B R E N T C O U N C I L	**Performance and Finance Select Committee** 9th December 2009 **Report from the Director of Finance and Corporate Resources**
For Information	Wards Affected: ALL

Report Title: Options for Revenues and IT delivery from 2011

1.0 Summary

1.1 This report summarises the outcome of an options appraisal for the provision of Revenue and IT services, following the expiry of the existing Capita contract on 30 April 2011. The current contract includes the collection of revenues for council tax and NNDR and the provision and maintenance of IT systems specific to both Revenue and Benefits services.

2.0 Recommendations

2.1 Members are asked to note the outcomes of the options appraisal and the decision to retender the service as a result of this.

3.0 Background

3.1 The current contract for revenues and IT is due to expire at the beginning of May 2011. The contract which began in 2003 includes the collection of Council Tax from 109,000 domestic properties and NNDR from 8,000 businesses in the borough, along with the provision of IT for the Revenues and Benefits service.

3.2 The existing contract does not include the provision of front line customer services relating to Council Tax. This is currently provided through the Council's One Stop Service. The Capita contract does however incorporate responsibility for phone enquiries relating to Business Rates and a call overflow facility for Council Tax during times of peak demand, such as the period following main billing.

3.3 To help evaluate the most effective service provision arrangements for this service in the future an options appraisal has been completed. It was agreed at the September PFSC that an update of the outcome of this would be provided to members at a future committee.

It is further planned to submit a report to the Executive in January that will outline the recommendations and timescales for their implementation.

4.0 Options for future service delivery

4.1 Service Objectives

4.1.1 The main objectives for any future service provision arrangements will be to continue to improve Council Tax and NNDR collection whilst also seeking to improve efficiency and reduce collection costs. The options appraisal has taken account of these objectives as well as the potential risks, advantages and disadvantages of each.

4.1.2 There are three main options open to the Council to consider. These are

- Providing the service in house
- Shared service with another Council
- Retender of the contract with the same or a revised scope

The full options appraisal is attached to this report as Appendix A. The following paragraphs summarise the key findings from this.

4.1.3 The options appraisal includes the outcome of research into service delivery models in other Authorities and collection performance for each of these models. Research has also been undertaken to establish potential market interest in a Brent contract in the event that a competitive market tender was sought. The findings against these areas are provided later in this report.

4.2 Options Considered and Conclusions

4.2.1 In House Service

Consideration has been given to bringing the service back in house and the potential this would bring for improving collection and increasing the efficiency of the service. Initial analysis shows that an in house price for ongoing provision is likely to be 4.5% greater than that of the current contract, with additional costs incurred for set up. A return to in house provision would facilitate direct control of operational arrangements and could, as such, support improved collection. However there would also be a number of risks that would need to managed in the event of a return to in house provision, these include

- The transition of the service, involving both the transfer of IT, TUPE of staff and assignment of leases etc
- Assimilation of TUPEd staff to Brent terms and conditions and restructure of staff to achieve this. The existing Capita structure would not meet the needs of an in house service.
- Recruitment of staff and managers and a review of resourcing across the various functional areas.
- Service development requirements, including IT system changes
- IT provision arrangements as these would be incorporated into the Council's ITU unit but would need detailed service level agreements to facilitate service continuity
- Training needs analysis of staff and induction into Brent
- Implementation of Brent performance management arrangements and service planning/ budgetary frameworks

4.2.2 Advantages of an In House Service

- The Council would have day to day management of the service which should improve the speed of making decisions and implementing change

- The ability to build more robust relationships with key departments may assist with information sharing, however this can be facilitated by the client team on the contractor's behalf.
- Client monitoring overheads would not be necessary
- The location of the service in Brent would support local employment (the majority of the Council Tax staff are based in Brent House with the exception of IT, NNDR and Valuation staff).

