



Havering

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

PENSIONS COMMITTEE AGENDA

7.00 pm	Thursday 12 November 2020	Virtual Meeting
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Members 7: Quorum 3

COUNCILLORS:

**Conservative Group
(3)**

John Crowder
(Chairman)
Osman Dervish
Jason Frost

**Residents' Group
(1)**

Stephanie Nunn

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

Ron Ower

**Labour Group
(1)**

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.

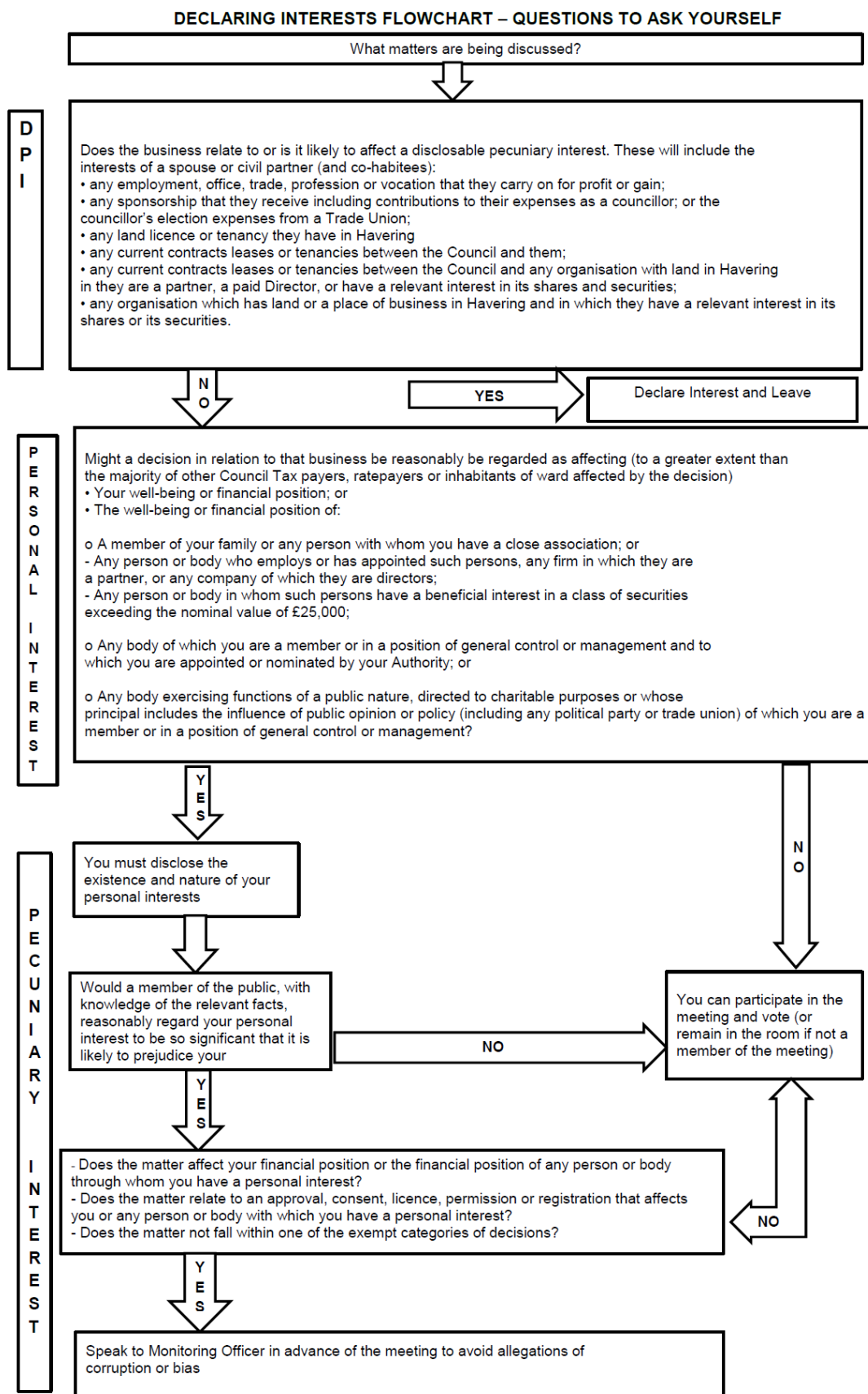
Reporting means:-

- 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 PROTOCOL FOR VIRTUAL MEETING (Pages 1 - 4)

Protocol attached to be noted by Committee.

5 MINUTES OF THE MEETING (Pages 5 - 8)

To approve as correct the minutes of the meeting held on 1st October 2020 and authorise the Chairman to sign them.

6 MINUTES OF THE LOCAL PENSION BOARD (Pages 9 - 12)

To receive the minutes of the Local Pension Board held on 22nd September 2020.

7 OVERPAYMENT WRITE-OFF POLICY REVIEW (Pages 13 - 18)

Report and appendix attached.

8 WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT (Pages 19 - 26)

Report attached.

9 CUSTODIAN SERVICE REVIEW (Pages 27 - 34)

Report attached.

10 ACTUARIAL SERVICES REVIEW (Pages 35 - 40)

Report attached.

11 INVESTMENT CONSULTANT SERVICES REVIEW (Pages 41 - 58)

Report and appendix attached.

Andrew Beesley
Head of Democratic Services

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LONDON BOROUGH OF HAVERING

PROTOCOL ON THE OPERATION OF PENSIONS COMMITTEE MEETINGS DURING THE COVID-19 PANDEMIC RESTRICTIONS

1. Introduction

In accordance with the Local Authority and Police Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panels Meetings (England and Wales) Regulations 2020, all meetings of Pensions Committee held during the Covid-19 restrictions will take place in a 'virtual' format. This document aims to give details on how the meetings will take place and establish some rules of procedure to ensure that all parties find the meetings productive.

2. Notification of Meeting

Once the date for a meeting has been set, an electronic appointment will be sent to all relevant parties. This will include a link to access the virtual meeting as well as guidance on the use of the technology involved.

3. Format

For the duration of the Covid-19 restrictions period, Pensions Committee meetings will be delivered through video conference call, using Zoom software. Instructions sent with meeting appointments will cover how to use the software. Additional IT support will also be provided to any Member requesting this in advance of the meeting.

