

# Joint Scrutiny report



For:

- Vale Scrutiny Committee meeting 27<sup>th</sup> November 2014
- South Scrutiny Committee meeting 2<sup>nd</sup> December 2014



Report of Strategic Director

Author: Steve Bishop

Telephone: 01235 540332

Textphone: 18001 01235 540332

E-mail: [steve.bishop@southandvale.gov.uk](mailto:steve.bishop@southandvale.gov.uk)

Wards affected: All (indirectly)

Cabinet member responsible (South): John Cotton

Tel: 01865 408105

E-mail: [leader@southoxon.gov.uk](mailto:leader@southoxon.gov.uk)

To: CABINET

DATE: 4 December 2014

Cabinet member responsible (Vale): Matthew

Barber

Tel: 07816 481452

E-mail: [matthew.barber@whitehorsedc.gov.uk](mailto:matthew.barber@whitehorsedc.gov.uk)

To: CABINET

DATE: 5 December 2014

## Future delivery of corporate services

### Purpose of bringing this report to the Scrutiny Committees

This is the draft officer report for consideration by the South and Vale Cabinets in early December 2014. The Scrutiny Committees are invited to consider this report prior to Cabinets and to provide any observations or comments to their respective Cabinet. This draft report may be amended before it is finalised. The strategic director will attend the Scrutiny Committee meetings to update the committee members on any amendments and to answer any questions.

### Recommendation to the Scrutiny Committees

The Scrutiny committees are invited to consider this draft cabinet report, scrutinise any aspects and direct observations or comments to their respective Cabinet for consideration by the cabinets at their meetings in December.

## Recommendations to the Cabinets

The Cabinets are recommended to:

- (a) Confirm the following services should be jointly market-tested in 2015: accountancy, internal audit, land charges, licensing, debt recovery legal activity car park administration, data capture, human resources, street naming and numbering, IT applications support, IT helpdesk, IT infrastructure support, IT security, facilities management, procurement, engineering and property services.
- (b) Confirm that the following services should not be jointly market tested in 2015, but included in the procurement as potential future contract additions: canteen, democratic services, professional legal services, mobile home parks management, CCTV operations, public conveniences cleaning and treasury management.
- (c) Approve two service package procurements, being one package comprising 'citizen, corporate, support services', and, one package comprising 'technical, asset and location-based services'.
- (d) Delegate authority to the Strategic Director in consultation with the leaders to approve the details of the joint procurement strategy
- (e) Delegate authority to the Strategic Director in consultation with the leaders to negotiate the memorandum of understanding with other council partners and to approve it

## 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. Following the Cabinets' decisions in October, service specifications have been completed and our consultant has worked with our partner councils and the market to assess procurement options. This report proposes the final list of services which should be market tested, sets out the optimal joint procurement strategy and recommends inter-council governance arrangements.

## Corporate Objectives

2. 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.
3. '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 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

4. 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.
5. 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.
6. 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.
7. 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 and a recent successful 'suppliers day' have confirmed the potential to secure substantial improvements in value for money if a broader range of services are offered alongside revenues and benefits.
8. In order to commence a formal joint procurement and to agree partnering arrangements with the other councils, the cabinets are asked to approve the recommendations above.

## Options

9. In reaching this point, the Strategic Management Board has considered the following three options.
10. **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 and the Cabinets rejected this option at their October meetings.
11. **Option 2 (outsource the same):** The 'status quo' option would be for South and Vale to simply re-tender the financial services which have already been 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)

12. 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.

13. At their October meetings the Cabinets confirmed the intention to market test a broader range of services, thereby rejecting this option.

14. **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. This view was endorsed by the Cabinets at their October meetings. The services are examined in the section below.

## The services

15. The following services were originally proposed by the Strategic Management Board:

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

16. The optimum scope of services depends 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. Our project

consultant has compiled an evidence base through consultation with potential suppliers ('market engagement'). His detailed draft report is appended to this report, which will be firmed up as the procurement strategy and memorandum of understanding discussions are concluded in the coming months in accordance with recommendations (d) and (e).

