

Notice of Non-key Executive Decision

Subject Heading:	Contract variation 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> Debbie.ford@onesource.co.uk
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:	Increase contract price by £70,000
Relevant OSC:	Overview and Scrutiny Board
Is this decision exempt from being called-in?	No

Non-key Executive Decision

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

Agree to:

- a) Vary the value of the Contract with Northern Trust to allow for increased charges of £40,000 over the four year duration of the contract.
- b) Vary the Contract with Northern Trust to include the additional accounting service, the value of £30,000 for the remaining 3 years of the contract.

Subject to the above variations the total value of the variations would increase the contract from £168,000 to £238,000 which is a total value of £70,000 as set out in the body of the report.

AUTHORITY UNDER WHICH DECISION IS MADE

Contract Procedure Rule 19.1 permits variation of the contract by the officer with responsibility for day to day conduct of the contract (subject to delegations) where:

- ii. A change in contractor cannot be made for economic or technical reasons such as requirements of interchangeability or interoperability with existing equipment, services or installations procured under the initial procurement, or, would cause significant inconvenience or substantial duplication of costs for the Council provided that an increase in price does not exceed 50% of the value of the original contract.
- iii. Where the need for modification has been brought about by circumstances which the Council could not have foreseen, the modification does not alter the overall nature of the contract, any increase does not exceed 50% of the value of the original contract or framework agreement.

STATEMENT OF THE REASONS FOR THE DECISION

Northern Trust was appointed to commence Custodial and Performance Measurement Services from 1 October 2019.

Contract duration is four years and expires on the 30 September 2023. This initial contract length only covers four years so that an assessment can be made as to how custodial services will be delivered in the future and how monitoring services may be

Non-key Executive Decision

provided by the London Collective Investment Vehicle (LCIV).

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. 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.

Services were reviewed for the period 1 October 2019 and 30 September 2020 and conclusions reported to the Pensions Committee at its meeting on the 12 November 2020. Officers are satisfied with the overall investment accounting and reporting functions and do not foresee any justification for why this contract should not continue.

The purpose of the contract is to provide Global Custodial and Performance Measurement services covering three main functions:

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

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

Performance Measurement - 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. Northern Trust produce monthly and quarterly reports setting out rates of return versus benchmarks for each manager and the whole fund over a number of time periods extending from one month to inception.

It is the Investment Accounting element of the contract that the Fund would like to extend so that the services provided can be expanded to include production of the Pension Fund Statement of Accounts and to access the comprehensive suite of financial reports to support the reconciliations of the financial accounts. These are not currently available under the existing service provided. All of Northern Trusts existing clients use their accounting package, the exception being the Havering Pension Fund. Extending the contract to utilise the accounting package will bring Havering in line with their other clients

When Northern Trust were appointed it was not envisioned that this service would be a required as it is currently feasible for this activity to be undertaken in house, therefore this element was not included in our estimated costing for the contract price. For the first year of the contract the production of accounting reconciliations were undertaken in house with no issues found by our external auditors and we are still progressing with the reconciliations for the 2020/21 accounts.

Upon reviewing the reconciliation and year end processes management recognise the potential key person risk and for service planning reasons require the option to use the

Non-key Executive Decision

accounting service offered by our existing custodians to ensure that there are no negative impacts on being able to produce the accounts should key personnel leave the Council.

Competitive tender route for the additional accountancy packages was not undertaken as the additional data and reports is only accessible via Northern Trust if this element of the contract is paid for.

The additional accounting service will cost an additional £10,000 pa over the three remaining years so the maximum cost will be £30,000 over the remaining life of the contract.

Original contract price consists of core custody package of £25,000 plus £14,500 for performance monitoring and completion of the statutory returns for the Office of National Statistics (ONS) for a further £3,000. Total cost p.a estimated at £42,500. However, the first operational year of the contract cost £52,300 instead of £42,500 as originally estimated – the difference of £9,800 p.a. This is attributable to the performance measurement element of the contract price. Charges incurred have increased as the Fund is charged for each Fund Manager's set of performance data plus the index against which it is measured against. One of our Fund Manager's account was restructured and required to be separated for ease of measuring and monitoring performance, which accounts for the additional charge. The additional cost over the lifetime of the contract is estimated at a rounded figure of £40,000.

Fund managers are appointed by the Fund to deliver its investment strategy which is not static and is continually reviewed. At the start of the contract estimated costs only included managers appointed to the fund at that time. It is unforeseen at the start of the contract how many new managers will be appointed or will exit and what benchmarks (indices) the managers will be measured against. It is a cost that can't be avoided as it is appropriate for the Fund to monitor the performance of its appointed managers in order to determine that the investment strategy objectives are being delivered.

Total price variation of £70,000. Total revised contract price £238,000.

The increase in custodial fees will be met from the Pension Fund.

