

	<h2>Policy and Resources Committee</h2> <h3>11 December 2018</h3>
Title	Review of Capita Contracts
Report of	Leader of the Council
Wards	All
Status	Public (except Appendix C, which is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972)
Urgent	No
Key	Yes
Enclosures	Appendix A – Updated Strategic Case Appendix B – Financial Model Assumptions Appendix C – Financial analysis (contains exempt information) Appendix D – Equalities Impact Assessment, Finance and Strategic HR
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Summary

This report summarises the work to date on developing the business case for realignment of the Capita contracts as agreed by the Committee on 19 July 2018. It sets out the findings of the analysis of the three options identified in the July report, and concludes that further detailed analysis would be needed to form the basis of a sound recommendation to the Committee in relation to the totality of the Customer Support Group (CSG) and Development and Regulatory Services (DRS) contracts.

In addition to this options analysis, officers have focused in detail on two services: Finance and strategic Human Resources (HR). These services were chosen due to their strategic importance and concerns about the performance of the Finance service. Based on this detailed analysis, the report recommends that these services are returned to the council as a matter of priority, subject to the outcome of public consultation.

The report also notes that the development of a comprehensive full business case covering all services would require significant further work. Consequently, it recommends that future delivery arrangements should be considered for prioritised groups of services in turn; and that the findings of each phase of analysis be reported to this Committee for decision. This approach does not preclude the return of all services to the council.

The report recommends that in the meantime, the council should continue to work collaboratively with Capita on the future of services, using existing partnership working and contractual levers to drive service improvement.

Finally, the report recommends public and Best Value consultation on the approach set out in this paper and the future of services.

Officer Recommendations

That the Committee:

- 1. Notes the work undertaken in developing a business case for the realignment of the council's contracts with Capita, and the findings of the analysis to date, as set out in paragraphs 2.2 to 2.38.**
- 2. Agrees that further analysis is required to allow the Committee to make informed, robust decisions on the future delivery of the Customer Support Group and Development and Regulatory Services contracts, and the impact on the future of the RE Joint Venture.**
- 3. Notes the findings of the in-depth analysis of the Finance and Strategic Human Resources (HR) services, as set out in paragraphs 2.41 to 2.51.**
- 4. Authorises the Chief Executive to take all reasonable action to prepare to in-source Finance and Strategic HR services by 1 April 2019. Further authorises the Chief Executive, in consultation with the Chairman of the Committee, to consider the responses to the consultation (due in February 2019) and proceed with implementation of the proposal, if appropriate.**
- 5. Agrees a revised approach to completing the review, which considers groups**

of services on a phased basis, as set out in paragraphs 2.52 to 2.57.

6. **Agrees that consultation on the future approach to all services should take place, as set out in section 5.8.**
7. **Agrees the draft service groupings and prioritisation set out in paragraphs 2.58 to 2.63 as the basis for consultation. Following this consultation authorises the Chief Executive, in consultation with the Chairman of the Committee, to agree a programme for reviewing services; the programme to be updated from time to time by the Chief Executive in consultation with the Chairman of the Committee with a view to completing the review as rapidly as possible.**
8. **Approves the budget allocation for the next stages of the review and the implementation of the proposed in-sourcing of Finance and Strategic HR as set out in paragraph 5.2.2**
9. **Agrees that the council will continue to work with Capita to seek to reach a collaborative negotiated solution to the future of the contracts.**
10. **Agrees that while the review is underway, the critical task of service improvement should continue to be driven through partnership working and contractual levers.**

1. WHY THIS REPORT IS NEEDED

Background

- 1.1. At its meeting on 19 July 2018, Policy and Resources Committee considered a report setting out proposals for reviewing the council's strategic partnership with Capita. The report set out three broad options for the future of the partnership, covering both the CSG and the RE contracts in their entirety. These were:
 - Option 1: Maintain the status quo in relation to the contracts.
 - Option 2: Re-shape the contracts to better align service delivery to the council and Capita's strengths and priorities.
 - Option 3: Bring the partnership to an end and either bring services back in house or re-procure them.
- 1.2. It was resolved at that meeting that the Committee:
 - 1) Agrees to review the council's partnership with Capita, and authorises the Chief Executive to develop a Full Business Case.

- 2) Agrees that the proposed strategic aims underpinning the Full Business Case should be to:
 - a) Deliver high quality services;
 - b) Secure best value for money for Barnet's residents; and
 - c) Strengthen the council's strategic control of services.
 - 3) Notes the three options identified and considered in more detail in paragraphs 2.4 to 2.7 and Tables 1 to 4 [of the July report].
 - 4) Agrees that option 2 – realigning the CSG and DRS contracts to bring back in house those services listed in Table 5 [of the July report] – is the proposed preferred option to be tested in the Full Business Case.
 - 5) Agrees that option 3 is fully tested and considered in the Full Business Case.
 - 6) Agrees that the Full Business Case should review the joint venture arrangement for the delivery of Development and Regulatory Services.
 - 7) Agrees that the Full Business Case should be considered by Policy & Resources Committee, for referral to Council for final decision.
- 1.3. The report highlighted the significant financial benefits that have been delivered by both contracts since their commencement in 2013, but also noted various issues in respect of service performance across the two contracts.
 - 1.4. The report concluded that it was timely to take stock of the partnership, including the joint venture arrangement for the delivery of the DRS contract, and consider the most appropriate approach going forward.

Progress to date

- 1.5. Since the July report, work has been going on to secure and analyse the detailed information required to develop a robust business case comparing Options 2 and 3 with the status quo (Option 1). The findings of this analysis are set out in paragraphs 2.2 to 2.38 below.
- 1.6. Information gathering and analysis has been undertaken at a high level for all services and, in light of their strategic importance and performance concerns in some areas, has focused in more detail on the Finance and strategic HR services. One of the key findings of the detailed work on these two services is that the broader, high-level findings do not provide a level of certainty on the potential costs of in-house provision that would support sound decision-making

at this point. The report therefore recommends changing the approach to reviewing the contracts, to consider groups of services in a phased programme of work.

- 1.7. The detailed analysis also leads to the recommendation that the Finance and strategic HR services are returned to the council as a matter of priority.
- 1.8. Alongside development of the business case, work has also been carried out to resolve a number of commercial issues that have arisen between Capita and the council in the first five years of the contracts, such as the implementation of an adult services I.T. system (Mosaic), housing development on council-owned land, and the operation of the procurement gainshare arrangements. A settlement of these historic issues has now been agreed, and £4.12m will be paid by Capita to the council, as agreed by Urgency Committee on 30th November. The settlement also includes the end of the procurement gainshare and guarantee arrangements in respect of the CSG contract.

2. REASONS FOR RECOMMENDATIONS

DEVELOPMENT OF THE BUSINESS CASE

- 2.1. The council's project management toolkit requires that a Full Business Case sets out, for each option, the advantages, disadvantages and risks of that option; and that for the preferred option a detailed financial appraisal is undertaken. For more significant projects, best practice is to adopt the Treasury's 'Five Case Business Model Approach', which involves:
 - A **strategic case** – a robust and evidence-based case for change, including the rationale for intervention, and a clear definition of the outcomes to be achieved
 - An **economic case** – identifying and appraising a 'long list' of realistic and achievable options, to assess how well they meet the objectives and critical success factors agreed for the scheme; and subjecting a short list of options to cost benefit analysis to identify a "preferred option".
 - A **commercial case** – typically this focuses on ensuring that the preferred option will result in a viable procurement and well-structured deal. In this case, the emphasis is on commercial deliverability, given the starting point of the existing contractual relationships.
 - A **financial case** – to demonstrate that the preferred option will result in a fundable and affordable deal.
 - A **management case** – to demonstrate that the preferred option can be delivered successfully.

