

Decision Maker: GENERAL PURPOSES AND LICENSING COMMITTEE

Date: 12th September 2017

Decision Type: Non-Urgent Non-Executive Non-Key

Title: FORMAL CONSULTATION ON OUTLINE SERVICE PROPOSALS AND PROCUREMENT STRATEGY FOR THE APPOINTMENT OF AN ACTUARY

Contact Officer: James Mullender, Principal Accountant
Tel: 020 8313 4292 E-mail: james.mullender@bromley.gov.uk

Chief Officer: Director of Finance

Ward: All Wards

1. Reason for report

The Council's current contract with Mercer Ltd for the provision of actuarial services is due to expire on 31st March 2018. It is proposed to re-tender the contract for a period of six years, with an option to extend for a further period of three years. With a potential nine year contract term, the total value of the contract is estimated to be approximately £1,080k (based on estimated activity levels) and, in accordance with the Council's Contract Procedure Rules, the approval of the General Purposes and Licensing Committee is therefore required to enable the procurement process to commence.

2. **RECOMMENDATIONS**

2.1. **The General Purposes and Licensing Committee is requested to:**

- (a) consider the contents of the report and any informal comments from the Chairman and Vice-Chairman of Pensions Investment Sub-Committee;
- (b) agree that the contract for the Council's actuary be tendered using an open OJEU process;
- (c) agree that the contract length will be for a period of six years with the option to extend for a further period of three years;
- (d) delegate authority to the Pensions Investment Sub-Committee to award the contract following the tender process; and

(e) delegate authority to the Director of Finance to approve the optional three year extension in consultation with the Chairman of Pensions Investment Sub-Committee.

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A
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Corporate Policy

1. Policy Status: Existing Policy: The Council is the administering authority of the London Borough of Bromley Pension Fund, which is operated under the provisions of the Local Government Pensions Scheme (LGPS) Regulations. The regulations require the Pension Fund to appoint an appropriately qualified actuary
 2. BBB Priority: Excellent Council
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Financial

1. Cost of proposal: Estimated Cost £1,080k gross, £450k net cost
 2. Ongoing costs: Recurring Cost £120k per annum gross, £50k per annum net cost to Pension Fund
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £43k budget (after recovery of £80k from providers)
 5. Source of funding: Employer and employee pension contributions and Pension Fund investment returns
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Personnel

1. Number of staff (current and additional): N/A
 2. If from existing staff resources, number of staff hours: N/A
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Legal

1. Legal Requirement: Statutory Requirement. Local Government Pension Scheme (LGPS) Regulations 2013, Public Service Pensions Act 2013.
 2. Call-in: Not Applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,159 current employees; 5,121 pensioners; 5,337 deferred pensioners; 103 employers as at 31st July 2017
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? No
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1. The Council's contract for the provision of actuarial services has been delivered by Mercer Ltd since January 2013 following a tender exercise, and was due to expire in March 2017. As the 2016 actuarial valuation had not been fully completed at that time, as well as several other one-off pieces of work still being in process, the contract was extended to March 2018 by the Director of Finance under delegated authority.

3.2. The main elements of the service include:

- Triennial valuations (the next one will be carried out in 2019/20; effective from 1st April 2020).
- Annual IAS19 and FRS101/102 accounting schedules for the Council and scheduled/admitted bodies.
- Academy conversion reports/employer admission reports and bond reviews etc.
- Ad-hoc specific commissioning related work/analysis including group transfer calculations and employer termination calculations.
- General and specialist actuarial advice.

3.3. Over recent years the level of actuarial work (and pensions administration work in general) has increased significantly, mainly as a result of schools converting to academy status, the Council's commissioning programme, and various regulatory changes.

3.4. It is proposed to seek tenders for a period of six years from 1st April 2018 to 31st March 2024, with an option to extend for a further period of three years. This would allow the contract to cover the 2019 and 2022 triennial valuations, and if the optional extension was exercised then this would also cover the 2025 valuation.

3.5. As the total contract value is in excess of the EU threshold, the process must comply with the EU Public Procurement Rules. There are two options available that would comply with this requirement, which are summarised below:

3.6. **The National LGPS Frameworks (let by Norfolk County Council)**

3.6.1. The Actuarial, Benefit and Governance Consultancy Services Framework was launched in 2016 by the National LGPS Frameworks (which were launched in 2012), and consists of four lots: Actuarial Services, Benefits Consultancy, Governance Consultancy and Consultancy to Support Specialist Projects.

