



Havering

L O N D O N B O R O U G H

PENSIONS COMMITTEE AGENDA

7.00 pm

**Tuesday
12 November 2019**

**Town Hall, Main Road,
Romford**

Members 7: Quorum 3

COUNCILLORS:

**Conservative Group
(3)**

**Residents' Group
(1)**

**Upminster &
Cranham Residents'
Group (1)**

**Labour Group
(1)**

John Crowder
(Chairman)
Osman Dervish
Jason Frost

Stephanie Nunn

Ron Ower

Keith Darvill

**North
Havering Residents'
Group (1)**

Martin Goode (Vice-Chair)

Trade Union Observers

(No Voting Rights) (2)

Andy Hampshire, GMB

**Admitted/Scheduled Bodies
Representative**

(Voting Rights) (1)

**For information about the meeting please contact:
Luke Phimister 01708 434619
luke.phimister@onesource.co.uk**

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

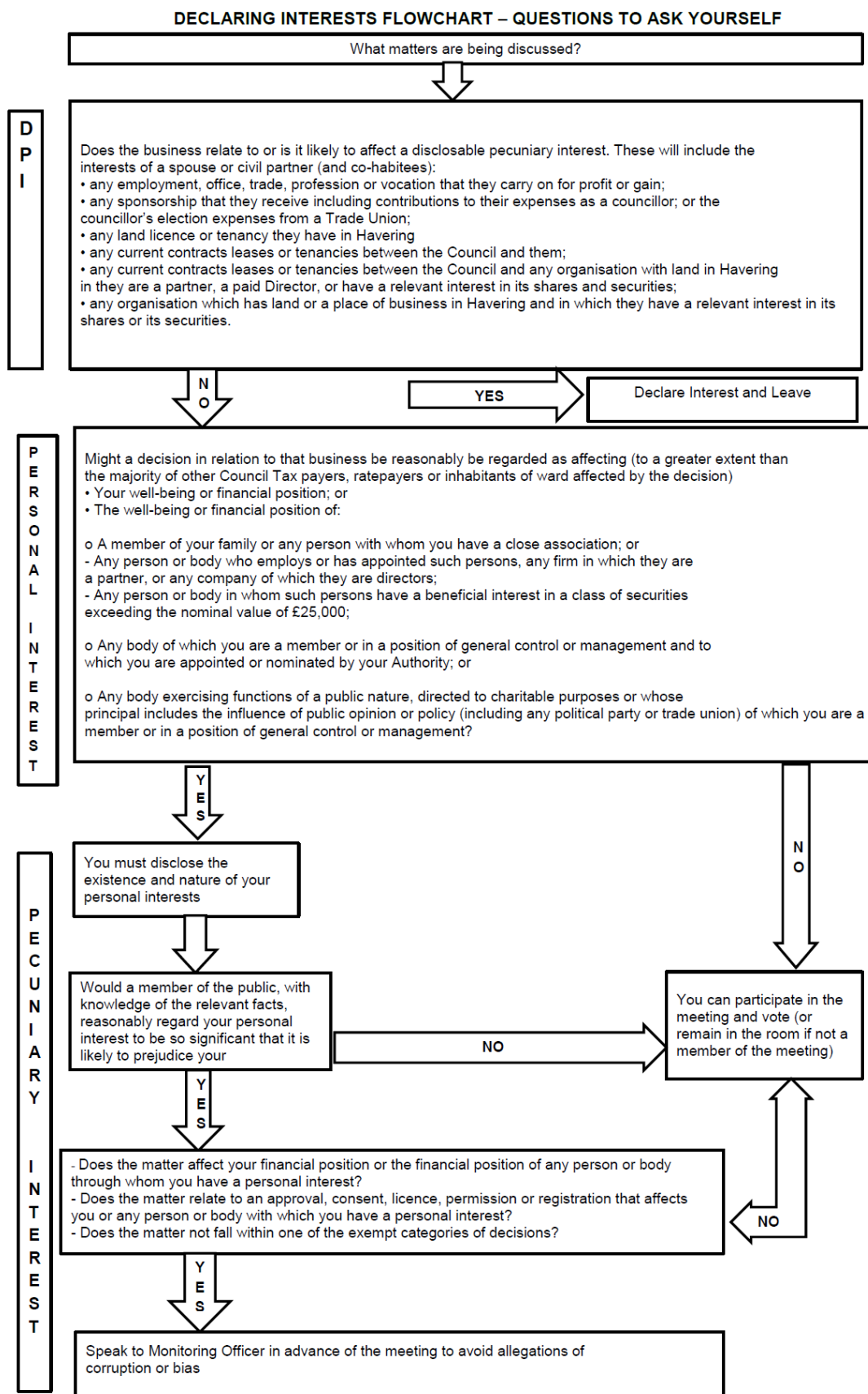
Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.



AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF INTERESTS

Members are invited to disclose any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 17 September 2019.

5 MINUTES OF THE LOCAL PENSION BOARD (Pages 5 - 8)

To receive the minutes of the Local Pension Board.

6 ACTUARIAL PERFORMANCE REVIEW (Pages 9 - 14)

7 INVESTMENT CONSULTANCY PERFORMANCE REVIEW (Pages 15 - 62)

8 REVIEW OF GOVERNANCE COMPLIANCE STATEMENT (Pages 63 - 84)

9 REVIEW OF PENSIONS FUND CUSTODIAN (Pages 85 - 90)

10 WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT (Pages 91 - 98)

Andrew Beesley
Head of Democratic Services

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
17 September 2019 (7.00 - 9.30 pm)**

Present:

COUNCILLORS

Conservative Group John Crowder (Chairman), Osman Dervish and Jason Frost

Residents' Group Stephanie Nunn

Labour Group Keith Darvill

**Independent Residents
Group**

Apologies were received for the absence of Councillors Hampshire and Ron Ower.

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

121 DISCLOSURE OF INTERESTS

There were no declarations of interest.

122 MINUTES OF THE MEETING

The minutes of the meeting of the Pensions Committee held on 24th July, 2019 were agreed and signed by the Chair as an accurate record of the same.

123 MINUTES OF THE LOCAL PENSION BOARD

The minutes of the Local Pensions Board held on 24th July, 2019 were agreed and signed by the Chair as an accurate record of the same.

124 INTERNAL CASH MANAGEMENT POLICY REVIEW

The Cash Management Policy Review was presented to the Pensions Committee

Appendix A of the report was exempt from publication. The proposed policy to be adopted was outlined to the Committee and agreed the updated Cash Management Policy

125 GOOD GOVERNANCE IN THE LGPS

Consideration was given by the Pensions Committee to the Good Governance in the Local Government Pension Scheme report.

This report detailed the Good Governance Report in the LGPS produced by Hymans for the Committee to note. The full report dated July 2019 was available at page 31 of the agenda pack.

Following discussion the Committee:

- NOTED the report.

126 INVESTMENT STRATEGY UPDATE - ALLOCATION TO MULTI ASSET CREDIT

The Investment Strategy Update – Allocation to Multi Asset Credit was presented to the Pensions Committee.

Appendix A of the report was exempt from publication. The report has been produced by the Fund's Investment Advisor (Hymans) to consider the allocation to a multi-asset credit (MAC) product.

Following discussion, the Pension Committee:

- **AGREED** the recommendations as set out in the report prepared by Hymans.

127 LOCAL PENSION BOARD ANNUAL REPORT- YEAR ENDED 31 MARCH 2019

The Committee noted the Annual report from the Local Pension Board. Members noted the expenses incurred by the Local Pension Board for the year 18/19.

The Committee agreed to have Annual Report published electronically.

128 THE PENSIONS REGULATOR IN DEPTH ENGAGEMENT UPDATE

The report presented to the Committee informed it of the Pensions Regulator conducting an in depth review of Havering as part of a nationwide review of the governance and administration of the Local Government Pension Scheme. The members noted that the Pensions Regulator had found areas of good practice in the Havering Scheme. The Pensions Regulator will publish a report in autumn covering key learnings and good practice.

The Committee noted the report and the suggested actions by the Pensions Regulator.

129 EXCLUSION OF THE PUBLIC

130 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2019

The Committee noted the report on the Pension Fund Performance for the quarter ending in June 2019. The report outlined the performance of the Havering Pension Fund, the Fund Manager Monitoring and any relevant Local Government Pension Scheme for the quarter ending 30th June 2019.

The Committee agreed all recommendations listed in the report.

131 LONDON CIV - REMUNERATION POLICY REVIEW

The Committee was advised of the London CIV Board's proposal regarding the London CIV Pension Scheme. Members of the committee noted the Board's proposals following the 8th July 2019 meeting as set out below:

- recognise that continuing with the status quo is unlikely to be appropriate in the longer term
- keep the LGPS for existing staff and close it to new hires
- recognise that to make the package competitive to new hires (given our current remuneration package) we will need to offer higher salaries (or a combination of a Defined Contribution (DC) scheme and higher salary)
- explore the options for an appropriate DC scheme in more detail, bearing in mind that the current DC scheme is a "basic" NEST auto-enrolment scheme.

That the Committee agreed the London CIV Board's preferred position: to retain the LGPS for existing staff and close it to new hires.

Chairman

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**MINUTES OF THE MEETING OF THE
LOCAL PENSION BOARD
Town Hall, Main Road, Romford
1 October 2019 (4.10 - 5.50 pm)**

Present:

Anne Giles (Scheme Member Representative)

Denise Broom (Employer Representative)

Mark Holder (Scheme Member Representative)

There were no apologies for absence.

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

3 DISCLOSURE OF INTEREST

There were no declarations of interest.

4 MINUTES OF THE MEETING

The Board members questioned whether the Terms of Reference had been updated.

Action: Luke Phimister to check Terms of Reference and circulate amended version to Caroline Berry for uploading to the website.

The minutes of the meetings held on the 20 August 2019 were agreed as a correct record and signed by the Chairman.

5 MONTHLY LPP PERFORMANCE REPORT

The members noted that there had not been enough time since the previous LPP Performance Report for any meaningful changes to have occurred however most case types were at 100% on time. The Board noted 2 complaints received by Pensions however these were the first complaints for some time and the number of complaints should reduce as cases on hold are completed. The Board agreed to discuss the quarterly LPP report with a case by case of those at the next Board meeting.

Members were advised that the increase of on hold cases may be due to being on hold in the wrong category, there may be duplicate cases where an employee has transferred from another service and has left before their case is complete or Pensions are waiting on an action from the previous

employer. The Board was advised that data may differ due to the monthly reports and the quarterly reports being compiled by different teams within LPP so in turn on different days of the month however, Caroline will endeavour to have these run as close as possible for the best comparison at the next Board meeting.

Board members expressed the view that for the LPP monthly performance report, they would prefer to have only Cases Completed Summary included in the forthcoming meeting agendas with the full report still available should they wish to review it. The Board also expressed that they would like LPP to be invited to attend every other meeting/ every 6 months with LPP being invited to the next meeting to be questioned over the quarterly report.

Action: Caroline Berry to reduce the LPP monthly report to the singular page stated above and to invite LPP to the next Board meeting.

6 COMPLIANCE CHECKLIST

The Board noted that there are no longer any red sections in the compliance checklist. The members noted that B12 is ongoing and the deadline has been pushed back to 31/12/19. The members also noted that C7 and D2 are complete and F9 has a draft data improvement plan in place but it still needs to be formalised. It was advised to the Board that I4 had not changed as they are still to liaise with employers and an update will be provided at the next meeting as it is to be presented Pensions Committee in December.

7 PENSION REGULATOR REVIEW

The Board noted the high level of transparency offered by Havering when assisting with the Pensions Regulator Review. The Pensions Regulator Review stated havering could easily evidence their data improvement plan even though it isn't in place yet. Members noted that the Pensions Committee is keen for the Local Pensions Board to set up a data log or similar to follow up on the review. The members were advised that there were still areas Havering could improve however overall the Pensions Regulator Review was impressed with Havering. Members were also advised that Pensions Regulator may come back to Havering in the future to see if havering has adopted best practise in line with this review.

Action: Caroline Berry to bring action plan to next Local Pension Board meeting

8 COMMUNICATION CAMPAIGN

The Board was advised that Pensions need advice on how to communicate effectively with external staff, for example, School Business Managers. The members put forward ideas for posters, leaflets for teacher's annual budget packs, flyers in pigeon holes, email to the generic office email for schools to be distributed, and posts on the resources section in the HES portal. Other

suggestions were roadshows on inset days in schools, face to face sessions, for example, “Lunch and natter” events where staff can discuss at lunchtime.. The Board noted that more guidance needs to be given to managers whose team members are taking a flexible retirement.

Action: Caroline Berry to give update and the next Board meeting

9 **RISK REGISTER (STANDING ITEM)**

The Summary of Further Actions for discussion and a hand out of details of 2 amendments to the Risk Register were circulated.

