

Report to Cabinet

25 May 2017

By the Cabinet Member for Finance & Assets



**Horsham
District
Council**

DECISION REQUIRED

Non-exempt

Exempt Appendices 1 & 2 under paragraph 3 Part 1 of
Schedule 12A of the Local Government Act 1972

Resupply of the Revenues and Benefits Service

Executive Summary

The Council served notice on Mid Sussex District Council on 8 March 2017 of its intention to withdraw from the CenSus Revenues and Benefits partnership by no later than 30 September 2018. This report advises Cabinet about the options appraisal for the future provision of the Revenues and Benefits Service. The report asks Cabinet to choose a preferred resupply route based on the options appraisal work completed. However, there are opportunities for savings and improvements in quality that will become clearer as the process progresses. Based on the options appraisal the report recommends the Council seek its resupply from LGSS, an existing local authority partnership.

Recommendations

Cabinet is recommended:

- i) to agree to secure the provision of the revenues and benefits service through a local authority partnership with LGSS.
- ii) to delegate to the Director of Corporate Services the negotiations to secure the agreement with LGSS in consultation with the Cabinet Member for Finance & Assets.

Reasons for Recommendations

We recommend using an established public-public partnership because of the speed and cost with which such service can be supplied, the potential for improving our housing benefits subsidy and business rates position and the track record of the partnership proposed. Section 6 of the report gives details of the reasons for rejecting alternative courses of action.

Background Papers: None

Wards affected: All

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Background Information

1. Introduction and Background

- 1.1. At its meeting on 26 January 2017, Cabinet decided to leave the CenSus Revenues and Benefit Partnership. On 8 March the Council's Chief Executive issued notice to leave the partnership by no later than 30 September 2018.
- 1.2. The Cabinet report on 26 January highlighted 3 possible options for management to look into. These were:
 - Horsham DC running the service itself;
 - finding another partner, (a) locally or (b) further away;
 - out-sourcing the service.
- 1.3. This report explains the findings of work into these options and recommends a way forward.
- 1.4. AK Consultants, a consultancy firm recommended by the Local Government Association, prepared an initial business case of each option. The Local Government Association gave Horsham District Council a productivity grant to fund the initial phase of this work.
- 1.5. To develop the options appraisal the consultants analysed the options against pre-set criteria. Our performance team examined the performance of the potential suppliers' current customers to the nearest neighbour group and our accountants completed a financial review of indicative costings. The Director of Corporate Resources and the consultants had exploratory meetings with 2 local authority partnerships and 5 private companies interested in carrying out the work.
- 1.6. On completion of the analysis, we concluded that moving the service to another local authority partner, LGSS, offers the best overall value with the lowest risk to the Council.

2. Relevant Council policy

- 2.1. This report supports the Council's policy of efficiency and balancing the budget over the medium term by seeking a new supplier who gives best value and ensures a quality improvement in the service.

3. Details

- 3.1. When starting our investigation into a suitable public sector partner we looked for potential partners who had well established existing partnerships, involved multiple partners and significant workloads and were geared up to incorporate additional partners on a bought service model.
- 3.2. We initially discussed the proposition with 2 partnerships: the Anglia Revenues Partnership from Norfolk and LGSS from Northamptonshire. We chose these partnerships because of their size and experience of working with multiple councils.

Unfortunately, Anglia Revenues Partnership withdrew from the discussions during April because they could not gain approval from all their partner Councils to submit a bid.

- 3.3. LGSS has a well-established revenues and benefits model and is keen to employ, ideally through a TUPE type transfer, employees from CenSus to work as home workers in their operation. They will recruit additional staff from the Northamptonshire area to carry out the workload from Horsham DC above the numbers of employees who transfer to them. The partnership would do this under an established model and, given the location of the partnership, new recruits are likely to be on lower pay rates than we can achieve in Horsham
- 3.4. None of the Councils in LGSS has lost housing benefit subsidy above either the lower or the upper threshold other than for original inherited issues. We compared LGSS' performance to that of their nearest neighbour group. LGSS perform near or above their group for every service except Norwich's Council Tax, which had inherited problems. Norwich are now withdrawing from the LGSS service and taking the service back in-house, using additional external support and intervention. Norwich's Chief Executive has confirmed that LGSS performed very well during their time operating services for her Council.
- 3.5. LGSS has well established governance arrangements and strong service management and reporting. They have asked to discuss performance standards with us as part of negotiating the service because they believe the standards we applied to CenSus led to too much emphasis on speed over quality and they want to turn this back. LGSS has a highly developed training plan, with milestones each employee has to pass before progressing, to ensure all staff are up to standard. They have detailed performance management of staff members. LGSS also employ an "above establishment" resilience team to ensure they can fill gaps in the workforce without the use of temporary or agency staff or outsourced processing units.
- 3.6. The key commercial consideration associated with this option is defining a clear specification of service and performance requirements and using that to negotiate a commercially viable partnership agreement. LGSS has an existing partnership agreement that it used with Northampton Borough, Milton Keynes and Norwich City Councils when they joined the partnership. We would use this as a starting point for developing our legal agreement.
- 3.7. A financial advantage of selecting this option is that an agreement between local authorities avoids a lengthy public procurement process. LGSS have suggested we could reach agreement by the end of July 2017. Estimates indicate transition to this model is substantially cheaper than a full EU procurement (see exempt appendix 1).
- 3.8. LGSS has experience of transitioning in these services having achieved this in full for Milton Keynes, Northampton Borough and Norwich City Councils. They have also transitioned parts of service with Wycombe District Council.
- 3.9. LGSS is familiar with using the computer systems we currently use. There are questions around our current costs of IT, which we are working on. This will be an

