



**Executive**  
13 June 2011

**Report from the Director of  
Finance and Corporate Services**

Wards Affected:  
ALL

**Authority to Award a contract for the provision of pension  
administration services**

**Appendix 2 of this Report is Not for Publication**

**1.0 Summary**

- 1.1 This report seeks approval to award a call-off contract from a framework agreement being let by the London Borough of Hammersmith and Fulham ("LBHF") for the provision of pension administration services.
- 1.2 This report details the procedure followed by LBHF in association with Officers from Brent Council in procuring a single supplier framework agreement and recommends to whom the resulting call-off contract under the framework agreement should be awarded.

**2.0 Recommendations**

- 2.1 The Executive approve the award of the call-off contract for the provision of pension administration services to Capita Hartshead for a term of six, with a possible extension of up to two years, commencing 1 October 2011 subject to the proper award of the pensions administration services framework agreement by LBHF.

### 3.0 Detail

- 3.1 On 15 February 2010 the Executive approved proposals for the council's participation in a collaborative procurement exercise leading to the establishment of a single supplier framework agreement by the LBHF for the provision of services for the administration of the Local Government Pension Scheme. As LBHF was leading on the procurement, members also agreed that the collaborative procurement exercise was exempt from Brent's Contract Standing Orders and Financial Regulations, with LBHF's own Contract Standing Orders and Financial Regulations to be applied instead.
- 3.2 Following approval to participate in the collaborative procurement, Officers from Brent and LBHF worked closely on all stages of the procurement, including setting the procurement timetable, agreeing evaluation criteria and helping to draft the specification as well as the other tender documentation for the proposed framework agreement and call-off contracts for Brent and LBHF.
- 3.3 A restricted or two stage procurement process was followed. LBHF advertised the procurement in May 2010 and following receipt of expressions of interest, pre-qualification questionnaires were issued to organisations. On receipt of pre-qualification questionnaires LBHF assessed the questionnaires and six tenderers were invited to tender.
- 3.4 Four tenderers withdrew from the tender process prior to the closing date citing over commitments in pursuing other business opportunities. Two tenderers as detailed in Appendix 2 of this report submitted tenders through the LBHF e-tendering system by 21 February 2011 (the closing date).
- 3.5 Tenders were evaluated by the Tender Evaluation Panel. The Tender Evaluation Panel was chaired by the LBHF's Assistant Director (HR) – Finance & Corporate Services and included representatives from the Pension Managers in LBHF, Brent as well as Royal Borough of Kensington & Chelsea ("RBKC") and City of Westminster ("Westminster") (both authorities having indicating an interest in calling-off the framework agreement in due course) and officers from LBHF's Procurement, Legal and Finance sections.
- 3.6 Both tenders were evaluated in accordance with the Tender Evaluation Model set out at Appendix 1 of this report. Members will note from Appendix 1 that appointment to the framework agreement was on the basis of the most economically advantageous tender, taking into account not only the specified quality criteria but also the combined indicative pricing for both the proposed LBHF and Brent call-off contracts. There was a 50/50 split between price and the various quality criteria.
- 3.7 Each tender submission passed Stage 1 of the evaluation process and therefore both were subjected to detailed evaluation of price and quality in accordance with the Tender Evaluation Model. Details of the combined indicative pricing using the methodology detailed in the Tender Evaluation Model are set out at Appendix 3. The summary scores for quality and price

resulting from evaluation of tenders for appointment to the framework agreement are set out in Appendix 4.

- 3.8 Following the evaluation of tenders, the Tender Evaluation Panel identified Capita Hartshead as submitting the most economically advantageous tender for appointment to the framework agreement. It will be noted from Appendix 4 that Capita Hartshead scored consistently highly across all quality criteria and also submitted the lowest priced tender. As a result, officers at LBHF are reporting to its Cabinet in June 2011 seeking authority to award the framework agreement to Capita Hartshead.
- 3.9 Subject to LBHF's Cabinet agreeing the award of the framework agreement to Capita Hartshead, Officers at Brent recommend the award of a call-off contract from that single supplier framework agreement.
- 3.10 Whilst tenderers were required to provide costs for base contract services and additional services (to include the Pensions Payroll Service), Officers would not intend requiring the preferred tenderer to provide a Pensions Payroll Service at contract commencement but may do so during the life of the contract. As a result, at the current time the anticipated cost of the call-off contract would be in the sum of £245,104.00 per annum which is less than the current contract cost. Further details concerning the anticipated cost of the contract are included in the Financial Implications at Section 4 together with details of further savings that may be available should further authorities call-off from the framework.

