

Pensions CIV Sectoral Joint Committee

Item no: 11

London CIV Governance Review

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Summary: At its meeting of 13 December 2016 the committee considered a report from London Councils covering constitutional matters associated with this Sectoral Joint Committee. This report provides a further update to Members and proposals for taking forward a wider governance review of all the arrangements pertaining to London CIV and the participating London local authorities, before making any changes that would have a direct impact on this committee.

Recommendations: The committee is recommended to consider and discuss the contents of this report.

London CIV Governance Review

Background

1. At its meeting of 13 December 2016 the committee considered a report from London Councils covering constitutional matters associated with this Sectoral Joint Committee and its dissolution (see Background Papers below).
2. Following that meeting, and in light of some of the concerns expressed further discussions have been had with the London Councils' Chair, Group Leaders and Chief Executive, the Chair and Group Leaders of this committee, and a range of stakeholders, including Treasurers from the Investment Advisory Committee (IAC). Those discussions have led to the decision that a wider governance review should be commissioned that will encompass all the governance arrangements pertaining to London CIV and the participating London local authorities (LLAs) before making any changes.

Proposal

3. The governance arrangements for LCIV and the participating LLAs were developed at an early stage and in the context of LLA participation at all levels being entirely voluntary. The government's intervention in terms of requiring all LGPS funds to enter into pooling arrangements has changed the environment to a more mandatory position. With that in mind, and because LCIV has completed its first year of operating it is proposed to commission a governance review that will cover arrangements both inside and outside the organisation.
4. In broad terms the aim of such a review will be to ensure that the overall governance structure is fit for purpose, and structured to ensure the right levels of control, decision making, and oversight both now and into the future.
5. LCIV's Board is fully committed to the review and has been consulting with the IAC Treasurers to draft the terms of reference and scope which is attached for consideration by Members. Subject to the views of Members a search and selection will be undertaken to find a suitable organisation (or suitably qualified individuals) to undertake the work. The aim will be to have a final report ready for consideration ahead of the summer recess.
6. Members will wish to note that the terms of reference and scope were put to London Councils' Leaders Committee on 7 February 2017 and any material outcomes of that meeting will be reported to this meeting by the Chair.

Recommendations

7. The committee is recommended to consider and discuss the contents of this report.

Legal Implications

8. There are no legal implications at this time.

Financial implications

9. There will be a cost associated to commissioning the governance review, it is not clear at this time precisely what that cost will be but the selection of a suitable

organisation (or suitably qualified individuals) will be done through a procurement exercise to ensure value for money.

Equalities Implications

10. There are no equalities implications for London Councils

Attachments

11. London CIV Governance Review Terms of Reference and Scope

Background Papers

Report to 13 December 2016 Pensions CIV Sectoral Joint Committee; Item 6, Constitutional Matters <http://www.londoncouncils.gov.uk/node/30892>

London CIV Governance Review

Terms of Reference and Scope

Background

London CIV (LCIV) was launched in December 2015 to be the operator of the London Local Government Pension Scheme (LGPS) pool, bringing together (over time) the pension fund assets of the 32 London boroughs and the City of London Corporation.

Originally the pooling arrangements were being set up on an entirely voluntary basis, with the level of commitment and investment resting entirely with each pension fund. However, in November 2015 the government published criteria and guidance that has changed the environment to one of mandatory pooling. The CIV has also reached full membership of all 33 London LGPS funds and consequently has to review the parts of its governance arrangements that relate to the London Councils' Sectoral Joint Committee that was established to provide democratic oversight of the pooling arrangements and acts as the forum for convening shareholder representatives at General Meetings of the company. It therefore makes sense to undertake a governance review, even though the arrangements have only been in place for a relatively short period of time.

The review is being commissioned by LCIV's Board with full engagement and consultation through London Councils' Leaders' Committee, the Sectoral Joint Committee and with representative borough Treasurers. The final report will be shared with those same groups for review and discussion, and to inform decisions about what changes to the current arrangements may be required.

Purpose

Consider the governance structures associated with the Pooling arrangements for the London LGPS funds as currently undertaken through LCIV arrangements, recommending potential improvements to ensure that all stakeholders have the necessary and appropriate level of engagement and influence, and that decision making is correctly positioned and defined. This should take into account the fiduciary, regulatory and statutory responsibilities of LCIV, its directors and officers, and the investing LGPS funds, including the impact of MiFID II on the investment status of local government.

Any proposals for change should recognise the stage of development that LCIV has reached (i.e. passing through start-up phase and heading towards business as usual) and should ensure that existing and any proposed structures are future proof and represent the most economic, efficient and effective use of scarce public sector resources.

Reference should also be had to the emerging structures in other LGPS pools with a view to determining whether there are any points of best practice that could be incorporated into any amended structure

Scope

1. Review roles and responsibilities and comment on the overall governance structure of LCIV in the context of its purpose, the requirements and needs of the investing LGPS funds, the government's policy on the pooling of LGPS funds, and the regulatory regime imposed by the FCA.

2. Review and comment on LCIV's committee structures, roles and responsibilities, terms of reference and composition (including the requisite skills, knowledge and training programmes) for the:

- Board;
- Executive Committee;
- Investment Oversight Committee;
- Compliance, Audit & Risk Committee; and
- Remuneration Committee.

to include documentation of key decisions.

3. Review, roles and responsibilities and comment on the committee structures that sit outside of LCIV, including terms of reference and composition (including the requisite skills, knowledge and training programmes) for the:

- London Councils' Pensions CIV Sectoral Joint Committee;
- Investment Advisory Committee

4. Review roles and responsibilities, as defined by regulations, of:

- London local authority pension Committees
- London local authority Treasurers
- London local authority Pension Boards

Stakeholders

Key stakeholders and groups of stakeholders are:

- London CIV directors and staff
- London Councils' Pensions CIV Sectoral Joint Committee
- London local authority Treasurers (AKA Section 151 Officers or the Society of London Treasurers)
- London local authority Pension Committees (or equivalent)
- London local authority Pension Boards
- London local authority Pension Fund Managers (or equivalent)
- Central government (i.e. DCLG and HM Treasury)
- The Financial Conduct Authority

Reference Material

Key reference material includes:

- DCLG, November 2015; Local government pension scheme: investment reform criteria and guidance
- DCLG, November 2015; Design of the structure and governance of efficient and effective collective investment vehicles for LGPS Funds
- CIPFA, Investment Pooling Governance Principles
- LGPS regulations
- Financial Services regulations and the FCA handbook
- Shareholders Agreement
- Articles of Association
- LCIV Business Plan 2017-20
- Relevant LCIV policies, including those for the appointment, oversight and management, and firing of 3rd party Fund Managers