

THE CABINET

Tuesday, 28 September 2010

Agenda Item 18a Business Case and Appointment of Preferred Bidder for Joint Venture Strategic Partnership (Pages 1 - 33)

Appendix 2 contains commercially sensitive information and has restricted circulation

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CABINET**28 SEPTEMBER 2010****REPORT OF THE CABINET MEMBER FOR CUSTOMER SERVICES AND HUMAN RESOURCES**

This report is submitted under Agenda Item 18. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B (4) (b) of the Local Government Act 1972 as a matter of urgency in order to avoid any delay in the appointment of the Joint Venture Preferred Bidder.

Title: Business Case and Appointment of Preferred Bidder for Joint Venture Strategic Partnership	For Decision
<p>Summary: This report details the final business case which supports the recommendation to enter into a Joint Venture and Partnership Agreement with a “Preferred Bidder” who has been selected using an OJEU Competitive Dialogue process. The business case for change is attached at Appendix 1 to this report.</p> <p>The Council has an ambition to deliver excellent, effective and efficient services to residents despite significantly reducing resources. October’s Comprehensive Spending Review (CSR) is likely to create further financial pressures so makes the need to change stronger. As a result of the CSR announcements, the public sector landscape will undoubtedly change radically over the next few years and if the Council is to continue to serve residents well it will need to become flexible and agile, efficient, stable and well-run as an organisation. There are a number of drivers:</p> <ul style="list-style-type: none"> • Customer satisfaction has to improve, we need to show that we are meeting our residents demands • Residents demands need to be managed effectively so as our reducing resources are spent on those services most needed. • Resources need to be prioritised to address the implications of our rapidly changing demographics. • The budget gap, before CSR, is £44m over the next 3 years which equates to around 28% of the Council net budget requirement. <p>The work on this particular procurement culminating in Members receiving this report has been two years in the making. During 2009 it became apparent that Council’s resources would reduce significantly while the number and complexity of needs of our diverse community would increase creating pressures on demand for existing and future services. It was clear that LBBB would be unable to either fund or make the significant modernisation changes required, specifically to back office services, without help and it was agreed by Cabinet at its meeting on 7 July 2009 (Minute 21 refers) that officers should start looking for a private sector partner who could work with the Council to improve services and deliver some services more cheaply. At this point, the Council was only seeking an ICT partner. However it was clear that the Council would benefit if other linked back office services were added to the scope and at its meeting on 8 June 2010 Cabinet agreed to add three further services for potential delivery by the Joint Venture, these services being Revenues & Benefits, B&D Direct, Procurement and Accounts Payable.</p>	

Over the last 14 months, and in line with procurement regulations, the Council has been in dialogue with the market in order to develop a Joint Venture arrangement with a strategic partner. The procurement process is now coming to an end with a recommendation for a “preferred bidder” being made to Members by the officers sitting on the procurements Main Evaluation Panel.

The initial period of dialogue resulted in outline proposals being received from four potential partners – Agilisys, BT, Capita and Serco. Following evaluation by panels of staff, managers and Directors, a shortlist of two – Agilisys and Capita – was compiled and we began a second stage of dialogue which lasted from February to July 2010. The two Bidders submitted proposals covering the ICT, Revs & Bens, B&D Direct and Procurement & Accounts Payable services while also providing contractual commitments to creating jobs in the Borough.

The final evaluation stage began on 27 July 2010 and concluded with the Main Evaluation Panel setting the recommendation for a preferred bidder on 15 September. Details of each element of the final evaluation are commercially sensitive and are therefore contained within the private and confidential section of this report.

The financial climate has worsened considerably over the last 18 months and the budget gap to date is £44m over the next 3 years. Officers were given authority by Cabinet to seek a partner from the market to help the Council make the significant level of savings whilst improving services. As part of the procurement process, officers have:

- Evaluated the proposals submitted by the Bidders in the Procurement process.
- Challenged the bids, and concluded that the Preferred Bidder will deliver the council approximately £67m of savings net of running costs and investments over the 7 years of the contract. These savings coming from the reductions in the costs of the four transferring services, from increased revenue collection and from better procurement.
- Noted that the Preferred Bidder has guaranteed improvements to transferring services
- Noted that further savings from future transferred services are possible
- Noted that the Preferred Bidder has heard and understood the Council’s vision, ambition and sense of place
- Noted that the Preferred Bidder has contractually committed to create jobs in the Borough.
- Seen that there is a plan to offer shared services through the JV to other London Boroughs from Barking & Dagenham and create further job opportunities in the area
- Expect the Preferred Bidder will join a joint modernisation team with the Council to use their transformation expertise to help the Council deliver the further savings in the wider council.
- Noted that the Preferred Bidder will assist the Council to accelerate benefits realisation and achieve more savings earlier in order to address our budget pressures
- Noted that the Preferred Bidder will offer other consultancy rates at half the market price.

Wards Affected: None

Recommendation(s)

The Cabinet is recommended to agree:

- (i) That the Preferred Bidder, as recommended by the Main Evaluation Panel and named in the private and confidential section of the report, is accepted as the strategic partner for our Joint Venture and that this will include in Phase 1 the transfer of the following services:
 - ICT,
 - Procurement & Accounts Payable,
 - Revenues and Benefits services,
 - B&D Direct,
- (ii) That the Council will enter into a legally binding Joint Venture and Partnering Agreement with the Preferred Bidder;
- (iii) That the Council will enter into a legally binding Services Contract with the Preferred Bidder and associated legal documentation; and
- (iv) That the Corporate Director of Finance and Resources develops appropriate internal arrangements for the proper monitoring and management of the Joint Venture and Partnering Agreement and the Services Contract through a new Commercial Services Unit.

Reason(s)

To assist the Council in achieving its Community Priorities and delivering its Medium Term Financial Strategy.

Comments of the Chief Financial Officer

Both bidders presented fully costed proposals for meeting or exceeding the service performance levels specified by the Council in the specification. These proposals included further investment to continue the modernisation of direct services to residents and support services to wider Council functions, departments and community partners. The proposals also detailed the levels and timings of savings that would result from better management of tasks and technology; more capacity provided by the strategic partner to make progress more quickly; and access to procurement specialists to generate substantial savings in the Council's overall procurement costs. The bidders also made commitments to creating new jobs, backed up by contractual financial penalties which would provide the Council with funds to develop replacement initiatives if commitments had not been met.

The Council finance team conducted a rigorous financial appraisal of the proposals, subjecting their significant claims to challenge. Further scrutiny of the financial offers was made by an independent financial scrutineer who provided a robust analysis of the deal. The finance team also identified the likely savings in Council support services which would be released or enabled by the joint venture's contribution to the wider Council modernisation. Although the two bids are different in significant ways, the overall savings from the bids are similar, at around £67m – equivalent to approximately £10m a year. The breakdown of the savings (over the seven year contract period) is very complicated

however the high level analysis is:

	£m
Savings on delivery of the 4 transferring services	18
Procurement savings	16
Additional income from improved revenue collection	8
Savings in Council support costs - some direct savings of (£7m) and others “enabling” such as invoice processing	15
Future support costs savings through transformation activity - prudent view because of stage of development potential for much more	15
Less the costs of contract management in the Council	(5)
Total savings	<u>£67m</u>

equivalent to c£10m per annum

Comments of the Legal Partner

In 2009 the Council embarked on an extensive procurement process to find a strategic partner to work with it to deliver services more effectively, efficiently and cheaply. The Competitive Dialogue procurement process was followed pursuant to the Public Contracts Regulations 2006. That process has been described in detail in the body of this report.

The strategic partner evaluation process has now been concluded. The culmination of the procurement process is the identification of a Preferred Bidder as set out in the private and confidential section of this report and the recommendation set out above.

The Legal Practice has been involved in the strategic partner procurement and confirms that the contract was advertised in the Official Journal of the EU and in accordance with EU Public Procurement Regulations and the Council’s Contracts Rules.