4.2.3 Risks and Disadvantages of an In House Service

- The estimated cost of this is unlikely to offer best value for money.
- Staffing costs are likely to increase because the Council's pension scheme incorporates higher employer contributions than most private sector pensions schemes.
- There would be risk of disruption to IT support which may arise during the transition or afterwards. It is likely that ITU would have to recruit resources to support Revenues and Benefits IT support as there is a very low likelihood of any expertise or resource transferring at the end of the contract. Given the Council's wider transformation programme and the critical role that ITU will play in supporting this, the transfer of Revenue and Benefit systems over the next 18 months may impact on their ability to prioritise this and will inevitably create capacity issues for them.
- The lack of recent in house operational management experience may impact on performance; it would be necessary to recruit NNDR and Valuation team staff as they are currently based in the Capita Bromley office and are unlikely to TUPE.
- There is a risk of the loss of service management and technical expertise as key staffing resources may not TUPE. This would also apply to the alternative contractor scenario, however in that case the new contractor would be responsible for managing the set up and the associated risks with this. It is also likely that another contractor would have a larger pool of experienced managers from which they could identify suitable expertise.
- The Council would bear the full risk of collection shortfalls and costs incurred

4.2.4 Summary

The transfer of staff leading to the harmonisation of terms and conditions along with pension and other HR related costs mean that this is unlikely to be the most cost effective solution. The potential for the loss of key management and specialist support resources for NNDR, IT and Valuation Team work would mean that it is necessary to recruit that resource for Brent as unlike another contractor, there is not a pool of experienced staff available that could be utilised to support the transfer and to oversee the service.

There is provision for penalties within the contract associated with loss of IT which assists in reducing the risk to the council and ensuring that any potential issues are dealt with quickly. The use of incentives and deductions within other areas of the contract provides for shared risk should collection targets not be met. This shared risk would not exist for in house arrangements.

A return to in house provision would involve some increase to cost and potentially increased risk to the Council at this stage. Although these risks could be managed and mitigated, the likely cost of in house provision makes this option less desirable.

4.3 Shared Services

The Council could consider a new service model for Revenues and IT, involving either a shared service with another Authority or shared procurement of a new contract. This option is a longer term option and would require the service to be brought back as an in house service initially, whilst shared arrangements were negotiated with a relevant partner. There is little experience of shared service in London, however those developed outside London between smaller district Councils have typically taken a protracted time to set up and become operational. As part of this review, senior Client staff in Brent met with their counterparts in Harrow and Lambeth to discuss any potential for future sharing of services or contracts. Lambeth was chosen as they plan to go out to tender at a similar time to Brent. Both Lambeth and Harrow use the same Revenue and Benefits IT system as Brent, which would be an essential element to any share service arrangement. Lambeth are currently reviewing the scope of the contract that they are likely to go to market with and at this point in time are unlikely to also consider shared services with another Authority. Harrow is currently exploring a joint managed service solution by Northgate (their IT software provider) for their IT provision with Croydon and another London borough however this is at a very early stage and would separate IT provision from service delivery. Findings from the benchmarking reports across London authorities show that some authorities would consider shared services in the future, but are unlikely to do so within the next 2 years.

4.3.1 Advantages of Shared Services

- There could be economies of scale in joint provision, with rationalisation of location, systems, management and staffing. This has not yet however been proven for larger London Authorities where experience of share service has not yet developed.

4.3.2 Risks and Disadvantages of Shared Services

- This option has not been proven as capable of delivering efficiency and improvement for Revenues services as there is little experience of this within London or larger Metropolitan Authorities. The most difficult part of forming a partnership or consortium is gaining the agreement of all the parties to the approaches and methods of working that should be adopted. Unless there are clear agreements about roles, decision-making, service location etc, there are potential conflicts. There is a real risk that time and resource could be expended on a long term project to achieve this, with implementation either being delayed or aborted because agreements cannot be reached.
- It is unlikely that another authority will be willing as part of a shared service agreement to take on shared risks in relation to collection and other service targets
- Where there is a need to reduce resource input, it may prove difficult to decide which Council should reduce it's staffing and how any resultant costs should be funded.
- Any efficiencies are unlikely to be realised until later in the partnership as the initial set up costs will need to be offset before savings are realised.
- There is a risk of performance declining during transition to new arrangements and the resulting costs arising from this to clear backlogs of work

4.3.3 Summary

There is little prospect of successfully negotiating a shared service agreement by early 2011 as the council does not already have a potential local authority partner with which it shares synergy of requirements and a history of good working relationships. Indeed the benchmarking across authorities has shown little interest from authorities to share services in the next two years. This timescale would bring us to the end of the contract and would mean that it is necessary to bring the service in house prior to embarking on shared service arrangements. Should this happen the uncertainty of future prospects is likely to greatly impact on the staff that would wish to transfer to Brent and subsequently to a shared service from the current contractor. There may therefore be risks to Council Tax collection performance as the service undergoes a number of changes and loses key personnel.

