Brent	**Cabinet** 13 November 2017 **Report from the Strategic Director of Resources**
	Wards affected: All Wards
Revenues and IT Support Service – Future Service Delivery Options	

Not for Publication:

Appendices A and D of this report are not for publication as they contain the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information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 Purpose of the Report

1.1 This report considers and evaluates options for delivery of the Revenues and IT Support Service when the existing contractual arrangements with Capita Business Services Ltd ("Capita") end on 30th April 2019 and makes recommendations accordingly.

1.2 The options appraisal has shown a strong case for the retender of Business Rates as this offers the best prospects for strong performance with more robust resilience and less risk. The options appraisal has also indicated that the overall prospects for Council Tax collection performance improvement are stronger if the service returns to in house provision as this option offers the opportunity to directly control and develop the service in accordance with Brent's wider strategic objectives, in particular a more corporate approach to debt recovery and implementation of the Digital Strategy. The options appraisal has also indicated that a retender of the service may not achieve improved collection performance without increased investment through a higher contract price.

1.3 As this service has been outsourced since 1995 (i.e. 24 years at contract expiry) this option would incur one-off transition costs of circa £0.3m and would also require growth of circa £0.2m per annum to build capacity for improvement. It should be noted that Council Tax collection performance has been subject to "peaks and troughs" since 2013 with "in-year" collection averaging 95.7%. Over a similar period, significant savings have been achieved through contractual price reductions.

1.4 An in house Council Tax service would offer greater flexibility in terms of integrating Revenue collection with Benefits operations particularly as the working age Housing Benefit caseload starts to migrate to Universal credit from 2019. It would also allow greater flexibility in implementing a more corporate approach to debt recovery and implementation of the Digital Strategy.

1.5 An alternative option of returning the Council Tax service to in house provision but without growth in funding has also been considered and is not recommended. This is because the increased level of employer costs that would arise from Local Government Pension Scheme contributions and harmonisation of salary scales would necessitate a reduction of approximately seven full time equivalent staff from within the collection and enforcement teams (i.e. after having made due provision for staffing IT related aspects of the service) and this would adversely affect collection performance.

1.6 Soft market testing has demonstrated a competitive retender is a viable option for future Council Tax service provision and would facilitate a degree of risk transfer. The key question to be considered therefore is whether the potential benefits to be gained from a potential return to in house provision provide a sufficient return on investment to merit the cost and risks associated with this.

2.0 Recommendations

2.1 The following recommendations are submitted for consideration:

2.1.1 Approve the invitation of tenders for the provision of the Business Rates Service (“NNDR”) including associated customer service, IT Support for the Academy IT System and printing for the NNDR service on the basis of the pre-tender considerations referred to in paragraph 5.2.2 and further defined within Appendix F of the report.

2.1.2 Approve officers evaluating tenders referred to in 2.1.1 above on the basis of the evaluation criteria set out in Appendix F of the report.

2.1.3 Agree the Council Tax Service and associated IT Support (including support for the Northgate IT System, Debtsys for Housing Benefit Overpayments and View 360 electronic document management system) be returned to in house provision at the expiry of the existing Revenues and IT Support Services contract based upon the options appraisal set out within this report.

2.1.4 Note that subject to the decision taken in relation to Recommendation 2.1.3, that printing services for the Council Tax and Benefits Services will be procured by the Council (the timing of such procurement to form part of detailed transition plans in order to minimise risk of service disruption at contract expiry).

2.1.5. Delegate authority to the Strategic Director Resources in consultation with the Deputy Leader to agree variations to the existing Revenues and IT Support Services contract to permit discrete areas of the existing contract package to be returned to in house provision before the contract expiry date, if appropriate.

2.1.6 Approve growth of £0.2m arising from recommendation 2.1.3 as set out within paragraph 3.8 and Section 6 (Financial Implications) of this report.