17. Our consultant recommends the exclusion of democratic services, legal services and canteen operations from the joint procurement as they are markedly different to the remaining services, unlikely to be of interest to the suppliers attracted by the remaining services. The professional legal advice services are less transactional and less repetitive than many of the other services and outsourcing companies have been unable to demonstrate the potential for significant value for money improvements over inhouse provision. Their inclusion in the procurement could even put off some suppliers and compromise the benefits arising from the exercise. The Strategic Management Board shares this view, although recommend retaining in-scope the debt recovery legal activity which is more repetitive.
18. Our consultant also recommends the exclusion of other services in the same service area - general/taxi licensing, debt recovery work and land charges – for the same reasons. However, the Strategic Management Board believes these smaller services are more transactional in nature and would attract market interest. Being more repetitive and transactional the Strategic Management Board believes they could be provided more cost-effectively by an outsourcing company and they should therefore be market tested.
19. The mobile home parks management service, being delivered by less than 1 full time equivalent and requiring onsite physical presence, is unlikely to contribute significant value for money improvements and would not be cost-effective to take forward. This service, as well as CCTV operations and public conveniences cleaning are not of interest to our three council partners, therefore are not going to contribute significant volumes to the joint contract. In addition the CCTV operations are subject to a Thames Valley Police review and we need to retain flexibility of service delivery to facilitate their wider area solution. For these reasons the Strategic Management Board recommends that these services should be excluded from the procurement exercise.
20. The inhouse treasury management team invests hundreds of millions of pounds of the councils' financial balances and annually outperforms the councils' previous outsourced fund managers. The higher investment returns are used to fund high quality service delivery and projects. To outsource the function would probably reduce the councils' investment income streams which would cause budget pressures. To avoid this the Strategic Management Board recommends not outsourcing the service, therefore it should be excluded from market testing. Instead, the councils should discuss with other partner councils the merits of providing this as a shared inhouse service to all five councils.
21. Taking all of the above into account, and for the avoidance of doubt, the Strategic Management Board recommends market testing the following services alongside the already outsourced financial services:

### **Additional services to be included in market testing**

- car park administration
- engineering/drainage
- land charges
- facilities management
- IT security
- licensing
- human resources
- Property services
- accountancy
- IT applications support
- IT helpdesk
- internal audit
- IT infrastructure support
- data capture
- debt recovery legal activity
- procurement
- street naming

22. The Strategic Management Board recommends removing the following services from the scope of the project, in other words not market testing them:

| <b><u>Services to be excluded</u></b> | <b><u>Reason for exclusion</u></b>   |
|---------------------------------------|--|
| • canteen operation                   | Different market to the main outsourcing suppliers, physical onsite presence required (paragraph 17 above)                                   |
| • democratic services                 | Different market to the main outsourcing suppliers (paragraph 17 above)  |
| • professional legal services         | Different market to the main outsourcing suppliers (paragraph 17 above)  |
| • mobile home parks management        | Small service, physical onsite presence required, low prospect of value improvement, no interest from partner councils (paragraph 19)        |
| • CCTV operation                      | Physical onsite presence required, retain flexibility ahead of Thames Valley Police review, no interest from partner councils (paragraph 19) |
| • public convenience cleaning         | Different market to the main outsourcing suppliers, Physical onsite presence required, no interest from partner councils (paragraph 19)      |
| • treasury management                 | Inhouse function demonstrably outperforms external fund managers, seek to create shared clientside service (paragraph 20)                    |

23. Whilst the services under paragraph 22 above would not be subject to market testing during 2015, the Strategic Management Board recommends including them in the procurement advert, to provide the option of adding them to the contract at a later date should circumstances change and that option becomes more attractive.

# Procurement strategy

24. Our consultant has identified that the services recommended for market testing fall into two packages, each package attractive to a specific market of interested suppliers:

**Citizen, corporate and support services (professional support services)**

- human resources
- IT applications support
- IT infrastructure support
- procurement
- IT security
- IT helpdesk
- data capture
- street naming
- land charges
- licensing
- accountancy
- internal audit

**Technical, asset and location-based services**

- car park administration
- facilities management
- engineering/drainage
- Property services

25. It is proposed that these two service packages should be market tested as two parallel procurements. This will appeal to the two different markets, ensuring best package proposals by the two separate groups of suppliers.

26. The market engagement exercise has also identified that the larger outsourcing suppliers may also be attracted to a more sophisticated ‘managing agent’ model where they act as prime contractor for delivering all services in both packages, but commission specialist ‘best of breed’ suppliers for certain services. Officers would structure the procurements and tender documents to allow for this individual package tenders as well as aggregated managing agent tenders. This will test whether one model offers greater benefit (and risk) over the other.

27. The consultant has started to work with other council partners and lead officers to design other elements of the procurement strategy including the specific EU procurement route (likely to be a form of competitive dialogue), the form of contract and the clienting arrangements. These need to be agreed and approved in the next two months ahead of the formal procurement exercise commencing early in

2015. In order to allow ongoing negotiations across the five councils and to avoid delays in obtaining the necessary approvals, it is recommended that the cabinets delegate authority to the strategic director in consultation with both leaders to approve the procurement strategy. Details will also be discussed at the project board meetings which both leaders and the chief executive attend.

## **Inter-council governance arrangements**

28. South and Vale councils have earlier contract re-tender deadlines and have therefore proposed much of the project arrangements up to this point. It is vitally important that this all five councils feel equal partners in any joint procurement exercise. That includes agreeing joint governance (decision-making) arrangements, risk-sharing and bearing fair shares of the financial burden. It is proposed that a memorandum of understanding be agreed by all council partners in the next four months to cover the various mutually binding commitments needed to proceed through to contract.
29. It is recommended that the cabinets delegate authority to the strategic director in consultation with both leaders to negotiate the memorandum of understanding with other council partners and to approve that memorandum.

