

Appendix A – Business Case for Extending Services Under the CSG Contract

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Contents

1. Introduction	1
2. Proposals and Evaluation Method	3
3. Options Considered.....	4
4. Analysis, Evaluation and Preferred Option.....	11

1. Introduction

This business case sets out proposals for the extension of elements of the Customer and Support Group (CSG) contract with Capita. The following services are currently provided through this contract:

- Information Technology (IT)
- Revenues and Benefits
- Customer Services
- Estates (including Print)
- Finance*
- Human Resources*
- Procurement

**(Elements of these services were returned to the Council in 2019)*

The CSG contract began an initial ten-year term in September 2013, with an option to extend for up to a further five years. The extension clause allows the council flexibility to discuss an extension of any time up to and including five years (e.g. the council could request a one, two, three or four year extension).

At its meeting on 21st January 2022, the Financial, Performance and Contracts Committee agreed the proposed approach to conducting the year six review of the contract (the Contract Review).

The aims of the Contract Review would be to:

- Establish the council's long-term vision for service provision and the consequent requirements for each service;
- Understand the current performance of each service, including special projects, in terms of service quality and value for money;
- Develop the future delivery strategy for each service, post-2023; and
- Agree any changes required to the existing contractual arrangements between now and 2023 (i.e. the end of the existing contracts).

On commencement of the Contract Review, the Covid-19 Pandemic struck, and the Contract Review was suspended indefinitely, but resumed in early 2021 with a revised approach.

This involved undertaking a limited review to identify, in principle, those services that should be extended for a period of time and those services that should be re-procured or brought in-house at the end of the original term, dealing with services in three categories:

1. Retained services – interim extension of two-three years for key technology-based services, where return in-house would be unlikely to be a viable option and a reasonable extension would generate additional investment. The agreement of any extension would be dependent upon robust investment and improvement proposals from the service provider;
2. Returning services – confirm contract will expire in 2023 for services where there is unlikely to be much scope for the service provider to add further significant value, the market for re-procurement is limited and the financial case can be made to return them to the council; and
3. Further review services – interim extension of one-two years for services where the case for returning, re-procuring or extending is unclear and a more detailed review is required to determine the best strategic option.

Using the categories above, the following directions of travel were agreed in principle for the services provided through the CSG contract:

Retain (Three-Year Extension)

- Information Technology (I.T)
- Revenues and Benefits
- Customer Services

Further Review (One-Year Extension)

- Estates (inc. Print)
- Finance (Accounts Payable and Integra system)
- HR (Payroll and CoreHR system)

Return (No Extension)

- Procurement

In October 2021, Capita sent through their first extension proposal. This would be followed by an Update Proposal (received in December 2021) and a Final Proposal (received in April 2022).

At its meeting on 25th January 2022, the Council agreed not to seek the extension of the Procurement service contained within the CSG agreement. Therefore, it has not been included in this business case.

At its meeting on 9th February 2022 the Policy and Resource Committee resolved to approve the commencement of procurement for the replacement of the council's Finance and HR systems, with the flexibility for an Enterprise Resource Planning (ERP) system or a Best of Breed model with separate Finance and HR systems. To facilitate the procurement of the new system, a one-year extension of the contract for the existing finance and HR systems was agreed.

This business case focuses on the outstanding decisions in respect of the "further review" services (Estates, Accounts Payable and Payroll) and the options for the "retain" services (Information Technology, Revenues and Benefits, Customer Services).

2. Proposals and Evaluation Method

Whilst the Contract Review was not a procurement exercise in the usual sense, a rigorous evaluation process was developed that is consistent with normal tender evaluation procedures.

The evaluation process for the proposals involved colleagues from the commercial and financial teams, as well as client leads. The evaluation process applied the following weightings:

- Strategic control 20%
- Quality 35%
- Value for money 35%
- Social value 10%

Both the initial proposal and the Update Proposal failed to meet the qualitative standards expected by the council. In order to remedy this, further meetings were held with each service area to enable Capita to better understand their needs and, in turn, bridge the gap between the proposal and client expectations.

Further, the overall financial proposal also failed to meet the set criteria. Again, further dialogue took place, involving commercial and finance teams, with a view to aligning Capita's proposal with the council's budget envelope.

Capita's Final Proposal contained a proposed extension of one year for the Estates (including Print) service, in line with the direction of travel originally proposed for that service. The rationale for this direction of travel was to provide time for

improvements that were already in train to take effect and to enable a more fundamental review of the most appropriate future delivery model.

Whilst improvements have continued to be made, it is the client officers' view that the pace and scale of change that has been achieved, together with the proposals set out in the Final Proposal, do not provide them with sufficient confidence that a one-year extension will address the ongoing concerns. It is, therefore, now proposed that the Estates (including Print) service should not be extended and that the service should return to the council upon expiry of the initial contract term.

Furthermore, during the evaluation period of the Final Proposal, the council and Capita agreed that the Welfare Team (from within Revenues and Benefits) should also return to the council at the earliest opportunity, which will most likely also be October 2022. This will provide greater flexibility to meet resident's needs in relation to the current cost of living crisis.

The remainder of this business case therefore focuses on the options considered in respect of:

- Information Technology
- Revenues and Benefits (excluding Welfare Team)
- Customer Services
- Accounts Payable
- HR Payroll

3. Options Considered

Based on the criteria set and following meetings with the service areas, it was agreed that the qualitative aspects of the Final Proposal were acceptable to consider an extension. An overview of the improvements offered for each of the "retain" services (i.e. those proposed for a longer extension) is outlined below.