3.6.2. The evaluation criteria for the Actuarial, Benefit and Governance Consultancy Services Framework only provides for a maximum price weighting of 20-40% depending upon the lot, and also have fixed element/activity weightings within that. This is in contrast to the Council's standard weighting of 60% for price. There is also a one-off joining fee of up to £5k, depending upon the number of lots used, as well as a requirement to use the framework documentation.

3.7. **An OJEU tender process**

3.7.1. Alternatively, the contract could be tendered using a tender process advertised in the Official Journal of the European Union (OJEU) which would allow the Council to set its own conditions and evaluation criteria. Given that there are only four well established potential providers (see paragraph 6.1 below), there is no benefit in/need for a pre-qualification process, so the tender could use the open process.

3.8. Although there can be benefits to using a framework agreement, such as reduced administrative work, this is not expected to be of much benefit as there are only four potential providers. In addition, when this contract was last tendered in 2012, the costs under another

framework were considerably higher. In light of this, and the concern over the framework price evaluation method and weighting, it is proposed that the contract be tendered using an open process including advertising the opportunity in the OJEU and on Contracts Finder.

3.9. Pricing Strategy

3.9.1. As a result of the fluctuating levels of actuarial work in recent years, officers have considered the option of requesting tenderers to price the tender on a retainer basis, which would remain fixed for the duration, irrespective of activity levels, and would provide certainty that costs would not increase above that fixed level.

3.9.2. However, activity levels could be lower than anticipated, which would result in the fixed fee being higher than an activity based pricing structure. In addition, should activity increase significantly above that estimated in the tender specification, the provider could contend that the estimated activity levels provided were too low and challenge the fixed fee. As a result, it is intended that the tenderers will be asked to provide unit prices for the various activities which will be combined with the estimated activity levels to provide a total tender price for evaluation.

4. SERVICE PROFILE / DATA ANALYSIS

4.1. A summary of the estimated activity levels for the first six years of the contract period is attached as Appendix 2.

5. CUSTOMER PROFILE

5.1. The Council's Pension Fund makes payments to 5,121 pensioners and widows/dependants, and receives contributions from 6,159 active employees and 103 employers. In addition, there are 5,337 deferred pensioners (all figures as at 31st July 2017).

6. MARKET CONSIDERATIONS

6.1. There are currently only four actuaries providing a full actuarial service to Local Government Pension Scheme administering authorities: Mercer, Barnett Waddingham, Hymans Robertson and Aon Hewitt.

7. STAKEHOLDER CONSULTATION

7.1. This is a corporate Council contract that does not materially affect the way services are provided to our stakeholders. No formal consultation is required in advance of a tendering exercise.

7.2. Should the tendering exercise result in a change of actuary, the Council's pensions administration provider, Liberata, will need to be fully engaged in the transfer.

7.3. Members of the Pensions Investment Sub-Committee are the trustees of the Pension Fund, and will be consulted through the tendering and award process.

8. SUSTAINABILITY / IMPACT ASSESSMENTS

8.1. This proposal has been judged to have little or no impact on local people and communities.

9. OUTLINE PROCUREMENT STRATEGY & CONTRACTING PROPOSALS

9.1. Estimated Contract Value

9.1.1. The total gross contract value is estimated to be £1,080k, £630k of which will be recovered from providers/employers, leaving a net cost of £450k to be met from the Pension Fund.

9.1.2. The estimated values above are based on historic data, as the costs for a single year will vary depending upon whether the triennial valuation process is carried out in that year.

9.1.3. It should be noted that the actual costs could vary by potentially significant amounts dependent upon various factors outside of the contract manager's control, such as:

- Volume of complex commissioning proposals requiring specialist advice prior to tender or contract award.
- Volume of services commissioned externally (either new services, or a change of provider) resulting in new admitted bodies within the fund.
- Volume of group transfer calculations required.
- Changes to legal or regulatory requirements resulting in additional work/analysis etc.

9.1.4. A number of the costs included in the overall contract such as the annual accounting schedules, academy conversion/employer admission reports are recharged to the individual providers/employers.

9.2. **Other Associated Costs**

9.2.1. The tendering exercise will be carried out within existing resources at no additional cost.

9.2.2. Should the outcome of the tender result in a change of actuary, there will be some resource implications associated with the transfer, however it is expected that this would also be contained within existing resources.

9.3. **Proposed Contract Period**

9.3.1. It is proposed that the contract will be for a period of six years, with an option to extend for a further period of three years, with authority to agree the extension delegated to the Director of Finance in consultation with the Chairman of Pensions Investment Sub-Committee.

9.4. **Procurement Project Plan**

9.4.1. Given the limited number of potential providers, it is intended that the contract is tendered using an open process, including advertising the tender in the OJEU and on Contract Finder.

