

ITEM No ...4.....

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 4TH JUNE 2018

REPORT ON: PROCUREMENT OF INVESTMENT CONSULTANT & COVENANT REVIEW SERVICE

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 193-2018

1 PURPOSE OF REPORT

This report:

- seeks approval to grant delegated authority for the Executive Director of Corporate Services in respect of the procurement exercise for Investment Consultancy Services.
- provides key information in relation to the procurement exercise for an Employer Covenant Review.

2 RECOMMENDATIONS

It is recommended that the Committee:

- delegate authority to the Executive Director of Corporate Services to appoint an Investment Management Consultant for the Pension Fund for a period of 3 years commencing 2nd July 2018, with an option to extend for a further 2 years, following the outcome of a National LGPS Framework mini-competition. The outline details of the mini-competition are contained within the report.
- note the content of the upcoming procurement exercise for an Employer Covenant Review about to be undertaken. Approval for this appointment will be presented to Committee at their meeting of September 2018.

3 FINANCIAL IMPLICATIONS

The service price of both exercises will be based upon Fund specific service schedules. Each pricing element will be evaluated separately with the most favourable price being allocated the maximum available points. Each of the other tenders will be awarded marks in proportion to this price, so that, for example, a price that is 10% more expensive will receive 10% fewer marks, one that is 20% more expensive will receive 20% fewer marks, etc.

Although the contract award price for both procurement exercises is currently unknown, the current base charge for standard Investment Management Consultancy Services is circa £30,000p.a. with additional services being charged as required.

4 BACKGROUND

The introduction of the National LGPS Framework in 2013 for Investment Consultancy Services has facilitated procurement for services saving both time and costs associated with procurement by offering a facility that has already been competitively tendered, thus removing the need for OJEU process which that comes with agreed terms and conditions provided. This will be the second time that Tayside Pension Fund has used this particular framework for service procurement. The current core contract period for investment consultancy services has now expired, and the Fund wishes to use this as an opportunity to re-tender for services more suited to the Fund's changing needs.

The National LGPS Framework has been extended over the last 5 years, and there are now individual lots within the framework for all LGPS service requirements. Tayside have used these for Pension Investment and Administration, Custodian Services, and Legal Services since their introduction, and now for specialist projects such as Employer Covenant Review.

Employer covenant is the extent of the employer's legal obligation and financial ability to support the scheme now and in the future. Assessing the covenant is about understanding the extent to which the employer can afford to support the scheme now and in the future, including the risks to this support being available when it is needed. It should focus on the ability of the employer to make the cash contributions to the scheme to achieve and maintain full funding over an appropriate period, including addressing reasonable downside risks. The covenant should be assessed and monitored with a level of detail and frequency proportionate to the circumstances of the scheme and employer.

Whilst the Fund does not have to eliminate all risks to the scheme, The Pensions Regulator states that it is vital that Funds understand and actively manage the risks they are taking. The Pensions Regulator also recommends that pension funds should undertake a full covenant review at each valuation, as covenants can change quickly and this can have implications for investment and funding strategies. Pension Funds should therefore monitor the covenant regularly between formal reviews and have well developed contingency plans so they can take prompt and effective action when required.

5 TENDERING EXERCISE FOR INVESTMENT MANAGEMENT CONSULTANCY SERVICES

5.1 Procurement Timeline

An 'Invitation to Quote' has issued by way of a mini-/further competition based on and under the Framework referred to above. The following sets out the timeline for the exercise:

Procurement Timeline	
Publish / issue Invitation to Quote	Friday 11th May 2018
Last date for Bidder Questions	Thursday 24th May 2018
Latest Quotation Return Date	Thursday 31st May 2018
Presentation / Moderation Interview	Friday 8th June 2018
Evaluation completion target date	Wednesday 13th June 2018
Issue outcome letters	Thursday 14th June 2018
Standstill period	15th June – 24th June 2018
Contract Award target date	Monday 25th June 2018
Contract Start Date	Monday 2nd July 2018

5.2 Selection Process

The best Quotation will be selected on the basis of the most economically advantageous Quotation, having regard to the price and quality of the Bidder's offer. The overall weighting for evaluation of the Quotes will be on the basis of a price/quality split between the following criteria, with the top 3 scored bidders will be invited to a presentation / moderation interview:

Criteria	Weighting
Quality	50%
Service Fit	20%
Price: Value for Money	30%
Total	100%

5.3 Service Specification

The successful candidate will be required to provide Investment Consultancy Services to the Fund as set out in the framework tender documents. These indicative Investment Consultancy services include but are not limited to providing the Fund with the following services:

- Review of Asset Allocation, Investment Strategy and Investment Management Structure and setting appropriate performance targets and benchmarks.
- Monitoring and reporting of investment manager's performance and governance and producing annual report based on data provided by the custodian and investment managers.
- Attendance at investment manager / committee meetings as required (generally one per quarter).
- Providing training as required.
- Advising on the Statement of Investment Principles.
- Advising on the Pension Fund Annual Report and providing risk report for disclosure notes.
- Advising on investment cases and manager performance for all asset classes (including alternative investments).
- Advising on market conditions and outlook for all asset classes (including alternative investments).
- Advising on Corporate Governance and Sociably Responsible Investment Policies.
- Advising on Manager Selection as required.
- Working with the Fund Actuary to ensure integrated management of fund assets and liabilities.

6 TENDERING EXERCISE FOR CONSULTANCY SERVICES TO SUPPORT SPECIALIST PROJECTS – UNDERTAKING A SCHEME EMPLOYER COVENANT REVIEW

6.1 Procurement Timeline

An 'Invitation to Quote' has issued by way of a mini-/further competition based on and under the Framework referred to above. The following sets out the timeline for the exercise:

Procurement Timeline	
Further Competition Issued	2nd July 2018
Deadline for Clarification questions	18th July 2018
Deadline for Further Competition responses	20th July 2018
Evaluation	23rd July – 8th August 2018
Presentation to Officers	9th August 2018
Pension Sub-Committee	3rd September 2018
Issue intention to award letters	4th September 2018
Standstill Period	5th September – 10th September 2018
Contract Award	11th September 2018

6.2 Selection Process

The best Quotation will be selected on the basis of the most economically advantageous Quotation, having regard to the price and quality of the Bidder's offer. The overall weighting for evaluation of the Quotes will be on the basis of a price/quality split between the following criteria, with the top 3 scored bidders will be invited to a presentation / moderation interview:

Criteria	Weighting
Quality	40%
Service Fit	40%
Price: Value for Money	20%
Total	100%

6.3 Service Specification

The successful candidate will be required to assess the covenant and associated risks of the admitted bodies specified within the tender documents, to evaluate their ability to pay deficit recovery

contributions and/or exit cessation costs as they fall due in order to protect all scheme member benefits. The successful candidate will provide comprehensive analysis, clear conclusions, key risks and recommendations. The review is to be conducted in line with the regulatory guidance as specified by the Pensions Regulator in its document 'Assessing and monitoring the employer covenant'.

7 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

The major issues identified relate to Risk Management and these are addressed in the Risk Register.

8 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

9 BACKGROUND PAPERS

None

**GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

25 MAY 2018