The bidder recommended for appointment as the Preferred Bidder has successfully passed the various stages of the evaluation process and achieved the highest scores at the final stage of the process.

Paragraph 1.6 of this report states that once the cooling-off period has ended and the call-in period has passed the Interim (transitional) Agreement will be signed. This will commit the Council and the Preferred Bidder to signing the Joint Venture and Partnership Agreement and the Services Contract and associated legal documentation, and allow any early works to begin prior to signing.

The Legal Partner confirms that there are no legal reasons preventing the Cabinet from approving the recommendations of this report.

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1. Detail

1.1 The Procurement Process

It was important to ensure that this procurement was carried out properly and in line with EU Public Procurement Regulations and the Council's Contract Rules. We took advice and decided that the best route would be to follow a Competitive Dialogue process used for very complex procurements.

In March 2009 LBBD issued a Prior Information Notice (PIN) in the Official Journal of the European Union (OJEU) to announce that it would be undertaking a procurement process to select a partner for an incremental partnership.

A market testing exercise was then held to gain an understanding of the capabilities of companies working in the sector to help achieve Council's vision and ambition. This gave officers a better understanding of how to develop the approach and specifications.

In August 2009, Council published an OJEU Contract Notice to begin selection of a partner through the Competitive Dialogue process. This notice set the boundaries for the procurement and set out the intent to create a shared services centre to provide services from Barking & Dagenham to other organisations in London in order to meet our objective of creating jobs in the Borough.

Following a Bidders Day where Members, the Chief Executive and Directors presented LBBD's vision and ambition to attendees, we issued a Pre-Qualification Questionnaire (PQQ) to interested parties and began the process of selection. We received 11 responses to our PQQ, which we assessed to compile a longlist for our first stage of dialogue.

We issued an Invitation to Submit Outline Proposals (ISOP) to 4 bidders and received 4 responses. These were from Agilisys, BT, Capita and Serco.

We evaluated these responses through January and agreed on a shortlist of two – Agilisys and Capita - for Stage 2 of our dialogue and evaluation.

From February to July we engaged in a period of intensive dialogue with both bidders. This dialogue included meetings, interviews, workshops, site visits, reference site visits, briefings and roadshows. It involved staff at all levels, managers, the Trade Unions, Heads of Service, Directors and the Chief Executive/Acting Chief Executive with briefings held for Members and Cabinet.

Following a Cabinet decision we issued an Invitation to Submit Final Tenders (ISFT) to the two bidders, requesting proposals in four service areas - ICT, Revs & Bens, B&D Direct and Procurement & Accounts Payable.

In addition we required the bidders to respond to our requirements around creating new jobs in the Borough and Transformation capacity and capability to support the Council's modernising agenda.

The evaluation of the bids began on July 27th and included specialist staff from the services, managers, Directors and external support from the Legal advisors. In addition, areas such as Equalities & Diversity, Health & Safety and Fostering Opportunities were assessed by the appropriate council staff.

The Main Evaluation Panel made a recommendation on the Preferred Bidder on September 15th. This recommendation was based on the strict and complex evaluation criteria set for the evaluation.

This panel was chaired by Tracie Evans and includes CMT and Heads of Service.

1.2 Due Diligence

Market Testing

During this phase, Council engaged heavily with other Local Authorities to understand their experiences of Partnering arrangements. This included visits to organisations such as the Hammersmith & Fulham Bridge Partnership and Liverpool Direct where services including ICT, Revs & Bens and Contact Centres are delivered to the local council and other clients.

Pre-Qualification Questionnaire

Through the PQQ phase we required that participants demonstrate their skills and capability to deliver to our requirements. This required them to provide evidence of previous successful delivery in the sector and of their capacity and expertise in the areas of interest to us.

In addition we also looked for evidence that they conformed to Council's requirements for Health & Safety, Equalities & Diversity and Environmental policies, and were in good financial standing.

Reference Site Visits

A number of reference site visits were undertaken by LBBB staff through the process, with meetings held with colleagues from other councils - including Chief Executive, Finance Director, Resources Director and IT Director - and with Partnership representatives. The visits included Sheffield, Birmingham, Swindon, Southampton, Hammersmith & Fulham, Rochdale and Cumbria. These covered a range of services including ICT, Finance, Procurement and Revs & Bens and other topics such as Partnering, HR & Change and Fostering Opportunities.

1.3 Getting this right – making sure we have a good contract

In order to ensure that the contract we have negotiated is absolutely water tight, that it is manageable, to support the in house team and to transfer knowledge and skills, we have retained financial and legal external advisors throughout the process.

PA Consulting, who helped create the original business case for change, advised on the OJEU notice and PQQ, provided document templates to the team and Quality Assured the process.

PwC provided assurance on the extensive VAT issues.

KPMG are validating the Commercial/Financial models and the accounting treatments proposed.

Trowers & Hamblins – our Legal advisors - provided templates, and inputted on the evaluation process, and were closely involved in the dialogue, drafted the contract

documents, and advised the Council on legal issues throughout the process.

The Office of Government Commerce guidance and leading practice from Local Partnerships (formerly 4Ps) were followed.

The final phase of Due Diligence will take place through the Preferred Bidder stage, before a contract is signed.

1.4 The benefits expected from the Joint Venture

Over the last 14 months we have focussed on building a solution that will enable the Council to modernise its services for Barking & Dagenham residents, support staff to deliver excellent customer service, create local opportunity for residents and help achieve the efficiency savings Council requires.

We now have:

- proposals for a Joint Venture where the Council maintains some control over staff and delivery, a new and innovative solution, NOT an outsourcing contract,
- a definite plan for making the Council savings required over the next 3 years,
- defined Service Improvement plans,
- guaranteed net job opportunities to the Borough through creating a shared services centre,
- an opportunity to be at the forefront of the move to Shared Services in the Local Government sector, and
- innovative thinking and transformational support to help deliver changes in retained services and to modernise the council.

The partnership offered through the procurement will cover a seven year period with the opportunity to be extended by a further three years. Additionally, there will be annual review points where we have the opportunity to terminate the partnership if we believe that this is the right course of action.

The key elements of the partnership are:

- A Joint Venture based in Barking & Dagenham
- Savings of £67m over the 7 year term
- Staff are transferred and their employment terms and conditions will be protected by TUPE and their pension entitlements protected by Admitted Body Status in the Local Government Pension Scheme.
- All major unions are recognised
- Contractual commitment to job creation
- Flexibility will be built into the contract terms so as to ease any national or local transitions
- The Council's transformational activity will be managed holistically so as to maximise the amount of transformation that occurs at any one time within the level of resources available to the Council and with the delivery of intended benefits.
- Services delivered by the partnership will improve.

Because of the work LBBB has done in the last 18 months on the Strategic Partner and Joint Venture we are better placed than most of our peers to deal with the

challenges we face. Other Boroughs are only just beginning to examine their options – including service cuts, redundancies and outsourcing. As a result, we have had expressions of interest in our approach from a number of London Boroughs.

The Business Case shows the Joint Venture will make significant savings faster and more effectively than we would ourselves and offers a flexible solution that will deliver a range of positive outcomes to Council and potential future partners.

1.5 Preferred Bidder Recommendation

The recommendation for Preferred Bidder is included in Part 2 of this report

This recommendation is made by the Main Evaluation Panel following a detailed seven week evaluation involving fourteen sub-panels, over seventy council staff and external advice.

1.6 Next Steps

Clarification and contract (October)

Following the Cabinet decision there is a cooling-off period of 10 working days required by law. Additionally the decision may be subject to call-in by Members. Following Cabinet, work will begin on finalising the contract documentation with the Preferred Bidder.