4. Structure of the Meeting

Although held in a virtual format, the Pensions Committee Meeting will follow, as far as is possible, the standard procedure for these meetings, with the following principal stages:

- Chairman's announcements
- Apologies for absence
- Disclosures of interest
- Minutes of the previous meeting
- Presentation and consideration of reports

5. Technology Issues

Agendas setting out the items for the meeting will be issued in advance in the normal way, to all parties, in accordance with statutory timetables. The agenda will also be published on the Council's website – www.havering.gov.uk in the normal way. The guidance below explains how the meeting is to be conducted, including advice on what to do if participants cannot hear the speaker and etiquette of participants during the meeting.

Remote access for members of the public together with access for the Press will be provided via a webcast of the meeting at www.havering.gov.uk.

If the Chairman is made aware that the meeting is not accessible to the public through remote means, due to any technological or other failure of provision, then the Chairman shall temporarily adjourn the meeting immediately. If the provision of access through remote means cannot be restored within a reasonable period as determined by the Chairman in consultation with the Clerk, then the remaining business will be considered at a time and date fixed by the Chairman. If he or she does not fix a date, the remaining business will be considered at the next scheduled ordinary meeting of the Pensions Committee.

6. Management of Remote Meetings for Members

The attendance of Members at the meeting will be recorded by the Democratic Services Officer clerking the meeting. The normal quorum requirements for meetings as set out in the Council's Constitution will also apply to a virtual meeting of Pensions Committee.

Democratic Services Officers will monitor participant involvement during the virtual call to ensure that there are no drop outs. Members will be informed at the beginning of the meeting to use the chat function if they have missed part of the debate, and to request for the clerk or Chairman to recap briefly over what was said.

In the event that a Member's video feed has failed but he/she is able to hear what is being said then the Member should confirm as such using the chat function to the clerk.

In the event that a Member's audio and video feed has failed then the Chairman will invite the Committee to determine whether to proceed or adjourn the meeting to a later date.

7. Etiquette at the meeting

For some participants, this will be their first virtual meeting. In order to make the hearing productive for everyone, the following rules must be adhered to and etiquette observed:

- The meeting will be presided over by the Chairman who will invite participants to speak individually at appropriate points. All other participants must remain silent or muted until invited to speak by the Chairman;
- If invited to contribute, participants should make their statement, then wait until invited to speak again if required;
- If it is possible, participants should find a quiet location to participate in the Zoom meeting where they will not be disturbed as background noise can affect participants.
- If there are intermittent technological faults during the meeting then the Chairman will ask the speaker to repeat from the point where the disruption started. Whilst intermittent disruption is frustrating, it is important that all participants remain professional and courteous.
- The Committee Procedure Rules as shown in the Council's Constitution will apply to

the meeting in the normal way, as far as is practicable.

8. Meeting Procedures

Democratic Services Officers will facilitate the meeting. Their role will be to control conferencing technology employed for remote access and attendance and to administer Member interaction, engagement and connections on the instruction of the Chairman.

The Council has put in place a technological solution that will enable Members participating in meetings remotely to indicate their wish to speak via this solution. This will be via the 'raise hand' function in the Participants field of the Zoom software used for the meeting.

The Chairman will follow the rules set out in the Council's Constitution when determining who may speak, as well as the order and priority of speakers and the content and length of speeches in the normal way.

The Chairman, at the beginning of the meeting, will make reference to the protocol for the meeting.

Members are asked to adhere to the following etiquette during remote attendance at the meeting:

- All Councillors and participating officers are asked to join the meeting no later than twenty minutes before the start to allow themselves and Democratic Services Officers the opportunity to test the equipment.
- Any camera (video-feed) should show a non-descript background or, where possible, a virtual background relating to Havering and Members should be careful to not allow any exempt or confidential papers to be seen in the video-feed.
- During general discussion, rather than raising one's hand or rising to be recognised or to speak, Members attending remotely should avail themselves of the remote process for requesting to be heard and use the 'raise hand' function in the participants field of the Zoom software.
- Members may only speak when invited to by the Chairman of the meeting.
- Only one person may speak at any one time.
- All speakers and attendees, both Councillors and members of the public, are welcome to remain on the Zoom call until the conclusion of the meeting. The meeting will also be webcast so that it can be viewed by non-participants.
- When referring to a specific report, agenda page, or slide, participants should mention the report, page number, or slide so that all Members have a clear understanding of what is being discussed at all times

Any voting will be conducted using the electronic voting function within Zoom. The Democratic Services Officer will announce the result of the vote and the Chairman will then

move on to the next agenda item.

A record of votes and how individual Members voted will be appended to the minutes, following the meeting.

Any Member participating in a remote meeting who declares a disclosable pecuniary interest, or other declarable interest, in any item of business that would normally require them to leave the room, must also leave the remote meeting. The Democratic Services Officer or meeting facilitator will move the Member to the Zoom waiting room until the item is complete, and then return them to the meeting.

9. Public Access to Meeting Documentation following the Meeting

Members of the public may access minutes, decision notices and other relevant documents through the Council's website. www.havering.gov.uk

For any further information on the meeting, please contact luke.phimister@onesource.co.uk, tel: 01708 434619.

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Zoom
1 October 2020 (7.00 - 10.45 pm)**

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Jason Frost and Philippa Crowder (In place of Osman Dervish)
Residents' Group	Stephanie Nunn
Labour Group	Keith Darvill
Independent Residents Group	Martin Goode

All decisions were taken with no votes against.

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

161 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

Apologies were received for the absence of Councillor Osman Dervish with Councillor Philippa Crowder attending as his substitute.

162 DISCLOSURE OF INTERESTS

There were no disclosures of interests.

163 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 29 July 2020 were agreed as a correct record and, due to COVID-19, will be signed by the Chairman at a later date.

164 ADMISSION OF HARRISON CATERING TO THE LBH PENSION FUND

The Committee were asked to agree to admit Harrison Catering into the Pension Fund. The members noted that the indemnity was £12k not £55k as stated in the report. It was explained to the Committee that Harrison were already in the Pension Fund for Abbs Cross school but, as the service is for Gaynes School, they have to be admitted again. The Committee noted that it was a 3 year contract which commenced on 1st April 2020 with no new employees being added and a 35.7% contribution rate.

The Committee agreed to admit Harrison Catering into the Pension Fund.

