
Report to: Cabinet **Date of Meeting:** 26 May 2016

Subject: The Future Commissioning of Transactional Financial, HR and Information Services

Report of: Chief Finance Officer **Wards Affected:** All

Is this a Key Decision? No **Is it included in the Forward Plan?** No

Exempt/Confidential No

Purpose/Summary

To seek approval of Cabinet to conduct a commissioning process to establish the sourcing strategy for financial and HR transactional services and ICT services which are currently provided through a partnership agreement with arvato.

Recommendation(s)

Cabinet is recommended to :

- 1) note that the contract period ends 30th September 2018 and that the Council needs to determine its new requirements from that date.
- 2) approve the procurement of consultancy support to prepare the sourcing strategy in preparation for the provisioning of these services.
- 3) to note that the partnership agreement with arvato will continue until 30 September 2018, and that staff engagements will take place accordingly.
- 4) to authorise the Head of Corporate Resources in consultation with the Cabinet Member (Regulatory, Compliance and Corporate Services) to negotiate any interim arrangements to safeguard the continuity of services in the best interests of the Council as required.
- 5) to note that the sourcing strategy, along with a detailed procurement and implementation plan will be reported to Cabinet for appropriate decision making in the latter part of 2016.

How does the decision contribute to the Council’s Corporate Objectives?

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		X	
2	Jobs and Prosperity		X	
3	Environmental Sustainability		X	
4	Health and Well-Being		X	
5	Children and Young People		X	
6	Creating Safe Communities		X	
7	Creating Inclusive Communities		X	
8	Improving the Quality of Council Services and Strengthening Local Democracy		x	

Reasons for the Recommendation:

To ensure that the Council reviews the future strategic needs of the organisation, in line with the Council priorities, the future resource plans and the development of new partnership working and service plans. The current contract with arvato runs until September 2018 and discussions between the Council and arvato have taken place, in line with the contract extension Clauses. Both the Council and arvato agreed that the current contract is not appropriate in its current form to meet the future needs of the Council. This strategic review will be timely before formal procurement decisions are made in the Spring of 2017. The target date to have all commissioning in place and implementation underway is September 2017 to allow one year for a smooth implementation phase prior to October 2018.

What will it cost and how will it be financed?

(A) Revenue Costs

The current cost of services covered by the Partnership agreement is £15.7m p.a. There are annual variations to this as the requisition of services outside of the main contract are variable over time. These relate to volume changes, ICT development costs and the purchase of ICT materials and technology.

The cost of the consultancy to develop the sourcing strategy will be met from the Council’s earmarked transformation reserve and is estimated to be under £100k.

(B) Capital Costs

None

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal – Expiration of the current contract with arvato will need to adhere to the current contractual requirements unless otherwise varied and agreed to between the parties.	
Human Resources – There are no implications as a consequence of this report but this will be kept under review between now and any decisions about the future provision of services under consideration.	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

The recommendations will ensure that the Council undertakes adequate planning and preparation for the future specification of transactional finance and HR services and the provision of ICT services which ultimately underpin the delivery of the Council's frontline services to residents, communities and business stakeholders.

What consultations have taken place on the proposals and when?

The Chief Finance Officer is the author of the report (FD 4145/16)

Head of Regulation & Compliance has been consulted and (LD 3428/16) her comments are incorporated into the report.

arvato, the current delivery partner has been consulted and engaged in discussions relating to the provision of services from October 2018 and has been consulted on the way forward.

The arvato staff and the relevant unions, have been informed of this report and further discussions and consultations will take place as the future requirements become clear.

Are there any other options available for consideration?

The current Partnership Agreement with arvato has provision to extend the existing configuration of services for up to five years. However the needs of the Council have changed very significantly since the specification was prepared in 2007/08 and is no longer appropriate given the Council's financial position or its future priorities. The scale and scope of the changes required in the future are likely to be significant and could be open to legal challenge if the commissioning was not subject to future competition opportunities.

Implementation Date for the Decision

Following the expiry of the "call-in" period for the Minutes of the Cabinet

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Background Papers:

None

1. Background

- 1.1. The Council entered into a Partnership Agreement in 2008 with arvato to deliver financial and HR transactional services and to provide the Council's ICT service.

The key objectives of the Partnership Agreement were to achieve :

- Significant revenue savings
- Improve performance to top quartile
- Job security
- Work to stay in Sefton and
- Capital investment

- 1.2. The Agreement has six main functions :-

- 1) customer services, including the contact centre and the One Stop Shops
- 2) Revenue Services – Council Tax, Business Rates and general income
- 3) Benefits Services – Housing Benefits and Council Tax Reduction Scheme
- 4) Payroll and transactional HR and pensions
- 5) Accounts payable
- 6) Information and Communications Technology

- 1.3. The original objectives set out in 2008 have been met in many areas. The contract reduced the revenue cost of these services to the Council with immediate effect by 10% and further savings have been made during the recent years of the contract.

- 1.3.1. The collection of Council Tax and Business Rates is performing consistently within the top quartile of all Metropolitan Authorities despite the recent economic downturn and the changes to Council Tax Benefit. The processing of Housing Benefits is of a good standard and the Overview and Scrutiny (Regulatory, Compliance and Corporate Services) have recently reviewed the Bailiff Service and the customer experience of claiming financial assistance and found the services to be performing well, with opportunities to support other services within the Council.

- 1.3.2. The HR transactional functions including payroll have regularly met the contractual KPI's. The arvato staffing arrangements have ensured that staff delivering the Sefton work have remained based in Sefton and have also expanded the experience of some staff by using their expertise on wider arvato activities.

