



Havering
LONDON BOROUGH

PENSIONS COMMITTEE

09 November 2021

Subject Heading:

**SERVICE REVIEW OF THE PENSION
FUND CUSTODIAN**

SLT Lead:

**1 October 2020 to 30 September 2021
Jane West**

Report Author and contact details:

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Policy context:

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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:

Costs for the custodial services for the period are met by the Pension Fund

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

Communities making Havering
Places making Havering
Opportunities making Havering
Connections making Havering

[X]
[X]
[X]
[X]

SUMMARY

This report reviews the performance of the Custodian, Northern Trust, for the period 1 October 2020 to 30 September 2021.

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 (Table 1 and Section 3 refers).

REPORT DETAIL

1. Background

- 1.1 Northern Trust was appointed to commence Custodial and Performance measurement Services from 1 October 2019. The Pension Funds within oneSource and the London CIV (LCIV) now share the same custodian. Using a single provider across the LCIV and with other underlying LGPS will benefit from having opportunities for efficiencies e.g. having a single system for the transition process, cost benefits (economies of scale from the full breadth of the LCIV relationship) and reduced operational risk.
- 1.2 Contract duration is 4 years and expires on the 30 September 2023. This initial contract length covers 4 years so that an assessment of how custodial services will be delivered in the future.
- 1.3 This period of review covers the custodial and performance measuring services delivered by Northern Trust.

2. Review of the Custodian's performance

- 2.1 The Custodian operate a wide range of functions. This falls into the following main categories:

(a) Safe Keeping and Custody of assets

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 pension fund (the 'Fund'), claiming back any recoverable overseas withholding tax paid on dividends received and maintaining the tax records of the fund.

(b) Investment Accounting and Reporting

The Custodians produce accounting reports that are used for producing the Pension Fund Statement of Accounts and enable us to comply with the International Financial Reporting Standards (IFRS) and CIPFA accounting

guidance. These reports are accessed and downloaded from their client portal “passport”.

They keep a record of the book costs (valuations) and the holdings in the various asset classes for each of the investment managers’ portfolio as well as at the total fund level.

The custodian contract also includes completion of the relevant investment sections of the UK Office of National Statistic Returns (ONS), which is a statutory requirement.

(c) Performance measurement

This is a key part of the investment management process and forms an essential component of the reporting requirements of the Fund. Performance measurement enables the Pensions Committee and officers to understand whether the investment objectives of the Fund are being met and if the fund managers are achieving their targets. To enable the Fund to do this Northern Trust produce monthly and quarterly reports setting out rates of return versus benchmarks for each manager and for the whole fund over a number of time periods extending from one month to inception.

- 2.2 Services are reviewed annually to ensure that the Fund is receiving best value for money and is benefiting from all the services the custodian has to offer. Monitoring the contract also meets post contract award procedures and ensures services are being delivered in accordance to the contract.
- 2.3 Officers have assessed the service against a set of criteria and Officers have shared the outcome of the service review with Northern Trust, which has been set out in the following table:

Table 1

CRITERIA	ASSESSMENT
Safe Keeping and Custody of Assets	
It is important that the Pensions Committee and officers have confidence that all assets are secure and properly accounted for.	Officers review the custodians audited System and Organisation Control (SOC1) report produced annually. No concerns were raised in their latest report covering the 12 months to 30 Sept 2020. The Sept 21 report will not be available until approximately 6 months after the period end date. <i>Officers have confidence that the assets are accounted for correctly.</i>