- The first item outlines the risk of LCIV staff turnover, how this undermines investor confidence and how the MTFS prediction may fail to reach the target, meaning that annual development charges may not decrease as expected. The Board noted that to mitigate this risk, development costs are reported by the LCIV at the General Shareholder meetings and monitoring meetings that are held quarterly between Havering officer and the LCIV client relations team. The Board agreed to add this risk to the register and for the LCIV development costs to be monitored as an action.
- The second risk details the non-compliance of Fund managers to the Code of Transparency. The consequence is that Havering may not be able to disclose full costs in the Pensions Fund Annual report, so to mitigate this, Fund managers are encouraged to complete the compliance template annually at the end of the financial year and the Board agreed to include this on the risk register with the scrutiny of compliance to be an action.

10 **CODE OF TRANSPARENCY**

The report presented to the Board details which Fund managers have voluntarily opted to be compliant with the Code of Transparency. The table on page 107 shows which fund managers are or are not yet compliant with the Code.. Members asked for basic training to be delivered at the next Board meeting to aid their understanding of the pooled accounts, the returns for each fund manager and the fees Havering pays for each fund manager.

Action: Debbie Ford to create a spreadsheet breaking down the returns and fees for each Fund manager for the next Board meeting.

11 **WORKPLAN**

The Board noted that point 3 was in relation to Item 7 and that point 6 was to be discussed if there were any changes or amendments made to the rules. The Board also noted that the future LPB meeting dates had not been circulated to the members so they asked the clerk to circulate them.

Action: Luke Phimister to circulate dates of next meetings.

12 TO RECEIVE FEEDBACK FROM RECENT MEETINGS OF THE PENSIONS COMMITTEE

There was no update of the previous Pensions Committee presented to the Board. The minutes of the previous Pensions Committee held on the 17th September 2019 and the minutes for the Special Pensions Committee meeting due to be held on 12th November 2019 will be included on the agenda for the next meeting.

Chairman

PENSIONS COMMITTEE

12 NOVEMBER 2019

Subject Heading:

PENSION FUND ACTUARIAL
SERVICES PERFORMANCE REVIEW- 1
October 2018 to 30 September 2019

SLT Lead:

Jane West

Report Author and contact details:

Debbie Ford
Pension Fund Manager (Finance)
01708 432569

Policy context:

Debbie.ford@onesource.co.uk
A review of the performance of the
services provided by the Actuary
demonstrates compliance against Myners
principles and contract procedure rules

Financial summary:

Actuarial net costs are met from the
Pension Fund or from scheme employers
where rechargeable

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report reviews the performance of the Actuary from the 1 October 2018 – 30 September 2019.

RECOMMENDATIONS

Members note the views of officers on the performance of the Actuary during the period 1 October 2018 to 30 September 2019.

REPORT DETAIL

1. The Fund, following a further mini competition exercise, appointed Hymans Robertson under Lot 1 (Actuarial Services). The contract commenced on the 16 July 2018 and terminates on the 15 July 2023 with an option to extend up to a further two years to 15 July 2025 if required (contract variations were approved to cover the period from April 2018 until July 2018).
2. Hymans Robertson are the incumbent actuary for Havering Pension Fund and been with the Fund since April 2010.
3. Service continuity remains as there have not been any significant changes to the day to day contacts at Hymans.
4. An annual assessment of the Fund's Actuarial Services performance is in line with Myner's Principle number 4 on performance measurement.
5. Monitoring the contract meets post contract award procedures and ensures services are being delivered in accordance to the contract.
6. Actuarial services includes but are not limited to completion of the triennial valuation exercise, Funding Strategy Statement preparation and advice, annual accounting valuations of pensions liabilities (in accordance with Financial Reporting Standards (FRS) 102/ International Accounting standards (IAS)19 requirements, the provision of carrying out opening valuations for new scheme employers; closing valuations for exiting scheme employers; benefit administration advice and ad-hoc advice and guidance which takes account of their knowledge of the fund position and fund strategies.
7. The Actuary also provides advice regarding changes in legislation affecting the Pension Fund, reviews guidance, and provides scheduled and admitted body contribution rates and other calculations as required.
8. Since September 2018 the Actuary has undertaken the following:

Valuation 2019:

- Preparation and attendance at pre valuation meeting
- Discount rate modelling
- 2016 results GAD Section 13 Valuation paper
- Attendance at valuation results meeting
- Formal Valuation 2019 activities

Employers:

- New Academies – calculation of opening position and contribution for - Dame Tipping, Hacton and Sanders.
- Cessation reports for - Family Mosaic and Caterlink
- Continued work in respect of College mergers
- Provided new contribution rates and indemnity reports for - Lewis & Graves and Essex Cares.
- Sodexo Catering – revised opening position and Cessation report
- Provided Pensions Information Memorandum report for LIFE Education Trust and Public Realm

Accounting:

- Produced statutory accounting disclosures (IAS19 and IAS26) for the London Borough of Havering and FRS17/102 disclosures for the Colleges and Academies.
- Produced the actuarial statement for the statement of accounts.

General

- Actuarial support in respect of fund matters – including advice on early retirement factors, ill health, Scheme Advisory Board (SAB) Cost Management Valuation, McCloud, Guaranteed Minimum Pension (GMP), pass-through.
 - Revised Funding Strategy Statement in respect of cessation exit credits
 - Provision of Funding Strategy Statement 2019
 - Provided a briefing paper on pre-funding employer lump sum secondary contributions.
 - Data improvement plan – General discussion, preparation and attendance at workshop, provision of template and initial population of template.
9. Hymans has delivered a diverse range of advice and assistance to the Council over this period. Service delivery response times remain excellent. All relevant services required during the period 1 October 2018 – 30 September 2019 were delivered in both a timely manner and to a good or excellent quality.
10. Hymans continually provides briefings on changes to legislation, government consultations, conference feedback and commentary on related news articles. These are viewed as excellent and give Council officers a steering on most issues arising. Shared consultation responses with the Fund – “Changes to the local valuation cycle & management of risk”, “Fair Deal – Strengthening Pension Protection” and “Restricting exit payments in the Public Sector”.
11. In conclusion, officers are satisfied with the service that Hymans Robertson is providing.

12. Officers have shared the outcome of the service performance review with Hymans which is set out above.

IMPLICATIONS AND RISKS

Financial implications and risks:

Fees are charged for the time spent on services, taking into consideration the complexity of the services provided:

The gross actual costs of the actuarial services for the period was £104,400 (Oct 17 to Sep 18 £80,019).

The above fees included actuarial work that was recharged to other employers within the fund to the sum of £56,150 (Oct 17 to Sep 18 £49,710).

The total net costs of £48,250 for the period 1 October 18 to September 19 (Oct 17 to Sep 18 £30,309) are met from the Pension Fund.

The higher costs during 1 October 2018 to 30 September 2019 are reflective of the work requested and mainly attributable to one off projects i.e. data improvement plan

Legal implications and risks:

There are no direct legal implications and risk arising from this report.

Human Resources implications and risks:

There are no direct human resource implications and risk arising from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

Note here the equalities and social implications of, and risks relating to, the proposed decision.

An Equalities Assessment (EA) will normally be required. Where the EA suggests that there is a significant impact upon ANY of the "protected characteristics", the EA must be an appendix to the report. In all other cases, the EA must be treated as a background paper.

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

There are no direct equalities implications and risk arising from this report.

BACKGROUND PAPERS

None

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PENSIONS COMMITTEE

12 November 2019

Subject Heading:

**INVESTMENT CONSULTANCY
SERVICES PERFORMANCE REVIEW**

SLT Lead:

Jane West

Report Author and contact details:

Debbie Ford
Pension Fund Manager (Finance)
01708432569
Debbie.ford@onesource.co.uk

Policy context:

LGPS (Management and Investment of Funds) Regulations 2016.

Financial summary:

Investment Consultant fees are met from the Pension Fund

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report asks for the Committee to agree strategic objectives set for the Fund's investment Consultancy Services provider (Hymans) and to review the performance of the Investment Consultant against those objectives for the period October 2018 to September 2019.

RECOMMENDATIONS

It is recommended that the Committee:

1. Agrees the Objectives set for the Investment Consultancy Services provider and the method for the ongoing performance measurement (**Appendix A**).
2. Note the views of officers on the performance of the Investment Consultant and makes any comment on the report which it considers appropriate (**Appendix A**).

REPORT DETAIL

1. Background

- 1.1 Regulation 9 (4) Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 state that the Fund must take proper advice in relation to the appointment and the terms on which the appointment [of an investment manager] is made.
- 1.2 As a result of an investigation by the Competition and Markets Authority (CMA) "The Investment Consultancy and Fiduciary Management Market Investigation Order 2019" (the 'Order') was issued. Amongst other recommendations it includes a requirement for trustees to set strategic objectives for their investment consultants (IC) (Part 7, Remedy 7).
- 1.3 The CMA also recommended that the Pensions Regulator produce guidance for trustees (Committees) to support them in meeting the new requirements. The Pensions Regulator "*trustee guide to: Setting objectives for providers of investment consultancy services*" is attached as **Appendix B**.
- 1.4 The term Investment Consultancy Services is used to describe the provision of advice to the committee to support decisions on matters such as investment strategy, strategic asset allocation and manager selection.
- 1.5 The Order that takes effect from **the 10 December 2019**.
- 1.6 The CMA has recommended that the Department for Work and Pensions (DWP) legislates to bring the requirements of the Order into Pensions Legislation. DWP has since published a consultation which seeks to enact the obligations placed on pension schemes under the Order. Consultation closed on the 2 September 2019. Unfortunately the Havering pension Fund did not

respond to the consultation as it was not aware of its issue until it was too late to respond

- 1.7 The DWP has also stated that *“Our regulations do not apply to the LGPS. In particular, we have made no provision for applying remedy 7 to the LGPS, as regulations and guidance in relation to the LGPS are a matter for the Ministry of Housing, Communities and Local Government” (MHCLG).*
- 1.8 The Scheme Advisory Board (SAB) also published a briefing, issued on the 1 August 2019, setting out the position of LGPS administering authorities under the Order. They suggest that it would be prudent for authorities to assume the IC requirements will apply and an assumption that Part 7; Remedy 7 will apply until such time as MHCLG make regulations and/or guidance which implements remedy 7 into the LGPS.
- 1.9 Administering authorities will also be obliged to submit a statement of compliance under Part 7 of the Order within 12 months and 4 weeks beginning 10th December 2019 and thereafter, annually. The compliance return will include:
 - a. Scheme the name and address of the IC provider
 - b. the most recent date on which the IC provider was appointed
 - c. whether the trustees have set objectives for the IC provider, and if not, why not
 - d. whether the trustees have reviewed the objectives set for the IC provider and if not, why not
 - e. whether the trustees have reviewed the services provided by the IC provider and if not, why not
- 1.10 Regardless of the outcome of the CMA order in regulations, the Committee have always adopted the procedure to undertake an annual assessment of the IC's performance, which can be seen in **Appendix A**.
- 1.11 Hymans was appointed to provide Investment Advisory services to the Havering Pension Fund for the period commencing on the 1st April 2012. After a one year extension this contract terminated on the 31 March 2019.
- 1.12 The Pensions Committee agreed to undertake the procurement of an Investment Adviser for the Fund through the “LGPS National Framework for Investment Management Consultancy Services”. Following a ‘mini’ competition exercise Hymans were awarded a further contract commencing on the 1 April 2019, duration of 5 years until the 31 March 2024 with an option to extend by a further two years until 31 March 2026.
- 1.13 Hymans have provided advice to the Fund since April 2006

2. STRATEGIC OBJECTIVES

- 2.1 The CMA report set out its remedies for improving the IC services received by customers. The aim is that pension scheme trustee's better monitor the performance of their IC provider by setting and measuring them against an appropriate set of strategic objectives. It is the intention that trustees must not enter into an agreement for the provision of IC services unless strategic objectives have been set for the provider.
- 2.2 Objectives were set out in the "LGPS National Framework for Investment Management Consultancy Services" and included within the contract for IC services provided to the Havering Pension Fund.
- 2.3 The CMA expects that trustees
 - a. set objectives for their IC service that have regard to the investment strategy statement
 - b. review the performance of each IC provider against their objectives at least every 12 months, and
 - c. review the objectives at least every 3 years and without delay after any significant change in investment policy
- 2.4 The CMA expect that objectives:
 - a. include a clear definition of the outcome expected to be delivered and the timescale over which it will be delivered
 - b. should be relevant to the services provided
 - c. should also enable the trustee to measure the performance of the IC services provided
- 2.5 The suggested strategic objectives are set out in **Appendix A**. The objectives have been produced by reference to the services required as set out in the "LGPS National Framework for Investment Management Consultancy Services" and included within the contract for IC services provided to the Havering Pension Fund. The services have been categorised under five objectives:
 - a. Demonstration of Value Added
 - b. Delivery of Specialist processes
 - c. Proactivity of advice
 - d. Support with scheme management and compliance
 - e. Support with additional matters arising
- 2.6 Within each of the five objectives, measure(s) of success and expected outcomes are listed with the expected timescales for delivery. It may be difficult to define an appropriate period to measure and attribute performance given investment market volatility and therefore duration of the contract is suggested as the measure except where an obvious timescale can be included i.e. quarterly monitoring reports.

