

Item No.	Classification: Open	Date: 20 May 2014	Meeting Name: Strategic Director of Finance & Corporate Services
Report title:		Gateway 2 Contract Award Approval Revenues & benefits processing resilience procurement	
Ward(s) or groups affected:		All	
From:		Assistant Director, (revenues, benefits & FTSS)	

RECOMMENDATION(S)

1. That the strategic director for finance and corporate services approves the award of the revenues and benefits processing resilience service to Capita Business Services Ltd. The contract has a value of £1.9m for a duration of 22 months for the period 1 June 2014 to 30 March 2016.

BACKGROUND INFORMATION

2. The council approved the award of the capacity contract for the revenues and benefits division commencing on the 1 April 2011 to Capita Business Services Ltd. The contract was initially for 3 years up until 31 March 2014 for a value of £2.4m.
3. The capacity contract initially assisted the service in maintaining the level of resources required to process work given the number of vacancies in the establishment.
4. Given an ongoing requirement for resources despite three recruitment stages and an increase in the volume of work following the implementation of welfare reform total expenditure was at £2.4m by September 2012. A procurement process therefore commenced at this time.
5. The procurement approach which was agreed in principle was to use an existing framework contract with a neighbouring authority. This would enable the authority to achieve a saving through a reduction in procurement cost and application of negotiated transactional costs.
6. The council worked with the authority and legal support for the period from September 2012 until February 2014. In February 2014 the council was advised that due to the status of the framework the procurement would place the council with a risk of procurement challenge. The council subsequently withdrew from negotiations.
7. Given the timescales to procurement and the 31 March end date for the contract the council needed to ensure services continued to be available for the interim period.

8. Therefore the strategic director of finance & corporate services approved a further 2 month extension from the 1 April 2014 until 31 May 2014 to enable the procurement approach to be determined.
9. A Gateway 1 report setting out the strategy for the procurement of the processing resilience contract was approved on the 30 April 2014
10. The strategy set out in the gateway 1 report recommended that the approach to procurement should be through single supplier negotiations with the incumbent processing capacity provider (Capita Business Solutions Ltd). It is confirmed that the procurement approach and timetable set out within the report has been adhered to.

Procurement project plan (Key Decision)

11. The proposed timetable for delivery of the contract is set out as detailed below:

Activity	Completed by/Complete by:
Forward plan	May 2014
In principle decision for procurement approach granted by Cabinet member for finance, resources & community Safety	27 March 2014
DCRB review gateway 1	10 April 2014
CCRB review gateway 1	17 April 2014
Approval of gateway 1 procurement strategy report	30 April 2014
Implementation of Gateway 1 decision	30 April 2014
DCRB gateway 2	24 April 2014
Notification to chair of OSC	12 May 2014
Approval of gateway 2	20 May 2014
Scrutiny call in period & notification of forthcoming decision	21 May 2014
Implementation of gateway 2	30 May 2014
Contract award	1 June 2014
Contract start date	1st June 2014
Contract end date	31st March 2016

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

12. This procurement will deliver a demand led processing resilience contract for the revenues and benefits service.

13. The approved procurement approach provides the council with an interim solution to allow a full procurement to take place over the next 22 months. The proposed timetable for procurement determines a commencement date in January 2015.
14. This procurement will ensure stability and maintain continuity of service during which time the council can pursue the strategy to undertake a full procurement inviting competitive tenders.
15. This procurement will also deliver a cost reduction over the life of the contract of approximately £185,000 (based on a reduction in transactional cost). This figure is based on an estimated service requirement over the next 22 months.

Advantages of existing supplier

16. Throughout the period of the existing contract the council has continued to work with Capita and have developed systems and processes that have been responsive to the changing demands to the revenues and benefits service.
17. The council will continue to recognise significant additional positive outcomes from working with Capita as the resilience provider, these include:
 - Access to key expertise across both service streams.
 - Capita have expertise in both legislation and best practice, this contract would enable the council to be at the forefront of key customer service developments.
 - The proposed interim solution enables a full procurement to be planned within the 22 month period.
 - Given the longer term strategy to procure via a competitive tender this interim solution allows the service to maintain performance during this period. To change the provider during this short interim period would add significant risk to performance which has continuously improved over the past three years.

Policy implications

18. An effective resilience partner is necessary to support the wider aims of the Revenues and Benefits service including reducing worklessness in the borough by ensuring more efficient processing of Housing Benefit and Council Tax reduction claims.
19. The service provided will assist the Council in achieving the fairer future principles by ensuring fast and efficient processing of Council Tax & Business Rates thereby maximising income for the council.

