Brent	**Cabinet** **10 November 2014** **Report from Director of Regeneration and Growth**
Review of Revenues Collection post 2016	

Appendix A is Not for Publication

1.0 Summary

1.1 The existing contract for the administration and collection of Council Tax and Non Domestic Rates (NNDR) along with the provision of IT for Revenues and Benefits was awarded to Capita for a 5 year period commencing in May 2011, with an option to extend for the further 3 years from 1 May 2016 to 30 April 2019.

1.2 This report considers the options available to the council for the future provision of the Revenues and IT service beyond April 2016. Decisions about future provision need to be taken by November 2014 in order to either agree to an extension of the existing contract for 3 years or where this is not decided to ensure alternative options are implemented before the current contract expires in April 2016.

2.0 Recommendations

2.1 To consider the options for the future provision of Revenue and IT services as outlined in paragraphs 3.2 to 3.6.

2.2 To agree officers’ recommended option to exercise the contractual provision to extend the existing Revenues and IT contract with Capita for 3 years from 1 May 2016 to 30 April 2019.

3.0 Detail

3.1.1 The scope of the current Revenues and IT contract includes collection of Council Tax from 114,000 domestic properties, collection of Business Rates from 8,000 businesses in the Borough and the provision of I.T. specific to the

Revenue and Benefit services. The award of the contract in May 2011 resulted in average annual savings of £1.16M.

3.1.2 This service has been outsourced since 1995 and was subject to competitive full EU tender processes in 1995, 2003 and 2011. The current contract with Capita was agreed for a five year period from May 2011 to April 2016, following competitive tendering, with an option to extend for 3 years from May 2016 to April 2019. The extension of the existing contract is subject to the council giving Capita notice of this intention by November 2014.

3.1.3 To facilitate decisions about the provision of the service from May 2016, an options appraisal has been carried out to identify and evaluate which delivery vehicle offers the best prospects of increasing Council Tax and Business rate collection and the best value for money. These options include: exercising contractual provision to extend the existing contract for 3 years; a full retender of the service; bringing the service back in house; implementing a different model for service provision such as shared service or shared procurement.

3.1.4 Paragraphs 3.2 to 3.7 below summarise the key findings of the options appraisal.

3.2 Option 1 - Extend the Capita contract for 3 years from May 2016 to April 2019

3.2.1 A number of negotiation meetings have taken place with Capita with a view to agreeing in principle terms for a 3 year extension. Officers have used these negotiations to identify areas where savings could be achieved whilst also increasing Council Tax and Business Rate collection. Savings agreed in principle significantly exceed the 3% annual savings stipulated in the current contract and include significant additional savings for the final year of the existing contact in 2015/16.

3.2.2 Cumulative savings for 2015/16 and the 3 years of the contract extension amounting to £1.9m have been agreed with Capita along with the collection targets outlined in table 1 should the option for extension be contracted. A breakdown of the savings agreed is contained in Appendix A.

Table 1: Collection targets agreed in principle subject to 3 year extension

2015/16 (Final year of existing contract)	**2016/17 First year of extension**	**2017/18 Second year of extension**	**2018/19 Final year of extension**	**Total over 4 years**
In year collection target	**In year collection target**	**In year collection target**	**In year collection target**	
96%	96.2%	96.3%	96.5%	

% increase to collection				
0.1%	0.2%	0.1%	0.2%	0.6%

3.2.3 The proposed contractual Council Tax collection targets shown above have been agreed in principle with Capita subject to the 3 year extension being agreed to 2018/19. In year collection targets represent an increase of 0.5% over the period of the extension which represents £583K additional Council Tax collected in year. The net cash flow benefit to the Council is £449K taking account of monies collected on behalf of GLA. The increases to collection bring cash flow benefits to the Council from early collection, reduce the need to resource arrears collection in future years and will facilitate potential increases to budgeted Council Tax.