- 2.7 The objectives are not dissimilar to those used in previous performance assessment but the format adopted is more in line with suggested practices as set out in The Pensions Regulator “*trustee guide to: Setting objectives for providers of investment consultancy services*” (**Appendix B** refers).

3. REVIEW OF THE INVESTMENT CONSULTANT SERVICE PERFORMANCE

- 3.1 The IC’s performance has been reviewed against the suggested objectives and with consultation of the Pensions Committee; the results of the review of performance over the year of review are set out in the attached Table (**Appendix A**).
- 3.2 Officers shared their proposed list of objectives and performance assessment for the year to September 2019 with the IC. The consultant agreed with the assessment by Officers of performance and noted their delight in being reappointed to work with the Fund following the retender exercise undertaken during the year. The IC proposed a series of success measures for each objective so that the IC performance could be explicitly assessed which has now been incorporated.
- 3.3 The core services provided by Hymans generally includes production of quarterly monitoring performance reports, attendance at least four Pension Committee meetings, provision of investment advice and performance monitoring of the fund’s investment managers.
- 3.4 Officers and the Pensions Committee conclude that they are satisfied that Hymans delivers a good service and have continued confidence in the advice being given.

IMPLICATIONS AND RISKS

Financial implications and risks:

Fees are generally charged on a time-cost basis as set out in the tender documents under Section 6.

Invoices have only been received for the period 1 October 2018 to August 2019 at a cost of £70,000, including estimated fees to September the total cost is expected to be in the region of £76,000 (1 October 2017 to September 2018 £78,540).

The costs of the IC Services are met from the Pension Fund.

Legal implications and risks:

In relation to the requirements to set objectives for providers of investment consultancy services, unless an exemption applies, the trustees (Committee) must not:

- enter a new contract, or
- continue to obtain investment consultancy services unless the trustees have set objectives in relation to the services they are going to or are already receiving.

This prohibition is effective from 10 December 2019 and will apply to new and existing contracts for investment consultancy services.

Human Resources implications and risks:

There are no direct human resource implications and risk arising from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

Background Papers List

None

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
1. Demonstration of Value added			
Outcomes Expected:			
A. Help the Committee implement the Investment Strategy Statement	Duration of the contract	Committee provided with advice allowing them to take effective decisions and implement strategic changes on a timely basis, including advice on the suitability of the Fund's strategic asset allocation and corresponding benchmarks, and risks associated with different approaches.	<p>The Investment Consultant (IC) has continued to include in their quarterly monitoring reports a more quantitative measure of recognising added value, by breaking down the overall return to show market and manager contributions separately.</p> <p>Investment Strategy – Since the current Investment Strategy Statement (ISS) was adopted in November 2017, Hymans have been instrumental in progressing the implementation of the strategy, introducing new asset classes i.e. Alternative credit, providing training as required and assisting in the assessment of potential new Fund managers.</p> <p>At the 20 August 2018 Special Pensions meeting members agreed to appoint Permira and Churchill to deliver some of the Alternative credit element of the ISS. This follows a successful appointment of Real Asset managers agreed by the Committee in March 2018</p> <p>Hymans continued the work of progressing with the Committee in implementing the next phase of alternative credit in the form of a Multi Asset</p>

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
			<p>Credit product which members agreed to progress with an appointment at its meeting on the 17 September 2019.</p> <p>Officers and the Committee are very appreciative of the progress made to date.</p>
B. Increase the asset value of the scheme through tactical and asset allocation over the long term	Duration of the contract	<p>Returns on the portfolio exceed the strategic benchmark over five-year rolling periods without excessive volatility.</p> <p>Returns on the Portfolio net of fees exceed the composite manager benchmark over rolling three year periods</p>	<p>Based on data from our performance measures as at June 2019 returns are as follows:</p> <p>5 Year strategic return Fund return: 7.7 Benchmark: 10.9 Relative Return: (3.1)</p> <p>The Fund has delivered a strong absolute return over the 5-year period. However, this was not sufficient to keep pace with the growth in the value of the liabilities over this period. This is due to substantial falls in gilt yields, which reached historic lows, leading to an increase in the value of the liabilities equating to c. 4% per annum. It should be noted that a 5-year period is generally expected to be reasonable for assessing progress relative to strategic requirements. However, a longer time period may be appropriate to reflect the full length of the market cycle.</p> <p>3 year composite benchmark Fund return: 8.0 Benchmark: 6.4 Relative Return: 1.5</p>

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
			Net Asset Value has increased by £47m (6.6%) since adoption of the November 17 ISS
C. Enable the Committee to implement scheme investments on a more competitive fee basis through negotiation on implementing and periodic benchmarking of fees	Duration of the contract	Where appropriate, the IC provide input on fee arrangements and proposes actions to reduce fees where possible	<p>As part of the implementation of the ISS new mandate fees were negotiated via bFinance as they were instrumental in the research and shortlisting.</p> <p>No benchmarking of fees were undertaken by Hymans for this process.</p>
D. Help the Committee to implement an Investment Strategy which adds value through the integration of Environmental, Social and Governance (ESG) and stewardship considerations in investment manager appointments.	Duration of the contract	<p>Committee feel educated on ESG and stewardship issues and understand the importance of issues within the context of the prevailing strategy.</p> <p>IC provides proactive advice on emerging trends in ESG issues</p>	<p>IC prepared a report summarising the Fund's investment managers' compliance with the main industry governance standards and their voting and engagement activities (where applicable) over the 12 month period to 30 June 2018 to the 11 December 18 Committee.</p> <p>This report is submitted annually to add value to the monitoring process as set out in the ISS.</p> <p>ESG considerations were considered during the selection of manager appointments.</p> <p>This report has helped the committee to understand the managers voting and engagement activity and used this as a stepping stone to formulate the next steps of developing a statement of investment beliefs.</p>
E. Manage cash flows needs in a	Annually	Development and regular	Hymans produced a Cash Flow Management

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
more cost effective manner		<p>review of cashflow policy.</p> <p>Proactive response and advice where changes in cashflow requirements are identified.</p>	<p>Policy for the Pensions Committee on the 17 September 2019 which will be reviewed annually or when monthly outgoing increase by more than 20%.</p> <p>This will assist officers with the understanding of the process for managing the cash flow requirements for the settlement of FX transactions as part of the Currency management process.</p>
2. Delivery of specialist Services			
Outcomes Expected:			
A. Work with the Fund Actuary to undertake asset liability modelling as required	Triennially	<p>IC regularly confirms the strategy to be on track and carries out a full review of the appropriateness of the strategy after each actuarial valuation, including consideration of the risks associated with different approaches.</p> <p>IC provides input and challenge on investment</p>	<p>Once the Triennial valuation March 2019 results are produced and the funding approach agreed any impact will be reviewed and incorporated into any required investment strategy changes. If the regulations do not change the next valuation will take place using data as at 31 March 2022.</p>
B. Work with the Fund Actuary on an ongoing basis in respect of the integrated management of fund assets and liabilities	Duration of the contract		<p>Hymans liaise with the Fund Actuary on an ongoing basis to ensure the management of the Funds assets are in line with recommendations outlined in the results of the triennial valuation in 2016. They regularly update the Committee with changes to the funding level and ongoing monitoring of meeting the Fund's Strategic benchmark</p>
C. Help the Committee to develop and define their investment	Duration of the contract		<p>Hymans has been instrumental in the progression of the development of the Committee's</p>

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
beliefs		<p>beliefs as appropriate</p> <p>IC facilitates discussion on beliefs and interprets the consequences of investment beliefs for the Committee.</p>	<p>investment beliefs which includes beliefs on responsible investment matters.</p> <p>In developing the investment beliefs Hymans distributed a questionnaire to members of the Committee in January 2019 and the results formed the initial basis of the set of Investment beliefs which were presented to the Committee on the 19 March 2019.</p> <p>The final formal set of investment beliefs is due to be presented to the committee and this will feed into the next review of the ISS (over the next few months).</p> <p>Officers and the Committee are very appreciative of the assistance provided in the development of a statement of Investment beliefs and the fund benefits from having the Head of Responsible Investments at Hymans as one of the consultants supporting the Fund.</p>
D. Help the Committee develop and maintain an appropriate framework to track progress against strategic and tactical benchmarks	Duration of the contract	<p>IC provides input on the monitoring regime for the Committee from time to time.</p> <p>Officers/Committee can understand and articulate the Fund's progress towards</p>	<p>Hymans has developed and maintains a reporting process where a review of fund performance includes tracking progress against the Strategic benchmark and individual fund manager performance. They have taken on an active role at Pension Committee meetings and on behalf of the Committee challenges the fund managers on their performance and strategies and continue to</p>

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
		its objectives from an investment perspective	<p>have ongoing dialogue with all the Funds' managers to keep up to date with developments.</p> <p>Reports are produced quarterly and meet the reporting requirements as set out in the contract.</p> <p>These reports are informative and help the committee understand whether the investment strategy and fund manager objectives are being met.</p>
3. Proactivity of Advice			
Outcomes Expected:			
A. Advise the Committee on new investment opportunities or emerging risks	Duration of the contract	IC proactively identifies potential investment opportunities or risks and communicates these to Officers/Committee for discussion	<p>New investment opportunities are explored on an ad hoc basis. During the year, Hymans produced a paper on the strategic rational of managing currency risk, presented to the Special Pensions on 24 July 2019.</p> <p>This resulted in the Fund appointing a currency manager who is in the process of being on-boarded.</p>
B. Advise on any changes in the investment governance arrangements to enable the committee to best access emerging opportunities	Duration of the contract	IC proactively identifies potential improvements to the prevailing governance arrangements and communicates these to Officers/Committee for	<p>As appropriate Hymans advise the Fund of the issuance of government consultations and legislation changes that impact on governance arrangements:</p> <ul style="list-style-type: none"> • LGPS Draft Statutory Guidance consultation on asset Pooling

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
		discussion	<ul style="list-style-type: none"> • Competition and Markets (CMA) Order. • Hymans provided significant input in the London CIV Service Level Agreements (SLA). <p>Although the Fund is still waiting for the publication of a revised SLA the feedback provided was appreciated.</p>
<p>C. Deliver training to enable the Committee:</p> <ul style="list-style-type: none"> • to be supported maintaining high standards of investment governance and compliance. • engage with new investment opportunities, emerging risks or opportunities to transfer risk 	Duration of the contract	Committee has sufficient understanding of any new investment class and associated risks in which it is suggested they might invest	<p>Training delivered during the reporting period as follows:</p> <ul style="list-style-type: none"> • Environmental, Social and Governance (ESG) Introductory Training with the Committee 11 December 2018 - an action agreed from that training session was to work towards developing a formal • Statement of Investment Beliefs for the Fund. • Managing Currency Risk with Officers 7 March 2019 – Helping officers to understand the rationale of adopting currency risk mitigations. • Managing Currency Risk with the committee 11 July 2019 – Helping the Committee to understand the rationale of adopting currency risk mitigations
4. Support with scheme management and compliance			
Outcomes Expected:			
A. On a quarterly basis , undertake investment manager	Quarterly		Each quarter Hymans produces a monitoring report which covers market analysis and the

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
performance monitoring and review for presentation to the Committee		<p>IC delivers advice on a timely basis in accordance with the expectations of Officers</p> <p>IC consults with Officers on the development of agenda items for future meetings</p>	performance of the investment managers. They have attended each Pension Committee meeting as required to discuss their report and have provided valuable advice and guidance at these meetings.
B. Produce briefing papers and periodic investment advice in advance of committee meetings in a timely basis	Duration of the contract		<p>Hymans produced the following papers/briefings:</p> <ul style="list-style-type: none"> • The strategic rational of managing currency risk • Brexit implications on the Fund • In response to a councillor inquiry contributed to a briefing on the appropriateness of for the Fund sliver investments
C. Support the Fund in obtaining data required to report investment fees in line with the Code of Transparency.	Duration of the contract		<p>This was the Funds first year of obtaining information from Fund Managers with regard to disclosing fee information in line with Code of Transparency.</p> <p>In order to meet the tight timescales in the production of the accounts fee estimates were provided by Hymans.</p> <p>Officers will work with Hymans in developing the process and collection of data for the 2019/20 accounts.</p>
D. Review and update as appropriate the schemes Investment Strategy Statement	Duration of the contract		ISS was last updated in November 2017. Once the Committee have had the opportunity to agree a set of investment beliefs this will be included within the next review of the ISS.

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
			<p>Once a funding approach has been agreed with the Fund Actuary following the 2019 results of the triennial valuation this will also be incorporated into the review of the ISS.</p> <p>Officers will work with Hymans to complete the review of the ISS over the next few months.</p>
E. Ensure compliance of the schemes investment arrangements with developments in regulation and all legislation	Duration of the contract		Examples of changes during the reporting period have been covered under item 3B.
5. Relationship and service standards			
Outcomes Expected:			
A. Maintain fees in line with tender submission	Quarterly	Invoiced fees are in line with agreed budgets	Fees are maintained in line with the tender submission and the IC has been requested to provide more detailed information against invoices to improve monitoring of costs against tender specification.
B. Agree fee budget with officers /Committee for any significant piece of work over £2,000 where the work and associated fees are not explicitly stated in the existing contract..	Duration of the contract	<p>IC provides an annual business plan and budget proposal for agreement with Officers</p> <p>IC provides fee quotes for</p>	Officers will work with the IC to ensure that fee budgets are agreed prior to commencing significant piece of work.