## **Financial Implications**

30. 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.
31. 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. Additional budget will be required for external legal expertise, which is the subject of a 2015/16 budget growth bid. 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.
32. This one-off cost should be compared with the potential annual savings arising from the procurement. If South and Vale were simply to re-tender financial services, without the involvement of other councils, it is likely that the market would provide modest additional savings compared to current contract prices. Any contractor would 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 given the cabinet decisions in October to synchronise the responsibilities of financial staff with financial software.
33. The market has confirmed that a joint procurement of broader service mixes presents unique opportunities for multiple services across multiple councils. The



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 broader joint procurements means that the councils are not committing to outsourcing any services until tenders are received and until 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.

34. Staff engagement is a key aspect. Teams will be encouraged (though not pressured) to consider introducing further 'lean' improvements to their services, restructuring, 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 services inhouse rather than outsource them. So the process itself as well as the specific outcomes should deliver value for money improvements.

## **Legal Implications**

35. 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 discussed with leaders, the project board and approved in due course.
36. 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, starting with a memorandum of understanding in early 2015.
37. 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**

38. 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 external 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, clear memorandum of understanding)
- 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, fore example reduced responsiveness (mitigate by staff representation on the project team, frequent communication, staff involvement at three influential stages and the parallel delivery of a separate change support programme to support teams and individuals)

## Other implications

39. 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 the technical consultant, with a lead strategic director being held accountable for the project's success.

40. 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

41. 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 approach                 |
| Jan 2015:         | services finalise specifications   |
|                   | approve procurement strategy   |
| Jan – Nov 2015 :  | procurement exercise   |
|                   | inhouse services prepare for market testing and comparison   |
| March:            | approve memorandum of understanding  |
| 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

42. 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.

43. 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.

44. If the cabinets agree the list of services as set out in the recommendations officers can prepare the detailed procurement strategy and memorandum of understanding, to be agreed with partner councils, in order to conduct the formal procurement during 2015 as set out in the above timetable.

## **Background Papers**

**None**

# Draft Procurement Strategy : Corporate Services Project

|                        |                |
|------------------------|----------------|
| <b>Author:</b>         | John Newton    |
| <b>Date:</b>           | September 2014 |
| <b>Service / Dept:</b> | Management     |

## Approvals

By signing this document, the signatories below are confirming that they have fully reviewed the Procurement Strategy Document for the Corporate Services Project and confirm their acceptance of the completed document.

| Name | Role | Signature | Date | Version |
|------|------|-----------|------|---------|
|      |      |           |      |         |

## DOCUMENT CONTROL

### Version History

| Version | Date     | Author(s) | Summary of Changes                                |
|---------|----------|-----------|---|
| 0_1     | 09/09/14 | JN        | First draft                                       |
| 0_2     | 29/09    | JN        | Incorporated items from Oxford City PS template   |
| 1.0     | 30/09    | JN        | Reviewed and approved SB amendments               |
| 2.0     | 18/11    | JN        | Updated in line with Project Board views 18/11/14 |

## CONTENTS

|   |                              |
|---|------------------------------|
| <b>1. Introduction and Strategic Context</b>  | Error! Bookmark not defined. |
| <b>2. Rationale</b>   | <b>15</b>                    |
| <b>3. Scope</b>   | <b>17</b>                    |
| <b>4. Market Analysis</b>   | <b>18</b>                    |
| <b>5. Targeted Benefits</b>   | <b>20</b>                    |
| <b>6. Procurement Options Assessment</b>  | <b>20</b>                    |
| <b>7. Risk Management (tbc following procurement options assessment)</b>  | <b>27</b>                    |
| <b>8. Financial Appraisal (Finance Lead tbc following confirmation of scope) )</b>  | <b>27</b>                    |
| <b>9. Project Approach (to be completed following confirmation of preferred procurement route and project governance options)</b> | <b>28</b>                    |
| <b>10. Dependencies</b>   | <b>28</b>                    |

## 1. Introduction and Strategic Context

---

### Introduction to the Project

South Oxfordshire District Council, Vale of White Horse District Council, Hart District Council, Havant Borough Council and Mendip District Council (hereafter referred to as “The Councils”) are considering entering into a procurement of a range of support and transactional services. In some cases this represents a re-provisioning of services that are already externalised and for others this is a market test of functions currently performed in house.

The Councils have been engaging for some time with a view to collaborating on the procurement. It is considered that individual re-procurements of services already outsourced would provide only marginal benefits. Approaching the market collectively, with a set of requirements of greater scale and ambition, may well obtain greater benefit for all of the participants.

In addition the procurement of a ‘strategic partnership’ model of contract offers the opportunity to market test a wider range of services that are currently in house, or are outsourced already but due for re-procurement in the near future.

### Strategic Context

All UK public sector organisations have been impacted by the adverse economic environment since 2008. Local authorities have been particularly affected by real-terms reductions in funding from Central Government and this has resulted in sustained exercises in cost reduction over the period.

Some councils have approached this through incremental reductions in budgets and staffing and tightening of spend with suppliers. Others have recognised that this is at best a necessary but insufficient response. It is clear that the next government is unlikely to release significantly more resource irrespective of its political make-up. Therefore a strategic and structural response is required.

