Appendices:
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NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	**Revenues and Benefits Future Delivery Options**

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	7th December 2016
Key Decision:	Yes
Within Policy:	Yes
Policy Document:	No
Directorate:	Customer & Communities
Accountable Cabinet Member:	Cllr Brandon Eldred
Ward(s)	All

1. Purpose

1.1 To recommend an option in relation to the delivery of the Revenues and Benefits Service post June 2018 when the existing Partnership and Delegation agreement (PDA) with Local Government Shared Services (LGSS) ends.

2. Recommendations

2.1 That the Council pursue Option 4 to enter into a new 5 year Partnership and Delegation Agreement (PDA) with LGSS (to include a wider partnership with Milton Keynes Council) and delegate authority to the Chief Executive in consultation with the Leader of the Council, to agree the terms of and complete the new agreement.

2.2 That a further report is brought back to Cabinet outlining the exact terms agreed.

3. Issues and Choices

3.1 Report Background

3.1.1 The current Agreement with LGSS for the delivery of Revenues and Benefits under the Partnership and Delegation Agreement (PDA) comes to an end in June 2018. A high level options appraisal has been undertaken to examine the viable options for future delivery of the service. The Council has clear objectives for the future delivery of the service and the selected option must deliver on the following key drivers:

- Efficiency savings
- Performance improvements across a range of key indicators
- A flexible service that is responsive to known and future changes in both welfare reform and other legislative changes; and
- The rationalisation of IT systems and a corresponding reduction in ICT support costs.

3.1.2 The service has performed well in terms of achieving targets set by key performance indicators (KPIs) summarised below (and in Appendix C) . In terms of financial savings the service has achieved savings of £2.6 million over the 5 year partnership to date and a reduction in ongoing baseline costs in the region of £410k.

3.1.3 The following table sets out the performance of the revenues and benefits service against KPIs from 2012/13 with the projected outturn for the current financial year.

		2012/13	2013/14	2014/15	2015/16	2016/17 (projected outturn)
REV01	Speed of processing benefit claims.	9.9 days	10.0 days	9.1 days	10.2 days	8.2 days
REV04	Percentage of LA error in determining benefit claims	0.29%	0.30%	0.39%	0.35%	0.29%
REV06	Percentage of calls answered in the contact centre	N/A	N/A	83.20%	79.90%	86%
REV08	Percentage of Council Tax collected in-year	97.15%	96.30%	96.17%	96.04%	95.80%
REV09	Percentage of Business Rates collected in-year	99.06%	99.24%	99.41%	98.43%	98.00%
REV10	Percentage of inactive debt	4.40%	3.93%	3.42%	6.23%	2.70%
REV11	Percentage of claims for Discretionary Housing Benefit reviewed within 14 days	N/A	N/A	N/A	98.96%	98%

The options considered are set out below:

3.2. Option 1- Bring Service back in-house as a stand-alone service

3.2.1 This option would see the service returned in-house and managed and administered by staff directly employed by NBC. The main advantages to this option are that there would be continuity in service delivery which would continue to be delivered by experienced processing and administrative staff who have local knowledge and strong working relationships with stakeholders in the service over many years and the Council has direct control over service delivery.

3.2.2 The risks are that specialist knowledge and experience at management level and amongst support staff could be lost; it is likely that a number of senior managers would not transfer back to NBC under TUPE, due to their duties being split across the partner authorities. This poses a key risk to the service and would have a negative impact on performance, certainly in the short term.

3.2.3 Any in house team is likely to have less flexibility to respond to rapidly changing situations and would therefore be vulnerable at peak times, particularly around annual billing (March to June) and would most likely need to buy in support during these periods to maintain performance levels.

3.2.4 The current known baseline costs of returning the service in house:

Staffing (2016/17 budget)	£3,152.112
Supplies and services	£292.000
Software Systems Licences and Maintenance	£221,967
Transfer of business rates from Capita to Northgate software system	£111,000
Total	£3,777.079

3.2.5 The in-house option would require future contributions to savings to be identified from service reviews, but would leave little opportunity to generate savings from further service transformation and would not enhance career opportunities and resilience.

3.3. Option 2 - Enter into a partnership or commercial agreement with an alternative provider.

3.3.1 Benefits to the Council could be delivered in terms of reduced costs and resilience from larger delivery teams and access to expertise that may not be available in house.

3.3.2 The challenge for district councils to successfully outsource services to the private sector is one of scaling. Whilst NBC in terms of size and caseload would be attractive to a commercial provider, the re-engineering of the service that has already taken place and more particularly the savings that have been driven out of the baseline costs may make the service less attractive.

3.3.3 The outsourcing of revenues and benefits can deliver savings of between 20 to 30% against in-house delivery, potentially £700,000 for NBC. However, these figures assume that there has been no re-engineering or restructuring of the service. LGSS in partnership with NBC have, since 2013, made extensive changes to the way the service is delivered and have already reduced baseline costs in the region of £410,000.

