

HAVANT BOROUGH COUNCIL

MEETING Cabinet

Meeting Date 3/2/2016

REPORT TITLE – 5 Councils' Corporate Services procurement – contract award report

Report by Jane Eaton

FOR DECISION

Cabinet Lead: Marketing & Development, Mike Fairhurst

Key Decision: Yes

1. Purpose of Report

- 1.1. To tell Cabinet about the outcome of the Corporate Services tendering exercise and to recommend award of the contracts. The report also tells Cabinet about the outline of the proposed joint arrangements for the management of the contracts. It asks Cabinet to approve the finalisation of a new Inter-Authority Agreement for the life of the new contract and recommends to Council the constitutional changes necessary to introduce a new Joint Committee and Joint Overview and Scrutiny Committee.

2. Recommendations

- 2.1. That Cabinet agree the award of Lot 1 and Lot 2 services on the following basis:
 - 2.1.1. Designates Capita as the preferred bidder for Lot 1 of the 5 Councils new joint corporate services contract commencing 1 October 2017 and delegates authority to the Chief Executive to implement the services as set out in paragraph 4.3.1, including the option of an earlier start date for some or all of the services, if this offers best value to the Council.
 - 2.1.2. Designates Vinci as the preferred bidder for Lot 2 of the 5 Councils new joint corporate services contract commencing 1 October 2017 and delegates authority to the Chief Executive to implement the services as set out in paragraph 4.4.1 including the option of an earlier start date for some or all of the services, if this offers best value to the Council.
 - 2.1.3. Authorises the Chief Executive in consultation with the Cabinet Lead for Marketing & Development, to agree final terms and complete the new corporate services contract documents and authorises the Monitoring Officer to enter into the contracts and any other necessary agreements.

- 2.1.4. Agrees to enter into an Inter-Authority Agreement with the four partner councils substantially in the form attached (Appendix 1) and delegates to the Chief Executive authority to finalise the terms of the agreement and to enter into the agreement.
- 2.1.5. Agrees to the establishment of a joint client team, based on the principles established (Appendix 2), and to delegate authority to the Chief Executive, in consultation with the Cabinet Lead for Marketing & Development, to seek any minor changes to the Inter-Authority Agreement as necessary and the Monitoring Officer be delegated to sign the agreement on behalf of the Council.

2.2. That Cabinet recommend to Council:

- 2.2.1. To establish a Joint Committee in accordance with the details outlined in Appendix 3 and to delegate authority to the Chief Executive, in consultation with the Cabinet Lead for Corporate Services, to make any minor changes to the Joint Committee terms of reference as necessary and the Monitoring Officer be delegated to sign the agreement on behalf of the Council.
- 2.2.2. To establish a Joint Overview and Scrutiny Committee with details outlined in appendix 4 and to delegate authority to the Chief Executive, in consultation with the Cabinet Lead, to make any minor changes to the Joint Committee terms of reference as necessary and the Monitoring Officer be delegated to sign the agreement on behalf of the Council.

3. Summary

- 3.1. This report asks Cabinet to approve the preferred suppliers for both lots of the 5 Councils' Corporate Services procurement exercise and to authorise the Chief Executive to finalise the agreement and for the Monitoring Officer to sign the contracts. The report makes recommendations for the ongoing management of the contracts through a new Inter-Authority Agreement. Suggested arrangements include a Joint Client Team, a Joint Committee and a Joint Overview and Scrutiny Committee. Because the Joint Committee and Joint Overview and Scrutiny Committee need a change to the Constitution the report recommends Cabinet refer these two recommendations to full Council.

4. Subject of Report

4.1. Background

- 4.1.1. Havant Borough Council currently holds a contract with Capita for the provision of revenues and benefits and customer services. This contract expires at the end of September 2017. In July 2014 the Chief Executive of South Oxfordshire and Vale of White Horse District Councils approached the Council to see if we were interested in a joint re-procurement exercise. Following research into the alternatives in December 2014 Cabinet recommended to Council the market testing of the services in the current

Revenues & Benefits and Customer Services contract in conjunction with 4 other councils and agreed to extend the range of services to include Human Resources, General and Taxi Licensing, Land Charges, Post and Print, Property Management and Facilities Management.