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
		significant work items	
C. Clear understanding of the Scheme's goals and objectives	Duration of the contract	Officers are satisfied with the knowledge and understanding of the IC with regard to the Fund's requirements	IC has a clear understanding of the goals and objectives through their input into the development of the ISS, cash flow requirements and ongoing monitoring
D. Appropriate quality and quantity of resourcing to meet the needs and requirements of the scheme	Duration of the contract	IC are able to support the needs of Officers and Committee at all times. IC seeks feedback on views of Officers/Committee.	The tender documents submitted set out the quality and experience of the staff at Hymans who support the Fund which is sufficient to meet the Funds requirements. The support arrangements in place are very good.
E. Maintain strong positive working relationship with the Committee members and officers	Duration of the contract	IC undertakes an annual business planning /review meeting	The communication and the relationship with the investment consultant are very good. Reports are well structured and easy to understand.
F. Work collaboratively with other advisors and provide effective support to the Committee when engaging with other stakeholders	Duration of the contract	Positive feedback on working relationship from other advisors and stakeholders	The investment consultant has close working relationships to the Fund's actuary which helps the understanding of the implications of different strategies on the Fund
G. Appropriate management and mitigation of any conflicts of interest	Duration of the contract	IC promptly notifies Officers and any conflicts arising and proposed appropriate mitigations	No conflict of interest has arisen during the year. We are confident that advice or comments provided to the Fund is independent as they do not receive revenue from managers relating to our investments

INVESTMENT CONSULTANT OBJECTIVES

APPENDIX A

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
6. Support with additional matters arising			
Outcomes Expected:			
A. Provide advice and assistance to the Committee on any other issues arising	Duration of the contract	IC demonstrates support for the Committee as needed	<p>Investment Consultant has also provided advice on the suitability of investments on offer via the London CIV covering suitability to the investment strategy and the likelihood of engagement in their offered products.</p> <p>It is important that the Pensions Committee and officers receive expert advice on investment issues and how they affect the Local Government Pension Scheme</p> <p>Feedback from members is very positive and they have confidence in the advisors market knowledge.</p>

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A trustee guide to:

Setting objectives for providers of investment consultancy services

Contents

Introduction	page 3
Purpose of this guidance	page 3
Potential benefits of setting objectives	page 6
Terms used in this guidance	page 7
Understanding your legal duties	page 8
Documenting compliance	page 9
Investment consultancy services	page 10
Typical services available for DB schemes	page 10
Typical services available to DC schemes	page 13
Objectives for investment consultancy services	page 16
Setting adviser objectives	page 16
Monitoring objective progress	page 17
Case studies	page 18
Investment consultant objectives and performance measurement (DB)	page 18
Investment consultant objectives and performance measurement (DC)	page 24

Introduction

Purpose of this guidance

This guidance is for trustees of occupational pension schemes and will be of interest to providers of investment consultancy services and employers.

The law requires trustees to set strategic objectives for providers of investment consultancy services as defined in part 2 of The Investment Consultancy and Fiduciary Management Market Investigation Order 2019¹. We recognise that the range of advice and services provided by investment consultants is broader than those subject to the legal requirements and we would encourage trustees, as a matter of good governance, to set objectives even where the legal requirement may not directly apply. This guidance therefore aims to provide you with practical information and key matters to consider when:

- setting objectives for your provider of investment consultancy services, and
- deciding on the services you want to obtain from your investment consultant.

We use phrases such as the ‘law requires’ and ‘you must’ to indicate legal duties. We use ‘you should’ to indicate good practice approaches to setting objectives for your investment consultancy services provider.

¹ https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf

This guidance has been produced in response to the Competition and Markets Authority (CMA) investigation into the investment consultancy market.²

The CMA found problems with the way the fiduciary management and investment consultancy market worked. For investment consultancy, they found low levels of trustee engagement when choosing and monitoring their investment consultant. They also found it was difficult for trustees to access and assess the information needed to evaluate the quality of their existing investment consultant and to identify if they would be better off switching adviser. For fiduciary management, they found low levels of tendering when first moving into fiduciary management, some investment consultants steering trustees towards their own fiduciary management service and a lack of access to clear information on performance and fees.

The costs of switching out of fiduciary management were found to be high and it was difficult for many trustees of occupational pension schemes to access and assess the information they needed on the fees and charges within their existing fiduciary manager agreement to work out if they would be able to receive better terms from another provider. These features were considered to result in substantial detriment to scheme and member outcomes.

The CMA found that, in cases where trustees were engaged in activities such as tendering for services, or switching and periodically reviewing performance, they were more likely to obtain better terms from their service providers and pay lower fees and charges, compared to less engaged trustees.

In its final report³, the CMA set out a number of remedies and recommendations. Remedy 3 recommended that we provide guidance to trustees on running competitive tenders for fiduciary management and investment consultancy services. This guidance has therefore been produced in response to this remedy.

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² <https://www.gov.uk/cma-cases/investment-consultants-market-investigation>

³ https://assets.publishing.service.gov.uk/media/5c0fee5740f0b60c8d6019a6/ICMI_Final_Report.pdf

On 10 June 2019, the CMA introduced new duties for trustees via an Order:

- Mandatory tendering for fiduciary management – prohibition on trustees entering into or continuing a Fiduciary Management Agreement without carrying out a competitive tender process.
- Requirement for trustees to set strategic objectives for their investment consultants.



See our **guide to tendering for fiduciary management services** for more information.

These duties take effect from 10 December 2019.

The CMA has recommended the Department for Work and Pensions (DWP) legislates to bring the requirements of the Order into pensions legislation. The DWP is consulting on amendments to regulations and this guidance will be updated to reflect the final regulations.



See <https://www.gov.uk/government/consultations/trustee-oversight-of-investment-consultants-and-fiduciary-managers> for the consultation.

The Order also included several new requirements on fiduciary managers and investment consultants designed to improve the quality and accessibility of information on charges, fees and performance from fiduciary managers and investment consultants with the aim to make it easier for trustees to compare providers and assess value for money.

Potential benefits of setting objectives

Setting objectives for advisers is an important part of an effective system of governance. We expect that by putting objectives in place, trustees will be better positioned to assess the quality of the service they receive and to deliver better outcomes for their members.

The CMA's 2018 Investment Consultancy Market Investigation found that trustees had difficulty in monitoring the quality of investment consultancy services due to the limited information available to them. By increasing trustee engagement in the adviser appointment process and by setting objectives and monitoring performance against those objectives, we expect that trustees will achieve better outcomes for their schemes and better value for money. We also expect that by monitoring the investment adviser's performance against their objectives will enable trustees to better identify and manage areas of poor performance and to consider switching to an alternate service provider where appropriate.

We would expect trustees, as a matter of good practice, to consider setting objectives for all their providers of advisory services. For more information on working well with advisers, please visit our guide to scheme management skills. While that guidance is intended for trustees of defined contribution (DC) schemes, it also contains information which will be useful for trustees of defined benefit (DB) schemes.

Terms used in this guidance

Delegation

The transfer of responsibility for exercise of one or more of the trustees' powers to a third party. For example, where trustees delegate day to day investment decisions to an investment manager or fiduciary manager but retain overall responsibility for the investment strategy. Pensions law permits delegation of investment decisions to fund managers on this basis, but trustees should note that they remain liable for defaults or acts of the manager unless they have taken all reasonable steps to satisfy themselves that the manager has the appropriate knowledge and experience and is carrying out their work competently in compliance with relevant legislation.

Investment beliefs

An agreed and documented trustee board view in respect of investments, based on knowledge, understanding and experience.

Investment consultant

A person or firm that provides investment consultancy services.

Investment consultancy services

This term is generally used (including in this guidance) to describe the provision of advice to the trustee board to support decisions on matters such as investment strategy, strategic asset allocation and manager selection. However, for the purposes of the legal requirement to set strategic objectives, this is defined in Part 2 of The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 as advice to trustees on one or more of the following:

- Investments that may be made or retained by or on behalf of the pension scheme trustees.
- Any matters in respect of which the pension scheme trustees are required by law to seek advice in relation to the preparation or revision of the statement of investment principles.
- Strategic asset allocation.
- Manager selection.

Understanding your legal duties

Duties in relation to mandatory tendering for fiduciary management appointments and setting strategic objectives for investment consultants have been introduced by the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019.



For information relating to the requirement to run a competitive tender exercise for fiduciary management services, see our **guidance**.

In relation to the requirement to set objectives for providers of investment consultancy services, unless an exemption applies, the trustees must not:

- enter a new contract, or
- continue to obtain investment consultancy services unless the trustees have set objectives in relation to the services they are going to or are already receiving.

This prohibition is effective from 10 December 2019 and will apply to new and existing contracts for investment consultancy services.

For the purposes of identifying if you need to set objectives, you will need to consider whether you are receiving investment consultancy services as defined in Part 2 of the Order. You should be aware that other types of advisers, who may not identify themselves as investment consultants, could be providing you with investment consultancy services. For example, you might be receiving advice that amounts to ‘investment consultancy services’ from an independent financial adviser, or wealth manager or advice from your scheme actuary on whether the scheme’s strategic asset allocation is appropriate for the scheme’s liabilities. If you are receiving investment consultancy services from a provider that does not identify as an investment consultant, you are still required by law to set objectives for that provider.

As trustee, you remain ultimately responsible for your scheme. You should:

- carry out checks that the provider is suitably qualified to provide these services (and has specific knowledge of the requirements that apply to trust-based occupational pension schemes), and
- monitor the activities and performance of service providers to ensure they are operating in accordance with the trustees’ legal obligations and are helping to deliver good scheme and member outcomes.

It is possible that the trustee board has chosen to delegate investment decisions.



For more information on investment governance models where there is delegation please refer to our **guide to choosing an investment governance model**.

Please be aware that some advice elements of fiduciary management services may be subject to the requirement to set objectives, and you may wish to consider seeking professional advice as to whether this applies in light of services you receive.



Trustees will ultimately be responsible for investment matters, and for further information trustees should refer to our **DB investment guidance** and our **DC guide to investment governance**.

Documenting compliance

As a matter of good practice, you should consider documenting any key decisions and, where relevant, processes undertaken in coming to those key decisions. While minutes of trustee meetings could be used to record key decisions or objectives set for investment consultancy services, it could be helpful to have a separate, standalone document which sets out clearly what the objectives are, how they will be measured, when they will be measured and when actions arising from any review will be addressed by.

Investment consultancy services

A wide range of investment consultancy services are available to trustees of occupational pension schemes. Depending on whether your scheme is DC or DB and the circumstances of your scheme, these services will differ.

In order to set strategic objectives for your adviser, you will first need to understand the services to which the objectives relate. As outlined in the introduction, only those areas that come within the legal definition⁴ of investment consultancy services trigger the requirement for you to set strategic objectives, but as a matter of good governance we would encourage you to consider setting objectives for any additional services you receive.

Below we have listed some examples of investment consultancy services that trustees can receive for DB and DC schemes, together with a brief explanation of what these typically involve. These lists are not exhaustive and the requirements for the level of service provided will vary between schemes, trustee boards and the individual governance and support arrangements for those schemes.

Typical services available for DB schemes

Defining investment beliefs

This often involves a review of the trustee's investment preferences, informed by appropriate evidence and knowledge such as whether the trustee(s) prefer active or passive fund management, illiquid investments over liquid investment etc, and using these findings to agree a set of core investment beliefs that represent the trustee(s) preferences.

Investment strategy review

This involves a review of the nature and term structure of the pension scheme liabilities and advice on an appropriate asset allocation to adopt in order to best meet those liabilities, in light of objectives set by the trustees and considering the financial support that is available from the scheme's employer(s).

Risk modelling

This can involve the analysis of risk using a range of different tools and metrics, for example asset liability modelling and scenario/sensitivity analysis. It is frequently included as part of the investment strategy review service but can be tendered for and provided separately. In large schemes, a risk review by an independent third party can be very useful.

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4 The definition of investment consultancy services as set out in the CMA's Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

Typical services available for DB schemes continued...

Setting investment performance and risk targets

This involves taking the output from the investment strategy review and any associated risk modelling to set the performance and risk targets for the scheme.

Portfolio construction

This involves advice on how a portfolio of investments or investment funds could be constructed to best align with the proposed asset allocation strategy and the trustees' investment beliefs, allowing for the investment performance and risk targets set.

Investment manager selection

This process would aim to identify a list of managers, based on research and due diligence completed, that might be appropriate to include within the portfolio, individually or in combination, to meet the performance and risk targets set for all or part of the portfolio. This work would also include preparation and submission of appropriate due diligence materials and could include assistance with the tender process, from drafting the invitation to tender, to reviewing the submissions made and attending manager interviews (and manager site visits).