Sign the interim Agreement (October)

Once the cooling-off period has ended and the call-in period has passed the interim (transitional) agreement will be signed. This will commit the Council and the Preferred Bidder to signing the Joint Venture and Partnership Agreement and the Services Contract and allow any early works to begin prior to signing.

Sign Partnership and Joint Venture Agreement and Services Contract (November)

After this period of contractual clarification the Contract will be signed and the Joint Venture established.

Engage with staff (October, November)

Communicate with the staff in the transferring services and with staff across the Council. Work with the Preferred Bidder to engage staff in the transferring services.

Transfer initial services

Following a period of engagement with staff, the initial services will transfer to the Joint Venture.

2. Financial Issues

2.1 These are detailed elsewhere in the report.

3. Legal Issues

3.1 These are detailed elsewhere in the report.

4. Other Implications

- 4.1 **Risk Management** - The procurement of a strategic partner is part of our strategy to mitigate the risk posed by our need to reduce resources, improve services and increase customer satisfaction.
The risks of managing the contract (given the Council's poor track record) are recognised however much effort has been placed into ensuring the right resources are in place to manage this contract effectively. As a result Members are asked to approve that the Corporate Director of Finance set up a new Commercial Services Unit to manage Council contracts more effectively.
- 4.2 **Contractual Issues** - This report is requesting a decision on acceptance of the recommendation for Preferred Bidder from the procurement Main Evaluation Panel. If this recommendation is accepted it further requests a decision to enter into a legally binding Joint Venture and Partnership Agreement and Services Contract with the Preferred Bidder and associated legal documentation.
- 4.3 **Staffing Issues** - The Joint Venture and Partnership Agreement and the Services Contract involve the transfer of around 375 staff from LBB to the Joint Venture in the first phase and these staff will be employed directly by the Joint Venture. These staff will transfer with their employment rights protected by TUPE and their pension entitlements guaranteed by the Joint Venture gaining Admitted Body Status in the Local Government Pension Scheme. A transition plan for transferring staff will be developed and agreed with staff and unions. The major unions are all recognised by the Joint Venture.
- 4.4 **Customer Impact** - This JV mostly involves back office services however some of these impact directly on customers accessing our services. The Joint Venture and Partnership Agreement and the Services Contract will improve services in the areas transferred, providing more efficient and effective services to customers
- 4.5 **Property / Asset Issues** - As part of the negotiations, the Preferred Bidder has requested that the Council provides the Joint Venture with accommodation on properties at 90 Stour Road and a floor at Maritime House and access to such other Council premises as may be necessary for the Preferred Bidder to participate in the Joint Venture. This does not involve the transfer of buildings assets to the Joint Venture. The council will enter into a lease or licence arrangement with the Joint Venture as appropriate for its occupation of the properties.
ICT assets are being transferred at book value so as upon return to the Council there would be a nil effect on the Council's asset position (as write down would be at the same rate).

5. Options appraisal

- 5.1 The options appraisal has been detailed in the Business Case attached to this report at Appendix 1.

6. Background Papers Used in the Preparation of the Report:

- Cabinet Report, 7 July 2009, Strategic Partner for Support Services – ICT Market Testing (Minute 21)

- Cabinet Report, 8 June 2010, Strategic Partner Programme Phase 1 – Scope of Services (Minute 3)
- A Business Case for Change – PA Consulting

7. List of appendices:

Appendix 1 – A Business Case for a Joint Venture

Appendix 2 – Preferred Bidder Evaluation (this document is private and confidential and has been circulated to Members and Chief Officers only)

Business Case for Joint Venture

1. Introduction

- 1.1 The Council is facing unprecedented economic times in the public sector over the next 5 to 10 years. Cuts in government funding of at least 25% are expected, which will mean the Council will need to fundamentally change the way that it operates.

The Council provides a huge range of vital services to the local community (over 300), and the overarching financial challenge is to ensure that as many important frontline services as possible can continue in future years. So as to ensure that as much money is used delivering frontline services, the efficiency and effectiveness of back office services needs to greatly improve to generate significant savings. There is no doubt that we will need to reduce or even stop some of our frontline services as well, however if we are successful at reducing back office costs, frontline services will take less of a hit.

- 1.2 The current position with regards back office services at LBBD is that many of these services tend to be de-centralised (e.g. procurement, invoice processing, dealing with customer queries, running of IT applications and buying equipment), in many cases paper based (e.g. invoice processing), and lacking in the modern processes needed for these services to be delivered as efficiently as possible.

Weaknesses exist across many back office systems at the Council. For example, recent audit and scrutiny reports have demonstrated a weakness in contract management throughout the organisation this impacts on our ability to let good contracts and for them to be managed effectively leading to expensive processes that create more problems. The customer contact centre lacks the technology to monitor and track customer query resolution, although this is starting to be addressed much more work is needed to see effective improvements. The revenues and benefits service is below its peer group when it comes to collection of income, and has had to deal with backlogs in benefit claim processing recently although again, this has improved there is still a way to go. The ICT service has invested in improvements to technology, but the Council has not been able to fully realise the benefits and efficiencies (i.e. cost savings) from this investment because it does not have the capacity to deliver this across the Council. These are just a small number of examples of areas where modernisation and improvement needs to happen to make LBBD an efficient and well run organisation.

When taking all of the examples together, there is a need to re-consider the Council's strategy for the provision of back office services both to improve the quality of the service but also to ensure that they are delivered as cheaply as possible.

- 1.3 To modernise any services successfully, some up front investment is required. This investment might be in ICT systems, in external help (capacity) or in new tools (for instance project management frameworks). LBBD does not have access to the investment that would be needed on top of all of its other priorities.

1.4 It is for all of these reasons that consideration has been given to looking at how a Joint Venture might help the council. The decision to enter into a Joint Venture arrangement is of considerable importance to the Council, and there are a number of advantages and disadvantages that members and officers have already articulated. These have been set out in this report

2. What is the Joint Venture

2.1 This Joint Venture has been developed to deliver improved back office services for less money and also to provide guidance, expertise, capacity, tools and investment to help deliver savings across the rest of the Council. The Joint Venture is an LLP (Limited Liability Partnership) which is a legal entity in its own right. The JV is owned partly by the Council and partly by the Council. The JV has been set up to deliver back office services and to help the rest of the organisation modernise (through better procurement and service redesign). The staff are employed by the JV on the same terms and conditions as the Council's. The payment of fees and the division of profits to each party is clearly laid out in the Joint Venture agreement.

2.2 There are 3 elements to the JV, each of which has a different pricing model;

- To deliver improved back offices services for less money
- To help deliver better procurement across the Council and deliver savings
- To help modernise the rest of the Council by providing skills, capacity, tools and investment

Delivering back office services

The following services are in the first transfer phase:

- ICT and transformation capability;
- Procurement and Accounts Payable;
- Revenues and Benefits; and
- Barking and Dagenham Direct.

The total current direct revenue budgets for these services are:

Service	£
ICT and transformation *	10,687,100
Procurement and Accounts Payable	809,300
Revenues and benefits	7,933,915
Barking and Dagenham Direct	4,770,459
TOTAL	24,200,774

* - includes budgets for ICT held in departments across the Council.

Better Procurement

LBBB's track record in procuring solutions is patchy which is evidenced by a number of recent contract failures. Analysis shows that the Council could make significant savings by investing time and resources into better procurement processes, more specialist procurement expertise and more

control over the management of contracts. As a relatively small organisation, the costs of investment are considerable. The Joint venture will be able to provide the investment that the Council is unable to cope with.

Modernisation

The Council is required to make £43m savings over 3 years. The Joint venture will help make inroads but significant savings will also need to be made in the Council services that are not transferred to the JV. To help us, The Joint Venture will provide tools, expertise and capacity to help modernise the rest of the Council.

