



Notice of Non-key Executive Decision

Subject Heading:	Contract award for Global Custodian and Performance Measurement Services to the pension Fund
Cabinet Member:	Cabinet Member for Finance and Property, Councillor Roger Ramsey
SLT Lead:	Statutory Section 151 Officer - Jane West
Report Author and contact details:	<i>Debbie Ford</i> <i>01708432569</i> <i><u>Debbie.ford@onesource.co.uk</u></i>
Policy context:	It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for.
Financial summary:	Contract price £168,000
Relevant OSC:	Overview and Scrutiny Board
Is this decision exempt from being called-in?	No

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

Part A – Report seeking decision

DETAIL OF THE DECISION REQUESTED AND RECOMMENDED ACTION

The incumbent custodian has served notice to the Havering Pension Fund (the Fund), they are not looking to retain LGPS clients as this no longer fits in with their business model and thus priced their services accordingly (75% price increase on the existing custodial service costs).

A subsidiary company of the incumbent custodian also provides the Fund with a performance measurements service that runs alongside the custody contract but this is only available if the Fund continues to subscribe to the full custody/accounting services.

Both of the above contracts cease on the 30 September 2019.

A Custodian is a financial institution that holds customers' securities for safekeeping in order to minimise the risk of theft or loss. Most custodians also offer a variety of other services including investment accounting, account administration, transaction settlements, collection of dividends and interest payments, tax support, foreign exchange and securities lending.

Services fall into two main categories:

- **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** - Custodian 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 market valuations of the fund. This is done for each of the investment managers' portfolio as well as at the total fund level. Custodian records are considered to be master records and these records are used for producing the accounts.

It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for.

Performance measurement - 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.

It is not value for money to continue the custody contract at the significant increased cost so a new custodial and consequently a performance services contract will be required.

It is recommended that the contract for the Pension Fund Global Custodial and Performance Measurement services be awarded to Northern Trust for a contract period of four years at a cost of £168,000.

AUTHORITY UNDER WHICH DECISION IS MADE

Onesource scheme of delegation (B21) power to award contracts up to the value of £500k by managing director

Part 3.3 of the constitution. Constitution page 116 3.10.3 (j) The S151 Officer has the function of managing the council's pension scheme and pension Fund.

STATEMENT OF THE REASONS FOR THE DECISION

Changes in Government regulations have meant that it is now mandatory to pool Pension Fund Investments with an asset pool provider, which for the Fund is the London Collective Investment Vehicle (LCIV).

The Fund's asset pool provider LCIV use Northern Trust as their appointed custodian and as a result are offering a reduced pricing structure for those funds that have assets invested on the LCIV platform.

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.

Northern Trust have been providers to the LGPS since 1996, they have a long history of LGPS relationships with 43% of London Authorities currently serviced by Northern Trust and 54% of those have been in relationships for over 10 years.

A number of boroughs who had the same service with our incumbent custodian have awarded contracts to Northern Trust.

The onesource partner boroughs are also on the Northern Trust platform and this move will help promote standardisation and resilience

The National LGPS Framework for Global Custody Services expired in April 2019. The National LGPS Framework team decided not to go back out to tender and renew the framework in light of the custodial arrangements with the mandatory pools and the likelihood that funds may switch to the pool custodian in future. LCIV will also be seeking approval from the Financial Conduct Authority (FCA) to change their business scope that will enable them to also monitor those fund managers held outside of the LCIV platform.

Once funds are fully invested via the pool it is anticipated that separate custodians for each fund will not be necessary.

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It is therefore recommended that the initial contract length will be for 4 years so that an assessment can be made as to whether a custodian will be required in the future and the monitoring services on offer by LCIV. The total contract cost will be £168,000.

An exemption from tender and agreement to a direct award was approved by the Statutory Section 151 officer on the grounds of only one possible supplier.

OTHER OPTIONS CONSIDERED AND REJECTED

Custodial Services was previously available for call off under the National LGPS Framework for Global Custody Services, however contracts had to have been awarded by 29 April 2019. Issue of termination notice from existing custodian did not allow enough time to call off the National LGPS Framework for Global Custody Services.

Due to the changing requirements of the LGPS and in particular with regard to mandatory pooling, the framework was not being re-let. The option of using a framework was no longer an option

Competitive tender route was rejected as it was becoming apparent that tenders undertaken for the same services by other boroughs were only receiving bids from the one provider, Northern Trust.

The option to do nothing was not an option as it is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for.

