

Supplementary Papers



Listening Learning Leading

Contact Officer: Ron Schrieber, Democratic Services Officer
Tel: 01235 422524

FOR THE MEETING OF

Scrutiny Committee

held in the Meeting Room 1, 135 Eastern Avenue, Milton Park, Milton, OX14
4SB

on Tuesday 24 July 2018 at 6.30 pm

Open to the public including the press

8. **Five councils' partnership contracts - finance update** (Pages 2 - 6)
To consider the head of finance's report.

Scrutiny Committee



Report of Head of Partnership and Insight

Author: Simon Hewings

Telephone: 01235 422499

Textphone: 18001 01235 422499

E-mail: simon.hewings@southandvale.gov.uk

Cabinet member responsible: Bill Service

Tel: 01235 510810

E-mail: bill.service@southoxon.gov.uk

To: SCRUTINY COMMITTEE

DATE: 24 July 2018

Five Councils' Partnership contracts – finance update

Recommendation

Scrutiny Committee is asked to note the report

Purpose of Report

1. To provide Scrutiny Committee with an update on the financial position of the Five Councils' Partnership contracts.

Strategic Objectives

2. The efficient and effective delivery of corporate services underpins every strategic objective of the councils.

General Background

3. South Oxfordshire District Council has entered into two contracts ("the contracts") for the provision of corporate services, in partnership with the Five Councils. East Hampshire District Council was not a part of the original procurement but takes services as part of the contracts, through its own partnership with Havant.
4. A comprehensive description of the procurement process and contract arrangements was provided in previous reports to the scrutiny committee and to Cabinet, and is not restated in full here.

LOT 1

5. The Lot 1 contract covers services including accountancy and exchequer, procurement, revenues and benefits, customer services (switchboard and reception), human resources, payroll, information technology, local land charges and licensing. The Lot 1 appointed contractor is Capita Business Services Limited (“Capita”).
6. The Capita response in respect of Lot 1 also included a proposal for innovation and transformation services which would work with the councils to provide specialist expertise, capacity and resources to generate new ideas to improve or enhance retained and contracted-out services throughout the term of the agreement.

LOT 2

7. The Lot 2 contract covers property and estate management, facilities management and car parks. The Lot 2 appointed contractor was VINCI Construction UK Limited, with subcontractors Indigo managing the council car parks and Arcadis providing the property service.
8. Following the selection process, Cabinet approval to enter into contracts with the successful contractors was granted on 28 January 2016. Contracts were signed on 4 April 2016. The agreements are both for an initial term of nine years and two months from 1 August 2016. Subject to extension or earlier termination, the agreements are due to expire on 30 September 2025.
9. The expectation was that the contracts would offer significant savings to all partner councils. The Cabinet report of 28 January 2016 identified an overall “financial” benefit against the base budget across the period of the contracts as follows:
 - Lot 1 saving £8.017m (27.4%)
 - Lot 2 saving £0.910m (15.0%).

These quoted figures related to contractor costs and activity only and did not, for example, reflect the impact of the new client team function

Lot 1

10. In assessing the financial impact of the Capita contract on the council, the “baseline cost” of the functions that were outsourced was determined for comparison against contract cost. This reflects the cost of provision of affected services prior to the contract commencing. The baseline annual cost of services per annum transferred to Capita was £3.25 million, or £29.76 million over the lifetime of the contract.
11. The contract costs payable to Capita vary from year to year, and are higher in the first years of the contract, reflecting the cost of transforming the services to the new operating model. Costs payable to Capita are shared amongst the partner councils in line with the Inter-Authority Agreement (IAA). The council partners are in the process of agreeing a revised IAA. The revised IAA still needs to be signed but the costs shown in this report for South are based on the percentages shown in the revised IAA.
12. Table 1 below shows how spend in the first three years of the contract compares to the baseline, and also shows the nature of fluctuation in spend:

Table 1: Capita contract cost against baseline

	2016/17* £000	2017/18 £000	2018/19 £000
Contract cost	1,915	2,824	3,674
Baseline	2,164	3,246	3,246
Variance	(249)	(422)	428