OTHER OPTIONS CONSIDERED AND REJECTED

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

Competitive tender route for the additional accountancy packages was rejected as the additional data and reports is only accessible via Northern Trust if this element of the contract is paid for. Continuing use of the existing custodian is the only option given that they already have access to the Funds financial information

Non-key Executive Decision

The Fund's asset pool provider LCIV use Northern Trust as their appointed custodian and as a result offered 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. Contract continues to provide value for money on this basis.

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: Debbie Ford

Date: 29 March 2021

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.

This report seeks approval to increase the contract value by £40,000 to allow for the increase in charges incurred and also seeks approval to vary the contract to include additional accounting services, a value of £30,000.

The original contract value of £168,000 which was under the Public Contract Regulations 2015 (as amended) (PCR) threshold for services (£189,330). Notwithstanding that total value of both variations would total £70,000 would exceed the threshold for services, as the original value of the contract was below threshold, the full regime of the PCR in respect of variations to contracts (Regulation 72 of the PCR) will not apply to the proposed variation.

Whilst the full regime of the PCR does not apply to the variation, the variation must conform to retained EU law principles of equal treatment, proportionality non-discrimination and transparency. Havering's Contract Procedure Rules (CPR) must also be complied with.

In relation to variation to increase the contract by £40,000 to allow for the rise in charges incurred over the duration of the contract, CPR 19.1(iii) permits variations where "the need for modification has been brought about by circumstances which the Council could not have foreseen, the modification does not alter the overall nature of the contract, any increase does not exceed 50% of the value of the original contract or framework agreement".

The variation complies with 19.1 (iii) as the rise in charges were brought about by circumstances the Council could not have foreseen. The increased charges were attributable to the performance measurement element of the contract price the restructuring of one of the Council's Fund Manager's accounts. The variation also does not exceed 50% of the original contract value.

In relation to the variation to include accounting services to the contract at a cost of £30,000, Contract Procedure Rule 19.1 (ii) permits variation of the contract by the officer with responsibility for day to day conduct of the contract (subject to delegations) where:

A change in contractor cannot be made for economic or technical reasons such as requirements of interchangeability or interoperability with existing equipment, services or installations procured under the initial procurement, or, would cause significant inconvenience or substantial duplication of costs for the Council provided that an increase in price does not exceed 50% of the value of the original contract.

The proposed variation falls within CPR 19.1, as set out in the body of the report.

FINANCIAL IMPLICATIONS AND RISKS

The costs for custody contract cover transaction charges, administration costs, Foreign exchange charges, ONS submissions and performance measurement costs.

Custody fees are based on a unit price applied to the value of the individual fund's asset values and each transaction.

Original contract price consists of core custody package of £25,000 plus £14,500 for performance monitoring and the completion of the statutory returns for the Office of National Statistics (ONS) for a further £3,000. Total cost estimated at £42,500 p.a.

The additional accounting service will cost an additional £10,000 pa over the three remaining years so the maximum cost will be £30,000 over the remaining life of the contract.

To provide the service in-house last year cost £4,600. Whilst this is a cheaper option there are the key personnel risks to consider and the use of the Northern Trusts Financial reports would reduce the amount of time taken to reconcile and produce the accounts.

This additional accounting service will increase resilience in the Pensions and Treasury (P&T) Team as this accounting service is used at Newham and therefore we have staff there who are familiar in its use too. If the oneSource P&T model is going to be retained following the Transformation programme then in the long term we will need staff to be able to work across both sites. Introducing the accounting package would enable existing staff to concentrate on other emerging priorities in Pensions and secure the Pension Fund Business plan.

The first operational year of the contract cost £52,300, a difference of £9,800 p.a. This is attributable to the performance measurement element of the contract price. Charges incurred have increased as the Fund is charged for each Fund Manager's set of performance data plus the index against which it is measured against. One of our Fund Manager's account was restructured and separated which accounts for the additional charge. It is possible that as new Fund Managers are added or removed from our portfolio that this cost will increase or decrease.

The additional cost over the lifetime of the contract is estimated at a rounded figure of £40,000.

Total price variation of £70,000 (£30k for accounting package + £40k additional contract cost). Total revised contract price £238,000. Increase equates to 41% which does not exceed 50% of the value of the original contract.

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

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

Non-key Executive Decision

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.

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

No direct HR implications

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 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

None

Non-key Executive Decision

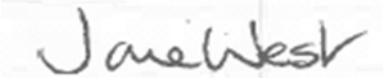
Part C – Record of decision

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

Details of decision maker

Signed 

Name: Jane West

Cabinet Portfolio held:

CMT Member title: Chief Operating Officer

Head of Service title

Other manager title:

Date: 08/04/2021

Lodging this notice

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

For use by Committee Administration

This notice was lodged with me on _____

Signed _____