Strategic case

- 2.2. The strategic case for reviewing the relationship with Capita remains, in essence, as it was in July. For completeness, an updated version is attached at Appendix A. In summary, the key points are:
 - a) Both contracts have delivered significant financial benefits since their commencement in 2013, and Capita have been instrumental in delivering efficiencies and service improvements across a range of services, for example savings of at least 25% of day to day running costs have been saved in CSG by operating a number of transactional services from outside Barnet. There has also been a significant increase in income from services delivered through RE.
 - b) Whilst some services are performing well, there have been various issues in respect of service performance across the two contracts, some of which have been persistent.
 - c) The robust application of contractual mechanisms has delivered the required improvements in some areas, but in others it has become clear that the issues are much deeper and require a more fundamental re-think of the approach to service delivery.
 - d) The rapidly changing environment in which the council is operating has accentuated the need for the council to increase the level of direct control it exercises over the levers that affect its strategic direction.
- 2.3. Performance issues in respect of the contracts have centred on the finance, estates and human resources for CSG, as noted in performance and audit reports. For RE, concerns exist in respect of the capacity of the highways service and the complexity that exists between commissioning and delivery teams. These issues have been reported to the relevant committees, most recently with the Grant Thornton report to Audit Committee on 22nd November 2018. Were these services to be in-sourced to the council, this would not necessarily directly lead to an improvement in performance, but it would give the council an opportunity to directly manage and drive the necessary improvements, and integrate teams into existing commissioning functions.
- 2.4. Conversely, some other services have performed well through CSG and RE. For example, the revenues and benefits service has delivered significant savings, increased income and performed well against performance indicators for benefits processing.
- 2.5. Against this background, Committee agreed that it was timely to take stock of the partnership with Capita, including the joint venture arrangement for the delivery of the DRS contract, and consider the most appropriate approach going

forward. Committee also agreed three aims to guide the development of a business case:

- i) To deliver high quality services;
- ii) To secure best value for money for Barnet's residents; and
- iii) To improve the council's strategic control of services.

Economic case

- 2.6. Work to develop the economic case has focused on the financial costs of each of the three options outlined in the July report: Option 1, the status quo (which forms the baseline for comparison); Option 2, amending the contracts to bring some services in-house; and Option 3, ending the relationship with Capita. A preliminary assessment of non-financial costs and benefits has also been included.

Financial costs and benefits

- 2.7. A financial model has been developed, which assesses for each option:
- a) **Exit costs:** payments that must be made by the party that is terminating a contract to the other party. This would include items such as compensation for loss of profit, redundancy costs and lease break costs. These are all additional costs to the council.
 - b) **Transition costs:** the one-off costs that would be incurred in changing from the current arrangements. These are all additional costs to the council.
 - c) **Running costs** for in-house services, which could be higher or lower than at present, and so could represent a cost or a benefit to the council. The financial analysis presents the full running costs for services under each of the three options for comparison.
- 2.8. The assumptions underpinning the calculations in this section are set out in Appendix B. Two important assumptions in particular should be noted. First, Option 2 is assumed to be taking back the package of services proposed in the July committee report and set out in Appendix A, although other combinations of services are possible. Second, for the purposes of the modelling below, Option 3 is defined as taking all services back in-house to be run by the council. A broader analysis of Option 3 could also consider re-procuring services with an alternative provider; this variant has not been modelled at this stage.
- 2.9. It should also be noted that the results of the high-level modelling of Options 2 and 3 is a work in progress. It is not presented as accurate or complete, but as the progress made so far based on the available information and a set of assumptions. Accordingly, costs are presented as a mid-point of the range of estimates calculated so far in the analysis. It is recognised that the range

around the mid-point is significant and is too large for robust decision taking on the options at this time.

a) Exit costs

- 2.10. The DRS and CSG contracts provide for termination, either in full or in part, where either party is in default or at the council's discretion ("at will"). Exit costs vary significantly depending on whether termination is for default or at will. If the council were to decide to implement option 3 as matters currently stand, this would be a termination at will, and these are the costs that have been used in the assessment.
- 2.11. The exit costs for an "at will" termination would only become certain at the point of termination, and both Capita and the council have a duty to mitigate costs. Because the level of these costs is likely to be subject to negotiation, it is not in the council's interests to disclose them at this stage. Officers' best assessment of these exit costs is therefore set out in the associated exempt report.

b) Transition costs

- 2.12. Transition costs would primarily be made up of project team resource, including HR support and legal advice. If services that are currently provided by Capita are re-procured rather than brought in-house, there would be further additional costs associated with that process.
- 2.13. Estimated transition costs, although not of themselves commercially sensitive, have been included in the exempt report as, if they were public, the other commercially sensitive numbers could be inferred.

c) Running costs

- 2.14. The current ongoing running costs for these services are the management fees that are paid for the delivery of services under the two contracts, along with any revenue fees for special projects or additional services. Management fees were set at the time the contracts were let, with any adjustments to reflect agreed changes in service levels actioned through contract change notices. The apportionment of the management fees is defined as commercially sensitive material under Schedule 23 of the CSG contract and Schedule 21 of the DRS contract. It is, therefore, set out in Appendix C, which is exempt from publication.
- 2.15. It is important to note that the apportionment of the management fees is based on the financial model that was agreed in 2012, and does not necessarily reflect the current actual costs to Capita of delivering the services. If the actual cost of running a given service is higher than the model cost, there is a significant risk that the council could import a cost pressure in bringing that service in-house. Similarly, if actual costs are lower than actual running costs, the council

could benefit from a saving, or realise a dividend for investment in service improvement.

2.16. Key factors that would increase running costs through returning services to the council are:

- a) Current actual costs being higher than those anticipated in the financial model that underpins the management fee;
- b) Additional pension costs for staff who acquire the right to join the Local Government Pension Scheme, when they enter council employment (potentially an additional 20% on top of salary costs);
- c) Loss of economies of scale, particularly in relation to service management costs;
- d) Loss of the benefit of income guarantees, particularly on the RE contract;
- e) Additional salary and accommodation costs associated with delivering services from Barnet rather than lower cost locations such as Belfast and Coventry; and
- f) The potential need to buy-in expertise that RE and CSG staff currently access through the Capita Group.

2.17. Factors that would decrease ongoing running costs through in-sourcing are:

- a) Current actual costs being lower than those anticipated in the financial model that underpins the management fee;
- b) Reductions in the cost of contract management (primarily staffing); and
- c) Reductions in the direct cost of service delivery arising from not paying Capita overheads and profit.

2.18. An particular factor in respect of services delivered by RE is the loss of the benefit of the RE income guarantee, whereby RE makes up any shortfall against the contractually agreed level of guaranteed income. That shortfall is projected to be approximately £1m for the current financial year (2018/19), which would create a budget pressure on the council.

2.19. The methodology for assessing the costs of delivering in-house services has been based on:

- a) the views of council officers involved in clienting the contracts of the likely future staffing structure required to deliver the services, and an assessment by client-side HR and Finance of the salary (including pension) costs of that structure. Officers drew on benchmarking and the experience of other councils as appropriate;
- b) council client leads' view of other service-specific costs to run the service (e.g. specialist IT, contracts) using the financial model as a starting point;

- c) an assessment by client-side Finance of other staffing related costs, such as training and printing, based on the council's average current spend per member of staff;
- d) an assessment of the higher costs of accommodation in Barnet, based on the staffing numbers not currently based in Barnet; and
- e) the impact on income guarantees.

2.20. The estimated running costs are set out in Appendix C, which is exempt from publication, as for Option 2 they inform the discount to the management fee, which is a subject for potential future negotiation.

Conclusion of financial assessment

2.21. Cost estimates, based on the mid-point of the calculated range for each option, are set out in table 3 below. A number of the assumptions used necessarily have ranges rather than point estimates, and hence the cost estimates shown below are subject to a variance of up to £22m for CSG and up to £9m for RE (over five years).

Table 1: Financial summary

	Total of exit costs, transition costs, and 5-year running costs*
CSG	
Option 1	£139m
Option 2	£148m
Option 3	£163m
RE	
Option 1	£80m
Option 2	£87m
Option 3	£94m

*4 full financial years and 1 year of 5 months to August 2023.

2.22. The figures above do not include any allowance for optimism bias – that is the tendency of those designing and implementing change projects to underestimate their costs and overestimate their benefits. HM Treasury has published advice¹ on the application of optimism bias, which indicates percentage rates to be applied to the calculation of costs and benefits for different project types.

2.23. The guidance does not identify a rate for insourcing projects. Applying the outsourcing rate of 41% would increase the cost of Option 2 to £209m and

¹ [Green Book supplementary guidance: optimism bias, April 2013](#)

Option 3 to £230m for CSG and £123m and £133m respectively for RE. Option 1 remains unchanged.

