London LGPS CIV Limited ("London CIV")

Participation in the Local Government Pension Scheme ("LGPS")

Summary of Position and Documentation

1. Introduction

1.1 This paper accompanies two separate legal agreements for shareholders to sign relating to London CIV's participation in the LGPS as an admission body. These agreements were agreed in principle at the PSJC meeting on 31 January 2018. The two separate agreements are:

1.1.1 A Pension Guarantee Agreement to provide a guarantee from the shareholders of London CIV to the City of London Corporation Pension Fund ("Fund") in respect of any unpaid exit payment due from London CIV if its admission agreement terminates (or if it otherwise ceases to have any active members left in the Fund). The purpose of this agreement is to provide a guarantee to the Fund as a condition of the City of London Corporation agreeing to admit London CIV as an admission body in its Fund; and

1.1.2 A Pension Cost Recharge Agreement to provide reimbursement from the shareholders of London CIV to the company in respect of the employer contributions that the company has to pay to the Fund. The purpose of this agreement is to create an asset on the company's balance sheet which can be used to balance any balance sheet liability representing any deficit in the Fund (as calculated on an accounting basis) resulting from the company's participation in the Fund as an admission body.

2. Background to Participation in the Fund

2.1 In order for London CIV to be able to offer its employees LGPS pension benefits, it needs to be admitted as participating employer in the LGPS and therefore one of the London LGPS pension funds is needed to admit London CIV to its fund.

2.2 Given the equal shareholding of each authority in the company, there was no obvious pension fund for London CIV to participate in. However, the City of London Corporation agreed that the company could participate in its Fund subject to an appropriate guarantee being given by the company shareholders to protect the Fund and its other scheme employers in the event that London CIV could not afford to pay any exit payment to the Fund if its admission agreement terminated (or it otherwise ceased to have any active members left in the Fund).

2.3 It has been agreed with the City of London Corporation that London CIV should be admitted to the Fund as an admission body under paragraph 1(e) of Part 3 of Schedule 2 to the Local Government Pension Scheme Regulations 2013 ("the Regulations") as a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the LGPS. It was not considered that London CIV qualified for admission to the LGPS on any other basis.

2.4 As a result, a request was made on 6 December 2017 that the Secretary of State at the now Ministry for Housing, Communities and Local Government ("MHCLG" – formerly the Department for Communities and Local Government) should approve the admission of London CIV as an admission body on this basis. Approval was granted on 21 February 2018.

3. **Pension Guarantee Agreement**

3.1 The guarantee agreement has been drafted so that, in the event that London CIV's admission agreement with the Fund terminates (or if it otherwise ceases to have any active members left in the Fund) and the company fails to pay any exit payment due under Regulation 64(2) of the Regulations, each of the Shareholders will, on a several basis, pay their 'proportionate share' of the unpaid exit payment.

3.2 The guarantee agreement will therefore only be called upon in certain limited circumstances where London CIV has failed to meet its obligations under the Regulation to the Fund. See also section 4.9 below.

3.3 The proportionate share is based on the number of shareholder authorities listed in the schedule to the agreement and based on the current number of shareholders is 1/32nd each. This reflects the transfer of Richmond's shares in London CIV to Wandsworth pursuant to The Local Government Pension Scheme (Wandsworth and Richmond Fund) Regulations 2016 (SI 2016/1241).

3.4 The guarantee agreement is a single agreement signed by all shareholder authorities, the City of London Corporation in its capacity as the administering authority of the Fund and London CIV (although the agreement can be executed in counterpart copies). All authorities need to sign the guarantee agreement for it to be legally binding.

3.5 The obligations under the guarantee agreement shall continue even if an authority ceases to be a shareholder in London CIV unless all authorities agree to change the list of the shareholder authorities set out in the schedule to the agreement. This would then change the 'proportionate share' that each authority has to pay. For example, if one shareholder authority was to be removed from the schedule then the proportionate share would change from 1/32nd to 1/31st .

3.6 Each authority's liability under the guarantee agreement is several rather than joint and several.

4. **Pension Cost Recharge Agreement**

4.1 The recharge agreement is a completely separate agreement to the guarantee agreement and serves a different purpose.

4.2 The recharge agreement provides a mechanism for the shareholders to reimburse London CIV (not the Fund) for the pension costs the company has to pay to the Fund, including its regular monthly employer contributions due under its rates and adjustment certificate, any one-off contributions such as strain costs payable on redundancy or ill health early retirement and any exit payment arising on termination of the admission agreement (or if London CIV otherwise ceases to have any active members left in the Fund).

4.3 The purpose of this agreement is to create an 'asset' on the company's balance sheet which can be used to counter any balance sheet liability representing any deficit in the Fund (as calculated on an accounting basis) resulting from the company's participation in the Fund as an admission body.

4.4 London CIV's annual financial statements are prepared in accordance with Financial Reporting Standard 102. In applying the general recognition principle in paragraph 28.3 of the Standard to defined benefit pension plans such as the LGPS, London CIV has to recognise a liability for its obligations in the Fund net of its share of Fund assets. For this purpose, liabilities are calculated on a different actuarial basis to the basis actually used by the Fund's actuary to carry out Fund valuations. This calculation may result in a deficit liability on London CIV's balance sheet. This could in turn affect level of regulatory capital that the company needs to hold to satisfy the FCA.

4.5 However, under paragraph 28.28 of Financial Reporting Standard 102, if London CIV is virtually certain that another party or parties will reimburse some or all of the expenditure required to settle a defined benefit obligation then the company can recognise its right to that reimbursement as a separate asset in its annual financial statements and shall treat that asset in the same way as its share of the Fund assets. The recharge agreement is intended to act as such an asset.

4.6 The recharge agreement is a series of individual agreements entered into by each shareholder authority and London CIV. Each of the shareholder authorities will, on a several basis, pay their 'proportionate share' of the company's pension costs.

4.7 The proportionate share is based on the number of shareholder authorities listed in the schedule to the agreement and based on the current number of shareholders is 1/32nd each.

4.8 The obligations under the recharge agreement shall continue even if an authority ceases to be a shareholder in London CIV unless all authorities agree to change the list of the shareholder authorities set out in the schedule to the agreement. This would then change the 'proportionate share' that each authority has to pay. For example, if one shareholder authority was to be removed from the schedule the proportionate share would change from 1/32nd to 1/31st.

4.9 If the company uses the payments made to it under the recharge agreement to pay for all the contributions it owes to the Fund (including any exit payment) then there should be no reason for any call to be made by the Fund under the guarantee agreement as all contributions due from London CIV will have been paid.

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