

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

29 MARCH 2011

|                                     |                                  |
|-------------------------------------|----------------------------------|
| <b>SUBJECT</b>                      | <b>GLOBAL CUSTODIAN SERVICES</b> |
| <b>WARD/S AFFECTED</b>              | <b>ALL</b>                       |
| <b>REPORT OF</b>                    | <b>DIRECTOR OF FINANCE</b>       |
| <b>RESPONSIBLE PORTFOLIO HOLDER</b> | <b>COUNCILLOR GEOFFREY WATT</b>  |
| <b>KEY DECISION</b>                 | <b>NO</b>                        |

#### 1.0 EXECUTIVE SUMMARY

- 1.1 Merseyside Pension Fund uses a global custodian to ensure the security of assets. This report proposes, for operational reasons, an extension of the current contract on the existing terms and conditions.

#### 2.0 RECOMMENDATIONS

- 2.1 That Members note the acceptance by the Director of Finance under delegation of the lowest tender submitted by Risby Air-Conditioning Company, for air conditioning plant replacement works at 241 Brooklands Road, Weybridge.

#### 3.0 REASONS FOR RECOMMENDATIONS

- 3.1 There are currently uncertainties over the future provision of banking services, which may require an urgent procurement exercise. It is therefore proposed to extend the custodian contract, and thereby allow resources to be available should the banking contract need to be re-tendered urgently.
- 3.2 The current provider will agree to such an extension on the existing terms and conditions.

#### 4.0 BACKGROUND AND KEY ISSUES

- 4.1 On 22 November 2004, the Pensions Committee appointed State Street as Global Custodian for a period of five years, with an option of a maximum two year extension. Following agreement of the contract details, the service commenced in April 2005.
- 4.2 On 18 June 2009, the Pensions Committee approved an extension to 30 September 2011. The further extension now proposed to 31 March 2012 is consistent with the original advertised period of five years with a maximum two year extension.
- 4.3 The range of services provided by the current global custodian includes safekeeping, income collection, tax reclaims, voting, accounting and reporting, currency conversion, corporate actions and securities lending.

- 4.4 In order to arrange the best protection for the assets of MPF the custody contract needs to have an appropriate weighting for risk controls, as the following risks are inherent within the custodian function:
- Cash risk
  - Securities risk
  - Operational risk
- 4.5 Considerable due diligence will be required to identify how effectively the global custodian proposes to mitigate these risks.
- 4.6 The key provisions include standard of care, liability provisions, warranties, lien provisions, cash management, amendments and termination, conflicts of interest, voting, securities lending and foreign exchange.
- 4.7 As all global custodians will seek to limit their liability, it will be essential to set out the requirements on key issues such as liability and standard of care during the tender process, rather than have to negotiate with the preferred tenderer following the selection process.
- 4.8 It is expected that quality of service and approaches to risk management will be more important criteria than price in the selection process.
- 4.9 The procurement would be by way of an open tender. The preparatory work necessary to specify the requirements is underway.
- 4.10 It is proposed that the tenders are received from global custodians in two ways, one including securities lending within the tender, and the other without this activity. This approach would allow MPF to explore the relative financial benefits of using a third party lender for securities lending.

## **5.0 RELEVANT RISKS**

- 5.1 There are no additional risks associated with the proposed contract extension.

## **6.0 OTHER OPTIONS CONSIDERED**

- 6.1 There are no other options considered in this report.

## **7.0 CONSULTATION**

- 7.1 There has been no consultation undertaken or proposed for this strategy report. There are no implications for partner organisations arising out of this report.

## **8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

8.1 There are none arising out of this report.

## **9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

9.1 The costs, which include an ad valorem element, are met from the annual budget.

## **10.0 LEGAL IMPLICATIONS**

10.1 The Director of Law will be involved in offering guidance with the procurement process, but more particularly with regards to the details of the proposed contract once a preferred bidder has been identified.

## **11.0 EQUALITIES IMPLICATIONS**

11.1 There are none arising out of this report.

11.2 An Equality Impact Assessment (EIA) is not required.

## **12.0 CARBON REDUCTION IMPLICATIONS**

12.1 There are none arising out of this report.

## **13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

13.1 There are none arising out of this report.

**REPORT AUTHOR:** **Gerard Moore**  
Financial Controller – Merseyside Pension Fund  
telephone: (0151) 242 1307  
email: gerardmoore@wirral.gov.uk

## **REFERENCE MATERIAL**

None used

## **SUBJECT HISTORY (last 3 years)**

| <b>Council Meeting</b>                           | <b>Date</b>             |
|--|-------------------------|
| <b>“Custodian Services” - Pensions Committee</b> | <b>17 November 2009</b> |