

<p>PENSIONS COMMITTEE 30 October 2013</p>	<p>REPORT</p>

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 for the period was £60,943.

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 performance of the Custodian, State Street, for the period April 2012 to September 2013.

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.

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 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 can

be used for us to comply 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 and a new fee structure became operational from 1 August 2011. This is the eighth formal assessment of the custodial service by the Pensions 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 the accounts in an IFRS 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.</i></p>
Safe keeping and custody	<p>This relates to the core functions of the custodian.</p> <p><i>Officers are appreciative of how this role is performed and believe that this is a high quality service.</i></p>
Prompt and responsive service	<i>Response times to queries on invoices</i>

CRITERIA	ASSESSMENT
	<p><i>could be improved. Officers to liaise with State Street to determine how improvements can be made.</i></p> <p><i>Response times to queries on the accounts are good.</i></p>
Support arrangements	<p><i>The support arrangements in place are good.</i></p>
Good communication	<p><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 IFRS.</i></p> <p><i>Officers will make arrangements with State Street concerning obtaining the reports directly from the State Street online accounting system during 2013/14 thereby eliminating the use of the CD. It is anticipated that less reformatting of reports will then be required.</i></p>
Provision of data for the Office of National Statistics (ONS) Returns	<p><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 Street's reporting timetable and this will continue as it is unlikely that the ONS will relax their completion deadlines.</i></p>
Overall Summary	<p><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></p>

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 investment accounting and reporting functions. Officers will continue to monitor State Street to ensure that the level of service is sustained.

IMPLICATIONS AND RISKS

Financial Implications and risks:

Invoices have only been received up to the period covering June 2013. The cost of custodian services for the period from 1 April 2012 to 30 June 13 was £60,943 (April 11 to March 12 was £56,051). 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.

The custodian fees are met from the Pension Fund.

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