3.2.4 **Main Benefits/Advantages:**

- Significant savings would be achieved in the final year of the existing contract alongside contractual targets to increase collection
- These savings would be realised before the service is subject to any changes to provision. This means that TUPE costs will be lower in 2019/20 at the end of the extension, should the service be brought back in house or retendered.
- The new E-Revenues module due to be implemented in 2015/16 will be embedded and will have facilitated channel shift before any change to existing provision. (This will enable residents to check their account on line apply for discounts/ exemptions and notify changes to their circumstances.) A change to service provision in 2016/17 could impact on the speed with which channel shift is achieved.
- Year on year targets for improvements to collection would be agreed with the contractor for the 3 year extension period, alongside contract savings
- The impact of universal credit would be known and could be included in the evaluation of all options for the provision of the service from May 2019
- The outcome of Westminster's planned procurement and the terms of any framework agreement linked to this will be known and can be considered when evaluating options for the future provision of the service from May 2019
- Brent can use the option to extend as a contractual lever to negotiate optimum collection performance, cost reductions and shared risk through existing contract levers
- There will be no planned disruption to IT and service provision during 2015- 2019 providing the best opportunity for securing savings and improving collection performance during this period.

Main Disadvantages/Risks:

- It is not possible to make any significant changes to the current contract
- Contract negotiations are not subject to any competitive process for the extension period

3.3

3.4 **Option 2 - Retender the service**

3.4.1 This contract was last retendered in 2010, with the average bid price being £450k higher than that of the successful supplier per annum. Soft market testing has been recently undertaken to identify the potential appetite for a contract of this scope and duration. The key findings from the soft market testing are:

- All suppliers contacted expressed an interest in bidding for any future contract, commencing in either 2016 or 2019. Unsurprisingly all expressed an interest in extending the scope of the existing contract. Proposals for extended scope include administration of Council Tax Support, Customer Services and wider IT provision (as opposed to just Revenue and Benefit systems) These were identified by 4 of the 5 respondents and one also identified aspects of Adult Social Care and Children's services.
- One contractor has indicated that they would only be interested in bidding for a contract that had a minimum duration of 7 years.
- There is also market interest in the procurement of the service via a framework or Managed Service Agreement that would allow other authorities to procure services from the same contract
- There is market interest in providing services offsite from Brent

3.4.2 Risks and Benefits of Retendering

The main benefits include:

- The contract would be exposed to a competitive tender process
- The scope and requirements of the contract could be significantly changed if this was desirable

The main risks attached to this option include:

- Prices secured through a competitive tender process may not be as competitive as an extension particularly as there are now increased risks for collection arising as a direct result of the changes to Council Tax Support. (CTS) There is a fundamental review of CTS planned for 2015/16 but the final outcomes from this will not be known in sufficient time to incorporate into a tender specification.

- Collection risks following the transition of the service to a new supplier and arising since the implementation of CTS are likely to be reflected in the pricing for any new contract. There may also be a reluctance within the supplier market to agree to ambitious collection targets and to sign up to the financial risk of contract deduction clauses should targets not be achieved. The proposed changes to Universal Credit could have a significant impact on the contract in 2017 and subsequent years. It is understood that a paper is being prepared for ministers to review in October 2014 that will outline a number of options for Universal Credit and the associated timelines. It is not yet known when the outcome of this options evaluation is likely to be available but plans should be much clearer at the point of retender (2017) if the contract is extended to 2019.

3.5 **Option 3** - **Shared procurement/Framework Agreement**

3.5.1 Procurement of the new contract could be approached with another borough, either via a joint procurement exercise or framework agreement. Contact has been made with other London boroughs with similar contracts which have an end date or an option for renewal in 2016, including Hounslow, Lambeth and Westminster. Apart from Westminster these Authorities are either seeking to extend their existing contract or are already part of an existing framework agreement.

3.5.2 Westminster City Council are planning to tender their Council Tax and NNDR contract in the Autumn of 2014 creating a framework agreement which will enable other councils to be included and this will have an option to "call off" contracts under the agreement once a contract award has been made. It should be noted that this contract will cover only Revenues services and thus separate arrangements for IT provision for both Revenues and Benefits would have to be made.

