Executive
18 January 2010

Report from the Director of Finance and Corporate Resources

Wards affected:
ALL

Proposal to tender Revenue and IT services

Forward Plan Ref: F&CR-09/10-17

1.0 Summary

1.1 This report seeks authority to invite suitable providers to tender for the provision of Revenue collection and Information Technology (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 National Non Domestic Rates (NNDR) and the provision and maintenance of IT systems specific to both Revenues and Benefits services.

2.0 Recommendations

2.1 The Executive to approve that future service provision from 1st May 2011 for the Revenues Service plus associated information technology support be secured through a retender exercise.

2.2 The Executive to approve the pre tender considerations and the proposed criteria to be used to evaluate the tenders for the Revenues Service and IT support as set out in Appendix 1 of this report.

2.3 The Executive to give approval for officers to invite tenders as referred to in paragraph 2.2 above and evaluate them in accordance with the evaluation criteria set out in Appendix 1 of this report.

3.0 Background

3.1 The current contract for Revenues and IT services is due to expire in April 2011. The existing contract began in 2003 and includes the collection of Council Tax from 109,000 domestic properties, NNDR from 8,000 businesses in the borough and the provision of IT specific to the Revenues and Benefits service. It was a 5 year contract with provision for extension by a further 3 years, so the extension period has been fully utilised.

3.2 The existing contract scope excludes the provision of front line customer services relating to Council Tax as these are currently provided through the Council's One Stop Service. The contract with Capita does however incorporate responsibility for phone enquiries relating to Business Rates and a facility to handle overflow calls relating to Council Tax during times of peak demand.

3.3 The proposal outlined in this report has been discussed with the lead member for Finance and Corporate Resources and brought to the Performance Finance and Select Committee in December 2009 for discussion. Both had no in principle objections to the proposals, as part of the discussions Performance Finance and Select Committee wanted some clarification around the evaluation of likely cost against collection performance.

4. Form of Future Service Provision

4.1. The main objectives for any future service provision arrangements will be to continue to improve Council Tax and NNDR collection whilst seeking to improve efficiency and reduce collection costs. The recommendation to tender the service is being made following an options appraisal which was undertaken in the autumn of 2009. This review took account of these objectives and evaluated the potential risks, advantages and disadvantages of the various options available for delivering the service in the future. The report from the options appraisal is attached at Appendix 2, which was also considered by the Performance and Finance Select Committee.

4.2 There are three main service delivery options open to the Council to consider.

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

The full options appraisal is attached to this report as Appendix 2.

4.3 The options appraisal included 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 from this research are also contained in appendix 2.

5.0 Options for future service delivery – Options Considered and Conclusions

5.1 In House Service

There are both advantages and disadvantages of in house service provision. In overall terms the key deciding factors for this option relate to likely cost and risk to the Council. The transfer of staff and the need for harmonisation of terms and conditions, including pension provisions, mean that this is unlikely to be the most cost effective solution. There is also a potential loss of key management and specialist support resources in relation to NNDR, IT and Valuation Team, as these staff currently form part of Capita's business centre in Bromley and may not TUPE transfer because they do not only work on Brent contracts. This potential loss would make it necessary to recruit appropriate Brent resources and induct them into new roles, in time for the transfer of the service to Brent. Contractors have the advantage of having access to a wider pool of resources, which can help to facilitate a smoother transfer.

Risks associated with Council Tax and NNDR collection would be borne wholly by the Council in the case of in house service provision. These risks can be shared in an outsourced contract, where there is provision for including financial incentives and deductions linked to performance and financial losses.

Estimates of the likely cost of an in house Revenues and IT service indicate that this would involve some increase to cost and potentially increased risk to the Council at this stage as well as ongoing investment. Although these risks could be managed and mitigated, the likely cost of in house provision makes this option less desirable.

