

Non-Executive Report of the: Pensions Committee 29 November 2017	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	Classification: unrestricted
Update on Pension Fund Procurement Plans 2017/18	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All wards

Summary

This report provides an update on the ongoing procurement activity in relation to the Pension Fund. The outcome from the current activity will be to secure a new contract with a global custodian and the appointment of the independent adviser to the Fund. In both of these cases, the contracts or arrangements have been in place for long periods of time and therefore it is appropriate to carry out a formal review of the requirements, followed by the appropriate procurement activity.

Recommendations:

The Pensions Committee is recommended to note the contents of this report.

1. REASONS FOR THE DECISIONS

- 1.1 The Council has an overarching responsibility to maintain the Pension Fund. It is essential that the Fund has the right range of advisers to support the Pension Fund Trustees (Pension Committee) to discharge its responsibilities. It is therefore essential to have both a Global Custodian and an Independent Investment Adviser for the Fund.
- 1.2 Within the terms of reference for the Pensions Committee, they are required to 'to make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, advisers, investment managers and custodians and periodically to review those arrangements.'
- 1.3 The contents of this report and the procurement process demonstrate that this Committee is meeting both its regulatory and constitutional requirements.

2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options.

3. DETAILS OF REPORT

- 3.1 The Committee was notified of the procurement plans at their meetings September and December 2016. It was noted at the time that where there were suitable existing national frameworks, these would be used to reduce the time required to conduct the procurements and therefore the cost associated with them. In the case of the independent adviser, it is expected that this will be a locally managed process similar to the usual recruitment and selection process, advertising the position/role in specific dedicated LGA/LGPS websites and national newspapers and also the Council website.
- 3.2 The current timetable is as shown below:

Service	Procurement Method	Procurement Start Date	Procurement End Date	Expected Contract Start Date
Global Custodian	OJEU/National Framework	01/09/2017	31/12/2017	02/01/ 2018
Independent Advisor	Local process (Request for quote)	01/12/2017	28/02/2018	01/03/2018

- 3.3 At the Pensions Committee meeting on the 22nd September 2016, it was agreed that Officers would call off the Local Government Pension Fund National Framework (established by Norfolk Country Council) for the procurement of investment consultants, scheme actuary and global custodian. The global custody services framework expired October 2017; hence we have to procure this service through the OJEU (the Official Journal of the European Union) process. The roles and responsibilities of each of these service providers can be found at appendix 1 of this report.

Progress Update on Global Custody Services Procurement

- 3.4 The incumbent provider, State Street, have been operating for over 12 years so it is appropriate to conduct this procurement exercise was undertaken in order to ensure that the Fund is getting value for money and that the services meet the current needs.
- 3.5 The indicative timetable for the global custodian procurement exercise is set out below.

Event	Date
Tender documents issued	27 th October 2017
Deadline for receipt of Clarification questions	15 th November 2017
ITT Return deadline	28 th November 2017
ITT evaluations	27 th – 28 th November 2017
Presentations - provisional	4 th - 8 th Dec 2017
Preferred supplier notification and award	w/c 11 th December 2017
Expected contract commencement	2 nd January 2017

- 3.6 The Global Custodian performs a key function for the Pension Fund in that it is responsible for the safekeeping of the Fund's securities. This function may be carried out by a custodian appointed directly by the fund, or via appointed fund managers. Current best practice is for funds to appoint their own custodian. Responsibilities may include:
- settlement of purchases and sales;
 - advising managers of cash available for investment;
 - safe custody of securities and cash;
 - acting as banker to the fund;
 - cash reconciliations; collection of dividends, income and tax reclaims;
 - ensuring correct actions including rights issues, bonus issues and acquisitions are correctly dealt with;
 - ensuring the necessary approvals are in place to invest in certain overseas markets; and
 - providing (monthly) valuations of scheme assets, details of all transactions and accounting reports
- 3.7 The invitation to tender (ITT) pack for this service was issued on 27th October 2017 and the closing date for submission of service providers' response to tender document is 24th November 2017.
- 3.8 A panel of officers and the independent adviser will evaluate the responses to shortlist a maximum of two for presentations and clarification of their service. This process will determine how well the services being offered suit the requirements of the Tower Hamlets Pension Fund.

3.9 It is expected that the shortlisted service providers will present to the panel on 30th November 2017. Following this, the final evaluation will be completed to determine contract award.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 This report provides an update on the procurement process and timeline for the Global Custody services contract. The process is being managed through internal resources and there are no direct financial implications arising from this report.

5. LEGAL COMMENTS

5.1 By virtue of section 111 of the Local Government Act 1972, the Council has power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions. This may involve expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights. This incidental power supports the Council's ability to provide a pension fund on behalf of the pension committee and allows the Council to purchase services to support such provision

5.2 The Council has an obligation under section 3 of the Local Government Act 1999 to secure continuous improvement in the way in which its functions are exercised; having regard to a combination of economy, efficiency and effectiveness (the best value duty). One principal way that the Council seeks to fulfil this duty generally is by subjecting spend to competition and choosing the winning bidder by applying pre-advertised evaluation criteria to ensure that the winning bid shows the best and appropriate mix of price and quality.

5.3 Where the value of the contract is above a particular threshold the Council may be required to advertise any such tender in Europe in accordance with the Public Contracts Regulations 2015. However, the services that are the subject of this report are services which are financial services in connection with the issue, sale, purchase or transfer of securities or other financial instruments and are therefore exempt in any event from the application of the regulations in accordance with Regulation 10 (e)(i).

5.4 However, The case of ***Parking Brixen GmbH v Gemeinde Brixen and Stadtwerke Brixen AG [2005] ECR*** confirmed that although a contract may be exempt from the then current Regulations that such contracts must still be subject to a "reasonable level" of advertising.