The councils have already responded to the structural challenge in a range of initiatives:

- (i) South Oxfordshire DC and Vale of White Horse DC (South and Vale) merged their senior management structure as described above, achieving cashable savings and allowing a scale approach to common issues. Havant BC has developed a similar relationship with East Hants DC.
- (ii) externalising a number of services (including those highlighted for re-procurement) to achieve cost savings, resilience and flexibility;
- (iii) sharing services with other councils;
- (iv) rationalising property assets by sharing accommodation with other public sector organisations and contractors;

Most of these initiatives have been in place for a number of years and can be described as ‘road tested’. The councils have extracted substantial savings and in doing so have built up a

capability and confidence in managing strategic relationships with key service providers and partnerships between peer local authorities.

At the same time the Councils have constantly challenged services delivered in-house to demonstrate and improve their value for money positions.

For example the External Auditor to both South and Vale councils noted that each continued to "...challenge how it delivers services to look for further efficiency savings" and acknowledging that "There have been no cuts to key services".

*[insert similar commentary re other councils]*

However it is reasonable to assume that 'austerity' – in terms of pressure on centrally provided funding - is not over, irrespective of the outcome of the next general election.

The Councils recognise that, in order to safeguard the provision of frontline services, they must be relentless in their pursuit of efficiencies in corporate and transactional support functions. Typically in the sector, these have been found through a combination of process standardisation and simplification.

However as these opportunities are exhausted more structural transformation approaches must be considered. These include:

- the adoption of scale solutions to the delivery of transactional services;
- demand management initiatives;
- technology-led opportunities arising from the cloud, mobile devices and application rationalisation.
- Better commissioning of service from the councils supply chains

At the same time district councils in particular need to retain the flexibility to be in a position to capitalise on opportunities for growth, in order to supplement/replace central funding streams with new and enhanced income from the local economy.

Therefore it is likely that the councils will need to reconfigure themselves over the coming decade and therefore re-procuring a series of relatively inflexible contracts for service provision will no longer be appropriate.

## 2. Rationale

---

South and Vale currently procure a range of services from an outsourced relationship with Capita. These include:

- Revenues and Benefits
- Exchequer Services
- Payroll

Hart has a number of services in an outsourced contract with Capita.

- Customer Services

- Information Technology
- Human Resources
- Financial Services
- Payroll
- Print Services

Havant has a contract for Revenues and Benefits and Customer Services

Mendip currently outsources Revenues and Benefits, IT, Financial Services and Customer Services

South and Vale's contract is due to expire in August 2016, with the others reaching expiry within the following 2 years.

Each council is currently minded to continue with these as externalised services. This intention, with the close alignment of the contract expiry dates, presents an opportunity to aggregate the re-procurement exercises.

Typically a procurement of this complexity, with appropriate contingency for the transition of services, will take approximately 18 months to activate the new operations. South and Vale will thus have to start their re-procurement exercise in early 2015 whether alone or in partnership. Thus it is now appropriate for each of the Councils to determine whether this collaborative approach should be adopted.



### 3. Scope

The potential scope of services considered for inclusion in the procurement included:

|  |  |
|--|--|
| <b>Revenues:</b><br>Council tax<br>Business rates  | <b>Benefits</b><br>CTRS<br>Housing benefits<br>Counter fraud<br>Benefit checks   |
| <b>Exchequer</b><br>Accounts payable (creditors)<br>Accounts receivable (debtors)  | <b>Payroll</b><br>Data input<br>Running the payroll (payments)   |
| <b>Accountancy</b><br>s.151 duties<br>Management accounting (regular budget monitoring and routine budget/ledger advice)<br>Financial accounting (closedown & producing annual accounts)<br>Provision of the financial management system (general ledger, accounts payable, accounts receivable, budgeting)<br>Treasury management (investing and borrowing) | <b>IT</b><br>IT strategy<br>IT infrastructure support (maintain desktop PCs, network & other hardware)<br>Applications support (maintain purchased applications and software)<br>Helpdesk & customer interface<br>IT security<br>Applications design (develop and maintain in-house bespoke applications)<br>Data capture and GIS<br>Street Naming and Numbering |
| <b>Internal Audit</b><br>System audits (regular checks of internal controls)<br>Counter fraud work (regular checks of high fraud risk areas)<br>Investigation of suspected fraud and irregularity (reactive)   | <b>HR</b><br>Strategic HR (workforce planning)<br>Employee relations (collective bargaining, reacting to performance issues, investigations, terminations)<br>Policies<br>General advice on recruitment, training, restructuring, policies (to managers and staff)   |
| <b>Legal and democratic services</b><br>Elections & support to returning officer<br>Democratic services<br>General and taxi licensing<br>CCTV<br>Community Safety (excl cctv)<br>Strategic legal advice<br>Legal services (excluding strategic legal advice)<br>Debt recovery legal actions incl court work<br>Land charges                                  | <b>Facilities management</b><br>Building services (maintain council buildings)<br>Cleaning<br>Postal Service<br>Design & Print<br>Mobile home parks management<br>Canteen  |
| <b>Procurement</b><br>Procurement strategy<br>Advice and support   | <b>Engineering</b><br>Engineering incl flood alleviation and drainage<br>Cleaning public conveniences  |

|   |  |
|---|--|
| <p><b>Car parks</b></p> <p>Car park management (maintenance, income collection)</p> <p>Car park operations (patrolling and excess charge notices)</p> | <p><b>Routine and administrative operations</b></p> <p>Customer services - reception/other remote council access points</p> <p>Customer services - switchboard/contact centre</p> <p>Other repetitive/transactional/ administrative operations</p> <p>Insurance Administration</p> |
|---|--|

