



Havering
LONDON BOROUGH

PENSIONS COMMITTEE

5 November 2024

Subject Heading:

**INVESTMENT CONSULTANCY
SERVICES PERFORMANCE REVIEW –
1 October 2023 to 30 September 2024
Kathy Freeman**

SLT Lead:

Report Author and contact details:

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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 2023 to 30 September 2024 against strategic objectives previously set.

RECOMMENDATIONS

It is recommended that the Committee:

1. Agree no changes to the current objectives
2. Note the views of officers on the performance of the Investment Consultant (Hymans) against the strategic objectives and make any comment on the report which it considers appropriate (**Appendix A**).
3. Agree for Officers to commence tendering for a new Investment Consultancy service contract to start from 1 April 2026 and to join the LGPS National Framework for Investment Management Consultancy Services at a cost of £5,000.
4. Agree to hold the service provider selection interviews with the Committee as part of the further competition process.

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 term Investment Consultancy (IC) 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. Hymans was appointed to provide Investment Consultancy services.
- 1.3 The law currently requires trustees to set strategic objectives for IC providers in accordance with part 7 of “The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the CMA order)”.
- 1.4 The Department for Work and Pensions (DWP) brought these duties into pensions legislation on 1 October 2022 under The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the scheme administration regulations).

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- 1.5 The scheme administration regulations largely replicate the Competition and Markets Authority (CMA) order requirements. The primary change is to transfer the regulation of the obligations under the order from the CMA (under the CMA order) to The Pensions Regulator (TPR) (under the scheme administration regulations), and trustees will be subject to TPR compliance and monitoring processes.
- 1.6 The committee has already been compiling with the CMA order and the Pensions Committee agreed to align its annual service review with the CMA format on 12 November 2019 and set objectives, measure(s) of success, expected outcomes and expected timescales for delivery.
- 1.7 The then Department for Levelling Up Housing and Communities (DLUHC) included in its recent consultation “Next Steps on investments”, issued July 2023, a proposal to amend the LGPS Regulations and statutory guidance for the LGPS to implement the CMA’s requirements. Legislation, at the time of writing this report remains unchanged.
- 1.8 The six key objective themes to monitor are:
 - Demonstration of Value added
 - Delivery of specialist Services
 - Proactivity of Advice
 - Support with scheme management and compliance
 - Relationship and service standards
 - Support with additional matters arising
- 1.9 The objectives and outcomes for the IC have derived with reference to the services required as set out in the “LGPS National Framework for Investment Management Consultancy Services” and included within the contract for IC services provided to the Havering Pension Fund.
- 1.10 Undertaking the service review ensures that this review will meet the criteria set out under the TPR’s General Code of Practice and monitoring the IC’s performance against their objectives will enable the Committee to better identify and manage areas of poor performance.
- 1.11 Monitoring the objectives against the contract also meets post contract award procedures and ensures services are being delivered in accordance to the contract.
- 1.12 Trustees should review their IC’s performance against the objectives set for them at least every 12 months, and if appropriate revise, their IC’s objectives at least every three years and without delay after any significant change in investment policy. Having reviewed the objectives against those in the model set out in TPR guidance and existing contract, officers are not suggesting any changes to the set objectives.

2 REVIEW OF THE INVESTMENT CONSULTANT SERVICE PERFORMANCE

- 2.1 Hymans was appointed to provide Investment Consultancy services using the “LGPS National Framework for Investment Management Consultancy Services” from the 1 April 2019. Contract duration is 5 years with an option to extend by a further two years. The Pensions Committee at its meeting on the 7 November 2023 agreed the contract extension to 31 March 2026.
- 2.2 Hymans have provided investment advice to the Fund since April 2006.
- 2.3 The core services provided by Hymans includes: production of quarterly monitoring performance reports, attendance of 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 objectives agreed by the Committee in November 2019, and the results of the review of performance over the year of review are set out in **Appendix A**.
- 2.5 Committee members were invited to provide feedback and any comments were incorporated in the service review meeting with Hymans. Officers met with Hymans on the 25 September 2024 where feedback was discussed and areas of improvement were agreed. The outcome, any actions and service assessment are included within the Service Review attached as at **Appendix A**.
- 2.6 Officers and members conclude that they are satisfied with Hymans service and have continued confidence in the advice being given.

