

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	1 DECEMBER 2017
REPORT TITLE	PROCUREMENT OF PENSION ADMINISTRATION SOFTWARE
REPORT NUMBER	PC/DEC17/ADMIN
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	MAIRI SUTTIE

1. PURPOSE OF REPORT:-

- 1.1 To secure approval to enter into a new contract with Aquila Heywood ('Heywood') for the provision of pension administration software to the North East Scotland Pension Funds (NESPF).

2. RECOMMENDATION

- 2.1 It is recommended that the Committee:
- i. Approve the award of a new contract with Heywood as the supplier of pensions administration software, using the Northumberland County Council Framework for a 10 year term.

3. BACKGROUND/MAIN ISSUES

- 3.1 The administering authority has a statutory responsibility to ensure proper administration of the Local Government Pension Scheme (LGPS).
- 3.2 Recent years have seen a series of legislative changes to LGPS rules, making the service significantly more complex to administer, such that it is now considered a highly specialised function. It is expected that scheme administration will only continue to become more complex as time goes by.
- 3.3 The procurement for Pension Administration software was last awarded to Heywood, as a five year contract with effect from 1 April 2011 following a full EJO tender. After seeking appropriate advice from Procurement Services, the Pensions Committee approved a continuation of this contract for a further two years on 11 March 2016. The existing contractual arrangements are due to expire in 2018.

3.4 NESPF is currently contracted for the following Heywood modules and services:

- Altair LGPS (Workflow & Pension Reform)
- Image
- MSS
- Employer Services
- Pensioner Payroll and Immediate Payments
- Hosting
- I-Connect (managed under a separate agreement)
- GMP Reconciliation

3.5 Altair, Heywood & the CLASS group

3.5.1 Altair LGPS is a comprehensive, award winning pensions administration platform developed specifically for Local Government Pension Schemes by Heywood. The Pension Fund has been using the latest pension's administration platform, Altair, since 2011.

3.5.2 In recent years Heywood have demonstrated their extensive experience and knowledge of pension's administration by successfully developing their system to implement legislative change in a timely and comprehensive way. For example, by facilitating the change to CARE and complying with new governance arrangements.

3.5.3 Work has already been completed to deliver 2018 requirements to record transactional data for reporting to the Government Actuaries Department (GAD) from 1 April and is ongoing for complying with the General Data Protection Regulation from 18 May.

3.5.4 The Computerised Local Authority Superannuation System (CLASS) was established in 1975 when a number of administering authorities got together with a single supplier (Heywood) to computerize their pension records.

3.5.5 NESPF joined the group in 1980 and currently all 11 Scottish administering authorities are members and use Altair along with NILGOSC (Northern Ireland LGPS) and the majority of English and Welsh authorities.

3.5.6 The 11 Scottish authorities form one of the 6 regional user groups that meet twice a year, with NESPF chairing the Scottish Group until 2019. The 6 Chairpersons make up a management team that meets regularly with Heywood to ensure Altair is developed to deliver the requirements of the LGPS.

3.6 Framework Agreement

3.6.1 Northumberland County Council established a Framework Agreement as part of a major procurement exercise that was completed according to EU and other procurement legislation. Heywood was appointed as the single supplier

under the Framework. The Framework Agreement is available for use by all UK contracting authorities.

3.6.2 The Northumberland Framework provides the most appropriate approach to establishing new contractual arrangements for the future. The use of a single supplier framework should mitigate the risks associated with carrying out a long and resource intensive EJOU procurement process whilst providing service continuity with Heywood (as our existing provider). The Fund continues to enjoy an excellent working relationship with Heywood to the benefit of both members and employers through ongoing service improvements such as Member Self Service (MSS) and secure electronic data provision for employers using I-Connect.

3.6.3 In accordance with the Framework and on the advice of Procurement Services, the Pension Fund sought quotations directly from Heywood for contract lengths of 3, 5 and 10 years to seek out the most efficient and effective contact term.

3.7 Heywood Contract Proposal Terms

3.7.1 Heywood was unable to provide a quote for 3 years as it sits out with their normal contract terms. However their proposal for either 5 or 10 years was as follows:

- NESPF remain on the current software and services
- Heywood waive the initial licence fee for Altair in full – a saving of circa £0.5m
- Support and Maintenance and hosting fees continue at a reduced rate for the contract term (on the basis that Employer Services is no longer required).

3.7.2 Heywood's proposal also incorporates future proofing for the Fund. In terms of hosting Heywood will honour the existing pricing for the hosting service for the current 30 users. They will further increase the number of licensed users of the Altair system from 30 to 40 (at a discounted rate of £3,000 per user for users 31-35 with no additional charge for users 36-40). Furthermore, Heywood will increase the price banding from 65,000 members to 80,000 members at no further charge. Current membership for the NESPF sits at 62,915.

3.7.3 Fund Officers agree the proposal represents good value for money and recommend the Committee approves the contract with Heywood based on a 10 year term.

4. **FINANCIAL IMPLICATIONS**

4.1 The North East Scotland Pension Fund will meet the cost of the benefits administration software.

4.2 Due to the specialisation of pensions administration there is currently little competition so significant time and effort could be undertaken for potentially

little realistic chance of driving out further value. By retaining the same service provider the Fund will avoid additional, possibly sizeable, data migration or data cleansing costs.

4.3 Based on the proposal terms from Heywood the main costs are summarised as follows:

- **£154,997 per annum** for Support and Maintenance Costs for Altair LGPS, Workflow, Image, MSS, Pensioner Payroll and Immediate Payments module. The initial licence fee being waived to the approximate value of £0.5m.
- **£97,949 per annum** hosting fees (based on current fee for 30 users), with an additional discounted fee of £3,000 per user from 31-35 and no further fee for users 36-40.
- **£1,000** payable to Northumberland for use of the Framework.
- **£11,907** (approximate) for GMP Reconciliation Tool based on 23,334 active members.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 Officers will manage the risk associated with procurement through the Funds Risk Register.

7. IMPACT SECTION

7.1 The administering authority is required to meet their statutory scheme duties. If sufficient resources are not provided there are potentially a number of negative outcomes such as non-compliance with requirements of the Pensions Regulator, LGPS and other pensions legislation, inability to make pension payments or the correct payments and failure to provide accurate data for valuation assumptions which could lead to increased employer contributions.

8. BACKGROUND PAPERS

8.1 None

9. APPENDICES

9.1 None

10. REPORT AUTHOR DETAILS

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