3.0 Detail

Background

3.1 There is no further contractual provision for extension when the existing Revenues and IT Support contract expires and therefore a decision needs to be taken in sufficient time to implement the preferred option for future service delivery. Implementation will require approximately 15 months, whichever option is determined.

3.2 An options appraisal has been undertaken to evaluate the relative merits of future service delivery models. This has included; in house, shared service and a retender. The evaluation of the shared service option has indicated that there is little current appetite amongst potential Local Authority partners. Indeed, more detailed evaluation of a potential shared service with a neighbouring authority has revealed that the financial returns were insufficient to merit either party progressing with them.

3.3 Soft market testing indicated that greater supplier interest might be achieved by increasing the current service scope. Consideration has therefore been given to extending the scope of the contract package particularly in relation to the inclusion of the Benefits service. However, changes arising from the roll out of Universal Credit within the Borough from August 2018 and the implementation of the corporate debt management and digital strategy make this option less attractive in terms of future flexibility to change and integrate these services.

3.4 The contract with Capita has seen a significant annual price reduction from approximately £3.1m in 2015/16 to its current level of £2.7m. However, annual Council Tax collection performance has been subject to "peaks and troughs" over the past four years, averaging 95.7% "in-year". The introduction of the local Council Tax Support scheme ("CTS") in April 2013 has impacted on collection but only in a marginal way. Collection rates for accounts where CTS is awarded are much higher than originally forecast. Non collection of Council Tax arising as a result of localised CTS is estimated to be equivalent to approximately 0.2% and there have been no significant changes to the Brent CTS scheme since 2013.

3.5 Although a tender process would attract market interest, the incumbent supplier is likely to have a financial advantage, as they would not incur the same level of transition costs for "take-on" of the service that another bidder would have.

3.6 A re-tender of the service might offer a lower cost option than an in house service and least risk in terms of service continuity with some degree of risk transfer. However, it may not achieve improved Council Tax collection performance without increased investment through a higher contract price and would give less flexibility to develop new operating models for Brent Customer

Services in the future. A risk and reward scheme could provide financial incentives for exceeding performance and financial reductions for any failure to achieve these however bidders are likely to price in accordance with the level of financial risk that they consider a contract presents.

3.7 The overall prospects for performance improvement are stronger if the service returns to in house provision as this option offers the opportunity to directly control and develop the service in accordance with Brent’s wider strategic objectives, in particular a more corporate approach to debt recovery and implementation of the Digital Strategy.

3.8 Analysis of Brent’s Council Tax collection when taking into account deprivation factors indicates there is a potential scope for improvement. The extent of this improvement is difficult to precisely quantify. However, it is considered that there is a potential to improve collection rates to between 95.8% and 96.4% based upon average collection rates for London authorities with broadly similar levels of deprivation - 96.4% representing an additional £0.9m for Brent’s proportion of the collectable debit. An improvement could potentially be achieved within three years based upon the average collection performance for London Authorities that are closely ranked to Brent in terms of deprivation levels and with the increased staffing resource proposed for allocation to proactive collection and enforcement activities. If achieved, improved collection would have positive cash flow benefits and would also reduce recovery costs for future years. A three year improvement plan would be necessary to achieve this, with investment to increase capacity in the first year with scope to then reduce costs in years 2 and 3. Budget growth of £0.2m on current cash limits would be necessary for the in house option for at least the first year of the improvement plan.

3.9 Whilst an increased contract price may see an improvement in Council Tax collection performance, the benefits of in house provision as set out within paragraph 3.7 above would not be so easily achieved.

3.10 As Council Tax has been outsourced since 1995 (i.e. 24 years at contract expiry), there will be transition costs arising from an in house option. It is estimated that these would be in the region of £0.3m and would cover replacement of Northgate servers and virtualisation of these, early recruitment of Northgate application support to de-risk the potential loss of expertise at contract expiry; actuarial evaluations and project capacity to oversee the transition. Of these costs, circa £0.2m would be incurred anyway as a consequence of the replacement of Northgate servers and virtualisation and retender arrangements. Appendix B provides a summary of these activities.