- 4.1.2. In March 2015 Cabinet authorised the Council's Monitoring Officer to finalise and sign an Inter-Authority Agreement to set up the management arrangements surrounding the project. The governance arrangements set up to run the project included a Steering Group of Senior Managers supported by a Project Board of the Leaders/Cabinet Leaders and chief executives across the five Councils. Our representatives on these groups were: Jane Eaton, Executive Head of Governance & Logistics on the Steering Group and Gill Kneller, Executive Director and Mike Fairhurst, Cabinet Lead on the Project Board. Cabinet also approved 3 annual contributions of £25,000 to support the project. This contribution was spent on additional expert advice from consultants New Networks Limited (Procurement/Commercial) and Sharpe Pritchard LLP (Legal).
- 4.1.3. In July 2015 Cabinet decided to add further services to lot 1 of the procurement. These services were Finance, including exchequer, accountancy and treasury management; Payroll; IT and Procurement.
- 4.1.4. In September 2015 the Project Board agreed East Hampshire District Council could, due to its existing partnership with Havant Borough Council, add a number of their services to ours to increase volumes overall.

4.2. The Procurement Process

- 4.2.1. Due to the size of the potential contracts (circa £25 million per annum across all the Councils) the process has been subject to EU procurement rules and has been carried out through the competitive dialogue approach.
- 4.2.2. This has been an iterative process, starting with a large number of potential contractors, with the numbers being reduced at each stage. Two companies making full and final bids for each lot in December 2015.
- 4.2.3. Each stage of the procurement process has been focussed on improving customer service and value for money. The Procurement Strategy considered by the Project Board established the key outcomes the Councils wished to achieve for the new services and this was built into many areas of the invitation to tender including customer service, health and safety and quality assurance. Tenderers submitted service delivery plans based on these outcomes.
- 4.2.4. The evaluation matrix, set at the start of the procurement process, scored each submission 1-5. A score of 5 was exemplary, 3 good and 2 being acceptable but needing further improvement (details are provided in Appendix 5). During the life of the contract the operator will be monitored to ensure that the contractual standards are always attained or improved upon.

4.3. Lot 1 services

- 4.3.1. Of the Council's Lot 1 services Revenues and Benefits and Customer Services are already outsourced, to Capita, with a contract expiry on 30 September 2017. IT services are currently provided by Hampshire County Council. In July 2015 we mutually agreed working towards bringing this partnership to an end. Finance, HR, Licensing, Land Charges and Procurement are currently provided by officers directly employed by the Council.
- 4.3.2. Whilst the market recognised the potential risk of working with a client that consisted of five separate Councils there was a high level of interest in the provision of these services in the market due to the size of the contract.
- 4.3.3. Having received the full and final tenders, this shows that against current spend for Lot 1, there are savings of £538k in year 1, exit costs will be £2.266m lower than current, providing an overall saving of £11.467m over the contract term. Capita's bid achieved higher scores for cost, with a headline average saving of 27%. Capita also achieved a higher quality score than Arvato. Therefore the Project Board recommends the nomination of Capita as the preferred supplier for Lot 1. Details of the two bids are outlined in Appendix 7.
- 4.3.4. A short summary of the bid from Capita is set out in Appendix 7 and details of the financial offer are held in Appendix 8.
- 4.3.5. If Cabinet approve the appointment of Capita as the preferred bidder all new services will, at the latest, start on 1 October 2017. Dependant on any potential exit costs associated with the current contract, or for those elements of service currently in-house, it is possible the Council could achieve best value by entering into dialogue with the contractor to bring forward (from October 2017) implementation of some or all of the services.
- 4.4. Lot 2 services
- 4.4.1. Currently our services included in Lot 2, Facilities Management, Printing and Post and Property Services, are provided by officers directly employed by the Council.
- 4.4.2. Having received the full and final tenders, this shows that against current spend for Lot 2 there are savings of £192k in year 1, exit costs will be £476k lower than current, providing an overall saving of £2.29m over the contract term. Vinci's bid achieved higher scores for quality than Bouygues'. The financial scores were roughly comparable offering a headline "all years" savings of 15%. Therefore the Project Board recommends the nomination of Vinci as the preferred supplier for Lot 2.
- 4.4.3. A short summary of the offering from Vinci is captured in Appendix 7 and details of the financial offer are in Appendix 8.

