

<b>Item No</b>	<b>Classification: Open</b>	<b>Date: 9 January 2012</b>
<b>To</b>	Finance Director	
<b>Report title</b>	Gateway 3 - Extension Approval Revenues & Benefits Information Technology Managed Service	
<b>Ward(s) or groups affected</b>	All	
<b>From</b>	Assistant Director – Revenues & Benefits	

## RECOMMENDATION

1. That the Finance Director approves the extension of the Revenues & Benefits Information Technology Managed Service contract with Northgate Information Solutions (UK) Ltd for a period of 21 months from 1 August 2012 to 30 April 2014.

## BACKGROUND INFORMATION

2. In April 2011, following a 2 year in-sourcing programme, the council took back operational responsibility for the revenues & benefits service. This followed 13 years of operation by Liberata UK Ltd.
3. The service consists of the administration of the housing and council tax benefits scheme, collection of council tax and business rates.
4. The housing benefit caseload is one of the largest in London with 41,000 claimants. The net collectable debit for council tax is £96m, and for business rates is £200m.
5. On the 5 August 2010, the Cabinet member for Finance & Resources approved the procurement of the Revenues & Benefits IT Managed Service through the Government Procurement Service and following a review of supplier options in the marketplace.
6. The information technology managed service was awarded for the period from 1 April 2011 until 31 July 2012 with the option of up to a 2 year extension until 31 July 2014.
7. The managed service contract includes the hosting and database administration of the two key systems in revenues & benefits (i-world & information@work). The service also scans all documents received and oversees a sub-contract that issues all bulk system generated documents from i-world.
8. The system design, build, configuration and data conversion took place in the period from Aug 2010 until March 2011 and the systems were operational following minimal downtime on the 5 April 2011.

## **Key Issues for Consideration**

### **Revenues & benefits IT implementation**

9. In March 2011, the Council with Northgate Information Solutions (UK) Ltd undertook a complete re-implementation of the revenues & benefits servers & systems including a re-design, configuration and data conversion.
10. Over 10 million images were migrated from Liberata's info@work servers to newly configured Northgate servers. 100 interfaces were re-built tested and implemented and data from i-world was successfully migrated.
11. At the point of implementation the Council's revenues & benefits live systems were only unavailable for a period of five working days which represented achievement of an ambitious critical target.
12. The Council trained 150 newly appointed employees in the new system configuration and ensured our capacity supplier Capita had a fully operational resilient system.
13. Given the complexity of the transition and the need to maintain the service levels a further full procurement would lead to significant risk in disruption of service delivery.

### **Revenues & benefits service overview**

14. The revenues & benefits service is a critical service within the authority. The service is significantly reliant on the use of information technology to be able to process Housing & Council Tax Benefit or collect Council Tax & Business Rates.
15. The service receives over 7000 written customer contacts per week and therefore system reliability is of critical importance for the service.
16. The information technology provides approximately 300 users with access to process changes in circumstances, collect revenue, administer housing & council tax benefits and provide customer advice from the council's customer service centre.
17. The council also has a contract with 'offsite' processing partner (Capita) who are responsible for providing additional service capacity. Capita have two key sites, Sheffield and Blackburn, each have access to Southwark systems provided by Northgate.
18. Northgate's scanning & indexing centre in Manchester require 24 hour access to ensure all documentation received is scanned within the day it is received.

### **Supplier and contractual performance**

19. Since the transfer of the service in April 2011, significant improvements have been made to the service. A number of projects have been successfully undertaken to cleanse the existing data within the system including a review of 30,000 liability orders held at bailiff stages.

20. The council has also made significant improvements in the data held consistently across other systems within the council. A project was undertaken to cleanse name and address data to deliver consistent name & address data from both the revenues & benefits database and the local land and property gazetteer.
21. Both key strategic systems have been reviewed and progress has been made in reducing unnecessary profiles or inconsistent documentation delivering improvements for Southwark's customers.
22. The administration of housing & council tax benefits has maintained performance & recently showed a trend of improvement. Council Tax collection has improved significantly with the performance at the end of October being 1.82% above performance last year for in-year council tax collection.
23. The supplier is required to report back monthly on key contractual areas of service provision:
  - i. Service continuity & availability
  - ii. Incident management
  - iii. Change managementEscalation points exist if service level agreements are not met or third party suppliers do not deliver to agreed performance levels.
24. Since the implementation of the service and the availability of service management reports Northgate Information Solutions (UK) Ltd have met all of the contractual performance targets.
25. Northgate have provided a resilient scanning & indexing service within contract and worked flexibly to manage demand as and when volumes of work increased.
26. Northgate, also the supplier of the Council's software have ensured the Council has had sufficient support in developing the functionality of the systems, the approach to the provision of system reporting and in the data cleansing exercises undertaken.