issue in developing all options because the original CenSus Revenues and Benefits budgets did not include a recharge for IT costs from the CenSus ICT partnership. This question over costs is no worse for LGSS than the private sector or in house options.

3.10. The key risks associated with this option are set out below:

- concerns about a remote service;
- sustaining service delivery and performance during transition;
- bottoming out the real costs of our current ICT provision;
- potential cost of redundancy of current CenSus staff if TUPE does not apply;
- any cost of differences in pension provision should TUPE apply.

3.11. Exempt appendix 1 shows the cost model to date for this option compared to other options.

4. Next Steps

4.1. This report asks Cabinet to approve the proposal to commission the delivery of the revenues and benefits service from LGSS at the end of the current CenSus arrangements, subject to agreement of the final details of the agreement. The target date for reaching agreement is 31 July 2017.

These target dates are subject to agreement with the preferred partner and Mid Sussex District Council around the start date.

5. Views of the Policy Development Advisory Group and Outcome of Consultations

5.1. The Cabinet Member for Finance and Assets regularly updated his Policy Development Advisory Group on the progress of the reviewing options in particular at their meetings on 20 March 2017 and 8 May 2017 and raised no objections.

5.2. The Head of Customer Service said he was encouraged by LGSS' commitment to customer satisfaction and that *"98-99% of Norwich City Council service users rated (their).... service as 'Very Satisfied' in recent monthly surveys."* He was also encouraged by LGSS having a team dedicated to customer engagement. He felt an appointment-based approach to face-to-face meetings would work well as this is a similar approach to that Horsham currently operate for Housing.

5.3. The Head of Housing Services said LGSS' proposal provided substantial reassurance and commitment towards the joint working approach needed to prevent homelessness. He was encouraged that LGSS' operating model included telephone, face-to-face and appointment contact options whilst still considering the individual needs of the customer alongside the migration to digital services. In his initial discussions with LGSS, they committed to work closely with him through the detailed negotiations to create fast track solutions to Housing Services priorities. These include (homeless prevention, temporary accommodation and private rented tenants, our commitment to reduce Bed and Breakfast use for families). In addition, LGSS confirmed to the Head of Housing they would work with him to create policies

to ensure we gain the maximum benefit for our customer from our Discretionary Housing Payments.

- 5.4. The Monitoring Officer advised throughout the process and will continue to do so throughout the transition to a new service.
- 5.5. The Procurement Team Leader has advised on timescales for a public procurement approach should this become necessary.
- 5.6. The Senior Leadership Team reviewed this proposal and supports it.
- 5.7. The Chief Executive of Mid Sussex District Council has been consulted.

6. Other Courses of Action Considered but Rejected

6.1. In-house service

6.1.1. We considered in detail the option for delivering a service in-house, including developing a costed model for the option (see appendix 1).

6.1.2. The main reasons for rejecting the idea of creating a locally based service are:

- It is over 10 years since Horsham DC delivered this service internally and there is very limited internal knowledge about operating such a service, especially a service with current difficulties.
- One of CenSus' difficulties has been recruiting and retaining staff locally. An in-house service would have the same problems.
- It is difficult, and expensive, to provide the specialist technical parts of revenues and benefits in a small team. These services include housing benefits subsidy, business rates, committals and court work, property inspections and Council Tax fraud work.
- Implementing this option would involve a lot of management time. It would be necessary to recruit and employ a new Head of Service for several months before the start of the service to design and recruit to the service.
- If TUPE does not apply, we would have to recruit in the challenging local marketplace in addition to paying redundancy to current staff.
- Because the skills in our new team would be unknown, and because we have no recent track record in providing these services, we are unsure of our ability to meet expectations of a speedy turnaround of performance and subsidy loss.
- The option would cost more than the local authority partnership option at transition and beyond.

6.2. Option 2a: Locally based local authority partnership

6.2.1. We dropped the option for a local partnership early in our assessment because we were unable to identify a local partner with any experience of delivering a full service to another Council. Reigate and Banstead were interested in providing us with some specialist services but had no experience of providing a full service.

