

# Joint Scrutiny Committee



Report of Head of Partnership and Insight

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## Corporate services brought in house

### Recommendation

The committee is asked to note the contents of this report

### Purpose of Report

1. This report is provided to give information on elements of the corporate services contracts which have been brought back in house since the contracts commenced on 1 August 2016. The report explores the reasons for bringing services back in house, and the financial and other implications of doing so.

### Background

2. The cabinets of both councils took decisions on 28 January 2016 to designate preferred bidders for two contracts for the provision of corporate services, in accordance with the officer recommendations. Authority was delegated to the strategic director to complete the contracts, in consultation with the relevant cabinet members.
3. There are three other councils which are signatories to the contracts, namely Hart District Council, Havant Borough Council, and Mendip District Council.
4. The expectation was that the contracts would offer significant savings to all partner councils.

5. The Lot 1 contract covers mainly back office services including accountancy, procurement, revenues and benefits, customer services (switchboard and reception), human resources, payroll, information technology, local land charges and licensing. The Lot 1 contractor is Capita.
6. The Lot 2 contract covered property and estate management, facilities management and car parks. The Lot 2 contractor was VINCI, with subcontractors Indigo managing the council car parks and Arcadis providing the property service.
7. Since the contracts began, a range of services have been brought back in house. The contract with Capita is still in place, while the VINCI contract has been terminated. Control of the car parking contract is now held by the council, and the service is still provided by the same team (although Indigo has been taken over by Saba) in accordance with the original VINCI contract.
8. Additionally, the councils are considering the return of the strategic Human Resources (HR) function and have submitted a change request to Capita, as has previously been reported to both scrutiny committees. This change request is currently the subject of a wider commercial negotiation and is not yet completed.

## **Outsourcing objectives and risks**

9. Outsourcing of corporate services was seen at the time as a response to local government austerity, offering a way to secure continuity of service quality at reduced cost. In the cabinet report of January 2016 the business case for outsourcing was based upon significant financial savings over the life of the contracts, with economies of scale arising from having a partnership of five district councils.
10. The report identified a range of risks including:
  - challenge to the procurement process
  - ability of the five councils to act collectively in requiring a single model for service delivery
  - contractors' ability to perform to expected standards.
11. The advice of officers at the time was that the latter two risks could largely be mitigated through the use of experienced and capable contract managers in a shared client team.

## **Property management and facilities management**

12. The Lot 2 contract with VINCI was terminated by mutual agreement in March 2018 when it became clear that it was not possible for the contract to deliver the anticipated level of savings. This was a complex contract with a number of sub-contracts which had to be novated.
13. The car parking element of the VINCI contract remains with Saba as noted at paragraph 7 above.
14. One of the key reasons for insourcing both property management and facilities management was that the outsourcing arrangement was not providing a co-ordinated approach between the two contractors, namely VINCI, who were

providing the facilities management function, and Arcadis who were sub-contracted by VINCI to provide the property management element.

15. In particular, Arcadis struggled to effectively manage the councils' property portfolio and to provide a timely and accurate service to the councils' customers in respect of routine property matters. A number of Arcadis staff left and an inevitable backlog of work resulted.
16. Regular maintenance and inspection of the councils' property portfolio was not as effective as it could have been.
17. In order to deliver an effective corporate property management approach there requires closer working between facilities management and property management and therefore by bringing back in house there has been an opportunity to co-locate these two service areas in one new property team. This also benefits the councils in tying the property team back to the strategic property work which was retained by the councils during the out-sourcing.
18. A new property team has been established within the Development and Regeneration service. This new team is still being resourced: a new property manager started in January, supported by a property operations team leader. There are two additional surveyors' posts to be filled, which are currently staffed by agency surveyors. A new property planned preventative maintenance (PPM) and projects lead post has been created to provide active management of PPM and to ensure that the councils are compliant with health and safety regulations and ongoing maintenance of their property portfolios.
19. When VINCI/Arcadis took on the contract they transferred the councils' existing property records onto a new operational system called Concerto. This system was well used by the VINCI staff for facilities management work, but not by Arcadis staff in respect of property management work. There appears to have been a lack of engagement with the system by the Arcadis staff and property records have not been updated and maintained correctly. As a result there is a need to review all data sources and rebuild the property asset database using historic data that the council retained pre outsourcing and new data obtained via Land Registry and other means. This is a significant exercise that will require time and resource by the new property team.
20. Due to the lack of regular maintenance and inspection of the property portfolio the team are also undertaking a full PPM review of all the councils' assets in order to understand the current position and the need for any urgent works.