#### **Risk of a change in supplier**

27. The transition from Liberata UK Ltd was a significant programme of activity and required detailed planning to ensure systems were operational in April 2011. Since that time development activity has continued to secure a stable operational platform that meets the needs of the business.
28. The council is further planning to replace the existing corporate IT managed service supplier (Serco) through a Government Procurement Service framework, the contract award date is planned in the first quarter of 2012 with an implementation lead in time prior to the start of the contract in July 2012.
29. Whilst a full conversion of systems would not be required if another supplier was sought for the revenues & benefits service significant risk remains at a time when the corporate & strategic systems of the council are also undergoing a substantial transition.

30. The council has not yet undertaken a full annual billing and issue of council Tax & Business Rate demands with the new suppliers. It is critical to the performance of the service that annual billing and year-end procedures are undertaken successfully with the minimum disruption.
31. Whilst the original contract extension allowed for it to be extended up to July 2014 it is anticipated that the council will be able to ascertain in advance whether this service can be subsumed within the wider IDSD managed service. This contract will therefore only be extended until 30 April 2014 following successful issue of the council tax annual bills and year end report completion.
32. The interfaces that exist within the new infrastructure would need to be thoroughly tested and data reconciled to ensure the validity of the data. A further change in the supplier would provide risks that the council did not have sufficient expertise available to make this happen. One of the benefits of the current arrangements is the supplier owns the software and hosts the servers for the council.
33. At the point of transition of the revenues & benefits service a read only database was available for users to interrogate accounts – a further change at the time the council is changing its ITMS would increase the risk of any system availability at the point of transition.
34. Given advice received from the Head of IDSD, extending this contract will assist in mitigating risk associated with the transition of the council's wider IT contract from its existing supplier. The council's wider IT contract will contain provisions for the inclusion of the revenues & benefits managed IT service at a later date.
35. The welfare reform bill introduces a number of significant changes to benefits administration within the UK. In particular transition to Universal Credit from April 2013 to 2017 will require significant changes to local authority systems. This presents a risk that can be mitigated as the existing supplier is a key local authority system supplier for revenues & benefits.

### **Key Aspects of Proposed Variation**

36. The nature of the proposed variation is to extend the existing contract beyond its initial completion date of the 31 July 2012 until 30 April 2014.
37. This variation as a percentage of the total contract value and previous variations as noted above is 75%.
38. This procurement recognises that the procurement exercise was undertaken recently and at that time best value was achieved. It is anticipated that a review for this extended contract will take place in December 2013 and it is reasonable to assume that the council will be able to make a valid judgement at this time as to the performance of the corporate IT managed service supplier and whether this area should form part of the wider service.

### **Options for procurement**

39. In reviewing the existing revenues & benefits IT managed service there were 4 key options for procurement:

- i. Review the need for the service at all
  - ii. Look to bring the service in-house
  - iii. Full external procurement
  - iv. Extend the existing contract as per the previous approval granted
40. In reviewing these options in summary it was clear that the service was required and therefore could not be stopped. Skills and capabilities did not exist in-house to deliver the service and a full procurement would not be required as the service had recently been through this exercise to let the existing contract.

### **Reasons for Extension**

41. In summary the key reasons for the extension as detailed above are:
- a. The council is undergoing a complex change programme in relation to the corporate IT service. Delivering a phased approach to implementation of key strategic systems enables the council to maintain service delivery.
  - b. The revenues & benefits service requires a stable platform to operational deliver the service at a time when there is significant planned change within the wider corporate ITMS solution.
  - c. The existing supplier has provided a stable and consistent service since the start of the contract and there is no reason why this should change with the proposed extension.
  - d. The service is planning system developments & whilst the managed service and software suppliers remain one entity this provides the council with further economies of scale and expertise to draw upon.
  - e. There are two major national software suppliers in the marketplace for revenues & benefits systems. To change to an alternative supplier would mean the core processing system would require a further full implementation adding considerable risk to the service.
  - f. The gateway 1 & 2 provided for up to a 2 year extension and therefore given the cost of undertaking a procurement exercise the extension represents the best approach for obtaining best value for the council.
  - g. The council is yet to complete annual billing & year-end procedures – the existing supplier is skilled in this area and would mitigate the risk of failure of this important operational process.
  - h. Welfare reform brings significant changes to the administration of housing & council tax benefits. Given the proposed change, Northgate as a principal supplier to the UK market are well placed to deliver the required system deliverables.

### **Policy implications**

42. An effective operational IT solution for the revenues & benefits service is critical to the collection of revenue and efficient processing of housing & council tax benefit. The service through its work supports the reduction in poverty, effective income management and supports the reduction in homelessness.

### **Contract management and monitoring of the contract going forward**

43. It is anticipated that the current contract monitoring arrangements will remain in place. A monthly performance meeting will be held with the supplier's senior

representatives and the Assistant Director for revenues & benefits, Head of Applications, Data & Operations.

44. A partnership board will be held on a yearly basis to be attended by the Finance Director to review the yearly performance.

