

## Performance and Finance Select Committee

26 June 2015

### Capita Contract Review

#### Report by Executive Director Corporate Resources and Services and Head of Commercial Services

##### Executive Summary

The County Council entered into a 10 year contract with Capita to deliver a range of back office support functions including IT services. The Contract is delivering a 20% saving on the cost of providing the service prior to outsourcing resulting in over £10m saving since contract signature. The contract is now in year three and it is considered to be good commercial practice to take stock of our partnership with Capita and undertake a review to ensure both robustness and flexibility for the future. The strategic landscape has also changed considerably since the Partnership was put in place in October 2012.

The following report sets out more detail on the Review which has been undertaken and outlines a number of areas which are currently being considered to address its findings.

##### Recommendations

The Committee is asked to:

- (1) note the progress being made as part of the review;
- (2) support the next steps which will be undertaken as part of the Reset activity; and
- (3) receive a progress report in 3-6 months' time.

#### 1. Context

- 1.1 The County Council entered into a 10 year contract with Capita to deliver a range of back office support functions including IT services. The contract is now in year three and it is considered to be good commercial practice to take stock of our partnership and undertake a review to ensure both robustness and flexibility for the future. Since signing the contract the County Council has been in a state of Transition until it reaches Business As Usual. Transition is now also nearing its conclusion and the timing is right to look at the potential for future development.
- 1.2 The strategic landscape has changed considerably since the Partnership was put in place in October 2012, and the view of Cabinet Board and Corporate Leadership Team is that it is not presently enabled to work as effectively as it could. Following transition further improvements will also be sought in the quality of service delivery.

- 1.3 A Performance Framework is in place to monitor Capita's performance on the contract. This is defined by a series of Key Performance Indicators (KPI's) and Performance Indicators (PI's). There are 135 Key Performance Indicators and 76 Performance Indicators that are measured monthly, quarterly and some annually. In the last quarter, January 2015 – April 2015, only 18 KPI failures were recorded. This represented on average a 96.67% pass rate each month. The annual average currently stands at 96.67%. In the last quarter January 2015 – April 2015, 17 PI failures were recorded. This represented on average a 95.71% pass rate each month.
- 1.4 Whilst the review may lead to changes in the service operation or the governance model, this is not intended to lead to a full re-negotiation of the contracts. The County Council is not expecting to make any decisions in the first phases of activity within the Reset which would require Cabinet Member decision. The activity which results from the review and the subsequent Reset activity should be undertaken within the parameters of the original procurement and scope of the contracts. If any of the subsequent activity results in the need for a Cabinet Member decision this would be dealt with under a separate report.

## 2. **Proposals**

### **Aim of the Review**

- 2.1 The objectives of the review were to:
- Understand operational effectiveness in delivering the services;
  - Confirm Capita are enabling best practice;
  - Understand financial issues and align commercial perspectives see paragraph 2.6;
  - Identify a clear framework around governance, management and flexibility;
  - Create a long term, sustainable, strategic approach to working in partnership; and
  - Deliver best value to residents
- 2.2 In order to achieve these outcomes the following key areas of activity were undertaken: an operational diagnostic; an evaluation of the contracts; and a programme of stakeholder engagement.

### **Operational Diagnostic**

- 2.3 The operational diagnostic used an industry benchmarking exercise with the aim of examining in more detail the performance of the services. This reviewed how the services were being managed and delivered and looked at areas such as forecasting; work allocation; quality; waste and non value adding activity. The scope included a review of Capita Office Services covering the administration activity on the sites of Chichester, Bognor Regis, Horsham and Worthing. This also included HR, Payroll, Staffing and Pensions and the Contact Centre.

- 2.4 As with any review of operational activity the findings highlighted that there were a number of opportunities and concerns which should be addressed. These included the potential for value to be unlocked within, for the most part, Capita's operational control and the ability to deliver additional tangible improvements in the services. These recommendations will be picked up as part of the Reset phase of activity as outlined in section 3.

### **Evaluation of the contracts**

- 2.5 The County Council undertook an independent evaluation through external consultants to review the contracts in respect of five key themes:

1. Assessment of Contracts versus Original Objectives
2. Benchmarking: Indicative Market Price Comparator
3. Assessment of Contracts' Commercial Parameters ("Profit & Loss")
4. Assessment of Partnership Working Arrangements
5. Assessment of Fit/Flexibility to meet Future Requirements

- 2.6 The following sets out the key conclusions from the evaluation:

- Assessment of Contracts versus Original Objectives: The contracts have achieved their primary objective (20% cost reduction) while maintaining a satisfactory level of service. This finding is supported by the KPI performance and customer satisfaction surveys data. Like many other outsourcing relationships however, other strategic objectives, such as external partnering have to date achieved limited success.
- Benchmarking: Indicative Market Price Comparator: With a few exceptions the ITO and SSO pricing is demonstrably in the lower quartile of market benchmarks.
- Assessment of Contracts' Commercial Parameters ("Profit & Loss"): P&L analysis highlighted a number of cost pressures. In addition to the savings which the County Council has already secured there is a £500k efficiency savings challenge over the next 2 years in total, which was set out as part of the County Council's budget book. Being able to unlock transformation is considered to be the best lever for addressing these pressures.
- Assessment of Partnership Working Arrangements: Analysis confirmed that the contractual terms and conditions are in line with good practice. However, there is evidence that the Partnership is not delivering the transformation or potential value that it could, or that the County Council would desire in future. In order to move forward successfully the Partnership will need to address existing issues in terms of: clarity of strategic objectives for the Partnership looking forward; undertake a review of the KPIs to ensure they are driving the right behaviours and outcomes; reaffirm the governance for the Partnership; reset the culture; undertake some more proactive communications; and consider areas for transformation.

