

## **ACTUARIAL SERVICES CONTRACT REVIEW**

### **Report of the County Treasurer**

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.
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- Recommendations:** (a) **That the Committee approves the use of the National LGPS Framework Agreement to secure a new contract for Actuarial Services.**
- (b) **That the appointment process and final decisions be delegated to the County Treasurer in consultation with the Chairman.**

### **1. Introduction**

- 1.1. 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.
- 1.2. Barnett Waddingham was awarded the contract to provide actuarial services to the Devon Pension Fund for four years from February 2010, with the option to extend for a further two periods of two years. The contract was extended in February 2014 and again in February 2016. The final extension period is due to expire in February 2018, and it is therefore proposed to review and re-tender the contract.

### **2. Actuarial Services**

- 2.1. 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.
- 2.2. 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.
- 2.3. 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 £20,000 - £40,000 depending on the work required during the year, with an additional £53,000 incurred during 2016/17 for the costs of the valuation. 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.

### **3. The National LGPS Framework for Actuarial Services**

- 3.1. In the past it would have been necessary to undertake a full OJEU (Official Journal of the European Union) compliant procurement process to award a new actuarial services contract. However, a national procurement framework has now been set up for actuarial services, as one of a number of national LGPS procurement frameworks.
- 3.2. 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.
- 3.3. 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.
- 3.4. 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 framework:
  - Aon Hewitt
  - Barnett Waddingham
  - Hymans Robertson
  - Mercer
- 3.5. 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.
- 3.6. A one-off joining fee of £1,500 is payable to join the National LGPS Framework for Actuarial Services. This fee provides access to the framework including all contractual documentation, terms and conditions, ceiling prices, shared rebate provision and ongoing support.

### **4. Conclusion**

- 4.1. Using the National LGPS Framework can save significant time and money, whilst still delivering a service specified to local requirements, and supporting local decision making and accountability. Benefits for the Devon Pension Fund are as follows:
  - Significant reduction in procurement costs and timescale.
  - Flexibility in the planning and running of the tender process via mini-competition.
  - Robust frameworks resulting from thorough professional due diligence.
  - More money spent via the framework results in better prices for Funds using it.
  - Pre-agreed terms and conditions – Funds simply 'call off' the framework to meet their requirements.
  - Ceiling prices that can be further reduced by competition at call off.
  - Detailed and easy to use guides, support and templates.

- 4.2. It is therefore proposed that the National LGPS Framework be used to secure a new contract for Actuarial Services, and that the four providers listed in section 3.5 above be invited to take part in a mini-competition exercise, in accordance with the framework agreement.
- 4.3. It is proposed that the appointment process and final decisions be delegated to the County Treasurer in consultation with the Chairman.

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Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

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