

Revised draft – awaiting clarification on CIVICA costs



# East Sussex County Council (ESCC)

## Orbis Pensions Systems Assurance Review

### *Assurance Report – Draft*

4 July 2017



## Contents

<b>1.</b>	<b>Introduction.....</b>	<b>2</b>
<b>2.</b>	<b>Scope &amp; Approach .....</b>	<b>2</b>
<b>3.</b>	<b>Executive Summary .....</b>	<b>3</b>
	<b>Appendix I - Key documents and information reviewed as part of our assurance work .....</b>	<b>7</b>
	<b>Appendix II - Key staff / stakeholders we met or spoke with as part of our assurance work .....</b>	<b>8</b>

*The contents of this report are confidential and not for distribution to anyone other than addressees of the report. Disclosure to third parties cannot be made without the prior written consent of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registered number OC308299. A list of Mazars LLP partners' names is available for inspection at the firm's registered office, Tower Bridge House, St Katharine's Way, London, E1W 1DD.*

© Mazars LLP 2017

## 1. Introduction

The background and outline scope of work was discussed initially with Kevin Foster (ESCC, Chief Operating Officer) and others at a meeting on 21 March 2017. The scope of work and approach was then discussed in more detail with Simon Pollock (Orbis, Head of Business Operations), Keith Coleman (Orbis, Head of Contract and Supply Management), and Mike Lea (Orbis, Business Operations Infrastructure) at a meeting on 27 April 2017.

In summary, Mazars have been engaged to undertake an independent and objective review of the Orbis Business Operations recommendation to continue using the existing Heywood Altair Pensions Administration System for the East Sussex Pension Fund (ESPF). This recommendation was taken to the East Sussex Pension Board and Pension Committee (ESPF Board and Committee) in February 2017.

Our work for this report involved **5 personnel days** in May, June and July 2017.

## 2. Scope & Approach

The **scope** of our work includes an independent and objective review of the Orbis recommendation to continue with a contract with Heywoods pension system.

The **approach** we discussed was for Orbis Business Operations to prepare a ‘crisp’ summary of the system options evaluation that underpinned the recommendation together with clearly signposted supporting reference materials.

We discussed the need to present the evaluation across a range of relevant criteria (including functional requirements; non-functional requirements; supplier due diligence; cost; risk; and complexity). We also discussed the need to separate implementation considerations and wider shared services considerations from the side-by-side options assessment to avoid ‘blurring’ the evaluation and recommendation.

Further, we discussed the benefit of showing the options evaluation at three points in time: February 2017 (latest recommendation); April 2016 (recommendation in Business Case); and February 2015 (recommendation based on market testing and procurement exercise) as we understand the more recent evaluations essentially build on the prior ones.

For this assurance report we reviewed several documents as detailed in Appendix I, and discussed these with the key staff and stakeholders detailed in Appendix II.

This **report** summarises at a high level ‘key themes’ from our assurance work that we have discussed and validated with Kevin Foster, Simon Pollock and Phil Hall.

*We have reported on matters which appeared to us significant, but our assurance work may not have revealed matters which could have been identified by a more detailed investigation.*

