
PENSIONS ADMINISTRATION SYSTEM

Report by Chief Executive

PENSIONS FUND COMMITTEE

12 September 2013

1 PURPOSE AND SUMMARY

- 1.1 This report seeks approval to delegate the responsibility for the procurement of the Pensions Administration System for the Scottish Borders Council Pension Fund to the Chief Financial Officer.**
- 1.2 Costs for procurement and implementation of the Heywood Altair, Pensions Administration System, will be capped at a maximum of £560,711 over the following five years.
- 1.3 The system is an essential administrative tool that supports the provision of a high quality administration service for the Pension Fund, allowing the Fund to address the further complexity of legislative changes without the need to review staffing levels.
- 1.4 This provides an opportunity to implement a modernised application with the functionality to provide an improved and efficient experience for members of the Pension Fund, through the implementation of Self Service functionality.

2 STATUS OF REPORT

- 2.1 Due to the timeline involved with meetings with the supplier, in order to achieve a cost reduction, and agreeing the procurement approach, it has not been possible to incorporate all of the consultation comments in the report, as a result these will be made available at the meeting.

3 RECOMMENDATIONS

- 3.1 I recommend that the Committee:- approves the delegation of responsibility for the procurement of the Heywood Altair, Pensions Administration System, to the Chief Financial Officer, with costs restricted to a maximum of £560,711 over the five year term of the contract.**

4 BACKGROUND

- 4.1 The Pensions Administration Team, within HR Shared Services, currently uses the Heywood's AXISE system to assist with the administration of the Scottish Borders Council Pension Fund. The Pension Fund Committee approved the commencement of a procurement project to replace the current system at the meeting of 11 December 2012.
- 4.2 The licence of the current system expires on 17 November 2013, with costs as follows:-

	Annual Value
Unix Management – Licence	£6,377
Unix Management – Maintenance	£4,217
CLASS – LGPS – Licence	£12,436
CLASS – LGPS – Maintenance	£19,611
CLASS – LGPS – Development Fee	£1,000
Microfocus Licence	£177
Total Value (exc VAT)	£43,818

- CLASS – LGPS relates to the provision of software to meet the legislative requirements of the Local Government Pension Scheme.
 - CLASS – LGPS – Development Fee relates to a contribution to the development of software to fulfil the requirements of legislative changes. This is a collaborative approach where all users of the system share the costs of developing software to meet legislative changes.
 - Microfocus Licence is required by users of the system, due to the need to install operating software on individual computers.
- 4.3 In addition to the above, a payment of £1,416.30 (exc VAT) is paid for the Hardware Maintenance of the server. This contract currently runs for one year from 1 March 2013.
- 4.4 The Corporate Procurement Team has been involved in all discussions and decisions regarding the procurement approach to be taken for the replacement of the Pensions Administration System.
- 4.5 In order to gauge the market a Prior Information Notice was issued, to which there was three responses. A further set of questions were asked, of the three suppliers, to determine their capability to deliver a solution that fully met the regulations of the LGPS for Scotland and the requirements of the Pension Fund, to which the only response was from the incumbent provider, Heywood. The other two suppliers did not submit a response.
- 4.6 We have taken soundings from the other ten Pension Funds in Scotland and have been advised that nine of the Funds are using the Heywood system and have already or have plans to migrate to the Altair version of the system. The final Pension Fund uses an in-house database.
- 4.7 Additionally, contact was made with Lothian Pension Fund who confirmed that Heywood are the monopoly supplier of Pension Administrations

Systems for the LGPS in Scotland and, whilst there are two other providers for the LGPS in England and Wales, they do not offer systems tailored to the requirements of the Scottish LGPS Regulations.

- 4.8 Based on the information stated above at points 4.6 to 4.8, the Corporate Procurement Team, including advice from Legal Services, have agreed that a Non Competitive Action is appropriate, with justification based on The Public Contracts (Scotland) Regulations 2012, Regulation 14 – Use of the negotiated procedure without prior publication of a contract notice.
- 4.9 Contact has been made with Heywood and initial costs for the provision of the Altair system, on a hosted basis, along with Member Self Service functionality, have been provided based on a five year contract, with the option to extend for a further two years. The cost breakdown is shown at 6.1 below.
- 4.10 Heywood have also provided copies of their Terms and Conditions, which will be reviewed to ensure they cover the requirements of both the Pension Fund and the Council, with particular attention being paid to the Data Protection aspects given the proposed move to a hosted solution.
- 4.11 Heywood will be responsible for interpreting all regulatory changes for the administration of the LGPS in Scotland and ensuring that the system is configured to deal with such changes.
- 4.12 The Pension Fund will continue to be members of the CLASS group, which operates for the benefit of all Heywood customers and allows for the sharing of any costs arising from developments such as those mentioned at 4.11 above.

