

LOCAL PENSION COMMITTEE – 13TH NOVEMBER 2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

UPDATE ON ACTUARIAL AND INVESTMENT CONSULTANCY SERVICES

Purpose of the Report

1. To update the Committee on the latest position in respect of the agreed 'market testing' for actuarial and investment consultancy services, and to recommend that the process be postponed until a more appropriate time.

Background

2. At the May 2015 meeting of the Pension Fund Management Board (the former name of this Committee) a report was considered that recommended 'market testing' the provision of actuarial and investment consultancy services to the Fund. This recommendation was primarily based on the fact that these services had not been subject of competition for some time, and was not based on any dissatisfaction with the services or the costs associated with them. A copy of the report is attached as an appendix.
3. The intention was to use existing Framework Agreements led by Norfolk to undertake market testing for these services, and the required documentation in respect of the Framework Agreements was received in mid-June.

Current Position

4. In early July 2015 an announcement was made in the Summer Budget that effectively restarted the process of ensuring that the Local Government Pension Scheme (LGPS) worked in a more collaborative way. The focus of this collaboration had moved away from the previous threat of forced mergers, to ensuring that investments were managed within a small number of pooled vehicles which would ensure that economies of scale were enjoyed by each Fund.
5. The Summer Budget announcement was somewhat unexpected, and the timescales involved in the consultation and evidence gathering stage are very short given the wide-ranging nature of the issue. In effect, the importance of dealing with matters relating to pooling became an absolute priority and left little time to deal with any other matters that were not of immediate importance. Market testing for actuarial and investment consultancy services became a lower priority, despite the fact that the actuarial market testing had a limited time frame in order for it to be completed in time for the 2016 actuarial valuation.
6. Investment pooling within the LGPS remains an on-going and very important issue, and this is likely to be the case into at least the early part of 2016. As a result there is no realistic prospect of carrying out the market testing within the original timescales that had been set.

7. The nature of the current investment pooling agenda is such that it is deemed not be sensible to consider a change in investment consultant at the current time. Hymans Robertson has a much larger investment consultancy exposure to the LGPS than any other consultant and is in an excellent position to assist individual Funds in considering their own position in respect of pooling options. They are also providing significant support to a Working Party of over 20 LGPS Funds that is currently considering options for pooling, in order to present a balanced report to Central Government in late 2015 that has the support of a good number of Funds. It is expected that this report will help to influence the outcome of pooling consultation, so that the LGPS ends up with a solution that is optimal and workable.
8. The Fund is already past the time at which market testing for actuarial services would have ideally started if there was to be any change in actuary before the 2016 actuarial valuation. The Fund does have the ability to use another Framework Agreement in place, let by the London Borough of Croydon, but this Framework only includes Hymans Robertson. The Croydon Framework has set prices for most pieces of actuarial work (something that we already have with Hymans), and some of these are slightly cheaper than those currently being paid by the fund, whilst some are slightly more expensive. Having discussed this matter with Hymans they have agreed that Leicestershire will be changed the lower of the current prices and those included in the Croydon Framework. Although this will not save particularly large amounts for the Fund (a saving of about 10% is likely, depending on the balance of the type of work carried out), it is sensible to take these savings. As many pieces of actuarial work are recharged to individual employers – where the work is specific to their own position, many of the savings will not actually accrue to the Fund. In cash terms the savings to the Fund are likely to be around £5,000 p.a. but many of these savings will be concentrated into the actuarial valuation year.

Summary

9. It is unfortunate that we have not been able to carry out market testing in the manner, and in the timescales, that were originally intended due to other matters having to take a priority. There is still an intention to carry out market testing at an appropriate time in the future, but it is difficult to know when this will be given that Officer's time may be taken up with issues relating to investment pooling for some time to come.
10. Utilising the existing Croydon Framework Agreement for actuarial services will lead to savings for actuarial work, so it is sensible to do this. Given the interaction between the inevitable move to a pooled investment environment within the LGPS and Hymans expertise within the sector, it may ultimately be sub-optimal to carry out an exercise that even considers a change in investment consultant during this process. As the outcome of the current pooling agenda becomes clearer, this matter will be considered again.

Recommendation

11. The Committee is recommended to approve:
- (i) That the previously agreed market testing for actuarial and investment consultancy services be postponed;
 - (ii) That the Fund utilise the Croydon Framework Agreement in respect of actuarial services with Hymans Robertson.

Equal Opportunities Implications

None specific

Appendix

Report to the Pension Fund Management Board – 29 May 2015 - Actuarial and Investment Consultancy Services

Officers to Contact

Colin Pratt – telephone (0116) 305 7656
Chris Tambini – telephone (0116) 305 6199

PENSION FUND MANAGEMENT BOARD – 29TH MAY 2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ACTUARIAL AND INVESTMENT CONSULTANCY SERVICES

Purpose of the Report

1. To recommend to the Board that some 'market testing' is carried out in respect of the actuarial and investment consultancy services provided to the Fund. Both of these services are currently provided by Hymans Robertson.

Background

2. The Fund has used Hymans Robertson for both actuarial and investment consultancy advice for many years, and the Board has not raised issues in respect of the quality of their advice when it carries out its annual 'self-assessment' as part of the Annual Strategy Meeting.
3. Officers of the Fund are also very comfortable with the quality of the advice received, but wish to undertake a procurement exercise to ensure that the Fund is receiving value for money.

Reasons for market testing

4. A recent internal audit report (that will be considered at the first meeting of the Local Pension Board in June) highlighted that there were potential conflicts of interest in using the same company for both actuarial and investment advice. Whilst it is considered that these conflicts of interest do not actually exist in practice, and there are actually some instances where the use of the same company brings advantages, it is important that the Board are entirely comfortable with the use of the same firm for both areas of advice.
5. The Myners report of 2001 made a recommendation that:

Contracts for actuarial services and investment advice should be opened to competition separately. Pension funds should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential provider.

This is often incorrectly interpreted to mean that separate firms should provide the two different services, but its actual intention was to stop the 'bundling' of actuarial and investment advisory services.

6. When the Board considered the Myners Report and its compliance with the principles contained within it, there was unanimity about the continued use of Hymans Robertson for both areas of advice. Simple reaffirmation that the Board are still comfortable with use of the same company has value in itself. The services were procured separately and have never been bundled.
7. The next triennial actuarial valuation of the Fund will be based on the position at 31st March 2016, and if there are to be changes to the actuary these would ideally be in place before the end of 2015. As the Fund's investment structure has a direct impact onto the outcome of the actuarial valuation, it is optimal to run the work in relation to investment consultancy on a similar timetable.

Recommendation

8. The Board is recommended to approve that:

Officers be asked to carry out 'market testing' into the provision of actuarial and investment consultancy services to the Fund, and to take into account both the quality and cost of these services in their considerations.

Equal Opportunities Implications

None specific

Background Papers

None

Officers to Contact

Colin Pratt – telephone (0116) 305 7656
Chris Tambini – telephone (0116) 305 6199