165 PENSION FUND PERFORMANCE FOR QUARTER ENDING JUNE 2020

The report presented to the Committee provided an overview of the Fund's performance for the quarter ending 30 June 2020. The Committee noted the value as of the 30th June 2020 was £814.36million which was an increase of £84.38million since 31 March 2020. The Members noted that the Fund had recovered all the losses sustained following the pandemic declaration on the 13 March 2020 in quarter 2. The Committee noted that the whole portfolio had performed well.

Members noted the exit cap draft regulations had been published on the 8th September 2020.

The Committee:

- 1) Considered Hymans Market Background and Strategic Overview and Manager Performance Report
- 2) Considered Hymans Performance Report and views
- 3) Received presentations from the Fund's infrastructure manager J.P. Morgan
- 4) Considered the quarterly reports sent electronically, provided by each investment manager.
- 5) Noted the analysis of the cash balances

166 INVESTMENT STRATEGY UPDATE

The Committee received a report updating the members on the progress of implementing the Investment Strategy and the Equity structure review.

The Committee:

1. Noted Hymans report on the Health check of the Investment Strategy and Equity Structure Review.
2. Considered and agreed recommendations from the options outlined below:
 - i. To bring the RLAM MAC allocation to 7.5%
 - ii. To make a €20million commitment to the next generation Stafford Fund (SISF IV)
 - iii. In principle, increase the infrastructure asset allocation to 10% and explore infrastructure options provided by the LCIV.
 - iv. To retain the asset allocation to LCIV BG Global Alpha at 15% but rebalance back to 17.5% in line with the Fund's rebalancing policy

- v. To increase the strategic allocation to market-cap equity and factor-based equity from 7.5% to 10%
- vi. To replace the LGIM RAFI mandate with a multi-factor strategy and to embed a 'carbon-fit' in order to reduce exposure to climate risk
- vii. To receive training and presentations from LGIM before committing to change
- viii. To review the market-cap passive allocation in 2021 as further options are developed by the LCIV

167 LGPS AMENDMENT

The report presented advised the Committee of the LGPS amendment to statutory underpin consultation issued in July 2020. The members noted that the financial impact of removing the 10 year protection from the Pension Fund would not have a significant cost impact for the Fund. Of the Pensioners in scope 5% are expected to benefit from the proposed underpin protection changes. The Committee asked to be updated during the process of the amendment being implemented.

The Committee:

- 1. Noted the detail of the attached consultation and the response date being the 8 October 2020.
- 2. Discussed feedback for inclusion into the consultation responses.
- 3. Agreed to support the response submitted by the Funds Actuary and adopt the content for the Havering Pension Fund response.
- 4. Members delegated the approval of response to the consultation to the S151 Officer and /or the Pensions Committee Chair, if required.

168 PENSION FUND ANNUAL REPORT

The Committee received the Draft 2019/20 Pension Fund Annual Report. Members noted the document was still to be audited and needs to be published by 31st December 2020.

The Committee:

- 1. Agreed the Draft 2019/2020 Pension Fund Annual Report.
- 2. Agreed the Pension Fund Annual Report will be published electronically once finalised.
- 3. Authorised the Chair and the Statutory Section 151 officer to conclude the final version and sign so far as necessary, the annual report.

Chairman

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**MINUTES OF THE MEETING OF THE
LOCAL PENSION BOARD
VIRTUAL MEETING
22 September 2020 (4.00 - 5.45 pm)**

Present:

Members: Anne Giles (Scheme Member Representative)
Mark Holder (Scheme Member Representative)
Denise Broom (Employer Representative) (Chair)
Andrew Frater (Employer Representative)

Officer: Caroline Berry
Debbie Ford
Lillian Thomas
Luke Phimister (Clerk)

24 CHAIR'S ANNOUNCEMENTS

25 APOLOGIES FOR ABSENCE

There were no apologies for absence.

26 DISCLOSURE OF INTEREST

There were no disclosures of interest.

27 MINUTES OF THE MEETING

The minutes of the previous meeting held on 1st October 2019 were agreed as a correct record and, due to COVID-19, will be signed by the Chairman at a later date.

28 ACTION POINTS FROM THE PREVIOUS MEETING

The action points were addressed at later items in the agenda.

29 TO RECEIVE FEEDBACK FROM RECENT MEETINGS OF THE PENSIONS COMMITTEE

The Board were notified that the Pensions Committee had admitted Caterlink into the Pension Fund, had agreed a new investment strategy and had agreed a business plan which was backwards looking. The Board noted that the Pensions Committee had commissioned Hymans to evaluate risks due to COVID-19 and it was suggested that mitigations were already in place and there were no issues arising for the Pension Fund.

The Board requested that future Pensions Committee agendas are circulated to Board members.

30 LPP QUARTERLY PERFORMANCE REPORT

The report presented to the committee updated the Board on the LPP Quarterly performance.

The Board noted that the data given was LLP-wide rather than Havering specific. The Board noted that they only had the figures for cases completed and agreed that the visuals for elapsed time was helpful. The Board noted an increase in registrations, 107 in 1 month with another 109 new sign ups after 4 global news articles. The Board noted that there had been a backlog of paperwork due to home working and 211 leavers still required information from the employers. Members of the Board discussed breaches and agreed that the Board should be made aware of any breaches and the outcomes of any breaches and complaints alongside the risk and compliance report.

Action point: Caroline Berry to include employer performance document alongside the next quarterly performance report.

31 RISKS REGISTER

The risk register was presented to the Board and members noted there had been 2 new risks identified since October 2019.

The risk presented to the Board was 'Risk of failure to perform in line with growth expectations' with the first objective being Climate risk. It was noted that the Pensions Committee would have a duty to consider climate risk when making investments and was therefore added to the risk register. The second objective presented to the Board was for financial downturn risks due to COVID-19. Members noted that investment levels, cash flows and employer contributions could be affected.

The Board agreed for the risks to be added to the register.

32 COMPLIANCE CHECKLIST

Officers talked the Board through the compliance checklist and members noted that some evidence of training needs updating and longer serving members will need to revisit the Pension regulator toolkit as it had been updated since their completion.

The Board agreed for the checklist to be updated and put in priority order for the next meeting.

33 TPR REVIEW ACTION PLAN

The report presented to the Board followed a Pensions regulator review in summer 2019 of the Council's processes, producers and governance in place.

The Board noted that although the review was positive, there were still areas of improvement. Members notes the draft data improvement plan and, following comments from the Board, would be presented to Pensions Committee for noting. The Board noted the data improvement plan had to be in place to meet the Pensions Regulator recommendations..