#### 4.1 **Financial Implications**

- 4.2 The Council's Contract Standing Orders require that contracts for services exceeding £500k or works contracts exceeding £1million shall be referred to the Executive for approval of the award of the contract. The estimated value of this contract is over that threshold
- 4.3 The cost of the council's current pension administration contract is £304,525.00 per annum. The annual cost of the proposed preferred bid totals £245,104.00.
- 4.4 The savings against the current contract cost are as follows:
- |   |              |
|---|--------------|
| Annual saving                               | =£ 59,421.00 |
| Saving over contract term (six years)       | =£356,526.00 |
| Maximum saving with extension (eight years) | =£475,368.00 |
- 4.5 Under the terms of the framework agreement the contractor will apply a discount to the contract cost as more councils join that framework. Details of the applicable discount percentages are provided below.

<b>Number of Authorities included in Framework</b>	<b>% reduction that will be applied</b>
3 to 4	1%
5 to 8	1.10%
9 to 12	1.20%
13 to 16	1.30%
17 to 20	1.40%
21 or more	1.50%

4.6 In the current economic climate the number of current contributors has reduced e.g. redundancy and early retirements have increased. This has meant that there has been an increase in deferred beneficiaries (early leavers whose pension benefits are frozen until they reach retirement age) and pensioners. The administration of deferred and pensioner members costs less than current members and in the light of the current trend bidders were asked to provide a price per member according to their status. If the current trend towards a declining active membership continues the cost of the contract will reduce.

4.7 Capita have informed officers that it will be possible to migrate records from the incumbent to them within a three month deadline. It is possible however that during mobilisation and implementation the service may decline in the short term which may impact on staffing and structure efficiencies.

## **5.0 Legal Implications**

5.1 As advised in the Executive Report dated 15 February 2010 requesting authority to participate in a collaborative procurement of a framework agreement, LBHF is leading on the procurement and has classified pensions administration services as Part A services under the Public Procurement Regulations 2006 ("EU Regulations"). Given the estimated value of the framework agreement over its lifetime is higher than the EU threshold for Services, the EU Regulations apply in full to the procurement. As a result, the framework agreement has been procured in accordance with EU Regulations, using LBHF's Standing Orders and Financial Regulations. Given that the EU Regulations apply, and subject to LBHF's Cabinet accepting the recommendation to award the framework agreement, LBHF will be required to observe a mandatory minimum 10 calendar day standstill period before the framework agreement can be awarded.

5.2 Subject to the award of the framework agreement, the intention is for the council to call-off a contract from it. The estimated value of the call-off contract over its lifetime is higher than the EU threshold for Services and the award of the contract is therefore governed by the EU Regulations. Normally a contract that is above the EU services threshold requires a formal EU-compliant tender process to be undertaken. However where there is an intention to call-off a

framework that has been procured in accordance with EU Regulations, then there is no requirement to pursue a full tender process provided that the call-off is in accordance with the framework rules.

5.3 The award of the call-off contract is also subject to the council's own Standing Orders and Financial Regulations in respect of High Value Contracts. As such, the call-off contract should ordinarily be tendered. However, where there is a call-off under a framework agreement established by another contracting authority, Standing Order 86 (d) provides an exception to this whereby, if the call-off is recommended by the relevant Chief Officer, the Director of Legal and Procurement has advised that participation in the framework agreement is legally permissible and approval from the Director of Finance and Corporate Services, then no formal tendering procedures apply. Approval from the Executive to any award of a call-off contract is however still required in connection with High Value contracts. Subject to formal award of the framework agreement by LBHF being in accordance with EU Regulations, the Director of Legal and Procurement will advise that participation in the framework agreement is legally permissible.

5.4 The duration of the framework agreement is for a period of 4 years, the maximum duration permitted by the EU Regulations save in exceptional circumstances. When the framework was advertised in the Official Journal of the European Union, it was indicated that the framework was of 4 year duration but that call-off contracts under it would have a contract length of up to 6 years with provision for extension by up to a further 2 years. Whilst it is unusual for a call-off contract to extend beyond the four year term of the framework agreement and this is discouraged by the Commission, the EU Regulations do not preclude this and it is understood that the proposed contract duration is usual for pensions administration contracts.

