



Purpose: For Decision

## Committee report

Committee	<b>ISLE OF WIGHT PENSION FUND COMMITTEE</b>
Date	<b>28 NOVEMBER 2014</b>
Title	<b>ACTUARIAL SERVICES AND INVESTMENT CONSULTANCY SERVICES CONTRACT REVIEW</b>
Report of	<b>TECHNICAL FINANCE OFFICER</b>

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### EXECUTIVE SUMMARY

1. This report contains a review of the performance of the suppliers under the actuarial service and investment consultancy services contracts, since their inception in April 2012.
2. This report recommends that the contracts be extended at the end of the three year initial period (31 March 2015) for a further two years. It further recommends that the committee authorise officers to prepare for re-tendering the contracts during May 2016, for a new contract start date of 1 April 2017.

### BACKGROUND

3. The contracts for actuarial services and investment consultancy services to the fund were awarded with effect from 1 April 2012 to Hymans Robertson LLP and Mercer Limited respectively.
4. The contract period for both contracts was initially three years, with an option to extend for a further period of up to two years, at the council's discretion.

### STRATEGIC CONTEXT

5. The primary objective of the fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme (LGPS) regulations and statutory provisions. The committee aims to operate the fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.

6. The contract for actuarial services assists the committee in ensuring that the future costs of accrued benefits are appropriately assessed, and that the contribution rates for each employer within the fund are set such that the future liabilities can be met.
7. The investment consultancy service provides guidance to the committee in investing the assets of the fund, to ensure that future liabilities are met.

#### ACTUARIAL SERVICES REVIEW

8. During the period since April 2012, Hymans Robertson have completed the formal valuation of the fund at 31 March 2013 within the agreed timescales and within the agreed fee.
9. They have provided contribution rate calculations for the 14 new employers since the previous formal valuation, and have completed cessation calculations for a number of employers.
10. They have provided advice and support for the Managing Director and the Technical Finance Officer, as well as attending committee meetings to brief the members on progress made towards the valuation.
11. In addition, they have provided support beyond actuarial services in respect of the governance changes currently faced by the Local Government Pension Scheme (LGPS) nationally, including the governance health check, and support in the establishment of the pension board.

#### INVESTMENT CONSULTANCY SERVICES REVIEW

12. During the period since 1 April 2014, Mercer Limited representatives have attended every committee meeting, and provided training and support to the committee in respect of different investment asset classes, and investment models.
13. With their support and assistance, the fund has transferred part of its equity portfolio into a diversified growth fund, which has helped to spread the risk of the portfolio, and reduce the volatility of the returns.
14. In addition, they provided support with the recent procurement exercise for the global custodian services, acting as one of the three assessors of the bids received.

#### CONSULTATION

15. There has been no consultation on this report. It is proposed that this will be discussed at the committee meeting, in advance of making the decision.

#### FINANCIAL / BUDGET IMPLICATIONS

16. The contract award report (Procurement Board 12 January 2012) contained the following information about the pricing of the contracts:
  - (a) Actuarial services: total contract sum of £89,200 for a period of three years.
  - (b) Investment consultancy services: total contract sum of £84,000 for a period of three years

- (c) Both contractual prices will increase after three years in line with RPI.
17. The costs charged in the period April 2012 to 31 October 2014 are as follows:
- (a) Actuarial services (GL 581012) £146,725 (after recharges to employers). This includes the cost of the formal valuation as at 31 March 2013, and additional costs (in line with the tendered pricing schedule) for actuarial calculations for new employers joining the fund (there have been 14 new employers since September 2011)
  - (b) Investment consultancy services (GL 581026) £66,740.
18. Future costs will continue to be borne by the pension fund (Company 2000), cost centre 79900 (pension fund administration) against the GL codes detailed above.

### LEGAL IMPLICATIONS

19. The contracts for the provision of actuarial services (date 29 February 2012) and investment consultancy services (dated 5 April 2012) contain the following clause:
- “The Provider shall provide the Services from 1 April 2012 until 31 March 2015 and subject to satisfactory performance, the Council reserves the right to extend this term for a further 2 (two) years.”
20. Extending the contract is fully within the terms of the current agreement.

### EQUALITY AND DIVERSITY

21. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

### OPTIONS

22. OPTION A: To consider this report and related discussions and agree to extend the current contracts for a further two years, up to 31 March 2017. To undertake a procurement exercise, starting in May 2016, to re-tender the contracts for a start date of 1 April 2017.
23. OPTION B: To consider this report and related discussions and agree not to extend the current contracts beyond the initial period ending 31 March 2015. To commence a procurement exercise immediately for new contracts to start on 1 April 2016.

### RISK MANAGEMENT

24. The current contracts have been in operation for nearly three years. There have been no issues with performance during that time, nor have there been any issues with the advice and/or reports provided by the incumbent providers (Hymans Robertson LLP for actuarial services; Mercer Limited for investment consultancy services)

25. The current contracts contain provision for their extension beyond the initial three year period for up to a further two years, ending 31 March 2017.
26. OPTION A: there is low risk attached to this option, as the incumbent providers are currently giving a good level of service.
27. OPTION B: terminating the contracts with effect from 31 March 2015 would require the immediate undertaking of a procurement exercise to establish new contracts to be effective from 1 April 2015 – this gives a total procurement period of four months.
28. There are national LGPS frameworks in place for both Actuarial & Benefit Consultancy Services and Investment Consultancy Services (similar to that recently used for the Global Custodian Services procurement), so the fund would be able to benefit from their use, reducing the total time for the procurement exercise. There are joining fees associated with the frameworks (£2,000 and £5,000 respectively).
29. One significant risk with undertaking these procurement exercises now, with such a short time for implementation, is the capacity of officers to carry them out. Given that the fund is in the implementation stage of the new custodian contract, there would be limited officer time to adapt the framework documentation to the fund's specific needs, and to develop the procurement timetable.

#### RECOMMENDATION

30. OPTION A: To consider this report and related discussions and agree to extend the current contracts for a further two years, up to 31 March 2017. To undertake a procurement exercise, starting in May 2016, to re-tender the contracts for a start date of 1 April 2017.

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