

Joint Cabinet report



Report of Strategic Director

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DATE: 9 October 2014

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Future delivery of corporate services

Recommendations

The Cabinets are recommended to:

- (a) Confirm the re-tendering of financial services rather than seek to bring the services back inhouse, with the possible exception of the provision of the financial management system which should be linked to the provision of accountancy services
- (b) Confirm the following services should have detailed specifications written: accountancy, internal audit, CCTV operations, democratic services, land charges, legal, licensing, car park administration, the Poppin operations, data capture, human resources, street naming and numbering, IT applications support, IT helpdesk, IT infrastructure support, IT security, facilities management, procurement and engineering.
- (c) Ask the consultant to undertake market engagement activities ahead of the formal procurement process to inform our procurement strategy.

Purpose of Report

1. The financial services contract expires in July 2016 and officers are about to start preparing for that major procurement exercise. The existing contract has brought the councils many benefits and financial savings. This report considers the potential additional benefits and savings available by extending that procurement to encompass other corporate services and other district council partners.
2. This report seeks Cabinet approval for the range of services to be taken forward, for a joint procurement approach with multiple council partners and for market engagement activity.

Corporate Objectives

3. This report addresses the corporate priority both councils have of managing our business effectively and of providing value for money services that meet the needs of our residents and service users.
4. 'Value for money' is measured by comparing quality with cost/price. The councils continually strive to improve the value for money offered to residents and service users by assessing alternative ways to deliver services which may achieve higher quality and/or lower cost. The re-tendering of the financial services contract, and its potential expansion to encompass other corporate services, provides the greatest potential opportunity for the councils to significantly improve value for money in the foreseeable future.

Background

5. The local government financial landscape is changing as the government seeks to substantially reduce public sector spending. Government grant formula has changed from a needs basis to an incentive basis. The recent windfalls in New Homes Bonus are likely to be curtailed after next year's general election which would cause medium term financial pressures to South and Vale councils, as well as many other councils. To stay 'ahead of the curve' the Strategic Management Board is looking to use every opportunity to make further efficiency savings without cutting frontline services.
6. South and Vale have a successful track record of sharing services and undertaking joint procurements which now provide some of our best ever service delivery performance and save the councils over £4m annually.
7. For the past year members of the Strategic Management Board have been assessing the market's appetite for delivering the councils' corporate services. Officers have also been exploring opportunities to involve other district councils.
8. Since January, when officers briefed cabinet members on progress, three other district councils have expressed an interest in procuring corporate services jointly with us. The market research confirms the potential to secure substantial improvements in value for money if a broader range of services are offered alongside revenues and benefits.

9. In order to prepare the councils' procurement strategy and to negotiate possible agreements with the other councils, the cabinets are asked to approve the recommendations above.
10. This is an intermediate report. In December cabinets will be asked to take the important decisions to finalise the list of services to market test, and, to select the most appropriate procurement strategy. Both decisions will be informed by the market engagement activity and writing of detailed service specifications set out in this report.

Options

11. In reaching this point, the Strategic Management Board has considered the following three options.
12. **Option 1 (outsource nothing):** An option is to insource financial services and for the councils to deliver all corporate services themselves. Most of the £600k annual savings and the resilience benefits generated from outsourcing those services eighteen (South)/eight (Vale) years ago would be reversed. The councils would take back the significant operational risks. For these reasons the Strategic Management Board has not pursued this option
13. **Option 2 (outsource the same):** The 'status quo' option would be for South and Vale to simply re-tender the financial services already outsourced. These services comprise:
 - Council tax and non-domestic rates collection
 - Benefits administration
 - Accounts receivable and payable
 - Payroll
 - Integrated financial management information system
 - Cashier services
 - Customer contact services (front of house and switchboard)
14. This option represents low risk. Re-tendering would provide an opportunity for further service investment, efficiencies and financial savings. However market research has confirmed that these benefits would be on a modest scale given the significant investment and efficiencies already achieved by the current contractor, Capita. Without additional council volumes there would be no scope for greater economies of scale. If this option is pursued, cabinet members are asked to insource the provision of the financial management system as its separation from the accountancy service has caused problems. The cost of procuring a new system (approximately £0.5m across the two councils, plus annual support) would need to be budgeted for.

15. **Option 3 (outsource more):** The Strategic Management Board considers that there is potential benefit in outsourcing an additional range of services to those covered in option one. These are listed below:

- car park administration
- engineering/drainage
- democratic services
- facilities management
- IT security
- legal
- canteen operation
- IT helpdesk
- land charges
- human resources
- data capture
- licensing
- IT applications support
- street naming
- accountancy
- IT infrastructure support
- CCTV operation
- internal audit
- procurement

16. By pursuing this option all services, both already outsourced financial services plus the additional inhouse services above, would be potentially available to the market. The optimum scope of services will depend upon a number of factors such as market appetite, synergies, potential for scale efficiencies and the ability to deploy new technologies to achieve improvements in quality/efficiency of services. We propose that an evidence base be obtained through consultation with potential suppliers ('market engagement'). Tenders would then be invited around a preferred package and procurement route informed by an analysis of their views. The opportunity for additional benefits through the joint procurement will also be estimated and will help to inform the commercial arrangements under which the opportunity is advertised. The results of the tender evaluation and value for money conclusions would be presented to the cabinets in early 2016 to decide which services (if any) to outsource and which contractor to award a contract to.

