

## For Publication

<b>REPORT TO:</b>	<b>Cabinet Member for Resources &amp; Financial Governance</b>
<b>SUBJECT:</b>	<b>Pension Administration System Contract Award</b>
<b>LEAD OFFICER:</b>	<b>Jacqueline Harris Baker Executive Director of Resources and Monitoring Officer  Sue Moorman Director of Human Resources</b>
<b>CABINET MEMBER:</b>	<b>Councillor Callton Young Cabinet Member for Resources &amp; Financial Governance</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT</b> The provision of an pensions administration system acts as an enabler for the Council to delivery it's priorities as set out in the Croydon Renewal Plan	
<b>FINANCIAL IMPACT</b> Include here a brief summary of the costs or other financial issues arising from the recommendations and how these will be addressed within the budget strategy. Contract costs of £1.55m will be met from the Pension Fund.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.: 5820RFG</b> This is a Key Decision as defined in the Council's Constitution. The decision may be implemented from 1300 hours on the expiry of 5 working days after it is made, unless the decision is referred to the Scrutiny & Overview Committee by the requisite number of Councillors.	

The Leader of the Council has delegated to the Cabinet or Nominated Cabinet Member for Resources and Financial Governance the power to make the decisions set out in the recommendations below

### **1. RECOMMENDATIONS**

- 1.1 The Nominated Cabinet Member for Resources and Financial Governance in consultation with the Leader of the Council is recommended by the Contracts and Commissioning Board to approve the award a contract in accordance with Regulation 28.4(c) of the Council's Contracts and Tenders Regulations for the Pensions Administration Software contract to Aquila Heywood for a contract term of 5 years for a maximum contract value of £1.55m

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### 2. EXECUTIVE SUMMARY

- 2.1 This report recommends entering into a 5 year contract with Aquila Heywood for provision and support of a pensions administration system at a contract cost of £1.55m.
- 2.2 Contract costs will be met from the pension fund. Estimated procurement and implementation costs of £3m will be avoided by entering into a direct award with the supplier who are the incumbent supplier.
- 2.3 Note that with the award of this contract the aggregate spend with the supplier from prior contracts increases to £2.3m.
- 2.4 The content of this report has been endorsed by the Contracts and Commissioning Board.

CCB ref. number	CCB Approval Date
CCB1651/20-21	03/02/2021

### 3. DETAIL

- 3.1 The Council currently operates a pension's administration system as part of its responsibilities to administer the Local Government Pension Scheme to over 28000 scheme members and 100 scheme employers.

The Council has contracted with Aquila Heywood for a Pension Administration system since 2007 when the service was insourced. Significant investment has already been made in the solution an integrated solution for pension administration, pensioner payroll, member self-service and employer self-service. The current contract is due to expire on 31 March 2021 and has a value of £1.3m. Aggregate spend with the supplier therefore will total £2.3m.

- 3.2 A soft market testing exercise has been undertaken to inform the recommended procurement strategy. This has shown that the total cost of ownership (e.g. software licence costs, hosting and support charges, training) over a 5 year contract period is similar across market leading suppliers.
- 3.3 The products offered are broadly similar, there are no significant business process advantages of moving to a different solution.
- 3.4 Inviting open competition with other providers would require implementation of a new system (therefore adding in change costs to the award criteria which would make it very unlikely that best value could be achieved. A project to replace the existing system would be complex in nature and is expected to be in the region of £3m as the council would need to pay for implementation costs of a new system and the migration and decommissioning costs for the existing arrangements.

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- 3.5 The £3m costs associated with a change of system are avoided by approaching Aquila Heywood to negotiate a direct award without a prior call for competition, for the ongoing provision of the existing pensions administration system for a further 5 years which is the minimum term offered by the provider.

A further competition exercise via a framework or tender exercise where the result could mean the implementation of a new solution from an alternative provider would far outweigh the current costs and the single source costs.

### 3.6 **SOCIAL VALUE**

Discussions were held with the provider as part of a negotiated procedure to determine any social value benefits that could be provided. No Croydon specific or measurable social value deliverables were offered by the supplier.

- 3.7 The supplier proposal was evaluated by the service with support from Procurement to ensure the proposal is value for money by comparison with similar services available via the national LGPS framework.