Action Point: Comments back from members by 31st October 2020.

34 COMMUNICATIONS CAMPAIGN

The Board noted that Pensions does not have a high enough profile to communicate effectively to staff. It was agreed to work with LPP to help boost Pensions communications.

35 POSITION OF CHAIR

The Board agreed to continue to rotate the chairmanship until Andrew Frater has chaired a meeting, with a review following that meeting. Mark Holder will be the Chair for the next meeting.

36 LOCAL PENSIONS BOARD ANNUAL REPORT

The Board noted that the report would be presented to the Pensions Committee at the November 2020 meeting.

37 SUGGESTED FUTURES MEETING DATES

The Board noted that no draft dates had been set and asked the clerk to circulate these after the meeting.

Action Point: Luke Phimister to circulate draft meeting dates.

Chairman

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PENSIONS COMMITTEE – 12TH NOVEMBER 2020

Subject Heading:	Review of policy for the overpayment of pensions following the death of a pensioner or dependant member
SLT Lead:	Jane West S151 Officer
Report Author and contact details:	Caroline Berry Pensions Projects and Contracts Manager 01708 432185 caroline.berry@havering.gov.uk
Policy context:	Local Government Pension Scheme Regulations 2013
Financial summary:	In applying the policy to automatically write off pension overpayments of less than £250 following the death of a pensioner or dependant member, where there is no ongoing dependant pension payable, has resulted in overpayments of £3,361.62 being written off during 2019/20.

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

It is good practice to ensure the Council has a policy in place regarding the treatment of overpaid pensions following the death of a pensioner or dependant member. A policy was introduced in March 2019 enabling overpayments of pension of less than £250 net following the death of a pensioner or dependant member, where there is no ongoing dependant pension payable, to be automatically written off. This ensures that any overpayments are treated in a fair

and equitable manner and will prevent the administration team seeking individual write off approvals.

It was agreed that the policy would be reviewed annually. During 2019/2020 the overpayments written off in line with the policy totalled £3,361.62, which falls within the expected average of £5,000.

RECOMMENDATIONS

It is recommended that the Committee agree to the continuation of the Policy for the overpayment of pension following the death of a pensioner or dependant member for a further year.

REPORT DETAIL

1. Notification of the death of a pensioner or dependant member does not always happen immediately. When notified in time the payroll team will stop or recall the last monthly pension payment to prevent a potential overpayment of pension benefits.
2. If this is unsuccessful, the current policy allows the Pension Fund to automatically write off an overpayment of pension of less than £250 net, where there is no ongoing dependant pension to be paid.
3. A value of less than £250.00 net in the instance of the death of a pensioner or dependant member has been deemed by Officers as uneconomical to pursue when taking into account the cost of the administration involved in additional correspondence and raising and chasing an invoice. The cost of this work has been estimated as £76.91 per case.
4. It is also important to take into account the reputation of the Council in seeking to recover relatively small amounts from bereaved relatives.
5. Where there is an ongoing dependant pension benefit due this can be used to recover any overpaid pension, regardless of the value of that overpayment.
6. An invoice will be raised by the Fund to recover an overpayment which is £250.00 net or more following the death of a pensioner or dependant member.
7. The total debt automatically written off during 2019/2020 in line with the policy was £3,361.62 covering 48 different cases, which is an average of £70.03 per case, and falls below the expected average of £5,000 per annum.

IMPLICATIONS AND RISKS

Financial implications and risks:

It is not economical to pursue recovery of any overpayment below £250 net – cases are few and the amount of write –off in any year is typically less than £5,000.

Legal implications and risks:

There are no apparent legal implications or risks within the content of this Report.

Human Resources implications and risks:

There appear to be no HR implications or risks arising directly that impact on the Councils 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.

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. We will ensure that disabled people with sensory impairments are able to access the strategy.

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Havering

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

HAVERING PENSION FUND

**Policy regarding the overpayment of pension
following the death of a pensioner or
dependant member**

March 2019

Havering Pension Fund

Policy regarding the overpayment of pension following the death of a pensioner or dependant member

Purpose

It is good practice to ensure the Council has a policy in place regarding the treatment of overpaid pensions following the death of a pensioner or dependant member. This will ensure that any overpayments are treated in a fair and equitable manner and will prevent the administration team seeking individual write off approvals from the Head of Pensions and Treasury.

The policy is designed to ensure that any overpayments are treated in a fair and equitable manner.

Policy Detail

Notification of the death of a pensioner or dependant member does not always happen immediately. Whenever possible, the payroll team will stop or recall the last monthly pension payment to prevent a potential overpayment of pension benefits.

If this is unsuccessful, the London Borough of Havering agree to automatically write off an overpayment of less than £250 net, where there is no ongoing dependant pension to be paid.

A value of less than £250.00 net in the instance of the death of a pensioner or dependant member has been deemed by the Fund as uneconomical to pursue when taking into account the cost of the administration involved in additional correspondence and raising and chasing an invoice. However, where there is an ongoing dependant pension benefit due this can be used to recover any overpaid pension, regardless of the value of that overpayment.

An invoice will be raised by the Fund to recover an overpayment which is £250.00 net or more following the death of a pensioner or dependant member.

Ownership and authorisation

The policy lead is the Pension Projects and Contracts Manager, who will be responsible for the review of the policy as and when there are regulatory, audit or legislative changes. The Head of Pensions and Treasury will approve the policy and any future revisions as allowed under the OneSource Scheme of Delegation.

The policy is effective from 20th March 2019 and will be reviewed annually.

PENSIONS COMMITTEE

12 November 2020

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 2020**.

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.

Haverling via the Pensions Committee, agreed the following:

6. Actions to ensure compliance / reporting

a) The named officer for reporting issues to within Haverling 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/Havering-Fund-Employers).
 - 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 and Health Impact Assessment (EqHIA) will normally be required. Where the EA suggests that there is a significant impact upon ANY of the "protected characteristics", the EqHIA must be an appendix to the report. In all other cases, the EqHIA must be treated as a background paper.

An EqEIA 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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PENSIONS COMMITTEE 12 November 2020

Subject Heading:

**SERVICE REVIEW OF THE PENSION
FUND CUSTODIAN**

SLT Lead:

**1 October 2019 to 30 September 2020
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 2019 to 30 September 2020.

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 (Table 1 and Section 3 refers).

