



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