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CRITERIA	ASSESSMENT
<p>Investment Accounting and Reporting</p>	
<p>It is important that accurate accounting records are maintained and appropriate reconciliations can be made against the Fund's investment managers records.</p>	<p>Officers run detailed reports from the custodian's website using their "passport" tool. These reports are reconciled to the fund manager reports and any differences investigated. This provides assurances that accurate records are maintained. Access to additional reporting functionality further assisted officers in reconciling the 2020/21 accounts.</p> <p><i>Officers are satisfied that accurate accounting records are maintained with no audit issues identified to date.</i></p>
<p>Prompt and responsive service</p>	<p>Reponses to queries are dealt with promptly.</p> <p><i>Officers are satisfied and appreciative of the responsive service</i></p>
<p>Good communication and support</p>	<p>Officers communicate frequently with the custodian covering general day-to-day operations and to obtain assistance in ensuring investment instructions templates are completed correctly.</p> <p>The Custodian continues to facilitate home working and there has been no service disruptions because of working restrictions introduced during COVID-19 lockdown and thereafter.</p> <p><i>Officers have highlighted that service reviews are an area requiring improvement. This has been discussed with the custodian and plans are being made to schedule a series of regular reviews going forward</i></p> <p><i>Communications and support continue to be satisfactory.</i></p>

CRITERIA	ASSESSMENT
Provision of data for the Office of National Statistics (ONS) Returns	<p>The Fund uses the custodians ONS service and they complete the investment sections within the return and answer/resolve any queries raised by ONS. These have been completed within the required timescales.</p> <p><i>Officers are satisfied with this service.</i></p>
Performance Measurement	
It is important that the Pensions Committee and officers understand whether the investment objectives of the Fund are being met and if the fund managers are achieving their targets.	<p>Northern Trust performance measurement service produce monthly and quarterly reports setting out returns versus benchmarks for each manager and the whole fund over a number of time periods that cover 1 month, 3 months, 1 year, 3 years, 5 years and inception. Performance reports are available via the custodian’s website using the “RADAR” tool.</p> <p><i>Performance reports are received within specified timescales and officers are very satisfied with this service.</i></p>

3. Conclusion

- 3.1 Officers are satisfied with the provision of safekeeping and custody functions.
- 3.3 Officers are satisfied with the overall investment accounting and reporting functions.
- 3.4 Officers are very satisfied with the performance monitoring service.

IMPLICATIONS AND RISKS

Financial implications and risks:

As the Fund's asset pool provider London CIV use Northern Trust as their appointed custodian the Fund benefits from a reduced pricing structure offered for those funds that have assets invested on the London CIV platform.

The costs for custody contract cover transaction charges, administration costs, Foreign exchange charges and data for use in ONS submissions.

Performance Measurement fees are applied against each manager's performance data and the index against which it is measured.

Invoices have been received for the period 1 October to 30 June 21. The actual costs to June 21 are £38,382 and estimated to £51,413 (to include the last quarter to Sept 21) (prior year 1 Oct 19 – 30 Sep 20 £52,195). See fee table below for breakdown:

Table 2

Fee Breakdown	Oct 20 to Sept 21	Oct 19 to Sept 20
	Estimated	Actual
	£	£
Custody Fee	27,981	29,085
Performance Fees	23,432	23,110
Total	51,413	52,195

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. Accounting and reporting information is critical for year-end processes and these need to be produced in a timely manner to ensure accounts can be closed within statutory timeframes.

Upon reviewing reconciliation and year-end processes, management recognised the potential key person risk for reconciling the accounts and decided, for service planning reasons, to expand the current contract to include the custodian's additional Regulatory/Specialist reporting service. This additional service means that the custodian is able to produce the accounts and provide officers with access to the comprehensive suite of financial reports, which will further support the reconciliations of the accounts. Officers used this facility for the first time whilst closing the 2020/21 and officers found this very useful in providing assurance that in-house reconciliations undertaken during the year were accurate and has helped deal with a growing workload with existing resources and will help with succession planning in future years.

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This additional service cost of £10k p.a is not reflected in the table 2 above.

The custodian and performance measurement fees are met from the Pension Fund.

Officers also carry out reviews of Northern Trust 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:

There are no apparent legal implications or risks arising 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

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

BACKGROUND PAPERS

None