

Croydon Council

REPORT TO:	Pension Committee 13 March 2018
SUBJECT:	London CIV Consultation
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: The London CIV will form a component of the Pension Fund's investment strategy going forward so it is important to engage with this review of governance arrangements.	
FINANCIAL SUMMARY: The performance of any funds managed by the London CIV will have a direct impact on the level of contributions levied from the Council and other Scheme employers. .	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

- 1.1 To note the response submitted to this consultation.

2. EXECUTIVE SUMMARY

- 2.1 This report describes the context for the consultation on the future governance arrangements for the London CIV.

3. DETAIL

- 3.1 The London CIV (Collective Investment Vehicle) was established as a response to the Government's requirement for all Local Government Pension Schemes to pool their assets. Pooling was seen as a way to reduce fees by aggregating assets; allow for greater flexibility in investing assets; and enable local authorities to invest in infrastructure. The CIV has now 16 staff and its activities are authorised by the FCA. Assets under management are circa £14 billion, around half the target set by the Government. All London LGPS administering authorities are shareholders of the CIV. However, following recent changes in key personnel, including the Chief Executive and Chief Investment Officer, the CIV Board agreed to undertake a Governance review.
- 3.2 The Governance review was undertaken last year jointly by the London CIV, the

Joint Committee (PSJC) overseeing the work of the CIV, and the London authorities' Chief Finance Officers. Willis Towers Watson was commissioned to lead the review and presented their final report to the Governance Review Steering Group in December 2017. 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. This report also recommended that the CIV strengthen its capacity to engage with individual local authorities.

- 3.3 To take this forward the CIV has asked stakeholders to respond to a consultation in the form of a report on the future direction for the CIV. This report aims to initiate a consultation with key stakeholders to clarify the purpose of the London CIV and set out the direction of its future strategy. Although the report proposes a considered vision of how the London CIV should operate, it does not purport to be a fully formed proposal.
- 3.4 Croydon's response to this consultation is attached to this report as Appendix A.

4 FINANCIAL CONSIDERATIONS

- 4.1 Croydon Council is a shareholder of the London CIV and the Pension Fund pays a contribution to its running costs. The viability of the pension scheme depends ultimately on the performance of the investment of the Pension Fund's assets.

5 OTHER CONSIDERATIONS

- 5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6 COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 6.1 The Solicitor to the Council comments that there are no direct legal implications arising from the recommendations within this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law for and on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

London Local Authority Response to London CIV Consultation on Strategy

Completed by on behalf of Croydon:

Nigel Cook, Head of Pensions Investments

Do you believe the Strategy Proposal from the London CIV is: **Yes** **No**

Broadly appropriate subject to clarifications and further detail	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Needs revisions and/or a different direction	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Overall Strategy Comments

Croydon supports the general direction of travel described by this strategy. Clearer roles and an emphasis on communication would be welcome. However, there are areas of concern, namely representation, costs, performance and ESG issues.

The recommendations made by this review should make it easier for the CIV to operate and mean a less bulky and unwieldy oversight structure but reduced representation will bring its own challenges and there is little detail on how a consensus would be reached.

In terms of representation, we would suggest that there be a formal Supervisory Board (which could well have the same make-up as the proposed consultative group) that would have a formal status. This could be modelled on the structures common in many financial institutions and also common (or even required in some cases) in quoted companies in many European countries.

In addition, we would like to see more clarity and transparency about director appointment & remuneration, i.e. that the Supervisory Board or a sub-committee of it would have a direct role in recruitment & remuneration.

Overall, the CIV needs to make sure that the cost-benefit analysis is clear and that the choice of products it develops and funds and sub-funds is based on active engagement with the local authorities.

ESG issues are very important to this authority and to state that ‘the CIV will not be able to accommodate individual ESG policies for each LLA’ is problematic and not acceptable. The CIV needs to understand clearly what the various LLAs’ ESG requirements are. The CIV needs to move away from a ‘lowest common denominator’ approach. In particular, we would suggest that there be a qualified majority (rather than the current unanimity) for the overall approach and that, where necessary, there be a proactive approach of creating sub-products that address different LLAs’ ESG requirements.