Appointment of investment manager

The degree of service required is likely to depend to an extent on the type and structure of investment fund offered and the degree of discretion allowed. However, the service could involve advice (in relation to the investment elements) on the structure and terms and conditions of the fund mandates. In addition, it could involve advice in relation to the level and structure of any investment fees, the design of any performance fee elements and advice on the mandate guidelines, tolerances and restrictions to be applied.

Transition management

This would involve advice on any portfolio re-organisation or changes to investment managers to help ensure that the assets can be moved efficiently, with minimum costs and to limit 'out of market' exposure. This service could include advice on the use of derivatives to optimise the transition process.

Risk mitigation and risk transfer

This would involve advice on how different risks the scheme is exposed to could be mitigated, managed and/or transferred to another party.

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Typical services available for DB schemes continued...

Investment risk and performance monitoring

This would often include preparation of regular reports and information in relation to the performance of the investment managers invested in by the scheme and the risk exposures arising. This would also include advice in relation to the ongoing suitability of the investment strategy and the individual investment management arrangements. This could also include periodic reviews of whether the fees being paid continue to be appropriate.

Fiduciary manager selection

This process would aim to identify a list of fiduciary managers, based on research and due diligence completed, that might be appropriate to meet the trustees' requirements for the management and governance of all or part of the scheme's assets. This work would also include preparation and submission of appropriate due diligence materials and could include assistance with the tender process, from drafting the invitation to tender, to reviewing the submissions made and attending fiduciary manager interviews (and fiduciary manager site visits).

Fiduciary management monitoring

This would involve providing oversight of the performance of any fiduciary manager appointed by the trustees and considering their ongoing suitability to meet the requirements of the scheme. This would also include advice on whether any changes in the fiduciary manager or the remit of their mandate were necessary.

Provision of regulated advice

This would include the provision of written advice in relation to investments (as required under s36 of the Pensions Act 1995) and the review and preparation of the scheme's statement of investment principles (required under s35 of the Pensions Act 1995).

Governance structures

This would involve advice on the alternative ways in which investment and risk management might be governed, and the terms of reference and delegated responsibilities that might apply to each element of the governance structure.

Additional investment advice

This could be in relation to the selection and appointment of investment platform providers, custodians or sub-custodians or advice in relation to tactical asset allocation, structured equity or option strategies.

Trustee training

This could include a range of training from basic investment training on investment duties and investment structures through to training on the implementation of complex derivative and risk management strategies.

Typical services available to DC schemes

Defining investment beliefs

This often involves a review of the trustee's investment preferences informed by appropriate evidence and knowledge, such as whether the trustee(s) prefer active or passive fund management, illiquid investments over liquid investments and using these findings to agree a set of core investment beliefs that represent the trustee(s) preferences.

Scheme design and objective

This would involve advice on the design of the default fund(s) and the range of self-select funds that might be made available to meet members' needs. This would also include consideration of how the investment management components could best be structured to allow for the trustees' additional requirements around administration and communications.

Modelling tools

This could involve advice on the range of modelling tools that could be made available (and maintained) to help members assess the impact of different investment options (and contribution levels) on their expected future benefit outcome.

Investment manager selection

This process would aim to identify a list of managers, based on research and due diligence completed, which might be appropriate to include with the portfolio, individually or in combination, to meet the performance and risk targets set for all or part of the portfolio. This work would also include preparation and submission of appropriate due diligence materials and could include assistance with the tender process, from drafting the invitation to tender, to reviewing the submissions made and attending manager interviews (and site visits).

Appointment of investment manager

The degree of service required would depend to an extent on the type and structure of investment fund offered and the degree of discretion allowed. However, the service could involve advice (in relation to the investment elements) on the structure and terms and conditions of the investment mandates. In addition, it could involve advice in relation to the level and structure of any fees, including on the design of any performance fee elements included and advice on the mandate guidelines, tolerances and restrictions to be applied.

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Typical services available for DC schemes continued...

Member engagement

This could involve a range of activities from running engagement programs with members to better understand their needs and requirements (to enable the default fund and range of options to be appropriately designed), to assisting with member communications (for example, following a change of fund manager or investment approach) to assisting with member investment education.

Performance monitoring

This would involve preparing regular reports and information relating to the performance of the investment managers used. It would also include review of the performance of any investment platform provider.

Review of default arrangement or default fund and fund range

This is likely to include a triennial review, or more frequently following any significant change in membership profile, in relation to the ongoing suitability of the default arrangement, the self-select investment fund options and the investment management arrangements.

Fiduciary manager selection

This process would aim to identify a list of fiduciary managers, based on research and due diligence completed, which might be appropriate to meet the trustees' requirements for the management and governance of all or part of the scheme's assets. This work would also include preparation and submission of appropriate due diligence materials and could include assistance with the tender process, from drafting the invitation to tender, to reviewing the submissions made and attending fiduciary manager interviews (and fiduciary manager site visits).

Fiduciary management monitoring

This would involve providing oversight of the performance of any fiduciary manager appointed by the trustees and considering their ongoing suitability to meet the requirements of the scheme. This would also include advice on whether any changes in the fiduciary manager or the remit of their mandate were necessary.

Chair's statement

This would involve analysis and providing investment advice relating to a range of inputs into the annual chair's statement, such as the value for members assessment and the assessment of charges and transaction costs, including in relation to cumulative illustrations.

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Typical services available for DC schemes continued...

Provision of regulated advice

This would include providing written advice relating to investments (as required under s36 of the Pensions Act 1995) and reviewing and preparing the scheme's statement of investment principles (required under s35 of the Pensions Act 1995).

Governance structures

This would involve advice on the alternative ways in which investment and risk management might be governed, and the terms of reference and delegated responsibilities that might apply to each element of those governance structures.

Additional DC investment advice

This could relate to the selection and appointment of investment platform providers or the transitioning of investments between funds or fund managers.

Trustee training

This could include a range of training from basic investment training on investment duties and investment structures, to training on the design and implementation of default arrangements, lifestyle strategies and decumulation options.

Objectives for investment consultancy services

Setting adviser objectives

When in receipt of investment consultancy services, unless exempt, you must set objectives for the provider of this service. When setting these objectives, you should include how these will contribute to achieving the scheme's overall investment objectives.

Where you engage with more than one adviser in respect of investments, you must set objectives for each respective adviser. You are not limited in the number of objectives you may set. It will likely be proportionate to set multiple objectives for your adviser, in accordance with the range of services you receive.

Trustees should also be aware that when they retain a fiduciary manager, they should be aware of the extent of investment services they receive from them as part of the overall engagement and they should set objectives for the investment services provided.

You may also wish to set a combination of short and long-term objectives, ensuring that the objectives are appropriate and achievable for the given time frame.

Adviser objectives can be quantitative and qualitative in their nature, for example these could be set in relation to investment performance delivered relative to the liabilities, adviser performance against service level agreements, communication skills, value for money and performance against specific tasks, such as asset transitions or investment manager selection exercises. Examples of the areas that objectives may cover are outlined in the DB and DC case studies later in this guidance.

In setting objectives for your investment adviser, you will want to receive their input to ensure that the objectives being set are consistent with the service being offered and are realistic. In obtaining your adviser's input, you should be aware of the potential for their input to be subject to conflicts of interest and you should be prepared to challenge their input. You should also consider whether to involve a third party to help you set those objectives.

Once objectives have been agreed, we would expect these to be signed off in accordance with your existing governance framework, ensuring that all members of the trustee board have sight of and, if relevant, agree with the adviser objectives that have been set and the ongoing monitoring process of these.

Monitoring objective progress

When putting in place a set of performance objectives with your adviser, you should also consider the method and regularity for assessing your adviser's performance against these objectives. You should conduct reviews at least triennially and after any significant change to your scheme's investment strategy and objectives. Where you have set multiple objectives for your adviser and the timeframes for meeting them vary, you may also wish to consider ad-hoc reviews when you complete any significant pieces of work.

While you remain ultimately responsible for your scheme's overall investment objectives, it is important to acknowledge and understand the roles that you and your adviser(s) can have in determining whether or not these objectives are met. For example, trustees may decide not to act on advice received or delay acting on advice received, which could result in the value of the investment opportunity presented diminishing. Performance review sessions should be objective and consider evidence of how the adviser is meeting their objectives with appropriate allowances for the impact of trustee decision-making and governance structures and the interaction with the trustees, alongside any other relevant external factors, on the outcome actually achieved.

You may wish to incorporate the review of your investment consultant's performance with the effectiveness review of your board.



For further information, see our **scheme management skills guide**.

Case studies

We have developed the following case studies to assist you in identifying the areas of investment consultancy services you should consider when setting objectives for your adviser.

Investment consultant objectives and performance measurement (DB)

The trustees of the XYZ DB pension scheme had retained ABC Investment Consultants as their investment advisers for many years. XYZ was a full service client of ABC and any investment-related issues the scheme had were dealt with by ABC. Fees were generally charged on a time-cost basis but the fees for more significant items, like manager selection exercises and asset-liability modelling, were based around an agreed fixed fee scale or agreed separately in advance. The trustees acknowledged the following:

- Appropriate investment and risk management advice, in the absence of unlimited employer contributions, was the key driver in ensuring that members received their benefits in full and recognised that the service was of significant value to their scheme.
- The balance between an adviser providing advice and the trustee being the decision-maker added complexity to any assessment of “value added”.
- There was a risk that the “potential value” of good advice could be lost due to the trustees being unable to make effective decisions in a timely manner or being unwilling to make a decision to the full extent of the advice provided.
- It was important to distinguish between the difference made by process driven improvements (arising, for example, from the impact on the funding level from employer deficit repair contributions) and value add driven improvements (arising, for example, from recommendation of investment managers that out-performed).
- It was difficult to define an appropriate period to measure and attribute performance given the potential for investment market volatility and general market noise to distort.
- It would be challenging to develop a robust framework that could work in all environments.
- They would also need to consider how the trustees’ governance and decision-making structures contributed to (investment) outcomes.
- Changes to their current governance arrangements should also be considered (for example, appointment of a professional trustee, creation of an investment committee or increasing the number and frequency of trustee meetings).

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The trustees agreed to adopt a balanced scorecard approach, where performance against a number of clear objectives set for their investment consultant would be assessed using a combination of quantitative and qualitative measures.

The trustees looked at the services outlined as part of ABC's response to the invitation to tender that they had submitted a number of years previously and decided to group them under six key objectives that they would monitor:

1. Demonstration of value added.
2. Delivery of specialist processes.
3. Proactivity of advice.
4. Support with scheme management and compliance.
5. Relationship and service standards.
6. Support with additional matters arising.

The trustees acknowledged that short-term market movements and the trustees' and employer's business planning cycles could both distort and influence activity undertaken and agreed to monitor performance over both a one and three-year horizon, using different weights against each key objective.

The trustees were mindful that the investment activity required varied from time to time. They set out under each key objective the individual services they felt should be considered in forming a view on the investment adviser's performance against the main objective. The trustees did not assign weightings to the individual services under each objective as they recognised that not all services were required within each monitoring period.

The trustees shared their proposed performance monitoring framework with their investment consultant and included their proposal that the effectiveness of the trustees' governance and decision-making framework over the performance period, would also form part of the assessment. Following discussion and some revisions, the template set out in the table below was agreed.

The investment consultancy firm also outlined an offer to the trustees whereby an element of their fees (10%) would not be paid if their service did not meet a particular level and that a "bonus" fee (5%) would be paid if their service exceeded a particular higher level. The trustees were interested in this concept but were concerned about their ability to apply a consistent approach when assessing objectives qualitatively.

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The trustees asked their consultant to prepare a further version of their template against which they set out what they believed “good” and “bad” service looked like. Following further discussion and some revisions, the trustees agreed the template and the date at which the first assessment would take place.

As part of their ongoing annual assessment cycle, the trustees and the investment adviser also agreed to consider whether any changes to the template or their investment governance structure were necessary.