Non-financial costs and benefits

2.24. Alongside financial costs and benefits, a full business case should seek to quantify non-financial costs and benefits. Two of the key aims of this contract review – to improve service quality and increase strategic control – represent non-financial benefits and will form a key element of the assessment process. Other non-financial benefits include:

- Flexibility – an in-house team arguably has more flexibility to respond to changing priorities than one operating within the constraints of a contractual relationship. However, an outsourced team operating within a larger pool of specialists has a greater ability to manage peaks and flows of work.
- Labour market impacts – a number of services delivered by Capita are delivered in locations with higher unemployment than in Barnet. Moving jobs from areas of high unemployment to places experiencing skills shortages can have a negative impact on communities and the economy. However, this effect is less pronounced than at the start of the contract, as unemployment rates in Belfast in particular have fallen markedly since 2013.

Commercial case

2.25. The aim of the commercial case is to demonstrate that the preferred solution can be delivered commercially. The sections below set out the commercial case for each of the three options.

2.26. Option 1 represents the status quo, and is deliverable by default, as it simply requires continuation of the existing contractual arrangements.

2.27. Option 2 (bringing back some services), can be implemented commercially through a negotiated agreement with Capita covering:

- the precise scope of services to be brought back in-house; and
- the corresponding price reduction in the current management fee paid to Capita to reflect a reduced level of service provision.

2.28. Under the terms of the Capita contracts, such changes to the scope and price of services can be enacted by a variation to the contract (called a 'Contract Change Notice'), agreed and signed between the parties. This process is

compliant with the Authority's obligations; any proposed change should also be assessed to ensure that it is consistent with procurement law.

- 2.29. Option 3 (termination at will) can be carried out by the council by serving the appropriate contractual notice, within the terms of the Capita contracts. The Authority has the right to do so at any time, but would incur significant financial exit costs associated with this action, as described in the economic case above.

Financial case

- 2.30. The economic case assesses which option offers the best balance of costs and benefits, whereas the role of the financial case is to test that the preferred option is affordable.
- 2.31. Any such assessment would rely on a judgment of the extent to which the additional costs of options 2 and 3 above the baseline option 1 are affordable, within the context of the council's broader Medium-Term Financial Strategy.
- 2.32. Given the range of uncertainty of the cost estimates set out above for options 2 and 3, the council has not yet made an assessment of their affordability. However, it is clear that any increase in costs arising from changes in the approach to service delivery would create a budget pressure, which would need to be considered alongside the broader budget setting process.

Management case

- 2.33. This part of the business case addresses deliverability, project management and governance. Many of the aspects of the management case, such as risk management, are addressed in the "implications" section of this Committee report.
- 2.34. Comprehensive programme governance arrangements have been put in place, in accordance with the council's project management toolkit. The programme board is chaired by the Chief Executive and meets frequently to oversee progress, review risks and consider emerging issues.
- 2.35. For option 1, there is no additional management preparation required, as this represents the status quo.
- 2.36. The chief management challenges arising from options 2 and 3 relate to:
- a) Accurately forecasting costs;

- b) Service transition – including staff transfer (TUPE), IT infrastructure and licenses, contract novation, transfer of assets, accommodation, systems integration, and interface management;
- c) Council restructuring to create structures that can accommodate the services;
- d) Carrying out contractual changes and negotiations; and
- e) Service transformation and improvement.

2.37. With the exception of contractual changes and negotiation, these issues are more complex to manage under option 3 than option 2, due to the number of services involved and the scale of those services. Bringing services back from different parts of the country would involve setting those services up virtually from scratch, including securing appropriate accommodation and carrying out a large-scale recruitment exercise.

Conclusion

- 2.38. In all scenarios, taking the mid-point cost estimates indicates that the status quo is lowest cost and option 3 the highest. However, further consideration of the impact of one-off versus on-going costs will be required before final conclusions are drawn. Nevertheless, despite extensive effort to define and cost the nature of in-house services, and to model the financial implications of altering the contractual relationship with Capita, at this stage the range of potential impacts is too wide (up to £22m for CSG and up to £9m for RE) and the numbers too uncertain to form a robust assessment of the merits of the different options in their entirety.
- 2.39. Analysis to date suggests that to undertake such an assessment would take too long to meet the council's need for rapid service improvement. A phased approach allows a more detailed analysis and focus on each service, which in turn enables the financial uncertainty and delivery risk associated with any decision to in-source to be reduced to manageable levels.
- 2.40. It is, therefore, proposed that a phased approach be adopted, whereby services are examined in detail on a phased basis, with recommendations regarding the future delivery arrangements for each group of services being brought to this Committee upon the conclusion of each phase of work. This approach does not preclude all services being returned to the council at any time, should it be so decided.

FINANCE AND STRATEGIC HUMAN RESOURCES

- 2.41. There has been a more detailed assessment of the Finance and Strategic HR services. These services were prioritised for this assessment in light of the recent performance issues, and because the process of insourcing services under either option 2 or option 3 requires the council to have access to appropriate HR and finance resource. Although this support could be procured separately, as an addition to the service provided by Capita, it would be more efficient to use an in-house function.
- 2.42. Detailed analysis has included agreement on the scope of services to return to the council, involving review of output specifications, staff functions and contracts held. A line by line review of current costs has also taken place, and an assessment of whether each cost was associated with services that would return to the council or be retained by Capita, noting that Capita would retain non-strategic HR and some aspects of the Finance service.
- 2.43. Through a process of negotiation, agreement has been reached that the reduction in the management fee will be based on the current actual cost of delivering the services. Even on this basis, it has been calculated that the council would incur additional ongoing running costs of approximately £400k in 2019/20, principally as a result of increased pension contributions.
- 2.44. The agreed price reductions are related to the content of the contractual financial model, which is defined as commercially sensitive material under Schedule 23 of the CSG contract and Schedule 21 of the DRS contract. They are, therefore, set out in Appendix C, which is exempt from publication.
- 2.45. The c.£400k pressure will increase in future years to a peak of c.£570k in 2022/23 due to the impact of a reducing contract price in the financial model, as well as a lower price reduction in future years in relation to agency costs.
- 2.46. For Finance, the scope of services includes all treasury management and accountancy functions, as well as debt management. It excludes transactional services that are provided from Darlington. For HR, it includes all strategic advice and the service provided by HR business partners and other locally-based staff. It excludes payroll and pensions administration provided from Belfast and Carlisle. In total, this will affect approximately 55 members of staff.
- 2.47. It should be noted that the council has previously committed to developing a self-service HR culture. There is no plan to change the trajectory of this commitment, if the Strategic HR element of the service returns, and all parties will continue to work together to develop and extend this approach, making it simpler where possible.

- 2.48. For both services, Capita will retain the element of the service that is provided to schools on a traded basis. The future delivery options for the traded services will be considered in a later phase of the review.
- 2.49. Subject to the Committee's decision and the outcome of consultation, any transfer will be executed through a Contract Change Notice. As indicated above, the associated adjustment to the management fee has been agreed between the council and Capita. This creates an additional cost pressure of approximately £400k in 2019/20, which will be addressed through the council's budget process.
- 2.50. In order to inform the development and consideration of proposals in respect of Finance and Strategic HR, a detailed transition plan has been developed, covering matters such as:
- a) Completing due diligence on the cost of transferring services;
 - b) Agreement on future support arrangements for the Integra finance system;
 - c) The TUPE process;
 - d) Confirming arrangements for the transfer of assets, licences etc.;
 - e) Mapping and agreeing future interfaces between returning services and those being retained by Capita; and
 - f) Completing the necessary Contract Change documentation.
- 2.51. The proposal will be subject to consultation with the public. It is proposed that preparatory work for the proposed transfer of services is undertaken in parallel with the consultation. This enables a more rapid transfer of services, but the Committee should also note the risk of wasted effort, should the proposal be revised or abandoned as a result of the consultation.

APPROACH TO REMAINING SERVICES

Recommendation to adopt a phased approach

- 2.52. In order to determine the future shape of the two contracts, it will be necessary to carry out a detailed, service by service, evaluation to assess whether or not the benefits associated with securing improvements in service delivery and strategic control for each service justify the cost involved.
- 2.53. Through the detailed work that has been carried out in respect of the ongoing financial impact of returning the Finance and Strategic HR services to the council, it has become clear that carrying out the level of due diligence across all services that is needed to ensure that the council has a sufficiently robust

understanding of the actual cost of delivering those services, would consume a considerable amount of resource and take significant time to complete.