3. What is the case for change?

3.1 For the 4 transferring services, the drivers for change are:

- The Council's overall need to make significant **savings of £44m** over the next 3 years;
- The need to continue to deliver **good quality services** to customers despite the cuts in grant funding;
- **Investment requirements to make systems and processes modern and efficient** (for example I-procurement, invoice scanning, Oracle upgrade, Academy upgrade, server upgrades, rationalising 250 applications, CRM);
- Each of the 4 transferring services are interlinked. Effective IT systems underpin good Revenues and Benefits services. A good customer relationship management (CRM) system through B&D Direct is critical to ensure that customer queries are dealt with effectively. Good IT, smooth processes and expert skills are vital to ensure that invoice processing and procurement activity is managed efficiently.

There is considerable argument that the future delivery of these services is considered together. Below is a paragraph relating to each of the transferring services that states the case for change.

3.2 ICT

The ICT service at Barking & Dagenham has made improved significantly over the last 5 years and is now achieving top quartile benchmarking scores for many indicators. However, it is relatively high cost when benchmarked with similar organisations and whilst investments in ICT have been made these have not delivered the full range of business benefits (for example the amount residents shifting from one access channel to another which directly impacts on the amount of savings extracted). In addition, Directorates and Services have systems that are unconnected and in some cases poorly maintained without the skills and competencies needed to maximise these systems to make required efficiencies.

Our ICT service needs to become more business focussed. This means better options appraisals for new systems ensuring that systems continue to be improved which in turn will drive out efficiencies across the Council. Continuous improvement in systems needs investment but also needs to guarantee that business benefits accrue.

The existing ICT service recognises that whilst it has some skills and can deliver some improvements, it does not have the capacity or expertise to deliver the full range of improvements and savings in the time period required. In order to deliver the improvements gained so far, the service has had to rely on interim project managers to provide the expertise and capacity and remains heavily dependent on these people to provide the business analysis, solution development and programme management functions. This is an expensive way to deliver improvements and savings.

3.3 Procurement and Accounts Payable

The councils procurement arrangements are sub standard. The Council currently operates a devolved approach to procurement in the Council, meaning that officers in teams across the whole organisation are responsible for buying goods and services, processing invoices, and managing contracts.

Pockets of good practice exist in these devolved teams, and important specialisms exist in areas such as Adults Social Care and Children's services commissioning. However, recent audit and scrutiny reports suggest general weaknesses in contract letting and contract management.

The Council systems do not hold enough information in the right format on third party expenditure to be able to control where money is spent (ie locally rather than nationally) or to be able to review when contracts are up for renewal leading to high levels of contract extensions.

The Council's invoice processing is largely manual. Most organisations have an invoice scanning facility which means that all invoices are scanned centrally, approved by managers on line, and the whole process can be tracked on a system. The Council's process relies on managers across the organisation to submit paper invoices to the AP team for payment and each invoice goes through a high number of officer hands before it can actually be paid. The impact of this is that we spend time chasing invoices and incur the wrath of our suppliers who are waiting for payments.

3.4 Revenues and Benefits

The Revenues and Benefits service has had to overcome a number of challenges over recent years.

Internal Audit reports into the Income Collection, Cash Management and Housing Benefits services have all given limited assurance, with a number of recommendations needing to be implemented to give confidence that good controls exist. The external audit of the cash flows in this area gave rise to a significant error in the B&D accounts in 2008/09.

18 months ago, the service was unstable, especially Benefits, with backlogs of work and the intermittent use of agency staff to clear them. There is no flexibility to bring in people at short notice to manage peaks and troughs in demands on the service.

The budget for the Revenues and Benefits services has significantly overspent in each of the two last financial years.

The service has invested in ICT systems without being able to realise the benefits of new ICT which was down to a sub standard implementation with no real change of working processes to link in with the new systems.

3.5 Barking and Dagenham Direct

The Council needs to manage the risks of considerable change in the delivery of local government customer services. The current factors are going to be a challenge for B&D Direct that will all require investment, managing of demand and economies of scale, management of changes and management of risk. The aim for the Council is to ensure the long-term viability of a locally based customer service operation that puts the customers at the heart of what we do and prevents a return to the past of unanswered calls, lack of performance management information and burdensome bureaucratic processes designed around back office processing and services.

Current deficiencies in the service include:

- The current Customer Relationship Management (CRM) system only monitors 17% of the total customer activity, and there is limited passing of management information from the “front office” to the services that it supports. The impact of this is that we have no real idea of how effective we are at answering customers questions.
- The current waiting time for customers to see an advisor in the One Stop Shops is 20 minutes and 20% of incoming calls are not answered. B&D Direct acts as a “switchboard” for many other services in the Council, rather than dealing with queries there and then as the model is supposed to have delivered.

In order to ensure that B&D Direct can effectively deliver its core services – further investment is required to manage information and ensure services are designed around our residents, business and visitors needs. These structural changes are all required, at the same time as the service needs to reduce operating cost and management overhead. In addition, changes in how services can now be delivered through on-line services (school applications) and increasing demand from residents in Barking & Dagenham for service to be available on-line will see a longer term reduction in traditional call centre activity. Balancing this increase in on-line service is the need to deliver services more effectively face to face, or in person especially for services that can be complex or need personalisation such as Housing, Adults Care and Children’s safeguarding. The Joint Venture will be partner that is both customer focused and experienced in re-designing services for efficiency and cost reduction.

3.6 Summary

For these 4 service areas, there is recognition that further investment is needed to improve services to the required standard but also to make the significant savings required

4. What are the options?

The Council has considered the following options:

- a) Retain the services in house and try to accelerate the savings;
- b) Outsource the services; or
- c) Set up a Joint Venture for the provision of the services.

The advantages and disadvantages of these options are considered in detail below:

4.1 Retain the services in house:

Advantages

- The Council maintains **complete control** over the transferring services
- There is no **profit margin** paid to the private sector. This means that the profit margin that would be paid to the private sector over the length of a contract could be invested in the services instead, **provided** that the Council could deliver the services and transformation at the same cost as the private sector partner would.

Disadvantages

- **Interim managers** manage some of the services (B&D Direct and Revenues & Benefits). Permanent appointments could replace these interim managers, however, experience has shown that it has not been possible to recruit and retain officers with expert skills to the Council. This is largely because there are not the number of good quality officers available in the market and demand and supply factors do not work in LBBD's favour being an outer London borough and paying lower end salaries.
- The Council **does not have the funds to make the necessary investment** in management skills and solution development professionals so that the services can improve and also become more cost effective (and make the savings needed)
- The Council **does not have the expertise to deliver complex ICT projects**. Upgrades to the Oracle or Academy systems, or implementing CRM would have to be undertaken by consultants if the Council retains the services in house. This consultancy would be very expensive.
- The Council **does not have a track record of making savings** on the back of investment in IT projects. It has struggled to deliver benefits from investments already made.
- The Council **does not have the flexibility** to increase and decrease staffing levels to meet the peaks and troughs in demand in services (particularly in Revenues and Benefits).
- The Council **does not have access to economies of scale** to compete with private sector organisations. For example, the Council needs computers and Microsoft Office licences for about 2,000 staff. A private sector provider could be servicing, for example, over 30,000 staff, and will be able to achieve greater discounts with these suppliers.

4.2 Outsource the services:

Advantages:

- There are suppliers in the private sector who have the **expertise** to deliver the complex projects that the Council needs to undertake in ICT, Procurement, Revenues & Benefits and Barking & Dagenham Direct
- The private sector will have access to the **investment** needed for these services, and will make their investment as long as their returns from the contract are high enough.
- The private sector will be able to access economies of scale which will lead to greater cost savings
- The private sector generally has already developed **leading practice processes** at other sites. So for example, if the Council wanted to

develop a scanning system for invoice processing so that paper invoices are no longer passed around the organisation, it would need to develop one. However, a private sector provider could just take a system already in use at another site and apply it to Barking and Dagenham.