REPORT DETAIL

1. Background

- 1.1 Custodial services were formerly delivered by State Street which 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.
- 1.2 A new custodian (Northern Trust) was appointed to commence Custodial and Performance measurement Services from 1 October 2019. The Pension Funds within oneSource and the London CIV (LCIV) now share the same custodian. Using a single provider across the LCIV and with other underlying LGPS will benefit from having opportunities for efficiencies e.g. having a single system for the transition process, cost benefits (economies of scale from the full breadth of the LCIV relationship) and reduced operational risk.
- 1.3 Contract duration is 4 years and expires on the 31 September 2023. This initial contract length only covers 4 years so that an assessment can be made as to how custodial services will be delivered in the future and how monitoring services may be provided by LCIV.
- 1.4 This period of review covers the custodial and performance measuring services delivered by Northern Trust only.

2. Review of the Custodian's performance

- 2.1 The Custodian operate a wide range of functions. This falls into the following main categories:
 - Safe Keeping and Custody of assets
 - Investment Accounting and Reporting.
 - Performance Measurement

2.1 (a) 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.

2.1 (b) Investment Accounting and Reporting

The Custodians produce accounting reports that are used for producing the Pension Fund Statement of accounts and enable us to comply with the International Financial Reporting Standards (IFRS) and CIPFA accounting guidance. These reports are accessed and downloaded from their client portal "passport".

They keep a record of the book costs (valuations) and the holdings in the various asset classes for each of the investment managers' portfolio as well as at the total fund level.

The custodian contract also includes completion of the relevant investment sections of the UK Office of National Statistic Returns (ONS) which is a statutory requirement.

2.1 (c) Performance measurement

This is a key part of the investment management process and forms an essential component of the reporting requirements of the Fund. Performance measurement enables the Pensions Committee and officers to understand whether the investment objectives of the Fund are being met and if the fund managers are achieving their targets. To enable the Fund to do this Northern Trust produce monthly and quarterly reports setting out rates of return versus benchmarks for each manager and the whole fund over a number of time periods extending from one month to inception.

- 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. Monitoring the contract also meets post contract award procedures and ensures services are being delivered in accordance to the contract.
- 2.3 Officers have assessed the service against a set of criteria and Officers have shared the outcome of the service review with Northern Trust, which has been set out in the following table:

Table 1

CRITERIA	ASSESSMENT
Safe Keeping and Custody of Assets	
It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for.	<p>Officers review the custodians audited System and Organisation Control (SOC1) report produced annually. No concerns were raised in their latest report covering the 12 months to 31 Sept 2019. The Sept 20 report will not be available until approximately 6 months after the period end date.</p> <p><i>Officers have confidence that the assets are accounted for correctly.</i></p>
Investment Accounting and Reporting	
It is important that accurate accounting records are maintained and appropriate reconciliations are able to be made against the fund's investment managers records.	<p>Officers run detailed reports from the custodian's website using their "passport" tool. These reports are reconciled to the fund manager reports and any differences are investigated. This provides assurances that accurate records are being maintained.</p> <p><i>Officers are satisfied that accurate accounting records are maintained and acknowledge the effort to ensure the smooth transition of assets from the former custodian.</i></p>
Prompt and responsive service	<p>Invoice issuance has not been prompt. Invoices have been received for the three quarters from 1 October to 30 June 20 and these were not received until late June 20. Officers have yet to obtain familiarity with the contents of the invoices and following initial enquires the invoices were reissued in September 2020.</p> <p><i>Officers have yet to review the revised invoices to ensure costs have been applied in line with agreed contract price.</i></p>
Good communication and support	Officers communicate frequently with

CRITERIA	ASSESSMENT
	<p>the custodian covering general day to day operations and to obtain assistance in ensuring investment instructions templates are completed correctly.</p> <p>Training and support was provided to officers in running reports from their website.</p> <p>Regular catch up meetings are held between the Custodians client officers and Havering officers.</p> <p>The Custodian continues to facilitate home working and there has been no service disruptions as a result of working restrictions introduced during COVID-19 lockdown and thereafter.</p> <p><i>Communications and support continue to be satisfactory.</i></p>
Provision of data for the Office of National Statistics (ONS) Returns	<p>New templates were introduced by ONS commencing with Quarter ending June 2019. The Fund uses the ONS service provided by the custodian and they complete the investment sections within the return and answer/resolve any queries raised by ONS. These have been completed within the required timescale.</p> <p><i>Officers are satisfied with this service.</i></p>
Performance Measurement	
It is important that the Pensions Committee and officers understand whether the investment objectives of the Fund are being met and if the fund managers are achieving their targets.	<p>To enable the fund to do this Northern Trust produce monthly and quarterly reports setting out rates of return versus benchmarks for each manager and the whole fund over a number of time periods that cover 1 month, 3 months, 1 year, 3 years, 5 years and inception. Performance reports are available via the custodian's website using the "RADAR" tool.</p>

CRITERIA	ASSESSMENT
	<i>Officers are appreciative of the work carried out to ensure the historical performance data was captured when assets were transitioned from the former custodian. Monthly performance reports are received in a timely manner.</i>

3. Conclusion

- 3.1 This is the first year of operation of custodial services with Northern Trust and officers acknowledge the efforts by all to ensure a smooth transition from the former custodian.
- 3.2 Officers are satisfied with the provision of safe keeping and custody functions.
- 3.3 Officers are satisfied with the overall investment accounting and reporting functions.
- 3.4 Officers are satisfied with the performance monitoring service.

IMPLICATIONS AND RISKS

Financial implications and risks:

The Fund's asset pool provider LCIV use Northern Trust as their appointed custodian and as a result offered a reduced pricing structure for those funds that have assets invested on the LCIV platform.

The costs for custody contract cover transaction charges, administration costs, Foreign exchange charges, ONS submissions and performance measurement costs.

Custody fees are based on a unit price applied to the value of the individual fund's asset values and each transaction.

ONS charges to be applied in line with agreed contract price.

Performance Measurement fees will be charged based on the agreed contract price and include costs for accessing each unique index family.