- Assessment of Fit/Flexibility to meet Future Requirements: Like all long term outsource relationships, the Partnership contract, services and relationship will need to flex over the coming years and this contract provides the framework.

## **Stakeholder Engagement**

- 2.7 A stakeholder engagement programme ran concurrently with the other key strands of activity. This engaged with key stakeholders across Capita, the County Council and Unison around a set number of questions. The aim was to gain a better understanding of how the contract is perceived at the point of delivery as well as explore how services were changing to identify any potential future impacts. This activity also utilised inputs from the Great Place to Work survey and other user surveys.
- 2.8 The interviews identified the following themes:
- Improvement in Communication
  - Lack of ownership by all parties
  - Accountability for services is not always clear
  - Maximise greater flexibility
  - Better understanding of each other's outcomes
- 2.9 At the same time that the review activity was taking place Unison South East Regional Office funded a time limited research study. Since October 2012 when circa 600 staff were TUPE-transferred to Capita, UNISON West Sussex has received significant feedback from its members about the new ways of working, both from members who had become the 'customers' of Capita now supplying a range of services to Council staff, and from members who work for Capita. The Branch wanted to understand more about the detail of what was happening, what was working well, what could be improved, and what the impact was on staff who relied on the services, and on those who work for Capita. At the time of finalising this report the County Council was waiting for the Unison report to be finalised and shared.

## **3. The Reset Phase**

- 3.1 The County Council and Capita remain committed to the partnership. The challenge for both organisations will be to work through the next phase of activity so that the findings from the review can be fully explored to gain the best results and benefits for our customers, partnership and potential future growth.
- 3.2 Capita have been fully engaged and supportive of the process that has been embarked upon and are working with us around the proposed activity that is now required.
- 3.3 The original objectives of the review have been achieved and there are now recommendations of work which will be required to deliver and unlock the potential improvements, efficiencies and opportunities for the Partnership. In order to progress, planning for a second phase, Contract Reset, is currently underway, which seeks to act on the key recommendations identified by the Contract Review. The following areas would need to be addressed by the Partnership:

- Reset the Partnership objectives
- Put in place operational / management frameworks to ensure best value is achieved
- Track end to end activity and ensure clear understanding of where impacts to customer service occur
- Reset the values and behaviours around how both organisations work most effectively together
- Provide improved joined up communication and engagement across both Capita and the County Council
- Review KPI's to ensure that they are customer focussed in their outcomes and for the KPIs to become more qualitative than quantitative to drive the right behaviours across the Partnership
- Reaffirm the governance structure that manages and provides oversight to the Partnership

#### **4. Consultation**

- 4.1 The review phase has been led by Cabinet Board supported by a small officer Steering Board. Individual briefings have also taken place with the Leader, Cabinet Member for Finance and Cabinet Member for Corporate Relations throughout. The West Sussex Capita Partnership Board has also had oversight of the review and its activity.
- 4.2 The review phase has included a number of opportunities to engage with a variety of stakeholders directly as a separate strand of activity as described above but also as part of the discreet pieces of work. It is expected that on-going stakeholder engagement and consultation will take place as the Reset phase progresses.

#### **5. Resource Implications and Value for Money**

- 5.1 The Reset phase of activity will incur additional one off costs in order to support the changes which are required. These are currently being assessed in greater detail as the programme of activity is developed. It is expected that there will be a requirement for some additional resource and specialist expertise. Once the actual level of finance resource is known this will be subject to the appropriate decision making process.
- 5.2 The outline proposals for the next phases of activity contribute to the County Council's overall corporate priorities as well as protecting the savings which the contracts have already secured. The Reset will not seek to change the good value for money which the independent benchmarking has evidenced was achieved (see paragraph 2.6). However there are thought to be further opportunities which could unlock additional value for the Partnership.

#### **6. Risk Management Implications**

- 6.1 The risks to the County Council as part of the review phase were limited to securing the appropriate internal and external resources to undertake the required activities and ensuring the key areas of work delivered against expectations and in a timely manner.

6.2 Further risks are being identified as part of the next phase and where required the appropriate mitigation will be put in place. These may include:

- The partnership is unable to realise the value adding activity
- A poor performing partnership leading to a lack of innovation coming into the County Council
- Reputational damage to both organisations
- Ensure that there is not a detrimental impact to the level of service delivery
- Financial risks which might result if the savings achieved are affected
- A number of risks associated with the level of resources required and ability to be able to implement the activity effectively

## 7. **Impact of the proposal**

**Equality Duty.** An Equality Impact Report is not required as this is an information report for the Select Committee and at too early a stage to assess any potential impact under this duty. An EIR will be completed in time should any decisions arise from the further activity which will be undertaken.

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### **Background Papers**

None