PRE-DECISION CONSULTATION

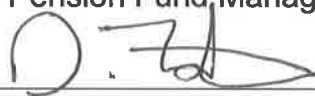
Not applicable

NAME AND JOB TITLE OF STAFF MEMBER ADVISING THE DECISION-MAKER

Name: Debbie Ford

Designation: Pension Fund Manager (Finance)

Signature:



Date:

8/8/19

Part B - Assessment of implications and risks

LEGAL IMPLICATIONS AND RISKS

The Local Government Pension Scheme Regulations 2013 provide various powers and duties to the Administering Authority to manage the pension fund, choice of Investment managers and the investment and use of fund money including investment policy and principles

The procurement is for a services contract with an estimated value of £168k. It does not infringe EU or National legislation as it is below the EU threshold of £181,302. Whilst this falls below the EU threshold it is still subject to Contract procurement rules and the Councils Scheme of Delegation.

In line with the contract Procedure Rules, an exemption from tender and agreement to a direct award was approved by the Statutory Section 151 officer on the grounds of there being only one possible supplier likely to tender.

The Council is required to achieve Best Value in awarding contracts. Officers have confirmed that they are satisfied that the contract represents best value.

The terms and conditions proposed by Northern Rock will undergo legal review prior to the Council entering into the contract

As the contract is worth over £150k, it must be sealed.

FINANCIAL IMPLICATIONS AND RISKS

It is important that accurate accounting records are maintained and appropriate reconciliations are provided by the custodian as there is a risk that the Fund's value could be misstated if poor or incorrect data was provided by the fund managers and not validated by the custodian.

Officers rely on the records provided by the custodian and their records are considered to be master records and used for producing the statutory Statement of Accounts.

Current custodian service cost will increase to £100,000 from the current price of £25,000 p.a if the contract was not terminated.

Current performance measurement service cost is £22,000 for the the year 2019.

Northern Trust is offering a discount price for core custody package of £25,000 plus £14,500 for performance monitoring. In addition, the Fund will use Northern Trust to assist in the completion of the statutory returns for the Office of National Statistics (ONS) for a further £3,000. Total cost p.a will be £42,500.

It in the Best interests of the Council to obtain value for money and benefit from the discounted price.

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Northern Trust will be holding cash on behalf of the Fund and therefore a credit rating check revealed that, at the time of writing this report, Northern Trust meet are highly credible and on a par with current custodian.

The initial contract length will be for 4 years so that an assessment can be made as to how custodial services will be delivered in the future, including the monitoring services that may be provided by LCIV. The total contract cost will be £168,000. There will be an option in the contract to terminate before the expiry period of four years if a review deemed this to be necessary.

The custodian fees are met from the Pension Fund.

A typical asset transition takes about 8 weeks from inception to transition, followed by reconciliation and reporting to ensure total accuracy.

The main responsibility for the Fund will be in the early stages as this will require the completion of various account opening documents and instructing all parties as to the new operating procedures. This will have an impact on resources within the Pensions Finance Team to meet all the regulatory requirements within the tight timeframe. Once the documentation is complete, the transition is largely the responsibility of the prior Custodian, the new Custodian and the investment managers.

There is a risk that the transition process may slip if any of the funds holdings are deemed more complicated than others to transfer and the timeframes for the regulatory requirements are not met. It may be necessary to negotiate a small extension with the current custodian if this situation arises.

HUMAN RESOURCES IMPLICATIONS AND RISKS (AND ACCOMMODATION IMPLICATIONS WHERE RELEVANT)

No direct HR implications on Havering staff as the service is not provided in-house.

EQUALITIES AND SOCIAL INCLUSION 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

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

BACKGROUND PAPERS

NONE

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Part C – Record of decision

I have made this executive decision in accordance with authority delegated to me by the Leader of the Council and in compliance with the requirements of the Constitution.

Decision

Proposal agreed

Delete as applicable

~~Proposal NOT agreed because~~

Details of decision maker

Signed 

Name: JANE WEST

Cabinet Portfolio held: Chief Operating Officer
CMT Member title: Statutory S151 Officer
Head of Service title Head of Pensions and Treasury
Other manager title: Pension fund Manager (Finance)

Date: 8/8/19

Lodging this notice

The signed decision notice must be delivered to the proper officer, Debra Marlow, Principal Committee Officer in Democratic Services, in the Town Hall.

For use by Committee Administration

This notice was lodged with me on 12/8/2019

Signed 

