

Pension Fund Committee

Meeting to be held on 15 July 2011.

Electoral Division affected: All

Strategy for the Procurement of a Direct Property Manager and Independent Valuers

Contact for further information:

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Executive Summary

The contracts for the management and independent valuation of the Fund's UK property portfolio have not been tendered for many years. Recent developments and internal audit recommendations suggest that the Fund would benefit from a re-tendering of the contracts.

Recommendation

The Committee is asked to approve the tendering of the UK property management and independent valuation contracts as set out in the report.

Background and Advice

The Fund owns a portfolio of 55 properties throughout the UK valued at £397 million.

The existing UK property management and valuation contracts have been in place for many years without having been market tested. Recent renegotiation of aspects of the contracts and an internal audit recommendation highlighted the need for market testing.

At its meeting on 30 March 2011, the Investment Panel agreed it was appropriate to undertake appropriate due diligence regarding tendering of the management of the UK property portfolio and its annual independent valuation.

Officers have discussed the structure of the property mandate with a number of parties including professional surveyors and another Local Government Pension Scheme.

In common with other investment mandates, it is proposed that the property management mandate be tendered as a discretionary mandate. With a discretionary mandate, the property investment manager is responsible for the overall performance of the property portfolio, including both its strategic direction and its day to day management.

The Fund also has to revalue its properties annually for accounting and performance reporting purposes. A separate tender process will be run for the valuation service.

The Fund proposes to run the tender processes in-house with the assistance of the One Connect Procurement Centre of Excellence and take appropriate specialist professional advice on the construction and scoring of the technical questions. The aim is to obtain technical advice from industry specialists rather than general consultants in order to structure the contracts in the most commercially advantageous manner for the Fund and to reflect current best practice.

It is proposed to use the restricted tender process with a view to making a decision on an investment manager by the end of 2011 and an implementation with effect from 1 April 2012 (the start of the new financial year).

The restricted tender process is a two stage process. Stage 1 is a qualifying stage from which 3 to 5 bidders are taken through to Stage 2 when detailed proposals are requested.

Stage 1 is about identifying bidders with the capacity to deliver the service and will involve evaluation of the following matters:

- Business and Corporate Structure
- Staff
- Risk management
- Performance
- Track Record
- Mandates won and lost
- Responsible property investment
- Property management
- Equal opportunities
- Health and safety
- Referees
- Professional indemnity and others insurance

Stage 2 involves an understanding and evaluation of the bidder's portfolio strategy, investment style and fee structure. Stage 2 will require the potential manager to sign a Non-Disclosure Agreement as a comprehensive Fund information pack will be sent out outlining the details of the portfolio. The pack will include information on the overall Fund philosophy and style and all available property details such as recent valuation reports containing the tenancy schedules and IPD reports.

In Stage 2 bidders will be required to provide

- Investment policy and style
- Investment process
- Proposed Strategy to meet benchmark
- Potential Returns v Market

- Sustainability
- Fees
- People
- Timings

In its assessment of fees, the Fund will seek an arrangement which links the manager's remuneration to the performance of the property portfolio.

A similar restricted tender process will be used to appoint an independent valuer to the Fund at the same time.

The broad award criteria are provisionally assumed to be:

Award Criteria	Weighting
Price	30%
Capacity and capability of the tenderer to provide the services	25%
Details of the tenderer's methods of working	20%
Experience of comparable service provision	25%

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

With the existing contracts the Fund will forego any benefits to be gained from market testing the current arrangements.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Directorate/Ext
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N/A

Reason for inclusion in Part II, if appropriate

N/A