

**REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES**

<b>Procurement of Third Party Pension Administration Services</b>	<b>Classification</b> <b>PUBLIC</b>	<b>Enclosures</b>  Three
	<b>Ward(s) affected</b>  <b>ALL</b>	<b>AGENDA ITEM NO.</b>
<b>Pensions Committee - Special</b> <b>25<sup>th</sup> April 2017</b>		

**1. INTRODUCTION**

- 1.1 This report provides Members with recommendations for the appointment of a supplier of pension administration services, following a procurement exercise carried out by officers of the Fund. The report proposes the award of a five year contract term, with the option to extend by up to 3 years. The new contract will provide the Fund with an enhanced level of service at a competitive cost per member.

**2. RECOMMENDATION**

- 2.1 The Pensions Committee is recommended to:
- Approve the award of contract to Supplier 1, as detailed in Exempt Appendices 1, 2 and 3 for the provision of a full third party pension administration service, with an initial contract period of 5 years and the option to extend for up to 3 years.

**3. RELATED DECISIONS**

- Pensions Committee – 24<sup>th</sup> January 2017 – Third Party Administration Procurement Update
- Pensions Committee – 6<sup>th</sup> December 2016 – Third Party Administration Procurement
- Pensions Sub-Committee – 9<sup>th</sup> December 2008 Decision to award the Pension Administration and Pension Payroll contract to Xafinity Paymaster for a period of 5 year commencing 1st April 2009 with the potential to extend for a further 3 years.

**4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES**

- 4.1 Equiniti has been the Fund's third party administrator for 8 years. Following the last procurement exercise for the pension administration and pensioner payroll contract, the Fund was able to secure significant savings with approximately £1m being saved over the 8 year period compared to the cost of the previous contract. The costs of the third party external administration contract for 2016/17 were approximately £400k.
- 4.2 Provision of a good quality pension administration service is vital for both the Fund and the Council as an employer within it. Funding decisions are taken and contribution amounts set on the basis of data provided by the administrator; additionally, failure to meet the requirements of the Pensions Regulator with respect

to administration of the Fund could attract significant fines. Poor performance of the Pension Administration service could therefore have serious consequences for the Council's financial position.

- 4.3 With the approval of the Pensions Committee, officers have used a mini-competition process under the National LGPS Framework for the procurement of Third Party Administration Services to carry out the procurement exercise. Use of the framework has helped ensure that the Fund is able to achieve cost savings from both the procurement process and from any contract procured under the Framework.

## **5. COMMENTS OF THE DIRECTOR, LEGAL**

- 5.1 The Council's Constitution sets out the terms of reference for the Pensions Committee which includes delegated powers to make arrangements for the appointment of and to appoint suitably qualified Pension Fund administrators, advisers, investment managers and custodians and to periodically review those arrangements.
- 5.2 This report recommends the award of a single contract for the provision of the third party pension administration services; the procurement of this contract has been subject to the Public Contracts Regulations 2015.
- 5.3 Legal Services have been instructed during this procurement and, following the standstill period, will assist officers in putting together the contractual documentation should the Pensions Committee decide to award the contract.

## **6. SUMMARY**

- 6.1 Administration is a key function within any pension fund, ensuring that records of membership are properly maintained and updated. Its profile as a key service for LGPS funds has increased in recent years, with the introduction of the LGPS 2014 CARE scheme and its highly complex transitional provisions, as well the new powers of the Pensions Regulator (tPR) to oversee the governance and administration of the funds. An exceptionally complex scheme combined with increasing numbers of employers means that the importance of high quality administration is only likely to increase over the coming years.
- 6.2 Equiniti (then Xafinity Paymaster) were appointed as the Fund's Third Party Administrators for 5 years from 1<sup>st</sup> April 2009, with an option to extend the contract for a further 3 years. This has now been extended by a further 9 months to 31<sup>st</sup> December 2017 to accommodate delays to the commencement of this procurement exercise.
- 6.3 The only long term alternative to procurement of a new pension administration contract would be to take the service in house. Whilst this option has been considered in the past, the cost of hiring suitably experienced staff in an inner London location renders it uneconomical.
- 6.4 Approval to carry out a procurement exercise via a competitive call off from the National LGPS Framework for Third Party Pension Administration Services was granted by the Pensions Committee on 6<sup>th</sup> December 2016. The LGPS National Frameworks are multi-user, multi-provider, OJEU-compliant frameworks that are

open to all LGPS administering authorities in the UK, as well as a number of other bodies. The project has been highly successful in using closer collaboration between funds to drive procurement process savings, as well as increasing competition and lowering prices within a number of markets serving the LGPS.