5.5 As it is proposed that the call-off contract will be awarded to Capita Hartshead which is not the incumbent contractor, it is likely that staff wholly or mainly occupied with the provision of the pensions administration service will transfer (unless they object to transferring) to the employment of Capita Hartshead under the provisions of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). As such, their terms and conditions of employment shall be protected accordingly. The existing service provider will need to consult with them in accordance with TUPE and provide the relevant personnel information to Capita Hartshead. Where staff eligible to TUPE are existing members of the LGPS, Capita Hartshead have tendered on the basis that it will offer such staff either a broadly comparable pension scheme or access to the Local Government Pension Scheme via an admission agreement with related risk share agreement.

## **6.0 Diversity Implications**

6.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications.

## **7.0 Staffing/Accommodation Implications**

- 7.1 This service is currently provided by an external contractor and there are no implications for Council staff arising from retendering the contract. As detailed in the Legal Implications section however, as it is proposed that the call-off contract will be awarded to Capita Hartshead which is not the incumbent contractor, staff working on the contract are likely to transfer to the new contractor under the provisions of the TUPE.

## **Background Papers**

Executive Report – 15 February 2010

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## **TENDER EVALUATION MODEL**

### **1. Introduction**

- 1.1. The Authority is committed to providing high quality, value for money services and will evaluate each Tender according to 3 successive stages, as set out below.
- 1.2. The Authority will award the Framework Agreement fairly on the basis of quality and cost. The Tender Appraisal Panel (TAP) will evaluate the quality of tenders using a weighted model. Quality will account for **50%** of the overall evaluation process and price **50%**.
- 1.3. The Authority's approach to evaluation will be equitable and transparent and will allow Tenderers to tender on the basis of quality at an affordable price. It allows the TAP to recommend the selection of a tender that meets the key quality requirements and therefore represents best value for money, i.e. the economically most advantageous tender.

### **2. Provision of Additional Information**

- 2.1. If at any time during its evaluation of a Tender the TAP forms the view that any matter requires clarification, it may require the same from the Tenderer concerned in writing.

### **3. Stages**

- 3.1 There will be a 3-stage evaluation of returned Tenders:-

#### **3.1 Stage 1 - Checking for Validity**

- 3.1.1 A valid Tender shall be received in accordance with this ITT. Validity will involve checking that all requisite documents are completed, enclosed and signed where required in accordance with the Instructions to Tenderers.
- 3.1.2 Tenders that do not pass this Stage 1 will be rejected and not considered further except, at the Authority's sole discretion, in the case of minor omissions that can be rectified in accordance with any reasonable request of the Authority (for example missing signature or date etc. - for the avoidance of doubt this is not an exhaustive list).

## **3.2 Stage 2 - Detailed Consideration of Tenders**

3.2.1 All Tender submissions reaching this stage will be awarded points in relation to Price and Quality. Presentations will also be scored and comprise part of the Quality evaluation.

3.2.2 Tenders reaching this stage will, after evaluation against the detailed criteria set out below (eg Quality/Price), be ranked in order of aggregate score.

### **3.2.3 Evaluation of Price**

3.2.4 The maximum score that can be achieved for Price element is **50** points. This will be split, with 45 points awarded for tendered costs as set out below, with the remaining 5 points for the Discount Structure as set out in paragraph 3.2.7.

3.2.5 Tendered costs for each Contracting Body for provision of Standard services and Additional services will be determined by reference to the completed charges schedule at Schedule 7.

The total cost per annum shall comprise:

#### **Total base tender price**

- cost of providing service to Active members (item i)
- cost of providing service to Deferred members (item ii)
- cost of providing service to Pensioner members (item iii)
- management charge for Administration of Scheme (item iv)

#### **together with**

- Year 1 costs for set up and transition/migration (amortised over contract period)

#### **Additional Services price**

- Year 1 costs for providing Redundancy, Severance etc payments
- Year 1 costs for providing Cashflow service
- Year 1 Pensions Payroll service

The total base tender price will be proportionately weighted (70%) and Additional Services price weighted (30%) respectively and then aggregated to form a grand total for that Council. A simple worked example is set out below to demonstrate the principle.

