

«Full\_name»  
«Job\_title»  
«AddressBlock»

Contact: Hugh Grover  
Direct line: 020 7934 9942  
Email: Hugh.grover@londoncouncils.gov.uk

Our  
reference:  
Your  
reference:

Date: 20 October 2014

Dear «First\_name»,

### **London LGPS CIV: progress update and next steps**

The project towards establishing the CIV continues to make good progress, with the project team in London Councils, supported by the Technical Sub-Group of borough colleagues, taking forward a number of key workstreams, including:

- Working with the project's lawyers, Eversheds, to revise the company's Articles of Association. Eversheds are drafting a Heads of Terms which will inform the amendment of the Articles, and this will be shared with all participating boroughs shortly to ensure that everyone has the opportunity to raise any issues before the final Articles come to the Board and the CIV Joint Committee for adoption;
- Developing the company's operating model to design a sensible mix of in-house and outsourced arrangements that will ensure robust procedures, responsibilities and accountabilities, and that will be acceptable to the FCA;
- Procuring the Asset Servicer that will be a core partner in the arrangements, delivering fund administration, custodian and depository services; and
- Engaging with fund managers to begin the work of deciding what fund mandates might be suitable to come onto the fund for launch. Once a proposal has been worked up it will be presented to the boroughs for final decisions ahead of going to the FCA for authorisation.

You will be aware that a company has been incorporated (London LGPS CIV Ltd.) and that 23 boroughs are currently shareholders with seven more about to become so. The Board of Directors met for the first time on 14 October and received an update on a number of issues including on budget matters.

The initial fund that was established following the December 2013 and February 2014 Leaders' Committee meetings, with a view to "...exploring the proposal..." has taken the project well beyond exploration, but now is in need of topping up. Once all thirty boroughs have made their initial contribution we will have gathered a fund of £750,000. Of this £469,000 has been spent or committed, leaving a balance of £281,000. It is clear that this will be insufficient to take the project all the way to launch and that further funds are now needed, to cover for example further financial and legal advice, professional services to

## APPENDIX ONE: CIV LETTER, EMAIL & BUDGET SENT TO BOROUGHES

work on the detailed operating model, including drawing up procedures and operating manuals, initial costs covering salaries and so on ahead of fees flowing from operations.

Best estimates of future expenditure suggest that the total cost of implementation might be in the region of £1.7 million (the estimate presented in the 11 February report to Leaders' Committee was in the region of £1.5 million), and with that in mind the Board has agreed that the company should approach all the participating boroughs for a further £25,000 contribution now and a final top-up of £25,000 on 1 April next year, hence this letter. For clarity, this funding is separate to the regulatory capital requirement on which the Board will write to you later once the detail in this area has become clearer.

Subject to no objections, the company will raise an invoice during w/c 27 October for your attention for "services leading to the establishment of a London LGPS CIV". If you need to raise a purchase order ahead of an invoice being raised or wish it to be addressed to a different recipient please pass the details to Hugh Grover at the contact details above.

While it is not yet possible to give completely accurate figures about the scale of savings expected through the CIV, some initial analysis of data and informal conversations with Fund Managers suggest fee savings in the area of 20 per cent might be achievable relatively easily. Obviously the extent of savings for each individual borough will depend on the extent of investments made, but across three of the managers we've spoken to informally, that have eight boroughs as clients, the savings appear to be somewhere in the region of £1 million per annum.

If you wish to discuss any of this, or raise any questions, please contact Hugh Grover.

Yours sincerely

A handwritten signature in black ink that reads "Jules Pipe". The signature is written in a cursive style and is positioned above a horizontal line.

Mayor Jules Pipe  
Chair  
For and on behalf of London LGPS CIV Ltd.

## APPENDIX ONE: CIV LETTER, EMAIL & BUDGET SENT TO BOROUGHES

**From:** [Buss, Chris](#)  
**To:** ["caroline.holland@merton.gov.uk"](#); [Buss, Chris](#); ["Chris.Holme@towerhamlets.gov.uk"](#); ["Chris.naylor@barnet.gov.uk"](#); ["Clive.Palfreyman@hounslow.gov.uk"](#); ["Conrad.Hall@brent.gov.uk"](#); ["debbie.warren@greenwich.gov.uk"](#); ["deborah.hindson@newham.gov.uk"](#); ["duncan.whitfield@southwark.gov.uk"](#); ["Geoff.pearce@redbridge.gov.uk"](#); ["gerald.almeroth@sutton.gov.uk"](#); ["gware@lambeth.gov.uk"](#); ["hitesh.jolapara@rbkc.gov.uk"](#); ["odonnelli@ealing.gov.uk"](#); ["ian.williams@hackney.gov.uk"](#); ["james.rolfe@enfield.gov.uk"](#); [Jane West; Senior, Janet](#); ["John.Turnbull@walthamforest.gov.uk"](#); ["jonathan.bunt@lbbd.gov.uk"](#); ["Kevin.Bartle@haringey.gov.uk"](#); ["leigh.whitehouse@rbk.kingston.gov.uk"](#); ["smair@westminster.gov.uk"](#); [Mark Maidment](#); ["mike.curtis@islington.gov.uk"](#); ["alison.griffin@bexley.gov.uk"](#); ["mike.o'donnell@camden.gov.uk"](#); ["peter.kane@cityoflondon.gov.uk"](#); ["Richard.Simpson@croydon.gov.uk"](#); ["Simon.George@harrow.gov.uk"](#);  
**cc:** [Hugh Grover](#);  
**Subject:** Collective Investment Vehicle- budget.  
**Date:** 24 October 2014 13:34:27  
**Attachments:** [20141024102132877.pdf](#)

