

# Pensions Committee

2.00pm, Wednesday, 27 March 2019

## Global Custody Services – Procurement Waiver

Item number	5.10
Executive/routine	
Wards	All
Council Commitments	<a href="#">Delivering a Council that works for all</a>

### 1. Recommendations

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The Pensions Committee (**Committee**) is requested to:

- 1.1 **approve** the extension of the global custody services contracts with the Northern Trust Company (i.e. the master custody and supplemental agreements) for the period 01 March 2020 to 28 February 2022.

**Stephen Moir**

Executive Director of Resources

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## Global Custody Services – Procurement Waiver

### 2. Executive Summary

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- 2.1 The purpose of this report is to seek approval of a procurement waiver for global custody services for a period of two years until the conclusion of the Scottish Government review of the future structure of Local Government Pension Scheme (LGPS) funds. The value of the contract waiver is estimated at c£840,000.

### 3. Background

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- 3.1 As Committee is aware, the Scottish Government is reviewing the structure of the LGPS in Scotland, with the formal consultation having closed in December 2018.
- 3.2 Lothian Pension Fund's current contract for global custody and supplemental services with the Northern Trust Company expires on 29 February 2020.

### 4. Main report

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- 4.1 Until the outcome of the review by the Scottish Government of the structure of the LGPS in Scotland is known, anticipated economies of scale through investment collaboration, pooling or merger of funds will not be fully realised by competitive tender of global custody services by the Lothian Pension Fund.
- 4.2 The waiver, therefore, is only for a period of two years to allow such determination by the Scottish Government and best align the timing of future procurement to capture anticipated sizeable scale economies. Otherwise, the likelihood is that additional costs will be incurred and collaborative investment activity with partner funds may be jeopardised.
- 4.3 There are currently only a handful of suppliers which are active in this market. All will be aware of the Scottish Government's ongoing review and will understand the potential future impact. The risk of challenge in these circumstances is believed to be extremely low.

- 4.4 The City of Edinburgh Council's Chief Procurement Officer agrees with the fund's rationale regarding an extension of the delivery period of the current contract and has commented as follows:

*Under the circumstances described, it would be prudent to extend delivery of the current contract for a period of up to 2 years. This would allow sufficient time for Scottish Government to conclude their current review and subsequently instruct and/or legislate as they deem appropriate. Moreover, a re-procurement exercise at this time, in full knowledge of the potential ramifications of the review, could be viewed as not only contentious but also conflicting with LPF's fiduciary duty. The proposed extension period would therefore be in the best interests of the Council and all members of the pension fund.*

## **5. Next Steps**

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- 5.1 The funds would contact the Northern Trust Company to seek contract extension, as outlined above.

## **6. Financial impact**

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- 6.1 The value of the contract waiver is estimated at c£840,000.
- 6.2 The waiver is for a period of two years to allow determination of the future structure of LGPS pension funds by the Scottish Government and best aligns the timing of future procurement to capture anticipated sizeable scale economies.

## **7. Stakeholder/Community Impact**

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- 7.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.
- 7.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.
- 7.3 There are no adverse sustainability impacts arising from this report.

## **8. Background reading/external references**

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- 8.1 None.

## **9. Appendices**

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- 9.1 None.