### 3. Executive Summary

Area	Key Themes
3.1 Overall	<ul style="list-style-type: none"> <li>In summary, based on our review of the information provided and discussions with staff and stakeholders, we believe the Orbis Business Operations team recommendation to the ESPF Board and Committee in February 2017 to continue using the existing Heywood system for the ESPF <b>appears sound</b>. This takes into account the current performance of the Heywood system together with the cost, time, disruption and risk of moving to a new system.</li> <li>However, with hindsight, the Orbis team acknowledge that a <b>more clearly laid out option evaluation</b> would have helped stakeholders to better understand the underpinning rationale to continue with Heywood. We have detailed further below an approach that should help when a more formal review of market alternatives is undertaken.</li> <li>Further, the Orbis team acknowledge that they should have <b>engaged with stakeholders much sooner</b> before the need to extend the old Heywood contract and then enter into a new contract. There is an opportunity for the Orbis team to ‘reset’ on this with ESPF Board and Committee members when undertaking the formal review.</li> </ul>
3.2 Context	<ul style="list-style-type: none"> <li>The Orbis team recommendation to continue using the existing Heywood system for ESPF should be understood in the context of the following key events / activities: <ul style="list-style-type: none"> <li>➤ <b>April 2013:</b> Orbis Business Operations became responsible for ESPF administration.</li> <li>➤ <b>January 2015:</b> Option analysis undertaken leading to a decision to leverage existing frameworks as opposed to either set up another framework or run an EU compliant tender process. The decision was based on the small market of viable solutions together with the time and cost associated with the other two options.</li> <li>➤ <b>February 2015:</b> RFI issued to three suppliers (Heywood, Civica and Equiniti) on the two existing frameworks available. Equiniti declined to respond due to lack of credentials in the sector. Four hour presentations were held with the two respondents with a range of stakeholders present. Market research was undertaken together with discussions with existing customers of both systems. This approach supported an assumption that Heywood and Civica were viable solutions rather than undertaking a detailed assessment of functional requirements and non-functional requirements at this stage.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>➤ <b>March 2015:</b> Clarification and negotiation discussions held with the two suppliers.</li> <li>➤ <b>April 2015:</b> One year contract extension signed with Heywood with termination date 31 March 2016.</li> <li>➤ <b>January 2016:</b> Business case developed exploring Heywood and Civica options.</li> <li>➤ <b>February 2016:</b> Business case submitted to Pension Committee for approval of recommendation to enter into a new 5 year contract with Heywood plus initial investment for licensing and implementation costs. Approval granted with stipulation of a 3 year break clause and need to keep an eye on market alternatives.</li> <li>➤ <b>April 2016:</b> New contract signed with Heywood including 3 year break clause.</li> <li>➤ <b>February 2017:</b> Update provided to the Pension Board on the effectiveness of the current Heywood system and market alternatives. The update concluded that the current performance is good and that there was no compelling case to change to Civica or another system at that time. The Orbis team confirmed they will continue to keep an eye on market alternatives and plan to undertake a more formal review.</li> </ul>
<b>3.3 Performance of the Current Heywood System</b>	<ul style="list-style-type: none"> <li>• From discussions with Orbis staff we understand that the current Heywood system <b>continues to perform to expected standards</b> with minimal service interruptions and a number of enhancements either implemented or planned.</li> <li>• We further understand there is a <b>good working relationship</b> with Heywood who appear committed to quality and continuous improvement both with Orbis and the LGPS market.</li> </ul>
<b>3.4 Appropriateness of Procurement Approach</b>	<ul style="list-style-type: none"> <li>• In the context of a small market of viable solutions, together with the time and cost of alternate procurement exercises, the decision to <b>leverage existing framework arrangements</b> appears appropriate.</li> <li>• The <b>RFI process</b> focused on five core areas namely information about the supplier company; quality; process optimisation; licensing and shared service partnership. Recognising that Heywood was the existing system and that the Orbis team could speak directly with LGPS Civica customers, the decision to avoid a detailed analysis against functional and non-functional requirements appears appropriate. The Orbis team confirmed that if the evaluation pointed to a potentially compelling case for change then detailed requirements analysis would have been undertaken.</li> </ul>

### 3.5 Robustness of System Evaluation

- The above steps narrowed the evaluation down to two systems, Heywood Altair and Civica Universal Pensions Management (UPM).
- As mentioned above, rather than a detailed assessment against **functional and non-functional requirements**, the Orbis Business Operations team were satisfied with the information available in the market and the RFI process that both Heywood and Civica were viable solutions for ESPF.
- Consequently, the business case focused on **costs** which concluded that despite significant annual operating cost savings with Civica, the implementation cost of that system was prohibitive with return on upfront investment 6-7 years. [The Heywood option is modelled at £184,000 lower cost than the Civica option over a five year period TBC].
- In addition to cost, the business case made significant reference to the time, disruption and risk associated with the **implementation effort** of moving to Civica. Further, the business case made reference to the dis-benefits of moving to a new system in the context of the wider Orbis **shared services strategy**.
- In summary, in 2016 the **upfront cost and effort** of implementing Civica ultimately ‘**tipped the scale**’ in favour of the existing Heywood system. At the time of this review, from the market research undertaken by the Orbis team in February this year, there has been no change to this underpinning rationale. The Orbis team continue to monitor the market and plan to undertake a more formal review. This would need an update from suppliers on costs, amongst other areas, to support an accurate and up-to-date evaluation.
- We recommend that the future evaluation is **more clearly laid** out taking into account the following three dimensions:
  - **Evaluation Criteria:** assessing each option side-by-side against a range of relevant criteria including functional requirements; non-functional requirements; supplier due diligence; cost; risk; and complexity. As with the approach taken in 2016, the consideration of functional and non-functional requirements can remain pragmatic until such time that the total cost of ownership of an alternative system looks more favourable.
  - **Implementation Costs and Effort:** overlaying additional implementation considerations to avoid ‘blurring’ with the side-by-side assessment against core evaluation criteria.
  - **Wider Shared Services Strategy:** overlaying wider Orbis shared services strategy considerations including economies of scale, service levels and quality.