The list above is an amalgamation of all services suggested by the councils for consideration within the scoping exercise. The councils acknowledged that it was likely that some components within certain services would need to be retained (for legislative or operational reasons) irrespective of any choice made. However to retain the maximum discretion (and also to provide a similar level of accountability for services ultimately deemed not in scope of any procurement) specifications were commissioned for the full set of services.

## 4. Market Analysis

---

The local authority business process outsourcing (BPO) market has matured over the past twenty years. The supplier market comprises a range of providers of different scale and specialisation arguably capable of delivering any service commissioned by a local authority.

These suppliers include:

- BPO firms that are able to take on most services and generate value through focusing on (for example) the management of common processes, performance, technology platform and opportunities to integrate with existing similar operations;
- BPO firms that prefer to concentrate on a more limited set of areas – for example around corporate and transactional services, or property/technical;
- Specialist providers who are likely to have a specific focus on individual services, or a small core of related activity – e.g. ICT/Customer, or property/asset management.
- Single providers who may fill in gaps as consortium partners, or respond to a single service tender opportunity.

They have engaged with local authorities across a range of externalisations from single service outsourcings, through to multiple service packages and partnerships based on an initial scope with an ability to add other services and projects incrementally.

Typically a single service outsourcing will have a contract period from 3-7 years, whilst more complex strategic partnering deals are generally between 10-15 years in length. These generally require substantial service transformation and/or updates to technology and so tend to require a longer period of operation in order that the partner may recover its up-front investment.

The value of outsourcings has tended to increase over time with some of the larger corporate services partnerships (e.g. Barnet, South Tyneside, Glasgow) covering annual expenditure of between £20m and £50m.

With the increase in scale comes an increase in bid costs and suppliers are increasingly careful in qualifying whether to bid or not for opportunities. This takes into account factors such as size of opportunity, their likely competitive position and the perceived risks associated with the deal, or the client. A key factor for potential bidders is the degree of confidence that they have that the procurement will reach a successful conclusion. Not unreasonably, bidders may consider a multi-client project as containing more risk than a single party deal of similar size.

At the time of writing there are a number of procurements already in progress, or about to come to the market. It is therefore important to understand what will attract the market and enable them to present compelling offers to the councils.

To obtain this information the councils advertised the potential procurement via a PIN notice, and issued a short brief and a questionnaire to firms expressing an interest in response to the PIN. The councils also held a briefing session at South Oxfordshire's offices to set out their thinking to date and invite initial observations from suppliers. A list of attendees at this session is appended to this report.

The questions asked by the Councils comprised:

- 1 *Given the potential scope of services and client organisations which (packaging) model would provide the best likelihood of meeting the objectives of the CSP project and why?*
- 2 *What would the Councils need to do to make the preferred option work most effectively?*
- 3 *Which, if any, services would suppliers consider to be not appropriate to outsource? What aspects of the services potentially in scope do you consider to be more appropriate to be retained by the client(s)*
- 4 *How would you recommend packaging the services within the preferred model identified in question 1 above?*
- 5 *On the basis of the financial information provided above and assuming a general maintenance of current service quality, broadly what percentage savings against current budgets should the Councils be targeting if they:*
  - (i) *procured separately?*
  - (ii) *procured jointly?*
- 6 *On the basis of the performance information provided above, what key opportunities for service improvement can be targeted without material adverse impact on operating costs?*
- 7 *What level of additional benefits might the Councils achieve from collaboration over and above a single procurement/re-procurement?*
- 8 *What level of consistency in commercial and operational requirements is necessary to secure these benefits?*
- 9 *How would suppliers retain an individual relationship with client Councils and their stakeholders within such a solution?*
- 10 *What effective clienting structures would suppliers wish to see developed in a partnership involving these Councils and why?*
- 11 *Based on their initial understanding of the scope and wider understanding of the current market, which model(s) would suppliers be interested in using for a partnership? Are there any potential variants or aspects that suppliers would consider to be less attractive?*

- 12 *The Councils current contracts are generally of the order of [X+X+X years] in term. Given the location, current service configuration and benefits requirement of the Councils, and the level of transformation that this implies, what initial contract length do you envisage as optimal?*
- 13 *What information would suppliers require in any 'virtual data room' created for the purposes of this procurement?*
- 14 *What support would suppliers require from the Councils in undertaking due diligence?*
- 15 *How can the Councils help suppliers obtain maximum value from a competitive dialogue process?*

The individual responses to these questions have informed the procurement options assessment set out below

## **5. Targeted Benefits**

---

The general aspirations shared with the market were:

- Deliver at least the current standard of service at a reduced cost to the councils
- Support the delivery of and improvement in key Council outcomes
- Provide enabling capability to support future transformation within the Councils; and
- Bring flexibility in provision to match the needs of the Councils as they change over time

After consulting the market it is considered that the councils should seek a minimum of 10% saving on those services being retendered.

