

<b>Report for:</b>	<b>Corporate Committee</b>	<b>Item Number:</b>	
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<b>Title:</b>	Local Government Pension Scheme IT system – contract renewal
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<b>Report Authorised by:</b>	<b>Jacque McGeachie - Interim Head of Human Resources and Organisational Development</b>
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*PP: [Signature]*

<b>Lead Officer:</b>	<b>Janet Richards Pensions Manager</b>
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<b>Ward(s) affected: None</b>	<b>Report for Key/Non Key Decisions: Non Key Decision</b>
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**1. Describe the issue under consideration**

- 1.1. In order to carry out its functions as an administering Authority under the Local Government Pension Scheme (LGPS), the Council uses an IT system called Axise supplied by an external IT contractor called Heywood.
- 1.2. On 1<sup>st</sup> April 2014, there are significant changes taking place to the LGPS as it moves from a final salary pension scheme to a career average scheme. Furthermore, support from Heywood for the existing IT system will expire on 31<sup>st</sup> December 2014.
- 1.3. This report proposes that the Council enters into a contract with Heywood for a new IT system without first undertaking a procurement exercise. The recommendation is made considering value for money and security of supply.

**2. Cabinet Member introduction**

Not applicable

### **3. Recommendations**

- 3.1** That the Corporate Committee award a contract for a period of three years with the option to extend for a further two years to Heywood for the provision of a managed service, including support, maintenance, and required upgrade.

### **4. Alternative options considered**

- 4.1.** It is essential that the Council continues to have a managed service for its pensions administration function. Without such a system the administration of the scheme would not be possible. This would include providing members annual statements of benefits and ensuring that members receive the correct benefit payments when they retire. The current system used by the Council, Axise will not be supported by the supplier Heywood after 31<sup>st</sup> December 2014 and therefore to continue using this system would carry significant risks. Therefore the Council has no option but to move onto a new system.
- 4.2.** The Pension Administration System (Axise) is proprietary software from Heywood and as such it is not possible to tender for just the existing support and maintenance package of that system. On the contrary, any tender would require that supply of a complete system is specified and replaced if necessary.
- 4.3** To undertake such a tender requires a major investment in resource to specify the Council's requirements and to run and evaluate the tender. In changing a system, the Council would need to procure new licenses, new hardware, train all staff and run a parallel system to ensure confidence in migration. This would in itself carry significant costs in both running a procurement exercise as well as migrating onto a new system if an alternative provider were sourced.
- 4.4** In view of the legislative changes to the provision of administering the pension scheme, outlined in paragraph 5 below, it would not be in the Council's best interest to tender at this particular time

### **5. Background information**

- 5.1.** The Council is an administering body under the Local Government Pension Scheme (LGPS) for approximately 20000 pension fund members including Haringey Council employees, deferred pensioners and ex employees who are in receipt of a pension under the LGPS.

- 5.2.** The current contract was let in November 2009 for a managed service whereby an external IT contractor called Heywood provides the system hardware, perpetual licences and ongoing support of the system. The performance of Heywood in providing a managed service for Axise has been satisfactory over the course of the contract.
- 5.3.** Following the Lord Hutton report on reform of public sector pension schemes, the LGPS will be changing from a final salary pension scheme to a career average pension scheme from 1 April 2014. Therefore, major changes are required to the IT administration software to implement the changes, not least because of the significant changes by which LGPS member's final benefits are calculated.
- 5.4.** Furthermore, the current Axise system will not be supported by the manufacturer after 31 December 2014. If the Council continues to use this software beyond this date there is a significant business continuity risk that it will not be able to administer the pension scheme on behalf of approximately 13000 active and deferred members and approximately 7000 pensioners. In addition, any future changes to the LGPS which are inevitable (for example the annual pension payment uplift) would not be able to be undertaken by the Axise system as Heywood will not be providing software updates for the system. It will, therefore, be necessary to migrate to the new software version, Altair. In addition to being compliant with the new LGPS regulations, Altair provides greater functionality than Axise including member self service. Altair will allow members of the LGPS to update changes to their personal details, and view their pension forecasts online.
- 5.5.** It is, therefore, an opportune time to migrate to Altair, as this would minimise the time invested by the Council in testing the new pension scheme.
- 5.6.** There is a cost to the migration as set out in Annex A attached. Heywood can accommodate such a move and have provided their quotation based on a 3 year contract with an option of a further 2 years extension to maximise the discounts available.
- 5.7.** As Altair is proprietary software to Heywood they were requested to provide terms for a contract for 3 + 2 years to follow on from the existing contract. The added value of such a contact will be the ability for the Council to continue to manage the administration of the pension fund and the projects noted above, whilst continuing to manage pension administration electronically. The negotiations were based on achieving value for money for the Council, and taking account of system efficiencies outlined in paragraph 5.4 above.

