

PENSIONS COMMITTEE

11 November 2025

Subject Heading:

SERVICE REVIEW OF THE CUSTODY &
PERFORMANCE MONITORING
SERVICE - 1 October 2024 to 30
September 2025

ELT Lead:

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Policy context:

Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from the services the custodian offers.

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

People – Supporting our residents to stay safe and well	X
Place – A great place to live, work and enjoy	X
Resources – Enabling a resident-focused and resilient Council	X

SUMMARY

This report reviews the performance of the Custodial and Performance Measurement services provided by Northern Trust, for the period 1 October 2024 to 30 September 2025.

Authorisation is also being sought to procure a new Custodial Services contract for the Pension Fund for when the current contract ends on the 30th September 2026. The intention is to use the National Local Government Pension Scheme (LGPS) Framework which has deadline to tender of the 8th February 2026.

RECOMMENDATIONS

It is recommended that the Committee:

- a) Note the views of officers on the performance of the Custodian and Performance Measurement Service (Table 1 and Section 2 refers).
- b) Agree to the commencement of tendering for a new Custodial Services contract via the replacement to the LGPS 'National Framework for Global Custody Services' with a term of 10 years from October 2026 as set out in this report.
- c) agree to enter into an Access Agreement to join the National LGPS Framework for Global Custody Services Framework once refreshed, at the estimated cost of £8,000.00.

REPORT DETAIL

1. Background

- 1.1 The Custodian and Performance Measurement services, currently provided by Northern Trust, offers a range of functions. These fall into the following main categories:

a) Safe Keeping and Custody of assets

This refers to the maintenance of accurate records and certificates relating to the ownership of assets and ensuring that dividend income and other distributions are received and correctly recorded.

b) Investment Accounting and Reporting

The Custodian produces accounting reports that are used for producing the Pension Fund Statement of Accounts and enable the Fund to comply with the International Financial Reporting Standards (IFRS), Statements of Recommended Practice (SORP) and Chartered Institute of Public Finance & Accounting (CIPFA) accounting guidance. These reports are accessed and downloaded from the secure client portal "Passport".

They maintain 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 Fund subscribes to Northern Trust's additional specialist accounting reporting service which provides:

- a comprehensive suite of financial accounting reports to help facilitate compliance with SORP and assists the Fund in compiling its Statement of Accounts and,
- 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, Investment Consultants and officers to understand whether the investment objectives of the Fund are being met and if the fund managers are achieving their targeted performance.

Northern Trust produce monthly and quarterly reports which include performance returns versus benchmarks for each manager and for the whole Fund over a number of time periods, extending from one month to inception. These reports enable the Fund to comply with CIPFA guidance "Preparing the Annual Report", which must include investment performance set out for each asset class and fund manager against the benchmarks set for one year, three years and five years.

2. Review of the Custody and Performance Measurement Services

- 2.1 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 with the contract.
- 2.2 This period of review covers the custodial and performance measuring services delivered by Northern Trust for the period **1 October 2024 to 30 September 2025**.
- 2.3 Officers have assessed the service against a set of criteria and adopted the RAG rating method to define Red (Unfavourable). Amber (Neutral - may require further monitoring) Green (Favourable output). Officers have shared the outcome of the service review with Northern Trust, which has been set out in the following table:

Table 1 – Assessment Review

CRITERIA	ASSESSMENT	Rating
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. This covers internal controls applicable to processing service transactions. No concerns were raised in their latest report covering the 12 months to 30 Sept 2023. The Sept 24 report will not be available until approximately 6 months after the period end date.	GREEN: Officers have confidence that the assets are accounted for correctly.
Transfer of funds to/from fund managers	Capital calls are promptly processed to avoid breach of contract.	Green: There have been no late payments to fund managers.
Investment Accounting and Reporting		
It is important that accurate accounting records are maintained and appropriate reconciliations can be made against the Fund's investment managers records.	Officers run detailed reports from the custodian's website using their "passport" tool. These reports are reconciled to individual fund manager reports and any differences investigated. This provides assurances that accurate records are maintained. Officers also use the additional reporting functionality that contributes to reconciling the accounts.	GREEN: Officers are satisfied that accurate accounting records are maintained with no audit issues identified to date.
Prompt and responsive service	Reponses to queries are dealt with promptly.	GREEN: Officers are very satisfied and appreciative of the responsive service
Good communication and support	Officers communicate frequently with the custodian covering general day-to-day operations and to obtain assurance that investment instructions templates are posted correctly.	GREEN: Communications and support continue to be very satisfactory.

CRITERIA	ASSESSMENT	Rating
Provision of data for the Office of National Statistics (ONS) Returns	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 delivered within the required timescales.	GREEN: Officers are very satisfied with this service
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.	Northern Trust performance measurement service produce monthly and quarterly reports setting out performance returns versus benchmarks for each manager and the whole fund over a number of time periods, 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.	GREEN Performance reports are received within specified timescales and officers are very satisfied with this service.