Example scorecard

Objective	1 year	3 year
1. Demonstration of value added	30%	30%
<ul style="list-style-type: none"> • Help the trustees to deliver an investment return of liabilities + x% per annum measured over rolling N- year periods • Help the trustees to stabilise and improve the scheme’s funding level over time • Increase the asset value of the scheme through their investment manager selection, research and recommendations and through their portfolio construction • Increase the asset value of the scheme through tactical and medium-term asset allocation • Enable the trustees to implement their scheme’s investments on a more competitive fee basis through negotiation on implementation and periodic benchmarking of fees • Help the trustees to transition any assets between investment managers on a cost-effective basis • Help the trustees to implement an investment strategy which adds value through the integration of ESG (including climate change) and stewardship considerations in their investment manager appointments • Enable the trustees to access a wider range of opportunities and portfolios of assets (and/or build portfolios of assets) • Help the trustees to manage their scheme cashflows needs in a more cost-effective manner 		

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Objective	1 year	3 year
2. Delivery of specialist services	20%	30%
<ul style="list-style-type: none"> • Complete asset liability modelling and scenario/sensitivity modelling using their in-house models (or proprietary modelling tools) • Help the trustees to decide on an appropriate risk and performance objective for the scheme • Help the trustees to develop and define their investment beliefs • Help the trustees to review their investment governance arrangements and terms of reference for any sub-committees or delegated authorities • Help the trustees to develop and maintain an appropriate framework to track progress against strategic objectives 		
3. Proactivity of advice	15%	5%
<ul style="list-style-type: none"> • Advise the trustees on new investment opportunities or emerging risks • Advise the trustees on market pricing opportunities to mitigate or transfer risk • Deliver training to enable the trustees to engage with new investment opportunities, emerging risks or opportunities to transfer risk • Advise on any changes in the investment governance arrangements or delegated authorities which are necessary to enable the trustees to best access the emerging opportunities 		

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Objective	1 year	3 year
4. Support with scheme management and compliance	20%	20%
<ul style="list-style-type: none"> On a regular (quarterly) basis, monitor the performance of the scheme's investments relative to the liabilities and also the performance of the scheme's investment managers and any direct investment Produce investment reports, briefing papers and investment advice in advance of trustee meetings and on a timely basis Review and update as appropriate the scheme's statement of investment principles Provide periodic written advice on direct investments held Provide trustee training as required Ensure compliance of the scheme's investment arrangements with developments in regulation and all legislation 		
5. Relationship and service standards	10%	10%
<ul style="list-style-type: none"> Agree any changes of (named) investment consultant(s) and meeting cover with the trustees in advance Maintain fees in line with tender submission Agree fee budget with trustees for any significant piece of work Clear understanding of the scheme's goals and objectives Appropriate quality and quantity of resourcing to meet the needs and requirements of the scheme Strong positive working relationship with the trustees Work collaboratively with other advisers and provide effective support to trustees when engaging with other stakeholders Appropriate management and mitigation of any conflicts of interest 		

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Objective	1 year	3 year
6. Support with additional matters arising	5%	5%
<ul style="list-style-type: none"> Provide advice and assistance to the trustees on any other issues arising (for example, following corporate transaction or significant corporate event impacting the pension scheme) 		
Scheme's governance and decision-making framework	Y/N	Y/N
<ul style="list-style-type: none"> Has the governance structure and the level of engagement by the trustees helped or hindered the delivery of improved investment and funding outcomes? 		

Investment consultant objectives and performance measurement (DC)

The trustees of the XYZ pension scheme had recently appointed an investment consultant to help them with their growing DC scheme and decided to put in place a formal objective and performance assessment structure for them. The trustees acknowledged the following:

- Appropriate investment and risk management advice was a key driver in delivering good outcomes for members.
- The balance between an adviser providing advice and the trustees being the decision-maker added complexity to any assessment of “value added”.
- There was a risk that the “value” of good advice could be lost due to the trustees being unable to make effective decisions in a timely manner or being unwilling to make a decision to the full extent of the advice provided.
- It was important to distinguish between services based around processes (for example, from running a tender exercise for an investment service provider) and services based around value add (arising, for example, from recommendation of active investment managers that out-performed).
- It was difficult to define an appropriate period to measure and attribute performance given the potential for investment market volatility and general market noise to distort.
- It was difficult to understand how the performance of the investment strategy contributed to outcomes for different segments/age groups of the membership.
- It would be challenging to develop a robust framework that could work in all environments.
- They would also need to consider how the trustees’ governance and decision-making structures contributed to (investment) outcomes for members.
- Changes to their current governance arrangements should also be considered (for example, appointment of a professional trustee, creation of an investment committee or increasing the number and frequency of trustee meetings).

The trustees agreed to adopt a balanced scorecard approach, where performance against a number of clear objectives set for their investment consultant would be assessed using a combination of quantitative and qualitative measures.

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The trustees reviewed the range of services outlined as part of the investment consultant's response to the invitation to tender and decided to group the range of services under seven key objectives that they would base their monitoring on:

1. Demonstration of value added.
2. Delivery of specialist processes.
3. Proactivity of advice.
4. Support with member engagement and communication.
5. Support with scheme management and compliance.
6. Relationship and service standards.
7. Support with additional matters arising.

Example scorecard

Objective	1 year	3 year
1. Demonstration of value added	15%	15%
<ul style="list-style-type: none"> • Help the trustee to put in place an appropriate default arrangement and range of self-select funds that enable members' needs to be met and improved outcomes to be delivered • Increase the value of the individual member funds through their investment manager selection, research and recommendations • Help the trustee to implement an investment strategy which adds value through the integration of ESG (including climate change) and stewardship considerations in their investment manager appointments • Enable the trustees to implement their scheme's investments on a more competitive fee basis • Help the trustee to transition any assets between investment managers on a cost-effective basis • Enable the trustees to access a wider range of opportunities and portfolios of assets (and/or build portfolios of assets) 		

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Objective	1 year	3 year
2. Delivery of specialist services	20%	30%
<ul style="list-style-type: none"> Analyse/model the scheme's membership profile and expected member outcomes and provide recommendations on the appropriate investment strategy and investment manager fund combinations to adopt Help the trustees to decide on an appropriate risk and performance objective to set for their default arrangement(s) and the range of self-select funds to meet the needs of members Help the trustees to decide on an appropriate range of decumulation options, in consultation with key stakeholders, to do the following: <ul style="list-style-type: none"> enable members to take their benefits in the form they require to help the trustees to develop and define their investment beliefs to help the trustees to review their investment governance arrangements and terms of reference for any sub-committees or delegated authorities 		
3. Proactivity of advice	15%	5%
<ul style="list-style-type: none"> Advise the trustees on new investment opportunities or emerging risks Advise the trustees on market pricing opportunities to mitigate or manage risk Deliver training to enable the trustees to engage with new investment opportunities, emerging risks or opportunities to manage risk Advise on any changes in the investment governance arrangements or delegated authorities which are necessary to enable the trustees to best access the emerging opportunities 		

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Objective	1 year	3 year
4. Support with member engagement and communication	15%	15%
<ul style="list-style-type: none"> Through the use of communication and behavioural techniques, help the trustees effectively engage with their membership to better understand their needs and assess how the default arrangement(s) and range of self-select funds meets their needs. 		
5. Support with scheme management and compliance	20%	20%
<ul style="list-style-type: none"> On a regular (quarterly) basis, monitor the performance of the scheme's investment strategies and also the performance of the scheme's investment managers Produce investment reports, briefing papers and investment advice in advance of trustee meetings and on a timely basis Assist the trustees with the review and update as appropriate the scheme's statement of investment principles Provide periodic written advice on any direct investments held Provide trustee training as required Provide support in the assessment of value for members and the impact of cost and charges in preparation of the chair's statement Ensure compliance of the scheme's investment arrangements with the regulations 		
6. Relationship and service standards	10%	10%
<ul style="list-style-type: none"> Agree any changes of (named) investment consultant(s) and meeting covers with the trustees in advance Maintain fees in line with tender submission Agree fee budget with trustees for any significant piece of work Clear understanding of the scheme's goals and objectives Appropriate quality and quantity of resourcing to meet the needs and requirements of the scheme Strong positive working relationship with the trustees Appropriate conflicts of interest or management and mitigation of any conflicts 		

Objective	1 year	3 year
7. Support with additional matters arising	5%	5%
<ul style="list-style-type: none"> Provide advice and assistance to the trustees on any other investment issues arising (for example, following corporate events, or change in corporate pension policy) 		
Scheme's governance and decision-making framework	Y/N	Y/N
<ul style="list-style-type: none"> Has the governance structure and the level of engagement by the trustee helped or hindered the delivery of improved investment and funding outcomes? 		

How to contact us

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www.trusteetoolkit.com

Free online learning for trustees



A trustee guide to:

Setting objectives for providers of investment consultancy services

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PENSIONS COMMITTEE

12 November 2019

Subject Heading:

**REVIEW OF GOVERNANCE
COMPLIANCE STATEMENT**

SLT Lead:

Jane West

Report Author and contact details:

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Policy context:

Regulation 55(2) of the LGPS Regulations 2013 requires an administrative authority to keep this document under review

Financial summary:

No financial implications

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

In line with the Local Government Pensions Scheme Regulations (LGPS) 2013 as amended by LGPS (Governance) Regulations 2015 the London Borough of Havering, as an administering authority, has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.

Since the 1 April 2008 it has been a requirement for the administering authority to prepare and publish a report outlining the extent of compliance against a set of best practice principles published by the Department of Communities and Local Government (DCLG), now called Ministry of Housing, Communities and Local Government (MCHLG).

This report sets out the pension fund's draft Governance Compliance Statement for November 2019 and highlights where changes may be required.

RECOMMENDATIONS

That the committee:

Consider and agree any issues as needing to be amended in the Governance Compliance Statement (**Appendix A**).

REPORT DETAIL

1. Background

1.1 LGPS Regulations

The LGPS Regulations 2013 (Regulation 55) as amended states that an Administering Authority must prepare a written statement setting out;

- 1) (a) Whether the authority delegates its functions to a committee or an officer of the authority;

(b) If the authority does so –
 - (i) the terms, structure and operational procedures of the delegation,
 - (ii) the frequency of any committee meetings,
 - (iii) whether such a committee includes representatives of scheme employers or members, and if so, whether those representatives have voting rights
(c) the extent to which a delegation, or in the absence of a delegation, complies with guidance given by the Secretary of State, and if it does not comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the establishment of a Local Pension Board.
- 2) An administering authority has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.
- 3) Before revising a statement an administering authority must consult such persons as it considers appropriate, following a material change.
- 4) The administering authority must publish its statement and any revised statement.

1.2 LGPS Regulations 2013 - Local Pension Boards: establishment, Regulation 106.

- 106** (1) Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it—
- (a) to secure compliance with:
 - (i) these Regulations,
 - (ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme (a), and
 - (iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and
 - (b) to ensure the effective and efficient governance and administration of the Scheme and any connected scheme

The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

2) Governance Compliance Statement (Appendix A)

The Governance Compliance Statement as set out in **Appendix A** has been prepared and revised in line with the best practice principles published by the DCLG in 2008 and includes a compliance table which shows how the pension fund is compliant against best practice standards and if it does not, state the reasons for not complying.

In line with regulations, before revising this statement an administering authority must consult. In this instance no consultation was carried out as the only amendment made to the Compliance Statement was to reflect the change in the Pensions Committee membership and to update the wording on Local Pension Board training. It was considered that there were no persons it was appropriate to consult for such a minor change.

3) Key points for the committee to consider:

- a) **Appendix A** sets out the authority’s position on compliance against the set of best practice principles.

Listed below is the area where the authority is currently not fully compliant. **It should be noted that the authority does not have to be fully compliant but where it is not the authority has to state why.**

- i) **Principle B Representation Item (a) (iii)** – To meet the required standards all stakeholders are afforded the opportunity to be represented by, where appropriate, appointing independent observers. *Members have previously considered whether or not to*

employ the services of an independent professional observer to participate in the governance arrangements and decided against it on the basis that the current monitoring arrangements are sufficient for the size of the fund.

- ii) **Other changes – please refer to Appendix A, section 2.**
Changes reflect amendments made to new committee members.

- b) The compliance statement will be amended if necessary after the committee meeting and will be published on the Council's website. This updated version will also be included in the 2019/20 Pension Fund Annual Report.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising directly from this report as the review of the Governance Compliance Statement will ensure that the London Borough of Havering as the administering authority is compliant with regulations.

However, the expenses of a Local Pension Board, mentioned in section 1, paragraph 1.2 are included as part of the administration costs for the relevant LGPS fund. This means that the administering authority will be able to require employers to contribute to those expenses under existing LGPS regulations.

The impact of meeting the above costs is likely to impact the employer contributions in future valuations.

Legal implications and risks:

The relevant legislation is set out in the main report.

The departures from guidance have been explained and are set out at paragraph 3 and therefore there is minimal legal risk in leaving the statement intact in that respect, although it is open to the Pensions Committee to suggest any changes if they think this is appropriate.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

BACKGROUND PAPERS

Background Papers List

None

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PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

Contents

Structure and Role of Members	3 - 4
Membership and Representation	4 - 5
Guidance and Monitoring	5 - 6
Reimbursement	6
Training	6
Meetings	7
Scope	7
Access and Publication	8
Reviewing and Updating	8
Compliance Table	10
• Principle A Structure	<u>10</u>
• Principle B Committee Membership and Representation	<u>11</u>
• Principle C Selection and role of lay members	<u>12</u>
• Principle D Voting	<u>12</u>
• Principle E Training/Facility time/Expenses	<u>12 - 13</u>
• Principle F Meetings (frequency/quorum)	<u>14</u>
• Principle G Access	<u>15</u>
• Principle H Scope	<u>15</u>
• Principle I Publicity	<u>15</u>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

1. STRUCTURE AND ROLE OF MEMBERS

The Council is the Administering Authority of the Havering Pension Fund (the Fund). The Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund. The Council agreed changes to its Constitution on the 25 March 2015 to establish the Havering Local Pension Board and adopt their Code of Conduct and Conflict of Interest policies.