- Outsourcing services could **transfer much of the risk of delivery** to the private sector. So for example, if there was a breach of the Council's secure data, the private sector provider would be liable. Or if there were a number of errors in processing of benefits, then the Council could seek compensation from the private sector provider.

Disadvantages

- The Council would **lose direct control** of the transferring services. This would be in respect of a range of issues, for example, the services could be moved out the Borough and be provided somewhere else in the country.
- The people providing the services would transfer to the private sector, so the **Council would no longer be able to control their employment Terms & Conditions**, even though they would be protected under TUPE legislation, and may still have access to the Local Government Pension Scheme. This could lead to a two-tier workforce.
- The Council would pay for the **profit to the private sector**.
- The Council would be **locked into a fixed term contract**. This would mean that approx. £25m per annum would be a fixed cost to the Council. This would be dangerous at a time when there is significant uncertainty about the future funding and role of local government in the public sector.
- The Council would have to put strong measures in place to **ensure that the contract is well managed**. This may mean accessing skills that do not currently exist in the Council.

4.3 Set up a Limited Liability Partnership Joint Venture:

Advantages:

- There are suppliers in the private sector who have the **expertise** to deliver the complex projects that the Council needs to undertake in ICT, Procurement, Revenues & Benefits and Barking & Dagenham Direct
- The private sector will have access to the **investment** needed for these services
- The private sector will be able to access economies of scale which will lead to greater cost savings
- The private sector generally has already developed **leading practice processes** at other sites. So for example, if the Council wanted to develop a scanning system for invoice processing so that paper invoices are no longer passed around the organisation, it would need to develop one. However, a private sector provider could just take a system already in use at another site and apply it to Barking and Dagenham.
- The Council would **share 50/50 in the profits** that were made in the Joint Venture.
- The Council would have **control over key issues** concerning the Joint Venture. For example, it would have a veto over strategic issues like relocating the services outside of the borough, or whether or not the JV is allowed to go and bid for new business.

- The Council is **not locked into a 7 year fixed contract**. Under the clauses of the JV contracts, the JV must respond to the Council with proposals to amend the service fee if the Council requests this. For example, the Council may find that in 2 years time grant cuts mean that the transferred services have to be delivered 10% cheaper than originally quoted. The Council can request that the JV amends service levels to meet this requirement. In practice this would mean things like requests for new IT equipment would have to be met in 5 days rather than 2 days, or benefits would have to be processed in 30 days rather than 20 days.

Disadvantages

- The people providing the services would transfer to the Joint Venture with operational control going to the private sector. This means that the **Council would no longer be able to control directly their employment**, even though they would be protected under TUPE legislation, and will still have access to the Local Government Pension Scheme
- The **savings** coming out of a Joint Venture arrangement **may not be as great** as from an outsource arrangement. This is because the private sector is not being given complete control over how the services can be delivered (and can't, for example, move them to India or the north of Scotland where wage costs are lower). It is also because the Council has the flexibility to change service levels to match budgets in a JV arrangement, which it would not have in an outsource. Typically, an outsource arrangement could save a Council 10-15% (after profit and overheads) whereas a JV arrangement as proposed here would typically save around 10%.
- The Council would have to put measures in place to **ensure that the contract is well managed, though this is not much different to the performance management required if the Council is to deliver the services itself**. This may mean accessing skills that do not currently exist in the Council.

5. Analysis of options and chosen option

5.1 *Retain the services in-house*

There are a number of reasons why it is more challenging, costly and time consuming to run these services in house. They are as follows:

- Both bidders will make up front **investment in the services** which will help them become more effective and more efficient. They will recover the costs of this investment over the life of the contract. This investment is something that the Council is unable to do given the tight economic circumstances across the public sector.
- The bidders have access to greater **economies of scale** because they provide these services across many sites in the country. They will have IT contracts of greater value that we can just piggy back onto. They can spread the costs of management across a number of sites, not just one. Economies of scale on things like senior management and third party contracts (e.g. software licences) can be as much as 30-40% of cost.

- The bidders have access to **tried and tested processes that they can implement very quickly**, which they have already developed elsewhere. For example, both bidders have proven Local Government Category Management approaches in Procurement to accelerate better purchasing and deliver savings. While it would not be impossible for the Council to implement best practice processes, it would take us longer, as we would not be starting from the same point.
- The bidders have **access to expertise and flexibility** as they operate over many sites. For example, if the Council needed an expert in redesigning processes on income collection, we would either need to bring in a consultant short term, or recruit someone and risk not needing them 6 months later. A larger organisation could bring someone in on a short term basis, then redeploy them elsewhere. The Council also has more difficulty recruiting expertise than the bidders.
- The bidders will have more flexibility to **minimise redundancies** than the Council. If the Council has to make large amounts of savings, it inevitably will have to make staff redundant. The bidders have the ability to redeploy staff to other parts of their businesses which reduces the risk of redundancy.

Keeping the services in-house is the most expensive option – to continue to deliver the services at the levels specified in the contract.

5.2 ***Outsource the services***

Outsourcing the services would have the advantage of addressing the shortcomings detailed above around **investment, economies of scale and tried and tested processes** that the private sector partners can bring.

The other benefit would be that much, though not all, of the **risk of delivery** can be transferred to the partner against the payment of a premium. This would require extensive contractual documentation and could lead to a very 'contractual' approach to partnering and service delivery.

The big disadvantage is the **lack of flexibility in budgets** – there are heightened risks currently in entering into a traditional outsource arrangement when there is so much uncertainty over future local government budgets.

The other key disadvantage is the ability to have a say on how and where the services are delivered and the impact this may have on the economic wellbeing of the Borough. Transferring the services elsewhere in the country would be totally contradictory to the Council's aims of **supporting local people and the local economy**.

5.3 ***Set up a Joint Venture***

Under this option, all of the issues around **skills, capacity, flexibility, and economies of scale** that the private sector can provide are addressed.

It also **protects against the fears of locking into a long term contract**, and surrendering control over strategic issues like where the services are located in the future. The Council gets a 50/50 share of profits – which means that both the private and public sectors are incentivised to work together and make sure that the arrangement works out in both parties' interests.

As a result of this, a JV however, may not deliver the level of savings that an outsource arrangement might – if, for example, the services were relocated to Scotland where wage costs are much lower.

Given the likely cuts in grant over the next parliament, this could pose a challenge to the Council in being able to make sufficient savings to balance budgets. The best way of managing this would be to review the service levels in the contract, and identify areas where lower levels of service could be accepted, or aspirational projects that could be deferred. This is the **advantage of the flexibility clauses** as noted above.

Considering all of the advantages and disadvantages, this option is the most advantageous.

As a result of the above, it is recommended that the outsourcing option is discounted.

6. Key commercial positions

The key commercial and financial positions in respect of each bidder's joint venture proposal are commercially sensitive and have been included in the private and confidential part 2 to this report.

7. Benefits of the Joint Venture

7.1 The key benefits of the proposed Joint Venture are as follows:

- The submissions from both bidders are **guaranteeing reduced cost of the services**. In an environment when we are going to have our grant from government cut significantly in future, this is an important way of helping to reduce costs, and protect frontline services from cuts.
- Both bidders are contractually guaranteeing that they will **generate jobs locally**. This could be directly through the growth of the joint venture (as it attracts new clients) or indirectly by encouraging new business start ups, or franchises. Their commitments are for "net jobs" – i.e. if they reduce the number of people working in the joint venture, then they have to create more jobs in the wider economy. They have placed between £0.5m and £0.75m at risk on achieving job creation targets. Aspirations are for over c.1,000 jobs, contractual penalties apply if less than c.400 are delivered.
- We have been clear with both bidders that we don't want to lock into a long term contract. There is therefore **flexibility built into each submission**, which means that the joint governance board has to review and approve the annual business plan (which will include service levels, new initiatives etc). This means that if, in year 3, we have much less money than we expected (due to government cuts), then we can revisit the business plan and ensure that the service fee is reduced accordingly. Both bidders are contractually signed up to this.