3. Conclusion

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

4. National LGPS Framework for Global Custody Services

- 4.1 The National LGPS Frameworks have been created in line with the Government's wish for LGPS Funds to seek ways of extending joint working and collaboration. This will help realise potential efficiencies and give a clearer voice to LGPS Funds within the marketplace, along with helping to share information, knowledge, experience and best practice.
- 4.2 National LGPS Frameworks reduce the time and cost associated with a full procurement, which in turn allows for more flexibility with the planning and running of any tender process via Further Competition
- 4.3 Each of the Service Providers on the National LGPS Frameworks have been subject to a rigorous procurement process, ensuring they offer the scope and

quality services you require. The pre-agreed terms and conditions offer you contractual safeguards

4.4 The providers on the current Global Custody Framework are:

- Bank of New York Mellon
- Caceis Investor Services
- HSBC Bank plc
- Northern Trust
- State Street

4.5 The current Global Custody Framework is available for further competition until February 2025. It will therefore expire before the Council has a need to compete a replacement Custodial Services contract. Contracts awarded under the current framework may be let up for a maximum contract length of ten years. It is expected that a new framework will be available after the current framework expires in February 2025 and would follow similar terms such as ability to award contracts up to 10 years. It is proposed a replacement Custodial Services contract with a term of 10 years will be competed via mini competition through this replacement framework. Based on historical fees the value of the call off contract is expected to be in the region of £650k - £700k.

4.6 The framework for Global Custody Services includes:

- Safekeeping of assets in a range of global markets
- Trade settlement
- Tax reclaims
- Corporate actions instruction and collection
- Proxy voting facilitation
- Foreign exchange services
- Cash management
- Investment accounting
- Online reporting
- Performance measurement
- Compliance monitoring
- Passive currency hedging
- Other asset administration services which may arise from time to time

4.7 Northern Trust were appointed to provide Custodial and Performance Measurement Services in October 2019. The current contract runs for three years and expires on the **30 September 2026**.

4.8 Authorisation is sought to commence procurement of Global Custody Services and for the Pension Fund to use National Local Government Pension Scheme (LGPS) Frameworks.

4.9 Early authorisation is being sought to commence procurement to aid resource planning as there are two other contracts due for renewal in 2026, this being

the Investment Consultancy Services and Actuarial Services, which were both agreed by Pensions Committee at the 5 November 2024 meeting.

- 4.10 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.
- 4.11 The cost to access the Global Custody Framework is £8,000 for the current version of the Framework. Costs are yet available for the new Framework expected to be released after the current version expires in February 2025.

LGPS have issued a pipeline notice confirming they will be procuring a replacement framework¹. Notwithstanding this, there is a risk that the procurement will be discontinued; or that contract award will be delayed, thereby impacting on the Council's ability to call off from a replacement framework. Officers will monitor the progress of the LGPS procurement. In the event of delay, contingency plans will be developed and a further recommendation brought to committee.

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.

Northern Trust introduced a new pricing structure applicable from the 1 April 2023, offering a more beneficial pricing structure for the provision of custodial services.

See fee table below for fee breakdown:

Table 2 – Fees since inception

	Oct 19 to Sept 20	Oct 20 to Sept 21	Oct 21 to Sept 22	Oct 22 to Sept 23	Oct 23 to Sept 24	Oct 24 to June 25	Total
	Actual £	Actual £	Actual £	Actual £	Actual £	Actual £	Actual £
Custody Fee	29,085	28,127	31,144	25,952	19,211	21,009	154,528

¹ <https://www.find-tender.service.gov.uk/Notice/019087-2025?origin=SearchResults&p=1>

Accounting Services	0	5,000*	10,013	10,000	11,507	9,714	41,234
Performance Measurement Fees	23,110	23,849	26,947	33,917	43,532	27,045	178,400
Total	52,195	56,976	68,104	69,869	74,250	57,768	374,162

* part year only – this service commenced 1 April 2021

24/25 charges are only available to June at the time of publication

Custody fee – covers transaction and foreign exchange charges and administration costs.

Accounting Services – includes production of reports used for producing the Pension Fund Statement of Accounts.

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

Based on historical fees, a new ten-year contract is expected to be in the region of £650k to £700k. Costs may vary as charges applied are based on the number of funds being managed, which may increase or decrease over time, and the index fees charged by external third parties for performance monitoring.

All custodian and performance measurement fees are met from the Pension Fund and within the budget of £80k set for the each of the 3 years for 2024/25, 2025/26 and 2026/27.

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.

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:

The proposed LGPS framework will be fully compliant with the Procurement Act 2023. Call off will be available to the Fund. The proposed procurement approach is therefore lawful.

There are no other apparent legal implications or risks arising from this report.**Human Resources implications and risks:**

There are no direct human resource implications or risks arising from this report.

Equalities implications and risks:

An EHIA (Equality and Health Impact Assessment) has not been completed and is not required for this decision. The Council seeks to ensure equality, inclusion, and dignity for all. There are no equalities and social inclusion implications and risks associated with this decision.

BACKGROUND PAPERS

None