The councils will also seek additional savings based around integration of operational processes, technology platforms and interfaces for these and any services outsourced for the first time during this procurement

The councils will achieve a harmonisation of service standards based on a 'best of breed' principle – i.e. in general uplifting performance of each council's operations to the one currently delivering best value for money.

The councils will seek a flexible operational model for support functions that can match the trends in demand over the period of the contract. They will agree a pricing model with their chosen supplier that reflects this.

The councils will collaborate to provide a more strategic and effective client function

The councils will obtain commitment from their supplier(s) to deliver operational transformation and enable better management of their wider services and supply chains

Measurable outputs and outcomes for each of these objectives will be included in a set of specifications (currently being prepared)

## **6. Procurement Options Assessment**

---

At this point the councils have to make the following decisions:

**Scope Options** – which of the services identified as candidates for outsourcing should be included

**Packaging Options** – how should the services that are deemed to be in scope be grouped?

Choices may include:

- Single vendor/consortium
- Multiple packages/Lots
- Master vendor/managing agent approach

**Collaboration and Contracting Options** – to consider:

- Outsourcing contract vs joint venture arrangement
- Joint vs separate contracts
- Contract length
- Joint/single client vs separate clients
- 

These choices have been informed through consultation with the Project Board, together with the leaders and chief executives of the five councils. Supplier feedback has been taken into account as has the experience of the councils' appointed project manager.

## Scope

If the procurement proceeded at the maximum potential scope as set out in Section 3 - and including all five councils - it is estimated that the value of services being market tested would be of the order of £20m per annum.

Factors to consider in assessing whether services should be included in or out of scope include:

- Ability to generate service/financial benefits;
- Ability to contribute to strategic ambition for the partnership
- Geographic/scale opportunity
- Market Appetite
- Tactical Intent (e.g. acknowledging the re-tender requirement for existing contract)
- Viability of retained components (this to sweep up services that would otherwise be stranded)

Market responses generally did not name any definite “no”s . It is acknowledged that not all individual components of the specifications being drafted currently would be suitable (e.g. elements that would need to be retained for strategic or legislative reasons).

Work to refine this will be part of later iterations of the specification drafting. Only one organisation commented on the issue of scale but it may be presumed that there would be a de minimis limit to the attractiveness of smaller services were suppliers to be given the individual choice.

Improvement activity at the individual service level was identified within a number of common themes – generally around standardisation of process, rationalisation/consolidation of platforms etc. In responding to questions on the benefits of multi-council collaboration, these extended to economies of scale, resilience etc.

There is an extensive track record in outsourcing most if not all of these services individually or as part of a package. Clearly the ability of certain services to generate synergies as part of an overall package will be more limited than others.

Using the criteria above, it is considered that the services that offer limited potential against these factors are:

- Legal and Democratic services (acknowledging the non-transactional elements could be outsourced as part of a package, there is little market appetite or track record for taking on the professional service components within a general corporate services scope)
- Canteen (for reasons of scale, geography and lack of synergy with the other potentially in-scope services)

Individual councils will determine which services from the list they wish to include in the combined scope as part of their individual approval processes.

### **Packaging Options**

The services may be 'packaged' in a number of ways. A single contract allows economies of scale to be achieved in both contract operation and management. However certain of the functions may be regarded as non-core by the supplier and fail to achieve their potential. Performance management tools may be diluted due to an overly large number of key performance indicators. Critically, the market of suppliers capable of delivering this breadth of services may be limited.

On the other hand procuring on a service by service basis could result in the appointment of several 'best of breed' suppliers, providing focus to each service, but potentially lacking in ability to secure the savings that come from integrating and aggregating services across the councils. Future transformation may require the close management of a number of suppliers. Larger suppliers may view the opportunity for them as limited and the effort required by the Councils to procure and then manage the many individual relationships would be substantially higher than currently resourced.

Grouping the services into functional packages such as Corporate (e.g. ICT, Revs & Bens, Finance/HR, Customer...), Regulatory (e.g. Legal and Democratic services) and/or Technical (Property/FM, Car Parks, Canteen...) may be more attractive to certain suppliers in the market and this could offer a compromise between scale and specialism. It will involve more than one procurement, and there will be multiple contracts to manage.

A fourth potential option blends the flexibility of multiple supplier solutions with the integration capability of a single partnership. This managing agent approach is increasingly common in central government contracts and is starting to be adopted in local government particularly for ICT. In this model a prime supplier is responsible for ensuring outcomes are delivered by a supply chain of providers (including itself), but the Councils retain the ability to re-procure or remove individual components that are underperforming or no longer fit with their requirements.

