

# LONDON BOROUGH OF HAMMERSMITH & FULHAM

**Report to:** Councillor Rowan Ree, Cabinet Member for Finance and Reform

**Date:** 21/11/2024

**Subject:** Tri Borough Pension Funds - Global Custody Services

**Report Author:** Mathew Dawson, Strategic Investment Manager

**Responsible Director:** Sukvinder Kalsi, Executive Director Finance and Corporate Services

---

## SUMMARY

This report sets out the proposed strategy to procure a contract to appoint a Custody Services to gatekeep pension fund assets. This contract will be procured for LBHF, Westminster City Council (WCC), and the Royal Borough of Kensington and Chelsea (RBKC) with each borough receiving sovereign contracts. The contract is planned to commence on or around Monday, 17<sup>th</sup> February 2025 for a period of ten years, with no options to extend.

---

## RECOMMENDATIONS

1. That the Cabinet Member for Finance and Reform agree the recommended procurement strategy outlined in this report, the timetable for the procurement and give authorisation to proceed with using a compliant framework agreement to undertake a mini competition via the National LGPS Framework for Global Custody Services.

---

**Wards Affected:** None

---

<b>Our Values</b>	<b>Summary of how this report aligns to the <a href="#">H&amp;F Corporate Plan</a> and the H&amp;F Values</b>
Being ruthlessly financially efficient	A procurement process using the LGPS Framework will ensure the authority is taking advantage of a competitive market price.

## Financial Impact

The financial cost of the decision is projected to be roughly £670,000 over the course of the ten-year contract with no option to extend exclusive of VAT (£804,000 inclusive of VAT).

The cost of this contract will be met by the pension fund and have no direct impact on revenue.

The final cost of this contract will be dependent on fund asset values and asset allocation over the ten-year period.

*Sian Cogley, Pension Fund Manager, 22<sup>nd</sup> October 2024*

*Verified by James Newman, Assistant Director of Finance, 13<sup>th</sup> November 2024.*

## **Legal Implications**

This report seeks approval for the procurement of a contract for the provision of custody services in respect of pension fund assets. The estimated value of the proposed contract is £670,000. The term of the contract will be 10 years. It is proposed to call off the contract under the National LGPS Framework for Global Custody Service via further competition. Using a Framework satisfies the requirements of the Public Contracts Regulations 2015 and the Council's Contract Standing Orders. WCC will lead on the procurement on behalf of Hammersmith and Fulham.

The appropriate decision maker is the Cabinet Member.

Angela Hogan, Chief Solicitor (Contracts and Procurement) 29<sup>th</sup> October 2024

---

## **Background Papers Used in Preparing This Report**

None

---

## **DETAILED ANALYSIS**

### **Background**

1. This Custody Services report relates to the appointment of a Global Custodian who is the independent third party that is the gatekeeper to the Council's pension fund assets. All securities are maintained and stored within the custody account, which we also use for managing our investment portfolios and various payments / distributions.
2. Northern Trust (NT) are the incumbent supplier for the pension fund. NT are also the operators for the London CIV one of the eight regional asset pools of which the Council is a shareholder. Alternative suppliers are on the framework and would be suitable to service the pension fund.

3. The successful vendor will be procured via a mini competition on National LGPS Framework for Global Custody Services. This framework is compliant with the Public Contracts Regulations 2015 (PCR 2015) and WCC Procurement Code, which will expire February 2025
4. Westminster will be the lead procuring borough on behalf both RBKC and LBHF.

### **Reasons for Decision**

5. The contract has been extended several times since the initial appointment of Northern Trust so for compliance purposes the Council has decided to undertake a competitive process.

### **Contract Specifications Summary**

6. A global custodian will typically provide the following asset servicing for the Council's Pension Fund:
  - Sub-custody of assets
  - Safekeeping of assets
  - Trade Settlement
  - Income Collection
  - Corporate Actions
  - Tax Reclaims, including documentation completion for clients
  - Investment Accounting
  - Performance Management
  - Cash Management
  - Foreign Exchange Services
7. The recommended contract length proposed is ten years.

### **Procurement Route Analysis of Options**

8. The recommended route to the market is via the National LGPS Framework for Global Custody Services. This is a compliant route to market in line with the PCR 2015 where the authority is identifiable in the contract notice.
9. This Framework has been through Westminster council's own framework due diligence process (as the procuring council) and the use of Schedule 6 of the Framework Agreement is suitable for this requirement. The Framework offers a range of suppliers to suit all requirements. Successful suppliers have been assessed across a comprehensive two stage OJEU compliant procurement process comprising Standard Selection Questionnaire (SQ) and Invitation to Tender (ITT) stages. The rigorous assessment process ensured they have the necessary diverse skills and expertise to respond to the inequalities highlighted by the Covid-19 pandemic, support and shape a sustainable and equitable recovery, and longer-term transformation for London.

