

Cabinet Member for Finance and Resources

Ref No.
FR54(10/11)

Procurement of an Outsourced Back Office Services Partner

Key Decision:
Yes

Report by Executive Director, Customers and Change

Part I
Electoral Divisions: NA

Executive Summary

This report outlines the business case to outsource a range of back office services to achieve a £5.8m (circa 20%) annual saving. This project forms part of the County Council's £79m savings plan. Based on a 10 year contract term this proposal represents a £5.8m saving with procurement costs of £577k and helps meet the County Council's objectives to reduce the cost of bureaucracy by 30%.

Recommendations

The Cabinet Member is recommended to approve:

1. The commencement of procurement of the services detailed in paragraph 2.2 and the letting of a contract for up to 10 years.
2. That authority is delegated to the Executive Director, Customers and Change to award the contract to the bidder(s) submitting the most economically advantageous tender(s).
3. To approve the procurement of the supplementary services described in paragraph 4.4 to enable the procurement to be delivered on time, should such external services be needed.

1. Background

Initial assessments indicate that the County Council could save £5.8m per year through outsourcing a range of back office services. Informal market testing indicates the savings are achievable.

2. Discussion

2.1. Introduction

Senior officers are currently evaluating a range of options to source back office services at a lower cost. All options will require procurement so approval is being sought now so that preparation can begin on the required procurement documentation and producing the specification of services.

2.2. Services being considered

The following services are being considered for outsourcing:

Human Resources

- Pensions Administration
- Payroll
- Transactional HR
- Job Evaluation
- HR Management Information
- HR Management Advice
- Training administration
- Health and Safety

Customer Service

- On-line Service Delivery
- Contact Centre

Finance

- Accounts Payable

Other

- Procurement Administration
- Office Services
- Any remaining in-house IT Services

Other options will also be explored during the procurement process to understand how improved back office systems and processes could be better used to unburden front line professionals from undue administration.

2.3. Options Appraisal

A number of options have been considered and the focus has been to pursue the option which was perceived as the lowest risk with the greatest potential saving, based on the experiences of other public sector bodies that have successfully outsourced a similar range of services. The proposal has been further developed and supported by soft market testing with the private sector to improve confidence in the business case.

2.4. Partnership working

The County Council has had conversations with a number of other public sector partners as to how it could enter into partnerships to deliver even greater potential savings through an increased economy of scale. The County Council will ensure that the services within the contract are made available to other public sector partners.

2.5. Recommended Procurement Strategy

Soft market testing indicated that the full-range of back office services being considered is packaged as a single contract with a single supplier. This approach simplifies accountability, minimises the contract management burden on the Council and is likely to attract greater investment in transforming services. The procurement will follow a competitive dialogue process. Those bidding will be asked to develop solutions that favour local delivery wherever possible to minimise the impact on the local economy of any job losses. Any proposals to move jobs out of the county will require a significant financial benefit.

The contract duration of 10 years is not untypical for this type of transactional based activity. The external provider is expected to make an investment in

technology and capital assets to improve efficiency and can do so in the knowledge that they will achieve a return on their investment over the life of the contract.

2.6. Proposed Timetable

It is important the County Council allows sufficient time during the procurement process to specify, validate and negotiate the right outcomes. This approach will give greater returns and minimises risk through poorly specified services.

The procurement is 19 months. Other local authorities have achieved timescales of 18 – 24 months on this scale and type of procurement.

The timetable is challenging but reflects the financial pressures the County Council is under. A shorter timescale would not be recommended for a number of reasons including:

- The need to allow sufficient time to negotiate the right outcomes for the Council,
- Workforce implications including consultation and the complexity of a large scale TUPE transfer,
- The time needed to agree the right contractual terms.

The proposed timetable is shown below:

Phase	Dates
Publish OJEU	May 2011
Initial Market Selection	May – July 2011
Prepare Specification	May – July 2011
Prepare evaluation	August 2011
Evaluation outline bids	September – October 2011
Dialogue workshops with bidders	November – December 2011
Evaluate detailed bids	January – February 2012
Design client side arrangements	March – April 2012
Evaluate final tenders	May 2012
Preferred bidder announcement (10 day legal Alcatel period)	June 2012
Contract finalisation	June – July 2012
Contract Award	August 2012
Service Commencement	November 2012

3. **Consultation**

Unison has been briefed on these plans and communication with the affected staff is being planned for before the OJEU (Official Journal of the European Union) notice is published. Cabinet Members have also been consulted through a number of briefing papers and discussion.

4. **Resource Implications and Value for Money**

4.1. Business case governance

This project will follow the County Council's Change Management Framework which will review the continued validity of the business case. A full business case will be presented to Change Board prior to contract award.

4.2. Cashable Savings

This project is expected to deliver a saving of £5.8m a year from the gross cost of services. Depending on the final outcome this project will see around 800 posts transfer from the Council to other employers. Savings for partners will form part of on-going discussions throughout the procurement.

A key benefit of outsourcing is that the service provider carries a large share of the risk in realising benefits and delivering to the Council as a cashable saving. An external provider would also bring pace and capacity to deliver savings more quickly.

4.3. Non Cashable Benefits

The key non-cashable benefits are:

- An improved focus on the County Council's core business
- Improved opportunities for career progression and redeployment of staff in organisations which specialise in back office and support services

4.4. Project Costs

What	Cost	Justification
IT equipment and services	£17,000	Providing a secure procurement environment
External legal support	£100,000	Capacity and specialist skills
External procurement and programme management support	£450,000	Procurement expertise to reduce risk of legal challenge and bring additional capacity
Venue hire, catering , travel and marketing	£10,000	Bidder workshops and reference visits
TOTAL	£577,000	

Funding of the above costs will be allocated from the Change Plan funding.

The costs associated with preparing for and processing such a significant outsourcing of services within the planned timetable are difficult to specify exactly so the above figures are indicative. It may be possible for much of the advice and process activity to be delivered in house but some allocation of funds for the procurement of specialist or supplementary services may be needed.

5. **Risk Management Implications**

The main risks associated with this proposal are:

- Adverse reaction from staff and trade unions,
- Poorly specified service requirements leading to erosion of savings,
- Insufficient commercial management arrangements to drive savings, manage outcomes and ensure contract compliance could impact service quality and erode savings,
- Failure to re-align internal processes to new arrangements,

- Cultural risks inherent with working alongside external partners,
- The potential impact on local employment,
- All services being provided by a single organisation and the aggregate effect that could have on continuity of service and local provision if the external provider organisation fails.

The evaluation criteria will ensure external providers are established and capable of delivering services which mitigate the above operational and commercial risks.

Good management will ensure the County Council has proper ownership of the services to ensure value for money and accountability, including the management of the contract outcomes. This will include penalties for poor performance, robust contract management and annual performance reviews. The County Council will retain control for the branding of services, through communications and publicity for the delivery of the services.

The County Council will still be accountable for ensuring the quality of services to our customers, residents, businesses and visitors

6. Customer Focus Appraisal

Not applicable.

7. Crime and Disorder Act Implications

Not applicable.

8. Human Rights Act Implications

Not applicable.

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Background Papers

N/A