## **Licensing**

21. Officers reported to both cabinets in December 2017 as follows:

“Since the signing of the contract, operational experience has demonstrated to both councils and to the contractor that the licensing service is better delivered in house. All councils have reached the same conclusion. Capita and the councils have therefore agreed to the principle of bringing the whole of the licensing service back in house.”

22. Following cabinet approval, the licensing service was accordingly brought back in house with effect from 1 February 2018, on a cost-neutral basis. This was effected

by means of a deed of variation dated 29 March 2018, covering a number of other aspects of the contract including procurement.

23. During the period in which the service was outsourced, the staffing level was reduced (the number of enforcement officers fell from 4.4 full time equivalent (FTE) to 2.4 FTE), with a corresponding impact on the scope of the service. Reactive licensing work was carried out appropriately, but there was little or no emphasis given to proactive enforcement activity.
24. For example, we received a letter from the Gambling Commission in November 2018 informing us that we were one of 121 authorities who had not completed any inspections in the year ended 31 March 2018. We responded to the Gambling commission and met with the local Gambling Commission compliance manager to discuss gambling licensing with the team and provide refresher training on inspection techniques. The team have now started to implement a proactive inspection programme for gambling premises throughout the district.
25. Since the return of the service, as a part of the revised council staffing structure the number of enforcement officers is being increased to four FTE staff.
26. Capita implemented a new software system for licensing and the councils have taken this software on as a part bringing the service back in house. However, aspects of the software implementation such as electronic forms are not complete, and the process of testing and switching to the new system has been time consuming.

## **Management accountancy**

27. Initially we experienced no change in the level of service from the outsourced accountancy team. The service was delivered by the same staff, from the same desks, following the same procedures.
28. On 1 June 2018 Capita restructured its team and as a consequence on that day made six of its seven permanent members of the accountancy team redundant. The two sets of 2017/18 accounts were not signed off by the councils' external auditor (EY) by the statutory deadline and subsequently in its 'Audit results report' EY said 'Reduction in staff capacity at both the Councils and Capita has had a detrimental effect on the timeliness and quality of the evidence provided for audit'.
29. The councils' Head of Finance perceived there was a lack of experience, local knowledge and capacity within the outsourced accounting function which he believed could have a detrimental impact on the budget setting process. A dialogue was initiated with Capita with a view to insourcing the management accounting service.
30. As the 2019/20 budget build process developed through September and October 2018 it became clear that work was falling well behind the agreed timetable as key documents (e.g. initial drafts of the medium term financial plans) were not made available when needed. As this is not an outcome that could be allowed we expedited the insourcing of the management accounting function delivered by Capita's accountancy business partners resulting in the service being brought back in-house on 10 December 2018.

31. The insourcing of this service was cost-neutral, delivered through a change control notice agreed with Capita.

### **Benefits related fraud team**

32. Although the benefit fraud and error service was outsourced to Capita, in practice it continued to be delivered by the same staff, sitting in the same seats, following the same processes.

33. It became clear that the provision of this service was not a core activity for Capita and that the additional administrative complexity of the client-contractor relationship did not have a performance 'upside'.

34. Performance remained as it had been when run in-house, i.e. very good. It was agreed by mutual consent to reverse the outsourcing of the service on a cost-neutral basis, by means of a change control notice.

### **Strategic and complex procurement**

35. Changes to the procurement service within the contract were made within the March 2018 deed of variation referred to above. Day-to-day procurement activity remains within the scope of the contract, but the councils have taken back the responsibility for larger strategic procurement activity.

36. The deed of variation was the product of a lengthy and complex negotiation which amended a number of commercial aspects of the contract.

37. It had been expected that the contracted procurement service would result in considerable savings over the life of the contract, which would have been shared with the contractor. Now that the service has been returned in house, it is reasonable to expect that the council procurement team can achieve a broadly comparable level of savings which will be budgeted as and when they materialise in practice.

### **Conclusion**

38. A variety of services have been brought back in house in response to contract performance and changing priorities. Officers have invested considerable time and effort in mitigating risks and bringing performance back up to an acceptable level.

39. The licensing, accountancy and fraud services which have been returned to the councils by Capita have come back with no additional financial cost to the councils, while the changes to the procurement service were part of a wider deed of variation approved by both full councils.

40. There is a cost associated with the termination of the contract with VINCI. Nevertheless, termination represents a better financial outcome than remaining within a contract which could not deliver the anticipated savings.

41. Overall, officers consider that the councils are in a significantly more favourable contractual position now than was the case at the commencement of the two corporate services contracts. However, there is more that can be done and officers will maintain their efforts to secure further improvements.