3. NATIONAL LGPS FRAMEWORK FOR INVESTMENT MANAGEMENT CONSULTANCY SERVICES

- 3.1 Procurement can take significant time and money both for the awarding Authority and the Service Provider. The National LGPS Frameworks are fully compliant with the Public Contracts Regulations 2015. It reduces the time and costs associated with the procurement process by offering a facility that has already been competitively tendered. It aims to deliver access at the best possible price to high-quality, efficient and effective Investment Management Consultancy Service providers. Benefits include:
 - a) Shortened timescales
 - b) Reduced procurement and legal costs
 - c) Robust and transparent process with high level of due diligence and specialist support
 - d) Agreed Terms and Conditions of contract with providers

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- e) Enable access to specialist providers whose experience and quality has been tested
 - f) Comprehensive user documentation and support from Frameworks team
 - g) Provider ceiling prices established
 - h) Possibility to benefit from cumulative rebates
- 3.2 The Investment Management Consultancy Services Framework is available for Further Competition and Direct Award until 31st October 2026. Contracts awarded under the Framework may be let for a maximum contract length of seven years and up to 31st October 2033 at the latest.
- 3.3 The Framework is split across 4 Lots:
- Lot 1 - Investment Consultancy Services
 - Lot 2 - Manager/Fund Search, Selection, Monitoring and Review Services
 - Lot 3 - Investment Management Consultancy Related Specialist Services
 - Lot 4 - Investment Management Cost Monitoring and Reporting Services
- 3.4 The Fund will award contracts to cover lots 1, 2 and 3 of which there are seven providers on the framework that cover all the three lots
- 3.5 The Pension Committee has the delegated power under Part 3 of the Constitution, Responsibility for Functions to “authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters” and “To appoint and review the performance of advisers and investment managers for pension fund investments”.
- 3.6 Historically members of the Pensions Committee prefer to meet with the potential advisor who will be responsible for presenting to the committee. Therefore, officers recommend that the Committee hold interviews as part of the Further Competition stage of the procurement process so that the committee can decide who the contract is awarded to.
- 3.7 Authorisation is also being sought to commence procurement of Investment Management Consultancy Services to the Pension Fund using the National Local Government Pension Scheme (LGPS) Frameworks.

IMPLICATIONS AND RISKS

Financial implications and risks:

Fees were generally charged on a time-cost basis. fees for more significant items, like manager selection exercises and asset-liability modelling, were based around an agreed fixed fee scale or agreed separately in advance.

Table 1 – Fees

Dates	£
Apr 19 - Sep 19	33,440
Oct 19 - Sep 20	78,030
Oct 20 - Sep 21	78,049
Oct 21 - Sep 22	64,708
Oct 22 - Sep 23	100,720
Oct 23 - Sep 24	98,090
Total	453,037

The above costs have been charged in line with the hourly rate as set out in the contract. Some costs incurred, which are included in the above, relate to additional work commissioned and agreed outside of the contract e.g development of Climate Risk Policy and TaskForce on Climate- related Financial Disclosures (TCFD) reporting.

Based on historical costings as set out above, it is expected that a contract awarded for 7 years is likely to be in the region of £500k.

Hymans were appointed using the **2019 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 Fund has received rebates, as follows:

Table 2 - Rebates

Rebate Year	£
2020/21	1,300.85
2021/22	2,829.73
2022/23	3,007.67
2023/24	TBC
Total	7,138.25

These rebates where received have been reflected in Table 1- fees above.

The costs of Investment Consultancy Services are met from the Pension Fund.

The National LGPS Frameworks are a not for profit programme established 'by the LGPS, for the LGPS' and the joining fee helps towards the ongoing support and administration of this Framework. You can either choose to join Lots individually or all Lots of the Framework. Whichever option you use you will never be charged more than **£5,000** to access the Framework.

Legal implications and risks:

The Occupational Pension Schemes (Scheme Administration) Regulations 1996/1715 provide at Regulation 35 a duty to set objectives for providers of investment consultancy services.

Regulation 36 requires that the trustees should review the performance of the investment consultants every year.

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

BACKGROUND PAPERS

Background Papers List

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None