Do you agree with the proposals to:

Yes No

Have two meetings a year with all shareholders and disband the PSJC under the London Councils framework.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Form a small consultative shareholder group of 12 Treasurers and Pension Chairs. (‘Pension Chair’ should be ‘LLA Pension rep’)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Invite the Chair of the main Shareholder Group onto the Board of the London CIV and a Treasurer as an observer.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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The Chair of the main Shareholder group should be:

	Tick
Political leader	<input type="checkbox"/>
Elected from the Shareholders	<input checked="" type="checkbox"/>
Independent	<input type="checkbox"/>

The Chair of the Shareholder consultative group should be:

	Tick
The Chair of the shareholder group	<input checked="" type="checkbox"/>
The Chair of the London CIV	<input type="checkbox"/>
Elected by all Shareholders	<input type="checkbox"/>

The London CIV Board should be expanded by:

	Tick
The Chair of the main shareholder group	<input checked="" type="checkbox"/>
A Shareholder nominated by all shareholders	<input checked="" type="checkbox"/>

Yes No

It is proposed that the IAC becomes a forum to share ideas and consult with LLA’s, when appropriate. Do you agree?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Additional comments:

The proposal to address the unwieldiness of the current governance arrangements is sensible. The proposal is for a 12-person shareholder committee and a Treasurer observer on the board. Practical implementation might be more challenging though and questions of duration of tenure and the mechanics of reporting back to constituents are not explored.

The proposal needs to be clarified and worked through to make sure that all these issues and how officers' experience is captured are worked through.

Client

Do you agree that the relationship between each London Local Authority and the London CIV should be formalised by:

	Yes	No
A service level agreement which would set out how the London CIV would service and consult with LLAs.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

A Responsible Investment Policy framework for the London CIV which is proposed by the London CIV and agreed by shareholders.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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This Responsible Investment Policy should be agreed by what % of Shareholders:	50% <input type="checkbox"/>	66% <input checked="" type="checkbox"/>	75% <input type="checkbox"/>	Other <input type="checkbox"/>
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	Yes	No
Do you believe that the proposed investment approach of the London CIV can fulfil your Strategic Asset Allocation.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

	Yes	No
Do you agree with the proposal that each LLA would have an individual investment consultation with the London CIV. This would enable LLAs to choose earlier or later pooling.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Additional comments:

Clarification would be helpful as the strategy as it stands seems to imply that the local authority's investment strategy will be subordinated to the choices made by the CIV and the Pension Committee will have to be prepared to compromise. This runs counter to the Government guidance on drafting and adopting an Investment Strategy Statement (ISS) and the autonomy and statutory obligations of individual pension committees in respect of their individual authorities.

Secondly, as indicated above, it is difficult to see how the Shareholder Group will be able to draft an ESG policy that can be adopted by all 33 participating authorities.

There are also questions around the CIV's internal capacity to meet reporting and engagement deadlines for such a large number of stakeholders: committees, local pension boards and investment sub-committees.

Investment

Which Statement do you believe best represents your view of the London CIV revised strategy:	Tick
The revised strategy proposed by the London CIV of a high quality efficient pool will improve the Investment returns of my Borough's Pension Fund as it will enable the Pension Committee to clearly delegate manager selection and related investment decisions to the London CIV in a more efficient manner.	<input checked="" type="checkbox"/>
The revised strategy of the London CIV will not improve the investment returns of my Borough's Pension Fund as it will no longer enable the Pension Committee to make tactical asset allocations and manager selections.	<input type="checkbox"/>

Additional comments:

Nothing in the new structures should be seen as undermining the autonomy and ultimate decision-making authority of individual pension committees.

Any other comments

There are four main concerns:

- this strategy does not address individual ESG policies. Croydon currently explicitly excludes tobacco stocks and is likely to exclude other sectors but other stakeholders might adopt contrary views.
- the governance arrangements need to bring in the right level of LLA involvement and accountability, as detailed in the comments above
- nothing should be taken as taking away the ultimate investment decision-making authority of individual pension committees.
- Products and sub-products need to recognise the various differing positions and priorities of individual LLAs

Please send your response to [Chloe Crouch](#) by 28th February 2018