



PENSIONS COMMITTEE

24 November 2015

Report

Subject Heading:

**REVIEW OF THE PENSION FUND
CUSTODIAN**

CMT Lead:

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Policy context:

Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer

Financial summary:

Cost of custodian services for the period 1 April to 30 June was £29,265

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

This report reviews the performance of the Custodian, State Street, for the period October 14 to September 2015.

RECOMMENDATIONS

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

REPORT DETAIL

1. Background

At its meeting of 8th September 2004, Members were informed that following a competitive tender process, State Street had been appointed via a Chairman's decision to provide an investment custodial service to the Havering Pension Fund. State Street was appointed for the period from 31st December 2004 until terminated by either party. The Council may terminate this agreement by giving at least 28 days' notice. The Custodian may terminate the agreement by giving at least 90 days' notice.

2. Review of the Custodian's performance

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

- Safe Keeping and Custody
- Investment Accounting and Reporting.

• Safe Keeping and Custody

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

• Investment Accounting and Reporting

State Street produce accounting reports that are similar to those produced by the fund's investment managers. They keep a record of the book costs and the holdings in the various asset classes and also provide an independent market valuation of the fund. This is done for each of the investment managers' portfolio as well as at the total fund level. State Street records are therefore considered to be master records and these records are used for producing the accounts. Reports currently produced by State Street are in a format that can be used for us to comply with the International Financial Reporting Standards (IFRS).

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- 2.2 Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer.
- 2.3 Officers met with the State Street on the 12 August 2015 where service performance was discussed and the results of the review of performance are set out in the table below:

CRITERIA	ASSESSMENT
What is important to the Authority	<p>It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for.</p> <p>It is important that accurate accounting records are maintained and appropriate reconciliations are provided with the numerous fund managers, investment advisers and performance measurers.</p> <p><i>Officers have confidence that the assets are secure and accounted for correctly as State Street produces quarterly reconciliations of valuations and holdings to fund manager records. Where differences occur outside the agreed tolerance levels explanations are provided.</i></p> <p><i>Officers have confidence that accurate accounting records are maintained. Officers run detailed reports from the custodian's website "mystatestreet" and these are reconciled to the summary level reports produced by State Street. This provides assurances that detailed reports are being run correctly. State Street and officers also undertake quarterly reconciliations of the accounts in an IFRS format and this process is proving to be successful in that any errors can be identified early and can therefore assist the closedown process at year end.</i></p>
Safe keeping and custody	<p>This relates to the core functions of the custodian.</p> <p><i>Officers are appreciative of how this role is performed and believe that this is a high quality service. Officers also review reports by State Street auditors on their internal controls and key procedures. Officers are satisfied with the management responses to the exceptions raised in the report.</i></p>

CRITERIA	ASSESSMENT
Prompt and responsive service	<i>Receipt of invoices continues to be irregular and response times to queries on invoices could be improved. Bulk receipts of invoices impact on work planning so officers continue to raise this with State Street to determine how improvements can be made. Response times to queries on the accounts are good.</i>
Support arrangements	<i>The support arrangements in place are good.</i>
Good communication	<i>Communications are good. Officers communicate frequently with State Street covering general day to day operations and State Street is always willing to have meetings where the service delivery is discussed.</i>
Provision of data for the Office of National Statistics (ONS) Returns	<i>State Street can only deliver audited data following completion of reports at month end. ONS completion deadlines do not coincide with State Street's reporting timetable and this will continue as it is unlikely that the ONS will relax their completion deadlines.</i>
Overall Summary	<i>Officers are satisfied with the performance of State Street with regard to Safe Keeping and Custody functions and would like to see the improvements made for Investment Accounting and Reporting functions to be sustained.</i>

3. Conclusion

- 3.1 Officers are satisfied with the safe keeping and custody functions provided by State Street custodians.
- 3.2 Officers are pleased with the investment accounting and reporting functions. Officers will continue to monitor State Street to ensure that the level of service is sustained.

IMPLICATIONS AND RISKS

Financial implications and risks:

Invoices have only been received up to the period covering 30 June 2015. Therefore the cost of custodian services for the period 1 October 2014 to 30 June 15 is £29,265 (Oct 13 to Sept 14 was £39,711). The costs cover transaction charges, administration costs and custody fees based on a pre-agreed unit price applied to the value of the individual fund's assets and each transaction.

The cost of the custodian services has reduced in recent years due to the fund's use of pooled funds and this consequently reduces the custody and transaction charges.

The custodian fees are met from the Pension Fund.

There is a risk that the fund's value could be misstated if poor or incorrect data was provided by the custodian. This is mitigated by frequent reconciliations by the custodian to fund manager records and officer reviews of auditor reports that detail their internal control environments and key procedures. Internal control reports are reviewed for both the custodian and the fund

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no equality implications or risks as a result of this report.

BACKGROUND PAPERS

Working papers held within Corporate Finance