- 5.8.** Currently Heywood provides IT support for 85% of administration bodies under the LGPS. In other words there are few, if any, comparator providers. However, during the life of the proposed contract it is possible that the position may change. Therefore, during the 3 years of this contract a full market test will be carried out to ascertain the state of the market and, if appropriate, a tendering process will take place in advance of any decision to take up the option of the 2 year extension in the proposed contract.

## **6 Costs**

The cost of migrating to the new Altair system based on a 3+2 year contract would cost in 2013/2014 £229,758 (including one off license and implementation costs) with an ongoing annual running cost of £103,670.

## **7 Comments of the Chief Finance Officer and financial implications**

- 7.1** The Chief Finance Officer has been consulted over the contents of the report and confirms that the annual and one-off costs can legitimately be charged against the pension fund.
- 7.2** The proposed costs of both the standard and fixed term contract are both higher than the existing contract however, given that the current system will fall out of life in December 14, coupled with the fact that the new system must be compliant with the new LGPS regulations leave few options.
- 7.3** The report highlights that there is currently little competition in this field so significant time and effort could be undertaken for potentially little realistic chance of driving out further value.
- 7.4** It is expected that internal effort to migrate onto this new system can be managed within existing resources.
- 7.5** Members will be aware that there is current interest around creating larger pension schemes covering more than one authority. At this stage, there are not clear decisions and it is unlikely that anything tangible will have been concluded before the end of the proposed 3 year contract period. As such, it appears that overall the benefits of a reduced annual fee and one-off costs outweigh the disadvantages of being tied into a longer term contract.

## **8 Head of Legal Services and legal implications**

- 8.1** The Head of Legal Services has been consulted in the preparation of this report, and makes the following comments.

- 8.2** The services to which this report relates are priority services and, therefore, are subject to the Public Contracts Regulations 2006 (the Regulations), which includes requirements in respect of European tendering.
- 8.3** One of the approved tender processes set out in the Regulations, is the negotiated procedure. Under Regulation 14(1)(a)(iii) of the Regulations, a Contracting Authority may use the negotiated procedure without publication of an OJEU notice where, for technical or artistic reasons, the contract may only be awarded to a particular economic operator.
- 8.4** In addition, Contract Standing Orders (CSO) allow for the submission of a bid from an individual contractor without following a tender process where the services relate to a proprietary product, and, for technical or artistic reasons, the contract may only be awarded to a particular contractor (CSO 9.01(f)).
- 8.5** The Assistant Chief Executive Directorate has followed this approach, and invited a bid from Heywood for the Altair system.
- 8.6** Paragraph 3.03 of the CSO gives the Corporate Committee the same powers and duties as given to the Cabinet under CSO when the matter relates to "procurement decisions and award of contract relating to the Pension Fund".
- 8.7** Under CSO, Cabinet has the authority to award contracts valued over £250,000 and so as the contract is Pension Fund related, the Corporate Committee may award this contract.
- 8.8** The Head of Legal Services confirms that there are no legal reasons preventing Members from approving the recommendations in this report.

## **9 Equalities and Community Cohesion Comments**

### **10 Head of Procurement Comments**

The pensions system is proprietary software and as such it can only be supported by the incumbent supplier, Heywoods and CSO 9.01(f) is used to support the action taken under Regulation 14(1) (a) (iii) of the Public Contracts Regulations 2006.

The market has been investigated and, as stated, is limited which means that a tender exercise at this stage is unlikely to provide adequate comparison and competition for an incumbent supplier especially considering potential switching costs. There is a clear need to upgrade the existing versions and to undertake developments to support the Regulatory changes.

It is therefore in the Council's overall best interests to agree a contract with Heywoods for a three year period, with option to extend for two years, to secure support for the Regulatory changes and the new software version.

#### **11 Policy Implication**

#### **12 Reasons for Decision**

#### **13 Use of Appendices**

#### **14 Local Government (Access to Information) Act 1985**

This report contains exempt and non-exempt information. Exempt information is contained in Part B and is not for publication. The information is exempt under the following category (identified in the amended Schedule 12 A of the Local Government Act 1972).

Information relating to financial or business affairs of any particular person (including the authority holding that information)