## Market Analysis, Local Economy and Social Value

10. The vendor will be unable to meet LBHF's localised social value requirements as FCA regulated entities must adhere to Treating Customers Fairly (TCF) principles which do not allow discretionary incentives to particular clients.
11. Time constraints and available routes to market have been assessed in conjunction with proposed specification and the project team are satisfied that the approach taken in utilising the LGPS Framework will deliver the outcomes which the Council is seeking.

## Timetable

12. Please include an estimated timetable of the competition process through to contact commencing.

Action	Date
Key Decision Entry (Procurement Strategy)	Completed
Procurement Process live	18 November 2024
Key Decision list entry for award report	29 November 2024
Closing date for Submissions	6 December 2024
Evaluation of Submissions	9 December 2024
Key Decision Entry (Award)	22 January 2025
CGRB (Award)	22 January 2025
SLT/Cabinet Member (Award)	24 January 2025
Contract Award Notice Published	1 February 2025
Contract engrossment	February 2025
Contract mobilisation and implementation	February 2025
Contract Commencement date	February 2025

## Selection and Award Criteria

13. The headline Quality/Price ratio being recommended is a 60:40 split respectively. and briefly state why this is felt to be the right ratio for the procurement.
14. Marks will be awarded to the total price from the Model Fund Scenarios based on the lowest bid for each pricing element will be allocated the maximum available marks (e.g. the lowest bid will receive the total marks available). Each of the other tenders will be awarded marks in proportion to this price; so for example, a price that is 10% more expensive will receive 10% fewer marks, one that is 20% more expensive will receive 20% fewer marks, etc.

15. Please refer to Appendix 1 for the criteria and sub-criteria to score Quality along with associated weightings.

### **Contract Management**

16. The contract will be monitored quarterly by fund officers with requests for the vendor to present to the Pension Fund Committee if deemed necessary. Internal control reports will be scrutinised by the fund's investment consultant and external auditors
17. There is no inflationary uplift as the fee paid depends on the number of fund managers appointed and the mix of assets, fees will fluctuate through the contract.

### **Equality Implications**

18. There are no direct adverse impacts for people with protected characteristics identified arising from the activity covered by the contract.

### **Risk Management Implications**

19. There is a management risk that, as has occurred previously, that monitoring of the service provided or the engagement with the third parties is not fulfilled leading to an inferior service, placing a risk to investments. It is therefore recommended that all parts of the engagement and service including the performance of all participants are regularly reviewed by a third party (external body) at a frequency of not less than annually. It is furthermore recommended that this review is completed by the RBKC Assurance Team.
20. As is noted above, despite the use of a procurement strategy that there is only one viable supplier (Northern Trust (NT)) and that is effectively a closed market. This presents a management, programme and legal risk to the council that no adequate service can be identified leading to a potentially enforced adequate service, product or service. This risk must be accepted and as noted above the service is reviewed above, with the additional mitigation that break clauses are added to the engagement contract to be used if necessary.

Jules Binney, Risk and Assurance Manager, 28<sup>th</sup> October 2024

### **Procurement Implications**

21. The procuring council's Contract Standing Order will need to be followed to ensure the call-off is undertaken compliantly and in accordance with the Public Contracts Regulations 2015 and framework terms of use.

*Chris Everett, Category Lead – Procurement and Commercial, 25<sup>th</sup> October 2024*

### **LIST OF APPENDICES**

#### **Appendix 1 - Quality And Service**

# LONDON BOROUGH OF HAMMERSMITH & FULHAM

## Appendix 1

<b>Quality and Service</b>	<b>60%</b> <i>Sub-criteria below must add up to this amount</i>
<b>Part 1 – Pre-evaluated Technical Capabilities</b>	<b>60%</b>
Strategy and Product Update, including: Strategy New Products	3.00%
Core Custody Services, including: Sub-custody Safekeeping Trade Settlement Income Collection Corporate Actions Tax Reclaims, including documentation completion for clients	3.00%
Proxy Voting and Class Action Recoveries, services including: Proxy Voting Class Action Recoveries	
Mandatory Value Added and Reporting Services, including: Investment Accounting Valuation ONS Reporting	12%
Performance Measurement	12%
Client Services	6%
Markets Services, including: Cash Management Foreign Exchange Services	9.00%
Onboarding and Exit Management	3.00%
<b>Specific Quality questions for all 3 boroughs</b>	
What has your engagement been with Government on the proposed LGPS scheme reforms including the recent Call for Evidence?	2.00%
Eventually funds could be asked to engage in cross asset pool working. How would you ensure seamless transaction processing and reporting in this event?	2.00%
In the event of termination of a custody agreement how much time would you advise is necessary to switch to a new provider?	2.00%
How are you prepared for future changes in the CIPFA Code of Practice?	2.00%
Task Force on Climate-Related Financial Disclosures (TCFD) will be mandated in December 2024. How is your organisation preparing for this reporting?	3.00%
How will your organisation assist in achieving <b>Westminster</b> Council's zero carbon ambition?	1.00%