



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	23 January 2018
Classification:	General Release
Title:	London Collective Investment Vehicle Governance Review
Wards Affected:	All
Policy Context:	Effective control over Council Activities
Financial Summary:	Although no direct impact on the general fund, the Pension Fund has in excess of £500m invested directly with the London Collective Investment Vehicle (CIV) and consequently has vested interests in good governance arrangements
Report of:	Steven Mair <i>City Treasurer</i> smair@westminster.gov.uk 020 7641 2904

1. EXECUTIVE SUMMARY

1.1 This paper updates Members on:

- a. The governance review of the London CIV (LCIV) undertaken by Willis Towers Watson.
- b. The report highlights a number of issues that currently exist within the LCIV.
- c. The report also makes a number of recommendations for change and improvement in LCIV's current governance arrangements.

2. RECOMMENDATIONS

2.1 That the Committee notes:

- a. The governance review attached at Appendix 1

3. GOVERNANCE REVIEW – KEY POINTS

- 3.1 It should be noted that the governance review highlights several significant concerns and makes a number of key recommendations.
- 3.2 The key concern surrounds the engagement of a wide stakeholder base with conflicting priorities and managing these different groups in order to achieve joint outcomes. The Investment Advisory Committee and the Joint Committee are not perceived to be operating optimally in their current forms.
- 3.3 There is also a perceived lack of transparency from LCIV in a number of areas, with particular concern in relation to manager selection.
- 3.4 There is a fundamental issue with the cost recovery model which is leaving LCIV underfunded and under resourced, especially in client relations and secretariat.
- 3.5 Formal arrangements for submitting priorities from each local authority would assist in holding LCIV to account, but this does not happen in this way and are only submitted ad hoc or not at all.

4. GOVERNANCE REVIEW - RECOMMENDATIONS

Key recommendations

- 4.1 The five key recommendations are listed below:
 - Establish and agree a more concise and narrowly defined set of statements of purpose – for LCIV, the PSJC and the IAC in particular. This is an absolute priority. Consistent and focused communication, with clear linkages with business planning and strategy, of this set of purposes is vital for them to be effectively embedded in practice.
 - The committee meeting cycle should be reviewed, reducing the number of full committee meetings and making greater use of sub-committees and working groups. Each committee should be focused on a clearly defined set of objectives within accompanying measures. The Terms of Reference of the stakeholder committees (PSJC and IAC or replacement equivalents) require concurrent redrafting.
 - A well-resourced Secretariat function is required to support the various committees and governance bodies. This should likely come from LCIV, recognising that this needs to be appropriately funded.
 - There needs to be a recognition of the importance of transparency and cultivating trust, and a clear cultural and strategic shift to embedding this at the heart of LCIV pooling arrangements. LCIV and its stakeholders should take this opportunity to reset their relationship. The client portal offers an excellent mechanism for efficient, open and comprehensive information sharing – it should be set up as a ‘one-stop shop’ to distribute

LCIV information to stakeholders, and in turn fully utilised by stakeholders to gather the information they require.

- An independent resourcing and cost model review is required to give further clarity and recommendations on the appropriate levels of each, including how these develop over time.

Additional Recommendations

4.2 The report also laid out five other supplementary recommendations below:

- A useful mechanism for stakeholders to express clearly to LCIV their priorities, concerns and key measures of interest would be an annual 'Letter of expectations'. The PSJC (or similar replacement body) would be the most appropriate vehicle for delivering this.
- The Terms of Reference for the key stakeholders' committees and working groups are significantly below those of good practice investment organisations. There are issues over comprehensiveness as well as over clarity of purpose and scope of responsibilities which need to be remedied.
- LCIV needs to invest significantly in improving its database (quantitative knowledge) and understanding (qualitative knowledge) of the LLA funds – this has systems and resourcing (particularly in the Client Relationships function) implications.
- Reporting to stakeholders should be more streamlined and focused, bringing out strategic KPIs and measures of success.
- It seems appropriate at this stage to move away from the London Councils' governance model, with its associated constraints (including some political separations).

4.3 The full report is attached at appendix 1 for further consideration.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – LCIV Governance Review