4.4.4. Once again, it is possible that it would be best value for the Council to enter into dialogue with the contractor to bring forward implementation of some or all of the services from the 1 October 2017 start date. This is simpler in this lot than for lot 1 because all the services are currently provided in house.

4.5. Inter-Authority Agreement

4.5.1. The Council entered into an Inter-Authority Agreement for the procurement phase of this project. This agreement established several key principles including the creation of a joint project team, lead by a senior officer from each Council to ensure the project delivered effectively and ensure someone was available to raise Council specific issues. Our senior officer was Jane Eaton. Key political guidance was given by a Project Board of Leaders and Chief Executives. Our Leader's representative was Mike Fairhurst and Chief Executive's representative, Gill Kneller.

4.5.2. Should the Council approve the outsourcing, for the good governance of the future partnership of the Councils working collaboratively together, the Project Board proposes a new Inter-Authority Agreement. This agreement will provide clarity on decision-making, cost and benefit sharing and dispute resolution, should any occur. Appendix 1 is a draft of the new Inter-Authority Agreement.

4.6. Joint Client Team

4.6.1. The December 2014 Cabinet report told Cabinet about the intention to develop, with the other 4 councils, a Joint Client Team to manage the contract.

4.6.2. The draft Inter-Authority Agreement sets out details of the payment mechanism for the joint client team based on the percentage of the total contract costs each Council pays for. Further details regarding the operation of the Joint Client Team are set out in Appendix 2.

4.7. Joint Committee

4.7.1. Given the wide range of services in this contract, it is important Councillors from all partner Councils make decisions about these services together. Therefore this report suggests Cabinet recommend Council establish a Joint Committee. This Joint Committee will replace the existing Project Board. It will oversee the management of these contracts, address common issues and conflicts and bring a consistency of approach from all councils in the partnership. The arrangement should also lead to more effective ways of working with the provider and partner authorities.

4.7.2. To establish a Joint Committee the Monitoring Officer will sign a Combination Agreement setting out the legal framework for the operation of a Joint Committee. The Joint Committee will have Terms of Reference setting out its governance structures and procedures for its strategic activity across all the Councils. Havant Borough Council will have a seat for a Cabinet Lead and a

senior manager on the Joint Committee. Details of the draft terms of reference for the Joint Committee are set out in Appendix 3.

4.8. Joint Overview and Scrutiny Committee

- 4.8.1. As well as a Joint Committee the Project Board recommends the Councils set up a Joint Overview and Scrutiny Committee. This Committee, with representatives from each authority, will scrutinise decisions of the Joint Committee, review new or changed policies or services and monitor performance. Draft terms of reference are outlined in Appendix 4.

4.9. Next Steps

- 4.9.1. If the Cabinet and Council approve the recommendations, the 5 Councils will work with the preferred suppliers with the intention of signing the contracts with Capita and Vinci by 31 March 2016. This allows time for a suitable 'mobilisation' period both for the operators and the Councils to ensure a safe transfer of services of South Oxfordshire and Vale of White Horse's service from the 1 August 2016.

