

PENSIONS COMMITTEE

21 NOVEMBER 2017

Subject Heading:

Procurement of Actuarial Services and Investment Management Consultancy Services to the Pension Fund

CMT Lead:

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Policy context:

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Local Government Pension Schemes regulations require funds to appoint actuaries for the valuation and to obtain advice when setting the investment strategy

Financial summary:

National Framework joining fees and contract costs charged to the Pension Fund

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

Authorisation is sought to procure Actuarial Services and Investment Management Consultancy Services to the Pension Fund using the National Local Government Pension Scheme (LGPS) Frameworks.

RECOMMENDATIONS

1. It is recommended that the Pensions Committee agree:
 - a. To join the National Framework for Actuarial, Benefits and Governance Consultancy Services
 - b. To join the National Framework for Investment Management Consultancy Services
 - c. To hold the service provider interviews before the Pensions Committee as part of the further competition process.
2. It is also recommended that the Pensions Committee delegate:
 - a) To officers, as set out in section 1.6 of the report below, to undertake the procurement of the actuarial service provider.
 - b) To the Statutory Section 151 officer to award the actuarial services contract at the completion of the procurement exercise.

REPORT DETAIL

1 Background

- 1.1. The contract for the Pension Fund Actuary (with Hymans Robertson LLP) expires on 31 March 2018.
- 1.2. The contract for the Pension Fund Investment Management Consultancy (with Hymans Robertson LLP) expires on the 31 March 2018, having been extended for one year from 1 April 2017 as per the original tender for the contract that commenced 1 April 2012.
- 1.3. A new procurement exercise now needs to be carried out to appoint for both of the above services.
- 1.4. As part of their 2014 LGPS Opportunities for Collaboration, Cost Savings and Efficiencies consultation, the Department of Communities and Local Government (DCLG) recognised that “there are clear advantages and savings to making use of the National LGPS Frameworks” and stated that “funds should give serious consideration to making greater use of these frameworks”.
- 1.5. With the DCLG’s views in mind and the value for money factors, officers are recommending that the Havering Pension Fund join the National LGPS

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Framework for Actuarial, Benefits and Governance Consultancy Services (see Appendix A) and the National LGPS Framework for Investment Management Consultancy, if issued in time this will be attached as **Appendix B.**

- 1.6. The Pension Committee has the delegated power under Part 3 of the Constitution, Responsibility for Functions to “authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters” and “To appoint and review the performance of advisers and investment managers for pension fund investments” and according to 2.5 (h) the power to invite tender and award contracts for investment matters within their terms of reference.)
- 1.7. TUPE does not apply to this contract

2. Frameworks

- 2.1. The framework is as a result of collaboration between a number of founding LGPS funds.
- 2.2. It removes the need to run a best practice, OJEU (Official Journal of the European Union) equivalent full tender exercise when procuring a longer term, single supplier relationship. Reducing the procurement process from 6 – 9 months to 4 – 6 weeks.
- 2.3. Frameworks deliver value for money by reducing the time and cost associated with procurement by offering a facility that has already been competitively tendered. Agreed terms and conditions are provided so users can simply ‘call-off’ the framework to meet their requirements, therefore removing costly and time consuming legal work from the procurement process.
- 2.4. Using the Frameworks will help funds easily access the marketplace and influence better prices.
- 2.5. LGPS funds that use the framework will benefit from the collaborations as awarding authorities are eligible for an aggregated cumulative stepped rebate. This is based on the overall value of work awarded, pro rata across all participating funds. (e.g. If five funds in aggregate exceed the award threshold by say £100,000 then 1% of this value is rebated to the five funds annually).
- 2.6. The National LGPS Frameworks are fully compliant with the Public Contracts Regulations 2015.

3. Actuarial Services

- 3.1 All LGPS Funds are required to procure professional actuarial services in line with regulation 62 of the Local Government Pension Scheme

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Regulations 2013 as they must obtain an actuarial valuation of the assets and liabilities of its pension fund as at the as at 31 March 2016 and every third year afterwards and obtain a report by an actuary in respect of the valuation.

- 3.2 The National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services commenced July 2016 and is open for 4 years. Contracts awarded under the National LGPS Framework may be for a period of up to 7 years. The framework is split into four lots:
- a) Lot 1 Actuarial Services
 - b) Lot 2 Benefits Consultancy
 - c) Lot 3 Governance Consultancy
 - d) Lot 4 Consultancy services to Support Specialist Projects
- 3.3 Only four service providers cover all four lots (Aon Hewitt, Barnett Waddingham, Hymans Robertson and Mercer). If agreed, the delegation to officers to undertake the procurement will assess the most appropriate lots to procure and length of contract.
- 3.4 Actuarial services includes but are not limited to completion of the triennial valuation exercise, Funding Strategy Statement preparation and advice, annual accounting valuations of pensions liabilities (in accordance with FRS102/IAS19 requirements, the provision of carrying out opening valuations for new scheme employers; closing valuations for exiting scheme employers; benefit administration advice and ad-hoc advice and guidance which takes account of their knowledge of the fund position and fund strategies.