5.2 Shared Services

There is little prospect of successfully negotiating a shared service agreement by early 2011 as the service does not already have a potential Local Authority partner with which it shares synergy of requirements and an established working relationship. Indeed, benchmarking across authorities has shown little current interest in developing shared Revenues and Benefits services in the next two years. This timescale would bring us to the end of the existing contract term and would mean that it would be necessary to bring the service in house prior to embarking on a shared service arrangement. Should this occur, the uncertainty of future arrangements would be likely to have a great impact on the staff that would transfer to Brent and subsequently to a shared service from the current contractor. There may therefore be risks to Council Tax collection performance during the implementation of these.

The success of a partnership approach of this type depends on the ability of the authorities involved to agree in advance on the arrangements for service provision. There are currently no known established examples of shared service for London or Metropolitan boroughs in relation to Council Tax service provision. This means that the business case for shared Revenue services is not yet proven and as such requires a willingness to accept unknown risk. This is compounded further by the resource requirement necessary to devote to implementation. This typically takes up to two years to achieve with no guarantee of success. Where this has been done, it is has been between smaller district councils who, when merged, often have a customer base that does not exceed that of a London borough.

5.3 Re-Tendering the Service

In any decision to outsource a service, the Council must be satisfied that this option offers Brent residents good value for money and a good standard of service delivery. In order to satisfy those criteria, there are a number of factors that need to be met. These include but are not limited to the following:

- The service must be suitable to operate effectively through a formal contractual arrangement. Very complex services or services that are subject to frequent change can prove difficult to manage in a contractual arrangement as they require onerous negotiations to ensure that the specified requirements remain up to date.

  The Revenues and IT contract does lend itself well to outsourced arrangements and this had been demonstrated over a long period of time in both Brent and the wider outsourced market for such services.

- In order to achieve a competitive tender process there needs to be an active market for such services and sufficient interest from potential suppliers to engage in any tendering process.

  Soft market testing of the Revenues and IT market was carried out as part of the options appraisal and has demonstrated that there is both an active market for these services and sufficient interest in a potential Brent tender exercise (subject to other Local Authority contracts that may be subject to tender at the same time) to achieve a competitive process.

- The outsourced arrangement must be capable of achieving good standards of service delivery and improving these, where required.
  There is evidence that both in house and outsourced arrangements can deliver improvements and the latter has been achieved through the existing contract with Capita, with year on year improvements to in year collection since 2003. 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, it is 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. However, it is clear that it is possible to improve collection under both in house and outsourced arrangements.

- Outsourced arrangements must offer the Council the potential to deliver the service efficiently and offer good value for money to

The options appraisal has included some indicative financial modelling for both outsourced and potential in house provision. This indicates that at this stage outsourcing has the potential to offer service delivery at a lower cost than with in-house arrangements, with the added attraction of shared risk with the contractor through a system of financial incentives and penalties.

5.4 Conclusion

A review of service performance across London Boroughs has shown higher average collection rates for authorities who have contracted out their Revenues collection service. The benchmarking process has also shown higher than average collection rates for those Authorities that have Revenues staff dealing with customer service enquiries as opposed to more generic 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 service does not already have a potential Local Authority partner in mind and the benchmarking process across Authorities has shown little current interest in sharing Revenues and Benefits 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. The meetings with current contractors who provide Revenues collection services to Local Authorities has shown that there is evidence of 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.

6.0 Pre Tender Considerations

6.1 It will be critical to ensure careful specification and scoping for any new contract, in order 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 now 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.

6.2 A reviewed scope could include either an increase or decrease in services provided within the contract scope and consideration has therefore been given as to whether Revenues and IT provision could be split into two contracts, with differing arrangements applying to the IT and Revenues elements. This option is considered to be high risk as collection performance is dependent on effective IT provision and any separation could significantly dilute the Council's ability to hold a contractor liable for poor performance.

6.3 Additionally, if a decision was made to tender only IT or Revenues on their own, it is likely that the size of the contract would 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.

6.4 Options for increasing the scope of the current contract have also been considered. Any increase in scope is likely to attract greater market interest and could increase the scope for identifying efficiencies. The review of customer service provision for Revenues referred to in Appendix 2 page 3 of this report has meant that the inclusion of customer service in the contract scope is an area that has been considered in this review. Findings at this juncture are that it is likely that any new contract will include some responsibility for customer service provision by specialist Revenues staff. The extent of this responsibility has not yet been fully decided and may be dependent on proposals received during the tender exercise, before a final decision is made. It is clear however that the existing service model does need to be changed to support further improvements to collection performance.

