

<b>Item No:</b>	<b>Classification:</b> Open	<b>Date:</b> September 29 2009
<b>To</b>	Executive	
<b>Report Title</b>	Gateway 1 – Procurement Strategy Approval Provision of Revenues & Benefits back office service	
<b>Ward(s) or groups affected</b>	All	
<b>From</b>	Deputy Chief Executive	

## RECOMMENDATIONS

1. That the Executive approve the strategy outlined in this report for the delivery of the Revenues & Benefits back office function as an in-house service, and note the consequential supporting procurements as detailed in paragraph 26.
2. That the Executive approve the strategy outlined in this report for the delivery of the Revenues and Benefits IT services.

## BACKGROUND INFORMATION

3. The Council let the Revenues & Benefits contract originally in 1998 to Cipfa Services Ltd (CSL) now known as Liberata UK Ltd. In 2003 the Executive approved the renewal of the contract with a 2 year rolling contract period which has been extended year on year since then.
4. The contract consists of the administration of the Housing & Council Tax Benefits scheme, collection of Council Tax, Business Rates & Sundry debts for a number of service areas.
5. The Housing Benefit caseload is the largest in London with 39,000 claimants. The net collectable debit for Council Tax is £95m, and for Business Rates is £162m. In addition Sundry debts of £23m are billed in-year. Arrears for outstanding Council Tax currently equates to £25m, for Business Rates £18m and Housing Benefits Overpayments £11m.

## Reason for this report

6. On May 19<sup>th</sup> 2009 the Executive approved a decision to allow the Liberata contract to expire on 31<sup>st</sup> March 2011. The Executive was advised that there were several options that could be considered for the future deliver of the service. The Executive therefore agreed to receive a later report and Gateway 1 (as appropriate) providing a recommendation of the preferred option for delivery of the Revenues & Benefits service from 1<sup>st</sup> April 2011. The options presented in the May report have since been refined and evaluated, and this document presents the resulting recommendation.
7. To support and assist the evaluation of the options the Council commissioned an independent report to identify the risks and carry out an appraisal of the options available.

## Review of the options

8. Officers have considered the findings of the independent report, the appraisal of each of the options together with the risks and benefits associated with each of the options. These findings have influenced the recommendation within this report.

9. The conclusion is that only two of the original options are viable at the present time, namely to bring the service back in-house or to retender.

### **Appraisal of the two key options:**

#### **Option 1- In House**

10. The main benefits of bringing the service in-house are:

- the authority can directly implement new initiatives and methods of working for service improvement quickly and without the need for contract variation.
- the authority is able to build more robust relationships with key departments and external stakeholders. Bringing the service back in-house will eliminate a major 3rd party interface.
- the authority can have direct day to day management of the service and speed of making decisions and implementing change will be quicker.
- The option would allow the authority to bring the service in-house and tackle the current performance issues in the short term.

11. The main risks for in-house were highlighted as follows:

- The lack of recent experience in directly managing a revenue and benefits department.
- The short timeframe to transition
- The cost of setting up and on-going running of the in-house service provision.

#### **Option 2 – Retendering**

12. The main benefits for retendering the service were highlighted as follows:

- The authority would be testing the market to ensure that the best solution and price is obtained and to seek proposals from suppliers on opportunities for improvement;
- The external supplier would have relevant and up-to-date experience of running a revenue and benefits service and established good practise procedures and processes;
- The supplier would have established management structures in-place with accountability for service delivery already established;

13. The major risks of retendering the complete service were highlighted as follows:

- Short timeframe to transition- this level of contract would require a full open procurement with an ability to negotiate for specific requirements. This would require a period of 12-18 months. The minimum period would not allow for adequate preparation of the specification, the maximum period would allow no time for transition.
- Lack of direct control on the part of the Council, leading to slow and reluctant responses to Council-led initiatives to improve the service for the people of Southwark.

- The current complex and changing operating model (front facing services within the CSC) would be difficult to manage and could lead to a lack of a suppliers tendering for the contract.
- It will take an initial period of time for the supplier to develop an understanding of Southwark Council, its culture, policies and procedures, therefore the speed to service improvement may be slower.

