

Pensions Committee

2.00 p.m., Tuesday, 15 March 2016

Appointment of Providers

Item number	5.9
Report number	
Executive/routine	
Wards	All

Executive summary

This report provides an update on the appointment of providers for services to the pension funds. It also asks Committee to extend the contracts with Hermes Equity Ownership (for stewardship services) and State Street (for investment services to the Scottish Homes Pension Fund). The stewardship service will be procured from the National LGPS Framework once a framework is put in place (expected to be late 2016). The investment management arrangements for the Scottish Homes Pension Fund are under review, as covered elsewhere on the agenda

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Council outcomes

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Single Outcome Agreement

Appointment of Providers

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That the Committee notes the appointments of the providers for the pension funds.
- 1.3 That the Committee agrees to the extension of the contract with Hermes Equity Ownership until March 2017.
- 1.4 That the Committee agrees the extension of the contract with State Street to March 2017.

Background

- 2.1 Service providers to the pension fund are reviewed, and tendered, on a regular basis. The way in which services are procured, and the process and resource involved in the process, depends on the expected costs of the service. The more significant contracts are typically procured via advertising in the Official Journal of the European Union (OJEU), with a number of officers involved in assessing potential providers. Each provider is required to evidence their ability to provide the service, for example by providing references and via interviews.
- 2.2 Collective procurement by the Local Government Pension Scheme (LGPS) has increased over recent years, particularly using the National LGPS Framework which is coordinated by Norfolk County Council. Frameworks are available for all funds to use, enabling the LGPS to optimise combined buying power to deliver greater value for money and offering all funds fast and efficient access to services via a fully OJEU compliant route.

Main report

Unitisation System

- 3.1 A competitive EU procurement exercise for the provision of a unitisation system for Lothian Pension Fund's has been completed. The system aims to provide enhanced tracking of employer assets within Lothian Pension Fund. Tenders were assessed on a weighting of 60% for quality and 40% for price. The quality assessment was weighted: 50% for functionality, 10% for ICT security / standards, 10% for implementation / training and 30% for the content of the presentation / question responses. The evaluation was made by a joint team of

investment and accounting staff. Hymans Robertson has been appointed for a period of 4 years.

Stewardship Services

- 3.2 Hermes' EOS contract to provide stewardship (i.e. engagement and voting) services expires in June 2016.
- 3.3 The National LGPS Framework is intending to put in place a framework for stewardship services and it is expected to be available in the autumn of 2016. Lothian Pension Fund staff, together with representatives from a range of funds, will help to set up the framework.
- 3.4 Committee is asked to approve the extension of the Hermes contract until March 2017 to enable Lothian Pension Fund to appoint a provider from the framework once it is established.

Investment Management Services

- 3.5 The contract with State Street for investment services for the Scottish Homes Pension Fund is due to expire on 31 March 2016. The investment strategy review for this Fund is in process and is due to conclude in the near future. Committee is therefore asked to approve the extension of the State Street contract until March 2017, pending implementation of the conclusions of the review.

Performance Measurement Services

- 3.6 Portfolio Evaluation's contract to provide investment performance measurement service expired in February 2016. Under delegated authorities, the Acting Executive Director of Resources has extended the contract to 1 January 2017, pending a review of the service and potential tender exercise. The extension provides the most beneficial timing for a new procurement process in terms of provider options for the service and also covers the full 15/16 financial year and ensures consistency of reporting format year to year.

Accounting Services

- 3.7 As provider of accounting and auditing of Council companies, Scott Moncrieff are providing the equivalent function for LPFE and LPFI companies owned by Lothian Pension Fund. They are also providing the payroll service for LPFE staff.

Other Providers

- 3.8 The following providers have been appointed:
 - MSCI for the provision of environmental, social and governance research for use in the internal investment process;
 - PWC for remuneration benchmarking for LPFE staff;
 - 121 HR consulting for ongoing HR support for LPFE.
- 3.9 The above were appointed after mini-tender exercises.

- 3.10 Western Union was appointed to provide existence checks and banking services for overseas pensioners for a three year period to improve the management of fraud risk. The appointment was made under a waiver of the City of Edinburgh's contract standing orders due to the low costs involved.

Future Service Procurement

- 3.11 As noted above, stewardship services will be tendered using the National LGPS Framework once it is established later in 2016.
- 3.12 Preparations are being made to commence a tender of pension administration system, including the system which allows members to access their pension information.
- 3.13 The current investment custody contract is for an initial period of six years to February 2017 with an option to extend for a further three years. Over the next six months we will be reviewing the contract to make a decision on the option to extend the contract.

Measures of success

- 4.1 Providers are set objectives against which performance is assessed. Regular tendering of providers ensures service is reviewed.

Financial impact

- 5.1 Appropriate provision for costs has been provided within the approved budget 2015/16, the proposed budget for 2016/17 and indicative budget for 2017/18.

Risk, policy, compliance and governance impact

- 6.1 Management of service providers and appropriate procurement reduces risk to the pension funds.

Equalities impact

- 7.1 There is no equalities impact as a result of this report.

Sustainability impact

- 8.1 The provider of stewardship services will include consideration of environmental implications in its engagement with companies.

Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

None

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Links

Coalition pledges

Council outcomes CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed

Single Outcome Agreement

Appendices None