3.5.3 Risks and Benefits of Shared Procurement

The benefits of this approach are:

- The potential to achieve greater savings because of a larger contract, however this has not been tested
- More streamlined procurement process for authorities joining the framework

The risks attached to this option include:

- The scope of any framework agreement may not match Brent requirements
- IT is not included in the scope of the framework agreement and this significantly erodes contractual levers for collection targets, as the successful supplier will not be accountable for IT issues.
- IT provision would need to consider separately either bringing this back in house or retendering as a separate contract.

3.5.4 Brent would have no input to specifications requirements so key performance indicators and associated incentives and shared risk arrangements may not suit our requirements

3.6 Option 4 - Bring the Service In House

3.6.1 The fourth option would be to bring the Revenue and IT service back in house to be directly managed by Brent Council. This option is open to Brent from May 2016 if they chose not to extend or from May 2019 if an extension to the existing contract is agreed. Should the Council decide not to extend, Capita will limit contract savings in 2015/16 to 3% (compared to 10.64% if a contract extension is agreed) and scope for savings in 2016/17 would also be significantly limited. The cost of the in house service will in fact increase further from May 2016 as Brent would be required to harmonise terms and conditions under single status and it is unlikely that any staffing reductions could be achieved in the first year of the in house service without risks to collection. There will be significant risks to manage in terms of the transfer of IT provision for both Revenues and Benefits and it is likely that collection performance will fall in the final year of the contract in 2015/16. There will additionally be one off transition costs relating to the transfer of the service, such as procurement of servers, systems and bulk printing arrangements as well the complex transition of staff under TUPE.

3.6.2 Excluding set up costs it is estimated that annual costs for in house service delivery would be increased further in 2016/17 and 2017/18 given the need to harmonise terms and conditions for transferring staff, manage the transition of the service including the transfer of IT and stabilise collection following the final year of the contract. There is also an increased likelihood of increased costs for printing and postage as the economies of scale achieved by Capita through multiple contracts is reduced.

3.6.3 Table 2 below shows a comparison of the forecast in house costs for 2016/17-2019/20.

Table 2: Savings and costs to Bring in House

2015/16 (Final year of existing contract)	**2016/17 In house**	**2017/18 In House**	**2018/19 In House**	**Total Cumulative Savings over 4 years**
Savings £90,439	**Increased cost** -£180,000	**Net Savings** £320,000	**Net Saving** £470,000	
3% of contract price	Additional costs:	Savings net of increased costs	Savings net of increased costs	
£90,439	Cumulative -£89,561	Cumulative £230,439	Cumulative £550,439	£781,756
In year collection target	**In year collection target**	**In year collection target**	**In year collection target**	
95.7%	95.7%	95.9%	96.1%	
% increase to collection				
-0.2%	0%	0.2%	0.2%	0.4%

3.6.4 Efforts have been made to clarify the cost of other London in house services, however only 1 London Borough was willing to share these costs. This cost was for a broadly comparable borough in terms of size and demographic and showed broadly comparable costs compared to those estimated for in house provision in Brent.

3.6.5 Risks and Benefits of bringing the service in house

The benefits of this approach are:

- More direct control over service delivery
- Most flexibility to make changes to service delivery arrangements

Some of the risks/implications attached to this are similar to those that would need to be taken into account should another supplier be sought and include:

