

## **SOUTH YORKSHIRE PENSIONS AUTHORITY**

**16 February 2012**

### **Report of Clerk and Treasurer**

#### **SOFTWARE SALES**

##### **1. Purpose of the Report**

To seek Members approval in principle for the sale of in-house developed pensions systems to other LGPS Administering Authorities

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##### **2. Recommendations**

**Members are recommended to approve as a matter of principle the sale of internally developed goods and services to other local authorities on a commercial basis.**

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##### **3. Background**

- 3.1 The Authority's Information Technology development team has been in existence for the last fifteen years and during that time they have developed, to the Authority's specification, IT systems that make a significant contribution towards the Fund's excellent performance and efficiency. Although the systems and expertise have evolved over time the Authority now has a suite of programs that underpin almost every aspect of its work.
- 3.2 Local Government Pension Scheme administration is a specialised field and although undertaken nationally by eighty-nine separate administering authorities there has always been a close working relationship between funds both at regional and national level. Officers frequently meet to discuss technical, communication, governance and innovation issues.
- 3.3 Over the years the Authority has provided many demonstrations to colleagues showing them what the team has developed and how work efficiency has improved as a result. Such information has been freely shared in order to assist other funds and provide them with ideas so that they can seek to develop similar systems for themselves.
- 3.4 Recently the in-house team has developed a specific program which is a ready-made solution to managing information to and from the wide range of different employers within the pension fund. This development has received a lot of interest and that has now been translated into a firm offer to purchase this program and another one of our systems from another LGPS administering authority.

##### **4. Selling IT Systems – Risks and Rewards**

- 4.1 The most obvious reward is that selling our IT systems will generate an income which could be used to fund future IT developments or reduce the cost of administration of the pension fund. The preferred approach would be

to provide a licence to the potential client (for a one-off fee) coupled with an annual maintenance contract which would provide them with system upgrades and help-desk support. A further option which could be considered would be to use our network resources to host the service. This would save them considerable hardware costs and would generate even greater income for the Authority.

- 4.2 The potential for sales across the LGPS is significant. It is known that there are few alternatives in the market that can compete with the systems that the in-house team have developed: this is especially true for the program mentioned above in 3.4. However, the Authority is not a commercial enterprise and servicing and supplying an external client would be a challenge. There is, of course, a risk that we might not meet the client's expectations or that in order to satisfy the client we might not be able to maintain the high standard of performance for our internal users.
- 4.3 Discussions have taken place with the potential client about these concerns. Officers are confident that the team can complete the project without incurring any extra costs or disruption to the service to our users. The potential client understands that this would be a new venture for the Authority and is willing to accept that there may be some snagging along the way. The client acknowledges that the price quoted reflects this risk.
- 4.4 Despite the comments above officers would still prefer to exercise caution and treat this sale as a 'Pilot' project and review our future strategy in light of actual experience. The intention would be to produce a full review report for Members to consider the Authority's future strategy.

## **5. Legal Issues**

- 5.1 Advice has been taken from law firm Browne Jacobson on two questions,
  1. Is SYPA legally able to sell the IT systems that have been developed?
  2. What are the tax implications of selling these systems?
- 5.2 The legislation governing local authority trading of goods and services is varied and complex. The fact that the Authority was created by Statutory Instrument and is not a 'traditional' local authority complicates the matter further. However, the advice we have received suggests that the Local Government (Miscellaneous Provisions) Act 1976 allows the Authority to legally sell the IT systems it has developed and to make a profit.
- 5.3 The legal opinion also suggests that the Authority may qualify for a tax exemption from Corporation Tax, Income Tax and Capital Gains Tax. VAT will need to be charged. These issues need to be confirmed with HMRC.

## **6. Implications**

- **Financial** - This project would generate a one-off licence fee and annual support maintenance income.
- **Legal** - See section 5

- **Diversity** - None
- **Risk** - Risk to our own service delivery and reputational risk if we fail to deliver

**Officer responsible:**

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**Background papers** used in the preparation of this report are available for inspection in the Pensions Administration Unit.