



## PENSIONS COMMITTEE

05 NOVEMBER 2024

**Subject Heading:**

**PENSION FUND ACTUARIAL SERVICES PERFORMANCE REVIEW - 1 October 2023 to 30 September 2024**

**SLT Lead:**

Kathy Freeman

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**Policy context:**

A review of the performance of the services provided by the Actuary demonstrates compliance against the tPR General Code of Practice and Contract Procedure Rules

**Financial summary:**

Actuarial net costs are met from the Pension Fund or from scheme employers where rechargeable

### 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

This report reviews the service and performance of the Havering Pension Fund's ("the Fund") Actuary from the 1 October 2023 – 30 September 2024.

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

Authorisation is also being sought to award an extension to the existing contract until June 2026.

**RECOMMENDATIONS**

1. It is recommended that the Committee:
  - a) Note the performance of the Fund's Actuary during the period 1 October 2023 to 30 September 2024.
  - b) Approve an extension to the existing Actuarial Services contract with Hymans Robertson from 16 July 2025 to 30 June 2026 at the estimated cost of £70,000.
  - c) to enter into an Access Agreement to join the new National Framework for Actuarial, Benefits and Governance Consultancy Services Framework once live, at the estimated cost of £3000.
  - d) Agree to the commencement of tendering for a new Actuarial Services contract off the new National Framework for Actuarial, Benefits and Governance Consultancy Services Framework at for a period of 10 years from July 2026 at the estimated cost of £1m.
  - e) Delegate to the Statutory Section 151 officer authority to award the Actuarial Services Contract at the completion of the procurement exercise.

**REPORT DETAIL**

**1. BACKGROUND**

- 1.1 All LGPS Funds are required to procure professional actuarial services in line with regulation 62 of the Local Government Pension Scheme Regulations 2013 as they must obtain an actuarial valuation of the assets and liabilities of its pension fund as at 31 March 2016 and every third year afterwards and obtain a report by an actuary in respect of the valuation.
- 1.2 Actuarial services includes but are not limited to completion of the triennial valuation exercise, Funding Strategy Statement (FSS) preparation and advice, annual accounting valuations of pensions liabilities of Fund employers (in accordance with Financial Reporting Standards (FRS) 102/ International Accounting standards (IAS)19 and 26 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's position and strategies.

- 1.3 The Actuary also provides advice on consultations regarding changes in legislation affecting the Local Government Pension Scheme (LGPS) and reviews guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and the Scheme Advisory Board (SAB). Some of these changes are highly technical and the Committee rely upon the Actuary to put forward suggestions that are in the interest of the Fund. They work closely with the Government Actuary Department (GAD) to support their work under Section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations.

## **2. REVIEW OF THE ACTUARIAL SERVICE PERFORMANCE**

- 2.1 The Fund appointed Hymans Robertson ("Hymans") with a contract start date of the 16 July 2018 and this terminates on the **15 July 2025**. The contract was awarded, using the 2018 version of the "National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services"
- 2.2 Hymans have been the Fund's Actuaries since April 2010.
- 2.3 An annual assessment of the Fund's Actuarial Services performance is in line with The Pensions Regulator's (tPR) General Code of Practice and monitoring the Actuary's performance will enable the Committee and officers to better identify and manage areas of poor performance.
- 2.4 Monitoring the contract also meets post contract award procedures and ensures services are being delivered in accordance to the contract.
- 2.5 During this period of review, the Actuary has undertaken the following:

### **Valuation:**

- 2025 Valuation planning meeting with Officers August 2024.
- Section 13 Report for 2022 Valuation outcomes and summary for Havering.
- Mid Valuation Funding update.

### **Employers:**

- Provision of Pension Information for bidders' report.
- Cessation report.
- Employer Risk Modelling report.
- Outsourcing Guide.
- Admissions policy.