- 3.8 Croydon terms and conditions will be developed specifically for IT contracts. The contract will continue to be managed by the pensions team manager.

- 3.9 The supplier declined to enter the early payment (PSP) scheme.

### 3.10 **Section114 Essential Spend**

The requirement is considered to meet the essential spend criteria and *has been approved by the Executive Director at Resources DLT on 15/12/20.*

No new agreements which incur expenditure (at any time) is permitted to be entered into unless authorised by the CFO (section 115(6)). The CFO may only authorise expenditure that improves the situation, prevents it from getting worse, or prevents it from recurring. (s115(6A) of the LGFA 1988)

### **The continuation of the pensions administration software supports the payment of staff pensions.**

- existing staff payroll and pension costs;

The following criterion is also considered relevant where the costs of implementing an alternate system will be avoided by continuing with the current provider.

- expenditure to prevent the financial situation getting worse: the award will meet this by avoiding £3M spend on change costs.
- The resource costs associated with a decision to reprocur the service and implement a new system are estimated at £3m.

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- A recruitment freeze is in place preventing acquisition of the necessary resources. A large spend of £3m will be avoided against the context of a £80m budget shortfall across the Council.

### **3.11 EXIT STRATEGY**

During the term of the contract the Council will retender and seek competitive tenders. The Council will need to consider budget impacts for the change costs and resourcing for what will be a complex programme of work funded by the pension fund. Consideration needs to be given to the next contract length to avoid unnecessary system changes and associated costs.

## **4. CONSULTATION**

Consultation has taken place with colleagues in legal, ICT, finance and procurement.

## **5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

5.1.1 Budget to fund the cost of the 5 year agreement, will be met by the pension fund. The pension fund however needs to avoid unnecessary expenditure to ensure no shortfalls and maintain investments to provide returns to the fund.

5.1.2 A financial health check has been undertaken which has confirmed that Aquila Heywood Ltd are a financially sound company.

### **5.2 The effect of the decision**

5.2.1 The contract will commit the council to contract costs of £1.55m over the five year contract term. The total cost of this contract will be met by the Pension Fund.

### **5.3 Risks**

5.3.1 There are no risk free options.

5.3.2 The value of the proposed contract is above PCR thresholds. If challenged by a third party in this respect there is a risk that the contract might be found to be ineffective. The contract will need provision for a no cost termination to mitigate this risk. However the risk is weighed against the value of avoiding unnecessary project spend costs of £3m set against the context of the S114 notice.

5.3.3 The risk is considered low. There have been no FoI requests received in the last couple of years specifically for pensions administration IT systems. We have established that the market is not large which limits the number of competitors able to challenge. Pensions administration software is not a high profile area, any reputational issues will be minimal if there were a successful challenge.

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5.3.4 Market test conversations with suppliers suggest they only bid if they are confident of winning as the implementation and change from other solutions is complex and expensive.

5.3.5 The incumbent is not willing to offer a shorter term than five years. Although a longer period was considered the recommendation is to not commit to a longer term.

Other risks are summarized below

Issue and Risk Profile to be managed	Likelihood	Impact	Rating	Mitigation
Inadequate arrangements for the provision of the Council's pensions administration system impacts on the ability of the Council to: <ul style="list-style-type: none"><li>• process pension payments and lump sums on time</li><li>• maintain service provision in the event of the loss of access to the main office</li><li>• hold personal data securely</li><li>• comply with LGPS, TPR requirements and other regulations</li></ul>	4	5	20	Implement the recommendations set out in this report to award will ensure that the Fund has a fit for purpose system and infrastructure to meet the challenges of the ever changing complexities surrounding pensions
Risks to service delivery from non-availability	3	3	9	KPI-SLA regime to be monitored throughout the contract, along with confirmation of provider's business continuity plan

## 5.4 Options

5.4.1 Detailed options are set out in section 12 of the report

## 5.5 Future savings/efficiencies

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- 5.5.1 Inviting competition with other providers would require implementation of a new system adding in change costs to the award criteria which would make it very unlikely that best value could be achieved. A project to replace the existing system will be complex in nature. In addition to software costs (£1.55m) the council will need to pay for implementation costs of a new system and the migration and decommissioning costs for the existing arrangements.
- 5.5.2 The resource costs associated with a decision to reprocur the service and implement a new system are estimated at £3m.
- 5.5.3 A recruitment freeze is in place preventing acquisition of the necessary resources. A large spend of £3m will be avoided against the context of a £80m budget shortfall across the Council.
- 5.5.4 A small saving of £13,500 against the contract price has been proposed by the supplier.