- 1.3.3. The ICT service has ensured continuity of provision and the development of the Microsoft environment within the capital investment allowed for within the contract. The ICT component accounts for approximately 50% of the annual contract price.

2. The Council's Future Requirement

- 2.1. Since 2008 the Council has gone through a high level of change which could not have been predicted in late 2007 when the specification for services and key performance indicators were being prepared. These changes, to highlight just a

few, include the reduction in Council resources of 40%, the introduction of Universal Credit and abolition of the Council Tax Benefit Scheme, compulsory pension enrolment and downsizing of the Council's workforce. Since 2007 there has also been significant technological changes in web based and agile working opportunities, that have influenced all sectors in supporting business transformation.

- 2.2. Looking forward the Council will need to consider what services are required to support its Vision for Sefton and that will allow it to respond flexibly to further reductions in Council resources, changing expectations from residents and businesses relating to digital interfaces and responsiveness.
- 2.3. The Council will also be required, as part of the financial pressures, to explore a range of public sector reforms including use of shared services, discontinuation of some services and use of alternative delivery model with other public sector, private and voluntary, faith and community sector partners.
- 2.4. This report is presented in the light of work undertaken and advice sought on the timeframe and the skill requirements to move forward this change programme in an efficient manner. The work going forward falls into three key stages:

Phase 1 - the pulling together of the Council requirements to 2023 alongside the technology and transformational opportunities which will contribute to the determination of the overall sourcing strategy. This stage is expected to be completed by Oct 2016.

Phase 2 - the drafting of the service specifications and the design of a delivery solution will take up to 6 months, including staffing and contract implications.

Phase 3 - the implementation of the new service delivery, including the novation of existing supply chain contracts and staffing changes.

The programme at this stage has up to 4 months contingency to allow for slippage throughout. This is a realistic deliverable timeframe which will require the support of additional technical knowledge and capacity at key stages.

- 2.5. In the light of this changing environment the Cabinet is asked to approve a complete review of the transactional and ICT services to ensure that the future specifications are redrawn fit for 2020 and beyond and that an analysis is undertaken to determine which delivery models best match the strategic plans of the Council.

3. Analysis of Delivery Models

- 3.1. In seeking to redefine the Council's business requirements this report is seeking approval to appoint an external specialist to support the Council in determining the optimum delivery models for Sefton and its vision.
- 3.2. This exercise will require the knowledge and skills of experienced commissioners of business support functions. In particular the specialists will be expected to

deliver a high level of experience in sourcing the optimum strategic fit for ICT services.

- 3.3. The business world currently uses a wide range of delivery models for ICT. These range, at one extreme having all support and systems hosted and service managed through the internet and hosted away from the organisation. This model moves all the control and influence of the digital infrastructure and communications to contract management and contract performance and has inherent risks for organisations who do not have these client management skills. At the other end of the spectrum organisations can in source a wide range of ICT provision, bringing all the capital investment costs and management of the delivery in-house. This model carries risk as the rate of change of capital investment or personnel can be slow and expensive and may not respond efficiently or effectively to deliver the Council's strategies.
- 3.4. The use of consultants in determining the optimum arrangement for services, particularly for ICT, will consider a wide range of risks and opportunities for the Council and recommend the best fit for Sefton. The final determination of the sourcing of services will be considered by Cabinet, as the outputs of Phase One of this programme, and before the procurement processes commence in early 2017. Additional consultancy is likely to be required at the procurement (Phase 2) and implementation (Phase 3) stages which will be considered when the Phase 1 outputs are known.
- 3.5 Half of the current contract, by price includes key delivery components which will affect the relationship with residents and local businesses. The contact centre, one stop shops are the main personal contact points for claiming Housing benefits, paying invoices and linking with Council services. The specialist advice will support the Council on determining the best way of achieving efficient public interface and place a redesigned service with the Council's vision and strategic planning. as part of the review the strategic positioning of these front line services will need to be evaluated and the future changes arising from Government policy changes, e.g. Housing Benefit and Universal Credit will need to be planned for. The delivery of payroll will remain a requirement and its strategic importance will be reviewed to determine to optimum positioning between price and control. The current review undertaken by the Overview and Scrutiny Committee of some of these services will be taken into account by the external specialist.

4. Future Implications for Employees and Contracts

- 4.1. The arvato Partnership Agreement contains a requirement for both parties to regularly review the exit plan. This has recently been agreed and noted by the Operational Board which is chaired by the Cabinet Member. The exit plan ensures that actions taken during the final stage of the contract do not undermine the sustainability of services and that both organisations act in a manner which does not lead to greater risk for the other party. It also covers the process to be followed for the transfer of staff to any successor provider and the novation of contracts.
- 4.2. As part of the consultation that has taken place already, the arvato management team have agreed with the Council a communication strategy, and detailed communications with staff and suppliers for use during Phase 1. This message

will confirm that those services that the Council chooses to re-procure from external suppliers will be open for tenders from arvato and its existing supply chain.

5. Summary

- 5.1. The current arvato contract was designed to fit a different era, and an extension would not address significantly the changes the Council is likely to face in the period 2018 – 2023. In order to maximise the opportunities for new technologies and transformation of transactional processes officers are recommending that Cabinet use the opportunity of a major review to determine new strategic sourcing and delivery models.
- 5.2. The capacity and skills to achieve the benefits outlined in the paragraph above are not available within existing staffing resources. Cabinet is requested to approve the use of consultancy, initially for the completion of the first phase, to bridge this gap. Cabinet is also asked to note that further external support will be required to deliver a successful outcome in the future delivery period.