Invoices have only been received for the three quarters from 1 October to 30 June 20 and these were not received until late June 20. Following initial enquires the invoices were reissued in September 2020. Officers have yet to review the revised invoices to ensure costs have been applied in line with agreed contract price and based on invoices received (unchecked), the costs to June are £39,282 and estimated to £52,375 for the last quarter to Sept) (prior year 1 Oct 18 – 30 Sep 19 £48,875) See table below for fee breakdown:

Fee Breakdown	Oct 19 to Sept 20	Oct 18 to Sept 19
	Estimated	Actual
	£	£
Custody Fee	29,397	28,307
Performance Fees	22,978	20,568
Total	52,375	48,875

Foreign exchange costs are the main attribution for an increase in costs compared to prior year and officers will discuss with the custodian a more cost efficient way of handling the foreign exchange transactions.

The custodian and performance measurement 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. Accounting and reporting information is critical for year-end processes and these need to be produced in a timely manner to ensure accounts can be closed within statutory timeframes.

Officers also carry out reviews of Northern Trust 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:

There are no apparent legal implications or risks arising 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 EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

BACKGROUND PAPERS

None

PENSIONS COMMITTEE

12 NOVEMBER 2020

Subject Heading:

**PENSION FUND ACTUARIAL
SERVICES PERFORMANCE REVIEW -
1 October 2019 to 30 September 2020**

SLT Lead:

Jane West

Report Author and contact details:

Debbie Ford
Pension Fund Manager (Finance)
01708 432569
Debbie.ford@onesource.co.uk

Policy context:

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 2019 – 30 September 2020.

RECOMMENDATIONS

Members note the views of officers on the performance of the Actuary during the period 1 October 2019 to 30 September 2020.

REPORT DETAIL

1. The Fund appointed Hymans Robertson (“Hymans”) with a contract start date of 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
2. Hymans have been with the Fund since April 2010.
3. An annual assessment of the Fund’s Actuarial Services performance is in line with Myner’s Principle number 4 on performance measurement.
4. Monitoring the contract meets post contract award procedures and ensures services are being delivered in accordance to the contract.
5. Actuarial services includes but are not limited to completion of the triennial valuation exercise, Funding Strategy Statement (FSS) 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.
6. The Actuary also provides advice on consultations regarding changes in legislation affecting the Local Government Pension Scheme (LGPS) and reviews guidance issued by Ministry of Housing, Communities and Local Government (MHCLG) and Scheme Advisory Board (SAB). Some of these changes are highly technical and the Committee rely upon the Actuary to put forward suggestions that are in the interest of the Fund. They work closely with the Government Actuary Department (GAD) to support their work under Section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations
7. Since September 2019 the Actuary has undertaken the following:

Valuation 2019:

- Provision of initial results and employer results
- Asset Liability modelling –includes contribution rate modelling
- Preparation for and attendance at meeting with officers to discuss employer valuation results
- Delivered 2019 Valuation results with committee training.
- Non-CORE valuation work - Provision of McCloud paper, Provision of prepayment options, ill health budgets.
- Completion of GAD Section 13 data submissions

Employers:

- Continued work in respect of College mergers and its final settlement
- Caterlink (LIFE Academy Trust) - Provided indemnity and contribution rate report.
- May Harris – Provision of indemnity and contribution rate report
- Harrison Catering (Gaynes) Indemnity and Contribution rate report
- Various Pensions Information Memorandum reports

Accounting:

- Provided revised FRS102 reports for Havering College of Further and Higher Education and responded to auditors query letter.
- Produced statutory accounting disclosures (IAS19 and IAS26) for the London Borough of Havering and the Pension Fund.
- Produced the 2019/20 actuarial statement for the statement of accounts.
- Provided FRS102 reports for the academies.

General

- Provision of AVC review paper
 - Actuarial support in respect of Fund matters – including advice on pass-through.
 - Provision of COVID-19 risks for the fund briefing paper for the Committee
 - Revised FSS in respect of cessation exit credits regulations
 - Employer Strain cost factors
 - £95k Exit cap
 - Further revisions to the FSS in light of regulations changes (follows on from previous consultations undertaken by MHCLG the previous year)
8. 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 2019 – 30 September 2020 were delivered in both a timely manner and to a good or excellent quality.
9. Hymans continually provides briefings on changes to legislation, government consultations, conference feedback and commentary on related news articles. Officers receive a copy of 'The Edit' which are produced monthly and provide updates on current LGPS issues. These are all welcomed and viewed as excellent and give Council officers a steering on most issues arising. Shared consultation responses with the Fund – “Amendments to LGPS consultation”.

10. There has been no disruption with officer's having contact with the actuaries as a result of COVID-19 working restrictions, Hymans are fully equipped for virtual, remote working and are able to conduct meetings on line. They have also ran online webinars on a number of LGPS issues.
11. In considering the ongoing risks the Fund is facing in respect of COVID 19 and the bumpy markets resulting from it. Hymans launched a new online System that generates approximate funding updates for admitted body employers at selected date's in-between valuations. Officers have been trialling this since May 2020 for a free six month period. Officers have found this useful as it helps with monitoring admitted bodies employers expected to cease before 31 March 2022.
12. In conclusion, officers are satisfied with the service that Hymans is providing.
13. 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 £112, 563 (Oct 18 to Sep 19 £104,400).

The above fees included actuarial work that was recharged to other employers within the fund to the sum of £48,873 (includes estimated recharges for September 20) (Oct 18 to Sep 19 £56,150).

The total **net costs of £63,690** for the period 1 October 19 to September 20 (Oct 18 to Sep 19 £48,250) are met from the Pension Fund. The increase in net costs is mainly attributable to the cost of the 2019 valuation.

Hymans were appointed using the 2016 Actuarial, Benefits and Governance Consultancy Framework and one of the advantages of this was the possibility to benefit from the cumulative rebate, based on the overall value of work awarded to a supplier under the Framework.

The value of work invoiced by Hymans for the period 1 April 2019 to 31 March 2020 has been sufficient enough to trigger a rebate. Havering will receive a rebate of **£4,736.99** from Hymans Robertson.

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

An EqEIA 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 2020

Subject Heading:

**INVESTMENT CONSULTANCY
SERVICES PERFORMANCE REVIEW –
1 October 2019 to September 2020
Jane West**

SLT Lead:

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 requests that Committee review performance of the Investment Consultant for the period 1 October 2019 to 30 September 2020 against strategic objectives previously set.