4. Investment Management Consultancy Services

- 4.1 All LGPS Funds are required to procure professional advisory services in line with Regulation 7 of the Management & Investment Regulations 2016, authorities after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.
- 4.2 Myner's Principles number 2 on clear objectives recommends that the committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition.
- 4.3 When making investment decisions evidence that external professional advice was sought, is a qualitative test to be met to be able to opt up to professional client status under MifID 11 (Markets in Financial Instruments Derivative).
- 4.4 Advisory Services includes but are not limited to production of quarterly monitoring performance reports, attendance at Pensions Committee, performance monitoring of the fund's investment managers, investment

advice in setting investment strategy, preparation of Investment Strategy Statement.

- 4.5 The National LGPS Framework for Investment Management Consultancy services is expected to launch in November 2017 (they are still awaiting signed contracts from some suppliers and will launch once these have been received). The framework will be open for 4 years and contracts awarded under the National LGPS Framework may be for a period of up to 7 years. The framework will be split into three lots:
- a) Lot 1 Core Investment Consultancy Services Advice
 - b) Lot 2 Manager Search, Selection and Review Services
 - c) Lot 3 Investment Management Consultancy related Specialist Services
- 4.6 Historically members of the Pensions Committee prefer to meet with the potential advisor who will be responsible for presenting to the committee. Therefore officers recommend that the Committee hold interviews as part of the Further Completion stage of the procurement process so that the committee can decide who the contract is awarded to.
- 4.7 There is a risk that the Fund may not be able to secure the services of an actuary or an investment advisor by the 31 March 2018. These risks are being managed through the proposed use of the LGPS National Frameworks that are or will be in place.

IMPLICATIONS AND RISKS

Financial implications and risks:

The frameworks provide funds with the opportunity to reduce the cost and time associated with procurement. By developing a short list of approved candidates, the frameworks can help funds reduce the time taken to procure a service from six to nine months to a matter of weeks, as well as offering standardised terms and conditions. In addition to offering savings to the funds, the small fee paid by funds to access the framework helps to ensure that the model is self-financing in the long term.

The maximum cost of joining the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services is £5,000 for all lots. The cost reduces to £4,500 for just Lots 1, 2 and 3 and £4,000 for lots 1 and 2 (as a minimum it is expected that the Fund will join lots 1 and 2)

The maximum cost of joining the National LGPS Framework for Investment Management Consultancy Services is £7,000 for all lots. The cost reduces to £5,500 for Lot 1 or £3,500 for Lot 2 (as a minimum it is expected that the fund will join at least lot 1).

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The current contract which expires on the 31 March 2018 was previously awarded under the Croydon framework which Croydon will not renew. The cost of Pension Fund Actuarial Services charged to the Pension Fund during the contract period 1st March 2015 to September 2017 is £285,240.

However some costs of the Actuarial services is recharged to scheme employers and admission bodies for services that include opening and closing valuations, assessment of bond levels to minimise risk to the fund when services are transferred to external bodies involving the TUPE of employees and annual accounting valuations of pensions liabilities (in accordance with FRS102/IAS19 requirements. The amount recharged to employers in the fund totalled £160,248, leaving a net charge to the pension fund of £124,992.

The total cost of Investment Advisory services for the length of the contract April 2012 to 30 June 2017 is £325,162. Core services of £239,440 plus additional service costs of £85,722.50. Costs for additional services have been kept within budget and includes investment manager searches and appointments. There is the potential to save costs on investment manager searches and appointments when the Fund procures investments held by the London CIV pool.

All prices for all service providers on the National LGPS frameworks are the maximum rates and are subject to further reduction at Further Competition or Direct Award if applicable.

The costs of joining the Frameworks and the contract costs are met from the Pension Fund.

Legal implications and risks:

The Constitution enables the Pension Committee to delegate the function of undertaking all aspects of the commissioning of the actuarial service to officers, and there is therefore no apparent legal risk in making the recommended decision. Clearly the procurement process itself will need to be undertaken in accordance with the Contract Procedure Rules and relevant legislation and legal advice will be available at all stages.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no direct equalities implications and risk arising from this decision

BACKGROUND PAPERS

[Background Papers List](#)

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None