

ACTUARIAL AND INVESTMENT CONSULTANCY CONTRACT PROCUREMENT

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

1) Recommendation

That the Committee be asked to:

- (a) Approve a joint procurement exercise with the Somerset Pension Fund to secure a new contract for Actuarial Services, using the National LGPS Framework.
- (b) Approve a procurement exercise for Investment Consultancy Services, using the National LGPS Framework
- (c) Delegate the appointment process and final decisions for both contracts to the Director of Finance and Public Value in consultation with the Chair.

2) Introduction

- 2.1 The Devon Pension Fund requires the professional services of an actuary in order to carry out the triennial actuarial valuation of the Fund and a variety of other tasks.
- 2.2 Barnett Waddingham were awarded the current contract to provide actuarial services to the Devon Pension Fund for six years from April 2018, and have been the Fund Actuary since 2010. The contract is due to expire on 31 March 2024, and it is therefore proposed to review and re-tender the contract.
- 2.3 The Fund also needs investment consultancy advice from time to time, and in the past consultants have been appointed to do ad-hoc pieces of work under a contract specific to the individual piece of work required. It is considered that it would be good practice to appoint consultants to undertake work over a longer term timeframe, so that individual procurement exercises are not required every time a piece of work is required.
- 2.4 This report sets out the proposed way forward for both the actuarial contract and investment consultancy.

3) Actuarial Services

- 3.1 The main function of the Fund Actuary is to carry out the statutory triennial actuarial valuation of the Pension Fund. The actuarial valuation sets out the Fund's assets and liabilities, based on a set of actuarial assumptions, and reviews the financial position of the Fund. It also sets the contribution rates for each employer in the Fund for the following three years. Regular funding level updates are provided on a quarterly basis between triennial valuations to allow the Fund to monitor its position.
- 3.2 In addition to the triennial valuation, the Actuary also carries out accounting valuations for the Fund and the Fund's constituent employers on an annual basis. If an employer ceases to have active members in the Fund the Actuary will carry out a closure valuation to calculate an exit payment for the employer to ensure all their future liabilities are covered. The Actuary will also advise on the content of the Funding Strategy Statement, and carry out employer risk assessments, cash flow analyses and assessments of the cost of pension arrangements for any new admitted bodies resulting from Councils outsourcing services.
- 3.3 The cost of providing these services will vary depending on the work required during the year and will be higher in the year of the triennial valuation. The net annual cost to the fund excluding the triennial valuation is around £30,000 - £50,000 depending on the work required during the year, with an additional £60,000 - £70,000 incurred during a triennial valuation year. In addition, the Actuary does work to the value of between £100,000 and £200,000 for individual employers, which is then recharged to the employers.

4) Joint Procurement with Somerset Pension Fund

- 4.1 Barnett Waddingham are also fund actuaries to the Somerset Pension Fund. Somerset have approached us on the basis that their actuarial contract also comes to an end in 2024 with a view to undertaking a joint procurement to award a new actuarial contract.
- 4.2 Peninsula Pensions provide pensions administration services to both the Devon and Somerset Pension Funds, and it therefore makes sense for both funds to have the same Fund Actuary. If the two funds had different actuaries, then Peninsula Pensions would need to deal with different systems and handle data transfers in different ways which would increase workload and reduce efficiency
- 4.3 Therefore, it is proposed that the procurement exercise should be carried out jointly with the Somerset Fund, with officers from both funds and from Peninsula Pensions involved in carrying out a joint evaluation of tenders in order to appoint the same Fund Actuary for the Devon and Somerset Pension Funds. The new contract would run for 6 years, to encompass the next two triennial actuarial valuations, with the option to extend for a further 3 years.