- 2.54. It is not, therefore, considered feasible to set out a full business case that properly considers the future delivery arrangements for all services in one report, within a timeframe that adequately addresses the council's strategic concerns with these contracts.
- 2.55. Instead, officers recommend that the most effective approach would be to continue to review the services provided under the CSG and RE contracts on a phased basis, and that the findings of each phase of analysis are reported to this Committee for decision.
- 2.56. The cumulative effect of this phased consideration could deliver a version of option 2, or it could deliver option 3, albeit by a different route.
- 2.57. It should be noted that this review process is separate from, and additional to, performance management of services through the contract. Placing services in a later phase does not rule out taking contractual action – up to and including partial termination of the contract in relation to that service – to remedy persistent service failure. Similarly, should concerns about a particular service escalate, the review of that service could be brought forward. It is recommended that the authority to bring forward a service for urgent review is delegated to the Chief Executive. It may also be the case that, as learning increases during the process, it would be appropriate to re-order events to take advantage of that learning.

Prioritisation of service packages

- 2.58. Adoption of a phased approach requires prioritisation and packaging of services. Phase 1 is recommended to be Finance and Strategic HR as set out above. Proposals for the remaining phases are set out below, for consultation with the public.

Phase 2: Highways & regeneration

- 2.59. There are significant ongoing performance issues in the Highways service, which have been exacerbated by Capita's inability, for a variety of reasons, to recruit to key senior roles in the service. Members will also be aware that the Grant Thornton review of financial controls identified substantial issues within the Regeneration service. Whilst progress is being made on putting the necessary measures in place to address these performance and financial control issues, it is proposed that the future delivery arrangements for these two services should be prioritised for review as the next phase of activity.

- 2.60. It is proposed that the review of these services (including Skills, Employment and Economic Development) should commence in January 2019, taking place alongside the work on transitioning Finance and Strategic HR back to the council, and that it be informed by the outcome of public consultation (due in February 2019). As part of the review of these two services, consideration will also be given to the impact on the RE joint venture company.
- 2.61. A further report will be brought to this Committee in due course, setting out the findings and recommendations arising from phase 2, as well as the proposed timelines for the next phase of work.

Phase 3 – Barnet based, customised services

- 2.62. It is proposed that the third phase of the review will cover services that are local to Barnet, and which may be less well aligned with Capita's strategic direction of travel. This includes:

- Estates
- Social Care Direct
- Safety, Health and Wellbeing
- Strategic planning
- Procurement
- Insight
- Cemetery and Crematorium

Phase 4 – volume transactional services

- 2.63. The final phase will be high volume transactional services, many of which are based outside of Barnet. These will be considered alongside the Year 7 contract reviews of CSG and RE and will include:

- Revenues and benefits
- Customer services
- Information Services (IT)
- Planning (development management and enforcement)
- Regulatory services
- Transactional HR services (including Payroll and Pensions Administration)
- Any other remaining services

Managing the extended review period

- 2.64. It is recommended that the council should continue to work with Capita to seek to reach a collaborative negotiated solution regarding the future of the contracts, rather than seek to impose change through partial termination provisions, as it is considered that this is likely to lead to a better-informed and more positive outcome.

- 2.65. Where services are to remain under the existing contracts the council will continue to apply a robust approach to managing performance under the contracts, to ensure that service delivery meets expectations and that any issues are dealt with promptly.
- 2.66. This conclusion does not prevent the council from terminating either contract, in whole or in part, and the council will continue to enforce its rights where breaches occur.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1. The Committee could choose to maintain the status quo (Option 1), but this does not meet the strategic aims of the review.
- 3.2. The Committee could choose to pursue one of the Options 2 or 3 without further analysis. However, this is not recommended, as the cost of doing so cannot be confidently assessed.
- 3.3. The Committee could choose to request a full business case as originally agreed in July. However, this is not recommended as it is estimated that it would take a significant time to complete, during which time the council's strategic aims would not be being met.

4. POST DECISION IMPLEMENTATION

- 4.1. If the Committee agrees the recommendations, work will commence immediately on implementing the transition of the Finance and Strategic HR services back to the council. This will include carrying out informal briefing of staff, with formal TUPE consultation commencing in the New Year.
- 4.2. Public and Best Value consultation documents will be finalised in the light of the Committee's decisions, with a view to consultation commencing on Monday 17th December. The outcomes of the public consultation will be reported to this Committee as soon as possible after the conclusion of the consultation process.
- 4.3. Work on the detailed assessment of the most appropriate delivery arrangements for Highways and Regeneration will also commence in the New Year, with a view to bringing the findings and recommendations back to this Committee in due course.

5. IMPLICATIONS OF DECISION

5.1. Corporate Priorities and Performance

5.1.1. The aims set out in the Strategic Case have been designed to ensure high quality, good value services as envisaged in the council's Corporate Plan.

5.2. Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1. On 19th July 2018, Policy and Resources Committee agreed resources of £300k for the development of the Full Business Case. As set out in this report, significant work has been undertaken, especially around Finance and Strategic HR. However, the scale of the work to be completed is considerable.

5.2.2. Therefore, further resources of £600k are required to cover the 6-month period January to June 2019 as follows:

- £350k – Ongoing review of other services, including project team and legal resources; and
- £250k – Implementation of proposals for Finance and strategic HR, as set out in this report, including project and change support and optimisation (including training).

5.2.3. The costs are justified by the scale of the contracts and the importance to the council of delivering best value going forward. The costs will be funded from reserves, which will have been enhanced by the £4.12m commercial settlement agreed by the Urgency Committee on 30 November 2018.

5.2.4. Alongside this report, the Committee is being asked to consider the draft budget and Medium-Term Financial Strategy. That report has been prepared on the basis that the Committee approve the recommendations in this report, i.e. with a budgetary allowance in 2019/20 of £400k to manage the financial pressure from the proposed insourcing of Strategic HR and Finance.

5.3. Social Value

5.3.1. The Public Services (Social Value) Act 2013 requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits. Before commencing a procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.2. The contracts include several requirements that relate to social value, for example the provision of apprentices. The importance of at least maintaining these benefits will be reflected in the review of each service.

5.4. Legal and Constitutional References

5.4.1. Council Constitution, Article 7 (Committees, Forums, Working Groups and Partnerships) provides that the Policy and Resources Committee is responsible for 'Strategic Partnerships'.

5.4.2. Detailed legal support is being provided to ensure that the council meets its legal obligations, for example in relation to public procurement regulations.

5.4.3. Under the Local Government Act 1999 there is a duty to consult:

3.— The general duty.

(1) A best value authority must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

(2) For the purpose of deciding how to fulfil the duty arising under subsection (1) an authority must consult—

(a) representatives of persons liable to pay any tax, precept or levy to or in respect of the authority,

(b) representatives of persons liable to pay non-domestic rates in respect of any area within which the authority carries out functions,

(c) representatives of persons who use or are likely to use services provided by the authority, and

(d) representatives of persons appearing to the authority to have an interest in any area within which the authority carries out functions.

(3) For the purposes of subsection (2) "representatives" in relation to a group of persons means persons who appear to the authority to be representative of that group.

(4) In deciding—

(a) how to fulfil the duty arising under subsection (1),

(b) who to consult under subsection (2), or

(c) the form, content and timing of consultations under that subsection, an authority must have regard to any guidance issued by the Secretary of State.

Revised Best Value Statutory Guidance - 2015

In considering the duty above, overall value should be considered, including economic, environmental and social value. The guidance reminds the reader about the duty to consider social value at pre-procurement stage (Social Responsibility duty). For the duty to consult the council should consider the

involvement of local voluntary and community organisations and small businesses in the consultation.

As a matter of public law, the duty to consult with regards to proposals to vary, reduce or withdraw services will arise in four circumstances:

- i. Where there is a statutory requirement in the relevant legislative framework as there is in this case.
- ii. Where the practice has been to consult, or, where a policy document states the council will consult, then the council must comply with its own practice or policy
- iii. Exceptionally, where the matter is so important that there is a legitimate expectation of consultation
- iv. Where consultation is required to complete an equalities impact assessment.

