



Executive
9th October 2006

**Report from the Director of
Finance and Corporate Resources**

For Information

Wards Affected:
ALL

**Consideration of extension of contract for the supply of
Revenues and IT support service**

Forward Plan Ref: F&CR-06/07-13

Appendix 1 and Appendix 2 of this Report are not for publication

Appendices 1 and 2 are not for publication as they contain the following category of exempt information as specified in paragraph 3 of Schedule 12A Local Government Act 1972 namely:

“Information relating to the financial or business affairs of any particular person (including the authority holding that information)”

1.0 Summary

The purpose of this report is to seek Members’ agreement for the future provision of the Revenues service and IT provision for Revenues and Benefits from May 2008, when the existing contract with Capita expires.

2.0 Recommendations

- 2.1 To agree to exercise the contractual provision to extend the existing Revenues and IT contract with Capita for 3 years from May 1 2008 to 30 April 2011 on the basis set out in Appendix 1, subject to satisfactory conclusion of contract negotiations.
- 2.2 Subject to recommendation 2.1, above, to agree that delegated powers be given to the Director of Finance and Corporate Resources to finalise discussions with Capita through to and including contract extension award, subject to there being no significant increase in the proposed contract price submitted by Capita or significant variation to the proposed contract terms, conditions and arrangements.

3.0 Detail

3.1 Background

- 3.1 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 2003. This contract award followed a Best Value Review of the Revenues and Benefits service (then provided by EDS) that resulted in the return of Housing Benefits, Cashiering services and Customer Services to in house provision and the tendering of Revenues and IT services.
- 3.2 The decision to tender only the Revenues and IT aspects of the service was made on the basis that outsourced arrangements offered the best prospects of securing service improvements, sharing risks and achieving value for money. These objectives are built into the contract through targets requiring annual improvements to collection together with incentive and deduction schemes which share financial risks arising from non performance and the financial rewards of exceeding them. The contract allows a continued local presence for Council Tax administration which is complemented by the provision of services such as Business Rates (NNDR) and Council Tax Recovery from Capita's business centre at Bromley.
- 3.3 The contract was awarded for a period of 5 years but has provision within it to extend the duration by a further 3 years. Any decision to extend needs to be made before November 2006 because of a contract requirement for the Council to give 18 months' notice of intention to extend.
- 3.4 The contract is provided from 2 main sites :
- Brent House – where the majority of Council tax administration and collection is carried out by approximately 25 staff. Many of these staff transferred under the TUPE (Transfer of Undertakings (Protection of Employment)) legislation from EDS in May 2003.
 - Bromley Business Centre : where the majority of Business Rate (NNDR) functions, IT support and Council Tax recovery functions are carried out by approximately 14 staff.
- 3.5 In the main the contract covers back office functions for Council Tax and NNDR with front line services being provided through the One Stop Shop. However Capita do provide some front line services by way of an 'overflow' facility, to assist Customer Service with call handling during the peaks of customer demand which typically follow the issue of bills, reminders and summonses.

Capita Performance to Date

3.6 Council Tax

In year Council Tax collection has improved year on year since the contract commenced in May 2003 and 2005/6 collection represents the highest level of Council Tax collected since 1993. Capita did experience problems in the first year of the contract following the transfer of the service from EDS. These problems included a significant decline in collection performance in the final year of EDS' contract, issues with the quality of the data held on the Council Tax database and problems with the set up of IT systems. As a result of this, the in year target of 92.5% wasn't achieved however collection was still increased from 89.86% (2002/03) to 90.97% (2003/4) and in year targets have been achieved or exceeded since then.

3.7 In 2004/05 collection improved to 93.41% (the best "in year" collection for Brent since the commencement of Council tax) and improved again to 93.56% in 2005/06. Notwithstanding these improvements, it should be noted that other authorities have also improved and while our league position among London authorities improved to 26 in 2004/05, in 2005/06 it fell to 31st in London Boroughs.

3.8 Pre contract arrears (these relate to 1993- March 2003) collection has exceeded contractual targets set and the arrangements for the collection of these have worked well. There are no financial deductions that apply to any failure to meet targets however the incentives fund an additional 4 staff that have been recruited by Capita to collect these arrears.

