



PENSIONS COMMITTEE

22 November 2016

Subject Heading:

**SERVICE REVIEW OF THE PENSION
FUND CUSTODIAN**

CMT Lead:

Andrew Blake Herbert

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569
Debbie.ford@onesource.co.uk

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:

Estimated costs for the custodial services for the period 1 October 2015 to 30 September 2016 is £33,992

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

Havering will be clean and its environment will be cared for
People will be safe, in their homes and in the community
Residents will be proud to live in Havering

SUMMARY

This report reviews the performance of the Custodian, State Street, for the period October 15 to September 2016.

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).

Pensions Committee, 22 November 2016

- 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 02 November 2016 where service performance was discussed and the outcomes of that review 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><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>It is important that accurate accounting records are maintained and appropriate reconciliations are provided by the custodian to the fund's investment managers records.</p> <p><i>Officers 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 and validates that the reports run from State Streets website are correct.</i></p> <p><i>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. Whilst there have been a number of reconciliations issues of late officers are confident that these can be resolved with State Street.</i></p>
Safe keeping and custody	This relates to the core functions of the custodian.

CRITERIA	ASSESSMENT
	<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>
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 could be improved but officers will work with State Street to ensure improvements can be implemented.</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 are always willing to have meetings where 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 but officers work with the ONS to meet authorised extensions.</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 improvements made for producing consistent accounting data.</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 overall investment accounting and reporting functions but officers will work with State Street to ensure that improvements to the level of service with regard to the accounting and reporting functions are improved.

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs cover transaction charges, administration costs and custody fees based on a pre-agreed unit price applied to the value of the individual fund's assets and each transaction.

Invoices have only been received up to the period covering Oct 15 to May 16, so the total costs at the time of writing this report for the period to May 16 is £25,892 (with £7,100 under query). Estimated costs from Jun 16 to September are £8,100.

Total estimated costs for the period Oct 15 to Sep 16 is £33,992 (Actual charge for Oct 14 to Sept 15 was £39,043).

The cost of the custodian services has reduced 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 reconciliations.

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

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

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