



## PENSIONS COMMITTEE

13 November 2018

**Subject Heading:**

**SERVICE REVIEW OF THE PENSION  
FUND CUSTODIAN**

**SLT Lead:**

**Jane West**

**Report Author and contact details:**

***Debbie Ford***  
***Pension Fund Manager (Finance)***  
***01708432569***

**Policy context:**

**[Debbie.ford@onesource.co.uk](mailto: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:**

Estimated costs for the custodial services for the period 1 October 2017 to 30 September 2018 is in the region of £24,000.

**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 October 2017 to September 2018.

**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 8<sup>th</sup> September 2004, Members were informed that following a competitive tender process, State Street had been appointed via a Chairman's decision to provide an investment custodial service to the Havering Pension Fund. State Street was appointed on the 31<sup>st</sup> December 2004 and the contract remains open until terminated by either party. The Council may terminate this agreement by giving at least 28 days' notice. The Custodian may terminate the agreement by giving at least 90 days' notice.

**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).

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 have shared the outcome of the service performance review with State Street, which is set out in the table below:

CRITERIA	ASSESSMENT
<p>What is important to the Authority</p>	<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 are satisfied that accurate accounting records are maintained. Officers run detailed reports from the custodian’s website “mystatestreet” and these are reconciled to the summary level reports produced by State Street. This provides assurances and validates that the reports run from State Streets website are correct.</i></p> <p><i>State Street and officers also undertake 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 officers are able to resolve these with State Street. During the audit of the 2017/18 accounts it was discovered that some bond holdings were misclassified b y State Street which they then corrected. Additional reconciliations have been implemented by officers to gain assurances that holdings at asset class level are matching the fund managers.</i></p>
<p>Safe keeping and custody</p>	<p>This relates to the core functions of the custodian.</p> <p><i>Officers are appreciative of how this role is</i></p>

CRITERIA	ASSESSMENT
	<i>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 regularly sent in bulk. Bulk receipts of invoices impact on work planning so officers continue to raise this with State Street. Response times to queries on invoices have seen a improvement. Explanation of corrections raised with State Street on the accounts could be improved but officers will continue work with State Street to ensure improvements can be implemented.</i>
Support arrangements	<i>The support arrangements in place are satisfactory</i>
Good communication	<i>Communications are satisfactory. 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 if required.</i>
Provision of data for the Office of National Statistics (ONS) Returns	<i>State Street can only deliver audited data following completion of reports at month end. ONS completion deadlines do not coincide with State Street's reporting timetable but officers work with the ONS to meet authorised extensions.</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 satisfied 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.

For the period covered in this report, invoices have only been received up to June 2018. Based on estimates the final cost for the period October 2017 to September 2018 is expected to be in the region of £24,000. Prior year costs for the period Oct 16 to Sep 17 was £24,470.02.

The cost of the custodian services will continue to reduce if the fund's use of pooled funds increases as consequently this reduces the custody and transaction charges. Officers will keep under review whether there is a need for a custodial service going forward once the Fund knows what assets will be held in or outside of the London CIV.

The custodian fees are met from the Pension Fund.

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

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

### **Legal implications and risks:**

None arise from this report.

### **Human Resources implications and risks:**

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

### **Equalities implications and risks:**

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

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

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

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

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

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

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

**BACKGROUND PAPERS**

None.