6.5 Any new specification should also include a revision of the current financial incentive and deduction schemes, collection targets for arrears and key service measurements. Also within the new IT specification will be the provision to consider options for and implementation of a replacement for the current document management system.

6.6 A review of the proposed contract duration has also been undertaken. The recommended contract duration would be similar to the current contract which is 5 years with an option to extend for a further 3 years.

6.7 In accordance with Contract Standing orders 88 and 89, pre-tender considerations have been set out in Appendix 1 for the approval of the Executive

7.0 Financial Implications

7.1 The Council's Contract Standing Orders require that contracts for supplies and services exceeding £0.5M or works contracts exceeding £1M shall be referred to the Executive for approval to invite tenders, and in respect of other matters identified in standing order 89.

7.2 It is anticipated that the cost of this contract and the cost of the tender process including procurement and legal fees will be met from existing budgetary provisions.

8.0 Legal Implications

8.1 The Council's powers to enter into this contract derive from section 70 of the Deregulation and Contracting Out Act 1994. In accordance with performance of its Tax Billing, Collection and Enforcement functions to a third party. Under the 1994 Act, it is the entire statutory function that can be delivered by a third party; with most Council contracts the Council retains responsibility for performing the statutory function while the contractor simply performs a service to further the delivery of the statutory function. As a result of the 1994 Act applying, the Council can therefore delegate the function of assessing tax as well as the service of simply collecting it. When a further report is presented to the Executive to award the contract, it will also be necessary to include a formal delegation of function to the recommended provider.

8.2 The value of the contract over its lifetime is in excess of £0.5M. Therefore, the procurement and award of the contract is subject to the Council's Contract Standing Orders and financial regulations, in respect of high-value contracts.

8.3 The service falls within Part A of Schedule 3 of the Public Contracts Regulations 2006. The tendering of the service is therefore governed in full by the European public procurement regulations of 2006.

8.4 Once the tendering process has progressed sufficiently, officers will report back to the Executive in accordance with contract standing orders.

8.5 As this procurement is subject to the full application of the EU Regulations, the council must observe the requirements of the minimum 10 calendar day standstill period imposed by the EU Regulations before the contract can be awarded.
The standstill period provides an unsuccessful tenderer with the opportunity to challenge the Council's award decision if they wish.

8.6 Employees of the current service provider (i.e. Capita Business Services Ltd) will potentially transfer to a new supplier under the Transfer of Undertakings (Protection of Employment) Regulations 2006 in the event that Capita is unsuccessful. Current L B Brent employees may also TUPE transfer to a new supplier should the contract scope be extended to include some or all of the customer service work currently carried out in-house as outlined earlier in this report.

8.7 Officers will also need to ensure that the requirements of the Best Value Authorities Staff Transfers (Pensions) Direction 2007 are met. This requires the council to ensure that the contract provides protection of the pension rights of current Council staff, transferring to a contractor under TUPE as a result, of an outsourcing process. It also requires the council to ensure the protection of the pension rights of former council staff, previously transferred to a contractor under TUPE as a result of an outsourcing process, who are TUPE transferred from that contractor to a new contractor as a result of the retendering of the contract. Current council policy is that in either situation the successor organisation must provide access to a pension scheme that is either the same as, broadly comparable to or better than the pension scheme offered by the outgoing organisation.. Council policy also provides that in either situation, except in exceptional circumstances, the council will take steps to ensure that the protection of the accrued pension benefits of transferring staff where they decide to transfer those benefits to the successor organisation's pension scheme.