Budget flexibility

The figures detailed in this business case are based on current or “aspirational” service levels. If the Council had to make significant savings in these services, it would have to review these service levels, and cut them. This would mean that benefits processing would take longer, or people would have to wait longer for new IT equipment to be installed.

The JV contracts allow for changes to be made to service levels. The level of savings indicated in the figures above – approx 10% - is unlikely to be enough to meet the budgetary constraints of the next parliament. What this means is that if expected grant cuts come through, the Council will need to review these service levels with the Joint Venture to enable savings of a further 10% or 15% to be made.

The important thing is that the Council has the flexibility to review the cost of the contract – it is not simply fixed over a 7 year term.

This element of the contract is important. The private sector partner is willing to grant this flexibility to the Council because it is taking a long-term view. Other reasons are:

- The contract will facilitate growth for them in the area and will establish an east London base for their operations in the borough
- The contract enables them to market themselves as a leader in a new way of partnering with local government, distinguishing themselves from their competitors.
- They have a realistic expectation of earning additional revenue from generating cost savings for the Council from wider Council activities.
- They also have a realistic expectation of earning additional revenue from developing a shared services organisation with the Council, selling to other boroughs
- This process is designed to ensure that a contractor that wins the tender is a market leader with the **expertise to deliver excellent services**. Both bidders are renowned nationally for their expertise in IT, back office and customer contact services. They have tried and tested processes which they can bring to the Council and improve our services very quickly.
- The contracts specify that the bidders have to **locate their services in Barking and Dagenham**. We are acutely aware that if services relocated elsewhere it would be bad for the borough, and bad for the Council, so it is contractually guaranteed that this will not happen.
- The arrangement will **reduce the reliance that the Council currently places on external consultants and interims**. There are currently a number of interim managers across the 4 services proposed for transfer to the joint venture. The arrangement will give greater certainty and stability to the teams, and reduce the expensive cost of interims and consultants.

- There is a **50/50 profit share** mechanism in both contracts. This means that the Council shares in the success of the joint venture. There is also a “super profit” clause in both arrangements that ensures that the private sector partner is reasonably, but not excessively, rewarded for its work.

These are the high level benefits of the Joint Venture. The following section provides an analysis of the benefits at a service level.

7.2 ICT

The Joint Venture is expected to bring more **stability** to the implementation of business transformation and the business as usual services, by replacing a group of consultants with the professional disciplines and flexible resources of the strategic partner’s organisation – and encouraging a greater level of skills transfer to the existing staff.

The successful private sector partner will have operational control of the LLP, which is intended to be a dynamic, living, breathing venture with the Council taking an active role in setting its objectives and operating plans to ensure that the Council’s evolving needs can be best met.

It will also validate current ICT plans for the Council and seek to deliver cost savings where it has **better purchasing terms** with the ICT supply industry.

The partnership is also expected to deliver annual cost savings through the introduction of **better help desk and job tracking systems**; training of other Council staff to be more self-sufficient in resolving ICT issues; and redeploying ICT staff to higher value work.

7.3 Revenues and Benefits

Overall, the Joint Venture will enable the Revenues and Benefits service to improve performance and reduce cost.

Investment - while being run in-house, the service has invested in systems without being able to maximise their potential. A Joint Venture would ensure further investment and that potential was maximised to improve performance and reduce costs.

Resilience - the service has been unstable, especially Benefits, with backlogs of work and the intermittent use of agency staff to clear them. A Joint Venture would offer the service resilience to avoid backlogs in the first place – a private sector provider has the flexibility to be able to increase staffing levels quickly to manage peaks in activity. This would improve performance, customer satisfaction and in the long term reduce costs.

Innovation – the Joint Venture would have access to technology the Council does not and better able to innovate in the design and delivery of future services.

Shared risk – by working with a Joint Venture the risks of delivering a Revenues and Benefits service would be shared.

The Joint Venture is incentivised to **increase the Council’s income streams** around:

- Council Tax collection;
- General Income Collection;
- Rents Collection; and
- Arrears performance across these three income areas.

Increases in the yield from Council Tax above current performance are roughly 80% cashable to the Council (the other 20% is cashable to the Council's other precepting authorities, including the GLA).

Increases in yield from General Income and Rents above current performance are 100% cashable to the Council, although there are ring-fencing arrangements around how Housing Rental income may be used.

National Non Domestic Rates, which the Council must also collect, is not incentivised in this way because undercurrent rules, improvements in collection are cashable to the Treasury, not the Council.

For Housing and Council Tax Benefits, the Joint Venture will make sure that the Council is given the necessary assurance of the **processing quality of benefits awards** which total more than £135m per year. Due to the way in which complex government rules work, and which must be followed, the Council can be liable for an increased cost of Housing Benefits awards if the benefit claims are not processed on-time, and to the right standard. The controls which must therefore be in place for Housing Benefit are to control performance (measured by the time it takes to process claims) and the performance of the Council's forecast Housing Benefit Subsidy on a month by month basis.

7.4 Procurement and Accounts Payable:

The benefits associated with the procurement and accounts payable services in the Joint Venture are in terms of **improved service quality** and also **savings on third party** spend across the organisation.

The Joint Venture will invest in invoice scanning to automate the process of invoice approval and payment. This will enable benefits like being able to **pay local suppliers within 5 days**, something that is currently logistically impossible.

The service will introduce **standard approaches to contract management** to address the currently devolved approach.

The Joint Venture would also has performance measures to increase the amount of expenditure the Council spends with **local suppliers**.

7.5 Barking and Dagenham Direct:

The Joint Venture will bring a number of benefits to the B&D Direct service. In terms of service performance, it will reduce waiting times in the One Stop Shops, increase the number of calls answered, and increase the % of queries dealt with at the first point of contact. There will also be much better management information on service levels, something that is currently missing.

In terms of cost savings, it will deliver the service for less than the current budget.

The Joint Venture will help services across the Council become more efficient by reducing the level of bureaucracy involved in the current processes for dealing with customer enquiries.

Due diligence visits have confirmed that both bidders have increased overall customer satisfaction as a result of their customer contact services.

8. Financial implications

The financial implications of the Joint Venture are not set in stone – this is not a fixed price contract. However, a good indication of the financial implications of the Joint Venture are understood and set out below.

Firstly there is a saving on the ongoing **running costs of the 4 services**.

There are two key areas where the Joint Venture is incentivised – increasing **income collection**, and making **savings on procurement** (third party spend). The JV would take a cut of the increased income collection or procurement savings (approx 25%) to ensure that both parties' interests are aligned (JV to make a return, and the Council to increase savings and income).

In addition to these potential benefits, if the Joint Venture makes a **profit**, then the Council shares in the benefit 50/50, and again this cannot be quantified precisely at this stage.

The financial implications of the JV are therefore dependent on the success of the partnership over the life of the arrangement. An analysis of the worst case scenario, middle case, and best case are provided in the private and confidential part 2 to this report.

Link to medium term financial planning

The Council expects it will have to make around £44m of savings over the next 3 years (worst case scenario).

£8m of savings have already been made as a result of the emergency budget. Departments are working up options to make savings on the balance. These savings targets would be larger if no savings came out of the proposed Joint Venture. JV also enables the Council to review its support costs – if there is no JV – many of the support costs savings that the organisation is planning will not happen (audit costs for IT, HR and finance support for the services that transfer)

It means that members have greater flexibility to protect frontline services than would otherwise be the case

9. How do we know this will be a well managed contract?

For a prospective Joint Venture to be a success, the contract that would be in place between the JV and the Council needs to be well managed. This is a fundamental issue that the Council needs to address if the Joint Venture is established.

This section details the key points that will ensure that the contract is well managed, and the “break clauses” that would exist in the contract.

- We have been through a **thorough dialogue**. The method of procurement we have gone through is known as “competitive dialogue”.

