Brent	Resources and Public Realm Scrutiny Committee 14 March 2019
	Report from the Strategic Director of Resources

Merits / Obstacles To Bringing The Business Rates Service In-House

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	One – Cabinet Report Options Appraisal
Background Papers:	None
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1.0 Purpose of the Report

1.1 This report examines the process for establishing terms and the merits / obstacles to bringing the Business Rates service back in-house when the existing contract expires and makes recommendations accordingly.

2.0 Recommendations

That Scrutiny:

2.1 Note the evaluation of options for an in house Business Rates service against other available options.

3.0 Detail

3.1 A summary of the current Business Rates service context is given below:

- The Business Rates service currently comprises 8,668 commercial properties with an average growth rate of 1% per annum and a net collectable debit of £132.2m. This compares to 8,262 properties and a net collectable debit of £97m at 31st March 2012. It is currently anticipated that growth will continue over the next 5 year contract term.

- Whilst a small staffing resource is required for administering the Business Rates service, the administrative complexity in particular the application of small business rates relief, transitional relief and interest calculations on overpayments tends to make this a specialised service with staff often having niche skills and experience. Additionally, the future general revaluation requirement for commercial properties on a three yearly basis means that reliefs and exemptions can often vary on a regular basis and be subject to annual changes at the time of the budget. Consequently, resilience in terms of staff numbers, knowledge, skills and experience are fundamental considerations for the Business Rates service.
- IT Support within the scope of the Business Rates service contract includes support for the Academy Business Rates system, customer portal for the same and associated printing.

3.2 A detailed options appraisal was considered in November 2017 in relation to the existing Revenues and IT Support contract and from which the Cabinet decision to retender the Business Rates service was taken. The public version of this report is attached at Appendix A.

3.3 The existing Revenues and IT Support contract expires on 30th April 2019. At that time, the Council Tax and associated IT Support service shall transfer back to direct Council provision and consequently this report, does not refer to that service. The Business Rates service and associated IT Support however, has been retendered and a contract award made following approval by Cabinet on 12th November 2018 to Capita Business Services Ltd to commence from 1st May 2019. The contract term is for a five year period that expires on 30th April 2024, with an option to extend for a further three years subject to 18 months prior written notice. Consequently, a decision regarding extension of the contract would need to be made by 31st October 2022.

3.4 In overall terms, collection performance of the Brent Business Rates service has consistently exceeded contractual targets and demonstrated continuous improvement over the past four years.

Table 1 – Brent Business Rates Collection Performance

Year	Target (%)	Actual (%)
2013/14	97.50	97.56
2014/15	97.70	98.11
2015/16	97.85	98.32
2016/17	98.00	98.74
2017/18	98.20	98.57

3.5 Under the new contract arrangements commencing on 1st May 2019, Capita will be implementing an online customer portal for Business Ratepayers to access their account information.

4.0 Merits and Obstacles to returning service to in house provision

4.1 The relative merits and obstacles arising for the Business Rates service in relation to service models including in house and outsourced arrangements, are set out below:

In house Service - Advantages

1. In house provision offers an opportunity to directly control and develop the Business Rates service in accordance with Brent's wider strategic objectives, in particular implementation of the Digital Strategy. It would also not preclude the adoption of innovative service delivery models in the future (e.g. shared services).

2. Changes to contract terms and conditions during the life of a contract can often lead to unavoidable price changes. For example, existing contract arrangements provide for change control to be applied where the number of commercial premises increases by a prescribed proportion. Such an issue would not generally arise in relation to an in house service, which would effectively absorb the increase.

3. An in house service may present an opportunity for securing economies of scale in terms of some ancillary support services such as printing for example where current printing arrangements with Lewisham and Southwark Councils could potentially be extended to also include Brent Business Rates. However, concurrently, economies of scale will also be lost, as currently, the service is provided through Capita's business centre in Bromley which provides a range of other Business Rates services.

In house Service - Disadvantages

1. Performance for Business Rate collection in London is significantly stronger for outsourced services compared to in house ones. Third party service providers for London Authorities have achieved on average 0.5% higher collection rates over the four year period ending 31st March 2017. This will however require further investigation to evaluate whether this is due to the performance of outsourced service providers or other factors.