* The contract began on 1 August 2016 so these are part year figures

13. The original “financial benefit” against base budget for all councils was estimated to be 27.4 per cent. The “financial benefit” reflected not only “core savings” reflecting reductions in contract costs, but also estimated savings to the council arising from procurement activity managed by Capita, and also from activity arising from the Capita innovation hub.
14. As agreed by Cabinet and Council in December 2017, the renegotiation of the contract means that the financial benefit associated with the procurement and innovation hub elements of the contract is now significantly reduced. However, this means that the savings realizable to the council from activity that would have been delivered by these workstreams will not now need to be shared with Capita.
15. The contract cost element has also increased to reflect increased costs of the procurement function as the original Capita costings for this function were net of some of the procurement savings. However, there was also a reduction to reflect the licensing service transferring back to the council in February 2018. It is now estimated that the contract cost savings will approximately £3 million over the lifetime of the contract.

Lot 2

16. For Lot 2, the baseline cost of services transferred to VINCI was £730,000. Table 2 below shows how spend in the first two years of the contract compares to the baseline.

Table 2: VINCI contract cost against baseline

	2016/17* £000	2017/18 £000
Contract cost	558	876
Baseline	487	730
Variance	71	146

* The contract began on 1 August 2016 so these are part year figures

Although the costs are above the baseline, these include additional reactive works that the council would have requested over and above works included in the baseline.

17. The VINCI contract came to an end at the end of March 2018. The termination cost, and South’s share of that cost, are yet to be finalised.

Client team costs

18. For the previous Capita contract that existed before the Five Councils' Partnership started, a client team existed within the finance service. The annual cost of this client team was £145,000.
19. For the Five Councils' Partnership, the existing client team was subsumed within a broader Joint Client Team covering both Lot 1 and Lot 2. The estimated cost to South of the JCT for the first two years of the contract is shown in comparison to the original client team budget in table 3 below.

Table 3: Joint Client Team costs

	2016/17* £000	2017/18 £000
Original client team cost	97	145
Estimated JCT cost	153	229
Increase in client team cost	56	84

* The contract began on 1 August 2016 so these are part year figures

20. The JCT is in the process of being restructured. As a result of that restructure the council staff that transferred to the JCT in August 2016 have returned to the council in interim roles pending the council restructure, though still working on Five Councils' Partnership activity. The annual cost of the restructured JCT for South is estimated to be £132,000 per annum.

Other costs

21. Following the outsourcing exercise, a review of staffing and other costs by senior management has identified areas where additional support or budget was required. Not all of this cost is in respect of supplementing the outsourced service, and indeed some of the cost represents investment in a higher or wider level of service than that which existed pre-outsourcing, reflecting changed priorities.
22. In terms of staffing, a number of new posts have been created council side to work in areas covered by the Five Councils' Partnership. The management restructure has clarified and allocated strategic responsibility in-house for the performance of in-scope services and the delivery of out of scope work.
23. It is difficult to estimate the actual cost of the additional posts attributable to the Five Councils' Partnership, and in addition as the council is in the process of the restructure it is not clear what the final cost of these posts will be. However, based on posts that have been or are expected to be recruited to, the estimated full cost of these posts to South – including costs associated with work over and above that related to the contract - will be approximately £200,000 per annum.

Conclusion

24. As the report shows, the financial benefit that was originally expected from the Five Councils' Partnership contracts has been considerably reduced by events that have taken place since the contracts went live. This reflects the renegotiation of the Lot 1 contract and the ending of the Lot 2 contract, but also the need for additional costs

for the reasons described above. These became apparent once the contracts went live and are still being determined as the Joint Client Team and the council itself are both undergoing a restructure. In considering the total cost of the contract, reflecting the additional costs, officers now expect that the best-case scenario is for the contract to break even against previous costs.

25. The contract renegotiation does provide a platform for the council to take forward procurement and innovation initiatives without the need to share the resultant savings.
26. The management restructure has clarified and allocated strategic responsibility in-house for the performance of in-scope services and the delivery of out of scope work.