This means we have a series of meetings with each bidder over a 3-5 month period so that each bidder can develop a thorough understanding of the Council's needs, and also so that we can agree and discuss the draft contracts before final submission. For example, we held 240 dialogue meetings with one of the bidders over a 19 week period, which enabled the bidder to develop a really good understanding of the Council, and develop their proposals with this in mind.

- We have set out **detailed specifications** for each of the 4 transferring services. These have been developed with input from managers and staff in these teams, and also with customers of these services across the wider Council. Bidders have come back in their proposals and confirmed that they will meet the requirements set out in these specifications.
- **Key Performance indicators** have been set for each bidder. A percentage of the bidder's total fee is not paid unless the key performance levels are met. These indicators have been developed by the bidders through discussion with the Council's service managers to ensure that they are measuring the most important things for the service.
- There are other **incentives** in the contracts. For example, the joint venture is incentivised to increase income and reduce the cost of the Council's contracts. Another big incentive for the joint venture is the potential for them to expand the business and sell their services to other public bodies across east London. This is a big opportunity for the bidders, so they are incentivised to make the arrangement a success for everyone involved.
- There is **monthly reporting** of key performance indicators to the **Joint Governance Board**. This board has joint representation – 50% private sector partner, and 50% Council. This ensures that the JV performance comes under close scrutiny.
- A retained **client function** is being set up to manage the contract. This is currently being developed, and staffed to have the right skills and capacity to build up effective relationships and to hold the joint venture to account.
- Council officers have performed a series of **site visits** and "due diligence" on both bidders – to ensure that they can prove they do a good job at other Councils. Capita have sites that we have visited in Sheffield, Birmingham and Southampton. Agilisys reference sites that we have visited include Hammersmith and Fulham and Rochdale. We also interviewed Council staff from Cumbria who work in partnership with Agilisys.

10. **Can the Council get out of the contract if it wants to?**

Yes it can. There are two scenarios that can lead to a termination of the contract as follows:

Firstly, if the contractor is in default (if the service is so bad that enough performance indicators are at a low level as specified in the contract) – then the Council has the right to terminate the contract at no cost.

Secondly, the Council may want to come out of the contract, but the contractor is not actually in default. In this instance, the Council can do so, but

it would have to pay compensation to the contractor. This would be equivalent to approximately £2.5m against an annual contract value of £25m (10%).

Under both contracts there is a benchmarking clause which means that the services need to be fully market tested after 3 years. If the services that the JV is providing are not still priced competitively (for example due to reductions in the costs of delivering these services in the future – technological advances etc), then this clause enables the Council to reduce this price.

As detailed above, both contracts have a flexibility clause that enables the Council to request a review of service levels and investments so that savings can be made in line with future budgetary pressures. This is not a contract where the cost is fixed for 7 years.

How has the project been informed by best practice, and how has the project learnt from lessons of the past?

The **National Audit Office** (in conjunction with the Office of Government Commerce) issued a **best practice guide on contract management** in December 2008¹. The key points are set out below, with a commentary on how the Joint Venture arrangements address these:

1. **The effect of the tendering/contract award phase** – the report makes the point that the tendering phase is vital to a well managed contract. Important points include ensuring contract management staff have been involved in tendering, that the style of tendering has not been “adversarial”, that there is good cultural fit between both parties, that no side feels disadvantaged as a result of the negotiation, and that performance indicators and service levels have been agreed in the tendering process.

Members of the proposed client function have been involved in dialogue meetings for the past 6 months with both remaining bidders. The nature of a dialogue style of tendering is that it gives the opportunity for both sides to build up good working relationships and trust, so that the process is not adversarial. The cultural fit is being evaluated in the bidder submissions. Performance indicators and service levels are all in the draft contracts agreed with both bidders prior to submission.

2. **Preparing for contract management and providing oversight** – key points here include a good transition between tendering and contract management, clear ownership, good governance and reporting of issues, transfer of knowledge, and the build up of the necessary skills.

This phase is currently in progress. A clear project plan is in place to ensure that all of this takes place, and is reported through to the Corporate Management Team on a monthly basis.

3. **Ensuring the right people are in place to carry out the contract management activities** – key points here are around the skills and expertise of the contract management staff.

Lead members of the project team and key senior Council officers (e.g. Head of ICT and Transformation) have experience of tendering and contract monitoring of this nature. Job descriptions and recruitment to client function roles (mostly internally) is currently underway pending the formal decision to proceed with the Joint Venture.

4. **Managing the physical contract and the timetable for making key decisions** – key points here are about security of contract documentation, key contract “trigger points”, and regular monitoring information.

Physical storage of contract documentation is held securely by our legal team. The draft contracts include an annual review of the Joint Venture business plan, and review of costs, along with a detailed benchmarking review at year 3 to ensure that the contract is still providing value for money. Detailed management information has been specified in the draft contracts and will be reported to the Joint Venture governance board on a monthly basis.

¹ “Good practice in contract management framework”, National Audit Office, December 2008

5. **Developing strong internal and external relationships** – points here include a clear understanding of the role of the contract manager and the relationships on the supplier side, that there is continuity on the supplier side from tender to contract phase, and that there is a well defined process for problem solving.

Detailed governance/relationship structures have been agreed with both bidders prior to submission and are included in the draft contracts. Both draft contracts include processes for problem solving, escalation and dispute resolution.

6. **Ensuring the service is provided in line with the contract** – this is about ensuring that the level of service is well understood before going into contract, and that a performance management framework is in place before the contract starts. There need to be clear contact points in both organisations to understand/review/change service levels.

Service specifications are included in draft contracts, having been discussed between bidders and the Council over 3 months prior to submission, so are well understood. The performance management framework is included in the draft contracts. Appropriate staff are being identified to provide assurance on this new method of service delivery.

7. **Ensuring payments are made to the supplier in line with the contract, and that appropriate incentives are in place** – this is about ensuring that the way that payments are made to the supplier is well defined, and understood. There will usually be incentives to encourage the right behaviour from contractors, and these need to be well managed by the Council.

This is all included in the draft contracts. There are penalties for poor performance in both contracts, as well as incentives to encourage the supplier to help the Council deliver savings or increase income collection. The team in the client function will be trained to have a thorough understanding of the payments and incentives and will act as the interface between the Joint Venture and the Council

8. **Understanding and managing contractual and supplier risk** – this is about risk management. This will range from things like dealing with potential disputes, through to early warnings about the financial health of a supplier. It will also be about things like insurances and indemnities in the contract.

Effective knowledge and expertise will need to be developed in the client function. Regular reporting of risk logs will need to happen at the governance board, and both bidder proposals refer to this. Parent Company Guarantees are being supplied by both bidders and detailed discussions have been held on insurance provision.

9. **Effective handling of changes to the contract** – this is about ensuring that the contract changes to meet changing needs of the business – minor changes or major changes. All these changes will have commercial implications.

There are change mechanisms in both draft contracts. The way that major changes will take place will be through approval of annual business plans by the joint governance board – it is important that the Council has a say at this strategic level.

10. **Improving supplier performance and capability** – this refers to mechanisms to ensure that the supplier's performance is continuing to improve throughout the contract. It is also about how the supplier responds to government initiatives and local priorities like spending more with local suppliers.

Annual business plan review and regular benchmarking in the contracts will ensure that suppliers are challenged to demonstrate that they continue to be market leaders over the whole contract. There are a lot of wider benefits that are captured in the “fostering opportunities” element of the contract that will impact on local priorities.

11. **Having a programme for managing and developing relationships with the supplier** – this refers to how the Council will build up and maintain good relationships with the contractor.

This is an area that has already started to develop through the competitive dialogue process that has been followed so far. It will need to continue into the contract phase.

12. **Managing wider market issues that impact on the contract** – this refers to things like understanding of the wider market – innovations that come along (new technologies and so on), and how the contract ensures that these advantages are captured.