- Loss of savings in 2015/16 and increased costs arising from single status requirements following the TUPE transfer of staff
- Forecast decline in collection performance in the final year of the Capita contract as the contract is wound down
- The potential for Brent not having experienced staff at the start of the service, depending on which staff transfer from Capita under TUPE. In particular Capita IT staff (who are unlikely to transfer) and the Business Rate (NNDR) collection team based in Capita's Bromley office as these staff are not dedicated to Brent's contract.
- Loss of knowledge and expertise in terms of the management of IT for Revenue and Benefits as Capita resources would be unlikely to TUPE. This risk includes loss of expertise and knowledge in managing year end processing for main billing including management of outsourced printing arrangements with printing sub contractors. The transfer of IT would involve the migration of the main Revenue and Benefits applications (Northgate and Academy) to Brent servers which also represents a significant risk to service continuity. It should be noted that Brent does not hold licences for the NNDR Academy system and as such these would either need to be purchased or a new NNDR system procured.
- The loss of any risk transfer should collection targets not be achieved or from any loss or interruption to IT systems
- Economies of scale currently achieved through the use of Capita staff based in the Bromley business centre (Business Rates administration and valuation officers)

3.7 Option 5 - Enter into a Shared Service Agreement with another authority

3.7.1 Research has been undertaken to identify current shared service arrangements within Revenues and Benefits in England. Post merger the size varies from just under 100,000 properties up to a maximum of 214,000 properties, however the majority are between 100,000 and 150,000 properties. Brent currently has 114,069 properties.

3.7.2 There are no London boroughs or Metropolitan councils who have merged their Revenues and Benefits services or entered into partnership agreements for these services. Experience form District Councils that have merged

Revenues and Benefits functions shows this can take between 18 months to 3 years to achieve.

3.7.3 It is unlikely that arrangements for shared service could be achieved by May 2016 and it is not clear whether a shared service arrangement would achieve efficiencies comparable to those likely to be achieved through an out sourced service.

3.7.4 Whatever option is decided, consideration needs to be given to the balance between maximising revenue collection and achieving reductions in operating costs.

3.8 Current performance

3.8.1 Improvements have been achieved in collection and other areas of performance (such as telephone answering) since the outset of the contract with Capita. These have been facilitated by robust contract management and implementation of a range of new initiatives such as a lean systems review, single person discount reviews, changes to the inspection process and more proactive checks on businesses where there is a high turnover in the occupation or payments are in arrears.

3.8.2 In year Council Tax collection has improved year on year since the first contract with Capita commenced in 2003, peaking at 96.02% in 2011/12. Over the 10 year period from 2003 to 2013 in year collection has improved by 5.28%. This results in cash flow benefits for the Council and a reduced need for recovery action. Brent's in year collection has improved from 89.8 to 95.88 since 2002 and is currently within the third quartile for London Authorities. In order to reach 2^{nd} quartile for collection performance, collection for 2013-14 would need to have achieved 96.4% which is an increase of 0.7% compared to 2013/14.

3.8.3 From 1 April 2013 the national Council Tax Benefit scheme was replaced by a local Council Tax Support scheme. The Brent Council Tax Support scheme requires working age customers to pay a minimum 20% of their total liability except for specific vulnerable customers defined in the scheme. Despite this significant change in year collection reached 95.7% in 2013/14 which represents a reduction of only 0.2% compared to the outturn in 2012/13. The changes brought about by the localisation of Council Tax Support have meant that there are a much higher number of customers required to pay small amounts towards their annual liability. A review of the scheme is planned in 2015/16.

3.8.4 Arrears collection has exceeded contractual targets set and the arrangements for the collection of these have worked well. During 2013-14 £1,902k was collected for Council Tax arrears against a target of £1,500k and for NNDR £1,598k was collected against a target of £1m. During the period of the current contract there are no financial deductions that apply to any failure to meet arrears targets.

3.9 Comparisons across London Boroughs

3.9.1 Comparison of historic performance across London boroughs has been carried out for the years up to 2013-14. The reason for this is the introduction of CTS by some London boroughs in 2014-15 has reduced collection for those boroughs and has impacted on the ability to undertake like for like comparisons. This is because CTS scheme vary from Authority to Authority, with some schemes being significantly more generous than others.

3.9.2 Over the 10 years collection across all London Boroughs has increased by an average of 2.53% for in year collection, however those authorities who have external contractors delivering their services have seen an increase of 3.59% over the period compared to 2.3% for those who retain their services in house.