The success of a partnership approach of this type depends on the ability of the authorities to agree on service provision. There are no examples of shared service for London or Metropolitan boroughs in relation to Council Tax provision. Where this has been done it is with smaller district councils who, when merged, have a tax base that does not exceed that of a London borough.

One of the key risks with a shared service agreement is that a lack of clarity at the outset of the service can lead to problems later on. Also the loss of the sharing of risk could impact on the council's ability to ensure the best possible outcome is achieved if the council is not leading in the provision of the shared service.

4.4 Re-Tendering the Service

The Council could chose to retender the service to secure a competitive price for the future provision of the service. This would require an active supplier market and interest in tendering for the Brent contract. The contract with Capita has delivered improvements to both Council Tax and Business Rate collection and IT service provision has been very stable throughout the contract (apart from initial problems which arose during the transition of the service form EDS). Revenues and IT services can and have been provided successfully by a large number of Authorities and do lend themselves well to outsourced arrangements. As with all options open to the Council, retendering is not without risk and formal contractual arrangements can make it more difficult to make changes to service delivery quickly and flexibly. There are additional overheads for outsourced services arising from the need to manage and monitor the contract.

If the Revenues service is retendered then decisions will need to be made about the overall scope of the contract. The current contract does not incorporate responsibility for handling customer contacts and this can result in a disconnect between back office functions and front line service delivery. One Stop Service staff have been trained and empowered to resolve a range of Council Tax enquiries and this has facilitated resolution of queries at the first point of contact. However Customer Services provision is currently responsive and geared to dealing with customers on a one off basis and not maintaining ongoing contact. This means there is little capacity for outward bound calling and that enquiries can be dealt with in isolation to the overall management of arrears owed by the customer. Benchmarking across London authorities shows that authorities who have revenues staff dealing directly with customers enjoy a higher collection rate on average when compared with those who have corporate customer service staff dealing with concerns are that these are unlikely to be built on with the current separation of the revenues staff from customers. The model of the service in terms of customer handling and back office configurations will need to resolved whatever option is decided upon. A review of the advantages and disadvantages of re-tendering the service are detailed below.

4.4.1 Advantages

- The exposure of the service to competitive pressure will facilitate value for money, provided that there is active market interest. The options appraisal evaluation included a soft market testing of a potential retender of the service and this found that that there is sufficient market interest to support a competitive process.
- There are benefits that can be gained through outsourcing by having access to private sector expertise and investment. For established suppliers, there is the added benefit of experience of operating different models of delivery and change management.
- Outsourcing may offer scope for gaining economies of scale or discounts on purchases for example items such as printing etc.
- Outsourcing provides the opportunity to share risk on both price and service delivery and can reduce the impact of financial risk to the council. Although contractors price in some cover for risk, the competitive nature of the tender processes means that this has to be minimised to achieve a competitive price.
- Experience of outsourcing of Revenues and IT over the past 8 years has shown that this can deliver improvements and work well. There is potential to build on the improvements put in place during the current contract if the specification and scope of a new contract support that.
- The Council has an experienced Client Management Team

4.4.2 Risks and Disadvantages

- It is difficult to tightly specify all requirements for the life of a contract and in any event requirements will inevitably change. Contract variations can lead to price creep and protracted contract negotiations, depending on the overall framework of the contact and the Council's relations with the contractor. An open book accounting approach to the finances surrounding the contract can mitigate this and these arrangements have worked well during the Capita contract.
- Improvements need to be specified and costed at the outset of the contract but can be difficult to predict accurately when the scale of improvement isn't easily quantifiable.
- Suppliers may be sceptical about bidding for a contract where there is an existing supplier running the service. This is because they may feel any efficiencies in the service have already been realised or that the existing supplier holds an advantage in any tender process. The soft market testing carried out during the options appraisal, indicated that the Council's approach to any tender exercise and clarity about the objectives for retender (particularly interest in genuinely considering other options) would be key to securing competitive competition. Work currently being carried out reviewing existing end to end service delivery arrangements using Lean System thinking methodology, will also help to identify the scale for further efficiency, beyond the life of the Capita contract.
- The added overhead of client management arrangements
- The transfer of services to another supplier could increase the risk to service provision during the transfer window and early in any new contract

