

# Croydon Council

<b>REPORT TO:</b>	<b>PENSION COMMITTEE</b> <b>7 June 2016</b>
<b>AGENDA ITEM:</b>	<b>8</b>
<b>SUBJECT:</b>	<b>Procurement of Pension Fund Services through the National LGPS Framework</b>
<b>LEAD OFFICER:</b>	<b>Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 Officer)</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> Sound Financial Management: Procurement of Pension Fund Services through the National LGPS Framework will deliver an OJEU compliant process faster, more efficiently and cheaper than using an individual authority procurement route.	
<b>FINANCIAL SUMMARY:</b> Use of the National Framework should deliver significant procurement savings and the most competitive fee structure on offer to the LGPS.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b> N/A	

## **1. RECOMMENDATIONS**

1.1 This report recommends to the Committee that:

The contract for Pension fund investment consulting services, which is currently with AON Hewitt and will end 16 April 2017;

The contract for Actuarial and benefit consulting services, which is currently with Hymans Robertson and will end 28 February 2017; and

Legal services, in relation to the LGPS only;

are re-procured through the National LGPS Framework.

1.2 This report further recommends that officers are mandated to explore the option of jointly procuring Performance measurement services for the Pension Fund with partners within the London LGPS Pool, or more widely should the opportunity arise.

## **2. EXECUTIVE SUMMARY**

2.1 Four key contracts for Pension Fund services could be procured jointly or through the National LGPS Framework. This would save costs and time, attract bids from the key suppliers and provide the most efficient procurement solution.

## **3. DETAIL**

3.1 National Local Government Pension Scheme (LGPS) frameworks were established by a group of administering authorities, including Croydon Council, to build on the procurement frameworks developed by this Council. The goal of the project was to enable key, universal pension fund services, to be procured faster, more efficiently and cheaper and to ensure that costs were benchmarked across the LGPS. This would lead to both savings in procurement costs and savings against fees for professional services.

3.2 In summary, the benefits of using the National Framework to administering authorities include:

- Access to a fast, efficient, easy to use OJEU compliant procurement frameworks that removes the need to undertake costly and time-consuming full OJEU procurement processes;
- A significant reduction in procurement timescales from six to nine months to as little as 4 to 6 weeks;
- Reduced procurement costs – reduced by up to 90%;
- Flexibility in the planning and running of tender processes via mini-competition;
- Robust frameworks resulting from thorough professional due diligence;

- The fact that the more money that is spent through the framework, the better prices are available for Funds using it;
- Pre-agreed terms and conditions, which means less expenditure on legal costs and a better understanding of the nature of the contract;
- Ceiling prices that can be further reduced by competition at call off;
- Detailed and easy to use guides, support and templates; and
- Additional benefits, for example allowing user groups to optimise the LGPS buying power.

3.3 Croydon has long been an advocate of this approach but have been unable to take advantage of this facility because of the timing of the existing Croydon Framework contracts. However, an opportunity now exists to take advantage of the Frameworks:

The existing Framework Agreement Contract for the provision of pension fund investment consulting services Pension Fund investment advice is in its two-year extension period, from 17 April 2015 to 16 April 2017;

The Framework Agreement Contract for the provision of Actuarial and Benefit Consulting Services runs up to 28 February 2017.

3.4 Additionally, the National Framework now offers a Legal Services Framework which will be available for Further Competition and Direct Award until January 2019. Contracts awarded under the framework may be for a period of up to 7 years. Funds can use the framework to procure legal services matched to their own specific requirements; from small, one-off pieces of work to longer-term, single supplier arrangements. All of the providers are specialists in Investment, Benefits Administration, Employer Bodies and Governance.

3.5 Performance measurement services for the Pension Fund are provided The World Markets Company (WM) who recently became part of State Street Global Services – Performance Services. In March 2016 the bank announced that they were terminating this arrangement from 30 June 2016. A Canadian company, CEM Benchmarking, has been appointed to undertake an exercise to benchmark costs within each of the putative LGPS pools and one other London Borough is considering options to jointly procure this service.

3.6 The benefits of procuring services through Framework purchasing agreements are well-understood. They include savings on procurement costs; competitive fees and charges; shorter project timelines; reliance on thorough due diligence and legal reviews; and bulk discounts. Ceiling costs have been negotiated for all services provided through the Framework but individual authorities can negotiate these costs down and bulk rebates are built into the contracts. Croydon has invested time and effort in the establishment of the National LGPS Framework, has confidence in the team, and can place reliance on their documentation, much of which originates from work on the Croydon Frameworks.

3.7 One of the most attractive aspects of the framework as a means to procure services, apart from the fact that fees are pre-determined for the life of the

contract and can be driven down by volumes or negotiation, is the flexibility in design. The Actuarial services contract is divided into two lots:

- Lot 1 - Actuarial Services;
- Lot 2 - Benefit Consultancy Services;

With six providers. Each lot comprises the wide range of services expected from experienced providers. The Investment Consultancy Services contract is also a multiple user single lot framework with six providers and provides services including but not limited to:

- Review of asset allocation, investment strategy and investment management structure;
- Working with the Fund Actuary to undertake asset liability modelling as required;
- Monitoring and reporting of investment managers and producing quarterly reports based on data provided by the measuring company or incorporating other third party reporting as may be required in a cost effective manner;
- Attendance at meetings as required;
- Providing training to Members and officers as required;
- Advising on the Statement of Investment Principles;
- Advising on the Pension Fund Annual Report;
- Advising on controlling investment costs including fees and transaction related costs;
- Advising on alternative investments;
- Advising on Corporate Governance and Socially Responsible Investment policies;
- Advising on Manager selection; and
- Advising on investment markets and the outlook for different asset classes.

3.8 In terms of establishing a Pension Fund services procurement strategy, there are two routes open to the Council. The traditional route, open competition following OJEU procedures, attracts legal and procurement costs and will take approximately 6 months to complete. As stated above, the Framework process can be completed within 6 weeks. The field of suppliers is well known: all are available through the Framework but not all will always tender for individual contracts. Where the National LGPS Framework does not offer a service, such as is currently the case in regards to performance measurement services, collaborative or joint procurement offers an more efficient and value for money compared to individual contracting arrangements.

3.9 This report recommends that:

Pension fund investment consulting services;  
Actuarial and benefit consulting services; and  
Legal services in relation to the LGPS only;

are procured through the National LGPS Framework.

This report further recommends that officers are mandated to explore the option of jointly procuring Performance measurement services for the Pension Fund with partners within the London LGPS Pool, or more widely should the opportunity arise.

This report recommends that an update on these procurement projects be brought back to the Committee in a timely fashion.

#### **4. FINANCIAL CONSIDERATIONS**

- 4.1 Savings on the process of procuring these Pension Fund Services should be significant: these costs are charged to the Pension Fund. The ongoing fees and charges relating to these services are also significant so any savings will impact on the long-term viability of the Scheme. Use of the National Framework should deliver significant procurement savings and the most competitive fee structure on offer to the LGPS.

#### **5. OTHER CONSIDERATIONS**

- 5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

#### **6. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

- 6.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

(Approved by: Gabriel MacGregor, Acting Council Solicitor & Acting Monitoring Officer)

#### **CONTACT OFFICER:**

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Resources department, ext. 62552.

**BACKGROUND DOCUMENTS:** none