Regardless of whether the council has a duty to consult, if it chooses to consult, such consultation must be carried out fairly. In general, a consultation can only be considered as proper consultation if:

- Comments are genuinely invited at the formative stage
- The consultation documents include sufficient reasons for the proposal to allow those being consulted to be properly informed and to give an informed response
- There is adequate time given to the consultees to consider the proposals
- There is a mechanism for feeding back the comments and those comments are considered by the decision-maker / decision-making body when making a final decision
- The degree of specificity with which, in fairness, the public authority should conduct its consultation exercise may be influenced by the identity of those whom it is consulting
- Where relevant and appropriate, the consultation is clear on the reasons why and extent to which alternatives and discarded options have been discarded. The more intrusive the decision, the more likely it is to attract a higher level of procedural fairness.

5.5. Risk Management

5.5.1. The key risk associated with any review of these contracts relates to their scale and complexity. Many months of detailed work and due diligence went into developing the detailed financial models and mechanisms that underpin the contracts. Understanding these, and how they relate to the current setup and operation of services, is critical to making sound decisions in relation to future delivery options. There is a very high risk that decisions may be based on

incomplete or flawed data, leading to the council taking on services that it does not understand and/or cannot afford to operate.

- 5.5.2. A significant risk is that there is further deterioration in service quality, as key people, from both the council and Capita, focus their time and attention on the review process. Alongside the review work, the council is maintaining the established contract management mechanisms and continues to respond robustly to emerging performance issues.
- 5.5.3. There are further risks associated with the uncertainty created by the review process, which may lead to the loss of key personnel. The council is working with Capita to ensure that there is regular, joined-up, communication regarding progress. Dependent upon the outcome of the review process, there is also a risk that some Capita personnel may choose not to move across to the council. This is particularly likely with those staff that are based outside of London. Low unemployment locally is likely to make it hard to recruit to consequent vacancies.
- 5.5.4. Through the process of developing the business case and beyond, it is important that the council continues to comply with its obligations under the contract. For example, should the council behave as if the contract is terminated, it would risk a claim for “repudiatory breach”, which could entitle Capita to recover significant costs and damages. The council is complying, and intends to continue to comply, with its obligations under the contracts so that a such a scenario does not occur.
- 5.5.5. Comprehensive programme governance arrangements have been established. As part of these arrangements, a detailed risk register has been prepared and this is reviewed and updated on a regular basis.

5.6. **Equalities and Diversity**

- 5.6.1. Equality and diversity issues are a mandatory consideration in the council’s decision-making process. Decision makers should have due regard to the public-sector equality duty in making their decisions. The equalities duties are continuing duties they are not duties to secure a particular outcome. The equalities impact will be revisited on each of the proposals as they are developed. Consideration of the duties should precede the decision. It is important that Policy and Resources Committee, or the officer decision maker if the decision is delegated to them, has regard to the statutory grounds in the light of all available material such as consultation responses. The statutory grounds of the public-sector equality duty are found at section 149 of the Equality Act 2010.

A public authority must, in the exercise of its functions, have due regard to the need to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
- (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) Tackle prejudice, and
- (b) Promote understanding.

Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act. The relevant protected characteristics are:

- Age
- Disability
- Gender reassignment
- Pregnancy and maternity
- Race,
- Religion or belief
- Sex
- Sexual orientation
- Marriage and Civil partnership

5.6.2. An initial Equalities Impact Assessment for the return of strategic HR and Finance is attached at Appendix D. This will continue to be revised as preparations to transfer services continue, and in light of feedback from staff and the public.

5.7. **Corporate Parenting**

5.7.1. Capita provide a small number of services to care leavers living in Barnet, most notably in relation to the revenues and benefits service. The continued focus on high quality services through the review process will ensure that these services continue to be provided.

5.8. **Consultation and Engagement**

Public consultation and Best Value consultation

5.8.1. The Best Value consultation will be with the groups identified in paragraph 5.4.3, above.

5.8.2. It is proposed that public and Best Value consultation should focus on:

1. Do consultees agree with the strategic objectives identified in paragraph 1.2 2) above and that these should be the basis for assessing the future delivery arrangements for each service?
2. Are there any other factors that should be considered by the council in reaching a decision on future service delivery arrangements?
3. The proposed prioritisation of services for detailed analysis.

5.8.3. Subject to Committee's agreement to the proposals set out in this report, it is suggested that public and Best Value consultation commences on Monday 17th December 2018 and concludes on Friday 15th February 2019. The consultation process will inform the phasing of the review and decisions in respect of the future delivery of services.

5.8.4. As stated above, the recommendation in respect of the return of Finance and strategic HR is subject to the outcome of consultation. It is proposed that the Chief Executive be authorised, in consultation with the Chairman of the Committee, to consider the responses to the consultation and proceed with implementing the proposal, if appropriate.

5.8.5. The outcome of the consultation and of each phase of the review will be reported to Policy and Resources Committee, as the review progresses.

Staff consultation

5.8.6. Any proposals that involve the transfer of services from one provider to another

(including transfer in-house or to alternative providers) will entail a statutory requirement to provide information and consult with staff representatives under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE). These requirements will be triggered once a decision to transfer services has taken place and prior to any transfer being effected.

- 5.8.7. However, it should be noted that it is good practice to engage with all staff from the point at which any potential for transfer of services becomes generally known, throughout the decision making and transition periods and for a period post transfer (if a transfer takes place). Early engagement with staff assists in managing the risks of staff becoming unsettled or distracted as outlined above. It also assists in preventing loss of key staff during the decision making and transition periods, as well as ensuring the council continues to attract high calibre individuals by maintaining its reputation as an employer of choice.
- 5.8.8. Likewise, early engagement and ongoing dialogue with staff representatives is also good practice, with the aim of early identification and resolution of issues, reaching agreement on processes and approach to managing the workforce aspects of transfer and addressing any issues that may arise at the earliest opportunity so that statutory consultation and the transition itself can run smoothly for affected staff.
- 5.8.9. Finally, work is already underway to agree a joint staff engagement and communication plan between the council, CSG and Re to ensure there is transparent and consistent messaging for all groups of staff and their representatives throughout the coming period. A dialogue has also started with staff representatives and will continue throughout the decision-making process and any subsequent decisions taken by the Committee.

5.9. **Insight**

- 5.9.1. The analysis undertaken to date has been based on the current contractual model, information provided by Capita, and legal review of the contract.

6. **BACKGROUND PAPERS**

- 6.1. Approval of NSCSO full business case:
<http://barnet.moderngov.co.uk/documents/s6649/NSCSO.pdf>
- 6.2. Approval of preferred bidder for DRS services:
<https://barnet.moderngov.co.uk/documents/s9226/DRS%20Cabinet%20Report.pdf>

- 6.3. Capita transformation update:
<https://www.capita.com/news/news/2018/transformation-update-and-proposed-fully-underwritten-701m-rights-issue/>
- 6.4. Year three review of CSG contract:
<http://barnet.moderngov.co.uk/documents/s35999/PCM%20report%20November%202016%20FINAL.pdf>
- 6.5. Year four review of RE contract:
<http://barnet.moderngov.co.uk/documents/s43591/PCM%20RE%20Contract%20Review%20Report%20Nov%202017.pdf>
- 6.6. Report to Financial Performance and Contracts Committee – End of Year 2017-18 Contracts Performance Report:
<https://barnet.moderngov.co.uk/documents/s47149/EOY%202017-18%20Contracts%20Performance%20Report.pdf>
- 6.7. Report to Audit Committee, CAFT annual report:
<https://barnet.moderngov.co.uk/documents/s46044/Appendix%201%20-%20CAFT%20Annual%20Report%20201718.pdf>
- 6.8. Reports to Performance and Contract Management Committee
- Quarter 3 2017-18 Performance Monitoring Report (Part C: Contract Performance):
<https://barnet.moderngov.co.uk/documents/s45224/Q3%202017-18%20Report.pdf>
- Quarter 2 2017-18 Performance Monitoring Report (Part C: Contract Performance):
<https://barnet.moderngov.co.uk/documents/s43586/Quarter%202%20201718%20Performance%20Monitoring%20Report.pdf>
- Quarter 1 2017-18 Performance Monitoring Report (Part C: Contract Performance):
<https://barnet.moderngov.co.uk/documents/s42044/Q1%202017-18%20Performance%20Monitoring%20Report%20010917.pdf>
- 6.9. Report to Policy and Resources Committee, Review of Capita Contracts – Strategic Outline Case:
<http://barnet.moderngov.co.uk/documents/s47263/Capita%20Realignment.pdf>

6.10. Report to Audit Committee, Report of the Chief Executive (Grant Thornton report):

<http://barnet.moderngov.co.uk/documents/s49672/Report%20of%20the%20Chief%20Executive.pdf>

6.11. Report to Urgency Committee, Commercial Settlement of Historic Issues:

<http://barnet.moderngov.co.uk/documents/s49973/21.11.2018%20Capital%20Commercial%20settlement%20-%20Urgency%20Committee%20Report.pdf>

Appendix A: Updated Strategic Case

A1.1 The council has a longstanding approach to service delivery, which is based on commissioning services from whichever organisation can deliver them most effectively, whether this a partner from the private, voluntary and community, or public sector; or an in-house service.