- 4.9.2. Assuming the Council decides to go ahead, next stages of work would include:

Finalise joint client structure and appoint to Manager role	February 2016
Sign contracts for Lot 1 and Lot 2	31 March 2016
Confirmation of Joint Client team and any additional transitional resources	April 2016
Finalise arrangements for the Joint Committee and Joint Overview and Scrutiny	Summer 2016
First services are delivered (to South Oxfordshire and Vale of the White Horse)	August 2016
Latest start date for Havant Borough Council services	31 October 2017

5. **Implications**

5.1. **Resources:**

5.1.1. Human Resources

There are over 60 Havant Borough Council employees who work in the services included in this potential outsourcing. During the process management have kept staff affected informed through presentations, including a specific TUPE presentation, regular Team Talk updates, on-line

questions and answers and through discussions with the Staff Focus Group and Unison.

The staff in scope as part of this joint procurement fall into two categories: 59 we expect will be subject to TUPE transfer to a new service provider and 4 that may become part of the joint client team but remain employees of Havant Borough Council.

TUPE consultation with the affected employees will begin after we have signed the contracts and received the measures letters from the new employers.

5.1.2. Property

Like our current contract with Capita, the new contracts will require us to provide free accommodation to the suppliers in the Plaza for the life of the contract. These contracts differ from the previous arrangements with Capita because we will also provide free accommodation for supplier employees working for any other of the 4 Councils. This will impact the Plaza from 1 August 2016 because Capita currently provide some services to the partner Councils from the Plaza. This will lead to a loss of income to the Council shown in the business case in appendix 7.

5.1.3. Finance

The delivery of the Project represents excellent value for money. Further details are contained within the body of this report and appendix 7. Projecting over 9 years the Contract is estimated to deliver savings to the tax payer across all 5 Councils of £50.650m; whilst delivering a broad range of services in Lot 1 and 2.

The financial models are based on three criteria to ensure savings are delivered throughout the life of the contract. The impact for Havant District Council under each criteria is as follows:

Initial saving against baseline - Year 1

- Lot 1 saving £0.538m (10.3%)
- Lot 2 saving £0.192m (10.0%)

Overall financial benefit against the base budget across the period of the Contract

- Lot 1 saving £11.467m (27.4%)
- Lot 2 saving £2.290m (15.0%)

Operational Cost Reduction at Hand Back (contract end)

- Lot 1 saving £2.266m (43.3%)

- Lot 2 saving £0.476m (25.0%)

More details of the financial bids and Havant's business case are available in appendix 8.

In line with the approach taken on the apportionment of financial savings the Project Board has suggested the overall costs of the Joint Client team is applied to the individual Councils on the basis of their allocation of the baseline figures. For Havant this allocation in the first year will be £233k based on 5% of the baseline figures. This compares favourably to our current management and clientside costs for these services. We expect these costs to fall to 3% when the target operating model is reached.

Introducing this contract will cause some other minor changes in cash flows. From day one we will have to provide free accommodation for all employees in the Plaza working on the contract. Because Capita currently pay us for accommodation used for work on Hart, South Oxfordshire and the Vale of White Horse. There may also be a small reduction in our insurance liabilities. The Council may also need to retain some budget for extras not included in the standard price. Where this is financial advantageous we will build in these costs as we refine the business case. Although there are some unknowns to be ironed out in the weeks towards finalising the contract we do not expect these to have a significant impact on the business case.

There are some overlaps between the savings on these contracts, the Norse Joint Venture and the Chief Executive's Resourcing review. Management are working to ensure the detail of the overlaps gives the Council the best overall financial outcome.

5.2. Legal:

Officers asked all bidders to confirm their acceptance of the contract terms and all bidders substantially confirmed this. Various derogations were agreed in dialogue and where further derogations were made in the submission of final tenders these have been taken into account in evaluation. These points will be further clarified with each preferred bidder. Therefore, it is not anticipated that there will be any additional issues encountered to prevent the signing of the contracts once awarded. The principal contractual derogations and any risk associated with them are set out in appendix 9 (confidential).

5.3. Strategy:

The outsourcing of services complies with the Council's Corporate Strategy aims to be a commissioning Council and to seek financial sustainability through the use of a mixed portfolio of suppliers.

5.4. Risks:

5.4.1. There is a full risk assessment for the project reviewed by the Steering Group weekly and a Havant Borough Council risk assessment reviewed by our internal project team at its monthly meetings.

