

Report for: Pensions Committee 27th March 2017

Item number: 17

Title: Pensions Administration System Contract

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Key decision (Pensions Committee)

1. Describe the issue under consideration

- 1.1. In order for Haringey (the Council) to carry out its functions as an Administering Authority under the Local Government Pension Scheme (LGPS), the Council uses an IT system called 'Altair' provided by an external contractor "AquilaHeywood Ltd".
- 1.2. The Altair system holds details of all of the approximately 22,000 members of Haringey pension fund. The system calculates benefits due to current pensioners, records details of the contributions made by all active scheme members, and holds the details of all deferred pensioners who will claim their pensions when they reach retirement age.
- 1.3. The current three year contract for the pensions administration system will expire on 20 April 2017.
- 1.4. This report requests approval to award a contract for the Pensions Administration System for a period of 5 years commencing 21 April 2017. The procurement process for this procurement exercise has been to use an existing Framework Agreement, set up by Northumberland County Council for Pensions Administration Systems. The Framework Agreement is fully compliant with EU procurement processes. The framework is a single supplier framework with AquilaHeywood Ltd as the appointed supplier.

2. Cabinet Member Introduction

- 2.1. Pensions Committee

3. Recommendations

- 3.1. That the Pensions Committee approve for the Council to enter into a five year contract with AquilaHeywood for Pensions Administration Systems, commencing 21 April 2017 to 20 April 2022 in accordance with Contract Standing Order (CSO) 3.01b.
- 3.2. The contract will be procured by a call off from a Framework Agreement set up by Northumberland County Council for pensions Administration systems as permitted by CSO 7.01b
- 3.3. The cost of the proposed contract would be £132k per annum (subject to indexation), and the total for 5 years is £659k (subject to indexation).

4. Reason for Decision

- 4.1. The existing contract for the pensions administration system expires on 20 April 2017.
- 4.2. The Council is the Administering Authority for Haringey Local Government Pension Fund, which has approximately 22,000 members and 40 different employers. Having a contract in place for a pensions administration system is necessary in order for the Council to fulfil its various duties as an LGPS Administering Authority. Modern ways of working mean that maintaining a specific IT package for the pensions administration team is crucial for business delivery.
- 4.3. Without a pensions administration system in place, the council would not be able to carry out core functions of pensions administration, such as issuing annual benefit statements, and ensuring that new retirees receive the correct benefit payments when they retire.
- 4.4. Officers feel that the current contractual agreements with AquilaHeywood have been successful, performance over the three year life of the current contract has been good.
- 4.5. Officers carried out benchmarking to compare the administration costs reported in the annual pension fund accounts for six London boroughs: Haringey, and five neighbouring boroughs. Administration costs reported in the pension fund annual reports include all aspects of administration, including staffing costs, and pensions administration system costs. This exercise was therefore intended to help evaluate the overall cost of pensions administration service delivery. The benchmarking exercise concluded that Haringey had the

lowest administration cost per scheme member of the group, and indeed, this was 32% lower than the average of all six boroughs.

- 4.6. It is felt that the current service delivery model for pensions administration, including use of the Altair system, offers value for the money for Haringey, and on this basis, that a continuation of the relationship with AquilaHeywood is the best available option.
- 4.7. Details of the price negotiated with AquilaHeywood are given in confidential appendix 1, this is in line with the rules of the framework agreement. The cost of the proposed contract would be £132k per annum (subject to indexation).
- 4.8. The current three year contract which ends in April 2017 had first year costs of £244k and costs of £128k in years two and three: an average cost of £167k per annum. On this basis the new contract quotation delivers further value for money for the pension fund.

5. Other options considered

- 5.1. As part of the benchmarking exercise conducted by officers, it was noted that two of the other boroughs examined used alternative suppliers to AquilaHeywood. Both of these boroughs had higher administration costs per scheme member, and indeed they were higher on average than those clients of AquilaHeywood. One of the boroughs using an alternative supplier had administration costs per scheme member that were 62% higher than Haringey's.
- 5.2. Currently, AquilaHeywood provide pensions administration systems to approximately 80% of Local Government Pension Funds in England and Wales. This means that the comparator providers are few in number, and those that do exist have less substantial experience in this market.
- 5.3. Officers considered conducting a full procurement exercise, to invite quotations from a number of suppliers, however they concluded that there were limited levels of competition in this market, and that other suppliers may well be more expensive than the current arrangements. Hence, a full procurement exercise would be unlikely to drive out further value from the contractual arrangement.

6. Background information

- 6.1. All costs of the contract will be met fully by the pension fund, i.e. there will be no direct cost implications for the Council.

- 6.2. The most recent internal audit of Haringey's pensions administration service gave an audit opinion of 'substantial assurance': this gives an indication that the current service delivery model including the use of Altair is working satisfactorily.
- 6.3. There is a one off costs to access the Northumberland County Council framework for pensions administration systems of £1,000.00. This fee is indicative of the costs they incurred in setting up the framework which other public bodies can benefit from.

7. Contribution to Strategic Outcomes

- 7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance

- 8.1. The chief finance officer has been consulted over the contents of the report and confirms that the annual costs can be legitimately charged to the pension fund.
- 8.2. The proposed cost of the new contract is in fact lower than the average cost per year of the previous three year contract.
- 8.3. 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.

Procurement

- 8.4. The Pensions Service have carried out a benchmarking exercise (4.5) and have concluded that the current cost of the whole administration service with the incumbent supplier is 32% less (on average than the six neighbouring Boroughs). The procurement approach via an approved Framework Agreement has achieved a further reduction in price (27%). CSO's 3.01 and 7.01b have been complied with. Procurement endorses this award.

Legal

- 8.5. The Assistant Director notes the contents of the report.

- 8.6. The contract which this report relates to will be procured from a framework for pension administration systems established by Northumberland County Council (the “Framework”).
- 8.7. The Framework is available for use by all UK Contracting Authorities including local authorities.
- 8.8. The Service has confirmed that the procurement has been conducted in accordance with the rules of the Framework.
- 8.9. In the interests of transparency the Council endeavours to publish contracts valued in excess of £500,000 on the Forward Plan. This was not possible in this instance.
- 8.10. The Assistant Director of Corporate Governance sees no legal reasons preventing the Pensions Committee from approving the recommendations in the report.

Equalities

- 8.11. There are no equalities issues arising from this report.

9. Use of Appendices

- 9.1. Confidential Appendix 1 – Details of Quotation

10. Local Government (Access to Information) Act 1985

- 10.1. Not applicable.