This model also opens up the opportunity for services to be delivered by third sector or 'spun-out' entities, with them being subject to the same accountability as those 'outsourced' to the private sector. It may ultimately provide more flexibility to the individual Councils, and would

allow them to hold suppliers to the delivery of overall outcomes as well as individual service outputs.

It would however be a more complicated model to introduce. Care would need to be taken to ensure the benefits outweigh any additional overhead incurred by the managing agent (which of course would be passed on as part of its own service charges).

Relevant criteria for appraising these options are:

- Cost/complexity of procurement;
- Ability to attract good competition;
- Cost/complexity of contract management
- Synergies/Economies of Scale vs Best of Breed achievement

A number of suppliers suggested the creation of Lots based around functional groupings.

Typically these were combinations/variations of:

- citizen-based functions (e.g. customer services, revs & bens)
- corporate support (IT, transactional finance, HR, procurement, exchequer, payroll)
- technical/asset/location based services (property, FM, engineering, car parks management)
- professional services (e.g. legal advice)

A number of respondents supported the incorporation of a managing agent approach. None were hostile to the concept.

Given the potential scope of services option that best addresses these criteria is likely to be a package of more than one Lot. Subject to the choice of services to take forward being finalised by each council it is recommended that the procurement strategy is developed around :

1. A Lot containing citizen-based and corporate services (CCS)
2. A Lot containing technical, asset and location based services (TAL)
3. Authority to explore the potential of a Managing Agent during the procurement(s), with a business case to be prepared by shortlisted bidders as part of their outline solution development

### **Collaboration in Contracting and Client Management**

The participation of more than one client organisation in the procurement brings a number of permutations in respect of

- (a) the contract (including specification as well as commercial terms); and
- (b) the client management arrangements

Contracting:

The Councils may choose to procure:

- Varying commercial terms and service specifications;
- Identical terms but varying specifications;
- Varying terms but identical specifications; or
- Identical terms and specifications

All consultees agree that there is benefit in adopting a consistent set of requirements. This is supported by the senior leadership of the five councils. There may be some areas where

local variance is required but overall the councils will aim to achieve a single operational solution and common terms and conditions.

#### Client Management:

Assuming there is some degree of consistency then it will be beneficial to combine the respective client functions in place currently to achieve:

- Greater strategic balance between client and supplier;
- Resilience;
- Common approach to change management;
- Greater opportunity to develop/retain access to specialist commissioning and contract management skills;
- Economies of scale.

It should be noted that combining client roles does not require a combined payment regime or joint liability – each client would be responsible for delivering its own obligations. Neither does it mean that all the power needs to be ceded to the authority in which the line management accountability of the client function sits. In fact a single clienting entity could be based across all the organisations with subject matter expertise and local knowledge backed up by the resilience and strategic capability of the joint approach.

The councils will develop their client-side approach throughout the procurement to include:

- A single suite of service requirements and standards
- A single set of procurement documentation
- A consistent (single or 5 x the same) suite of contract documents
- A joint client approach and project governance that will manage all 5 relationships

## 7. Governance Model

---

The proposed project governance structure contains:

A **Project Board**; This will include members and chief officers of each Council (or their representatives with appropriate delegated authority). The Project Board will:

- Define the procurement objectives
- Approve the progression through key stages of the project (e.g. advertise opportunity, prequalification/supplier downselection, final tender evaluation, business case, transition phase completion);
- Resolve conflicts (and highlight synergies) between the CSP project and other initiatives/projects involving the Councils individually or collectively (e.g. workforce development projects, Universal Credit etc.);
- Ultimate point of escalation for inter-Council project issues (e.g. consensus on requirements, standards etc.)
- Implement project assurance procedures as required;
- Take on Senior User/Senior Supplier roles as appropriate to ensure that the solution being procured and then implemented is fit for purpose



- Delegate appropriate authority to the Project Steering Group and Project Manager and retain the ability to replace/remove both

**A Project Steering Group;** This will include representatives drawn from strategic management tiers within the Councils. The group will have a tactical remit to:

- Approve project resourcing arrangements;
- Approve project documentation (OJEU advert/pre-qualification and tendering materials)
- First point of escalation for any inter-Council project consensus issues
- Develop client side management structure and develop/recruit appropriate staff;
- Prepare individual business cases, Council reports and secure necessary approvals;
- Develop a joint communications strategy;
- Allocate responsibility for managing risks and issues

### **A Project Manager and Core Team**

The Project Manager will be accountable to the Project Board for delivering their procurement objectives. The Project Manager will prepare and maintain the project plan, the risk and issues register, manage the preparation of all relevant project materials and co-ordinate the work of the Core Team.