### **Service and Transition costs**

14. Officers have determined the estimated annual service costs together with the estimated costs associated with the transition of the service to the preferred option. Officers will be seeking opportunities to deliver efficiencies, in line with current budget pressures, against these estimated costs as the service develops and once full due diligence has been completed.

### **Performance Improvement**

15. The independent report identifies an expectation that Southwark should move from bottom quartile to average quartile in both Revenues and Benefits by 2013/2014. In Council Tax terms this means an increase in in-year collection of 2.9% over 3 years.
16. In financial terms this equates to an increase in income (at present value) of in-year Council Tax of £2.7m. Furthermore this does not take into account efficiencies gained through more effective collection of outstanding Council Tax arrears.
17. The independent report further highlighted an expected improvement in Housing Benefits new claims processing by a further 9 days to 21 days within the first year of operation.
18. Business Rates collection performance has suffered during the current economic climate, the independent report states average inner London performance can be achieved within 2 years of a transition.

### **Summary of the justification for the recommendation**

19. Whilst Option 1 does not provide the Council with the anticipated lowest cost as currently estimated, it does however provide the opportunity to reduce operational complexity & ensure that performance improvement is achieved through closer working with internal departments. Currently the majority of outstanding Council Tax debt can be linked to housing stock accounts.
20. It should also be considered that with mitigating actions option 1 provides the Council with the strategic flexibility to consider future innovative operational models. Flexibility would be restricted if the Council had a medium term contractual arrangement with a supplier
21. An In House option would give the Council the flexibility to review operational costs for further efficiencies once improvements in performance had been attained.

### **Identified risks and how they will be managed**

22. All risks associated with the preferred option will be managed through professional programme and project management techniques, applied experienced staff. The programme is also proposing to use a piece of programme management software that will give high visibility of project risks, progress and costs to programme and senior management staff.

## Delivery of proposed solution

23. The revenues & benefits service would be brought back in-house by means of a programme of interlinked projects. Brief details are referred to below:-

- The processes and organisational structure of the revenues & benefits service will be completely redesigned. These will be re-engineered to provide the levels of customer service and quality required by Southwark, and to eliminate perceived problems with the current service delivery.
- There are assumed TUPE implications from the closure of the current contract. The programme will work through the legalities of transferring any TUPE'd staff to the Southwark workforce. It will assimilate both TUPE'd staff and the current client team within the revised organisational structure.
- Vacant posts within the structure will be recruited to with permanent, experienced staff.
- It will be necessary to secure suitable accommodation to house the new service from 1<sup>st</sup> April 2011.
- A complete training and development programme will be devised for staff.

24. A transition team will be appointed to identify immediate service risks and take appropriate remedial action.

25. Key milestones relating to the programme are highlighted below.

Activity	Complete by:
Options Appraisal – approval by Exec of the recommended option	29/09/2009
Redesign of Revenues & Benefits service (processes & structure)	31/03/2010
Procurement & refurbishment of office accommodation	28/02/2011
Procurement of printing services (if required)	28/02/2011
Reorganisation of Revenues & Benefits structure & TUPE requirements	30/06/2011
Retraining of Revenues & Benefits staff	30/06/2011
Contract final transition exit	30/06/2011
Transition and Consolidation of Revenues & Benefits service	31/12/2011

## Proposed service procurements

26. The programme asks that the Executive note the following necessary procurements, the gateways for which will be approved via contract standing orders

- The provision of accommodation estimated to house the revenues & benefits service
- Possible refurbishment of office accommodation to LBS standards
- The availability of 3<sup>rd</sup> party operational resilience for the revenues & benefits service during the transition period
- Possible external Printing resource

## **Market considerations**

27. An analysis of the market relating to potential Revenues & Benefits bidders was undertaken in 2008. There are relatively few major contractors, with a successful track record and there are high barriers to entry. The independent report identified that a key success factor for a retendered option relied on there being a suitable alternative provider in the market. However, this is an emerging market for many large contractors interested in expanding the range of services they provide.