8.8 It is also necessary to consider the impact of the Code of Practice on Workforce Matters in Local Authority Service Contracts, where it relates to additional non-TUPE staff recruited by a new contractor to work on the Brent contract. The Code requires the successful tenderer who recruits new staff to work on a local authority contract alongside former local authority staff (whether those staff transferred to the tenderer as a result of an outsourcing or a retendering) to offer those recruited new staff fair and reasonable terms and conditions (excluding pensions) which are overall no less favourable than those of the former local government staff. A further requirement of the code is that the successful tenderer makes certain pension arrangements for the recruited new staff. The Code further requires the Council to make these requirements legally binding on the contractor through contractual terms. Should the Executive give approval to the invitation of tenders then it will be necessary for the officers conducting the procurement exercise to decide whether to apply the Code by making some or all of these requirements legally binding on the successful tenderer. In coming to this decision it will be necessary for those officers to consider in respect of each of these requirements the respective costs and benefits of making that requirement legally binding on the successful tenderer.

9.0 Diversity Implications

9.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications. If a decision is made to include within the service to be tendered some customer service work which is currently carried out in-house, then an Equalities Impact Assessment will be carried out in relation to that decision.

10.0 Staffing/Accommodation Implications (if appropriate)

10.1 The administration of the Council Tax collection service currently operates from Brent House, with the NNDR service operating from Capita's Bromley office and the IT service operating from West Malling.

10.2 The location of the service will be impacted on by the plans to vacate Brent House in 2013. If the current contractor does not retain the contract, the NNDR and IT service may be delivered from a different location from 2011. However the customer service element will need to be retained within Brent and it is anticipated that Council premises will be made available to tenderers for this contract, initially at Brent House and then at the new Civic Centre.

10.3 Council policy concerning the protection of accrued and future pension rights of ex-council employees and current council employees (dependant on the contract scope) transferring to a private sector employer will need to be followed in the tendering process (see section 8.0 Legal implications)

Background Papers
Current Council tax and Business Rate Specification

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

Duncan McLeod
Director of Finance and Corporate Resources

Appendix 1 - Pre-tender considerations

Ref	Requirement	Response	
(i)	The nature of the service	The administration and collection of Council Tax from domestic properties and NNDR (National Non Domestic Rates) from businesses in the Borough (together know as the Revenues Service), including dealing with customer enquiries, along with the provision of IT specific to Revenues and Benefits for the Revenues and Benefits service.	
(ii)	The future estimated value of all contracts:	£3.5m to £3.9m per annum (range dependant on the extent of the inclusion of customer services)	
(iii)	The contract term	5 years with an option to extend for 3 years	
(iv)	The tender procedure to be adopted:	Restricted (two-stage) Procedure in compliance with the EU public procurement rules	
(v)	Procurement timetable	**Indicative dates are:**	
		Adverts placed	February 2010
		Expressions of interest /Pre-Qualification Questionnaire returned	March 2010
		Shortlist drawn up in accordance with the council's approved criteria	April 2010
		Invite to Tender	June 2010
		Deadline for tender submissions	August 2010
		Site Visits	August 2010
		Panel evaluation and Interviews/presentations	September 2010
		Panel Decision	End Oct 2010
		Report recommending contract award circulated internally for comment	Nov 2010
		Executive approval	Dec 2010
		Contract award	End Dec 2011
		Contract start date	1st May 2011

(vi)	The evaluation criteria and process.	Shortlists of those to be invited to tender are to be drawn up in accordance with the Council's Contract Management and Procurement Guidelines namely the pre qualification questionnaire (PQQ) and thereby meeting the Council's minimum standards of financial standing, technical capacity and professional and technical expertise. The panel will evaluate the tenders against the following criteria supported by relevant sub criteria Price Quality consisting of: • Ability to deliver Continuous Improvement • Proposed methods of service delivery • Risk Sharing and Risk Management • Added Value and innovation • Approach to working in partnership with the Council. The split between price and quality will be ascertained following detailed financial modelling of the impact of different ratios
(vii)	Any business risks associated with entering the contract.	Financial stability of suppliers in the current economic climate Reputation of the Council may be affected by poor performance or conduct, especially as the contractor will have responsibility for delivering the Council’s statutory functions Financial and Legal Services have been consulted concerning this contract
(viii)	Any staffing implications, including TUPE and pensions	See sections 8, and 10 below
(ix)	The Council’s Value for Money considerations.	This procurement process and on-going contractual requirement will ensure that the Council’s Best Value obligations are met.
(x)	The relevant financial, legal and other considerations.	See sections 7, 8, 9 and 10 below.