3.11 Continuing austerity measures and potential changes to Local Government Finance proposed from April 2019 arising from full Business Rates Retention as an alternative to some existing central government grants including Revenue Support Grant (“RSG”) mean that service delivery costs and Revenues collection performance take on increased significance. It is anticipated that the impact of Business Rates Retention will require increased co-ordination between a Business Rates Service Provider, Brent Council and the business community to facilitate and effectively manage potential growth within the Borough and any associated risks. Additionally, in 2022, the five yearly revaluation of commercial properties is also scheduled to take place and this will require effective resourcing and management concurrent with the above changes.

3.12 The scheduled roll-out within Brent of the Universal Credit full digital service to working age claims from August 2018 and the subsequent migration of existing working age Housing Benefit claims between 2019 and 2022 will bring significant changes for the future delivery of Housing Benefit. This might present opportunities for exploring new models for the Council Tax Support Scheme and the way in which it is resourced.

3.13 Furthermore, the recent establishment of an in house Enforcement Agent service to take on enforcement of Council debts and the proposed move towards a centralised debt management model that makes better use of debt recovery expertise and applies a more co-ordinated approach to repayment of debt, is also anticipated to impact on future service delivery.

3.14 Harnessing opportunities presented by the 'digital revolution'and referenced within the Digital Strategy, the implementation of Customer Relationship Management (CRM) will bring a greater generic approach to assistance across a range of services rather than the more specialised demand, as experienced at present.

3.15 Details of the current service context are contained in Appendix D to this report and are summarised 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.
- The Council Tax service currently comprises 120,037 domestic properties with average growth of 3.2% per annum and comprising a net collectable debit of £132.9m. This compares to 103,086 domestic properties and a net collectable debit of £103m at 31st March 2012.
- It is anticipated that both the above will continue to experience growth over the next few years as a consequence of both continued demand for housing and the fulfilment of corporate priorities.
- Whilst a lower staffing resource is required for administering the Business Rates service in comparison to Council Tax, 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 general revaluation requirement for commercial properties on a five yearly basis means that reliefs and exemptions can often vary on a regular basis and are 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 currently includes support for the Northgate Revenues and Benefits system, Academy Business Rates system, Axis Income Management system, Debtsys for Housing Benefits Overpayments, View 360 electronic document management system and associated printing.

4.0 Options Appraisal

4.1 A summary table and analysis of the advantages and disadvantages of each of the three options shown in paragraph 3.2 above is shown below. Appendix A to this report provides a more detailed table and analysis of these.

Reference Number	Outsourcing	Shared Service	In House
A1	Business Rates The strong London collection performance of suppliers for Business Rates and the proposed retention of 100% Business Rates income from 2019 support the case for retendering Business Rates.	Council Tax and Business Rates Standardisation' provides a cost reduction opportunity whether in terms of locality, IT systems, process or management and staffing.	Council Tax This option presents the best opportunities for improving performance with the flexibility to develop new operating models for Brent Customer Services in the future.
A2	Business Rates Suppliers have a pool of staff available to them with niche skills and expertise in Business Rates.	Council Tax and Business Rates A procurement process would not apply to a shared service arrangement.	Council Tax This option presents the best opportunity for developing the service to achieve corporate aims in relation to debt management, digital strategy and integration of the service with Benefits as Universal Credit is introduced.
A3	Council Tax and Business Rates Would probably cost less than the cost of in house service provision but without the flexibility to integrate with other Brent Council services.		Council Tax An in house option would not preclude the consideration of future innovative operating models including a shared service arrangement for example.
A4	Council Tax and Business Rates The retender of all or part of the existing		Council Tax There could be an opportunity for achieving economies

	contract services in scope would permit a degree of risk transfer that would not be possible with an in house or shared service arrangement.		of scale through the procurement of Council Tax and Benefits printing services with other Local Authorities.