A1.2 In accordance with this approach, the council has two major contracts with Capita. The first, known as the CSG contract, is for the delivery of the council's 'back office' functions, including finance, human resources, customer services and information technology. The second relates to the provision of development and regulatory services (DRS), including planning, regeneration, highways and environmental health.

A1.3 This contract is delivered by a joint venture between Capita and the council², known as Regional Enterprise Limited, or Re. The terms "DRS contract" and "Re contract" are used interchangeably in this report. The contracts began in September 2013 and October 2013 respectively, and run for ten years with an option to extend for up to a further five years. Detailed reports on the performance of both contracts were provided to Performance and Contract Monitoring Committee on 15th November 2016 in relation to the CSG contract, and 28th November 2017 in relation to the Re contract.

A1.4 Both contracts have delivered significant financial benefits since their commencement in 2013, and Capita have been instrumental in delivering efficiencies and service improvements across a range of services. This has been delivered in part through re-locating transactional services into shared service centres located outside of Barnet. The income derived from Development and Regulatory Services has increased significantly, to reduce the net cost of those services from £4.5m per annum to around £600k per annum.

A1.5 Particular benefits have included:

- Significant improvements in resident satisfaction across both contracts
- Investment in technology
- Improved revenue collection rates
- Implementation of Unified Reward
- Improvements in planning and planning enforcement
- Additional savings through, for example, office rationalisation

² The council's involvement in the joint venture is through a separate, council-owned company

Current position & challenges

- A1.6 Whilst the two contracts have delivered significant financial benefits and some services are performing well, there have been various issues in respect of service performance across the two contracts, some of which have been persistent. These have previously been reported to the Performance and Contract Management Committee (now Financial Performance and Contracts Committee) and Audit Committee. In relation to the CSG contract, these have included issues with: financial controls and reporting; pensions administration; estates; and user satisfaction with back office services. In relation to the Re contract, issues have been raised on financial controls and the operation of the Highways service. A number of these performance concerns were also highlighted in the contract reviews that were carried out in 2016 and 2017 of the CSG and Re contracts respectively.
- A1.7 Most recently, the Grant Thornton review, considered by Audit Committee on 22nd November 2018, highlighted significant, ongoing concerns regarding the operation of the finance function.
- A1.8 The council has been robust in applying contractual mechanisms to address these performance issues, claiming service credits and using the various arrangements that are available to require and monitor improvements. In some cases, this has delivered the required improvements. However, in others it has become clear that the issues are much deeper and require a fundamental re-think of the approach to service delivery.
- A1.9 Following the appointment of a new Capita Chief Executive and the publication of the company's 2017 end of year results, Capita set out a new strategic direction for the organisation. Capita's focus in future will be delivering technology-enabled services, at scale, where the company believes it can add the most value to service delivery. It is notable that the areas of persistent poor performance are generally (though not exclusively) concentrated in areas that are non-core to Capita, where they have relatively few local authority clients and where there is limited opportunity to benefit from economies of scale and new technologies. Conversely, those services that are core to Capita's strategic direction, such as Customer Services and Revenues and Benefits, are generally performing well.
- A1.10 The environment in which local government is operating has changed considerably since the contracts were let. Whilst both contracts envisaged the need to adapt to changing circumstances, it is recognised that, as well as a longer than forecast period of austerity, the outsourcing market has changed over time. This has impacted on the ability of the Re joint venture to attract new clients on the scale that was anticipated, when the joint venture was established.

In addition, the rapidly changing external environment has accentuated the need for the council to increase the level of direct control it exercises over the levers that affect its strategic direction.

A1.11 The council continuously reviews its service delivery arrangements, in line with its commitment to ensuring that they are as effective and efficient as possible. Against the backdrop of these changes, it is timely to take stock of the partnership, including the joint venture arrangement for the delivery of the DRS contract, and consider the most appropriate approach going forward.

Scope

A1.12 The two contracts cover a broad range of services, as listed below.

CSG contract	RE contract
Finance and Accounting (excluding transactional services provided from the Darlington shared service centre)	Regeneration Commissioning (including commissioning the Brent Cross programme)
Finance – transactional services provided from the Darlington shared service centre*	Regeneration Delivery, including the Brent Cross Thameslink programme
Revenues and Benefits*	Employment, Skills and Economic Development
Estates (Property Services, Building Services and Facilities Management)	Strategic Planning
Estates – Printing	Planning (Development Management)
Strategic HR	Planning Enforcement
Safety, Health and Wellbeing	Highways
HR Payroll*	Cemetery and Crematorium
HR Pensions Administration*	Building Control
IT*	Land Charges
Procurement	Trading Standards
Insight	Licensing
Social Care Direct	Environmental Health
Customer Services*	
Customer Transformation Programme	

A1.13 Whilst many of these services are delivered by staff based within Barnet, the high-volume, transactional services (marked *) that are delivered through the

CSG contract are generally delivered from shared service centres located elsewhere in the country.

A1.14 Those services highlighted in grey in the table above constitute the package of services that were proposed for in-sourcing under option 2, in the July Committee report.

Objectives

A1.15 At its meeting on 19th July 2018, the Policy and Resources Committee agreed the need to review the council's key strategic contracts with Capita. In doing so, it also agreed three aims to guide the development of a business case:

- (a) To deliver high quality services;
- (b) To secure best value for money for Barnet's residents; and
- (c) To improve the council's strategic control of services.

Key benefits

A1.16 A fundamental review of the council's strategic contracts with Capita provides an opportunity to re-set the relationship, with a view to ensuring that the council is able to secure rapid service improvement in critical areas, whilst maintaining the financial benefits that have been delivered by the contracts.

A1.17 Any re-shaping of the contracts should deliver greater flexibility to change priorities or performance methods, without incurring additional cost. It should also bring the provision of strategic advice closer to the heart of the council, making it more responsive to emerging challenges.

Constraints and Dependencies

A1.18 The management of the constraints and dependencies and the overall monitoring of the programme will be through the formal programme progress and governance arrangements that were established following the July Committee report.

A1.19 The key constraint on the successful delivery of the review is the availability of sufficient and suitable resources to carry out the necessary work. Whilst some additional resource has been secured to support the review, much of the work requires the knowledge and experience that has been gained from managing the contract and service delivery over a period of time. Organisational capacity, for both the council and Capita, is limited and prioritisation of activity and workloads will be essential.

A1.20 A successful outcome is also dependent upon the council's ability to negotiate an appropriate commercial agreement, or series of agreements, which is itself dependent upon maintaining a constructive and effective working relationship with Capita. Any breakdown in that relationship would severely impact on the council's ability to secure the information and cooperation that is necessary to implement any changes in service provision within an appropriate timeframe and with minimum disruption to services. It should be noted that Capita colleagues have engaged positively in the review process to date, despite the challenging timescales and requirements. The importance of maintaining this collaborative approach throughout the process is acknowledged by both parties.

Appendix B: Financial Model Assumptions

B1.1 Work done to date to assess the financial impact of each of the options has included:

- detailed review of the contractual models and review of existing council costs;
- zero-based budgeting exercise with clients leads including developing 'to be' staffing structures, and review of financial model cost base and contract lists;
- legal advice on contractual clauses; and
- review of implementation costs by staff who have implemented major change.

B1.2 This is a work in progress and is not presented as accurate or complete, but as the progress made so far based on the available information and a set of current assumptions.