The Core Team will support the work of the project manager bringing subject matter expertise in the key disciplines required for the procurement (HR, Legal, Financial and Procurement). Service expertise on the delivery side, together with the customer view, will be provided by Service Head or equivalent representatives from the Councils. Access to a wider pool of specific expertise across individual services will be made available by the Project Steering Group. The team will prepare the relevant project materials under the supervision of the Project Manager, provide input into dialogue and engagement with bidders, evaluate bidder submissions and generally deliver the activities set out in the project plan.

### **Legal Advisors**

South and Vale are in the process of procuring external legal support on behalf of the project. Their work will be managed by South and Vale Legal, who will commission them to provide advice and support the inputs of in-house resource as appropriate into the Project Team, Steering Group and Board.

The Project Steering Group will nominate a Senior Responsible Officer to provide a single point of instruction to the Project Manager from the Board and Steering Group. To date this role has been delivered by Steve Bishop of South and Vale.

This also provides a straightforward route in reverse for escalating issues. So a failure to reach consensus amongst the subject matter experts around a set of service requirements would be identified by the project manager, raised as an issue and resolved (in the first instance) by the Steering Group. If this is not possible then it is resolved by the Board.

## Project Resourcing

The main area of direct expenditure relating to the project is in relation to the appointment of external legal and project management support. It is recommended that a small provision be made for incidental expenses (e.g. site visit activity, recruitment/training of new client function staff etc.)

Internal resource will be required to support:

- Completion of specifications
- Preparation of tender documentation
- Preparation of due diligence material (including performance measurement) and support due diligence processes undertaken by bidders (including on-site activity)
- Deliver staff consultation activity
- Evaluation of bid submissions

The councils will need to determine the bases on which these costs are shared.

The direct expenditure relating to this procurement should be split equally between the Councils.

Internal resources should be resourced with regard to the capacity available within each Council. It is acknowledged that these will differ. However all Councils will need to commit to support activity that is undertaken on-site – for example location based supplier due diligence – as required. Capacity issues will be resolved by the Project Steering Group

## Ongoing Project Governance

Potential bidders will be looking for evidence that the Councils are bound into the collaboration. This is equally true of the procurement and post-contract signature phases. It is recognised that there may be valid reasons for a client side partner ultimately deciding that they wish to pursue a different strategy, but that this should not be done on a whim. It is also pertinent to consider how, in any such exit, the other parties (including the supplier) can be made 'whole'.

The following principles are suggested as a condition of participation:

- (i) Councils are free to withdraw from the collaboration without penalty prior to the procurement commencing;
- (ii) A condition of participation in the procurement is that Councils sign up to a memorandum of understanding detailing this governance process and acknowledging the cost share basis set out above
- (iii) That the memorandum provides for the staged prepayment of cost share contributions either as a single lump sum or in line with key project milestones (e.g. OJEU advert, prequalification of bidders, call for final tenders, business case/contract award) with any contributions forfeit in the event of withdrawal prior to contract signature;

(iv) That an inter authority agreement be prepared including a provision that, following contract signature, any Council withdrawing from the collaboration pays a compensation to the other Councils in respect of any unit cost increases suffered in respect of the ongoing services as a result of the withdrawal, thus putting the residual partners (and the supplier) in a no better no worse position than they would have been had the withdrawal not taken place.

These principles will be negotiated by the Project Steering Group and enshrined in an appropriate agreement to be drafted with support from the appointed legal advisors.

## **8. Risk Management (*tbc following procurement options assessment*)**

---

*This will cover:*

- *A summary of key risks identified against the recommended option*
- *A list of all possible events which may cause the project to fail or hinder the success of outcomes, including the 'cons' identified by staff as part of the consultation on scope*
- *Mitigating actions that would be required*

*This will be set out in a project risk register containing the description of the risk, impact, likelihood and mitigating action(s) under relevant categories e.g.*

- *Management of Operational Risk*
- *Management of Financial Risk*
- *Management of Governance Risk (specifically between the partner councils)*
- *Management of Legislative and Environmental Risk (inc: e.g Social Value Act, new procurement regs, Universal Credit, Community Right to Challenge etc.)*

*This section will also consider the necessary consultations and impact assessments for the procurement prior to commencement*

## **8. Financial Appraisal (Finance Lead *tbc following confirmation of scope*) )**

---

*This section will contain:*

- *The baseline cost and affordability position*
- *Likely investment requirements*
- *Information on how the procurement will be funded, contributions from other participating Councils*
- *Information on revenue costs as a result of the project being completed*
- *Information on any identified revenue savings, in which year(s)*

## **9. Project Approach (*to be completed following confirmation of preferred procurement route and project governance options*)**

---

- *Timescales*
- *A summary of the project plan including key dates and milestones*
- *Incorporate “management case” components of green book here*
- *Project Management during Procurement Phase*
- *Gateway Review Processes and Outcomes*
- *Transition Management*
- *Change Management*
- *Benefits Realisation*
- *Risk Management*
- *Contract Management*
- *Post Project Evaluation*
- *Medium Term Review*

## **10. Dependencies**

---

*This section will contain a list of any other projects that the success of this project relies upon, or vice versa e.g.*

- *Staff development programmes*
- *Other internal transformation activity*