Disadvantages

Reference Number	Outsourcing	Shared Service	In House
D1	Council Tax and Business Rates Small number of suppliers and with interest potentially being dependent upon other contracts going to the market at the same time.	Council Tax and Business Rates Where shared Revenues and Benefits service arrangements have occurred in London, they have tended to end prematurely.	Business Rates Average performance for Business Rates collection in London is significantly weaker for in house services than outsourced ones.
D2	Council Tax The proposed move towards a centralised debt management model that makes better use of debt recovery expertise and applies a more co-ordinated approach to the repayment of debt in general and a corporate debt management system ("ASH") may make synergies more difficult to achieve with a third party supplier.	Council Tax and Business Rates There is little current appetite at present for a shared Revenues and / or Benefits service amongst representatives contacted.	Business Rates In the case of the Business Rates Academy system, there is no in house experience of hosting and supporting this.

Reference Number	Outsourcing	Shared Service	In House
D3	Council Tax Collection performance	Council Tax and Business Rates	Council Tax and Business Rates

	for Council Tax may not improve without additional investment that will result in a higher contract price.	A shared service arrangement would not permit the same degree of risk transfer as with an outsourced arrangement.	In house service provision will cost more than the current annual contract price.
D4	Council Tax and Business Rates Medium term contractual arrangements may restrict the potential for future innovative operating models.		Council Tax and Business Rates In the event that a decision is made to return some or all of the existing services to in house provision, there is a risk that performance may decline over the remaining period of the contract.

5.0 Legal Implications

5.1 There are a number of legal implications that will arise in relation to the recommendations in this report and these are summarised, as follows:

5.2 **Procurement**

5.2.1 The estimated total value of the Business Rates Service recommended to be outsourced / procured is higher than the current EU financial threshold for services. A procurement will therefore be subject to the full application of the Public Contracts Regulations 2015. The award of the contract is also subject to the Council's own Standing Orders in respect of High Value contracts and Financial Regulations. As a result, Cabinet approval will be required for the award of the contract and a mandatory ten calendar day standstill period will be applicable to the contract award.

5.2.2 The pretender considerations proposed for procurement of the relevant service(s) and subject to Cabinet decision in relation to the recommendations set out within Section 2 of this report, are comprised within Appendix F.

5.3 **Public Sector Equality Duty**

5.3.1 The public sector equality duty, as set out in section 149 of the Equalities Act 2010, requires the Council, when exercising its functions, to have "due regard" to the need to eliminate discrimination, harassment and victimisation and other conduct prohibited under the Act, and to advance equality of opportunity and foster good relations between those who have a "protected characteristic" and those who do not share that protected characteristic. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.

5.3.2 This includes enquiring into whether and how a proposed decision disproportionately affects people with a protected characteristic and the need to consider taking steps to meet the needs of persons who share a protected characteristic that are different from the needs of persons who do not share it. This includes removing or minimising disadvantages suffered by persons who share a protected characteristic that are connected to that characteristic. For example, taking account of disabled persons' disabilities and the action that could be taken to help a disabled person."

5.3.3 In considering the recommendations submitted within this report, an Equality Analysis (please see Appendix G) has been undertaken to ensure that any potential adverse impact to groups that share a protected characteristic has been identified, evaluated and mitigated wherever possible. The analysis has not identified the potential for an adverse impact at this stage.

5.3.4 However, any equalities implications arising from the individual recommendations will continue to be considered and assessed as further data/information is obtained or becomes available during the decision-making process.

5.4 **TUPE and Pensions**

5.4.1 As there is no proposal to transfer work carried out by existing Council employees to a new provider, TUPE shall not affect any Council employees. However, in the case of work activities currently carried out by Capita staff, there will be TUPE and Pensions implications that will need to be addressed through the transition arrangements for in house provision and in the procurement arrangements and contract documentation for retender of the Business Rates service should the recommendations in this report be agreed.