Transition costs

B1.3 Under option 1 there are no implementation costs. Implementation costs under options 2 and 3 have been calculated based on the following assumptions. Option 2 has been primarily pro-rated based on the value of the services that would return. The following assumptions have been used:

- Legal – 9 months of legal costs based on average spend
- Recruitment – based on head hunting for senior posts plus recruitment campaign for other posts.
- Project team – 9 months of a project team primarily projects managers and change managers
- Optimisation – based on 6 months of Business Analyst resources, people development, external training provision and 12 months senior resource for complex areas.
- System implementation – high level estimate of cost of system implementation
- No procurement costs have been assumed, as the modelling is currently based on services returning to the council.

Running costs

B1.4 Option 1 - Status quo – This is the cost over a five-year period (4 full years and 1 year of 5 months) of the core fee to Capita, based on the contractual financial model for the 19/20 period onwards plus change requests, indexation, revenue SPIRs, volumes and non-procurement gainshare. The assumptions used are:

- The cost of the services as per the contractual financial model has been used.

- Actual indexation has been included up to 2018/19 with 2% added for 2019/20.
- For CSG revenue SPIRs have been added based on the average SPIR spend over the past two years. No SPIR spend has been added for Re as it is primarily capital.
- Gainshare has been included for Revs & Bens and Print based on 2018/19's projection, it does not include procurement gainshare.
- Volume charges have been included for Customer Services, IS & Revs and Bens, based on 2018/19 projections.
- The contract price reduces over the five years. This has been included in the figures.

B1.5 Option 2 – insourcing of some services – The same assumptions have been used as for option 1 for those services that would remain with Capita, but with a pro-rated approach based on the specific services.

B1.6 Based on the 2012 financial model, option 2 would involve approximately 35% of the CSG contract and c.55% of the Re contract would return to the council.

B1.7 For those services that would return to the council, council client leads were asked to develop a 'to be' budget for what they would need to deliver the services. These were built as zero-based models, using the contractual financial model as an indicative starting point. They included:

- Staffing – savings are assumed on clienting. 'To be' staffing structures were all reviewed by the HR client lead to ensure consistency and appropriateness. Some 'to be' structures, primarily in RE were anticipated to be a 'lift and shift' of the contractual structures and in these instances staffing was calculated on this basis. For all posts, Barnet on-costs were applied with assumed 90% take-up of pensions at estimated 2019/20 values (including inflation).
- Staffing-related costs – staff-related costs such as printing, childcare vouchers and training were included based on the council's average current spend per member of staff.
- Other costs – this includes contracts, IS spend and other items such as mailing. No additional accommodation costs were included as staff covered by option 2 are based in Barnet and the council is currently paying these accommodation costs. Costs in the original financial model and current contract lists provided by Capita were reviewed by client leads to identify whether costs would continue. Indexation was applied to cost identified as continuing.

B1.8 Option 3 – Full ‘At Will’ termination – The same assumptions have been used as for option 2 and applied to all services with a few exceptions to reflect services not currently delivered in Barnet as noted below:

- Staffing – for roles that are currently delivered outside of Barnet (e.g. Darlington, Carlisle, Coventry etc.) the structures took into account the higher wages that would need to be offered in Barnet.
- Other costs – accommodation costs were increased to reflect London prices, based on the current costs of NLBP accommodation.

B1.9 For income guarantee, under a full ‘At Will’ termination the council would be left with a shortfall in income for RE and for CSG traded services. Income pressures have been included in the 5-year costs.

APPENDIX C – EXEMPT COMMERCIAL INFORMATION

- 1.1 This Appendix provides commercially confidential information on the work to date on developing the business case for realignment of the Capita contracts as agreed by the Committee on 19 July 2018.
- 1.2 The Appendix is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972, information relating to the financial or business affairs of any particular person (including the authority holding that information).
- 1.3 The Appendix, which is three and a half pages long, comprises the following tables:

Table 1 – CSG 2019/20 running costs as set out in 2012 financial model

Table 2 – RE 2019/20 running costs as set out in 2012 financial model

Table 3 – Estimated contract exit costs for the Council in Options 2 & 3

Table 4 – Estimated transition costs for the Council in Options 2 & 3

Table 5 – Financial summary

Table 6 – 2019/20 price reduction for Finance and strategic HR

Appendix D: Equalities Impact Assessment – Finance and Strategic HR

Employee Equality Impact Analysis (EIA)

1. Delivery Unit/Function and/or Service: Strategic HR (disciplines to be defined)	
Date assessment completed: 22 October 2018	
Title of project/proposal/policy change/Alternative Delivery model/organisation change being assessed: Defined elements of existing strategic HR and Finance services to be TUPE'd in from Capita to LBB on anticipated date of 1 st April 2019.	
2. This EIA is being undertaken because it is:	
<input checked="" type="checkbox"/> A result of organisation change	
<input checked="" type="checkbox"/> Part of a project proposal for the Barnet Transformation programme 2018 – 2020	
<input type="checkbox"/> Other please specify:–	
3. Names and roles of officers completing this assessment:	
Lead officer	Natasha Edmunds
Stakeholder groups	All DUs
Representative from internal stakeholders (please specify)	HR, Equalities Allies Group, Trade Unions
Representative from external stakeholders (please specify)	Capita
Delivery Unit Equalities Network rep	Not known
Commissioning Equalities rep (where appropriate)	Not known
HR rep (for employment related issues)	Jeannette Stennett

4. Employee Profile for the Proposal

On the 19th July, Policy & Resources Committee approved a more detailed assessment of which services might be brought back for the council to run, and which services would be likely to remain.

As part of this detailed assessment, it has been informally agreed with Capita (subject to formal approval by Policy & Resources Committee on 11th December and the outcome of consultation) that some pre-defined services within the strategic HR remit and the Finance remit be considered to be fast-tracked for return to LBB control, the rationale for this is detailed in the report to the Policy and Resources Committee on 11th December. These services are:

Strategic HR

- HR Business Partners/Assistants

Finance

- Accounts Receivable
- Treasury Management
- Closing and Monitoring Team
- Accounts Reconciliations
- Business Partnering
- Pension Fund Accounting and Investments
- Schools accounting and schools funding team

If the above is approved at Policy & Resources Committee on 11th December, the following services would remain with Capita:

- Payroll
- Schools HR Traded Services
- Recruitment
- Pensions Administration
- Pay & Data
- Printing AR invoices
- Accounts Payable (scanning, remittances, payment processing etc.)
- Revenues and Benefits
- Schools Finance Traded Services
- Integra System and Support (Financial management system)

Under this, or any of the other options to be set out to Policy & Resources Committee, there will be data about Capita staff in scope to be TUPE transferred in to LBB across the range of protected characteristics. The requirements of the Public-Sector Equality Duty rest with both Capita and LBB because the staff in scope for the project are Capita staff who will become LBB staff in the event that a TUPE transfer takes place. The duty for leading the transfer of staff, and for therefore leading the TUPE process, including staff consultation, lies with the transferring organisation, in this case Capita. However, due consideration will need to be given to any adjustments that may be required post transfer. It will not be possible to undertake a detailed assessment of equality impacts until the TUPE process is triggered as this will be the mechanism by which LBB will be provided with individual staff details and information on any protected characteristics for which any reasonable adjustments or mitigations will be required. In the event that a TUPE process is triggered this EQIA will be reviewed and updated accordingly.

LBB (the receiving organisation) will be working very closely with Capita (the transferring organisation) to try and ensure that disruption to staff being TUPE'd over is minimised and the process is as transparent and

strain free as possible. LBB has established a Strategic HR Transition Group to agree the process and the associated communications and stakeholder engagement plan.

It is not yet possible to be certain the impact on staff that will TUPE from Capita to LBB. However, certain staff Terms and Conditions are arguably better with LBB and others arguably better with Capita. These include the differences in the Capita versus the Local Authority Pension Scheme, certain staff benefits (including maternity leave, etc.). Against this background, we estimate that the impact on staff transferring to LBB from Capita will be considered neutral, or even minimum/positive. However, this will have to be clarified as part of a formal review of the EQIA as part of the TUPE process.

HR will help you to complete the table below and analyse the equality impacts of the proposal. Please record HR contact above. Please indicate the source of employee data and use the most relevant data (for example Delivery Unit/Service level or team level. The council will also meet its responsibilities under the Data Protection Act 2018 and avoid encroaching on individual privacy. No sensitive personal data should be published that will allow identification of individuals. Please use this information in sections 4 – 8 of this EIA.

Not known currently known. To be reviewed at the point a TUPE transfer is triggered which is dependent on a decision by the Council’s Policy and Resources Committee.