6.2.2. In the latter stages of the evaluation Reigate and Banstead proposed a new option of a local authority partnership in which they would passport the majority of the processing work to a private sector partner. Although the option was of a similar

cost to the preferred option, we were concerned about the lack of track record of this proposal and the procurement risks associated with this proposal were hard to quantify.

6.3. **Option 3: Outsource to the private sector**

6.3.1. We considered 2 private sector options: procuring through frameworks and procuring through a full market assessment.

6.3.2. The main reasons for rejecting the framework options were insufficient confidence there was a satisfactory legal option that would not be open to potentially successful legal challenge under EU procurement law. A successful challenge would be expensive, time consuming, could lead to an overturn of decision to award the contract and potentially the Council having no service. In addition:

- There is no national framework we could use.
- 3 companies suggested they had a viable local framework. One of these expired on 1 October 2017 leaving very little time to negotiate and put in place a contract. One was a County Council framework that, as far as we can tell, was untried for a pure district council service such as revenues and benefits. The 3rd did not specifically name Horsham so could be open to challenge.
- 3 companies suggested delegating our service to a Council with whom they already had a legal contract and them passporting us to their contract.

6.3.3. The attraction of the EU compliant tender was an indication from suppliers it could be between 4 & 10% cheaper than the LGSS offer (£100-200k a year). However, there are risks associated with this approach that outweigh the attractiveness of these apparent potential savings. The main reasons for rejecting a full EU compliant process are:

- The longer timescale required for a formal procurement process. This would take 9 months and an accelerated process 6 months. An accelerated process has a higher risk of abortive work on reviewing bids from under-experienced bidders because it cuts out some of the selection stages. Either process would have a higher impact on Horsham's management workload and a higher cost of negotiation and legal fees than the other options. Estimates of these costs are around double the transition costs of the LGSS option.
- Any procurement carries the risk of procurement challenge. The trend in our procurement recently is for more frequent threat of challenge. An unsuccessful challenge can be costly and time consuming. A successful challenge can lead to an overturn of the decision to award the contract, leading to no service.
- Indicative savings suggested by suppliers were heavily caveated around redundancy, improving the subsidy situation and due diligence, especially around the current condition of the service. There is a possibility a 4-10% saving could be lost in resolving these issues.
- If one of the larger companies were to win, there is a risk we would be a "minor client". This can lead to a standard and competent, but less responsive service, than larger customers receive.
- Although some of the suppliers suggested they would take some CenSus staff as home workers, all prefer an out of area model based on their centres of

excellence, mostly in the north or west of England. Depending on the future employer if TUPE applies we could face redundancy cost for all employees, if it doesn't apply there was no indication from the suppliers they would offer staff other jobs so we could still face full redundancy costs

- Any outsourcing option would require a full 1-month public consultation. This would add delay to the process and should take place before advertising in the European Journal.
- An EU approach will mean implementation of the new service cannot be earlier than October 2018. This means 3-6 months' more uncertainty for CenSus staff and 3-6 months' more risk of declining service due to this uncertainty.
- Our estimates suggest the costs of transition to this option could be considerably higher than those to the LGSS could be (see appendix 1).

7. Resource Consequences

- 7.1. Reaching an agreement with a supplier, tendering a contract or setting up an in-house service will incur transitional costs. Indicative prices from LGSS suggest the services will cost around the same as the present service to start with and fall in later years. The figures in appendix 1 assist with making a choice about options and exclude any savings arising from no longer having to repay housing benefit subsidy. Based on recent years' losses this will save the Council £200-£250,000 a year on all models by 2019/20. We will not know the full budget impact of the resupply until we have concluded all legal arrangements with LGSS, Mid Sussex and their sub-contractors.
- 7.2. This project will not affect the employment of any Horsham employee. Mid Sussex have told us that TUPE does not apply at the end of the current CenSus service. This could lead to redundancies, whichever option the Council chooses. TUPE applying is likely to be beneficial to Horsham DC, Mid Sussex DC and the employees affected. Therefore, management are working with Mid Sussex to try to reach a position where this can happen. Whatever the outcome, LGSS propose to offer work to employees as home workers. Should employees prefer the option of retaining their continuous service in local government, this could reduce the redundancy impact.

8. Legal Consequences

- 8.1. The Council can enter into a new agreement for the provision of this service with LGSS under section 111 of the Local Government Act 1972 and all other enabling powers.

9. Risk Assessment

- 9.1. Appendix 2 shows the full risk assessment of this change.

10. Other Considerations

- 10.1 Because LGSS is located in Northamptonshire, there is risk that customers with learning disabilities or lower levels of IT literacy will find the new service harder to access than at present. LGSS have indicated they will provide Horsham-based surgeries. They also propose their established telephone service to provide

targeted telephone support to these groups. Management will develop further mitigations during their discussions with LGSS.