## 7. MINI-COMPETITION PROCESS

7.1 Suppliers were invited to tender under Lot 1 of the Framework for the provision of a full administration service. Four providers are appointed to this lot, all chosen on the basis of their ability to provide a high quality and competitive third party administration service to LGPS funds. A Notice of Intention to Tender was issued to each of these providers; the Fund received 3 bids in total, one of which was later withdrawn.

7.2 The evaluation of tenders has been based on the following metrics:

- Quality of Service (40%)
- Service Fit (40%)
- Pricing (20%)

Quality of Service and Service Fit have been assessed on the basis of questions set by officers. Pricing has been assessed on the basis of cost per member and daily rates for key staff, using a pricing formula recommended by CIPFA as best practice. The scoring metrics set out above have been used on the National Framework and are suitable for a complex service where a high quality of service is essential.

7.3 Officers scored the Quality of Service and Service Fit questions independently before agreeing a provisional moderated score. Any questions which could not be fully answered within the bids (e.g. those requiring an assessment of suppliers' systems) and those where further detail was required to agree a score were listed for clarification at site visits. Following the site visits, relevant sections of the evaluated scores were adjusted to reflect the findings. A full list of questions can be found at Appendix 1 with scores and explanatory comments set out in Appendix 2

7.4 Pricing scores were evaluated using the scoring mechanisms set out in Appendix 3 which also provides a full breakdown of pricing scores awarded.

## 8. SCORES AWARDED AND RECOMMENDATION

8.1 The table below sets out the final scores awarded to each supplier for Quality, Service Fit and Pricing.

Category	Weighting	Provider 1	Provider 2
Quality	40.0	29.00	27.80
ServiceFit	40.0	33.20	29.80
Pricing	20.0	10.32	9.68
<b>Total</b>	<b>100.0</b>	<b>72.5</b>	<b>67.3</b>

8.2 The scoring metrics for this tender were intended to give a very high weighting to quality and service fit. Provision of a high quality service is vital to the Fund; not only does it have a direct impact on the accuracy of member benefits, but can also have a significant impact on the Council's financial position.

- 8.3 The completion of the evaluation process identified that the provider with the highest combined score across the 3 criteria is supplier 1, whose score of 72.5 demonstrates their ability to meet the needs and objectives of the Fund. As shown in the table, Supplier 1 was the highest scorer across each of the 3 criteria.
- 8.4 On the basis of the tender evaluation outcome the Pensions Committee is recommended to approve the award of the Third Party Pensions Administration Contract to Supplier 1, for an initial period of 5 years with the option to extend for a further 3 years.
- 8.5 If awarded, the new contract provides for significant improvements relative to the service specification and standards currently in operation. The requirements for provision of a website and online member and employer services have been very considerably strengthened, as have the requirements around reporting performance information. These improvements should help to significantly improve member and employer experience and the quality of information held, as well as ensuring that the Fund is compliant with the increasingly stringent requirements around governance and administration.
- 8.6 The price per member offered by Supplier 1 is competitive relative to other suppliers on the Framework and within the mini-competition scored the higher of the 2 bids received. The actual cost of the contract is dependent on the number of members at the commencement date; it will then be fixed and subject to inflationary increases (in line with CPI) only unless the number of members increases or decreases by more than 10%.

## **9. SUSTAINABILITY ISSUES**

- 9.1 Equality issues – There are no adverse equality issues from the procurement of the third party pension administration services contract. The main beneficiaries will be fund members and employers, who should see improvements to the service received and the Pension Fund itself.
- 9.2 Environmental issues – Online member services could result in a reduction in the need for paper documents in relation to employee pensions. There are no other environmental impacts arising from this procurement
- 9.3 Economic issues – The proposed procurement will not have any negative economic impact on the local economy.

### **Exempt Appendices**

- Appendix 1 – Quality and Service Fit Questions
- Appendix 2 – Quality and Service Fit Scores
- Appendix 3 – Pricing Schedule

### **Appendices 1, 2 and 3 have been classified as exempt on the following basis:**

By virtue of Paragraph 3 Part 1 of Schedule 12A of the Local Government Act 1972, appendices 1, 2 and 3 are exempt because they contain:

Information relating to the financial and business affairs of any particular person (including the authority holding that information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Ian Williams

**Group Director, Finance & Corporate Resources**

Report Originating Officers: Rachel Cowburn ☎020-8356 2630

Financial considerations: Michael Honeysett, ☎020-8356 3332

Legal comments: Patricia Narebor ☎020-8356 2029