Appendix 2

2011 - Options for Revenues and IT delivery

Background
The current contract for Revenues and IT is due to expire on 30 April 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 and maintenance of IT for the Revenues and Benefits service.

This Appendix contains details of the current contract including scope alongside a review of performance. Also included is the outcome of benchmarking across London Boroughs with a summary of those who have contracted out the service and those who deliver the service in house. Findings from research into shared services and the potential contract market are also incorporated within the document.

Current Contract Scope
The scope of the current contract includes the administration and management of Revenues collection for Council Tax and NNDR, along with the provision and maintenance of IT systems that support Revenues collection and the administration of Benefits.

Face to face and telephone enquiries for Council Tax are dealt with by customer service staff within the One Stop Service and all written correspondence including emails is dealt with by Capita staff. The Capita contract does however incorporate responsibility for phone enquiries relating to Business Rates and a call overflow facility for Council Tax during peak periods.

Until November 2008, all calls from customers were dealt with by customer service staff. In November 2008 a pilot study was undertaken whereby customers who had arrears across multiple years were transferred to Capita staff after speaking to a customer service officer, in order to discuss payment arrangements. This study was undertaken in order to evaluate whether or not it would provide an increased opportunity to reach a payment arrangement that was suitable to the Council and the customer. Initial results from the study in April 2009 showed that 85% of those who spoke to Capita recovery staff agreed an arrangement for their arrears with 56% having arrears for more than 1 year.

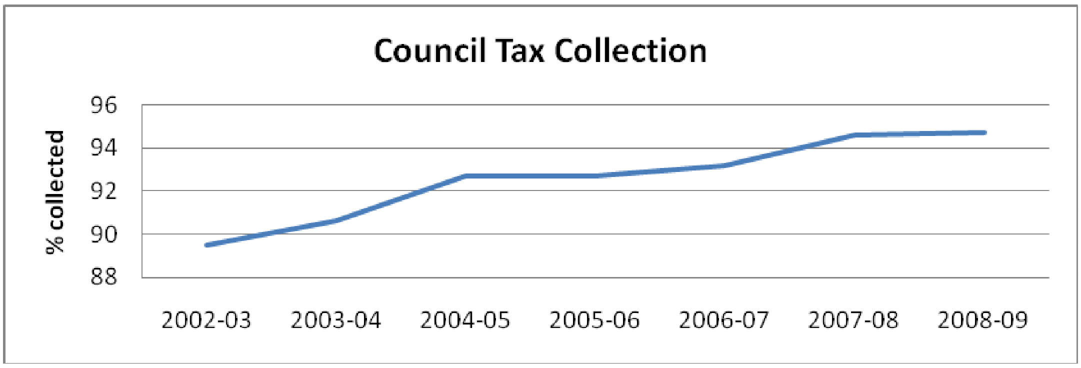
This proportion increased to 91% agreeing an arrangement by the end of October 2009 of which 66% had debts for more than 1 year. As a result, this study has recently been extended to enable customers with arrears to contact Capita recovery staff directly without the need to first contact customer service staff to agree a payment arrangement.

Preliminary findings from the study suggest that specialist recovery officers provide a greater opportunity for achieving payment arrangements across multiple years and effectively monitoring compliance with the agreement that over time should result in increased collection of income.
All customer service enquiries for NNDR are dealt with by staff within the Capita NNDR team.

Performance Current Contract

Between 2003 and 2009 we have generally seen year on year improvement in revenues collection which has resulted in improvements to Brent's position in the league tables when compared to other London boroughs.