3.3.4 A desktop benchmarking exercise undertaken for the council earlier this year concluded that If the revenue and benefits service were to be outsourced a more realistic assumption of gross savings would be in the region of 5 to 6% i.e. £175,000 to £200,000 per annum. The table below sets out the assumed benefits over 5 years taking into account that it would be likely that Business Rates would need to be transferred to the Northgate platform.

Revenues and Benefits – Representative Potential Benefits of Outsourced Service over 5 Years		
	Assuming 5% savings	Assuming 6% savings
Annual base charge reduction	-£175,000	-£200,000
Providing a cost benefit to NBC over 5 years	-£875,000	-£1,000,000
Transfer of business rates from Capita to Northgate software system	£111,000	£111,000
Project set up costs (year 1)	£90,000	£90,000
Net Cost Benefit to NBC over 5 years	-£674,000	-£799,000

3.3.5 Without entering into a formal procurement process, it is not possible to attain a fully costed model to enable a detailed comparison of cost and quality against other options available. However, in order to gain further evidence from the market a 'soft marketing' exercise is underway and 6 selected providers have been sent a questionnaire (for return by 1st November) in order to gain an understanding of what they could potentially offer the Council and the benefits that could accrue to the Council both financially and in terms of service provided to the public.

3.3.6. Four responses have been received to date. Two suppliers have completed the questionnaire and agreed to participate in a planned workshop session. Although initially expressing an interest Capita decided not to participate. The Anglian Revenues Partnership concluded that they lack the capacity to consider providing services for Northampton Borough.

3.3.7 Neither of the two responses received have detailed any innovative ideas in terms of service delivery and only one of the two companies has given any indication of savings achieved elsewhere 'ranging from 8%'.

3.3.8 To date meetings have taken place with two of the providers and have proved to be revealing. Whilst on the surface the marketing approach may be very different there are many similarities in their approach to service delivery.

3.3.9 Commercial providers require an ‘immature’ service in order to make the headline savings figures often quoted in their marketing literature. One supplier stated in their response, that, ‘where a service is already very efficient and the savings available are less than the council would wish to receive, it may be possible to identify opportunities for additional revenue generation which the supplier would be prepared to guarantee’, i.e. income generation through increased collection rates, single person discount reviews (on a gain share basis).

3.3.10 Commercial providers define the maturity of a service by the extent to which the service has adopted on-line and digital services, automating processes wherever possible.

3..3.11Since the inception of the PDA, LGSS in partnership with NBC, have introduced a raft of digital solutions to automate processes, these include;

- E-bens New Claims Form and continued design
- E-Citizens accounts and continued development / uptake of.
- Webcapture – Revenues automation
- Gandlake – Revenues online forms and development
- CTRS online notifications through E- Citizens
- QPREDICT – Resource modelling tool to support Welfare reform
- I3 – Shared Service resource profiling
- Ferris – Fraud and error reduction target reviews
- ETD / ATlast automation – Benefits
- Shared telephony across sites tested and available

Work is also underway to introduce the following developments in the coming months.

- Risk Based Verification
- E-change of circumstances
- Auto indexing of emails
- Webcapture phase 2
- I3 – future development / working models
- Single view of debtors (corporate debt management)

The above are all digital solutions that a commercial provider would be looking to introduce into an immature service environment to make the savings typically alluded to. That they have already been deployed removes opportunities to deliver savings by remodelling the service.

3.3.12 Suppliers ordinarily are looking for commitment to longer term contracts typically 7 to 10 years (possibly with a break clause after 5 years) in order to recoup their costs and deliver savings. Other than examples of potential income generation (on a gain share basis) through improved collection rates there were no examples given on how income could be generated for NBC through the provision of services to other local authorities (resilience teams).

3.3.13 The model used by most companies is to move processing off site to a number of ‘virtual’ specialist processing locations, i.e. business rates may be delivered from a different location to council tax and benefits from a different location again.

3.3.14 There was no consensus on a preferred route to market that suppliers would like to see, with views ranging from a 2 stage competitive dialogue to potentially using pre-existing procurement frameworks.

However, suppliers were in agreement on the scope of services that should be included in a contract, seeing benefit in a wider package of services maybe a mix from several transactional services including, customer services, ICT, finance, HR, payroll, etc.

3.3.15 None of the providers met with so far have expressed an active interest in working with the council to develop a shared service, searching out and introducing potential partners at a later date.

3.4. Option 3 - Create a special delivery vehicle to deliver the service.

3.4.1 There are a number of different delivery models that the Council could pursue which lend themselves to sharing services with other Authorities and the potential for setting up ‘trading arms’. For NBC finding the right partner would be critical to success. Given that considerable savings have been made in baseline costs a partnering authority of similar size or larger would be required to provide the opportunity to generate savings from economies of scale.