**Accounting:**

- Produced statutory accounting disclosures - IAS19 for the London Borough of Havering and Mercury Land Holdings as at 31 March 2024.
- Produced IAS26 statement and actuarial statement for the Pension Fund as at 31 March 2024.
- Provided FRS102 reports for the academies as at 31 August 2024.

**General**

- Internal Dispute Resolution Procedure (IDRP) investigations.
- Governance Support.
- Various Client discussions and general advice.
- Code of Practice Checker Tool.

**Training**

- LGPS Online Learning Academy (LOLA) with module updates.
- Administrator training for officers.

2.6 Hymans has delivered a diverse range of advice and assistance to the Fund over this period. Service delivery response times are excellent. All relevant services required during the period 1 October 2023 – 30 September 2024 were delivered in both a timely manner and to a high quality.

2.7 Hymans continually provides timely briefings on changes to legislation, government consultations, and periodic LGPS updates. These are all welcomed, viewed as excellent, and give Pension Fund Officers a steer on issues arising. Hymans also share responses to Government consultations.

2.8 In conclusion, officers are satisfied with the service that Hymans is providing.

2.9 Officers have shared the outcome of the service performance review with Hymans which is set out above.

**3. CONTRACT EXTENSION**

3.1 The current contract expiry date of the 15 July 2025 overlaps with the timelines for the 2025 triennial valuation exercise which runs from 1 April 2025 to 31 March 2026.

3.2 To avoid the risk of potentially changing actuaries part way through a valuation year, officers are seeking to arrange a short term extension up to the **30 June 2026**. This will cover the conclusion of the valuation and end of financial year accountancy requirements.

3.3 In line with the Councils contract procedure rules and Regulation 72 of the Procurement Act, an extension is permissible if the costs are not greater than 10% of the existing contract. Costing are set out in the Financial implications and risks section of this report.

**4. NATIONAL LGPS FRAMEWORK FOR ACTUARIAL, BENEFITS AND GOVERNANCE CONSULTANCY SERVICES**

- 4.1 Procurement can take significant time and money both for the awarding Authority and the Service Provider. The National LGPS Frameworks are fully compliant with the Public Contracts Regulations 2015. It reduces the time and costs associated with the procurement process by offering a facility that has already been competitively tendered. It aims to deliver access at the best possible price to high-quality, efficient and effective Actuarial, Benefits & Governance Consultancy Services Providers. Benefits include:
- a) Shortened timescales.
  - b) Reduced procurement and legal costs.
  - c) Robust and transparent process with high level of due diligence and specialist support.
  - d) Agreed Terms and Conditions of contract with providers.
  - e) Enable access to specialist providers whose experience and quality has been tested.
  - f) Comprehensive user documentation and support from Frameworks team.
  - g) Provider ceiling prices established.
  - h) Possibility to benefit from cumulative rebates.
- 4.2 The current Actuarial, Benefits and Governance Consultancy Services Framework is available for further competition or Direct Award until 30th June 2025. Contracts awarded under the Framework may be let up for a maximum contract length of ten years and up to 30th June 2035 at the latest. It is expected that the framework will be available after the current framework expires on the 30 June 2025 and would follow similar terms such as ability to award contracts up to 10 years. The fund would look to tender through the new framework and to award a contract for the full 10 years to cover valuations for the years 2025, 2028, 2031 and 2034.
- 4.3 The framework covers 5 lots:
- a) Lot 1 Actuarial Services
  - b) Lot 2 Benefits Consultancy
  - c) Lot 3 Governance Consultancy
  - d) Lot 4 Governance Consultancy
  - e) Lot 5 Consultancy services to Support Specialist Projects
- 4.4 Authorisation is sought to commence procurement of Actuarial Services and to the Pension Fund using the new National Local Government Pension Scheme (LGPS) Frameworks. Pre-tender approval is required as the anticipated costs are expected to exceed £1m.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

Fees are charged for the time spent on services, taking into consideration the complexity of the services provided.