#### **Community impact statement**

45. The revenues and benefits operation is a front line service affecting the wider community and in particular some vulnerable customers within Southwark. To ensure the effective administration of the service a robust IT platform is required to ensure payments of the housing benefit are received on time thereby reducing the potential for homelessness within the community.

#### **Sustainability considerations (Including Economic, Social and Environmental considerations)**

46. Northgate will continue to provide the council with a document imaging scanning and indexing service, generating a paperless office environment and supporting the council's modernisation agenda, reducing the need for storage and generating efficiencies.

#### **Resource implications**

47. The existing establishment provides a system administration team that work closely with the IT managed service supplier. These resources within the service are sufficient to meet the contract management of the supplier and operational management of the business.

#### **Financial Implications**

48. The revenues & benefits service budget has provision for the IT managed service. It is not anticipated that further expenditure will be incurred beyond the day to day operational costs and any planned developmental costs. These it is anticipated will be retained within the service budget.

#### **Legal Implications**

49. Please see the report from the Strategic Director of Communities, Law & Governance, below.

#### **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

##### **Strategic Director of Communities, Law & Governance**

50. This report seeks the approval of the Finance Director to the extension of the existing Revenues & Benefits Information Technology Managed Service contract, which is being performed by Northgate Information Solutions (UK) Ltd. This report sets out the nature of the extension and the reasons why the extension is necessary.
51. Paragraphs 5 and 6 of the report note that this contract was procured through the Government Procurement Service and includes an option for the council to extend the contract for a period of up to 2 years. In light of this, taking up the extension requested in this report is in compliance with EU law.

52. CSO 4.6.2(a) provides that the decision to allow the variation of this contract can be taken on the basis of a written report by the Finance Director after taking advice from CCRB.
53. CSO 2.3 provides that a variation decision may only be made if the expenditure has been included in approved revenue or capital estimates or has been otherwise approved by, or on behalf of the Council. Paragraphs 51 and 52 of this report confirms how the proposed additional expenditure will be funded.

#### **Finance Director**

54. This Gateway 3 report recommends that the Finance Director approves the extension of the Revenues & Benefits Information Technology Managed Service contract with Northgate Information Solutions (UK) Ltd for a period of 21 months at a fixed cost.
55. The Finance Director notes there is budgetary provision for this contract extension and that the contract extension has yielded a savings. Officer times to effect the recommendation will be contained in existing budgeted revenues resources.

#### **Head of Procurement**

56. This report is seeking approval to extend the current Revenues and Benefits Information Technology Managed Service. The contract was let in August 2011 for an initial 15 month period and has provision for a further 2 years extension. This report seeks to utilise 21 months of the 2 years extension provision from 1 August 2012 to 30 April 2014.
57. Paragraphs 20 - 23 of the report advises that since the implementation of the contract significant improvements have been made to the service. The service provider has met all of the contractual performance targets. The performance for Council Tax collection at the end of October was 1.82% above last year's performance for the same period. The performance of this provider is therefore deemed to be satisfactory and there would appear to be no reason why the council would not wish to extend the current arrangement.
58. Paragraph 43 - 44 confirms that the existing monitoring and management arrangements will continue.


#### **Head of IDSD**

59. The recommendation to extend the existing arrangements is endorsed and supported by the Head of Information and Data Services. Cabinet on 18 July 2011 approved a strategy for the procurement of IT Managed Services with a contract start date of 30 July 2012. The first phase of transition will be to transfer the services currently provided by Serco
60. The new contract will include provisions to enable the inclusion of other hosted systems such as R&B ITMS. A risk assessment has been undertaken which has highlighted an unacceptable level risk of transferring multiple managed services within the first two years of a new corporate contract.

61. Since the award of the R&B ITMS to Northgate there have been no significant contractual or operational issues, and the cost of extension represents value for money when compared to market prices. For these reasons an extension would be appropriate in the current circumstances.

**FOR DELEGATED APPROVAL**

Under the powers delegated to me in accordance with the Council's Contract Standing Orders, I authorise action in accordance with the recommendation contained in the above report.

Signature .....  ..... Date... 9-1-12.....

Designation ..... FINANCE DIRECTOR .....

**BACKGROUND PAPERS**

Background Papers	Held At	Contact
Combined Gateway 1 and 2 – Procurement Strategy Approval Report & contract award approval	Revenues & Benefits Division, Hub 3, 1 Floor, 160 Tooley Street, London SE1 5HT	Dominic Cain x 0207 525 0636
Revenues & Benefits Information Technology Managed Service 10 Aug 2010		
Gateway 1- procurement strategy approval for IT Managed Services 19/7/2011	I&DS, 2 <sup>nd</sup> Floor, 160 Tooley Street, London SE1 5HT	Bill Cottrell 0207 525 5900
Contract Register Update Form		

**AUDIT TRAIL**

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<b>Key Decision?</b>	Yes	<b>If yes, date appeared on forward plan</b>	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>			
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>	
Strategic Director of Communities, Law & Governance	Yes	Yes	



Finance Director	Yes	Yes
Cabinet Member	No	No
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
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