

**FALKIRK COUNCIL**

**Subject: PENSIONS ADMINISTRATION SYSTEM**  
**Meeting: PENSIONS COMMITTEE**  
**Date: 12 DECEMBER 2013**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 This report sets out the reasons for a replacement computerised administration system being sought by the Pensions Section.

**2. BACKGROUND**

- 2.1 Falkirk Council is one of eleven Scottish Local Authorities with responsibility for administering the Local Government Pension Scheme (LGPS) in Scotland. All other ten Scottish fund authorities use a product known as Axis/Altair which has been developed and maintained over a long number of years by Heywood, a leading supplier of pensions administration software. Falkirk Council, alone, uses an in-house software application for its scheme administration requirements.
- 2.2 The in-house system has served the Pensions Section ably for the past 20 years, delivering an efficient and effective administration solution which has allowed the Section to have one of the lowest per capita administration charges over many years.
- 2.3 However, the system is heavily dependent on the Pensions Manager's intimate knowledge of the system and on the Council's ICT team to deliver the system development.
- 2.4 The current environment of major pensions reform means that it has become increasingly difficult for the in-house system to keep pace with statutory developments and member expectations.

**3. REASONS FOR CHANGE**

- 3.1 There are a number of reasons why it is no longer considered appropriate to place longer term reliance on the in-house system:
- i) The extent of system development needed to make the in-house system 2015 compliant would be considerable, with the Pensions Manager and Pensions Project Officer having to re-direct their resources almost exclusively to the project;
  - ii) The programming code and underlying database of the in house system are deemed old technology and are unlikely to be supported by vendors beyond the immediate future;
  - iii) Final details of the new scheme will not be known until spring/summer of 2014. This could result in there being insufficient time for in house developments to be completed by April, 2015;
  - iv) The Council's recently revised ICT strategy makes clear that the Council will not support large enterprise systems where market alternatives are available;
  - v) Retention of the in-house system means that knowledge of a key corporate function would remain vested in a small number of individuals, exposing the Fund to an unacceptable level of risk; and

- vi) Even if the in-house system were capable of meeting the demands of LGPS 2015, it is unlikely that in house development could deliver the type of point and click features expected by employers and members in the digital age (e.g. member and employer online calculations and updates).
- vii) Recent developments in relation to annual allowance tax charges, pension sharing on divorce and auto enrolment have stretched both the technical capabilities of the in house system and the ability of ICT to deliver developments promptly, such that further evolution of the in-house system appears challenging.

3.2 Whilst migration to a package solution will meet the Council's basic need for a fully functioning administrative system, it also delivers the following advantages:

- Responsibility for complying with pensions scheme legislation would be transferred to the package provider; and
- If, at some future time, the Scottish Government were minded to merge the administrative functions of Funds, then integration would be much easier, if Falkirk were to be on the same platform as all other Scottish Funds.

#### **4. COST AND OTHER CONSIDERATIONS**

4.1 The cost of a new system will not be fully known until a tendering process has been undertaken. However, it is estimated that the initial set up cost could be around £400k with an annual charge thereafter of around £120k. The initial charge would cover system set up, consultancy, licences, data migration and training costs. The current annual cost for the in-house system is around £50k p.a. inclusive of the Pension Manager's time in supporting the system.

4.2 In 2012/13, the per member administration cost of the Pension Section was £14.37, which was the lowest in Scotland. The future package solution licence charges would increase that annual cost capita charge by approximately £3.00 to £17.37, which would then make Falkirk the second lowest in Scotland. The average per capita charge in Scotland is £26.25.

4.3 The cost of purchasing and operating the package would be met by the Pension Fund.

4.4 The option of joint delivery with another Fund has been considered but discounted, because it would not deliver best value for the Fund for the following reasons:

- The Fund would still have to meet the one-off migration costs of around £400k in order to get its data converted into the correct format and migrated onto the same platform as the partner Fund;
- The supplier of the system used by all other Scottish Funds has confirmed that if Falkirk were to partner another Scottish Fund and use its software, the licence charges for that Fund would increase by the amount that would have been paid by Falkirk. So there would be no saving accruing to either Council.
- The next lowest annual per capita charge in 2012/13 is £19.42. If Falkirk were to combine administration with that Fund, the annual charge would increase by £3.00 for the package licences plus a further £2.05. This option would be more expensive for the Fund and would result in some loss of control in relation to data management and service availability, and a loss of resilience through dependence on another Council's resources and technology infrastructure.

## **5. CONCLUSION**

- 5.1 The extent of changes being made to the Local Government Pension Scheme mean that substantial re-development of the in-house computerised administration system is required.
- 5.2 The system is underpinned by old technology and has reached a point where extensive development will incur substantial costs. Simultaneously, the Council's ICT team has indicated that they no longer have the resources or capacity to support this type of in-house development, (i.e. where alternative products are available in the market place).
- 5.3 The Council has a statutory obligation to operate and maintain a pension fund for its employees and those of designated employers. A computerised administration system is fundamental to meeting this statutory obligation. In order to have a compliant system in place for April, 2015, it is intended to approach the market. Tender documents are in the process of being prepared with the aim of a new system being in place by late summer/autumn of 2014. .
- 5.4 Whilst migration to a package solution may result in some short term disruption to normal standards of service, the end result should be to give Fund stakeholders an administrative system that is guaranteed to meet statutory requirements with state of the art functionality for stakeholders going forward. In terms of longer term service delivery, it will increase the Fund's service delivery options, reduce key man risk and deliver greater resilience.
- 5.5 The tender process will be taken forward in accordance with the Council's Contract Standing Orders.

## **6. RECOMMENDATION**

- 6.1 **The Committee is asked to approve the procurement of a replacement computerised pensions administration system.**

Chief Finance Officer, Tel: 01324 5063000

**Date: 28 November, 2013**

## **BACKGROUND PAPERS**

NIL