<b>3.6 Effectiveness of Stakeholder Engagement</b>	<ul style="list-style-type: none"> <li>• The Orbis team acknowledge that a <b>more clearly laid out option evaluation</b> as described above would have helped stakeholders to better understand the underpinning rationale for their recommendations regarding the best system solution for ESPF going forward. This would have avoided the iterations of follow-up questions and queries.</li> <li>• Further the Orbis team acknowledge that they should have <b>engaged with stakeholders much sooner</b> before the need to extend the old Heywood contract and then enter into a new contract. This would have allowed for greater stakeholder engagement, in particular the ESPF Board and Committee, for informed input / challenge / approval.</li> </ul>
<b>3.7 Clarity and Appropriateness of Decision Making</b>	<ul style="list-style-type: none"> <li>• As part of our assurance work we have referred to the Council’s Constitution which sets out the terms of reference for the ESPF Board and Committee. We have also referred to the Council’s Procurement Standing Orders. Based on our understanding of the approach detailed above, we have <b>not identified any specific issues with the appropriateness of accountabilities</b>, roles and responsibilities around key decisions pertaining to the pension administration system.</li> <li>• However, also as noted above, the Orbis team could have engaged with stakeholders more effectively which would have afforded the opportunity to consult or inform more meaningfully. There is an <b>opportunity for the Orbis team to ‘reset’ on this</b> with ESPF Board and Committee members when undertaking a more formal review.</li> </ul>
<b>3.8 Case for Changing to a New System</b>	<ul style="list-style-type: none"> <li>• Based on the feedback provided about the current performance of Heywood Altair, and the supporting information we have been provided with to date, we believe the <b>Orbis team recommendation</b> in February 2017 to continue with a contract with Heywood <b>is sound</b>.</li> <li>• We agree that a <b>more formal review</b>, clearly laid out as detailed above, would help understand if this underpinning rationale has changed and whether there is a compelling case for moving to Civica or another system.</li> </ul>

## Appendix I - Key documents and information reviewed as part of our assurance work

As part of our assurance work for this highlight report, we referred to the following key documents and information in support of our analysis and findings.

Area	Documents & Information
<b>Procurement Approach</b>	ESCC Pension Overview Final
<b>Procurement Process</b>	RFI Document
<b>Due Diligence</b>	Pension Software Jan 17
<b>Evaluation</b>	Civica East Sussex slides final submitted
	South east shared services – Heywood presentation final
	Final moderated scores – A functional assessment of the Kent Framework providers
<b>Pricing</b>	Civica East Sussex UPM Scenario pricing – final 2 plus updated Indicative Pricing proposal November 2015
	ORBIS commercial model (Incl Hillingdon)
<b>Recommendation</b>	Pension System Business Case ESCCv7
	ESCC Report Administration System v7 Report (Feb 2016)
	Pension Board Report 090217
<b>Governance</b>	The Council’s Constitution which sets out the TOR for the ESPF Board and Committee; Procurement Standing Orders



## Appendix II - Key staff / stakeholders we met or spoke with as part of our assurance work

As part of our assurance work for this highlight report, we met with the following key staff/stakeholders who contributed to the analysis and findings.

Name	Role
<b>Simon Pollock</b>	Orbis - Head of Business Operations
<b>Keith Coleman</b>	Orbis - Head of Contracts and Supply Management
<b>Mike Lea</b>	Orbis - Business Operations Infrastructure
<b>Kevin Foster</b>	ESCC - Chief Operating Officer
<b>Councillor Richard Stogdon</b>	ESCC - Chairman, Pension Committee
<b>Councillor David Elkin</b>	ESCC - Deputy Leader of the Council
<b>Richard Harbord</b>	ESCC - Independent Chair, Pension Board