5.5 **Public Services (Social Value) Act**

5.5.1 The Public Services (Social Value) Act 2012 requires the Council when procuring services, to consider whether it can achieve an improvement to the economic, social and environmental well-being of an area as part of the procurement of those services. If so, the social value objectives identified must be written into the procurement process. This must be achieved with regard to value for money and in a way that is compliant with public procurement law.

5.5.2 Appendix F to this report provides for the inclusion of Social Value within the price and quality weightings proposed within the pre-tender considerations and in accordance with the recommendations set out within Section 2 of this report.

5.5.3 It is proposed within Appendix F that a Social Value weighting of 5% split between quality 4% and price 1% is used for the purposes of the tender evaluation. This is lower than the Brent Council policy of 10% for contracts over £100,000 but as the service is likely to be delivered off site and outside of the Borough, the potential extent of any social value that might be achieved for Brent Council is lower than would be expected for a contract weighting of 10%.

6.0 Financial Implications

6.1 The current annual budget for the Revenues and IT Support Service is £2.9m which is funded from within the existing contract budget held by Brent Customer Services and which includes contract management costs.

6.2 If a decision is taken to return the Council Tax service to in house provision, the total cost of annual provision is estimated to be £3.1m, £0.2m above the current base budget. This is primarily due to pay differentials, higher Brent pension contributions in comparison to Capita and an increased staffing resource considered necessary for the transition period and to enable service improvements to be effectively implemented. This may be summarised as follows:

Staffing for roles that may not transfer under TUPE (e.g. IT)	£0.3m
Additional staffing for Council Tax and harmonisation costs	£0.2m
Additional pensions cost of the proposed new structure	£0.2m
Increased cost	£0.7m
Funded by reduction in contract related costs	£0.5m
Net growth	£0.2m

6.3 In the short term (i.e. years 1 and 2), funding this additional cost from within the overall Customer Services budget would be challenging, given the £1m savings target the department is required to deliver by 31 March 2018. However from year 2 onwards, it is anticipated that the additional cost could be reduced by virtue of synergies obtained through combining similar roles within the Brent Customer Services and the use of other innovative service models. Furthermore, with the additional staffing resource, it is estimated that the collection rate could potentially increase from 95.7% to up to 96.4% (based upon authorities ranked closely to Brent in the deprivation index) over the three year plan which could give a cash flow benefit of £0.9m from the additional Council Tax income collected in-year.

6.4 The first year of operation would effectively be a transitional phase whilst the new in house service and IT arrangements "bed in" and "one-off" transition costs are currently estimated to be in the region of £0.3m for this purpose. These can be funded through existing earmarked reserves allocated to Customer Services. Additionally, of these costs, approximately £0.2m would be incurred anyway as a consequence of replacing existing Northgate servers and virtualisation. The remaining £0.1m would be for resources needed to effectively implement transition plan arrangements.

6.5 Under the recommendations proposed within this report, a supplier would be responsible for annual Business Rates collection of £138m based upon current levels. Consequently, a reduction in the budgeted collection rate would have a significant impact on the Council's budgeted income. Provision would therefore need to be considered within any agreed contract for financial incentives and deductions to address variations that could occur.

6.6 It should be noted that the costing implications set out within this report have been based upon existing contract pricing information for 2018/19 and prevailing pay rates. However, actual costs in the future will be subject to due diligence and the tender price of a successful tenderer. Any variations arising as a consequence will need to be addressed through the normal budgetary process.

7.0 Risks and Issues

7.1 The key risks and issues arising in relation to the recommendations set out within Section 2 of this report are shown in Appendix H.

8.0 Equality Implications

8.1 As set out in the EIA Screening (Appendix G).

Background Papers

None

Appendices
Appendix A – Options Appraisal Advantages and Disadvantages (not for publication)
Appendix B – Transition Costs
Appendix C – London Collection Rate Performance
Appendix D – Service Context (not for publication)
Appendix E – London Local Authority Revenues and Benefits Provision
Appendix F – Pretender Considerations
Appendix G - EIA Screening
Appendix H – Risks and Issues

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