

CABINET – 18TH OCTOBER 2018

Report of the Head of Customer Experience Lead Member: Councillor Leigh Harper-Davies

Part A

REVENUES AND BENEFITS SERVICE DELIVERY – FUTURE OPTIONS

Purpose of Report

To seek agreement from Cabinet on the next steps in the decision-making process for the delivery of the Revenues and Benefits Service post 2020 when the current outsourcing contract comes to an end.

Recommendations

That Cabinet endorse the development of Options 2 and 3, as set out in Part B of this report, into detailed and costed proposals to present to Cabinet for a final decision on the future provision of the Revenues and Benefits service.

Reason

To allow resources to be focussed on a defined set of preferred future service delivery options.

Policy Justification and Previous Decisions

One of the key themes of Charnwood Borough Council's Corporate Plan is to *Deliver Excellent Services*. This project is in line with this theme, particularly in terms of "providing high quality, affordable and responsive services ... always seeking to improve the services that we deliver ... We will maintain the financial stability of the Council whilst continuing to seek ways to deliver better services as efficiently as possible".

The current Revenues and Benefits service delivery contract was introduced in February 2010. As the contract has now been in operation for coming up to 10 years it is necessary to review and take the opportunity to look at alternative delivery models on a timely basis to ensure we continue to deliver a service to meet both the needs of our residents and those of the Council.

Implementation Timetable including Future Decisions and Scrutiny

The existing contract with Capita LGS for the delivery of the current Revenues and Benefits Service expires February 2020. With this in mind it is proposed that a final report will be presented to Scrutiny Management Board and Cabinet in February 2019. This will allow development of an implementation plan with a view to ensuring continuation of the Service from February 2020.

Report Implications

The following implications have been identified for this report.

Financial Implications

At this stage there are no direct financial implications; resources to develop the options identified can be found within existing resources.

Risk Management

There are no specific risks associated with this decision at this stage

Key Decision: No

Background Papers: None

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Part B

Background

1. In 2009 the Council agreed to outsource its Benefits, Revenues and Business Rates Services to Capita LGS for an initial period of 10 years, effective from 1st February 2010. This contract has the option for an extension for an additional 5 years from 2020. As we now near the end of the current contract period it is appropriate to consider what options are available to the Council for the future delivery of this service.
2. In broad terms the options available for consideration are:
 1. Bring the currently outsourced service back in house
 2. Seek out a shared service arrangement with other local authorities
 3. Extend the existing contract for a further (maximum) of 5 years
 4. Re-procure an outsourced arrangement for the provision of Revenues and Benefits Services
3. Each of the above has advantages and disadvantages which could be weighted more or less strongly dependent on prevailing circumstances. At present, the continued uncertainty around the impact of Universal Credit, which is likely to have a fundamental impact on the future shape of the service in the medium term, but with an uncertain roll-out schedule, suggest that options that provide lower risk and higher levels of flexibility would be preferred. It should also be noted that the lead time for some of the above options is quite extensive.
4. To assist in the initial assessment, the current provider has recently provided a future options paper for consideration. In addition to this, discussions have also commenced with another shared service provider. If the selected option will (or may) result in a move away from Capita as service provider, then formal procurement (or equivalent) processes will need to commence from late-2018 to guarantee sufficient time for service transition.

Options

1. Bring the currently outsourced service back in house

The option to bring the service back in house should be considered carefully. Whilst this option gives the Council full control in terms of service delivery there are also a number of other less positive factors that need to be fully considered.

Considerations

+Pros

- Customer and quality will be the focus of the service not profit
- Full control of service delivery within the authority; may offer more budgetary flexibility
- Possible opportunity to offer support to other local authorities to generate income
- More flexible options for employees in terms of flexible working etc.

-Cons

- Lack of resilience across the service compared to being part of a larger organisation or partnership
- Potentially higher costs – no opportunities for shared structure particularly management or IT systems leading to higher costs
- Significant work to initially set up structure, team, working practices etc. – will require some additional dedicated resources initially to support this at additional cost
- Risk to service delivery during transitional phase
- Lack of flexibility in service delivery; due to welfare reform the landscape for Housing Benefits is constantly changing making it difficult to forecast accurately the resources that will be required to deliver the changing service over the next 4-5 years. This could lead to over or under resourcing which would affect service delivery, reputation and could eventually lead to addition costs such as redundancies. The current rollout timetable for Universal Credit has regularly changed and in total the project is now 8 years behind target.