3.9 The movement of payers onto Direct Debit (DD) from other payment methods is something that Brent has been very keen for Capita to actively promote. There has been significant increases to the number of payers who pay by DD since the beginning of the contract. At the beginning of the contract in June 2003 the number of payers on DD was 25,952 this has increased to 36,270 in July 2006 (total number of taxpayers being 104,000), Direct Debit is the Councils preferred method of collection as it is the most cost effective and payers on Direct Debit are much more likely to adhere to their instalment plans.

3.10 National Non Domestic Rates (NNDR)

NNDR collection has improved year on year from 96.39% in 2003/04 to 97.8 in 2004/05 and 98.29% in 2005/06, the best ever NNDR collection for Brent. The targets set in the contract were exceeded in 2003/04, 2004/05 and 2005/06. The introduction of small business rate relief in 2004/05 was handled very well by Capita with Brent being one of a handful of authorities who were able to show the amount of Small Business Rate Relief on the annual bills in that the first year of Small Business Rate Relief. This level of performance has seen Brent move into the 3rd quartile for 2005/06 and in 19th position among London authorities.

3.11 IT

Problems were experienced by Brent in the first year of the contract with access to the Housing Benefit and Council Tax system. This resulted in a large financial penalty to Capita. Since that time no significant loss of IT systems has been encountered. During this time we have also successfully replaced a Document imaging/workflow system that is used for the processing of Benefits and Council Tax.

3.12 Relationships

Capita have generally proved to be good to work with and Capita have been responsive to issues raised by Brent. In the early stages of the contract Brent raised concerns about Capita's bailiff arrangements which were being provided solely through Equita, as subsidiary of Capita. Equita were unable to deal with the volume of debts transferred to them and this was affecting collection performance. In response to this Capita agreed to supplement Equita with a second bailiff firm, Newlyn's, and this arrangement has been in place since then. Inspections were identified as an area of weakness for Capita, in response to Brent's concerns an inspection manager was transferred from another Capita location to bring about improvements. Capita provide support to the One Stop Shop at times of recovery where more than 2,000 reminders or summons have been sent out. They have proved to be flexible in the way in which this has been delivered responding to the needs of customer service.

3.13 Finances

Open book in general

The contract operates under agreed open book accounting arrangements with Capita. These facilitate greater transparency of Capita's operating costs and profit. Elements of the service are included in the base contract price based such as printing and postage. The open book arrangements then enables the actual cost of these elements to be reconciled to the contract price allowance and either a refund to Brent or additional payments to Capita . Open book arrangements have allowed Brent to reconsider the inclusion of the A-Z in all bills and obtain the savings as a result without the need to have contractual negotiations with Capita. In overall terms the open book arrangement has worked well.

Current levels of performance have not seen a subsequent contractual 'cost creep'.

3.14 Details of Discussions with Capita

3.15 Timetable for agreement

The contract commenced on 1st May 2003 and runs for 5 years. Provisions within the contract allow the Council to extend the contract period by a further 3 years, upon giving 18 months prior written notice to Capita. The deadline for this is 1st November 2006.

3.16 Discussions

A number of negotiation meetings have taken place with Capita since March 2006 with a view to identifying any proposed terms for a 3 year extension. Officers have used these negotiations to identify areas where existing contractual arrangements need to be strengthened or brought up to date given the current position with collection. The following sets out the main proposals arising:

- Revised targets for in year Council Tax and NNDR collection
- New targets for arrears arising in relation to 2008/9 and 2009/10.
- Revisions to the existing Council Tax /NNDR deductions and incentives scheme (in year and arrears arising during the contract)
- Revisions to the Incentive scheme for pre contract Council Tax arrears.
- Extension of the timescale for achieving final targets for 2003/04 and 2004/05 collection and revision of the date for the application of any underwriting of these arrears.

Full details of these proposals are included at Appendices 1 and 2 which are not for publication.