## **KEY ISSUES FOR CONSIDERATION**

### **Policy implications**

28. The provision of effective advice alongside processing, possible under the preferred service delivery option, will further support reducing worklessness in the borough by ensuring more efficient processing of housing & council tax benefit claims

### **TUPE implications**

29. TUPE regulations will apply to this option.

### **Development of the tender documentation**

30. Whilst not being tendered, there will be a need to produce documentation (specification and service level requirements) to which the in-house provider will need to comply. These are being produced as part of the programme and will be the basis of later training and service improvement work.

### **Advertising the contract**

31. No advertisement is needed for the provision of the R & B back office service.

### **Evaluations**

32. Not relevant to the in-house provision of the service.

### **Community Impact Statement**

33. The service delivery model will support access to services across a range of channels, taking into account socio economic factors, demographics and equalities within the borough. The service will continue to support the reduction of worklessness and assist in mitigating factors associated with the current economic climate.

### **Other implications or issues**

### **Sustainability considerations**

34. Any accommodation provided as part of this transition will reflect standards determined by the Modernisation Programme. Sustainability will be one of the criteria used in obtaining and refurbishing any such accommodation.

### **Staffing implications**

35. The transition of the back office revenues & benefits service from Liberata to the Council will involve an increase in the establishment.. In addition those staff currently employed within the Councils client team will also be affected by the proposed restructure of the service. The

impact of these changes on HR and payroll will be managed as part of the programme. Specialist legal and HR support will be required during the transition when TUPE eligibility is discussed and negotiated.

### **Financial Implications**

36. The transition costs will be funded from reserves.
37. The ongoing costs of the option chosen will be met in the first case from existing budgets. Any balance arising on full quantification of costs will have to be addressed through the business and budget planning process

### **Legal Implications**

38. Legal implications are noted in supplemental advice provided by the Strategic Director of Communities, Law & Governance
39. Any new accommodation requirements will necessitate legal support.

### **Consultation**

40. Further consultation is planned in relation to customer service improvements and in particular the move to increase the use of the web as a channel of access for customers.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

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

41. This report seeks the approval for the procurement strategy relating to the future provision of the Revenue and Benefits back office service. Contract Standing Order 4.1.3 requires that any decision to bring an externalised service in-house should be approved by way of a Gateway 1 report. At the value of this contract, the decision to approve the Gateway 1 report is reserved to the Executive.
42. The council is not obliged to use external parties to provide its services, and may therefore provide these back office services in-house. However in deciding how to provide any of its functions, the Executive should have regard to the council's duty of best value, and the requirement to secure continuous improvement. Paragraphs 19-21 set out the justifications for this recommendation, and the benefits of bringing the service in-house.

### **Finance Director**

43. The decision already taken not to extend the contract with Liberata will necessitate incurring one-off transition costs for which there are no budgets, and which therefore will have to be covered from Council reserves. Any additional ongoing costs arising from this decision for the delivery of the services described in this report, regardless of which option is chosen, will need to form part of the business and budget planning process.

## Southwark Procurement

44. This report proposes bringing the Revenue and Benefits back office function back in house.
45. Although bringing the back office function in house will not involve a procurement, there will need to be a process followed to achieve this. Good practice would involve following a similar process to a procurement in that a proposal to deliver the services would need to be prepared and assessed to ensure satisfactory delivery of the services will be achieved. The proposed process is outlined in paragraph 23 - 25.
46. In bringing the back office function in-house there is a need to source the IT support services. There will be a separate gateway to cover this.
47. This report also refers to the need for other ad hoc supporting procurements necessary to maintain the full service. Paragraph 26 confirms that these will all be the subject of separate gateway reports and will be in accordance with contract standing orders.

### KEY POINT SUMMARY

- The in house recommendation would not require a procurement process other than for a number of small procurements for facilities.
- This contract is for services and is replacing the existing provision

## AUDIT TRAIL

<b>Lead Officer</b>	<i>Eleanor Kelly, Deputy Chief Executive</i>		
<b>Report Author</b>	<i>Dominic Cain/Mike Lynch</i>		
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<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE 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	
Head of Procurement	yes	yes	
Executive Member	no	no	
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