

Finance and Resources Committee

10.00am, Tuesday, 12 June 2018

Procurement Governance and Contract in respect of Integrated Pensions Administration & Payroll Software (Ref: CT0400) – referral from the Pensions Committee

Item number	7.12
Report number	
Executive/routine	
Wards	All
Council Commitments	

Executive summary

On 26 March 2018 the Pensions Committee considered a report on the governance and procurement of service providers for the three pension funds. The report also advised of the approval of the award of contract for the delivery of the 'Integrated Pension Administration and Payroll Software System', which was done in accordance with the Council's urgency provisions. The report is referred to the Finance and Resources Committee for information.

Terms of Referral

Procurement Governance and Contract in respect of Integrated Pensions & Payroll Software System (Ref: CT0400)

Terms of referral

- 1.1 In order to administer the Local Government Pension Scheme (LGPS) in Scotland, Lothian Pension Fund (LPF) required a stand-alone Information Technology (IT) software system for purposes of administering its pension and payroll business. The system would provide benefit entitlement calculations and payments in compliance with relevant LGPS.
- 1.2 The Pensions Committee agreed:
 - 1.2.1 To note that a proposal would be made to the City of Edinburgh Council that minor clarifications were carried out to governance documentation to ensure that all pension matters (including contracts) would be exclusively in the remit of the Pensions Committee.
 - 1.2.2 To note the decision of the Executive Director of Resources, in consultation with the Convener of the Finance and Resources Committee and in accordance with Council's urgency provisions, to the award of contract to Aquila Group Holdings Limited ("Aquila Heywood") subject to agreement regarding mutually acceptable Terms and Conditions, for the provision of the Integrated Pensions Administration and Payroll Software System.
 - 1.2.3 To note that the proposed contract was for an initial 10 year period commencing in March 2018 with an option to extend for up to 2 further periods of 2 years each.
 - 1.2.4 To refer the report to the Finance and Resources Committee for information.

For Decision/Action

- 2.1 The Finance and Resources Committee is asked to note the award of the contract under urgency provisions.

Background reading / external references

Pensions Committee, 26 March 2018.

Laurence Rockey

Head of Strategy and Insight

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Appendices

Appendix 1 – report by the Executive Director of Resources

Pensions Committee Report

2.00pm, Monday, 26 March 2018

Procurement Governance and Contract in respect of Integrated Pensions Administration & Payroll Software System (Ref: CT0400)

Item number	5.14
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

This report considers the governance of the procurement of service providers for the three pension funds.

It also advises of the approval of the award of contract for the delivery of the 'Integrated Pension Administration and Payroll Software System' (ref: CT0400). This has been actioned, in accordance with the Council's urgency provisions, by the Executive Director of Resources, in consultation with the Convenor of Pensions Committee and Finance and Resources Committee.

Pensions Committee Report

Procurement Governance and Contract in respect of Integrated Pensions Administration & Payroll Software System (Ref: CT0400)

1. Recommendations

Committee is requested to:

- 1.1 Note that a proposal will be made to the City of Edinburgh Council that minor clarifications to governance documentation to ensure that all pension matters (including contracts) shall be exclusively in the remit of the Pensions Committee;
- 1.2 Note the decision of the Executive Director of Resources, in consultation with the Convenor of Pensions Committee and Finance and Resources Committee and in accordance with Council's urgency provisions, to the award of contract to Aquila Group Holdings Limited ("Aquila Heywood"), subject to agreement regarding mutually acceptable Terms and Conditions, for the provision of the Integrated Pensions Administration and Payroll Software System;
- 1.3 Note that the proposed contract is for an initial 10 years period commencing in March 2018 with an option to extend for up to 2 further periods of 2 years each; and
- 1.4 Refer this report to the Finance and Resources Committee.

2. Background

- 2.1 In order to administer the Local Government Pension Scheme (LGPS) in Scotland, Lothian Pension Fund (LPF) requires a stand-alone Information Technology (IT) software system for the purposes of administering its pension and payroll business. The system will provide benefit entitlement calculations and payments in compliance with relevant LGPS Regulations.
- 2.2 This is an ongoing legislative requirement of City of Edinburgh Council as an administering authority of the LGPS.
- 2.3 The proposed procurement would replace a total of three existing contracts:
 - 2.3.1 Pension administration software, including integrated pensioner payroll (Software Licence Agreements CL/433);
 - 2.3.2 Member Self Service (Web-Based) for Pension Administration System (Contract Ref: 3825/PB);
 - 2.3.3 Employer (On-line) Portal for Pension Administration System (Contract Ref: 3715/PB);thereby providing a more efficient, fully integrated solution.

