

## London Borough of Hammersmith and Fulham

**Report to:** Pension Fund Committee

**Date:** 21 July 2021

**Subject:** Tri-Borough Section 113 Agreement Review

**Report of:** Phil Triggs, Director of Treasury and Pensions  
Matt Hopson, Strategic Investment Manager

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### Summary

1.1 This paper presents the Tri-Borough Section 113 (S113) Agreement review of the Tri-Borough Treasury and Pensions and Treasury Services, as undertaken by an independent consultant during August 2020.

### Recommendations

The Pension Fund Committee is requested to:

1. Note the report.

**Wards Affected:** None

### LBHF Priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
<ul style="list-style-type: none"><li>• Being ruthlessly financially efficient</li></ul>	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer.

### Financial Impact

None

### Legal Implications

None

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Verified by Phil Triggs

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## Background Papers Used in Preparing This Report

None

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## Overview

### 1. Background

- 1.1. The London Borough of Hammersmith and Fulham, Westminster City Council, and the Royal Borough of Kensington and Chelsea operate Treasury and Pensions services through a Tri-Borough joint working arrangement established under S113 of the Local Government Act 1972.
- 1.2. The agreement for shared Treasury and Pension services commenced in February 2012, and the Council commissioned an independent consultant to review this agreement in August 2020.
- 1.3. The scope of this review covered the following areas, with particular focus on development of the performance management and cost recharging arrangements:
  - Governance arrangements
  - Identifying key tasks and processes
  - Oversight of third party activities
  - Quality standards and internal audit coverage
  - Key performance indicators (KPIs)
  - Added value

- Staff structures, liaison and communication
- Contract monitoring
- Cost recharging arrangements

## 2. Recommendations for the Pension Service

2.1 The following key recommendations have arisen from the review:

- Governance Arrangements:
  - S113 agreement expanded to reflect current expectations in key processes undertaken by the Tri-Borough team, quality standards/KPIs, cost recharging and added value identification and delivery.
- Identifying key tasks and processes:
  - Key tasks, as shown within Appendix 1 of the S113 Review, should be included within the S113 agreement and form the basis for performance management.
- Oversight of third party activities:
  - S113 agreement updated to reflect that the Tri-Borough team is not directly responsible for delivering pensions administration but has a role of oversight and performance monitoring.
- Quality standards and internal audit coverage:
  - The agreement requires all staff to hold or be working towards Central Council of Accounting Bodies (CCAB) qualifications and attend regular technical training. It should be noted that all Tri-Borough pension managers and treasury managers currently meet this recommendation.
  - S113 agreement amended to include specific requirements for regular internal audit and controls assurance reports from all third party service providers. It should be noted that the Pension Fund already requests these reports from third party providers and is subject to an internal audit every two to three years.
- KPIs:
  - It is recommended that the following KPIs are included in the S113 agreement:

Key performance target	Measured by
Funding level at least equal to LGPS averages	Actuarial revaluation every three years
Investment management costs under 0.5% of year end net asset value (NAV) of each fund	Calculate based on year end fund accounts
Maintain asset allocations in line with strategy approved by members	Confirmed (or otherwise) by the independent investment advisor's quarterly review
All contributions due from employing bodies are collected promptly	Reported quarterly to members and monthly to S151 officer
Sufficient cash is available to	Reported quarterly to members

pay pension benefits as they fall due	and monthly to S151 officer
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- Added value:
  - The Strategic Investment Manager should spend at least a third of their time on added value activities, determined in principle at the start of each financial year.
- Staff structures, liaison and communication:
  - S113 agreement updated to reflect the current staffing structure.
  - Key tasks in regard to communication and engagement across the Tri-Borough, as shown within Appendix 1 within the S113 review, should be included within the S113 agreement and form the basis for performance management.
- Contract monitoring:
  - The Council is provided with a short dashboard report each month, summarising key transactions/balances, that these are in line with strategies and whether key performance targets have been met. This should form the basis as of an annual review of the S113 agreement with each S151 officer. A suggested format is provided within Appendix 3 of the S113 review. It should be noted that the Fund is provided with a performance report every month from the custodian, Northern Trust. Alongside this, the Fund reports monthly to ELT on asset values, funding position, cashflows, investment/administration updates and performance.
- Cost recharging arrangements:
  - Annual cost reallocations should be increased to cover accommodation, overheads and other direct expenditure. Shared posts should be allocated in proportion to the relative value of the assets and liabilities under management, as shown below:

Westminster	40%
Hammersmith and Fulham	30%
Kensington and Chelsea	30%

It should be noted that the Fund already includes such overheads and accommodation charges within its annual cost recharging exercise. In addition to this, the Fund has amended the reallocation as a result of this exercise from 2020/21 onwards.

- Recharges are agreed at the start of the year, based on approved revenue budgets and monitored by the Council. It should be noted that this process is already undertaken by the Council’s departmental finance teams.

2.2 A more detailed analysis of the review undertaken can be found within Appendix 1 of this report. In addition to this an updated version of the S113 agreement, to reflect the recommendations arising from the review, is included within Appendix 2.

### **3 Risk Management Implications**

3.1 None

### **4 Other Implications**

4.1 None

### **5 Consultation**

5.1 None

#### **List of Appendices:**

Appendix 1: S113 Review August 2020

Appendix 2: Tri-Borough S113 updated agreement