Protected Characteristic		Team /Workforce Group	Delivery Unit/Service	Barnet Workforce
Gender	Female			
	Male			
Age/Date of Birth	1986 – 1997			
	1976-1986			
	1966-1975			
	1965-1951			
	1950-1941			
	1940 and earlier			
	Ethnicity	White		
British				

Protected Characteristic		Team /Workforce Group	Delivery Unit/Service	Barnet Workforce
	Irish Other White			
	Mixed White and Black Caribbean White and Black African White and Asian Other Mixed			
	Asian and Asian British Indian Pakistani Bangladeshi Other Asian			
	Black or Black British Caribbean African Other Black			
	Chinese or Other Ethnic Group Chinese Other Ethnic Group			
Disability	Physical co-ordination (such as manual dexterity, muscular control, cerebral palsy)			
	Hearing (such as: deaf, partially deaf or hard of hearing)			
	Vision (such as blind or fractional/partial sight. Do not include			

Protected Characteristic		Team /Workforce Group	Delivery Unit/Service	Barnet Workforce
	people who wear glasses/contact lenses)			
	Speech (such as impairments that can cause communication problems)			
	Reduced physical capacity (such as inability to lift, carry or otherwise move everyday objects, debilitating pain and lack of strength, breath, energy or stamina, asthma, angina or diabetes)			
	Severe disfigurement			
	Learning difficulties (such as dyslexia)			
	Mental illness (substantial and lasting more than a year)			
	Mobility (such as wheelchair user, artificial lower limb(s), walking aids, rheumatism or arthritis)			
Gender Identity	Transsexual/Transgender (people whose gender identity is different from the gender they were assigned at birth)			
Pregnancy and Maternity	Pregnant			
	Maternity Leave (current)			
	Maternity Leave (in last 12 months)			

Staff Equality Impact Assessment - Form

Protected Characteristic		Team /Workforce Group	Delivery Unit/Service	Barnet Workforce
Religion or Belief	Christian			
	Buddhist			
	Hindu			
	Jewish			
	Muslim			
	Sikh			
	Other religions			
	No religion			
	Not stated			
Sexual Orientation	Heterosexual			
	Bisexual			
	Lesbian			
	Gay			
Marriage and Civil partnership	Married			
	Single			
	Widowed			
	Divorced			
	In Civil partnership			

5. How are the equality strands affected? Please detail the positive/negative or neutral effect on each equality strand, and any mitigating action you have taken / required. Please include any relevant data and source. If you do not have relevant data please explain why and when you will capture the data.

Not known due to lack of available data due to TUPE regulations which stipulate data will be available 28 days before Capita services (disciplines to be defined) TUPE transfer date predicted as 1 April 2019.

Equality Strand	Affected?	Explain how affected	Indicate any action planned or taken to mitigate negative impact?
1. Age	Yes <input type="checkbox"/> / No <input type="checkbox"/>	Positive <input type="checkbox"/> Negative <input type="checkbox"/> Neutral <input type="checkbox"/>	
2. Disability	Yes <input type="checkbox"/> / No <input type="checkbox"/>	Positive <input type="checkbox"/> Negative <input type="checkbox"/> Neutral <input type="checkbox"/>	
3. Gender reassignment	Yes <input type="checkbox"/> / No <input type="checkbox"/>	Positive <input type="checkbox"/> Negative <input type="checkbox"/> Neutral <input type="checkbox"/>	
4. Pregnancy and maternity	Yes <input type="checkbox"/> / No <input type="checkbox"/>	Positive <input type="checkbox"/> Negative <input type="checkbox"/> Neutral <input type="checkbox"/>	
5. Race / Ethnicity	Yes <input type="checkbox"/> / No <input type="checkbox"/>	Positive <input type="checkbox"/> Negative <input type="checkbox"/> Neutral <input type="checkbox"/>	
6. Religion or belief	Yes <input type="checkbox"/> / No <input type="checkbox"/>	Positive <input type="checkbox"/> Negative <input type="checkbox"/>	

		Neutral <input type="checkbox"/>	
7. Gender / sex	Yes <input type="checkbox"/> / No <input type="checkbox"/>	Positive <input type="checkbox"/> Negative <input type="checkbox"/> Neutral <input type="checkbox"/>	
8. Sexual orientation	Yes <input type="checkbox"/> / No <input type="checkbox"/>	Positive <input type="checkbox"/> Negative <input type="checkbox"/> Neutral <input type="checkbox"/>	
9. Marital Status	Yes <input type="checkbox"/> / No <input type="checkbox"/>	Positive <input type="checkbox"/> Negative <input type="checkbox"/> Neutral <input type="checkbox"/>	
10. Other key groups? Carers	Yes <input type="checkbox"/> / No <input type="checkbox"/> Yes <input type="checkbox"/> / No <input type="checkbox"/>	Please assess Young, Parent and Adult carer. Positive <input type="checkbox"/> Negative <input type="checkbox"/> Neutral <input type="checkbox"/>	

6. Overall impact and Scale		
<p>Positive impact:</p> <p>Minimal <input checked="" type="checkbox"/> X</p> <p>Significant <input type="checkbox"/></p>	<p>Negative Impact or Impact Not Known</p> <p>Minimal <input type="checkbox"/></p> <p>Significant <input type="checkbox"/></p>	

7. Outcome			
<p>No change to decision</p> <p style="text-align: center;"><input type="checkbox"/></p>	<p>Adjustment needed to decision</p> <p style="text-align: center;"><input type="checkbox"/></p>	<p>Continue with decision <i>(despite adverse impact / missed opportunity)</i></p> <p style="text-align: center;"><input type="checkbox"/></p>	<p>If significant negative impact - Stop / rethink</p> <p style="text-align: center;"><input type="checkbox"/></p>

8. Please give full explanation for how the overall assessment and outcome was decided
<p>Not known or available.</p>

9. Equality Improvement Plan

Please list all the equality mitigations that have been identified from the Equality Analysis (continue on separate sheets as necessary). Make sure these are reflected in the project plan/ for mainstreaming and performance management purposes.

Equality Mitigation	Action	Officer responsible	By when	
<p>Negatives are changes for HR employees after 5 years firstly shifting to Capita with substantial changes. There is the recent LBB change programme and employee support within the TUPE In programme and a strong LBB Induction being developed as there have been changes in LBB.</p> <p>Minimum Positive for residents – communications will not change – or any HR work on My Account.</p> <p>Residents Satisfaction Survey data is currently good at 70% that LBB is giving value for money. We will keep this under review.</p>				

Equality Mitigation	Action	Officer responsible	By when	
In terms of equality it reduces differences and clarifies the organisations accountability and how we are organised to deliver our services.				
They will only have one point of access which is LBB. Only one front door and will enhance our reputation for giving value for money services.				
Monitor at point of implementation and subsequently Employee Attitude Service, Staff Led Sessions. Keeping an eye on Residents Perception Survey. This is based on continuity of service and we don't expect any impact on residents and based on Resident Perception Survey expect to see and increase or certainly no reduction in satisfaction.				
Community Participation and Engagement				

Equality Mitigation	Action	Officer responsible	By when	
<p>Corporation Plan 20-25</p> <p>Building resilient community.</p> <p>Are CSG dealing with Charity and Faith sector – more control, better communication and more timely.</p>				
<p>Once Committee has reached a decision on the option it will pursue we will review requirements for Public Consultation and Capita will begin the process of staff consultation as required by TUPE.</p> <p>Once options are chosen and any modus operandum for TUPE we will look again.</p> <p>Residents Participation Survey under review, Community Participation and Engagement Newsletter fortnightly and three public meetings per annum.</p>				

Equality Mitigation	Action	Officer responsible	By when	
<p>Community Network.</p> <p>Board Partnerships and Health and Wellbeing.</p> <p>Will be consulting through established partnerships and network boards.</p> <p>Monitor</p> <p>Residents Participation Survey Indicators for Residents</p> <p>DU - communicate any changes in residents' perception</p> <p>Public Consultation</p> <p>Not anticipated services will change though Service Provider will change</p>				

Staff Equality Impact Assessment - Form

Name	Date	Version Number and Summary of Changes
Jeannette Stennett	22.10.2018	V1 – original draft
Andrew Merritt-Morling	19.11.2018	V1.1 - minor