

Non-Executive Report of the:  <b>Pensions Committee</b>  14 March 2018	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke, Corporate Director, Resources	<b>Classification:</b> unrestricted
<b>Update on Pension Fund Procurement Plans 2017/18</b>	

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

### Summary

This report provides an update on the ongoing procurement activity in relation to the Pension Fund. The current activity has secured a new contract with a global custodian and also progressed in the appointment of the independent adviser to the Fund. These are the last of the appointments that have been undertaken during 2017/18 to bring up to date all the contractual arrangements with advisers to the Fund.

### Recommendations:

The Pensions Committee is recommended to note the contents of this report and confirm which Members will be involved with the appointment of Independent Adviser.

## **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 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. Progress Update on the appointment for Global Custody Services**

- 3.1 The Global Custodian performs a key function for the Pension Fund by being responsible for the safekeeping of the Fund's securities. This function can be carried out by a custodian appointed directly by the fund or by appointed fund managers; however it is currently regarded as best practice for funds to appoint their own custodian. The cost of providing the custody services varies from year to year depending on the value, type of assets in custody and investment classification; that is whether pooled or segregated management of the assets. The cost for the Tower Hamlets Fund has recently been in the region of £60k to 150k per annum. Given the value of the Fund's assets is in excess of £1.3bn as at the end of March 2017, this is a relatively insignificant cost for ensuring an independent safekeeping, performance monitoring and recording keeping of the Fund's securities.
- 3.2 This approach to the safekeeping of the Fund's securities enables the Pensions Committee to discharge both its statutory obligations and its fiduciary responsibilities as Quasi Trustees of the Pension Fund.
- 3.3 State Street had been providing the global custody services for over 15 years without a formal market test and contractual review to ensure that the service represents best value for the Fund and meets the current needs of the Fund.
- 3.4 At the Pensions Committee meeting on 22nd September 2016 the procurement plans for this service which indicated intention to call off the Local Government Pension Fund National Framework (established by Norfolk County Council) for the procurement of the Global Custody Service.
- 3.5 When the LGPS Framework was reviewed, it was established that it was due to expire on 30th October 2017 and therefore Legal Services advised ( based

on Counsel's opinion) that a contract that went beyond the end of the framework should not be let as there would be a risk of challenge.

3.6 The appropriate procurement route was therefore to use the Open Procedure (as defined in the public procurement regulations), which is a single stage procurement.

3.7 This route was deemed appropriate because of the maturity of the market and the limited number of likely bidders (six known in the market). The tender was advertised on 27th October 2017 in the Official Journal of the European Union, as required in the procurement regulations.

3.8 Officers prepared and produced the necessary documentation in line with the requirements of the Tower Hamlets Pension Fund. It was determined that the evaluation of tenders would be carried out as follows:

- Quality of Service (50%) – covering reporting, resources, timescales, transition, data and administration and sustainability of the LGPS
- Service Fit (20%) – Compatibility with the Pension Fund and its employers, key risks, tools available for officers to manage the fund, challenges and transparency and data
- Pricing (30%) – Activity pricing, valuation and asset liability modelling, financial reporting exercises

3.9 The quality and service fit elements to be evaluated are as set out below:

<b>Criteria: Quality &amp; Service Fit</b>	<b>Weighting: 70%</b>
<b>A</b> Team & Organisational Experience	10%
<b>B</b> Client Services	14%
<b>C</b> Working with the Fund	26%
<b>D</b> Service Fit (Presentation)	20%

3.10 Officers advised the six well known global custody service providers of the Council's intention to tender, in order to ensure that there were aware of the tender. These providers are:

- The Bank of New York Mellon SA/NV
- BNP Paribas Securities Services
- HSBC Securities Services
- J.P. Morgan
- The Northern Trust Company
- State Street Bank and Trust Company

3.11 The closing date for the receipt of tenders was 28th November 2017. Two firms submitted tenders for the work. The other providers advised that they did not intend to submit bids. Feedback indicated that this was due to the structure of the Fund. A panel of two officers, advised by the Independent Advisor to the Pension Fund, reviewed and scored the submissions in accordance with the criteria set out above. Visits to both bidders were

undertaken where the panel was supported by a graduate trainee. Presentations were given to establish the service fit with the Fund.

- 3.12 The outcome of the scoring as set out above was that Northern Trust was the successful bidder. Northern Trust has been informed and the contract is due to start from 2<sup>nd</sup> April 2018. Arrangements are in place to transition from State Street as the incumbent provider.

#### **4 Appointment of the Independent Adviser**

- 4.1 In the case of the independent adviser, a locally managed process is being followed which is similar to the usual recruitment and selection process. This means advertising the role in specific dedicated local government related websites and national newspapers in addition to the Council's website.
- 4.2 This will allow a shortlist of preferred candidates to be selected. Those candidates will need to register with our Request for Quotation system (supported by officers if necessary) and then provide some further information. This is because procurement regulations have to be conformed with and this approach will allow for that.
- 4.3 The indicative timetable for the appointment Independent Adviser is set out below. This will allow for a new adviser to be in place for the new Council Municipal Year which fits with the next cycle of meetings of the Committee. The appointment will be for a period of 3 years.

<b>Event</b>	<b>Date</b>
Advertising the role on websites	21 <sup>st</sup> February 2018
Deadline for CV and Covering Letter	6 <sup>th</sup> March 2018
Shortlisted Candidates Notification	8 <sup>th</sup> March 2018
Shortlisted Registration Period on Supplier System	8 <sup>th</sup> – 15 <sup>th</sup> March
Request For Quotes (RFQ) issued	16 <sup>th</sup> March 2018
Deadline for receipt of Clarification questions	23 <sup>rd</sup> March 2018
RFQ Return deadline	3 <sup>rd</sup> April 2018
RFQ evaluations	4 <sup>th</sup> – 6 <sup>th</sup> April 2018
Presentations - provisional	9 <sup>th</sup> - 11 <sup>th</sup> April 2018
Preferred Candidate notified	w/c 16 <sup>th</sup> April 2018
Expected start date for contract with new adviser	2 <sup>nd</sup> May 2018

- 4.4 A panel of officers will evaluate the responses to the questions asked at the RFQ stage to shortlist a maximum of three for presentations and clarification of their offer to the Fund. It would be helpful to have a member of the Pensions Committee involved in the presentations, at least, so it would be helpful if those interested could make themselves known at the Committee Meeting.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 This report provides an update on the procurement process and timeline for the Independent Adviser service contract. The process is being managed through internal resources and the cost of the advertising will be met from the existing budget which is met by the Pension Fund.

#### **5. LEGAL COMMENTS**

- 5.1 The Council is legally obliged to perform a tender in order to satisfy both its legal duty to obtain Best Value under the Local Government Act 1999 and the legal obligation to procure under the Public Contracts Regulations 2015 as amplified by European Law stated in the Parking Brixen case
- 5.2 The report describes the processes that have been followed when running the relevant tender exercises and these comply with the legal duties outlined above.
- 5.3 The quotation exercise for the Independent Advisor has not yet been completed. An elected member may take part in the evaluation of the tender provided that they complete the usual conflict of interest checks and complete a confidentiality undertaking.
- 5.4 In the event that the elected member performs a scoring role in the evaluation then that member must score the same part of each quote and or interview relating to all the quotes received
- 5.5 It is unlikely that the Council's duties under the Equality Act 2010 will be impacted by these procurements. However, the Council should always undertake at least the desktop assessment phase in order to demonstrate that the Council has given the matter due consideration.

#### **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:**

Bola Tobun(Investment & Treasury Manager) x4733