9.4.2. The invitation to tender will require tenderers to complete a pricing schedule based on estimated activity levels, and to answer a range of questions on service provision (quality, experience, resources, ability/willingness to comply with Council requirements etc).

9.4.3. It is proposed that the tender will be evaluated on the basis of 60% pricing and 40% quality and will be carried out using the Council's standard CIPFA evaluation model.

9.4.4. The quality criteria have yet to be finalised, but are likely to include areas such as:

- Resources assigned to/supporting the contract
- Actuarial approach & research
- Processes & systems
- Availability of further technical/specialist resources
- Example triennial valuation report and accounting schedules
- Additional services offered/innovation
- Interview/presentation

- 9.4.5. The Council includes a minimum quality threshold element within its quality evaluation to ensure the proper consideration of these matters, within the cost/quality ratio employed during the tender evaluation process.
- 9.4.6. Due to the interrelated nature of the services to be provided, it is considered that there would be no benefit in splitting the service into different lots to be tendered, and it could even be detrimental if different actuaries were carrying out different elements of the work.
- 9.4.7. The Council's Contract Procedure Rules require that the General Purposes and Licensing Committee be formally consulted on the intended action and contracting arrangements relating to the Pension Fund (with the exception of the appointment of Investment Managers and Advisers, which rests with the Pensions Investment Sub-Committee), following any recommendations from Pensions Investment Sub-Committee.
- 9.4.8. It is expected that the new contract will be awarded at the start of March 2018 as set out in the draft summary timetable attached at Appendix 1.

10. POLICY CONSIDERATIONS

- 10.1. Regulation 62 of The Local Government Pension Scheme Regulations 2013 requires administering authorities to obtain "an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards". The Regulations include various other requirements that would entail the services of an actuary. The Council is the administering authority of the London Borough of Bromley Pension Scheme.

11. COMMISSIONING & PROCUREMENT CONSIDERATIONS

- 11.1. The value of the activity is above the EU Services Threshold and therefore the Council needs to identify a "compliant" route for the placement of the service, and the Open Process would seem an appropriate arrangement to make use of in the circumstances identified.

12. FINANCIAL CONSIDERATIONS

- 12.1. The 2017/18 gross budget for actuarial services is £123k, of which £80k is budgeted to be recovered from providers/employers, leaving a net cost of £43k which is charged to the Pension Fund.
- 12.2. Based on average activity levels, the estimated gross cost over the three year triennial valuation cycle is £120k per annum, and £50k net of provider/employer recharges. Over the potential nine year contract term, the estimated total gross cost is £1,080k, with a net cost of £450k.
- 12.3. As the costs of this contract (net of recovery from providers/employers) are charged to the Pension Fund, there will be no direct impact on the Council's revenue budget.

13. LEGAL CONSIDERATIONS

- 13.1. The service is subject to the application of the Public Contracts Regulations 2015 (Regulations) and as the proposed contract value exceeds the relevant threshold will need to be procured in full compliance with the Regulations.
- 13.2. Tendering the contract competitively in compliance with the Regulations will also ensure compliance with competition requirements in Rule 8 of the Council's Contract Procedure Rules.
- 13.3. Consideration must also be given to the Public Services (Social Value) Act 2012 which places a requirement, at the pre-procurement stage, to consider how what is to be procured may

improve social, environmental and economic wellbeing of the relevant area, how they might secure any such improvement and to consider the need to consult; that the strategy maximises best value.

Non-Applicable Sections:	Personnel Considerations, Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	

Draft Procurement Timetable

Activity	Date
Approval to commence tendering	12 th September 2017
Issue of OJEU contract notice	25 th September 2017
Receipt of tenders	10 th November 2017
<i>Evaluation and review process</i>	
Identification of final bidder	1 st December 2017
Pensions Investment Sub-Committee decision to award	20 th February 2018
<i>Standstill / Call-in Period</i>	
Contract Award	5 th March 2018

Estimated Activity Levels 2018/19 to 2023/24 *

Activity	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21
Triennial valuations including employer schedules, bond reviews, attendance at committee meetings etc	1			1		
IAS19 & FRS101/102 schedules	100	105	110	110	110	110
Academy conversion reports	4	2	0	0	0	0
Employer admission reports	5	5	5	5	5	5
Bond reviews	3	3	3	3	3	3
Ad-hoc specialist advice (hours)	**					
Helpline annual fee	1	1	1	1	1	1
Attendance at LBB meetings (officer and committee)	4	4	4	4	4	4

* The above activity levels are indicative only and will be refined prior to the tender

** Mercer will be required to provide historic data on the number of ad-hoc hours provided to inform the estimated levels for the tender