2. Seek out a shared service arrangement with other local authorities

There is already a Leicestershire Revenues & Benefits Partnership which is made up of North West Leicestershire District Council, Harborough District Council and Hinckley & Bosworth Borough Council. This partnership has been operating successfully for a number of years with each authority maintaining their independence.

Considerations

+Pros

- The aim of the partnership is '*Working in Partnership to deliver better services*' the focus remains on delivering high quality service for customers driven by efficiency and effectiveness, not for profit
- The partnership is well established with embedded governance arrangements, management/staffing structure and processes in place. Performance results shows the Partnership is delivering in line or better than other authorities in the area. The performance is higher than the Council at present.
- The service is scalable and flexible to meet the changing demands as a result of welfare reform as well as peaks and troughs throughout the year. Initiatives such as home working have meant the team work flexibly outside of normal business hours to meet the demands at peak times.
- Partnership arrangement gives good degree of resilience to the service
- Currently all authorities within the Partnership are using the same IT systems, this creates opportunity to reduce overall costs at contract negotiations stage due to economies of scale.

-Cons

- Possible initial risk to service delivery during change over period

- Less clear-cut accountability in a partnership than in a commercial contract.

3. Extend the existing contract for a further (maximum) of 5 years

The current contract with Capita LGS has been in place since 1st February 2010. Overall the contract has delivered as expected. However, in terms of current delivery there have been some concerns in terms of collection rates and delivery of an effective Housing Benefit Service.

Considerations

+Pros

- Lowest risk option for the Council in terms of ongoing service delivery with no transitional arrangement required
- No additional costs required as minimal transition work.
- Systems, process and resourcing all in place and functional
- Established working relationships in place.
- Opportunity to review current KPI's to modernise the requirements and ensure the service can be effectively managed
- Currently good levels of resilience in the service due to the size of the organisation
- Contractor is investing in digital solutions, which are currently being rolled out in Charnwood, offering greater future flexibility in service provision (and improved customer experience)

-Cons

- Current financial position of Capita is a concern based on the profit warning issued in January 2018
- Capita were issued with an improvement notice in March 2018 to address the lack of performance against a contractual KPI in respect of accuracy of Housing Benefit (HB) processing. This KPI had not been met for over 12 months. Whilst trying to address this issue a further issue has arisen in terms of processing times which has led to backlogs in work of over 12 weeks.
- Although now being addressed, there has been a lack of investment in the service meaning the service has now fallen behind in terms of being able to offer services in a digital way, this has led to inefficiencies in the service and opportunities have been missed to improve service delivery.
- In the latter period of the contract, the contractor focus has been on profitability and not always on customer experience; the contractor now stresses that this is being addressed
- In latter years there has been a decline in performance both for collections rates but also for processing times and accuracy of claims. This is not what was expected of the contract; again this is now being addressed

4. Re-procure an outsourced arrangement for the provision of Revenues and Benefits Services

The current contract will have been in place for 10 years, and two other providers still in the market that deliver outsourced Revenues and Benefits Services have been identified.

Considerations

+Pros

- Opportunity to consider the current market in terms of outsourcing and what may now be available to find an improved service delivery model that brings improvement both in quality and cost for the Council

-Cons

- Full procurement is a significant piece of work for a contract this size that would require additional resource to deliver the procurement at a cost to the Council including project management, legal support, and service redesign resource.
- Due to the Welfare Reform changes which mean a changing requirement for service delivery over the next 4-5 years it will be difficult to stipulate the requirements clearly for a future contract including the length of contract that should be considered. If UC continues to roll out as per the current plan the requirements for the Housing Benefits service will significantly change and most likely reduce. At this stage it is difficult to be clear on the expectations due to the number of changes that have happened to the planned UC roll out over the last 2 years.
- Likely to require significant upfront investment for systems if the Capita system isn't utilised.
- Risk to service delivery during transitional phase
- Due to the levels of uncertainty there is no guarantee a suitable partner would be found to deliver the service; anecdotal evidence of recent procurements in other local authorities suggests that market interest in providing this service may be low and that the Council might be faced with a limited choice of provider