3.17 Options other than contract extension

There are a number of options (apart from the contract extension) that the Council could consider following the expiry of the existing 5 year contract. The following sets these out with a summary of the advantages and disadvantages of each :

Option 1 : Retender the Service

This option would be to seek another supplier to provide the service. The duration of the tender process from commencement of tender to contract award would be approximately 12 months. The potential costs of this are outlined in Section 4 and with the inclusion of officer time these costs are significant. The potential risks attached to this option include:

- Tender prices may not be as competitive as an extension
- Finding that the market in general cannot offer suitable services - compared to the existing agreement with Capita
- New provider's lack of detailed knowledge of Brent service, depending upon what staff transfer to it from Capita under the TUPE legislation

- Unable to complete contract finalisation within the time frame
- The transfer of the IT systems and subsequent management of them carries a risk at the outset until experience on the system is gained

In both cases there is the possibility as happened with EDS in the final year of the contract that key personnel will move before the end of the contract and of performance problems (although this is more likely if the existing contractor has decided not to tender for the new contract)

Option 2

The second option would be to bring the service back in house to be directly managed by Brent Council. 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.

- There would be set up costs required to facilitate a transfer of the service back to the Council. These costs could be particularly significant for any transfer of IT provision which might involve the purchase of new hardware or the transfer of existing hardware to a new location.
- The potential loss of middle management and senior management staff in the Council tax element of the contract to Capita and the subsequent need to rebuild that expertise.
- As with option 1, there is the potential for Brent not having experienced staff at the start of the service, depending what staff transfer from Capita under TUPE. In particular, the Business Rate (NNDR) collection team are based in Capita's Bromley office. Assessing the application of the TUPE regulations would be subject to detailed considerations including the proportion of time spent processing Brent work. Notwithstanding this, any relocation of the Bromley based staff to Brent, would significantly increase travelling time for those staff and may deter them from remaining with Brent even if they do transfer. As a result there is the potential that only limited numbers of staff would be available to Brent with detailed working knowledge of Business Rates. This would require Brent to carry out significant recruitment to fill vacancies and rebuild knowledge and experience of Business Rates administration.
- The loss of any risk transfer should collection targets not be achieved or systems unavailable.
- The risks of transfer of the IT systems and data to Brent and Brent's capacity to take on responsibility for the 2 critical Revenue and Benefits systems. Also the loss of expertise from the current technical teams as these resources may not transfer to Brent under TUPE.
- The loss of some Disaster Recovery arrangements.

3.18 Outcome

Agreement in principle has been reached by both parties on all the areas included in the discussions. As a result we would ask members to agree to delegate powers to the Director of Finance to continue

discussions with Capita through to and including contract extension award provided there are no significant variations in price or risk.

4.0 Financial Implications

- 4.1 The annual price provisionally agreed with Capita for the extension period will result in a saving of £200,005 to Brent for each of the 3 years of the extension period. Full details of this are shown at Appendix 2 . This price includes proposals to increase the staffing complement within the contract by 4.5 people.
- 4.2 If the extension is approved, Brent will need to review the current accommodation arrangements, whereby Capita currently have a lease for the 8th and 9th floors of Brent House, subletting part to the Council.
- 4.3 The estimated costs of tendering are £100,000 which include the requirement to prepare a new specification, tender documents, evaluation of tenders received including site visits and negotiation meetings and the involvement of internal and external legal services. A tender for a contract of this scale and complexity would probably require the use of the EU's negotiated procedure for tendering, provided that the legislation permitted this.

5.0 Legal Implications

- 5.1 There are direct legal implications arising from this report.
- 5.2 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).
- 5.3 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.
- 5.4 The contract itself requires the Council to give 18 months notice of the intention to exercise the contract extension. Assuming that 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 two Change Control Notes will be completed between the parties.

- 5.5 In accordance with the duty to secure Best Value as set out in the Local Government Act 1999, Members need to be satisfied that agreeing to the report recommendations will deliver best value for Brent.

6.0 Diversity Implications

- 6.1 The proposals in this report have been subject to screening and officers believe there are no diversity implications.

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.

Background Papers

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