---

Colleagues,

I know a number of you have been in contact with Hugh Grover, following Mayor Jules Pipe's letter to you which included notification of likely future costs to completion on the CIV. Quite rightly some of you have asked to see where your money is being spent and this is appended to this email ( see pdf file). However, in addition to the base numbers I feel that you also need an explanation as to why the costs are being incurred and what they are being spent on and the benefit you will gain from this expenditure. Before I do that I would re-iterate the comment made in Mayor Pipe's letter that the original £25,000 per borough was for "exploring the proposal". We have gone much further than this with significant technical work being done on structures. A lot of this work has been done or supervised by the Technical sub Group (TSG) of borough pensions officers which I have chaired fortnightly this year.

We have however reached the stage where we will need further external advice. Over the summer the TSG has been giving some thought to the appropriate balance of in-house and out-sourced functions that might inform the company's operating model. This thinking is seeking to deliver an appropriate balance between speed to launch, the desire of the boroughs to have ownership and control, and the requirements of the FCA in the context of the company being a regulated body.

This work has included informal discussions with a number of organisations that may be able to partner with the company in a mixed economy of in-house and out-sourced functions and responsibilities. However, it is clear that the TSG does not have the necessary experience or knowledge to finalise this critical area of the project without

calling on significant input from external advisors.

In order to take this forward a mini tender is being prepared to procure an advisor (consultant) with detailed knowledge of what the project is seeking to achieve combined with expert knowledge of the investment industry and this both new and complex type of investment vehicle. Overall the scope of this work will cover working with the TSG to design and build the operating model, procuring a third-party provider to deliver the outsourced functions, and taking us through the regulatory stages with the FCA including designing the various procedures and drafting the necessary manuals and so on.

The other large area of expenditure is the potential cost of Company officers and recruiting them. At present the exact date and whether these are part time or full time is to be determined by the Board of Directors in the near future but in order to get FCA approval for the ACS, we will need actual names on the doors rather than just an idea as to who we might like to do the job. The same applies to non Executive Directors.

You will I hope see from the budget that with a fair wind we are close to achieving the setting up for the original "finger in the air" estimate of £1.5 million but the permanent staff set up costs and the additional consultancy work on the ACS structure has brought this over the £1.5 million

Turning to the benefits of the CIV, discussions have started with the fund managers, initial indications are an average reduction on fees of 20% which will be further worked on. In addition to the above the CIV will give through the ACS structure additional benefits arising from the ability to reclaim withholding tax from a number of foreign domains that are not available through other structures. For those with overseas equities this increased income will not be insignificant. In addition there will be saving on procurement, FX transactions etc. It is quite clear to me that, even in year 1, the savings will significantly outweigh the £75,000 cost for most if not all boroughs, and as we go forward in future years the ROI will continue to grow.

Both Hugh and myself will be at the next meeting of SLT to update you on progress on the CIV but in order to avoid unnecessary prolongation of the meeting can I suggest that if you have any questions on the budget, likely savings or anything else to do with the CIV I would be happy to answer them in advance of the meeting. (One thing I will not be able to do however is to explain how to do a Rabona or demonstrate it.)

I look forward to hearing from you.

Yours Sincerely

Chris Buss

**Costs through to launch**

	£	£
<b>Expenditure committed to date</b>		
Deloitte - initial consultancy	-£150,000	
Eversheds	-£170,000	
Northern Trust	-£22,080	
Eversheds - procurement advice (inc. Counsel)	-£15,890	
Project Manager (to May 2015)	-£70,000	
Mercer	-£49,950	
Office equipment	-£911	
		<u>-£478,831</u>

<b>Income to date</b>		
Borough contributions (30 boros x £25k)	<u>£750,000</u>	<u>£750,000</u>
<b>Balance</b>		<b>£271,169</b>

**Estimated expenditure to Mar 2015**

Tax Advice consultancy	-£144,000	
ACS set up costs ( currently out to tender )	-£320,000	
Legal costs	-£160,000	
Transition consultant	-£20,000	
Recruitment and anticipated employment costs of CEO/ CIO / COO and non exec board members	-£190,000	
		<u>-£834,000</u>

<b>Additional income from boroughs now</b> (30 boros x £25k)	<u>£750,000</u>	<u>£750,000</u>
<b>Balance</b>		<b>£187,169</b>

**Estimated expenditure Apr 2015 - launch**

tax advice through to launch	-£36,000	
ACS set up	-£80,000	
Legal costs	-£40,000	
Transition consultant	-£80,000	
anticipated employment costs of CEO/ CIO / COO and non exec board members to launch	-£165,000	
		<u>-£401,000</u>

<b>Additional income from boroughs Apr 2016</b> (30 boros x £25k)	<u>£750,000</u>	<u>£750,000</u>
<b>Balance</b>		<b>£536,169</b>

**Total estimated expenditure to launch** **-£1,713,831**