Table 1 – Council Tax Collection

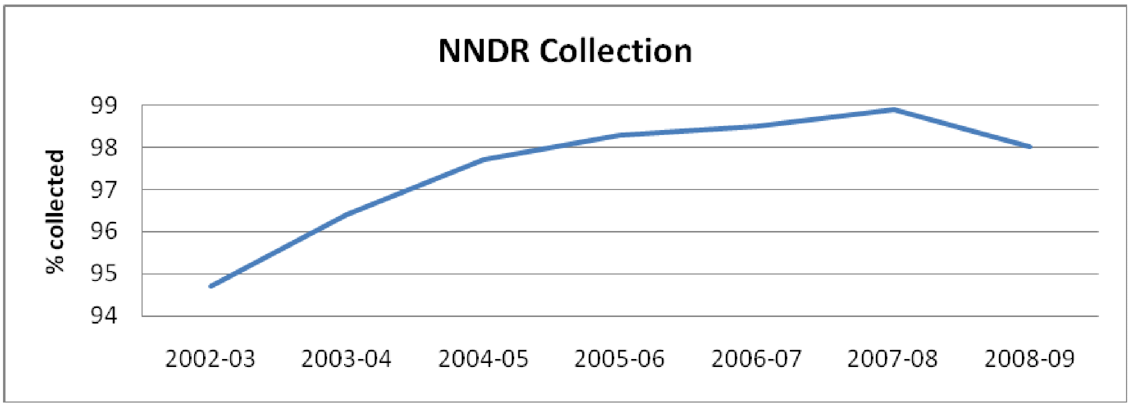


Council Tax collection (Table 1) rose by 5% between 2003 and 2009 and NNDR (National Non Domestic Rates) (Table 2) by 3% for the same period.

In 2003 Brent was 31 out of 33 London boroughs for Council Tax collection this has improved to 23 out of 33 in 2009.

NNDR collection was at 32 out of 33 across London in 2003 this has improved in 2009 to 15 out of 33.

Table 2 – NNDR Collection



The provision of IT has remained stable throughout the contract with the exception of issues experienced at the beginning of the contract which led to systems availability being severely affected for 2 weeks; this had a major impact on the service at the time.

Analysis of current methods of Service Delivery across other authorities

Revenues Delivery in other London Authorities
20 London Boroughs provided information to support the benchmarking exercise that was undertaken to establish method and success of service delivery for Revenues collection.

12 of the 20 London Boroughs who responded (i.e. 60%) have a completely in-house Revenues & Benefit service although it is unknown as to why this model has been continued and its relative benefits.

The remaining 8 Local Authorities that chose to contract out their service stated their reasons as being the achievement of value for money and greater efficiency. For example, one London Borough considered bringing their service back in-house but a feasibility study conducted in 2005 advised against it stating that re-tendering was the “only viable way to ensure a cost effective, value for money service”.

Seven of the eight Local Authorities that chose to contract out all or part of their Revenues service included customer service for Revenues as part of the contract package. The one remaining authority has not at the time of writing fully contracted out their revenues service but rather secured the services of a contractor to undertake some off-site processing for Council Tax and NNDR.

Of those who have contracted out their service, the contract duration varies up to a maximum of 14 years in one instance where an option to extend was contractually provided for.

The median contract length across the 7 London Authorities is 10 years.

Comparing collection performance for 2008-09 across the London Authorities that responded to the benchmarking survey; average Council Tax collection for Authorities that have retained services in house is 95.2% and is below the average for all London Authorities of 95.4%, with those that have contracted out their Revenues collection being just above the average at 95.5%.

Customer Service Delivery

21 London Authorities responded to the benchmarking survey for customer service arrangements. Of those, 11 (i.e. 52%) have Revenues staff dealing with Revenues customer service enquiries and 10 have corporate customer service staff dealing with enquiries from Revenues customers.

When comparing collection rates across the 21 Authorities, those that had Revenues staff dealing with customer enquires appeared to attain higher average collection rates (i.e. 95.41%) for 2008-09 in comparison to the Authorities that had customer service staff dealing with Revenues enquiries and achieved 95.24% on average.

However, it should be noted that the configuration of customer service teams differs between authority, particularly in the use of generic and specialist officers and their roles in face to face and telephone contact. It should also be noted that the above results may be influenced by local area demographics and baseline service performance prior to the service being outsourced and therefore a direct correlation between outsourcing and collection performance should not be assumed.

