

Pensions CIV Sectoral Joint Committee AGM

Item no: 9

London CIV Implementation Programme Closure Report

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Summary: This report provides the Committee with detail about the final costs of the London CIV implementation programme and effectively seeks to draw a line under the implementation phase of establishing the London CIV arrangements.

Recommendations: The Committee is recommended to receive the report relating to the status of the London CIV Implementation Program

London CIV Implementation Programme Closure Report

Introduction

1. The Committee will be very familiar with the high level details of LCIV implementation project that has been running since October 2014 and which led to the launch of the first ACS sub fund in December 2015. As the implementation phase draws to a close and LCIV transitions into a business as usual phase, this report compares the financial aspects of the implementation program budget to the actual costs incurred together with an explanation and narrative on the nature of the costs.
2. The report to the Joint Committee in December 2014 included an updated budget which set out expenditure committed to date and anticipated expenditure through to launch. The projected budget to launch was £1.7m whereby the funding of the expenditure would be met through contributions from the participating boroughs to a total of £1.5m and that any excess over the £1.5m would be met by the LCIV. At that time 30 boroughs had committed to fund the project since when a further two boroughs have agreed to participate and fund their share of the implementation funding.
3. At the time of the budget setting in 2014, very competitive fixed price contracts were agreed with the principal service providers Deloitte Consulting, Eversheds and Northern Trust but as one would expect with a project that was so unique with complicated variables, the original scope of the project and deliverables had to be flexed to accommodate some of the additional complexities that arose over the duration of the project.
4. At the time of this report although the launch of the LGIM funds has been scheduled for later in the year, the agreement with Deloitte tax advisory and Eversheds is that the work necessary to complete the LGIM fund launches will be covered by the existing fee arrangement.
5. The table below sets out the budget from December 2014, analysed by the main cost components compared to the actual costs as of June 2016.

	Budget as of December 2014	Actual as of June 2016	Variance	Note
	£k	£k	£k	
Deloitte Consultancy	750	755	-5	Para 6
Eversheds	370	426	-56	Para 8
Northern Trust	22	118	-96	Para 10
Mercer	50	50	0	Para 11
Other	542	454	88	Para 12
	1,734	1,803	-69	

Notes

6. Deloitte provided a number of services in respect of the implementation project. This included the following:-
 - initial scoping of the project;
 - preparation of the business plan;
 - preparation of the FCA application;
 - preparation of the regulatory capital requirements;
 - drafting of policies and procedures;
 - tax advice.
7. The actual costs incurred are in line with the original budget.
8. Eversheds provided the following services:-
 - legal advice on overall governance structures, and the structuring of the Company and the ACS Fund;
 - legal advice on the FCA application;
 - legal advice on the fund prospectus including a number of iterations necessary for each sub-fund launch;
 - legal reviews on all documentation including FCA compliance.
9. In respect of the original budget agreed with Eversheds, this budget was renegotiated due to unplanned complications arising from additional work necessary on such matters as fee disclosures and investor protections. Although this is additional expense beyond the original budget, the additional expenditure was considered necessary to ensure that investors' interests were properly secured.
10. Northern Trust; although not specifically identified as part of the original budget, it was agreed with Northern Trust that a contribution towards their set up costs would be more cost beneficial to investors rather than embedding start up costs in the ongoing administration charge. This additional cost overrun is offset by the budgetary saving in personnel costs in the 'Other' costs category.
11. Mercer were contracted to assist with the selection and appointment of the asset servicing provider (Northern Trust).
12. Other. This expense category comprises principally people costs, project management consultants, recruitment costs for permanent Board members payable to Odgers and central overhead costs payable to London Councils.
13. Of the above costs, £124k has been expensed in LCIV with the remainder being charged to the dedicated implementation fund (made up of contributions from participating authorities) maintained by London Councils.
14. A provisional sum of £45k relating to London Councils' overhead recovery and an invoiced amount of £28k from Eversheds have been accrued within the sum of £1.8 million. It is proposed that the implementation budget be kept open until the launch of the LGIM funds and the official notification of the London Councils' overhead recovery but it is not anticipated that further material amounts will be incurred from the implementation

budget and therefore a formal closure of the reporting of Implementation Program budget is requested.

Recommendations

15. The Committee is recommended to consider the report relating to the London CIV Implementation Program Closure Report.

Financial Implications

16. The financial implications are contained within the body of the report.

Legal implications

17. There are no legal implications for the Committee that have not been considered in the report.

Equalities implications

18. There are no equalities implications for the Committee.