Approved by: Felicia Wright Head of Finance on behalf of the Section 151 Officer

## **6. LEGAL CONSIDERATIONS**

- 6.1 The report details relevant legal considerations

Approved by Sonia Likhari, Solicitor, on behalf of the Director of Law and Governance & Deputy Monitoring Officer

## **7. HUMAN RESOURCES IMPACT**

- 7.1 This paragraph should include any considerations in relation to staffing levels, restructuring/regrading, recruitment, employee relations, the Council's personnel policies or other human resources matter.

Approved by: Gillian Bevan on behalf of the Director of Human Resources

## **8. EQUALITIES IMPACT**

- 8.1 An Initial Equality Analysis was undertaken to assess the likely adverse impact the support services would have on protected groups compared to non-protected groups. The analysis concluded that a full equality analysis was not required because the procurement of a pensions administration systems would not have any adverse impact on protected groups compared to non-protected groups.

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### 9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts identified resulting from this report

### 10. CRIME AND DISORDER REDUCTION IMPACT

10.1 None identified.

### 11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

11.1 There were no significant business process advantages of moving to a different solution.

11.2 There are no savings to be gained from moving to an alternative provider, a small contract saving of £13,500 has been offered by the supplier. Additionally a spend of £3m for implementation costs to change solutions will be avoided.

### 12. OPTIONS CONSIDERED AND REJECTED

Option	Advantages	Weaknesses	Impact if chosen
(1)Do nothing – let contract lapse and do not reprocure	None identified	The pensions fund will not have the use of a software system to support the administration of LGPS severely impacting business continuity and preventing the fund from meeting it's statutory obligations.	Pensions administration will be severely compromised
(2)In house provision	In house developed admin software could save money on external provision	No in house capability exists to develop and maintain a pensions administration solution	No solution available so not viable option
(3)Single source through direct award or variation to current contract	Meets the needs of the business. No cost of change will be incurred	May result in challenge from other providers if non compliant with	Ensures council has contract to facilitate uninterrupted pensions

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	<p>No risk to ongoing delivery of the pensions administration service.</p> <p>Other internal resources costs of procurement will also be avoided to free up time to work on council cost saving targets</p>	<p>procurement regulations</p>	<p>administration with a provider whose solution meets council requirements.</p> <p>Only viable option to avoid impact and costs associated with a major system change.</p>
<p>(4)Procure and implement a different solution via National LGPs framework</p>	<p>Compliance with procurement regulations and directives.</p>	<p>The most economically advantageous tender (MEAT) may not be from the incumbent supplier. Implementing a system from an alternative supplier is expected to outweigh any benefits. The cost of change is significant.</p> <p>Internal resource costs of procurement</p> <p>Large implementation costs to be borne by pension fund.</p>	<p>Would test value for money and ensures compliance with procurement regulations, but potentially at a significant cost to the Council.</p>
<p>(5)Procure outsourced pensions administration services and pass provision of the system to an outsourced service</p>	<p>Passes risk of software provision to service provider</p>	<p>Significant risks to pension fund associated with the outsourcing of pensions administration service which may result in financial</p>	<p>Enables delivery of pensions administration software as subset of wider service provision.</p>



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provider		loss and/or reputational damage.	
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### 13. DATA PROTECTION IMPLICATIONS

#### 13.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

**YES**

This includes the recording of protected characteristics including, age, gender and marital status. Therefore specific general data protection clauses will be inserted into the terms and conditions along with an existing data processing agreement to ensure adequate protections are in place.

#### 13.2 HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

**YES**

A data privacy impact assessment will be undertaken as personal data is processed in relation to the administration of the Local Government Pensions Scheme to members and pensioner payroll.

The Director of HR comments that the DPIA will be signed off by DPO once the contract has been awarded, the DPIA is a live document and can be amended during this process.

Approved by: Victoria Richardson on behalf of the Director of HR

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#### **CONTACT OFFICER:**

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#### **BACKGROUND PAPERS:**

Equalities Analysis  
Data Protection Impact assessment  
Market Assessment  
Detailed Project Cost Figures