Shared Services across London

Included in the benchmarking undertaken across London Authorities was a review of appetite for shared service provision across London Revenues departments. Responses suggest that there is more of an interest than necessarily an appetite for shared services amongst respondents. Currently, only two Local Authorities in London are known to be sharing their Revenues service and that is limited to NNDR at present. Published results for 2008/9 show the collection rate achieved by the two Local Authorities concerned being below those of the previous year. However, this may be explained by the national introduction of an empty property charge at 100% for most empty business premises although the average drop in collection performance across London was 1.25% (Brent 1.1%) in comparison to the 2.2% and 3.2% reductions shown for each of the Authorities concerned.

Three London Authorities detailed below have entered into discussions/negotiations for shared services but subsequently decided not to proceed further for various reasons. Details of these are contained in the table below.

Local Authority	Reason for Breakdown
Authority 1	Looked at tendering for a new shared system with another London authority. Authority 1 indicated that there were too

	*what to include/ exclude in system *what each LA needed. Plus there were tight timescales and both parties suggested that the shared tender presented unacceptable levels of risk.
Authority 2	Authority 2, along with another 2 London Authorities considered sharing NNDR services. Authority 2 withdrew from the proposed arrangement as they were unable to identify sufficient savings to be made from sharing services with other Local Authorities. The remaining 2 London Authorities have not yet entered into a shared service agreement
Authority 3	Authority 3 was approached by another Authority to share NNDR collection. This did not progress as Authority 3 did not wish to migrate to the other Authority's IT system, which they believed was not as effective as the one they currently used. .

A number of Authorities have either discussed options internally or researched shared services but have not yet taken progressed any further. Currently, 53% of respondents have indicated that they would consider a shared service at some point in the future (most cite around two years time).

Key Shared Service issues identified from benchmarking:

1. It is not easy to enter into successful shared service arrangements – particularly ensuring risk is evenly spread, and benefits between authorities are aligned.
2. It is important to be specific about benefits and areas that are to be shared and to have measurable outcomes of success.
3. There appears to be little appetite for shared Revenues and Benefits services in the immediate future within London.
4. The agreement of governance arrangements

Contract Market Analysis

Between March and October 2009, meetings have taken place with 7 contractors to establish the extent of current competition in the market place and potential interest in a Brent contract, particularly as Lambeth and Bromley are also likely to be retendering their services in 2010. The companies we have met with are Capita, Liberata, Vertex, Mouchel, Avato, Fujitsu and Northgate.

Key factors raised in supplier meetings to date have been contract scope and duration, with suppliers generally indicating that if these were appropriate, they would be interested in tendering for any future service contract. In relation to contract duration, 4 out of the 7 contractors provided details of their preferred duration giving timescales between 7-10 years as their preference followed by an option for extension, Of the remainder, 2 stated that duration would be dependent on the investment required at the outset of the contract with the remaining supplier not specifically having a complete Revenues service contract.

Of the 6 contractors that currently have Revenues contracts, they indicated that they would be interested in a larger contract, 5 agreed they were likely to bid for a contract with the current scope with 1 stating that they would not bid in those circumstances. Of the 5 who indicated they would be interested in a contract with the current scope, 1 stated if the same package was to be retendered, suppliers may perceive that many of the efficiencies that could be achieved from the contract would already have

Areas that suppliers stated they would view favourably in a future contract included:

- Customer Service
- Corporate Debt
- Council wide IT and Desktop Support
- Accounts payable and receivable
- HR transactions and Payroll
- Property
- Procurement

Having met with these suppliers it is evident that there is interest in a contract with Brent, subject to other contracts that may be tendered at the same time. Indications from the responses received are that should we decide to tender a contract it is likely that the tender process will be sufficiently competitive to secure value for money for the council.

Options for future Service Delivery Considered and Conclusions

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 cost for ongoing service provision is likely to be greater than that of the current contract price with additional costs being incurred specifically for transition and 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 be managed in the event of a return to in house provision including:

- The transition of the service, involving both the transfer of IT, TUPE of staff and assignment of leases, etc
- Assimilation of staff under TUPE to Brent terms and conditions and the potential organisational restructure that may be necessary to achieve this. The existing Capita organisational 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 and the investment necessary to support this.
- 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 and training of staff and their induction into Brent
- Implementation of Brent performance management arrangements and service planning/ budgetary frameworks

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 potentially support the provision of local employment (the majority of the Council Tax staff are based in Brent House with the exception of IT, NNDR and Valuation staff).

