

# Pensions CIV Sectoral Joint Committee

Item no: 6

## London LGPS CIV Ltd. Governance Structures

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<b>Summary</b>	This report updates the committee on progress towards finalising the governance structures of the CIV.
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<b>Recommendations</b>	<p>The committee is recommended to:</p> <ul style="list-style-type: none"><li>i. Consider and discuss the issues raised in this report;</li><li>ii. Agree to the proposed governance structures included in this report being adopted by the company subject to any feedback the FCA might give as part of the company authorisation process.</li></ul>
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# London LGPS CIV Ltd. Governance Structures

## Introduction

1. At its meeting of 25 March 2015 the committee received a presentation from Anthony Gaughan (Partner, Deloitte) on the proposed governance structures for London LGPS CIV Ltd. The committee provided feedback on the proposed structures and that feedback informed further consideration that was used to present refined proposals to the Board of the company at its meeting of 12 May 2015.
2. This report provides the committee with final proposals for consideration with a view to including them in the regulatory application that will be presented to the Financial Conduct Authority for authorisation.
3. It should be noted that this committee, when sitting formally as shareholder representatives will retain the full range of shareholder responsibilities and powers as defined in the company's Articles of Association.

## Board structure

2. The Board of the ACS Operator has ultimate responsibility for all aspects of management of the Company. The Board will at all times retain and exercise overall control. As a result, it is critical that the Board composition achieves a balance of skills, competencies and expertise to govern on behalf of the shareholders.
3. The ACS Operator must have a Board that is able to challenge the business, has a strong focus on oversight of both the company and its third parties, and understands its duties as a regulated company.
4. The Board members should have a mix of relevant investment, operational and financial experience having held senior roles at regulated entities, combined with a strong understanding of local government and the requirements of the company's shareholders and prime investors (the participating London local authorities). The governance practices will be commensurate with the business of the ACS Operator and the investment funds it manages.
5. It is proposed that the board will be comprised of six members both executive and non-executive with a range of skills, as illustrated in Figure 1 below:
6. The non-executive Chair and two non-executive directors will bring a mix of skills and experience covering such areas as local government, financial services, outsourcing and regulatory compliance, each will have in-depth understanding of their respective fields. The diagram proposes how the requisite skills and experience might be split across the three positions, but any of the three could take the role of Chair subject to the individual having the additional skills and experience to fulfil the role.
7. The executive team are responsible for the day-to-day operations of the business and setting the strategic direction of the Company. The non-executive directors will provide independent judgment and challenge to the board based on their respective experience.
8. It is proposed that the board will formally convene quarterly to review management information created internally and externally by third party service providers. The board will, notwithstanding any delegation of tasks, take all major strategic and operational decisions affecting the company and the investment funds it manages. The delegation of

a task does not release the board from its ultimate responsibility for the relevant management functions.

9. As well as carrying out its oversight responsibilities the board also retains a number of functions which it carries out as required in the process of each board meeting (see paragraph 10).

**Figure 1: Proposed Operator Board of Directors**

Executive Directors			Non-Executive Directors		
CEO	Chief Operating Officer	Investment Oversight Director	Non-Executive Director	Non-Executive Director	Non-Executive Director
Holds the role by virtue of being the Chief Executive Officer of the company.	Holds the role by virtue of being the Chief Operating Officer of the company.	Holds the role by virtue of being the Investment Oversight Director of the company.	Possesses significant local government and financial experience and knowledge of decision making processes. Ability to influence key stakeholders across local and central government.	A financial services investment professional with significant experience in the investment industry and oversight of investment managers. Likely to have previously held the position of CIO of a pension or investment fund.	Operations professional who has experience in Third Party outsourcing, compliance and risk in an authorised investment firm or pension fund.
			Board Chair drawn for the most appropriate of the three Non-Executive Directors.		

## Functions of the Board

10. The Board will retain the following functions:

- Review the prospectus with each new investment mandate;
- Review and approval of financial accounts and investment fund documentation;
- Approval and periodic review of the business plan or programme of operations;
- Its own internal governance, including the appointment and retention of directors and any staff, the capacity of directors to fulfil their roles and conflict of interest policies;
- Appointment, oversight and removal of delegates (outsourced partners), including the basis on which delegates may further delegate tasks;
- Satisfying itself that arrangements are in place to enable compliance with applicable legal and regulatory requirements.

## Board Sub committees and meetings

11. The proposed governance structure and procedures were presented to the committee at its meeting on 25 March. Feedback from members included concern that, in relation to

its size, the proposals were too complex with too many committees and meetings for the board, which would detract from the day to day running of the company. In the light of that feedback the number of committees and the frequency of their meetings have been reduced to produce the proposals set out in Figure 2 below:

**Figure 2: Committee Structures**

Committee	Focus of Role	Meeting Frequency
Executive Team	Managing the day-to-day running of the company	Monthly
Company Board of Directors	Strategic direction	Quarterly
Risk & Compliance	Risk & compliance oversight	Quarterly
Operations & Valuations	Operational risk, valuations & pricing oversight	Quarterly
Investment Oversight	Investment oversight	Quarterly
Audit	Company & fund audit oversight	Tri-annually
Remuneration	Remuneration policy and application oversight	Annually

12. Subsequent to the 25 March committee meeting a smaller group of members has convened (constituted of the Chair, the two Vice-Chairs and Cllr Toby Simon) to consider the company's estimated operating budget for its first three years. This group has expressed strong views that there should also be a remuneration committee added to the governance structures. The proposal would be for the remuneration committee to meet once a year (ahead of the company AGM) and to be comprised of this committee's Chair and Vice-Chairs and the Board Chair plus one other non-executive director.

### **Recommendations**

13. The committee is recommended to:

- i. Consider and discuss the issues raised in this report;
- ii. Agree to the proposed governance structures included in this report being adopted by the company subject to any feedback the FCA might give as part of the company authorisation process.

### **Financial implications**

14. There are no financial implications for London Councils

### **Legal implications**

15. There are no legal implications for London Councils

### **Equalities implications**

16. There are no equalities implications for London Councils