RECOMMENDATIONS

It is recommended that the Committee:

1. Note the views of officers on the performance of the Investment Consultant (Hymans investment adviser) against the objectives 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 The Competition and Markets Authority (CMA) issued “The Investment Consultancy and Fiduciary Management Market Investigation Order 2019” (the ‘Order’). 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 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.
- 1.4 The Order took effect from **the 10 December 2019**. This was reported to members at its meeting on the 12 November 2019 and it agreed to adopt the CMA format and set objectives, measure(s) of success, expected outcomes and expected timescales for delivery.
- 1.5 The CMA has recommended that the Department for Work and Pensions (DWP) legislates to bring the requirements of the Order into Pensions Legislation.
- 1.6 The DWP has 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)*.
- 1.7 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.

- 1.8 The Order provides that it will cease to apply if its requirements are replaced by regulations. DWP intended to issue replacement regulations applying to trustees of occupational pension schemes this year which would have excluded public sector pension schemes from the Order. The regulations were issued in draft (The Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2019) but as a result of UK withdrawal from the EU and the pandemic, it has not been possible to progress them, and DWP has now confirmed that they will not become law before the 7 January 2021 deadline.
- 1.9 The CMA Order contains reporting obligations. Administering authorities will now 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. This being **7 January 2021**. 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 The Committee has historically undertaken an annual assessment of the IC's performance and at Pensions Committee 12 November 2019 agreed to adopt the CMA format and set objectives, measure(s) of success, expected outcomes and expected timescales for delivery.
- 1.11 Undertaking the review ensures that this will meet the criteria for the compliance return.
- 1.12 Monitoring the contract meets also meets post contract award procedures and ensures services are being delivered in accordance to the contract.

2 REVIEW OF THE INVESTMENT CONSULTANT SERVICE PERFORMANCE

- 2.1 Hymans was appointed to provide Investment Advisory services using the "LGPS National Framework for Investment Management Consultancy Services" from the 1 April 2019. Contract duration is 5 years and expires on the 31 March 2024 with an option to extend by a further two years until 31 March 2026.
- 2.2 Hymans have provided investment advice to the Fund since April 2006.
- 2.3 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.

- 2.4 Hymans performance has been reviewed against a set of agreed objectives and the results of the review of performance over the year of review are set out in **appendix A**.
- 2.5 Officers met with Hymans and agreed the performance assessment for the year to September 2020. Areas of improvement were identified and these were agreed with Hymans
- 2.6 Officers conclude that they are generally satisfied with Hymans 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 2019 to July 2020 at a cost of £64,056, including estimated fees to September the total cost is expected to be in the region of £82,000 (1 October 2018 to September 2019 £70,000).

Increase in costs is mainly attributable to work undertaken in relation to the Investment strategy and an increase in general advice as covered in Appendix A.

Hymans were appointed using the **2017 Investment Consultancy Services Framework** and one of the advantages of this was the possibility to benefit from the cumulative rebate, based on the overall value of work awarded to a supplier under the Framework.

The value of work invoiced by Hymans Robertson for the period 1 April 2019 to 31 March 2020 has been sufficient enough to trigger a rebate. Havering has received a rebate of **£699.34** from Hymans Robertson.

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

Legal implications and risks:

The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 referred to above can be enforced by the CMA against Pension Scheme Trustees. The CMA can give directions to anyone to take any necessary actions to comply with the Order, and has power to bring proceedings against a party who has not complied with it. It is also possible that a failure to comply with

the Order might result in the Pensions Regulator considering that trustees do not have adequate internal controls in place.

In relation to the requirements 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 strategic objectives in relation to the services they are going to or are already receiving.

This prohibition is effective from 24 June 2019 and will apply to new and existing contracts for investment consultancy services.

The report at Appendix A sets out the strategic objectives and the consultants' performance against these objectives and there appear to be no further legal implications in considering this and making any appropriate comments as recommended.

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 EqEIA 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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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 Investment Strategy Statement (ISS) was adopted in November 2017, IC have been instrumental in progressing the periodic implementation of the strategy.</p> <p>At the 29 July 2020 Pensions meeting (postponed from 17 March 2020) the ISS was reviewed and updated to reflect progression of the ISS. In the lead up to reviewing the strategy IC were also instrumental in the development of a set of investment beliefs providing a framework for the ISS to be progressed.</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	Duration of the contract	Returns on the portfolio exceed the strategic benchmark over five-year	Based on data from our performance measurers asset returns as at September 2020 are as follows:

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OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
allocation over the long term		<p>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>5 Year strategic return Fund return: 8.38 Benchmark: 9.36 Relative Return: -0.98 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, as measured by the return on index linked gilts + 1.8% p.a., over this period.</p> <p>3 year composite benchmark Fund return: 5.95 Benchmark: 5.39 Relative Return: 0.55</p>
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>62% of the Funds' assets are held with the London Collective Investment Vehicle (LCIV) - competitive fee arrangements is one of the primary aims of investing via LCIV and therefore not considered a key role for the IC.</p> <p>No benchmarking of fees were deemed necessary during this period for assets held outside of LCIV due to the majority of managers being relatively new appointments.</p> <p>The IC negotiated fees for the revised bond/Multi Asset Credit mandate.</p>
D. Help the Committee to implement	Duration of the	Committee feel adequately	IC prepared a report summarising the Fund's

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OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
<p>an Investment Strategy which adds value through the integration of Environmental, Social and Governance (ESG) and stewardship considerations in investment manager appointments.</p>	<p>contract</p>	<p>briefed on ESG and stewardship issues and understand its importance within the context of the prevailing strategy.</p> <p>IC provides proactive advice on emerging trends in ESG issues</p>	<p>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 2019 which was presented to the Committee on the 29 July 2020.</p> <p>This report is submitted annually to add value to the monitoring process as set out in the ISS.</p> <p>This report has helped the Committee to understand the managers voting and engagement activity.</p> <p>Included within this report the IC also set out the Funds exposure to the most carbon intensive sectors from each of the equity mandate to help the committee understand its carbon risk exposure.</p> <p>IC were instrumental in formulating a statement of investment beliefs which incorporates a central belief that integration of ESG and stewardship are matters that should be considered as part of investment decision making.</p>
<p>E. Manage cash flows needs in a more cost effective manner</p>	<p>Annually</p>	<p>Development and regular review of cashflow policy.</p>	<p>IC produced a Cash Flow Management Policy for the Pensions Committee on the 17 September 2019 which the Fund is using to as a</p>