Risks and Disadvantages of an In House Service

- The estimated cost of this service model is unlikely to demonstrate the best value for money.
- Staffing costs are likely to increase because the Council pension scheme incorporates higher employer contributions than most private sector pension schemes.
- There would be risk of disruption to IT support which may arise during the transition or afterwards. It is likely that ITU would need to obtain additional 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 transfer to the Council under 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 although 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

Summary

The transfer of staff leading to the harmonisation of terms and conditions along with pension and other employee 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 a provision for financial deductions within the contract associated with the loss of, or failure to achieve an agreed standard of IT service which assists in reducing the risk to the Council and ensuring that any potential issues are dealt with quickly. The use of financial 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 service provision would involve some increase to cost and potentially increased risk to the Council and although these risks could be managed and mitigated, the likely cost of in house provision makes this option less desirable.

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 for 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 current experience of shared services in London. However, those developed outside London between smaller District Councils have typically taken 18 to 24 months to set up and become operational. As part of this review, senior Client staff from Brent met with counterparts from Harrow and Lambeth to discuss any potential for the future sharing of services or contracts. Lambeth was selected 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 and this aspect therefore lends itself more towards the potential for a shared service arrangement.

Lambeth are currently reviewing their contract scope and at this point in time are unlikely to 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 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.

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 shared services has not yet developed.

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 when the investment payback period has elapsed.
- There is a risk of performance declining during transition to new arrangements and the resulting costs arising from this to clear backlogs of work

Summary

There is little prospect of successfully negotiating a shared service agreement by early 2011 as the service does not already have a potential local authority partner with which it shares synergy of requirements and an established relationship. Indeed the benchmarking across authorities has shown little interest from London Authorities to share Revenues and Benefits services within the next two years. This would bring us to the end of the existing contract term and would mean that it is necessary to bring the service in house prior to embarking on any shared service provision. Should employees that would 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 significant 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 currently known examples of shared service for London or Metropolitan Boroughs in relation to Council Tax provision. Where this has been achieved, it has been with smaller District Councils who, when merged, have a customer base that does not generally 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 difficulties arising 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.

Re-Tendering the Service

The Council could choose 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 customers. Improvements have been realised in the current contract but concerns are that these are unlikely to be built on with the current separation of the Revenues staff from customers. The service model 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.

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

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

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 consider any service efficiencies 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

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, it is 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 drafting of the 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

A reviewed scope could include an increase or decrease in services provided within the contract. A potential to decrease the scope could 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 would greatly reduce the number of contractors who would be interested in tendering 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 page 3 of this Appendix 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 be sufficiently attractive to market suppliers to maximise competition.

Conclusion

A review of service performance across London Boroughs has shown higher average collection rates for Authorities that have contracted out their Revenues collection service. The benchmarking has also shown higher average collection rates for those Authorities that have Revenues staff dealing with customer service enquiries as opposed to customer service staff. Whilst this does not in itself indicate that outsourcing correlates with increased service performance, it does suggest that continuous improvement can be obtained whether in house or through a Contractor and subject to the right conditions.

The current contract has been successful in meeting the objectives that were in place at the beginning and during the life of the contract. Brent has successfully increased Council Tax and NNDR collection during the contract term. However, in order to build on those improvements, it is now considered appropriate to review objectives and whether the current contract specification will achieve their attainment.

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 means 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 service does not already have a potential Local Authority partner in mind and the benchmarking across authorities has shown little current interest from Authorities to share Revenues and benefits 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. Meetings with current market suppliers that provide Revenues collection services to Local Authorities has shown that there is likely to be sufficient market interest to ensure that Brent is successful in securing a competitive procurement environment that provides value for money for Brent Council Tax Payers and residents.

As a result, the recommendation is that the current contract is retendered. A review of duration and scope is recommended with further recommendations to consider 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 financial incentive and deduction schemes, performance targets for arrears collection and key service measurements. The recommended duration would be similar to the current contract which is 5 years with an option to extend for a further 3 years.