4.4.3 Summary

Comparisons in collection across London Boroughs between 2006-07 and 2008-09 show an average increase of 0.43% for authorities that have council tax collection in house and 0.69% for those that have collection with contractors. Notwithstanding this, its fair to say that the scope for improvement will vary greatly between Authorities and will be directly affected by the demographics and past performance of the service. It is clear that it is possible to improve collection under both in house and outsourced arrangements. To establish the vehicle for future service provision we need to evaluate the potential value for money that can be offered by all options and the relative risk to the Council of each. Taking all of these factors into account, a retender of the existing service does seem to offer the most appropriate solution for the Council at this stage.

Careful specification will be key to any new contract to successfully meet the objectives of the council. Within the current contract a clear focus on improvements and the sharing of risk has assisted in ensuring that the council has seen improvements in revenues collection. However the scale of improvement is slowing down and indicates that the scope and specification of the current contract needs to be reviewed. An amended scope is also likely to provide increased reassurance to contractors of the potential for improvements and efficiencies within the contract lifetime.

A reviewed scope could include an increase or decrease in services provided within the contract. A potential to decrease the scope would be the removal of IT provision and maintenance from the contract, leaving revenues collection only. However this would impact on the ability of the council to hold the contractor responsible for shortfalls in collection should there be a link to IT performance,

If a decision was made to tender only IT, it is likely that the size of the contract will greatly reduce the number of contractors who would be interested in bidding as the value of the contract would be significantly reduced. IT provision needs to directly support the delivery of service objectives and this would be harder to achieve where the specification was wholly IT based and not directly linked to service provision.

An option has also been considered to increase the scope of the current contract to include other areas; this is likely to increase contractor interest as this could increase the scope for identifying efficiencies. The review of customer service provision for revenues referred to in Appendix A page 3 has meant that the inclusion of customer service in the contract is an area that has been considered in this review. Findings at this juncture are that it is likely that the inclusion of customer service provision by specialist revenues staff is likely to increase the opportunity for the revenues service to meet its objectives and to be attractive to suppliers.

5.0 Conclusion

A review of service performance across London boroughs has shown higher average collection rates for authorities who have contracted out the revenues collection service. The benchmarking has also shown higher average collection rates for those who have revenues staff dealing with customer service enquiries as opposed to customer service staff.

An in-house service is unlikely to be the most cost effective solution. The potential for the loss of key management and specialist support resources and the loss of shared risk mean this is not the preferred option for the future of the service

There is little prospect of success for a shared service partnership within the timescales available. The council does not already have a potential local authority partner in mind and the benchmarking across authorities has shown little interest from authorities to share services in the next 2 years. As a result this is not the recommended option for the service.

Retendering the service is likely to prove to be the most cost effective option with the greatest likelihood for success if the specification includes some (or all) provision of customer service for revenues. The meetings with current contractors who provide revenues collection services to local authorities has shown that there is likely to be sufficient market interest to ensure that Brent is likely to be successful in securing a competitive procurement environment that provides value for money for Brent.

As a result the recommendation is that the contract is retendered. A review of duration and scope is recommended with further recommendations to consider increasing the scope so as to include the provision of customer service for Council Tax or reconfigure existing arrangements with the One Stop Service to make them more effective.

Any new specification should also include a revision of incentive and deduction schemes, targets for arrears and key service measurements. The recommended duration would be similar to the current contract which is 5 years plus an option for a further extension of 3 years.

6.0 Financial Implications

6.1 It is anticipated that the cost of the tender process for this contract will be funded from the service unit budget.

7.0 Legal Implications

7.1 This procurement is subject to the full application of the EU Regulations relating to procurement.

8.0 Diversity Implications

8.1 There are no diversity implications.

9.0 Staffing/Accommodation Implications (if appropriate)

9.1 This service is currently provided by external contractors and there are no implications for Council staff arising from retendering the contract.

Background Papers

Contact Officers
Margaret Read - Head of Revenues and Benefits
Paula Buckley - Head of Client