5) Investment Consultancy

- 5.1 LGPS regulations require that the Fund must review and if necessary revise its investment strategy from time to time, and at least every 3 years. While officers and the Independent Investment Advisor regularly review the strategy, it is good practice to commission a full external review of the strategy every three years.
- 5.2 In 2017 Mercer were appointed to carry out a review of the Fund's investment strategy following a competitive process to appoint a consultant to carry out the role. A review was carried out in early 2017, and then refreshed in 2019. During 2021/22 an exemption from tendering was agreed by Procurement to appoint Mercer to undertake a further review to feed into the 2022 Actuarial Valuation.
- 5.3 A further review will be required in 2024/25, and good practice would suggest that a full competitive process should be undertaken to appoint the consultants to carry out that review.
- 5.4 Some LGPS funds retain consultants on a permanent basis and have them in attendance at every committee meeting, in addition to an independent advisor. While this is considered unnecessary and would be expensive, there would be merit in appointing consultants for a fixed period of say 6 years to be called upon whenever there is a relevant piece of work that requires external input. This would cover two of the three yearly reviews and could be used for other one-off pieces of work such as climate scenario analysis.
- 5.5 It is therefore proposed to undertake a procurement exercise to appoint external consultants to undertake investment reviews and one-off projects as and when required over a 5 year period, with the option to extend for a further 2 years.

6) National LGPS Frameworks

- 6.1 In the past it would have been necessary to undertake a full OJEU (Official Journal of the European Union) compliant procurement process to award new contracts for actuarial services and investment consultancy. However, a number of national LGPS procurement frameworks have been put in place for LGPS funds to use, including both these areas.
- 6.2 A procurement framework is an agreement put in place with a provider or range of providers that enables customers to place orders for services without running lengthy full tendering exercises. Frameworks are based on large volume buying. Aggregating the potential needs of different buyers means individual buyers can source services at lower prices, or with special added benefits and/or more advantageous conditions.
- 6.3 The national LGPS frameworks are the result of collaboration between a number of funds with procurement, legal and project management support provided by Norfolk County Council and the Norfolk Pension Fund. They are a direct example of funds with shared interests and vision collaborating effectively to deliver benefits both locally and nationally across the entire LGPS. The initiative is supported by the Department for Communities and Local Government and the Local Government

Association, and has been presented as good practice in view of the Government's current agenda of reducing the cost of the LGPS to taxpayers.

- 6.4 The national frameworks are multi-provider, allowing several qualified providers to be on the framework. The following actuarial firms have all been awarded contracts to participate in the relevant frameworks:

Actuarial Service Framework:

- Aon Solutions
- Barnett Waddingham
- Hymans Robertson
- Mercer

Investment Consultancy Framework:

- Aon Investments
- Barnett Waddingham
- BFinance
- Hymans Robertson
- Isio
- Mercer
- Redington

- 6.5 Agreed terms and conditions are provided so LGPS Funds can simply 'call-off' the framework to meet their own local requirements. When an LGPS Fund opts to buy a service from the framework agreement, they 'call off' the framework by running a mini-competition amongst the providers on the framework, which can take 4-6 weeks. This enables Funds to locally define their requirements. There is also the option to consider a direct award if there is clear evidence from the framework documentation that one supplier would offer the best value.
- 6.6 One-off joining fees are payable to join the National LGPS Framework. These are £2,000 for Actuarial Services and £4,000 for Investment Consultancy. The fees provide access to the frameworks including all contractual documentation, terms and conditions, ceiling prices, shared rebate provision and ongoing support.

7) Conclusion

- 7.1 Use of the national frameworks would provide a cost effective and more efficient process for both of the procurement exercises proposed in this report. Therefore, the Committee are asked to approve the use of the national frameworks to undertake both a joint procurement for actuarial services with the Somerset Pension Fund and a procurement for investment consultancy services.
- 7.2 Procurement best practice dictates that the detailed assessment of bids should be undertaken by officers. The Committee are therefore asked to delegate the appointment process and the final decision to the Director of Finance and Public Value in consultation with the Chair.

Angie Sinclair

Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

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