Table 3: Collection comparison across London Boroughs

IN Year Collection	5 years	10 years
Across London Average increase	0.89%	2.53%
Contracted Authorities Average increase	1.00%	3.59%
In House Authorities Average Increase	0.86%	2.30%
Brent increase (contracted)	1.18%	5.28%

3.9.3 NNDR in year collection has improved since the commencement of the initial contract with Capita, in the first year 2002/03 a collection rate of 94.7% was achieved. While improvements were achieved year on year to 2007/08 when in year collection achieved 99.07%, collection for subsequent years dropped, this was mirrored across many London boroughs. In 2009/10 NNDR collection was 0.44% above the London average at 97.96%, however NNDR collection is now 0.33% below the London average and an area that the client team are working closely with Capita to identify and implement opportunities for improvement.

3.9.4 Previously all business rates collected were paid to central government, in the form of the national NNDR pool. The government then redistributed the nationally collected amount to local authorities according to a very complicated formula for spending need. From 2013/14 this system has changed. The Department for Communities and Local Government (DCLG) calculated a baseline figure as the starting point for the estimate of NNDR income to be raised by each local authority in 2013/14. For any income collected above the baseline 50% of the income is paid to central government, 20% to the Greater London Authority (GLA) and 30% received by the local authority. This means that during the 2013-14 if there is growth in the total business rates collected in the borough then Brent will keep 30% of that growth. However if there is a decline in business rates collected below Department for Communities and Local Government (DCLG) calculated baseline figure Brent will need to meet 30% of the shortfall. The baseline figure was achieved in 2013/14 and is likely to be achieved in 2014/15 as the amount collected is still likely to exceed the DCLG baseline figure.

3.9.5 During the contract period there has been no significant loss of IT systems supported by the contractor. Disaster recovery is in place and tested annually and a number of initiatives such as the implementation of online benefit claims have been supported by Capita.

3.9.6 Capita currently utilise 2 bailiff companies to enforce collection of Council debt secured by a liability order. These are Equita which is a wholly owned subsidiary of Capita PLC and Newlyn's which is an independent bailiff company. Capita have proposed to only using Equita from 2015/16. Members have asked for reassurance that there was no conflict in interest in Capita utilising their own bailiff company and for details of the measures in place to ensure that bailiff practices were monitored by the Council.

3.9.7 All bailiffs who support the collection of council tax are required to comply with the Brent Code of Conduct and that of the Association of Civil Enforcement Agents. Monitoring of bailiff actions in the collection of Council Tax on behalf of Brent is undertaken by Capita and the Brent Client Team independent of Capita. The Brent Client team have access to the bailiff systems so that random sampling of collection activities and arrangements can take place to ensure the bailiff adheres to the code of conduct.

3.9.8 Capita are required to comply with the specification requirements of their contract with Brent, which includes compliance with Brent's policies. Capita are also held contractually accountable for the conduct and practices of all bailiffs they use. There is a clear incentive for them to ensure that all bailiff activity is carried our fairly and appropriately as any failure to do so could impact on their overall recovery strategies.

3.8.9 Information about their bailiff arrangements has been received from 9 boroughs that have Council Tax collection in house and 6 who have contracted out Council Tax collection arrangements. Of the 15 authorities who responded; 2 have In House Bailiff arrangements for Council Tax collection. All of those who manage their Council Tax collection in house and do not have in house bailiff arrangement use Equita for Council Tax either as a sole bailiff or in conjunction with another bailiff.
The 2 contracted authorities who do not use Equita, collection services are delivered by Liberata.