2. In the event that a decision was made to return some or all of the Business Rates service provided by Capita to in house provision, there is a risk that performance may decline during the latter period of the contract following service of notice. Robust contract management arrangements would need to be maintained to ensure that any risk to service delivery and performance were not adversely affected.

3. The relatively small number of staff required to administer the Business Rates service means that there would be limited resilience in the event of absence. Additionally, Business Rates is a niche service for which it is difficult to recruit knowledgeable and experienced staff.

4. It is currently anticipated that at the end of the existing contract, there would be a limited TUPE transfer of staff for Business Rates and Application Support for the Academy Business Rates IT system if any, as the Business Rates service is provided from offices in Bromley (with staff undertaking identical roles across other Capita Business Rate contracts) and first line application support is provided by the Capita Central Support Team (CST) based in Swindon (that provides support across many of Capita's contracts). As this work requires niche skills and expertise that are not generally available "in house", this would represent a significant risk to service continuity.

5. There is currently no in house experience of hosting and supporting the Business Rates Academy IT system and this could therefore present a significant risk to an in house service.

6. The cost of in house Business Rates service provision may be greater than that of an outsourced service and would not permit any degree of risk transfer as would occur under an outsourcing arrangement.

7. Any requirement for continued hosting and support of the Business Rates customer portal and associated cost will need to be established and a decision taken as to how this will be achieved if the service is to return to in house provision.

<u>Shared Service - Advantages</u>

1. Significant examples exist of shared services across the UK. In 2018, the Local Government Association (LGA) "shared service" map indicated 486 shared services yielding total savings of £644M. (i.e. an average saving per shared service of £1.3M). The nature and extent of shared services varies although it is generally recognised that 'standardisation' provides a cost reduction opportunity whether in terms of locality, IT systems, process or management and staffing.

2. A shared Business Rates service arrangement with another Local Authority would not require a procurement process to be undertaken as it is exempt under regulation 12 of the Public Contracts Regulations 2015 in that:
   - it is a co-operation between participating local authorities aimed at carrying out jointly their public service tasks, involving mutual rights and obligations of the parties;
   - in consideration of the public interest; and
   - the participating local authorities perform on the open market less than 20% of the activities concerned by the co-operation.

Shared Service - Disadvantages

1. There are a number of well-established examples of shared Revenues services (generally including Housing Benefits services also) within District Council areas where there is a greater potential for achieving economies of scale, improving resilience (particularly for services employing personnel with niche skills and experience) and reducing cost. However, experience of similar shared services within the London area is not as significant and where arrangements have occurred (e.g. the tri-borough partnership of Westminster, Kensington and Chelsea and Hammersmith and Fulham), they have generally ended prematurely.

2. The feasibility / interest in a shared service has previously been explored by Brent with a small number of London Local Authorities having regard to the following key principles:

- ***Locality*** – Local Authorities bordering the Brent Council boundary;
- ***Political Composition*** – The Local Authority's political constitution;
- ***Outsourcing arrangements*** – Whether the Local Authority has an existing outsourced Revenues / Benefits service arrangement;
- ***Relationship*** – Whether the Local Authority has an existing relationship with Brent Council for the provision of IT services;
- ***Common IT systems*** – Whether the Local Authority operates a similar core IT system for its Revenues and Benefits service delivery.

However, due to different target operating models being in existence and a limited response, it was concluded that there was little appetite at that time for a shared service from the representatives concerned.

3. OneSource provides shared services on behalf of a small number of London Boroughs and were previously contacted to discuss any potential for a shared service arrangement with Brent, although they did not respond to the enquiry. In this case, the shared service that incorporated Havering and Newham Councils' Revenues and Benefits services was potentially weakened by the request from Newham Council to withdraw their Revenues and Benefits services from the arrangement. As this effectively eliminated the shared Revenues and Benefits service, any potential benefits that might have existed in terms of resilience, standardisation and cost reduction would appear to have ended, at least in the short term.

4. A shared Business Rates service arrangement would require a suitable partner to be identified and an agreement concluded before the current contract extension cut-off date of 31st October 2022 to meet contractual obligations and to leave sufficient time in which to implement any contingency plans, should the need arise.

Outsourcing - Advantages

1. In terms of collection rate performance, there are currently strong grounds for seeking to retender the Business Rates service, as far as performance is concerned. This is because supplier performance is on average better than

in house performance. Funding arrangements and Business Rates Retention whereby a greater proportion of Business Rates collected may be retained by a Local Authority, are also likely to mean that service collection levels and service delivery costs will continue to be of significant importance in the future.

