



PENSIONS COMMITTEE 9 November 2011	REPORT
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Subject Heading:	REVIEW OF THE PENSION FUND CUSTODIAN
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Policy context:	Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer.
Financial summary:	Cost of custodian services was £120,749 in 2010/11.

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

- Clean, safe and green borough
- Excellence in education and learning
- Opportunities for all through economic, social and cultural activity
- Value and enhance the life of every individual
- High customer satisfaction and a stable council tax

SUMMARY

This report reviews the annual performance of the Custodian, State Street, for the period April 2010 to March 2011.

RECOMMENDATIONS

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

REPORT DETAIL

1. Background

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

2. Review of the Custodian's performance

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

- Safe Keeping and Custody
- Investment Accounting and Reporting.

• **Safe Keeping and Custody**

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

• **Investment Accounting and Reporting**

State Street produce accounting reports that are similar to those the investment managers produce for the fund. They keep a record of the book costs and the holdings in the various asset classes and also provide a market valuation of the fund. This is done for each of the investment managers' portfolio as well as at the total fund level. State Street records are therefore considered to be master records and these records are used for accounting purposes. Reports currently produced by State Street are in a format that meets the Statement of Recommended Practice (SORP) requirements. Although we now have to comply with the International

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Financial Reporting Standards (IFRS) there is minimal impact on the reports produced by State Street.

- 2.2 Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer. This is the sixth formal assessment of the custodial service by this Committee.
- 2.3 Officers are in constant contact with State Street where the service delivered may be discussed, Officers also have a formal annual service review meeting with State Street where service is also considered.
- 2.4 The review shown below is set out in the same format as previous years. The results of the review of performance are set out in the table below and have been discussed with State Street.

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

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CRITERIA	ASSESSMENT
Prompt and responsive service	<p><i>Response times to queries on invoices are good.</i></p> <p><i>Response times to queries on the accounts are good.</i></p>
Support arrangements	<p><i>The support arrangements in place are good.</i></p>
Good communication	<p><i>Monthly reports are produced in CD format within prescribed timetables and the timeliness of issuing these reports has greatly improved. These reports are comprehensive but the data still requires reformatting and supplementing by additional reports in order that LBH officers can produce the accounts in the format as recommended in the SORP. There have been issues with some of the data on the CD's being incomplete in the past but better checking processes introduced by State Street has improved this.</i></p> <p><i>State Street has been developing automatic reports that follow the SORP format but these reports were not available during 2010/11. This will be revisited in light of some changes to the reporting standards due to the introduction of IFRS. State Street is continuing to provide SORP reports in the manual format. Officers are mindful that the automatic reports will improve the timeliness of releasing data but will not significantly change the way the accounts are currently produced for the accounts.</i></p>
Provision of data for the Office of National Statistics (ONS) Returns	<p><i>State Street has improved the timeliness of this data but can only deliver audited data following completion of reports at month end. ONS completion deadlines do not often coincide with State Streets' reporting timetable and this will continue as it is unlikely that the ONS will relax their completion deadlines.</i></p>
Overall Summary	<p><i>Officers are satisfied with the performance of State Street with regard to Safe Keeping and Custody functions and would like to see the improvements made for Investment Accounting and Reporting functions to be sustained.</i></p>

3. Conclusion

- 3.1 Officers are satisfied with the safe keeping and custody functions provided by State Street custodians.
- 3.2 Officers are pleased with the continued improvements made to the investment accounting and reporting functions. Officers will continue to monitor State Street to ensure that the level of improvement is sustained.
- 3.3 As reported at the last review officers have been in discussion with State Street over the level of fees. Officers can now report that a new fee schedule has been negotiated and will operate from 1 August 2011 on the basis that the new fees will deliver projected savings in the region of 15%.

IMPLICATIONS AND RISKS

Financial Implications and risks:

The cost of custodian services for the year to 31st March 2011 was £120,749. These costs are met from the Pension Fund. The costs cover transaction charges, administration costs and custody fees based on a pre agreed unit price applied to the value of the individual fund's assets and each transaction.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

None arising directly

Equalities implications and risks:

There are no equalities implications to this report

BACKGROUND PAPERS

Working papers held within Corporate Finance