**If total base tender price and year 1 amortised costs  
for set up and transition/migration = £200K  
and**



**Additional services price (total year 1 costs for redundancy, cash flow and pensions payroll) = £50K**

**Weighted base tender price = £200K x 70%**

**Plus weighted additional services price = £50K x 30%**

**Grand total weighted sum = (£140K + £15K)**

- 3.2.6 Each tenderer's weighted grand total tender price for the Authority (H&F) and Other Contracting Body (Brent) will be added together to give a joint cost for both authorities.
- 3.2.7 Each Tender will be awarded points based on its relationship with the lowest aggregate (combined) tendered cost for both the Authority (H&F) and Other Contracting Body (Brent) as set out in paragraph 3.2.4 and 3.2.5. The Tender with the lowest aggregate tendered cost (x) will be awarded a maximum score of **45** Points; each of the remaining Tenders (y) will be awarded points on a pro rata basis in accordance with the following formula:

$$1 - \frac{(y - x)}{x} \times 45$$

Where x = lowest aggregated tender total

y = aggregated tender total other than lowest

For example, if the lowest aggregate tender total (for combined H&F [Authority] and Brent [OCB]) ie x, was £200k :-

Tender	£ x	£ y	Points Awarded
A	200		45.00
B		210	42.75
C		220	40.50
D		250	33.75

Please note that the figures are merely examples and are in no way an indication of the contract value.

- 3.2.8 Finally the tendered Discount Structure related to the number of participating Contracting Bodies set out at Schedule 2b in the Charges Schedule will be evaluated and a maximum of **5** points awarded in accordance with the following scoring scheme.

No of authorities included in Framework	Probability of event – weighting to be applied	Element to be evaluated with discount	Element with discount and probability weighting applied
3 to 4	50%	contract rates (i) to (iv) less percentage discount offered.	*sub-total for this category to be calculated as below
5 to 8	25%	ditto	ditto
9 to 12	10%	ditto	ditto
13 to 16	8%	ditto	ditto
17 to 20	5%	ditto	ditto
21 or more	2%	ditto	ditto
<b>Grand Total</b>			Grand total of all calculated sub-totals

\* A sub-total shall be calculated for each category by applying tendered discounts to tendered subtotals (i) to (iv). This will then be multiplied by the probability weighting to give the sub-total. The resultant grand total for all categories will be assessed. The tenderer with the lowest grand total will score **5** points. The remaining tenderers' grand totals will be scored on a pro-rata basis (lowest grand total/next lowest grand total x **5**)

### 3.2.9 Evaluation of Quality

3.2.10 In respect of Quality, a maximum score of **50** points will be awarded.

3.2.11 The criteria on which the quality of the Tender will be assessed, including the weighting are set out below. For full details of the main and sub-criteria please refer to the Contractor's Proposals at section 4.

3.2.12 The TAP will assess each Tenderer's Contractor's Proposals to determine the degree to which the quality criteria have been met. A score out of 4 will be awarded for each question in the Contractor's Proposals in accordance with Table 1 set out below.

3.2.13 Any tenderer who scores 0 (unacceptable) for any question forming part of the quality submission will be deemed disqualified and its tender submission for price and quality will be rejected and not further considered.

**Table 1**

<b>Points</b>	<b>Rating</b>	<b>Description</b>
4	Excellent	High quality, fully meeting all the requirements of the Specification, no shortcomings
3	Good	Good quality, meeting requirements of the Specification, robust, few if any shortcomings
2	Fair	Average Quality, meeting most requirements of the Specification, some shortcomings
1	Poor	Well below average, meeting few requirements of the Specification, significant shortcomings
0	Unacceptable	No information provided or so little information provided to prevent a judgement to be formed

**Evaluation Criteria One**

Assessment of the quality of products and service [main criteria] (accounts for 50% overall quality weighting – 25 marks)

Sub-criteria weightings and example marking is set out below:

Question No	Topic	Weighting	Max Marks	Weighted score/25
1.1	KPI's	15%	4	3.75
1.2	Service Improvement Plan	15%	4	3.75
1.3	Quality Systems	20%	4	5
1.4	Customer Focused Approach	20%	4	5
1.5	Example 'Products'	10%	4	2.5
1.6	Key Tasks	20%	4	5
				25

### Evaluation Criteria Two

Organisational and management experience and resources to be employed in the Contract [main criteria] - (accounts for 30% overall quality weighting – 15 marks)

Sub-criteria weightings are as follows:

Question No	Topic	Weighting	Max Marks	Weighted score/15
2.1	Proposed Management	15%	4	2.25
2.2	Training and Development	15%	4	2.25
2.3	ICT System Support	20%	4	3
2.4	Systems/arrangements for Data security	20%	4	3
2.5	Location and arrangements	10%	4	1.5
2.6	Mobilisation Plan	20%	4	3
				15

### Evaluation Criteria Three

Commitment to a collaborative relationship [main criteria] - (accounts for 10% overall quality weighting – 5 marks)

Sub-criteria weightings are as follows:

Question No	Topic	Weighting	Max Marks	Weighted score/5
3.1	Partnering Arrangements	50%	4	2.5
3.2	Identification & Resolution of Problems	50%	4	2.5
				5

### Presentations

Presentations will be scored and will account for 10% of overall quality weighting – 5 marks.