17. This option could be pursued effectively by South and Vale with or without additional council partners. The market has indicated that efficiencies and economies of scale would be substantially greater with three or more councils. There are greater risks associated with this option but also greater potential rewards. The Strategic Management Board recommends this option and will mitigate the risks through robust project management.

18. In addition to the joint procurement of a new contractor, options 2 and 3 offer the potential for creating a single joint clientside supporting the three, four or five councils. This would provide resilience and efficiency benefits compared with each council trying to maintain its own (limited) client team.

Pros and Cons of option 3 – market testing corporate services

19. The proposal to market test, and potentially outsource, a service currently delivered inhouse by council employees, puts council jobs at risk and unsettles staff. The Strategic Management Board recognises this and recommends ongoing staff engagement to minimise any negative impact. The first stage has been to encourage affected service teams to assist their heads of service to contribute to

the identification of pros and cons of market testing their particular service, which has influenced this report. The detailed potential disadvantages and concerns identified in that exercise will be actively managed and monitored through the project risk register.

20. The major generic pros and cons affecting most of the services are summarised below:

Advantages ('Pros') of market testing the inhouse services	Disadvantages ('Cons') of market testing the inhouse services
Potentially better value for money	Potentially worse value for money
Lower operating costs if delivered from lower cost areas	Loss of control over business processes
Improved resilience from larger teams	Slow or expensive to innovate or change
Access to service specialist	Loss of local knowledge and key skills

Other councils

21. Another way to leverage step change improvements, service investment and even greater economies of scale savings is for additional councils to join South and Vale in this procurement. The Strategic Management Board is working with three other district councils in southern England to explore the possibility of a joint procurement. To date these discussions have been at director and chief executive level but shortly there will be a meeting of leaders to discuss a joint approach.
22. The other three councils already outsource a broader range of corporate services. Their contracts, which are also with Capita, expire between June and September 2017, the year after South-Vale. Any new contract would provide for staggered start dates.

Financial Implications

23. Under option 1 there would be significant upfront costs to insourcing financial services such as acquiring revenues and benefits software. It is likely that the annual cost would also be higher, as was the case when each council last provided the services inhouse.
24. When financial services were last re-tendered eight years ago together with the creation of a joint client team, South achieved annual savings of over £400k and Vale saved £240k per annum. The one-off cost of the procurement in consultancy fees was approximately £125k. This excludes the cost of officer time which was a 'sunk' cost.
25. The cost of consultancy this time will vary according to the breadth of services and number of councils involved. The technical consultant has been appointed on a flexible contract allowing South and Vale to flex the cost according to available

budget. The existing budget of £100k will be utilised this financial year under any of the above options. Additional budget will be required for external legal expertise. These costs will be shared with other participating council partners. In addition, the councils have successfully won £125k of the government's Transformation Challenge Award bid this year. Given these uncertainties the total cost of procurement will vary between £25k and £63k, plus legal costs.

26. This one-off cost should be compared with the potential annual savings arising from the procurement. Under option 2 above, if South and Vale simply re-tender financial services, without the involvement of other councils, it is likely that the market will provide modest additional savings compared to current contract prices. Any contractor will inherit high-performing services which benefit from the previous investments and efficiencies introduced by Capita. These modest savings would be enhanced by the economies of scale available from other councils' service volumes. (This saving could be outweighed by the cost of procuring a new financial management system if councillors choose to synchronise the responsibilities of financial staff (inhouse under this option) with financial software.)
27. The market suggests that option 3 presents a unique opportunity for multiple services across multiple councils, although this will be tested through further structured market engagement. The potential scale and volume of services would attract great market interest and investment proposals from tenderers which could lead to a step-change in both service investment and efficiency savings. For the purpose of the TCA bid officers have suggested a savings target of £4.5m over the ten year contract life, which is very modest. The flexibility offered by option 3 means that the councils are not committing to outsourcing any services until tenders are received and any increased value is tested. Therefore, in the unlikely event that additional savings are not available, the councils could choose to simply award a financial services contract.
28. As mentioned above, staff engagement is a key aspect to option 3. Teams would be encouraged (though not pressured) to consider introducing further 'lean' improvements to their services, re-structuring, streamlining, rationalisation and budget cuts in the run-up to market testing in order to be as cost-efficient as possible and delivering to the same levels of quality and volume by the time the market's value for money proposals are compared with inhouse service value for money. In practice this is likely to drive further efficiencies even if ultimately councillors decide to retain a service inhouse rather than outsource it. So the process itself as well as the specific outcomes of option 3 should deliver value for money improvements.