5.5 A reasonable level of advertising is determined by looking at the subject matter and the value of the contract. It is worthy of note that whilst a contract may be exempt from the Regulations specifically, a large value contract may be of cross border interest in any case and therefore, a reasonable level of advertising may well still be advertising in Europe.

5.6 It is also worthy of note that the Council must abide by its S.3 obligation as described above and therefore, tendering at a domestic level of most contracts is appropriate.

- 5.7 The tendering procedures identified in this report appear to comply with the Council's obligations identified in the above paragraphs.
- 5.8 When exercising its functions the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). In particular, the Council is legally required to take appropriate steps such as undertaking an equality assessment and if necessary consultation in order to properly understand the needs of individuals affected by its decisions and to consider these needs in its decision making process. The Council's compliance with this duty is expanded upon in paragraph 6 below.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The use of the National Frameworks for the procurement of services for the Fund would result in a significant savings in comparison to a full OJEU process.
- 7.2 In the absence of a framework, to secure continuous improvement, the tender document were prepared to have regard to a combination of economy, efficiency and effectiveness (the best value duty). One principal way that the Council seeks to fulfil this duty generally is by subjecting spend to competition and choosing the winning bidder by applying pre-advertised evaluation criteria to ensure that the winning bid shows the best and appropriate mix of price and quality..

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. The monitoring arrangement for the Pension Fund and the work of the Pensions Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 - Roles and Duties of LBTH Pension Fund Service Providers

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

- NONE

Officer contact details for documents:

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Appendix 1

Roles and Duties of Service Providers

Independent Advisor: general role and duty is to advise and support members of the committee and officers by the following activities;

- a) To participate in any discussions relating to investment issues arising out of actuarial studies affecting the Fund;
- b) To contribute towards determining the asset allocation policy of the Fund and the development of customised benchmarks;
- c) To monitor and comment upon the ongoing relevance of the benchmark;
- d) To advise on the appropriateness of the management arrangements, targets and mandates adopted by the Fund;
- e) To monitor the performance of the investment managers against the mandates and ensure that they are carrying out their duties;
- f) To advise as required on the selection of managers;
- g) To monitor and identify appropriate investment issues as necessary;
- h) To advise on the most appropriate asset allocation and provide market intelligence and comment;
- i) To produce a formal report on the Fund's performance annually;
- j) To provide advice on other related issues as requested or as the Panel considers appropriate.
- k) To assess the main picks taken against the benchmark, the changes over the quarter and analyse, understand and comment on what has worked well and what hasn't;
- l) To review the Fund's progression relative to the asset and liability assumptions adopted when setting the benchmark;
- m) To comment upon interest rate risk, inflationary expectations, active versus passive management, long term investment returns, etc.;
- n) To assess the external influences affecting investment returns and comment upon industry developments, etc.;
- o) To monitor the economic and investment climate and report accordingly.

The Investment Consultancy will be required to provide investment consultancy services to the Fund including but not limited to:

- a) Review of asset allocation, investment strategy and investment management structure;
- b) Working with the Fund Actuary to undertake asset liability modelling as required;
- c) Monitoring and reporting of investment managers and producing quarterly reports based on data provided by the measuring company or incorporating other third party reporting as may be required in a cost effective manner;
- d) Attendance at meetings as required;
- e) Providing training to Members and officers as required;
- f) Advising on the Investment Strategy Statement;
- g) Advising on the Pension Fund Annual Report;
- h) Advising on controlling investment costs including fees and transaction related costs;
- i) Advising on alternative investments;

- j) Advising on Environmental, Social, Corporate Governance and Socially Responsible Investment policies;
- k) Advising on Investment Fund Manager selection;
- l) Advising on investment markets and the outlook for different asset classes. it is envisaged that the advice and outlook will be offered on a monthly basis or as and when fluctuations of the markets dictate.

The Global Custodian - is responsible for the safekeeping of the Fund's securities. This function may be carried out by a custodian appointed directly by the fund, or via appointed fund managers. Current best practice is for funds to appoint their own custodian. Responsibilities may include:

- a) settlement of purchases and sales;
- b) advising managers of cash available for investment;
- c) safe custody of securities and cash;
- d) acting as banker to the fund;
- e) cash reconciliations; collection of dividends, income and tax reclaims;
- f) ensuring correct actions including rights issues, bonus issues and acquisitions are correctly dealt with;
- g) ensuring the necessary approvals are in place to invest in certain overseas markets; and
- h) providing (monthly) valuations of scheme assets, details of all transactions and accounting reports

The Scheme Actuary is an independent and appropriately qualified adviser who carries out statutorily required fund valuations and other valuations as required and who will also provide general actuarial advice. The actuary will:

- a) Fund Triennial Valuation and Rates and Adjustment Certificate
- b) Draft Funding Strategy Statement (FSS)
- c) Actuarial advice about outsourcing or new employers bodies including initial funding position, employer contribution rate and bond value for new employers
- d) Cessation valuations and post cessation funding agreements
- e) Bond value assessments and advice relating to other forms of security
- f) FRS102, FRS17 and IAS19 accounting reports
- g) Employer covenant assessments
- h) Cashflow projections and related advice
- i) Data quality reports, advice and support on data cleansing (as required)
- j) Commenting on consistency of FSS with Investment Strategy Statement and proposed changes to investment strategy
- k) Reviewing administration strategy statement, admission and other policies (as required)
- l) Advice concerning administration service structure, processes and targets (as required)
- m) Attendance at meetings (as required)
- n) Providing training to Members and officers (as required)
- o) IDRPs support (as required)
- p) Advice and support on GMP reconciliations (as required)