

MEETING**PENSION FUND COMMITTEE****DATE AND TIME****THURSDAY 4TH SEPTEMBER, 2014****AT 7.00 PM****VENUE****HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX**


Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
9.	CHANGE OF CUSTODY ARRANGEMENTS	1 - 6

Governance Service 020 8359 2761 governance.service@barnet.gov.uk

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	AGENDA ITEM 9
	<h2>Pension Fund Committee</h2> <h3>4 September 2014</h3>
Title	Change of Custody Arrangements
Report of	Chief Operating Officer
Wards	N/A
Status	Public
Enclosures	Appendix 1 - Summary DPR approving a single tender action in relation to the proposal.
Officer Contact Details	Iain Millar, Head of Treasury Services 0208 359 7126

Summary

This report recommends the appointment of the Pension fund custodian.

Recommendations

1. That the Committee approve the appointment of Bank of New York Mellon as custodian of the investments managed by Newton Investment Management Limited for a period of up to two years.

1. WHY THIS REPORT IS NEEDED

- 1.1 To ensure that the pension fund is being invested prudently and in accordance with the investment strategy.

2. REASONS FOR RECOMMENDATIONS

- 2.1 In approving the change of custody arrangements, the Pension Fund Committee are ensuring the efficient and cost effective management of resources.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 The procurement of a global custodian will be undertaken within the next two years after current fund manager arrangements have been reviewed. The cost of undertaking the procurement is greater than the option proposed.

4. POST DECISION IMPLEMENTATION

- 4.1 The Investment Management Agreement with Newton Asset Management will be amended to reflect the change in custody arrangements and a Global Custody Agreement with Bank of New York Mellon will be signed and sealed.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. In approving the change of custody arrangements, the Pension Fund Committee is ensuring the efficient and cost effective management of resources

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 Under the terms of the Investment Management Arrangement (IMA) with fund manager Newton Investment Management Limited, Newton appointed affiliate, The Bank of New York Mellon, London Branch (BNYM) to act as the custodian of the LB Barnet Pension Fund portfolio of investments and cash managed by Newton.
- 5.2.2 Newton has now decided to withdraw from this ancillary service following a review of its operations and is reducing its annual management charge for two years effective from the appointment of a third party custodian by the current minimum core custody fee of £10,200.

- 5.2.3 The Bank of New York Mellon have offered to provide a direct custody service and have offered the minimum core custody fee of £10,200 based on the last 12 months custody activity.
- 5.2.4 The costs of custody for the fund are minimal because of investment in a pooled vehicle but this is a technical specialist area.
- 5.2.5 The costs of procurement are likely to be greater than the annual custody fee. It would be more efficient to review custody arrangements at the same time as considering the selection and appointment of any new fund manager.
- 5.2.6 It is therefore recommended to appoint Bank of New York Mellon as interim custodian pending a review of current fund manager arrangements.

5.3 Legal and Constitutional References

- 5.3.1 Constitution – Part 15 Responsibility for Functions –Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement includes the appointment of fund managers and custodians. (paragraphs 2.2.6 and 2.2.9).
- 5.3.2 Paragraph 9.1 of the Contract Procedure Rules provides that a single tender action or commitment is not allowed unless approved in advance by the Commercial and Customer Service Director. This approval has been obtained and is attached to this report.

5.4 Risk Management

- 5.4.1 The separation of investment management from custody is a crucial aspect of security of the pension fund assets.

5.5 Equalities and Diversity

- 5.5.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.
- 5.5.2 Accurate financial accounting and reporting for pension fund investments by the custodian, is important to ensure the management of resources to enable the equitable delivery of services to all members of the community and to reduce the differential impact of the services received by all of Barnet's diverse communities.

5.6 Consultation and Engagement

5.6.1 Not Applicable.

6 BACKGROUND PAPERS

6.1 None

Summary Delegated Powers Report	
DATE OF DECISION	26 th August 2014
DECISION TAKER	Commercial & Customer Services Director
SUMMARY OF DECISION	<p>The separation of investment management from custody is a crucial aspect of security of the pension fund assets. Under the terms of the Council's Investment Management Arrangement (IMA) with fund manager Newton Investment Management Limited, Newton appointed affiliate, The Bank of New York Mellon, London Branch (BNYM) to act as the custodian of the LB Barnet Pension Fund portfolio of investments and cash managed by Newton.</p> <p>Newton has now decided to withdraw from this ancillary service following a review of its operations and is reducing its annual management charge for two years effective from the appointment of a third party custodian by the current minimum core custody fee of £10,200.</p> <p>The Bank of New York Mellon have offered to provide a direct custody service and have offered the minimum core custody fee of £10,200 based on the last 12 months custody activity. This is a specialist technical market and to ensure that the pension fund is being invested prudently and in accordance with the investment strategy it is appropriate that this provider continues in the role for the next two years. A report with this recommendation is on the agenda for the meeting of the Pension Fund Committee to be held on 4 September 2014.</p> <p>The process has been conducted in accordance with the Public Contracts Regulations 2006, the Council's Procedure Rules and the corporate Procurement Code of Practice. This type of service falls within Part A of Schedule 3 of the Regulations (which normally require a full procurement process). However, the Contract Procedure Rules allow officers to use a reasonable means of selection for services valued at below the Procurement Threshold while ensuring that they comply with the EU Procurement law of equality of treatment, transparency and non-discrimination.</p> <p>In accordance with the Councils' Contract Procedure Rules it is agreed that a single tender action can be taken to appoint the Bank of New York Mellon pending further review of fund manager arrangements</p>

AUDIT TRAIL OF DECISION – RETAINED AND WHERE?	Document and decision retained within Commercial Team
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DECISION TAKER'S STATEMENT

I have the required powers to make the decision documented in this report. I am responsible for the report's content and am satisfied that all relevant advice has been sought in the preparation of this report and that it is compliant with the decision making framework of the organisation which includes Constitution, Scheme of Delegation, Budget and Policy Framework and Legal issues including Equalities obligations.

I authorise the above decision

Signed **Claire Symonds**

Designation Commercial & Customer Services Director

Date **26 August 2014**