularly if its size enables it to obtain better deals with active pension fund managers. However its existence will not absolve the pension committee from reviewing performance of the fund, it would switch from fund managers to the ACS. There will also be a need to ensure that there isn't a conflict of interest for whichever councillor is the

Council's representative on the proposed joint committee, but that can be addressed when selection occurs.

Human Resources Implications and risks:

None arising directly from the consultation.

Equalities implications and risks:

None arising directly from the consultation.

RECOMMENDATIONS

That in the event that the Pensions Committee recommends that this Council participates in the proposed London Collective Investment Vehicle:

1. That the Council participate in the London Collective Investment Vehicle
2. That the Council will become a shareholder with a share capital contribution of £1 in the proposed Authorised Contractual Scheme Operator - a private company limited by shares
3. That the Council will become a member of the proposed Pensions CIV Joint Committee.
4. That the Monitoring Officer make the necessary amendments to the Constitution to reflect these decisions

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Background paper List

There are no background papers.