Day to day management of the Fund is delegated to the Chief Finance Officer (s151).

1.1 Role of Pensions Committee

Under the Council's Constitution the duties and terms of reference of the Pension Committee are as follows:

- To consider and agree the investment strategy and statement of investment principles for the pension fund and subsequently monitor and review performance;
- Authorise staff to invite tenders and award contracts for actuaries, advisors and fund managers and in respect of other related investment matters;
- To appoint and review the performance of advisors and investment managers for pension fund investments;
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning the Local Government Pension Scheme.

There is a code of conduct in place which includes a process that considers potential conflicts of interest, with clearly identified steps on how to report or act should a conflict occur. All members are required to declare any interests in relation to the Pension Fund or items on the agenda at the start of each meeting.

1.2 Role of Local Pension Board (the Board)

The functions of this board are as follows:

- Securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected to it;
- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions regulator;

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

- Such other matters as the scheme regulations may specify.

All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

The full version of the Board's Terms of reference can be found on the Havering pension fund website: www.Yourpension.org.uk.

2. MEMBERSHIP AND REPRESENTATION

2.1 Pensions Committee

Since May 2019, the membership of the Pensions Committee reflects the political balance of the Council and consists of seven councillors as listed below:

Conservative Group (3)	Resident's Group (1)	Upminster & Cranham Residents' Group (1)	North Havering Residents' Group (1)	Labour Group (1)
John Crowder (Chair) Osman Dervish Jason Frost	Stephanie Nunn	Ron Ower	Martin Goode (Vice chair)	Keith Darvill

The staff trade union may appoint two representatives, entitled to attend and speak at meetings of the Pension Committee. They possess no voting powers. These representatives are however entitled to remain within the Committee, should the public be excluded on the grounds that exempt information is to be considered.

Scheduled and Admitted bodies may appoint one representative, entitled to attend the meetings of the Pensions Committee on their behalf. Voting rights were assigned to this representative at a Council meeting on the 28 March 2012.

Representatives are shown below:

Admitted/Scheduled bodies representatives	Trade Union Observers
Vacant	Andy Hampshire (GMP) Derek Scott (UNISON)

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

Longevity in membership of the Committee is encouraged in order to ensure that expertise is maintained within. The Council recommends that the membership of the Pension Committee remain static for the full term of elected office in order that members are fully trained, unless exceptional circumstances require a change. Furthermore substitute members are expected to have also been trained. The Council's constitution 'rules of procedure' section was amended on the 28 March 2012 to include a stipulation that if a member does not undertake the required training within six months of appointment then that member shall not partake in the decision making of the Committee until their training has been completed.

2.2 Local Pension Board

The Havering Pension Board consists of four members as follows:

Two Employer representatives - shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.

Two Scheme Member Representatives - shall either be scheme members or have capacity to represent scheme members of the Fund. Scheme member representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

Chair - Chair is to be appointed by the employer and scheme member representatives of the Board from amongst their own number on a rotating basis with the term of office shared between an employer and a scheme member representative on an equal basis.

Each employer representative and scheme member representative appointed shall serve for a fixed four year period which can be extended for further period (s) subject to re-nomination to ensure that expertise is maintained within and members can be fully trained.

Each member of the Board will have one vote but it is expected the Board will as far as possible reach a consensus.

3. GUIDANCE AND MONITORING

3.1 Pensions Committee

The Pensions Committee is supported by the Chief Finance Officer (s151) and oneSource Shared Support Service. The Director of Exchequer and Transactional Services (oneSource) has the responsibility to administer the day to day operations of the

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

Council's Pension Fund. The (Interim) Director of Finance and Transformation (oneSource) is responsible for providing advice in the overall management of the Pension Fund supported by expert advisors. Members also receive briefings and advice from the Fund's investment advisor at each committee meeting.

The Pensions Committee also considers advice, as necessary, from the fund's appointed professional actuary who also attend the meetings as and when required.

Investment Managers are invited to present at the Pensions Committee meeting on a rotational basis. Only one fund manager will attend each committee meeting to give greater focus to investment strategy development. Mandates that operate within the London Collective Investment Vehicle (LCIV) are now managed and monitored by them. However if there are any specific matters of concern to the Committee relating to the managers performance, arrangements will be made for additional presentations.

3.2 Local Pension Board

Officers will attend the Board meetings and provide support and advice as and when required. A budget has been allocated for the Board to fulfil its tasks and this budget includes an allocation for professional advice.

4. REIMBURSEMENT

4.1 Pensions Committee

Members expenses are reimbursed in line with the Council's constitution as laid down in part 6 'Members Allowance Scheme'.

4.2 Local Pension Board

Board members will receive an allowance per scheduled meeting attended, at the same rate paid to co-opted members' for other committees. No payment will be made for non-attendance.

Reasonable travelling expenses for training will be reimbursed.

5. TRAINING

5.1 Pensions Committee

Associated training aligned with the Pensions Committee's forward plan is submitted to the Pensions Committee for approval as part of the Business Plan . Committee Members receive in depth training on a wide range of topics. Training is given on specific investment topics prior to any key decisions being taken. This approach ensures that important decisions are taken whilst training is still fresh in Members minds.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

The Fund uses the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. In addition to the cyclical training that the Committee will have over the lifetime of their membership, training will be provided in the areas where it has been specifically requested or has been identified as required. Associated training and development is linked to the Pensions Committee meeting cyclical coverage

5.2 Local Pension Board

A joint training strategy has been developed and adopted by the Pensions Committee and the Board.

The Fund uses the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. Training will be provided in the areas where it has been specifically requested or has been identified as required.

6. MEETINGS

6.1 Pensions Committee

The Pension Committee meets five times a year and occasionally holds extra meetings if required. Three Members constitute a quorum.

6.2 The Local Pension Board

The Board will hold five meetings per year, approximately two weeks after the Pensions Committee meeting, with one Annual meeting being held at the beginning of the committee cycle. Two members constitute quorum providing that there is present at least one member from both the Employer and Scheme Member Groups. Advisors and officers do not count towards the quorum.

7. SCOPE

7.1 Trustees are encouraged to look beyond administration procedures to really understand the key risks associated with all the functions and activities of the scheme. They are expected to consider risk management and stewardship in broad terms. Key risks include:

- Risk of fraud
- Corporate risk – risk of deterioration in the strength of employer covenant

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

- Funding and Investment risk – inappropriate investment strategies (one example of this could be risk of a mismatch of assets and liabilities)
- Compliance of Regulatory risk – risk of failure to comply with scheme rules and legislation

7.2 The further practical steps undertaken to cover these risks are as follows:

- The Investment Strategy Statement includes procedures to undertake a risk management review, and ensures terms of reference of delegations cover all key responsibilities.
- The Funding Strategy Statement identifies the measures in place to control the key risks identified as financial (including investment risk), demographic, regulatory and governance.
- The Risk Register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks
- The Pension Committee periodically sets out a Business Plan for the year.
- The Pension Committee comply with the Whistle Blowing requirements of the Pension Act 2004. It urges anyone to inform the correct authorities of any known wrong doings.

8. ACCESS AND PUBLICATION

8.1 Pensions Committee

Details of the Pension Committee meetings are published on the Council's website, seven days prior to the meeting date, together with agendas and minutes. All members have equal access to papers. The meetings of the Pension Committee are held at the Town Hall and are generally open to the public.

Scheduled and Admitted bodies are directed to the Agenda and minutes published on the Council's web-site and are notified in writing of any major issues.

An Annual Pension Fund Report and Accounts is published on the Council's web-site, reporting on the activities and investment performance of the fund. The report also includes the meetings held and details of matters considered.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

8.2 Local Pension Board

Details of the Local Pension Board meetings are published on the Council's website, seven days prior to the meeting date, together with agendas and minutes. All board members have equal access to papers. The meetings of the Board are held at the Town Hall during office hours and are open to the public.

9. REVIEWING AND UPDATING

As well as undertaking an annual review the Council will review the policy as and when material changes occur.

10. COMPLIANCE TABLE

A table is appended to this document and shows the extent of compliance with guidance given by the Secretary of State.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
Page 78	<p>A. <u>Structure</u></p> <p>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p>	<p>Full compliance. Duties and terms of reference are laid out in the Council's constitution (Part 3) and states that management of the pension fund assets lies with the Pensions Committee. Day to day management of the administration of benefits of the Pension Fund is delegated to the OneSource Shared Services (Director of Exchequer and Transactional Services. Select link to Havering Website to read the Council's constitution: Havering Constitution</p> <p>Section 1 the Governance Compliance Statement refers.</p>
	<p>b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.</p>	<p>Full compliance. Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings. The Local Pension Board includes two employer representative and two scheme member representatives. There is no secondary committee.</p> <p>Section 2 of the Governance Compliance Statement refers.</p>
	<p>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>No secondary committee or panel has been established.</p>
	<p>d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p>No secondary committee or panel has been established.</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
B	<p><u>Committee Membership and Representation</u></p> <p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) 	<p>i) Full compliance - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee and is currently vacant. Supplementary to the above stakeholders are consulted for their views with regard to various policies and are directed to papers and reports held on the Council's website.</p> <p>ii) Full compliance – via trade union representation</p> <p>iii) Non-compliance – The Pension Committee have considered this and decided that it is not appropriate to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund.</p> <p>iv) Full compliance – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refers.</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
C	<p><u>Selection and role of lay members</u></p> <p>a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	<p>Full compliance. Duties and terms of reference are laid out in the 'Council's Constitution and states that management of the pension fund lies with the Pensions Committee.</p> <p>Sections 1 and 2 of the Governance Compliance Statement refer.</p>
	<p>b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>Full compliance. Declarations of interest are always an agenda item at the Pension Committee meetings.</p> <p>Section 1 of the Governance Compliance Statement refers.</p>
D	<p><u>Voting</u></p> <p>a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p>Full compliance. The Governance Compliance Statement is clear about voting rights</p> <p>Section 2 of the Governance Compliance Statement refers.</p>
E	<p><u>Training/Facility time/Expenses</u></p> <p>a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p>	<p>Full compliance. Member's expenses and allowances are laid out in the Council's Constitution (Part 6). Local Pension Board members will receive an allowance per scheduled meeting attended, at the same rate paid</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
Page 81		<p>to co-opted members' for other committees. No payment will be made for non-attendance.</p> <p>Reasonable travelling expenses for training will be reimbursed to Local Pension Board members.</p> <p>The Business Plan includes the policy on training. Sections 4 and 5 of the Governance Compliance Statement refer.</p>
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	<p>Full compliance. As above.</p>
	c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	<p>Full compliance.</p> <p>As above. A joint training policy has been adopted by the Pensions Committee and the Local Pension Board and is included within the Annual Business Plan/Work of the Committee. The Business Plan is agreed by the Pensions Committee and all committee members and nominated substitutes are offered training.</p> <p>A training log is maintained which records attendance and training undertaken.</p> <p>Section 5 of the Governance Compliance Statement refers.</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
F	<u>Meetings (frequency/quorum)</u> a. That an administering authority's main committee or committees meet at least quarterly	Full compliance. The Pension Committee meets five times a year and occasionally holds extra meetings if and when required. Section 6 of the Governance Compliance Statement refers.
	b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.	No secondary committee or panel has been established.
	c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.	Full compliance. Membership on the Pensions Committee includes a representative to serve all Admitted/Scheduled bodies. Representatives also sit on the Local Pension Board. The current forums for which stakeholders interests can be represented are: <ul style="list-style-type: none"> • Through invitation to committee meeting • Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. Havering is one of the partnerships working with the London Pensions Fund Authority, who have produced a website for scheme members to use. Factsheets and scheme communications are also published on this website along with contact details at Havering for members to contact with their views.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
Page 83	G <u>Access</u> <p>a. That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</p>	<p>Full compliance. Committee papers are sent to members at least seven days prior to the meeting and non confidential papers are published on the Council's website.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>
	H <u>Scope</u> <p>a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements</p>	<p>Full compliance. The Committee already considers a wider range of pension issues.</p> <p>Section 7 of the Governance Compliance Statement refers.</p>
	I <u>Publicity</u> <p>a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</p>	<p>Full compliance. Governance arrangements are published on the Council's website and comments are invited from stakeholders.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>

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PENSIONS COMMITTEE

12 November 2019

Subject Heading:

**SERVICE REVIEW OF THE PENSION
FUND CUSTODIAN**

SLT Lead:

**1 October 2018 to 30 September 2019
Jane West**

Report Author and contact details:

Debbie Ford
Pension Fund Manager (Finance)
01708432569

Policy context:

Debbie.ford@onesource.co.uk

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:

Costs for the custodial services for the period are met by the Pension Fund

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report reviews the performance of the Custodian, State Street, for the period 1 October 2018 to 30 September 2019.

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

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 on the 31st December 2004 and the contract remains open 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.

The Custodial Services contract was terminated with effect from 30 September 2019. State Street were not looking to retain Local Government Pension Scheme (LGPS) clients as it was no longer suitable for their business model.