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
		Proactive response and advice where changes in cashflow requirements are identified.	<p>monitoring tool. This will be reviewed when monthly outgoings increase by more than 20%. No review required to date.</p> <p>IC assisted the fund in producing a funding plan for the settlement of the college transfer mergers which was carried out successfully.</p> <p>Officers consult with the IC regularly on the management of funding capital requests from the Real Asset Managers.</p>
2. Delivery of specialist Services			
Outcomes Expected:			
A. Work with the Fund Actuary to undertake asset liability modelling as required	Triennially	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>Whilst there were no recommendations to adjust the funding approach following the release of the 2019 triennial valuation report, IC carried out a health check on the ISS and this was presented at the 29 July Committee meeting (postponed from 17 March 2020).</p> <p>If the regulations do not change the next valuation will take place using data as at 31 March 2022 but the ISS will be kept under review and modified as required.</p>
B. Work with the Fund Actuary on an ongoing basis in respect of the integrated management of fund	Duration of the contract		The IC liaises with the Fund Actuary on an ongoing basis to ensure the management of the Fund's assets are in line with the funding approach set out in the results of the triennial

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OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
assets and liabilities			valuations. They regularly update the Committee with changes to the funding level and ongoing monitoring of meeting the Fund's Strategic benchmark
C. Help the Committee to develop and define their investment beliefs	Duration of the contract	<p>IC provides input and challenge on investment beliefs as appropriate</p> <p>IC facilitates discussion on beliefs and interprets the consequences of investment beliefs for the Committee.</p>	<p>The IC has been instrumental in the progression of the development of the Committee's investment beliefs which includes beliefs on responsible investment matters.</p> <p>In developing the investment beliefs, the IC 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 was agreed by the Pensions Committee at its meeting on the 10 December 2019 and this was incorporated into the ISS when it was reviewed and agreed at the Pensions Committee on the 29 July 2020.</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 Investment at the IC as one of the consultants supporting the Fund.</p>

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
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 its objectives from an investment perspective</p>	<p>IC 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 an active role at Committee meetings and acted as its advocate in challenging the fund managers on their performance/strategy and continue to 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 is on track and fund manager objectives are being met.</p>
3. Proactivity of Advice			
Outcomes Expected:			
A. Advise the Committee on new investment opportunities or	Duration of the contract	IC proactively identifies potential investment	New investment opportunities are explored on an ad hoc basis and the IC has regular contact

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
emerging risks		opportunities or risks and communicates these to Officers/Committee for discussion	<p>with LCIV to keep up to date with new products being offered and assess the suitability against the Funds Investment Strategy.</p> <p>In line with the long term aims of the ISS, IC produced a paper outlining the potential options for implementing the Funds allocation to a Multi Asset Credit (MAC) mandate.</p> <p>This resulted in the Fund evolving its arrangements with the Fund's existing Bond manager and invest in their MAC product in January 2020 when the LCIV product was "on watch" and unavailable for new investment. .</p> <p>As part of the development and implementation of the ISS the IC introduced a proposal to switch to a multi factor equity mandate. This was agreed by the Committee subject to further training and receipt of a presentation from the proposed fund manager.</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 discussion	<p>As appropriate the IC advise the Fund of the issuance of government consultations and legislation changes that impact on governance arrangements.</p> <p>In particular updates on Responsible Investment Regulatory updates that will impact the LGPS.</p>

OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
			<p>The IC advice officers and the Committee on procurement rules as part of investment considerations.</p> <p>Officers are appreciative of input from the IC</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 part of the Committee meetings as follows:</p> <p>17 September 2019 - Multi Asset Credit:</p> <ul style="list-style-type: none"> Debt markets overview What is Multi Asset Credit (MAC) Absolute Return Bonds (ARB) Current Yields Comparison of MAC vs ARB <p>01 October 2020 – Brief introduction to Multi Factor passive equity Investing:</p> <ul style="list-style-type: none"> Importance of considering multi factor investing Benefits of factor diversification
4. Support with scheme management and compliance			
Outcomes Expected:			
A. On a quarterly basis , undertake investment manager performance monitoring and review for	Quarterly	IC delivers advice on a timely basis in accordance with the expectations of	Each quarter IC produces a monitoring report (not always in a timely fashion) which covers market analysis and the performance of the

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OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
presentation to the Committee		Officers IC consults with Officers on the development of agenda items for future meetings	investment managers. They have attended each Committee meeting as required to discuss their report and have provided valuable advice and guidance at these meetings. Improvement to the timeliness of reports in an area required for improvement
B. Produce briefing papers and periodic investment advice in advance of committee meetings in a timely basis	Duration of the contract		IC produced the following papers/briefings: <ul style="list-style-type: none"> • Carbon Risk Exposure • Weekly market performance update during April and May when the COVID 19 pandemic had its major effect on global markets, followed by ongoing monthly monitoring. • Monthly market performance updates
C. Support the Fund in obtaining data required to report investment fees in line with the Code of Transparency.	Duration of the contract		Officers are continuing to work with Fund Managers with regard to disclosing fee information in line with Code of Transparency. Officers will work with the IC in developing the process and collection of data for the 2020/21 accounts.
D. Review and update as appropriate the schemes Investment Strategy Statement	Duration of the contract		ISS was reviewed, updated and agreed by the Pensions Committee at its meeting on the 29 July 2020 (postponed from the 17 March 2020). Officers will continue to work with IC to complete the implementation of the ISS over the next few months.

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OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
E. Ensure compliance of the schemes investment arrangements with developments in regulation and all legislation	Duration of the contract		As appropriate the IC advise the Fund of the issuance of government consultations and legislation changes that impact on governance arrangements.
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 provides detailed information against invoices to enable 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	IC provides an annual business plan and budget proposal for agreement with Officers IC provides fee quotes for significant work items	Officers will work with the IC to ensure that fee budgets are agreed prior to commencing significant piece of work.
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.	There has been a change of personnel working on the Havering client team but this has had minimal impact on the service provided to the Havering Pension Fund.

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OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
		IC seeks feedback on views of Officers/Committee.	The support arrangements in place are good but officers would like to see an improvement to the timelessness of reports.
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 IC 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. The IC does not provide advice to LCIV.
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	Investment Consultant has also provided advice on the suitability of investments on offer via the London CIV covering suitability to the

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OBJECTIVE	DELIVERY TIMESCALE	MEASURE OF SUCCESS	SERVICE ASSESSMENT
			<p>investment strategy and the likelihood of engagement in their offered products.</p> <p>It is important that the Committee and officers receive expert advice on investment issues and how they affect the Local Government Pension Scheme</p>