Tender process

20. In September 2012 the council commenced the procurement process for a new provision to take effect from the 1 April 2014.
21. The procurement approach agreed in principle was to utilise a framework agreement set up by another local authority, achieving a reduction in cost through

reduced procurement and transactional costs.

22. The council took legal advice on use of the framework, and its initial view on the information supplied was that the framework was an EU compliant process which could be used by the council with little risk. Lengthy discussions therefore took place with the other local authority and its supplier under the framework for the period from September 2013 to February 2014. However more recently further details of the framework were supplied and it became clear that the framework was not appropriate for our use without putting the council at some risk. The council therefore withdrew from these negotiations and was required to consider alternative options.
23. As part of the framework procurement process that commenced in September 2012 the council issued a specification to the existing supplier. The specification detailed a reduced requirement for processing resilience support to be determined as and when required.
24. Given timescales to procurement the council determined the least risk would be to approach the supplier to enter into single supplier negotiations.
25. As a specification had already been issued the council asked that the supplier provide competitive prices based on previous discussions with the other local authority.
26. The Council subsequently entered into single supplier negotiations with Capita Business Services Ltd. as the existing supplier of the revenues and benefits capacity service.

Tender evaluation

27. A project board was convened to provide the governance for the negotiations and sanctioned the proposal received from Capita which identified the cost savings discussed within this report.
28. The board focused on two key areas for evaluating the response to the specification, quality and cost.
29. The board recognised that quality has consistently improved over the life of the contract to date. The proposal sought to strengthen existing quality measures and maintain quality at the same levels of full time staff.
30. It was also recognised that key to the successful provision of services was the ability to maintain service delivery with minimal downtime during any transitional period. Maintaining Capita as the supplier would assist the council in ensuring service was maintained during the interim contract award period.
31. The council was presented with a reduced transactional cost associated with individually processed items and therefore an overall reduction in price.

Plans for the transition from the old to the new contract

32. The decision to award the interim contract to the existing provider will avoid the necessity for any transitional plans and will also avoid any potential service disruption or risks.

Plans for monitoring and management of the contract

- 33. The revenues and benefits service already monitor the day to day performance of Capita. No additional resources are required as consequence of this new contract.
- 34. In addition, within the revenues and benefits structure, the Revenues and Benefits Operational managers have overall responsibility for the monitoring and management of the day to day performance of the services provided by the service provider.
- 35. A robust governance structure is already in place to ensure:
 - KPI's are being delivered
 - Performance is delivered against specification requirements
 - Quality monitoring of performance and benchmarked against internal resources
 - Management of resource allocation
- 36. A formal contract review of performance will take place on a monthly basis and any issue that requires escalation will be referred to Capita's Client Director as necessary for resolution.

Identified risks for the new contract

	Risk Identification	Likelihood	Risk Control
R1	Contract award Delayed	Low	Strategic director of finance and corporate services has extended existing contract for up to 2 months to enable procurement process to complete
R2	Service disrupted	Low	Transition to new contract will not require any service operational changes and which mitigate any risks of disruption

Community impact statement

- 37. 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 flexible processing resilience partner will assist the council in ensuring payments of housing benefit are received on time thereby reducing the potential for homelessness within the community.
- 38. The service has continued to improve since 2011 with significant improvements achieved in 2013/14. Any change to the service at this stage without a longer term planned transitional programme would impact on the council's ability to assist those most in need in a timely manner.

Economic considerations

- 39. The contract award will be for up to £1.9m based on a negotiated reduced price as outline above.

40. The efficient and effective collection of council tax revenue supports the wider aims of maximising income collection for Southwark. The resilience service will support the wider aims of the revenues and benefits service by ensuring that council tax is collected more efficiently and effectively to help sustain services within the council.

Social considerations

41. The Capita contract operates with offsite processing support delivered from their centre of excellence in Blackburn. Capita have confirmed whilst the support is provided outside of the Greater London area staff are paid more than the London living wage.
42. Council Tax administration ensures accurate billing, collection and recovery of debt whilst maintaining links to encourage financial inclusion from those at risk of falling into debt.
43. Maintaining efficient performance in the processing of housing benefit assists in ensuring tenants can meet their rental liability in a timely manner preventing the need for recovery proceedings.

Environmental considerations

44. The revenues & benefits service minimises the use of paper through provision of a document imaging system. It is anticipated that the council's supplier would continue to make use of this facility.

