

# WIRRAL COUNCIL

## PENSION COMMITTEE

15 SEPTEMBER 2014

<b>SUBJECT:</b>	<b>AON HEWITT CONTRACT REVIEW</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION?</b>	<b>NO</b>

### 1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of the extension of the Fund's contract with Aon Hewitt, under delegated authority, by the Strategic Director Transformation & Resources.
- 1.2 Members are advised of progress in implementing the Medium Term Asset Allocation (MTAA) framework, the costs incurred to date and approval is sought for additional expenditure until such time as a tender exercise is completed in relation to the provision of strategic asset allocation advice.
- 1.4 Appendix 1 to the report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 The contract for strategic investment advice was let from 1 October 2011 to Aon Hewitt for a period of three years with the option to extend for a further three years. Officers and the Fund's independent advisers have assessed the quality of the service provision since then as fully satisfactory and have exercised the option to extend the contract for a further three years.
- 2.2 In early 2013, Members authorised a project to develop a framework for the active management of medium term asset allocation with progress reported to this Committee in June and September, when a framework was approved subject to final due diligence. As strategic advisers, Aon Hewitt provided advice to officers and undertook the required due diligence work.
- 2.2 The framework was implemented in early 2014 and MTAA decisions reported to the quarterly IMWP's. Early indications are that the framework is adding value to the Fund. The costs of establishing the framework have exceeded

initial estimates due to additional work required in the areas of instrument advice, basis risk management and negotiation of investment management agreements. Details of performance and costs are set out in the appendix to this report.

- 2.3 Following a meeting with Aon Hewitt, it is apparent that ongoing costs will be higher than anticipated and it is recommended that a procurement exercise is undertaken for the provision of asset allocation advice.

### **3.0 RELEVANT RISKS**

- 3.1 The use of a strategic investment advisor is essential in formulating the Fund's strategic benchmark and considered to be an integral part of the risk management policy.
- 3.2 The quality of the asset allocation advice received by the Fund is an essential component of the effective operation of the MTAA framework.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 In undertaking the procurement exercise, officers will assess all appropriate options.

### **5.0 CONSULTATION**

- 5.1 Not relevant for this report.

### **6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS**

- 6.1 None associated with the subject matter.

### **7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 7.1 There are none arising from this report

### **8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 8.1 The contract with Aon Hewitt will continue on the terms agreed at the outset of the contract. The costs of establishing and likely ongoing costs of operating the MTAA framework are set out in appendix 1.

### **9.0 LEGAL IMPLICATIONS**

- 9.1 There are none arising from this report

### **10.0 EQUALITIES IMPLICATIONS**

- 10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No because there is no relevance to quality.

### **11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS**

- 11.1 There are none arising from this report

## **12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

12.1 There are none arising from this report

## **13.0 RECOMMENDATION/S**

13.1 That Members note the extension of the contract with Aon Hewitt.

13.2 That Members note the progress in implementing the Medium Term Asset Allocation (MTAA) framework, the costs incurred to date and approve the additional expenditure required and a tender exercise in relation to the provision of strategic asset allocation advice.

## **14.0 REASON/S FOR RECOMMENDATION/S**

14.1 The MTAA framework is intended to reduce the risk of underperformance resulting from unintended asset allocation positions and to target additional returns from medium term asset allocation positions.

14.2 The quality of the asset allocation advice received by the Fund is an essential component in the effective operation of the MTAA framework.

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## **APPENDICES**

Exempt appendix 1 - Progress report on MTAA framework

## **BACKGROUND PAPERS/REFERENCE MATERIAL**

None

## **BRIEFING NOTES HISTORY**

<b>Briefing Note</b>	<b>Date</b>

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee</b>	<b>16 September 2013</b>
<b>Pensions Committee</b>	<b>24 June 2013</b>
<b>Pensions Committee</b>	<b>27 June 2011</b>