Tenderers reaching this stage will be invited to make a presentation which will comprise:

- a summary by the Tenderer of key elements of its submission

For the avoidance of doubt this summary will not be scored.

- a Q & A session where a set of predetermined questions will be asked of Tenderers. For the avoidance of doubt the same questions will be asked of each Tenderer invited to the Presentation and will be scored in accordance with Table 1.

Further details will be forwarded to Tenderers prior to the closing date for receipt of tenders.

Finally the aggregate weighted Price / Quality scores will be combined to obtain the total weighted score. The Tenderer with the highest total weighted score is that which offers the most economically advantageous Tender.

For the avoidance of doubt evaluation scores will be reviewed by the full TAP and individual scores may be moderated in accordance with Table 1 on page 4

### **3.3 Stage 3 - Consideration of Abnormally Low Submissions**

3.3.1 The TAP will consider when evaluating Tenders whether in its opinion the tendered rates and prices submitted by each Tenderer are sufficient to support the levels of service, manpower etc proposed by the Tenderer in the information submitted with its Tender.

3.3.2 Tenderers which, after clarification with the Tenderer, are deemed to be abnormally low will be rejected.

Following approval by the Authority, the Tenderer recommended to provide the service under the Framework Agreement will be that Tenderer who submits the most economically advantageous Tender according to the criteria set out above.

### **Contract Award**

Following approval by the Council, the Contract will be awarded to the Tenderer who has submitted the most economically advantageous Tender for providing the services according to the criteria set out above.

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## Appendix 3

Tenderer	LB Hammersmith & Fulham (annual £)	LB Brent (annual £)	Total (combined) (annual £)
Tenderer 1			
<b>Base contract price</b>	<b>198391*</b>	<b>237137*</b>	<b>435528*</b>
<b><u>Additional services- Redundancy, Severance etc payments</u></b>	* (see note below)	* (see note below)	* (see note below)
<i>Management of Cashflow</i>	<i>19918</i>	<i>7967</i>	
<i>Pensions Payroll Service</i>	<i>10108</i>	<i>13288</i>	
Tenderer 2			
<b>Base contract price</b>	<b>210193</b>	<b>273702</b>	<b>483895</b>
<b><u>Additional services- Redundancy, Severance etc payments</u></b>	<i>26300</i>	<i>27800</i>	
<i>Management of Cashflow</i>	<i>18300</i>	<i>19800</i>	
<i>Pensions Payroll Service</i>	<i>57600</i>	<i>60000</i>	

\*Base Contract Price includes Administration of redundancy, severance and other non-pension fund payments on behalf of the Council(s). This is an additional service which would otherwise be chargeable.

Please see attached table

Table 1 - Market Testing - Tender for inclusion in Framework for Provision of Pension Administration - Overall Evaluation of Tenders - TAP moderated

Applicant	Validity Checklist	Presentations	Contractors Proposals (averaged)														Total weighted Quality Score	Pricing Scores		Total weighted Pricing Score	Grand total weighted score (%)
			Criteria 1 (quality of products and services)						Criteria 2 (organisational & management experience & resources deployed)						Criteria 3 (collaborative relationship)			Annual base tender price + Additional services	Discount Structure		
			Question 1.1 - KPI's 15%	Question 1.2 - Service Improvement Plan 15%	Question 1.3 - Quality Systems 20%	Question 1.4 - Customer Focused Approach 20%	Question 1.5 - Example Products 10%	Question 1.6 - Key Tasks 20%	Question 2.1 - Proposed Management 15%	Question 2.2 - Training & Development 15%	Question 2.3 - ICT System Support 20%	Question 2.4 - Systems/arrangements for data security 20%	Question 2.5 - Location and arrangements 10%	Question 2.6 - Mobilisation Plan 20%	Question 3.1 - Partnering Arrangements 50%	Question 3.2 - Identification & Resolution of Problems 50%					
Tenderer 1	√	4.75	3.594	3.125	4.167	4.375	2.500	4.583	2.063	2.156	2.250	1.500	0.875	2.750	1.771	1.979	42.438	45.00	5.00	50.00	92.44
Tenderer 2	√	4.54	3.125	2.344	3.542	3.125	2.292	4.583	2.156	1.688	1.500	1.500	1.438	2.875	1.771	1.458	37.938	33.56	4.36	37.92	75.86