State Street will produce accounting and performance data for the period ending 30 September 2019.

A new custodian (Northern Trust) was appointed to commence Custodial and Performance measurement Services from 1 October 2019. All three pension Funds within oneSource and the London CIV now share the same custodian which should improve efficiencies and cost.

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 pension fund (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 produced by the Fund's investment managers. They keep a record of the book costs and the holdings in the various asset classes and also provide an independent 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 producing the accounts. 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 annually to ensure that the Fund is receiving best value for money and is benefiting from all the services the custodian has to offer.
- 2.3 Officers have shared the outcome of the service performance review with State Street, which is set out in the table below:

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><i>Officers have confidence that the assets were secure and accounted for correctly. State Street produces quarterly reconciliations of valuations and holdings to fund manager records. Where differences occur outside the agreed tolerance levels explanations are provided. Reconciliations for the quarter ending September 2019 have yet to be provided</i></p> <p>It is important that accurate accounting records are maintained and appropriate reconciliations are provided by the custodian to the fund's investment managers records.</p> <p><i>Officers are satisfied that accurate accounting records are maintained. Officers run detailed reports from the custodian's website "mystatestreet" and these are reconciled to the summary level reports produced by State Street. This provides assurances and validates that the reports run from State Streets website are correct.</i></p> <p><i>State Street and officers also undertake</i></p>

CRITERIA	ASSESSMENT
	<i>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. Whilst there have been a number of reconciliation issues officers have been able to resolve these with State Street..</i>
Safe keeping and custody	<i>This relates to the core functions of the custodian. Officers are appreciative of how this role is performed and believe that this is a high quality service. Officers also review reports by State Street auditors on their internal controls and key procedures. Officers are satisfied with the management responses to the exceptions raised in the report.</i>
Prompt and responsive service	<i>Receipt of invoices continues to be irregular and then sent in bulk. Bulk receipts of invoices impact on work planning so officers continue to raise this with State Street. The number of queries raised on invoices has significantly improved.</i>
Support arrangements	<i>The support arrangements in place are satisfactory</i>
Good communication	<i>Communications were satisfactory. Officers communicate frequently with State Street covering general day to day operations. There have been a few occasions where draft instruction letters have been cleared by State Street but then later requiring amendments, causing delays to implementing the instructions. State Street was always willing to have meetings where service delivery is discussed if required.</i>
Provision of data for the Office of National Statistics (ONS) Returns	<i>State Street can only deliver audited data following completion of reports at month end. ONS completion deadlines do not coincide with State Street's reporting timetable but officers work with the ONS to meet authorised extensions. New templates were introduced by ONS commencing with Quarter ending June 2019. State Street were able to complete the template within the required timescales</i>
Overall Summary	<i>Officers are satisfied with the performance of State Street with regard to Safe Keeping and Custody functions.</i>

3. Conclusion

- 3.1 Officers are satisfied with the safe keeping and custody functions provided by State Street custodians.
- 3.2 Officers are satisfied with the overall investment accounting and reporting functions and are grateful of the support provided during the transition of assets to the new custodian.

IMPLICATIONS AND RISKS

Financial implications and risks:

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.

Invoices have only been received for the period up to 31 May 2019. Including estimated fees covering the period June 2019 to Sept 2019, the final cost is expected to be in the region of £27,000. Prior year costs for the period 1 October 2017 to 30 September 2018 was £24,581.08. The increase in costs is attributable to five new fund accounts required for the new fund managers appointed to the Fund.

The custodian fees are met from the Pension Fund.

There is a risk that the Fund's value could be misstated if poor or incorrect data was provided by the custodian. This is mitigated by frequent reconciliations by the custodian to fund manager records and officer reconciliations.

Officers also carry out reviews of State Streets Internal Control reports issued by their external auditor. These reports detail tests undertaken by the auditors, testing their internal control environments and key procedures. No material internal control issues were reported.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

The recommendations made in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

BACKGROUND PAPERS

None

PENSIONS COMMITTEE

12 November 2019

Subject Heading:

**WHISTLEBLOWING REQUIREMENTS
OF THE PENSIONS ACT**

SLT Lead:

Jane West

Report Author and contact details:

Debbie Ford
Pension Fund Manager(Finance)
01708432569
Debbie.ford@onesource.co.uk

Policy context:

Pensions Act 2004

Financial summary:

None

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

On the 6 April 2005 the whistle blowing requirements of the Pensions Act 2004 came into force. The basic requirement of this law was that nearly all persons who are involved with a pension scheme have a duty to report 'as soon as reasonably practicable' to the Pensions Regulator where they have 'reasonable cause to believe' that there has been a breach of law 'relevant to the administration of the scheme' which is 'likely to be of material significance to the Regulator'. The Pensions Regulator issued a Code of Practice (CP1) that set out guidance on how to comply.

The Code discusses each of these issues, in particular what the regulator sees as materially significant.

For administering authorities and employers, an initial requirement was to establish procedures to identify any breaches, and then evaluate and if appropriate report to the Regulator. These were put in place during 2005 and part of this procedure was to undertake an annual review. This represents the annual review for the year up to **30 September 2019**.

No possible breaches have been reported to the named officer for reporting issues to within Havering which is the Chief Operating Office/Statutory Section 151 Officer. Consequently no reports have been made to the Regulator

RECOMMENDATIONS

Members note the results of the annual review and that no breaches have been reported.

REPORT DETAIL

1. On the 6 April 2005 the whistle blowing requirements of the Pensions Act 2004 came into force. The basic requirement of this law was that nearly all persons who are involved with a pension scheme have a duty to report 'as soon as reasonably practicable' to the Pensions Regulator where they have 'reasonable cause to believe' that there has been a breach of law 'relevant to the administration of the scheme' which is 'likely to be of material significance to the Regulator'.
2. The Act was updated in 2015 to include changes required under the Public Services Pensions Act 2013 in relation to the establishment of a pension board and states that the requirement to report now applies to:
 - a) a trustee or manager of an occupational pension scheme;
 - b) a member of the pension board of a public service pension scheme;
 - c) a person who is otherwise involved in the administration of an occupational pension scheme;
 - d) a professional adviser in relation to such a scheme;
 - e) a person who is otherwise involved in advising the trustees or managers of an occupational pension scheme in relation to the scheme.
3. The Pensions Regulator issued a code of practice (CP1) that set out guidance on how to comply with the requirement to report breaches of the law.

4. The Pensions Regulator's objectives are to protect the benefits of pension scheme members and to promote the good administration of work-based pension schemes.
5. The Pensions Regulator Code of Practice provided the following guidance:

a) There is a requirement to report breaches

- Breaches of the law which affect pension schemes should be considered for reporting to the Pensions Regulator.
- The decision whether to report requires two key judgements:
 - i. Is there reasonable cause to believe there has been a breach of the law;
 - ii. If so, is the breach likely to be of material significance to the Pensions Regulator?
- Not every breach needs to be reported. The Pensions Regulator does not normally regard a breach as materially significant where the trustees or managers (or their advisers and service providers) take prompt and effective action to investigate and correct the breach and its causes, and, where appropriate, to notify any members whose benefits have been affected.

b) Likely to be of material significance to the Pensions Regulator'

The legal requirement is that breaches likely to be of material significance to the Pensions Regulator in carrying out any of its functions must be reported.

What makes the breach of material significance depends on:

- The cause of the breach
- The effect of the breach
- The reaction to the breach
- The wider implications of the breach

When reaching a decision whether to report, the reporter should consider these points together.

c) The reporting arrangements are that:

- All reporters should have effective arrangements in place to meet their duty to report breaches of the law.
- Reliance cannot be placed on waiting for others to report.
- Breaches should be reported as soon as reasonably practicable.

- Failure to report when required to do so is a civil offence.

Havering via the Pensions Committee, agreed the following:

6. Actions to ensure compliance / reporting

a) The named officer for reporting issues to within Havering is currently the Chief Operating Officer/Statutory Section 151 Officer. Should she be notified of a breach she will set out a plan to:

- Obtain clarification of the law where it is not clear to the reporter;
- Clarify the facts around the suspected breach where these are not known;
- Consider the material significance of the breach taking into account its cause, effect, the reaction to it, and its wider implications, including, where appropriate, dialogue with the trustees or managers;
- Establish an adequate timeframe for the procedure to take place that is appropriate to the breach and allows the full report to be made as soon as reasonably practicable;

b) The Chief Operating Officer/Statutory Section 151 Officer or a nominated person will then review and assess if a report should be made to the Pensions Regulator. This will normally be within one month of receiving all the appropriate information.

c) The Chief Operating Officer/Statutory Section 151 Officer or nominated person will maintain a system to record breaches even if they are not reported to the Pensions Regulator (the principal reason for this is that the record of past breaches may be relevant in deciding whether to report future breaches); and

d) In order to ensure there is a process for identifying promptly any breaches including those that are so serious they must always be reported, it was agreed that an annual assessment against the following will be carried out and reported alongside the Pension Fund accounts. This assessment has been carried out and confirms the following is acceptable.

e) *In relation to protecting members' benefits:*

- Substantially the right money is paid into the scheme at the right time;
Confirmed via external audit of accounts
- Assets are appropriately safeguarded;
Confirmed via external audit of the accounts and Pension Committee monitoring

- Payments out of the scheme are legitimate and timely;
Confirmed via external audit of the accounts
- The Fund is complying with any legal requirements on scheme funding which apply to the LGPS;
The Fund's Funding Strategy Statement is produced in conjunction the Fund's Actuary and any regulation changes are reviewed and implemented where required.
- The Administering Authority is properly considering the investment policy and investing in accordance with it;
Confirmed via the work of Pensions Committee and the adoption of a Statutory Investment Strategy Statement.
- Contributions in respect of money purchase AVCs are correctly allocated and invested;
Confirmed via external audit of the accounts

f) In relation to promoting good administration:

- Schemes are administered properly and appropriate records maintained;
Confirmed via external audit of the accounts and triennial valuation data verifications
- Members receive accurate, clear and impartial information without delay.
Confirmed via the methods as set out in the Fund's Communication Strategy.

g) In addition:

- A note has been included in the annual report provided to scheme members along with where to raise concerns.
- Fund Managers are requested to disclose any reportable governance issues as part of the Fund's monitoring process.
- The London CIV is regulated by the Financial Conduct Authority (FCA) and, in line with the requirements of the FCA has in place a range of policies and procedures to ensure good governance, in line with legislative and regulatory requirements. These include a whistleblowing policy. Regulatory oversight includes requirements to report to the Board and the FCA, and an oversight function exercised by the Depository.

- Procedures are in place for staff within the Borough dealing with the pension fund (this would include Finance, Accounting, Payroll and HR staff as well as Pension Administration staff) covering what they should do if they become aware of a possible breach and also (in very broad terms) whether there are any areas of pensions law etc. they would be expected to know about in their particular role.
 - All Fund employers are aware of the whistleblowing requirements and is accessible via the pension's website: yourpension.org.uk [Havering-Fund-Employers](http://yourpension.org.uk).
 - There is a named officer to maintain record of all breaches, assessments and actions taken – the Chief Operating Officers/Statutory Section 151 Officer.
7. Should a breach occur the named officer will write to all Pensions Committee Members setting out action taken and do a full report at the next available Committee.

IMPLICATIONS AND RISKS

Financial Implications and risks:

There are no implications arising directly as the work will be managed within existing resources by, if necessary, re-prioritising work. There are, however, possible financial penalties on non-compliance, hence the need to have procedures in place.

Legal Implications and risks:

In determining whether the legal requirements of the Pensions Act have been met, a court or tribunal may take into account any relevant Codes of Practice. Section 70 of the Pensions Act introduces specific requirements for whistleblowing on the persons specified in paragraph 2 above where the person has reasonable cause to believe that a duty which is relevant to the administration of the scheme in question and which is imposed by law has not been or is not being complied with and the failure is likely to be of material significance to the pensions Regulator. Failure to notify can result in a penalty notice of £5,000 (max) being imposed on an individual and £50,000 on a corporation.

It is therefore necessary for the Council to have in place certain procedures which draw this to the attention of those persons covered by the legislation and enable any report to be considered and, where appropriate, brought before the Pensions Regulator.

There is no indication of any breach and therefore there appears to be no requirement to report any matters to the Pensions Regulator.

Human Resources Implications and risks:

The Council has a whistle blowing/confidential reporting policy which this procedure will complement. Existing and new Finance, Accounting, Payroll, HR and Pension Administration staff should be briefed on the procedure so that they are fully aware of their responsibilities (if they become aware of a possible breach) and how it complements the corporate policy. The actions proposed should ensure that this is the case. The principles of whistle blowing will be adhered to in relation to anonymity.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

Note here the equalities and social implications of, and risks relating to, the proposed decision.

An Equalities Assessment (EA) will normally be required. Where the EA suggests that there is a significant impact upon ANY of the "protected characteristics", the EA must be an appendix to the report. In all other cases, the EA must be treated as a background paper.

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

Background Papers List

None