	2 or more bailiffs	**Single Bailiff**	**In House Bailiff**
Contracted Authorities	3 (1 uses Equita)	3 (all Equita)	
In House Authorities	6 (all use Equita)	1 (Equita)	2

3.10 Summary of Reasons for Recommendations

3.10.1 Capita have improved year on year in year collection rates and the targets negotiated in the event of an extension will support continued improvement. Negotiations have also resulted in the potential achievement of cumulative savings of £1,901,593 between 2015/16 to 2019/20

3.10.2 The cost of delivering the service in house will be greater if transferred in 2016/17 because of the requirement to transition staff and IT, harmonise staff terms and conditions and re-stabilise the service following forecast reductions to collection in the final year of the contract. Collection is also unlikely to start to improve until 2017/18 and is forecast to be lower than the forecast collection is a 3 year extension is agreed.

3.10.3 Options have been explored for shared service, which have shown that it is predominately used by smaller district councils to consolidate services where the consolidated number of the shared service is of comparable size to Brent. It is unlikely that it would be possible to agree a shared service within the timeframe available particularly as a potential partner has not been identified.

3.10.4 Soft market testing has indicated that contractors would be more interested in a contract of increased scope or duration or one which included the potential to provide services to other local authorities via a framework. With this is mind it is recommended to monitor the progress of the Westminster procurement exercise and evaluate whether this along side other options from May 2019.

3.10.5 The impact of universal credit from late 2016 onwards is not fully known at this point and could have an impact on the scope of any new contract going forward. This will be much better understood in 2017/18 when evaluations of options for the provision of the service will be reconsidered.

3.10.6 Some Authorities with in house service provision are implementing arrangements which enable them to retain in house control of the service but contract our discrete areas on a more flexible basis. This includes contracts for resilience capacity (e.g backlog clearance or simpler processing work based on a price per item) or processing agreed volumes for a fixed price. This type of contract typically involved processing centres outside London and is often referred to as north shoring . The outcomes of these pilots will be monitored to help inform any future option appraisal for the Revenues service in Brent.

4.0 Legal Implications

4.1 This contract was tendered in accordance with the European public procurement regime, using the negotiated procedure. The possibility of a contract extension was specifically stated in the contract notice advertising the contract (without this statement a contract extension would be contrary to European law, irrespective of what the contract says).

4.2 In addition, European law requires that the contract extension is a repetition of services included in the original contract. Consequently it is not possible to have significant changes in terms for a contract extension. In the case of the Capita extension the variations proposed to apply for the contract extension are not considered significant, especially as the basic method of service delivery is not changing, and the type of variations that have been made are permitted within the terms of the original contract.

4.3 The contract itself requires the Council to give 18 months notice of the intention to exercise the contract extension. If Cabinet Members agree to the contract extension and negotiations are satisfactorily concluded, then the extension and the consequent service changes will need to be formalised as a contract variation. The contract itself includes a change control procedure to be followed for variations of this type, and at least one Change Control Notice will be completed between the parties.

5.0 Financial Implications

5.1 In respect of Option 1 the annual price provisionally agreed with Capita for the extension period of the current contract will result in a cumulative saving of £1,901,593 to Brent over 4 years, with year on year savings being achievable. This option results in the greater saving over the contract extension period.

5.2 In respect of Option 4 it is anticipated that the cumulative savings over the 4 years for a service that is brought back in house for the 3 years of the extension period would be £781,756. This is lower than Option 1 principally due to a combination of transition costs and staffing related issues of pay and conditions harmonisation which would result in increased costs in the first year of taking the contract back in house. In addition less favourable terms would be able to be negotiated in the final year of the current contract leading to a lower saving than Option 1 in 2015/16.

5.3 The other options have not been subjected to detailed financial analysis but due to the issues described in the report are unlikely to offer significantly improved short term savings over the period of the contract extension than either Option 1 or 4.

6.0 Diversity Implications

6.1 Officers have considered if there are any diversity implications and as there are no proposed changes to the current arrangements for service delivery have found there are none.

7.0 Staffing/Accommodation Implications

7.1 If the extension is agreed there are no direct staffing implications arising from this report.

7.2 If it becomes necessary to tender the contract or bring it back in-house then staffing implications arising may include the TUPE transfer of the Capita staff currently working on the Capita contract.

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