Market considerations

45. The gateway 1 report outlined the considerations of the current market suppliers and recommended single supplier procurement be adopted due to the interim nature of the contract.

Staffing implications

46. There are no staffing implications as Capita resources will cover vacancies and one off requirements. There are no procurement implications as these are covered within existing resources.
47. It is anticipated that the contract resourcing requirements will be met within existing resources.

Financial implications

48. The allowed contract spend associated with this procurement is up to £1.9m for the provision of services over a 22 month period. The cost will be met from the existing resilience budget of £767,532 (10 month pro rata for 2014/15) & £867,000 for 2015/16 a total of £1,634,532.
49. The estimated expenditure profile for the first 10 months of this contract is £767,532 and the anticipated profile for 2015/16 is £540.159 totalling a 22 month estimated spend of £1.3m, £300k below budget and £600k below maximum contract value

50. Any additional costs required over and above the £1.6m budget will be met from future savings that accrue within the revenues and benefits divisional budget as a result of staff leaving and not being replaced and additional funding received from the DWP; £136,305 has already been received for 'new burdens' to cover the on-going implementation of welfare reform.
51. The flexibility of this contract and the contract value will allow the service to draw down additional resources over the next 22 months as and when required and subject to budgetary constraints. Already the service has received and additional £136,305 for and this contract will give the service the flexibility to use the resilience partner to support the unknown demands on the service.
52. The council has negotiated a reduction in the processing transaction cost for each component area as follows:

	Revenues	Benefits
Previous transactional cost	£5.13	£4.88
Negotiated reduced transaction cost	£4.28	£4.47

53. Based on the revised requirements for the service it is anticipated that there will be a reduction in contract spend over the 22 months of £185,000 which will assist the division in meeting existing savings commitments.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

54. This report is seeking to award an interim contract for revenues and benefits processing resilience services.
55. This procurement followed the process outlined in the gateway 1 report that was previously approved. The contract was secured following a single supplier negotiation with the current provider.
56. The procurement outcomes are outlined in paragraphs 12 - 15. This contract will provide continuity of service whilst a full competitive tender process can be undertaken.
57. The approach to evaluation of the proposal submitted by Capita and the results are contained in paragraphs 27 – 31. Through the negotiation officers have been able to negotiate a reduction in transactional costs which should lead to savings on this service
58. The contract monitoring and management arrangements are outlined in paragraphs 33- 36

Director of Legal Services

- 59. This report seeks the approval of the strategic director of finance and corporate services to a decision on the procurement strategy for the revenue and benefits processing resilience service, as further detailed in paragraph 1. As the contract value exceeds the EU threshold for services then this decision is reserved to the strategic director of finance and corporate services..

- 60. The nature and value of this contract is such that it is subject to the full tendering requirements of the EU procurement regulations. However as noted in this report, it is the council's intention to negotiate with the current provider, Capita, to agree an interim contract which will allow a full procurement to take place. The council therefore needs to put in place an interim solution whilst the procurement is undertaken. The EU regulations permit negotiations to be undertaken with one party where that party is the only provider able to provide the service. Paragraph 37 confirms the view that Capita remain the only provider capable of delivering this interim service to the council at this time, particularly within the very tight time constraints

Strategic Director of Finance and Corporate Services ((F&CS14/007)

- 61. This report seeks approval to the award of the revenues and benefits processing resilience service to Capita Business Services Ltd. The contract has a value of £1.9m for a duration of 22 months. The financial implications are contained within the body of this report.

- 62. The strategic director of finance and corporate services notes that the expected contract value is below available budget. Close monitoring will be required to ensure that costs do not exceed available resources.

- 63. Budget pressures may occur in 2015/16 as a result of reductions the council's budget. It is noted that this contract is variable and could be further reduced in the event that full funding is no longer available. Officer time to implement this decision can be contained within existing resources.

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(s) contained in the above report.

Signature

Date 20 May 2014

Designation Strategic Director of Finance and Corporate Services

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Title of document(s)	Title of department / unit address	Name Phone number

APPENDICES

No	Title

AUDIT TRAIL

Lead Officer	Dominic Cain, assistant director (revenues and benefits and FTSS)	
Report Author	Fiona Ives – senior project manager	
Version	V8 Open	
Dated	April 2014	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Head of Procurement	Yes	Yes
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Specialist Housing Services	Yes/No	Yes/No
Cabinet Member	Yes/No	Yes/No
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	N/A	N/A
Cabinet	N/A	N/A
Date final report sent to Constitutional/Community Council/Scrutiny Team		<i>April 2014</i>