Legal Implications

29. The council must comply with EU procurement regulations to secure competitive tenders and to minimise the risk of challenge. The appointed consultant, our procurement officers, inhouse legal and external legal officers will advise on a compliant and successful procurement exercise. The procurement strategy, which will set out our approach, will be submitted to the cabinets in December for approval.

30. Partnering with other councils besides South-Vale introduces added complexity and risks, which are likely to require new legal agreements between all councils and strong governance arrangements.
31. Should the council choose to outsource any inhouse services there will be further complexities and liabilities such as arising from the transfer of staff to the preferred contractor. Any resulting issues and risks will be identified through the process, reported to councillors and mitigated/managed through the development of the new outsourcing contract.

Risks

32. Whether councillors decide to pursue option 1, 2 or 3, this will be a major procurement and project with significant risks arising. The consultant and strategic director will be responsible for managing and mitigating the risks in accordance with well-established risk management and project management toolkits. The following risks have already been identified and will be added to throughout the project:

- Political/reputational – that the project attracts negative publicity (mitigate by regular updates to politicians via the strategic management board and project board)
- Professional – that by outsourcing certain professional skills, the partners lose that expertise in-house (mitigate by each partner carefully assessing the outsourcing of each service and ensuring contractual provision of such services)
- Financial – that the project savings targets are not achieved and the tenders are higher cost (mitigate by carefully drafting the specification and draft contract, choice of procurement route to provide flexibility, establishing accurate cost base on which to benchmark tender costs, identifying volumes, thorough consideration of risk allocation - ultimately the councils can choose not to accept any tender that does not offer better value for money)
- Legal – challenge possibly due to breach of procurement regulations (mitigate by inclusion of procurement and legal expertise on project team to ensure compliance)
- Partnership – that the partnership breaks down and we fail to agree single specifications (mitigate by upfront acknowledgement of equal partner status and collective acceptance of compromise, chief executives and leaders on the project board to escalate and resolve disagreements, partnership spirit embraced by all)

- Staffing – the uncertainties around job security and long term prospects may cause some staff to look elsewhere and resign rather than be TUPE-transferred to an outsourcing company. This could disrupt service delivery causing extra management pressures (mitigate by staff representation on the project team, frequent communication, staff involvement at three influential stages)

Other implications

33. This procurement is a major project giving rise to many implications over the next two years which cannot be adequately covered here. It will be managed in accordance with the council's project management process, including strong governance in the form of a project board comprising the leaders and chief executives of participating councils, as well as a multi-disciplinary project team under the direction of a strategic director.

34. The strategic director will ensure any major implications are escalated to the project board and/or cabinets for resolution as required. The project timescales are set out below.

Project timescales

35. The main project milestones are summarised below:

Jan – June 2014 :	market research and identification of potential council partners
July :	staff briefing
July – Aug:	pros and cons appraisal of market-testing inhouse services
October :	cabinets to endorse approach (this report)
Oct – Dec :	services write detailed specifications
	Consultant engages market
	Consultant and procurement officers formulate procurement options
December :	cabinets to finalise services to be market tested and approve procurement strategy
Jan – Nov 2015 :	procurement exercise
	inhouse services prepare for market testing and comparison
Nov – Dec 2015 :	tender evaluation and comparison with inhouse services
Jan – Mar 2016 :	cabinets to award contract and decide which, if any, inhouse services to outsource in the contract

Mar – July 2016 :	prepare transition to new contract at South-Vale including any staff transfers
August 2016 :	South and Vale new contract commences
Early 2017 :	prepare transition to new contract at other councils including any staff transfers
Mid 2017 :	Other councils new contract commences

Conclusion

36. The re-tendering of the financial services contract is the single largest opportunity in the next five years to achieve a major step-change in council value for money. By market-testing a broader range of corporate services alongside the re-tendering of financial services, in partnership with other councils, we expect to secure substantial efficiency savings, improve resilience and secure ongoing service quality.
37. What we are setting out to achieve as described in this report is ambitious and pushes the boundaries of outsourcing, both in terms of the range of services covered and the number of partners involved. But the potential rewards are substantial, both financial and reputational. Both councils have always been at the forefront of innovation in service delivery and have seen how effective outsourcing can deliver financial and service quality benefits. This is the opportunity to move to the next level.
38. If the cabinets agree the list of services as set out in the recommendations to have detailed specifications written, the next and crucial stage of the project is market engagement. We will discover what appetite and expertise exists to deliver the individual services identified. This will allow the cabinets to take informed final decisions when they meet in December as to what services they wish to include in the market testing exercise, as well as the procurement strategy to adopt.

Background Papers

None

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