This will require ongoing monitoring by the client function. There are mechanisms in the contract such as performance reporting and benchmarking at year 3 that will ensure that these issues are considered.

Managing the contract

1. The **4Ps** also produced a **good practice guide to contract management** in 2007². The key points are included below, along with detail of how these are relevant to the proposed Joint Venture contract:

1. Setting up the contract team
 - a. Contract management should start in the procurement phase, and the team need a good understanding of contract documents, what was discussed in dialogue, and service methodologies.
 - b. The contract management team structure needs to be in place, and this needs to include reporting lines – for example the Partnership Board and the Operational Board.
 - c. Resource requirements need to be determined for contract management. This will vary from contract to contract.
 - d. Job profiles, skills and competencies all need to be developed before the contract starts.
 - e. Ongoing training needs need to be identified.
 - f. Continuity needs to exist in the contract management function – succession planning etc.

The contract management team is currently being set up by the Council. The structures for governance are in place in both draft contracts. Training needs and succession planning will need to be developed by the client function.

2. Managing relationships
 - a. Identification of good partnership working. Success is dependent on people working well together and being pro-active on both sides. Relationships need to be in place to deal with problems, which always arise as part of the ongoing delivery of services.

² “A guide to contract management for PFI and PPP projects – 4Ps 2007

- b. Development of partnership protocols and behaviours. This will include mutual objectives – i.e. the best way for the provider to do well and get a return is to provide a good quality service. These principles need to be in place at contract start.
- c. Defining communication routes – everyone needs to understand where to go, who to talk to and what the roles and responsibilities are.
- d. Overcoming difficult relationships – many issues can lead to a strained relationship, and there needs to be a commitment from both sides to overcome these.
- e. Developing successful relationships – this is about understanding good practice and making it engrained in the team.
- f. Practical problem and dispute resolution processes need to be in the contract.

The dialogue process with both bidders has given the Council the opportunity to develop working relationships with both bidders. These would need to be built on and developed in the contract phase.

3. Managing service performance

- a. Service performance should be monitored and measured to ensure that the provider is meeting the requirements of the specifications
- b. The fundamentals of performance management need to be in place – that the output specifications are linked to the performance indicators, which are linked to the payment terms – so that good performance is rewarded, and poor performance is penalised.
- c. Working with the provider to mobilise services – good project management is needed on both sides to get things off to a good start
- d. Monthly performance monitoring needs to take place, and information should be in sufficient detail to allow the contract managers to scrutinise properly.
- e. Monitoring the provision of services – the monitoring arrangements need to be simple enough so that everyone can understand the key issues and it doesn't become an industry.
- f. Tools for performance monitoring – for example – access to the providers helpdesk so that queries and resolution can be assessed

A performance management regime has been specified in both draft contracts, with objectives linked to performance measures and service deductions. The mobilisation phase needs to be well planned for a successful start to the contract.

4. Contract administration

- a. The payment mechanism is at the heart of the contract – and ensures that the payment flows are in line with the objectives of the contract. This needs to be well understood by the contract manager, and needs to be in place in the dialogue stage.
- b. Dealing with disputes – there need to be clear processes in place for recording and monitoring outcomes. Disputes need to be resolved informally wherever possible.
- c. Variations to the contract – if any changes happen, the local authority needs to understand the costs/risks and ensure that it is getting best value.
- d. Benchmarking and market testing – the contract should include provision for the price to be tested during the contract to ensure it is still providing good value.

The payment mechanism has been developed for both draft contracts, and has undergone scrutiny and independent due diligence. A dispute resolution

clause is in the draft contracts, as is the change mechanism and benchmarking provisions. The contract management team will need to be up to speed on all of this.

Recent scrutiny committee reports have highlighted weaknesses in respect of contract management arrangements. These are set out below, with detail on how they addressed in the Joint Venture arrangements:

1. Is sufficient contract monitoring resource is in place?

A client function is being set up which will lead the contract monitoring activity in respect of the Joint Venture.

2. Will user satisfaction be monitored?

The requirement to measure user satisfaction has been included in the draft contracts for both bidders. Poor user (for internal services e.g. ICT) and customer satisfaction (for external services e.g. call centre, revenues and benefits) results in reductions in fees payable to the Joint Venture by the Council.

3. Will regular contract review meetings be held?

The draft contracts with both bidders include a joint governance board (50/50 LBBD/JV representation) which will convene on a monthly basis to review the activity of the Joint Venture.

4. Will formal statistical reporting be carried out?

Performance indicators have been specified by both bidders across all of the activities of the contract, and would be reported to the joint governance board.

5. Are performance indicators built into contracts?

Key performance indicators have been built into the draft contracts for both bidders, and failure to perform against these result in fee deductions for the contractor. More detailed performance indicators would also be reported on a monthly basis. If performance levels dip considerably across a range of indicators, the Council has the right to terminate the contract at no cost.

Due Diligence performed throughout the procurement process

Representatives from all of the relevant services (ICT, Procurement and AP, Revenues and Benefits and B&D Direct) have performed site visits for both Capita and Agilisys sites to interview Council staff who have had experience of working with these organisations. Details of these due diligence visits are set out below.

Capita Site Visits

Sheffield City Council	Annette Cardy (Revs & Bens) Ralph Wilkinson (Revs & Bens) Katherine Maddock-Lyon (ICT, B&D Direct and Transformation) Hugh Sharkey (Client Function) Phil Ruck (One B&D, ICT) Mick Franklin (ICT) Peter Duxon (ICT) Steve Winman (ICT) John Bagley (ICT) Chris Lawrence Accounts Payable Simon Horsington (Revs &B Bens)
Service Birmingham	Tracie Evans (Finance) Katherine Maddock-Lyon (ICT, B&D Direct and Transformation) Cheryl Kind-McDowall (Transformation) Sue Lees (Asset Strategy) Hugh Sharkey (Client Function) Phil Ruck (One B&D, ICT) Ricky Morton (SP Programme) Akmal Malik (SP Programme)
Southampton City Council	Katherine Maddock-Lyon (ICT, B&D Direct and Transformation) Annette Cardy (Revs & Bens) Philip Walker (Revs & Bens) Adrian Molloy (HR) Philip Ruck (One B&D, ICT) Ashley Bryant (B&D Direct) Wanda Russell (B&D Direct) Mick Franklin (ICT) Hugh Sharkey (Client Function)
Swindon BC	David Woods (Chief Executive) Guy Swindle (Commissioning)

Agilisys Site Visits:

Hammersmith & Fulham Council	David Woods (Chief Executive) Tracie Evans (Finance) Ricky Morton (SP Programme) Darren Henaghan (Customer Services)
Rochdale MBC	Darren Henaghan (Customer Services) Akmal Malik (SP Programme)

Hammersmith & Fulham Council	Sue Lees (Asset Strategy) Hugh Sharkey (Client Function)
Hammersmith & Fulham Council	Katherine Maddock-Lyon (ICT, B&D Direct and Transformation) Phil Ruck (One B&D, ICT) Jack McKeown (ICT) John Bagley (ICT) Pete Duxon (ICT) Steve Winman (ICT)
Rochdale MBC	Mick Franklin (ICT) Warren Lewis (ICT) Richard Priest (ICT) Phil Ruck (One B&D, ICT) Phil Deakin (ICT)
Hammersmith & Fulham Council	Ralph Wilkinson (Revs & Bens) Annette Cardy (Revs & Bens) Simon Horsington (Revs & Bens)
Rochdale MBC	Katherine Maddock-Lyon (ICT, B&D Direct and Transformation) Ashley Bryant (B&D Direct) Sue Ryan (B&D Direct)
Cumbria County Council (Conference Call Only)	John Hooton (Procurement) David Robins (Procurement)
Rochdale MBC	Gail Clark (HR & Change) Jeremy Grint (Regeneration)

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