- 2.4 The incumbent supplier for the core software is Aquila Heywood and it has responsibility for delivering the first two of these contracts. This procurement exercise offered an ideal opportunity to combine all three services for delivery of a more integrated, efficient and cost-effective service.
- 2.5 LGPS administering authorities in Scotland were consulted at the procurement planning stage to gauge their interest, on a purely non-committal basis, in potentially utilising the proposed service at some point in the future. A total of seven such authorities expressed interest and these were each named in the published Invitation to Tender (ITT) documents. Should any of these chose to do so, they will be responsible for entering into their own contractual arrangement with Aquila Heywood at that time.

3. Main report

Committee Approval of Provider Appointments

- 3.1 The Terms of Reference (ToR) for the Pensions Committee are sufficiently broad to capture all business relating to the pensions funds. However, they do not expressly refer or cross-refer to all aspects dealt with elsewhere in the document (including contracts). While there is express carve out from the ToR of the Council's Finance and Resources Committee for matters delegated to another Committee, customary practice has been for contract approval to be sought from the Finance and Resources Committee.
- 3.2 Further, the Scheme of Delegation read together with the current Contract Standing Orders (CSO) determines how officers are to proceed in carrying out contract and procurement processes. They include an express carve-out to allow for (rather than require) relevant pensions contracts to approved by the Pensions Committee.
- 3.3 Following discussion with Committee Services, it is proposed to make minor clarifications to the governance documentation to ensure all pension matters (including contracts) should be exclusively in the remit of the Pensions Committee. It is anticipated that this would be the expectation of the Pensions Committee and its other external and internal oversight bodies and regulators. The next review of the ToR is expected to be considered by Council in June 2018.

Integrated Pension Administration and Payroll Software System

- 3.4 This is a somewhat specialised requirement and supply market analysis confirms that there are relatively few potential suppliers in the UK market, which currently have the necessary technical depth of knowledge and experience of legislation affecting LGPS administration.
- 3.5 Following publication of a Prior Information Notice, a series of supplier engagement meetings were held with organisations which expressed interest. Information and feedback gleaned from these meetings helped inform the final Specification requirements which were subsequently developed. An open procurement competition was then undertaken to source an appropriate contractor.

- 3.6 In addition to the required OJEU notification, an Invitation to Tender was published on Public Contracts Scotland, giving potential bidders 30 days in which to prepare and submit their tender bids. In addition to submitting their formal written tender bid, all tenderers were required to deliver a presentation in order to demonstrate the functionality and effectiveness of their proposed software solution.
- 3.7 A total of four organisations submitted tender bids. Technical evaluation of the bids was conducted on the 'Most Economically Advantageous Tender' (MEAT) basis, using a quality / price ratio of 70:30. To further ensure the quality of the recommended tender bid, a pre-set quality threshold of 65% of the maximum available marks was enforced.
- 3.8 The following table gives a summary of the scores awarded to each of the bids received in respect of both Quality and Price:

Organisation	Weighted Quality Score (maximum 70)	Weighted Price Score (maximum 30)	Overall Total Tender Score (maximum 100)
Aquila Group Holdings Limited	65.662	30.000	95.662
Tenderer 2	68.522	26.861	95.383
Tenderer 3	47.968	12.163	60.131
Tenderer 4	44.164	*	**

* Note that Tenderer 4's response to the scored Quality questions failed to pass the pre-set quality threshold of 65% of the 'pre-weighted' marks available and so their tender pricing proposal was not scored.

- 3.9 A further summary of the tendering / tender evaluation processes is included in the Appendix.

4. Measures of success

- 4.1 Compliant and efficient procurement processes to achieve the necessary services for the pension fund and achieve best value.
- 4.2 Ultimately, the success of the contract delivery will be judged by the effectiveness and efficiency of the service provided. To facilitate the effective management of the service, a series of seven Key Performance Indicators (KPIs) have been included in the Specification Requirements and these will assist with the monitoring and measurement of performance on an on-going basis.