5 PROPOSAL

- 5.1 That responsibility for the procurement of the Pensions Administration System be delegated to the Chief Financial Officer, with costs restricted to those stated at 6.1 below.
- 5.2 That officers continue to negotiate directly with the supplier in order to achieve a reduction in the costs quoted and commit to terms and conditions of service that meet all Pension Fund and Council objectives and priorities.

6 IMPLICATIONS

6.1 Financial

- (a) The costs and benefits attached to the proposal are to be formally confirmed as negotiations with the supplier continue. However, there will be an increase in licence costs on an ongoing basis. Additionally, there will

be costs associated with the implementation of the new system. The total cost for the proposed five year contract are £560,711.

(b) The following costs are based on the quotation formally submitted by Heywood and do not take account of recent discussions with them over costs, as these have to be formally confirmed.

Annual Fee	
Altair – Support and Maintenance	£46,960
Hosting	£35,800
Member Self Service	£2,450
Member Self Service Hosting	£7,649
CLASS – LGPS – Development Fee	£1,000
Microfocus Licence	£177
Total (exc VAT)	£94,036

This represents an increase of £48,802 per annum, or £244,010 over the five year period of the contract. This is mainly attributable to the hosting costs. However, this is offset by not having to procure server's up front and consider the additional requirements for the provision of a disaster recovery solution, along with ongoing support and maintenance of the new servers through Shared Services Information Technology, all of which are to be provided by the supplier.

(c) The implementation of a Member Self Service function will, amongst other functions, allow the Fund to provide online Benefit Statements, thus reducing the administration cost of preparing, printing and posting these on an annual basis. The average cost of printing and distributing the benefit statements on an annual basis is £4,819. The Member Self Service module will also allow the Fund to improve communication with all members on matters affecting their membership of the Scottish Borders Council Pension Fund.

(d) In addition to the Annual Fee, there will be up front costs in respect of the Licence and Implementation Consultancy. The costs are as follows: -

Licence	
Altair	£30,000
Member Self Service	£6,125
Total (exc VAT)	£36,125

Implementation Consultancy	
Altair (Hosted)	£54,406
Member Self Service	£0
Total (exc VAT)	£54,406

This represents a one off cost of £90,531.

(e) With the impending change to the Local Government Pension Scheme in Scotland from April 2015, the CLASS Group, have indicated that they have reached agreement with Heywood's on a charging structure. This will see a one off licence payment of £12,800 and a further increase in the annual support and maintenance of £1,920 for those using the Altair product. These costs are over and above those stated above.

6.2 Risk and Mitigations

By agreeing to the proposal the Pension Fund will demonstrate steps taken to address the following risks, as highlighted in the Pension Fund Risk Register:

- Failure to process pension payments and lump sums on time
- Inability to keep service going to loss of main office, computer system or staff - major operational disruption
- Failure to hold personal data securely
- Failure to comply with LGPS and other regulations

The implementation of a new Pensions Administration Systems will ensure the Fund has a fit for purpose system and infrastructure to meet the challenges of the up coming legislative changes without the need to consider increasing staffing levels.

6.3 **Equalities**

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report.

6.4 **Acting Sustainably**

There are no significant effects on the economy, community or environment.

6.5 **Carbon Management**

No effect on carbon emissions are anticipated from the recommendation of this report.

6.6 **Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 **Changes to Scheme of Administration or Scheme of Delegation**

No changes to either the Scheme of Administration or the Scheme of Delegation are required as a result of this report.

7 CONSULTATION

7.1 The Chief Financial Officer, the Head of Corporate Governance, the Head of Shared Services, the Head of Audit and Risk, HR Manager and the Clerk to the Council are being consulted and their comments will be taken into account in the final report.

7.2 The Procurement Team have also been consulted and their comments will be taken into account in the final report.

Approved by

Chief Executive

Signature Tracey Logan

Author(s)

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Background Papers: The Public Contracts (Scotland) Regulations 2012
Pension Fund Risk Register

Previous Minute Reference: Pension Fund Committee, 11 December 2012

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Ian Angus can also give information on other language translations as well as providing additional copies.

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