Summary and conclusions

5. Universal Credit provides a major environment of uncertainty as the future provision of the Revenues and Benefits service is considered. In particular, although the roll-out is around eight years behind original timeframes it is still intended that all working age Housing Benefit claimants will be migrated onto Universal Credit by, as currently envisaged, 2022. This would represent around 60% of such claimants and around a third of the existing total contract value. Subsequently, pension age Housing Benefit claimants will be migrated

onto Universal Credit (although no timescales have yet been published) which would leave the service at around half of its current size.

6. Effectively, this means that whilst very significant changes to the service can be expected in the medium term it is very difficult to specify the service requirements over the next 5 to 10 years, and significantly influences our conclusions.
7. Extending the existing contract with Capita (Option 3) is ostensibly the most straightforward and least risky option in terms of securing ongoing service delivery against the uncertain background of the implementation of Universal Credit. As this would be a continuation of the existing service, systems, resources and service agreements are already in place. This option therefore attracts the minimum risk to service delivery as well as minimal cost to the Council as the only work required would be to complete any necessary paper work associated with the extension. There would also be opportunity to renegotiate certain aspects of the contract to ensure effective management of the contract could take place and a high quality service was delivered for the next five years. As noted above, there are existing performance issues with the Capita contract that have arisen in recent periods. The contractor has responded positively to our issues and is making efforts to address these, and it is expected that these performance issues will be addressed in the next few months. Assuming that existing performance issues are addressed, the inherent low risk of service discontinuity together with the ability to create flexible solutions (and in particular the ability to specify a shorter contract term than would likely be necessary in the case of a full procurement) , indicate that this option be considered in more detail.
8. An attractive alternative to extending the contract with Capita is the possibility of participating in the existing Leicestershire Revenues & Benefits Partnership (Option 2). Whilst a higher level of implementation risk would be anticipated this solution also offers a reasonable level of resilience in a public sector model which would avoid the private sector profit margin. The Partnership has been in operation for a number of years now and the current performance levels indicate a consistently high standard of service delivery across all partners. The scale of Partnership operations offers the ability to be flexible in service delivery that would be case in the where there was standalone in-house service delivery. In addition, the Partnership provides the opportunity to share management structures as well as IT systems allowing possible cost savings through economies of scale whilst still remaining focused on service delivery. This report therefore recommends that this option should be pursued in more detail.
9. Conversely, the other options presented are significantly less attractive. Bringing the service back in house (Option 1) may save money but the inherent lack of resilience in such an arrangement creates an increased risk in ongoing service delivery combined with a reduced capacity to react to changes arising from the government's Welfare Reform agenda as compared to a larger service structure. For example hosting of the necessary IT system and lack of availability of specialist skills and knowledge could both impact on cost and service delivery. Ultimately, this lack of flexibility, which is seen as key weakness given the underlying issue of operational challenges arising from the

Universal Credit roll-out might have to be addressed through additional resourcing which would reduce any initial cost savings identified.

10. Undertaking a full-scale re-procurement is also unattractive. A key challenge of going down this route would be to specify the contract over an extended period of time. This is likely to result in a less flexible solution due the extended contract term required of contractors. The procurement process would be very expensive in comparison to the preferred options whilst the likely length of contract term that would be required – maybe 10 years – may not be appropriate in the context of existing uncertainty associated with Universal Credit roll-out.
11. As well as the Council, a major procurement exercise is also expensive for prospective contractors. Given the uncertainties around Universal Credit (which will shrink existing housing benefit workloads) and general market sentiment towards outsourcing it is possible that market interest in the Charnwood service may not be strong; certainly in comparison to the time of award of the existing contract, there are fewer prospective contractors in the market, and anecdotal evidence from a recent procurement in a London Borough is that only two contractors expressed an interest in the contract, one of whom was subsequently ruled out on the grounds of financial stability.
12. Given the pros and cons identified for each of the options, and the underlying uncertainty around the future shape of the Revenues and Benefits service, this report therefore recommends that Options 2 and 3, as outlined above, are pursued in more detail in the next phase of the appraisal process.