



PENSIONS COMMITTEE 31 October 2012	

Subject Heading:	REVIEW OF THE PENSION FUND CUSTODIAN
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Policy context:	Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer.
Financial summary:	Cost of custodian services was £56,051.21 in 2011/12.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input checked="" type="checkbox"/>
High customer satisfaction and a stable council tax	<input type="checkbox"/>

SUMMARY

This report reviews the annual performance of the Custodian, State Street, for the period April 2010 to March 2012.

RECOMMENDATIONS

It is recommended that the Committee notes the views of officers on the performance of the Custodian and makes any comment on the report which it considers appropriate (section 3 refers).

REPORT DETAIL

1. Background

- 1.1 At its meeting of 8th September 2004, Members were informed that following a competitive tender process, State Street had been appointed via a Chairman's decision to provide an investment custodial service to the Havering Pension Fund. State Street was appointed for the period from 31st December 2004 until terminated by either party. The Council may terminate this agreement by giving at least 28 days notice. The Custodian may terminate the agreement by giving at least 90 days notice.
- 1.2 During 2010/11 officers's negotiated with State Street a new fee structure which became operational on the 1 August 2011.

2. Review of the Custodian's performance

- 2.1 The Global Custodian State Street operate a wide range of functions. This falls into two main categories:

- Safe Keeping and Custody
- Investment Accounting and Reporting.

- **Safe Keeping and Custody**

This refers to the maintenance of accurate records and certificates of the ownership of stock and ensuring that dividend income and other distributions are received appropriately. The Custodian also manages the tax position of the fund, claiming back any recoverable overseas withholding tax paid on dividends received and maintaining the tax records of the fund.

- **Investment Accounting and Reporting**

State Street produce accounting reports that are similar to those the investment managers produce for the fund. They keep a record of the book costs and the holdings in the various asset classes and also provide a market valuation of the fund. This is done for each of the investment

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managers' portfolio as well as at the total fund level. State Street records are therefore considered to be master records and these records are used for accounting purposes. Reports currently produced by State Street are in a format that meets the Statement of Recommended Practice (SORP) requirements. Some additional data was produced by State Street for use in complying with the International Financial Reporting Standards (IFRS).

- 2.2 Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer. This is the seventh formal assessment of the custodial service by this Committee.
- 2.3 Officers have regular meetings with State Street where the service delivery is discussed.
- 2.4 The review shown below is set out in the same format as previous years. The results of the review of performance are set out in the table below and have been discussed with State Street.

CRITERIA	ASSESSMENT
What is important to the Authority	<p>It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for.</p> <p>It is important that accurate accounting records are maintained and appropriate reconciliations are provided with the numerous fund managers, investment advisers and performance measurers.</p> <p><i>Officers have confidence that the assets are secure and accounted for correctly.</i></p> <p><i>Officers have confidence that accurate accounting records are maintained. State Street produces quarterly reconciliations of valuations and holdings to fund manager records. Where differences occur outside the agreed tolerance levels explanations are provided. State Street and officers also undertake quarterly reconciliations of accounts in the SORP format and this process is proving to be successful in that any errors can be identified early and can therefore assist the closedown process at year end. Additional data was also produced to meet the International Financial Reporting Standards.</i></p>
Safe keeping and custody	This relates to the core functions of the custodian.

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CRITERIA	ASSESSMENT
	<i>Officers are appreciative of how this role is performed and believe that this is a high quality service.</i>
Prompt and responsive service	<i>Response times to queries on invoices are good. Response times to queries on the accounts are good.</i>
Support arrangements	<i>The support arrangements in place are good.</i>
Good communication	<i>Monthly reports are produced in CD format within prescribed timetables and the timeliness of issuing these reports has greatly improved. These reports are comprehensive but the data still requires reformatting and supplementing by additional reports in order that LBH officers can produce the accounts in the format as recommended in the SORP. Officers are in discussions with State Street concerning obtaining the reports directly from the State Street website thereby eliminating the use of the CD. It is anticipated that less reformatting of reports will be required.</i>
Provision of data for the Office of National Statistics (ONS) Returns	<i>State Street has improved the timeliness of this data but can only deliver audited data following completion of reports at month end. ONS completion deadlines do not coincide with State Streets' reporting timetable and this will continue as it is unlikely that the ONS will relax their completion deadlines.</i>
Overall Summary	<i>Officers are satisfied with the performance of State Street with regard to Safe Keeping and Custody functions and would like to see the improvements made for Investment Accounting and Reporting functions to be sustained.</i>

3. Conclusion

- 3.1 Officers are satisfied with the safe keeping and custody functions provided by State Street custodians.
- 3.2 Officers are pleased with the continued improvements made to the investment accounting and reporting functions. Officers will continue to monitor State Street to ensure that the level of improvement is sustained.
- 3.3 A new fee schedule had been negotiated and in operation from 1 August 2011.

IMPLICATIONS AND RISKS

Financial Implications and risks:

The cost of custodian services for the year to 31st March 2012 was £56,051 (2010/11 £120,749). The reduction in fees is mainly attributable to not using an Active Global Fund Manager during 2011/12; no fees for custody or transaction costs were applicable. These costs are met from the Pension Fund. The costs cover transaction charges, administration costs and custody fees based on a pre agreed unit price applied to the value of the individual fund's assets and each transaction.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

None arising directly

Equalities implications and risks:

There are no equalities implications to this report

BACKGROUND PAPERS

Working papers held within Corporate Finance