Fees include actuarial work that was recharged to other employers within the Fund. Summary of Fees, since commencement of contract in July 2018, can be seen in the following table:

**Table 1 - Fees**

Time Period	Gross Costs	Recharges	Net Cost
	£	£	£
Jul 18 to Sep 18	35,009	27,950	7,059
Oct 18 to Sep 19	104,400	60,950	43,450
Oct 19 to Sep 20	112,563	48,250	64,313
Oct 21 to Sep 21	59,580	28,825	30,755
Oct 21 to Sep 22	45,607	9,970	35,637
Oct 22 to Sep 23	186,779	77,280	109,499
Oct 23 to Sep 24	130,504	62,365	68,138
<b>Total</b>	<b>674,442</b>	<b>315,590</b>	<b>358,851</b>

The total net costs for the period of review (Oct 23 to Sep 24) was £68,138.

The total net costs since commencement from July 2018 until September 2023 totals £358,851. These costs are made up of charges for the core elements, as set out in Section 1 and are in line with expected contract costs. The non-core elements are usually one-off pieces of work driven by a requirement to address unforeseen events i.e. COVID risks, and Legislation changes. These costs have been charged in line with the hourly rate as set out in the contract.

Net costs are met from the Pension Fund. Recharges are met by Employers in the Fund.

The gross costs since commencement from July 2018 until September 2023 is £674,442. It is estimated that these gross costs will be in the region of £733,000 by the contract end date of July 2025. Hymans have estimated that fees for the short term extension will be c£70k, meeting the 10% threshold permissible for a contract extension.

Based on historical costings as set out above, it is expected that a contract awarded for 10 years is likely to be in the region or exceed £1m.

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As a member of the Framework, the Fund benefits from a cumulative rebate, based on the overall value of work awarded to a supplier under the Framework.

The Fund has received rebates, as follows:

**Table 2 - Rebates**

<b>Rebate Year</b>	<b>£</b>
2019/20	4,736.99
2020/21	2,402.22
2021/22	1,186.13
2022/23	5,011.44
2023/24	TBC
<b>Total</b>	<b>11,174.78</b>

Where rebates have been received these have been reflected in Table 1.

The National LGPS Frameworks are a not for profit programme established 'by the LGPS, for the LGPS' and the joining fee helps towards the ongoing support and administration of this Framework.

You can either choose to join Lots individually or all Lots of the Framework. Whichever option you choose you will never be charged more than the cost to access all Lots, currently this is £3,000 for the current version of the Framework. Costs are yet available for the new Framework expected to be released after the current version expires 30 June 2025.

### **Legal implications and risks:**

In accordance with the Council's duty with respect to the Pension Fund under Regulation 62 of the Local Government Pension Scheme Regulations 2013, the Council must obtain an actuarial valuation of the assets and liabilities of each of its pension funds every three years. The Council's general power of competence under Section 1 of the Localism Act 2011 which gives the power to do anything, and individual can do, subject to any statutory constraints on the Council's powers. The recommendations in this report are in keeping with this power.

The Public Contracts Regulations 2015, as amended ("the PCR 2015") provides that contracts can be modified during their term without further competition provided that such modifications are not substantial under Regulation 72 (1) (e) and do not fall foul of Reg 72(8). The extension of time sought is both below the relevant threshold for services as per Regulation 5 and below 10% of the overall contract price. The modification to extend the term does not render the contract materially different in character from the one initially concluded, nor would the modification introduce conditions which, had they been part of the initial procurement procedure, would have—

- (i) allowed for the admission of other candidates than those initially selected,
- (ii) allowed for the acceptance of a tender other than that originally accepted, or
- (iii) attracted additional participants in the procurement procedure.

The economic balance between the parties to the contract remains unchanged and does not extend the scope of the contract considerably. The recommendations in this matter comply with the PCR 2015 in this respect, and therefore can be taken forward accordingly.

It is anticipated that the new framework, once live, can be utilised to procure the new contract.

**Human Resources implications and risks:**

There are no direct human resource implications and risk arising from this report.

**Equalities implications and risks:**

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.

An EqHIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

**BACKGROUND PAPERS**

None