5.4.2. Key risks for the mobilisation phase of the project are:

Political/reputational – that the project attracts negative publicity. We will mitigate this by keeping staff and Councillors well informed of progress.

Professional – that by outsourcing certain professional skills we lose expertise in-house. We will mitigate this through the establishment of our shared client side.

Financial – savings in the final bids are undermined by changes prior to award. We will mitigate this through our use of professional legal and contract negotiators.

Legal – challenge possibly due to breach of procurement or TUPE regulations. We have mitigated this by inclusion of procurement and external legal expertise on project team to ensure compliance.

Staffing – the uncertainties around job security and long term prospects may cause some staff to look elsewhere and resign rather than be TUPE-transferred to an outsourcing company. This could disrupt service delivery causing extra management pressures, for example reduced responsiveness. We have mitigated this by frequent communication including staff briefings and Team Talk, regular updates to Unison and the Staff Focus Group and one to ones with affected staff at all key points in the process.

5.5. Communications:

There is a communications work stream for the project and a communications plan that is regularly updated.

5.6. For the Community:

This contract will make savings for the Council. These will help the Council continue to deliver its strategic aims of providing excellent public service, in a time of reducing funding, while minimising the impact on the council taxpayer.

The tenders for Lot 1 included enhanced development of digital solutions to improve the range of contact options for customers. All bids also included plans for staff volunteering in the community and development of job opportunities in the Havant area.

6. The Integrated Impact Assessment (IIA) has been completed and concluded the following:

6.1. Lot 1 – Capita

6.1.1. Having considered the impact on residents and staff with protected characteristics, it is the Council's view that the overall impact on the Council's ability to eliminate discrimination and advance equality of opportunity is likely to be positive. There is likely to be a neutral impact on our ability to foster good relations between people who share a protected characteristic and people who do not share it.

6.1.2. The Councils believe that the service and employment changes for Capita are compatible with the rights under the European Convention on Human Rights.

6.2. Lot 2 – Vinci

6.2.1. Having considered the impact on residents and staff with protected characteristics, it is the Council's view that the overall impact on the Council's ability to eliminate discrimination and advance equality of opportunity is likely to be positive for residents and neutral for staff. There is likely to be a neutral impact on our ability to foster good relations between people who share a protected characteristic and people who do not share it.

6.2.2. The Councils believe that the service and employment changes for Vinci are compatible with the rights under the European Convention on Human Rights.

6.2.3. The full assessment is set out in appendix 6.

6.3. Consultation

Public consultation on the proposal to procure these services ran from 10 February 2015 to 9 March 2015. A summary of the matters raised in the public consultation is included in the report to Cabinet on 18 March 2015 (see background papers). At their 18 March meeting, Cabinet concluded there was nothing in the Consultation requiring changes to Cabinet's decision to enter into this tendering process.

Appendices:

Appendix 1 – Inter Authority Agreement

Appendix 2 – Client Side Arrangements

Appendix 3 – Joint Committee terms of reference

Appendix 4 – Joint Overview and Scrutiny terms of reference

Appendix 5 – Scoring Method - Quality

Appendix 6 – Integrated Impact Assessments for Capita and Vinci bids (exempt)

Appendix 7 – Short Summary of the Capita and Vinci Bids (exempt)

Appendix 8 – Summary of the financial offer from both Lot 1 and Lot 2 (exempt)

Appendix 9 – Contractual derogations (exempt)

Background Papers:

Cabinet Reports on the Joint Procurement 14 December 2014

Cabinet Report on the Inter Authority Agreement 18 March 2015

Cabinet Report on the addition of services to the Joint Procurement 31 July 2015

Agreed and signed off by:

Legal Services: 12/1/16

Executive Head of Governance & Logistics: 11/1/16

Relevant Director: 12/1/16

Cabinet Lead: 12/1/16

Contact Officer: Jane Eaton

Job Title: Executive Head: Governance & Logistics

Telephone: 02392 446305