5. Financial impact

Procurement Governance

- 5.1 There are no direct financial implications as a result of this report. However, Committee should be aware that providers are able to challenge a procurement process which has not been undertaken appropriately and there are significant financial consequences of successful challenges.

Integrated Pension Administration and Payroll Software System

- 5.2 At the procurement planning stage, analysis of the current three contracts which have delivered the services over the past four full years (2012 – 2016) shows average spend during that period of £322,422 per annum.
- 5.3 The total bid price of £2,949,429.60 tendered by Aquila Heywood for the maximum 14 years period of the contract (including extensions) equates to an average of £210,654 per annum. This represents an average saving of £111,768 per annum (almost 34.7%) over the full fourteen years term. It should be noted that a greater proportion of these savings shall accrue in the later years of the contract.
- 5.4 Advice must be sought from Commercial and Procurement Services prior to committing the Council to any contract variation or extension, including any proposed price changes.
- 5.5 The costs associated with procuring this contract are estimated, by the Chief Procurement Officer, at between £20,001 and £35,000. This is in accordance with the application of cost bandings, as shown below:

	Estimated Staff Cost
ROUTE ONE Relatively low value, risk and a non- repetitive nature	Up to £10,000
ROUTE TWO Moderate value and risk	£10,001 - £20,000
ROUTE THREE High value/high risk/strategic procurements	£20,001 - £35,000

6. Risk, policy, compliance and governance impact

Procurement Governance

- 6.1 There are risks of providers challenging the award of a contract where a procurement process has not followed due process.

Integrated Pension Administration and Payroll Software System

- 6.2 The impact of potential “User Acceptance Testing” failure at implementation phase was considered at procurement planning stage. In order to offset the considerable additional expense which would be incurred should it prove necessary to extend the current contract arrangements in this circumstance, tenderers were required to include a Service Credit offer as part of their tender bid submissions. Service Credit offers were evaluated and scored as part of the overall evaluation process.
- 6.3 The tender bid received from Aquila Heywood included detailed information to suggest that they have the necessary technical ability, together with comprehensive proposals to ensure appropriate data security protocols and data sharing arrangements, good customer service, and management of the service delivery.
- 6.4 A validation of the financial standing (“Financial Probity Evaluation”) of Aquila Heywood was conducted and confirmed that it comfortably meets the minimum criteria stipulated in the Invitation to Tender documents and is therefore considered to be financially sound.

7. Equalities impact

- 7.1 There are no direct equality and rights impacts arising from this report.
- 7.2 Aquila Heywood has given assurances that it does not intend to employ workers (including any agency or sub-contractor workers) on zero hours contracts. Additionally, it has given assurances that it intends to pay all workers the Living Wage.

8. Sustainability impact

- 8.1 There are no direct impacts on carbon, adaptation to climate change or sustainable development arising directly from this report.

9. Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

10.1 None.

Stephen S. Moir

Executive Director of Resources

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11. Appendices

Appendix 1 - Integrated Pension Administration and Payroll Software System – Summary of Tendering and Evaluation Processes

Integrated Pension Administration and Payroll Software System – Summary of Tendering and Evaluation Processes

Contract	Integrated Pension Administration and Payroll Software System	
Contract period (including any extensions)	March 2018 to March 2032 (provisional) (including up to 2 extension periods of 2 years each – a total of up to 4 years).	
Estimated contract value	£2,947,429.60 (including possible extensions).	
Procurement route chosen	Open Tendering procedure	
Tenders returned	4	
Recommended supplier	Aquila Group Holdings Limited	
Price / Quality Split	Quality 70%, Price 30%.	
Evaluation criteria and weightings and reasons for this approach	Criteria	Weighting
	Technical Functionality	22.5%
	Pension Administration Functionality	32.0%
	Pension Payroll and Immediate / Irregular Payment Functionality	17.5%
	Digital Services	18.0%
	Development and Implementation Plans	10.0%
	The quality, accuracy and reliability of the service delivery was recognised as being more important than the cost because of the critical nature of the service itself.	
Evaluation Team	Three officers from Lothian Pension Fund, with advice and guidance from Chief Procurement Officer	