2. An outsourced service provider is able to mitigate the potential impact of fluctuations in service staffing levels and hence address resilience through the sharing of staff resources across their contract portfolio within a single shared service centre.

3. The price of an outsourced Business Rates service may be lower than an in house one and would also permit a degree of risk transfer to occur which would not be possible with an in house or shared service arrangement with another local authority.

Outsourcing - Disadvantages

1. Suppliers have previously indicated that where an incumbent supplier has been in place for a significant period of time, (in this instant, 21 years by 2024), there would have to be significant and compelling reasons for them to consider tendering, particularly as costs of bidding are high and any transition costs associated with taking on the service would increase their costs and reduce their chances of a successful tender.

2. Whilst suppliers have previously indicated a potential interest in tendering for the Business Rates service alone, (i.e. without the IT Support element) or Business Rates with the IT Support element, it is likely that this would result in a limited competitive response in the future for the reasons set out in 1 and 2 above. Additionally, the market position and associated market conditions, including similar contracts being advertised on or around the time that any Brent Business Rates contract may be advertised, may influence the degree of supplier interest and hence competition.

3. It is highly likely that at the end of the Business Rates service contract, there will be a limited TUPE transfer of Business Rates and associated Academy application support staff from Capita. This is because the service is currently provided from their Bromley Business centre (with appropriate IT Support provided from West Malling and Swindon) with staff undertaking similar roles across other Capita Business Rate contracts. Consequently, this would increase the potential service risks for in house provision. In the case of a third party supplier however, staff with the appropriate niche skills and expertise will generally already exist.

4. Changes to contract terms and conditions during the life of a contract can often lead to unavoidable price changes. For example, the existing Capita contract provides for change control to be applied where the number of commercial premises increases by a specified proportion during the life of

the contract. It is possible that any future supplier would require a similar provision to be included within a contract.

5. There is an intention to establish and use the Brent Council debt enforcement team for collecting some Business Rates debts in the future which may present more challenges under a commercial agreement with an outsourced service provider than if the service were to be provided in house.

4.0 Evaluation of Options

4.1 It is difficult to offer a recommendation to progress a particular service strategy at this time particularly when the new Business Rates contract has not yet commenced, performance cannot be evaluated and the business environment and economic factors may change in the interim.

4.2 However, the outcome from other local authority service procurements and retenders as well as the retention of key private sector contracts may influence the future approach and market positioning of Business Rates suppliers, and therefore also the strategy adopted by Brent Council for the same.

4.3 Whilst on balance, an outsourced Business Rates service is considered to represent the best option for Brent Council at the current time, it is proposed that work be undertaken during the new contract term to ensure that appropriate contingency plans for the service are determined and in place to respond to any changes that may occur as a consequence of the above.

4.4 An initial review will be conducted in 2019/20 and it is proposed that this is reviewed annually.

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5.0 Financial Implications

5.1 There are no financial implications arising from the recommendations proposed within this report at this time.

6.0 Legal Implications

6.1 There are no legal implications arising from the recommendations proposed within this report at this time.

6.2 As indicated in paragraph 3.3, the current Revenues and IT Support contract expires on 30th April 2019 but the Business Rates service and associated IT Support element has already been retendered and a contract award made following approval by Cabinet on 12th November 2018 to Capita to commence from 1st May 2019. The contract term is for a five year period that expires on 30th April 2024, with an option to extend for a further three years subject to 18 months prior written notice. If a decision is subsequently taken to return the service to in house provision, this will need to be provided to the contractor (i.e. Capita) by 31st October 2022 to comply with contractual obligations.

7.0 Equality Implications

7.1 There are no equality implications arising from the recommendations set out within this report at this time.

8.0 Consultation with Ward Members and Stakeholders

8.1 As this report affects all wards and is for consideration only at this stage, consultation with specific ward members has not been conducted. As this report does not impact on service delivery which will remain unchanged for Brent businesses and residents, consultation with Brent stakeholders has not been conducted.

9.0 Human Resources/Property Implications (if appropriate)

9.1 There are no HR implications arising from the recommendations set out within this report at this time.

Report sign off:

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