3.4.2 Partnering with a small district would most probably not generate the savings or economies of scale required and lead to the situation where as the larger partner NBC provided resilience to the smaller authority with none given in return.

3.4.3 Ideally a partner authority could be found from a relatively close geographic location, in terms of practicalities of arranging meetings, staff management etc. it may be impracticable to partner with an authority in a remote location.

3.4.4 The table below sets out the savings forecast by the Anglian Revenues Partnership (ARP), over a 4 year period from 2014, giving an indication of the scale of savings achievable in a partnership of small to moderately sized districts and an example of the potential savings that could be realised from a district council shared services partnership. The model adopted by the ARP included the setup of a bailiff service that could be used by the member authorities and also available to other authorities through the ARP trading arm.

The savings figures below therefore include an element for ‘trading income’ although this was not shown separately.

	Year 1	**Year 2**	**Year 3**	**Year 4**
Costs	£274,993	£174,997	£174,997	£174,997
Savings	£389,997	£514,997	£564,988	£565,088

Net Savings across partnership	£115,004	£340,020	£390,011	£390,111

3.4.5 Annual net savings are spilt proportionally between the 6 partners (based on the number of council tax properties and benefits caseload) with the largest authority partner forecast to benefit from a net saving of £80,000 in year 4 and the smallest authority partner £39,000.

3.4.6 Although they did not provide a written response to the soft market testing exercise, ARP did participate in a telephone conference and reinforced the following points regarding the argument in favour of partnerships versus outsourcing. Firstly a local authority can retain control over the service in a partnership arrangement as opposed to an outsourced contract; secondly, they have found from experience that ICT projects and improvements can often be delivered at a lower cost in a partnership, due to bulk purchasing power and sharing of costs between partners.

3.4.7 In terms of finding a suitable partner authority and entering into a full shared service partnership, ARP felt that it is extremely difficult to predict how long the process could take. There is a high risk that a potential partner could pull out of the process at a late stage of negotiations.

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3.4.8 The timescales involved potentially rule out this option as it is unlikely that a suitable partner could be found and agreement reached on a model before the deadline for NBC to confirm with LGSS their intention to leave in June 2018 or enter into a new 5 year partnership.

3.5. Option 4 – End the current PDA with LGSS and enter into a new separate PDA for Revenues and Benefits only, to include the wider partnership with Milton Keynes Council. (minimum 5 years).

3.5.1 As part of this arrangement NBC and MKC would share the benefits of savings made in the Northampton and Milton Keynes operations, with LGSS providing business support services to the new shared service via an agreed Service Level Agreement.

A key part of LGSS business support services would be to support the growth of the partnership, in order to maximise the performance of the service and to continue to provide additional cost savings to the partners of the new Joint Committee

3.5.2 A good working relationship already exists between the LGSS Revenues and Benefits Service and NBC. Future plans and aspirations for the service are known and being delivered. The shared ambition is to drive down costs, streamline services and invest in technology. NBC have been involved in delivering the efficiencies to date, developing the business case for future delivery and setting how the plans can be achieved.

3.5.3 The LGSS business case for the NBC Revenues and Benefits service over the next five years projects the following financial benefits in terms of cost savings for NBC.

NBC Revenues and Benefits - Base charge reductions benefits and NBC (share of capital investments required over 5 years)					
Year	**NBC Annual Base**	**Annual NBC Base**	**Cumulative NBC Base charge reduction £k**	**NBC annual Capital Investment required £k**	**Annual NBC Net cost/benefit to NBC £k**
	charge £k	charge reduction £k			
1	3,214	-43	-43	147	104
2	3,090	-124	-167	121	-47
3	2,851	-239	-406	20	-386
4	2,746	-105	-511	20	-491
5	2,620	-126	-637	20	-617
	Totals	**-637**		**328**	**-1,436**

3.5.4 In addition assumptions have been made regarding the growth of the partnership. Whilst nothing can be certain in terms of attracting new partners the assumptions that have been made in terms of growth are prudent and with the now mature relationship between NBC continuing to deliver award winning services, and Milton Keynes joining the partnership, other authorities are likely to perceive less risk in using the partnership as a vehicle for delivery of their services.

NBC - Potential (shared) benefits of New Customers growth i.e. in addition to the NBC Base charge reductions		
Conservative assumption of one Small and one Large new customer within the next 5 years	Small new customer income	Large new customer income
	shared benefits £k pa	shared benefits £k pa
NBC	-58	-137
(Total potential share £k benefits per annum assuming 1 new small customer and 1 new large customer -195k)		

3.5.5 The service will be governed through a Joint Committee Structure, which will have 3 key roles, to set the direction and vision for the shared service; agree the budget (within contributions for individual councils) and agree the annual Service and Business plans. The Council will be a key partner and decision maker in this process, where service improvements will be agreed by individual business cases. (Appendix D)

3.5.6 The committee structure will be as follows; three Councillors one each from NBC, MKC and LGSS. The committee would be chaired by the LGSS representative and to be quorate the meetings will need attendance from one Councillor from each organisation. There will be a minimum of 3 meetings per year and voting at meetings will be by simple majority. Management support will be delivered by LGSS.

3.5.7 Option 4 presents the lower risk option, proven ability to deliver a responsive service and with a clear potential to deliver substantial savings against current costs which would provide value for money for NBC. The soft market testing also identified a gap in the market that LGSS fills, particularly with the Anglian Revenues Partnership at capacity.

3.6 Issues

3.6.1 There will be a considerable challenge for the Council over the next 5 years as housing benefit begins to migrate into the Government's new, national Universal Credit.

3.6.2 Income to the Council for this statutory service from Government administration grant will continue to reduce.

3.6.3 Maintaining the level of service whilst at the same time reducing costs is likely to prove challenging, when taking account of the efficiencies already achieved within the service and the baseline cost reductions made to the service to date.

3.6.4 Retention of 100% Business Rates will be introduced between 2019 and 2021, the Council will need to mitigate the local risks of moving from a partially grant based funding system to one of relying on what can be a potentially volatile receipt of business rates income.

3.7 Choices (Options)

3.7.1 Cabinet could approve the ending of the current PDA with LGSS for Revenues and Benefits and entering into a new PDA with LGSS (and the wider partnership with Milton Keynes Council) for a minimum of 5 years.

3.7.2 Cabinet could decide to proceed directly to a formal market test undertaking by way of a full EU procurement exercise.

4. Implications (including financial implications)

4.1 Policy

4.1.1 There are no policy implications arising. The Revenues and Benefits services are both statutory services and will continue to be delivered in compliance with legislative requirements.

4.2 Resources and Risk

4.2.1 The preferred option will deliver cost savings of £1,436k as set out in paragraph 3.5.3. In addition there is potential for further shared growth benefits of £137k per annum as set out in paragraph 3.5.4.

4.2.2 An independent financial review has been undertaken in relation to the preferred option but further due diligence will be carried out prior to entering into the preferred option.

4.2.3 Known risks are set out below:

- That the Council may not achieve value for money
- Savings in Revenues & Benefits may not be delivered in full due to changes in government legislation.
- Failure to deliver growth of the partnership through new partners of users of LGSS services.

A detailed risk assessment for options 1 to 4 is set out in Appendix B

4.3 Legal Current PDA ends and new PDA entered into

4.3.1 If the recommended route is chosen by NBC then the existing PDA will terminate early and NBC will, enter into a new 5 year Partnership and Delegation Agreement (PDA) with LGSS (to include a wider partnership with Milton Keynes Council). Authority will be delegated to the Chief Executive in consultation with the Leader of the Council, to agree the terms of and complete the new agreement.

4.3.2 If option 2 is selected instead, procurement compliant with the Public Contracts Regulations 2015 will be required; one may also be required for option 3 if the selected route does not envisage joint working with another local authority in a similar manner to that currently in place with LGSS. Given the nature of the services being sought it might be that one of the more complex procurement procedures would be required, and as such procurement would need to commence promptly. As noted above there would be TUPE implications for NBC if option 1 were chosen.

4.4 Equality and Health

4.4.1 The Council has an equality strategy which sits under its constitution and is committed to ensure any change process encompasses the Strategy, ensuring that the Council embeds good quality and practice. The impacts on equalities have been reviewed in a separate CIA (Appendix A) and will be updated as the project progresses and as part of any staffing TUPE consultation process.

4.5 Consultees (Internal and External)

4.5.1 A number of meetings have been held with senior managers within the authority who have direct knowledge of the revenues and benefits service including the Section 151 Officer. External meetings have taken place with providers and an independent external financial review undertaken together with support and advice provided by an independent revenues and benefits service specialist.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 The proposal contributes to Priority Outcome 4, Making every £ Go Further, by providing a value for money service to for the citizens of the Borough.

4.7 Other Implications

4.7.1 There are no other implications arising from this report.

5. Background Papers

CIPFA Benchmarking Statistics 2014/5 (confidential financial information which includes details relating to other LA's)
CIFFA Benchmarking Statistics 2015/16 (Confidential financial information which includes details relating to other LA's)
Other Benchmarking data: Public Sector Audit Appointments (PSAA)
Local Government Association (LGA) Papers on Shared Services Options
LGSS Performance Reports

Appendices

Appendix A: CIA
Appendix B: Risk Register
Appendix C: Performance Information
Appendix D: Governance Model
Appendix E: High Level Options Appraisal

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