Information Technology

In addition to maintaining the current service and service improvement plans, Capita's proposal also included the following commitments:

- **Network (WAN, LAN and Wi-Fi):** a continuation of the evolutionary upgrades to the LAN and Wi-Fi service and transformation of the WAN to a next generation SD-WAN.
- **Datacentre and Infrastructure:** migration to the Microsoft Azure Cloud.
- **Security and Compliance:** a series of reviews to validate best practice is being followed and that Capita are obtaining maximum value from the toolset features available to them.
- **End-User Device Management:** a continuation of the current service and evolutionary improvements, whilst aligning with Capita's shared service model to bring benefits from a larger pool of resources which provides greater capacity and availability of a wider skill set.

- **Service Management:** evolutionary improvements, whilst aligning with Capita's shared service model to bring benefits from a larger pool of resources as detailed above offering a more flexible service able to cope with fluctuating demands and priorities.
- **Telephony:** a transparent review of the best unified use of MS Team, AWS Connect and/or CISCO to ensure an optimal experience for both residents of Barnet and staff.
- **Innovation:** an innovation workstream with some of the themes Capita would like to explore further.

Revenues and Benefits

In addition to maintaining the current service and service improvement plans, Capita's proposal also included the following commitments:

- Enhancements to the customer portal and webforms.
- Further use of artificial intelligence and analytics.
- Improving the digital functionality of the NNDR service in line with council tax and benefits.
- Introduction of a field services app, a virtual, remote inspection capability using a new technology product to enable remote inspections which will reduce the amount of physical onsite inspections, enabling more inspections to be carried out virtually and providing customers with a faster, easier process.
- Explore further automation opportunities to streamline processes with the DWP.

Customer Services

In addition to maintaining the current service and service improvement plans, Capita's proposal also included the following commitments:

- **Form Enhancement** - Leveraging the CRM system to introduce business processes and data into the digital 'front door' in a much richer way by re-inventing the way that forms connect with data, enabling residents and businesses to use those forms to access their data in a much easier way.
- **Omni-Channel and Self-Serve** - Moving the council's contact centre solution to the cloud, to provide a platform that can handle demand across all channels, providing greater automation, personalisation and a more predictive service.
- **Assisted Digital** - A proven chat bot solution will increase the digital channels for residents and improve the customer experience by providing digital assistance to customers through the council's public-facing website(s), supporting residents by providing access to the information, support or answers to questions needed in a frictionless way.
- **Digital Inclusion/Exclusion** - Provide channels for residents who do not or who have limited access to digital channels to still have a mechanism to engage with the council.

On the basis that the qualitative criteria had been met, three extensions of differing length were considered, along with the option to return services to the council on expiry of the contract:

1. Extension of two years and seven months
2. Extension of three years
3. Extension of five years
4. Return services to the council

The table below outlines the main advantages, disadvantages, benefits and risks of each option. NB Options 1 to 3 include one-year extensions for Accounts Payable and HR Payroll.

	OPTION 1	OPTION 2	OPTION 3	Option 4
	Give notice to extend contract by two years and seven months	Give notice to extend contract by three years	Give notice to extend contract by five years	Allow contract to expire at the end of 10-year term, with a view to returning services to the Council
Main Advantages (Including opportunities)	<p>Ensures continuity of service provision in higher-risk services, during a period of significant transition of other services provided through the Capita contacts.</p> <p>Enables the Council to give proper consideration to the longer-term strategy for these services within the shortest feasible timeframe.</p> <p>Minimises unnecessary disruption in those services directly impacted by the implementation of new systems.</p>	<p>Ensures continuity of service provision in higher-risk services during a period of significant transition of other services provided through the Capita contacts.</p> <p>Enables the Council to give proper consideration to the longer-term strategy for these services within a feasible timeframe.</p> <p>Minimises unnecessary disruption in those services directly impacted by the implementation of new systems.</p>	<p>Ensures continuity of service provision in higher-risk services during a period of significant transition of other services provided through the Capita contacts.</p> <p>Enables the Council to give proper consideration to the longer-term strategy for these services, albeit within a longer timeframe.</p> <p>Minimises unnecessary disruption in those services directly impacted by the implementation of new systems.</p>	<p>Would give the council the ability to completely re-design the operation of these services, should it wish to do so.</p>
Main Disadvantages (including threats)	<p>Though the finances come in under budget, they are not quite as advantageous as the three-year extension option.</p>	<p>This option does not align with the Council financial year, making the true-up of any volumetrics more difficult to analyse and exit arrangements/re-</p>	<p>This option does not align with the Council financial year, making the true-up of any volumetrics more difficult to analyse and exit arrangements/re-</p>	<p>Does not meet financial criteria and would be very costly to achieve.</p> <p>Would not provide sufficient time to plan and prepare for a smooth transition.</p>

	OPTION 1	OPTION 2	OPTION 3	Option 4
	Give notice to extend contract by two years and seven months	Give notice to extend contract by three years	Give notice to extend contract by five years	Allow contract to expire at the end of 10-year term, with a view to returning services to the Council
		procurement more complex.	procurement more complex. Would tie the council into a contractual arrangement of over six years from the time of writing at a time of significant economic uncertainty.	
Risks	Supplier underperforming against commitments made in their proposal, which may impact on resident satisfaction.	Supplier underperforming against commitments made in their proposal, which may impact on resident satisfaction.	Supplier underperforming against commitments made in their proposal, which may impact on resident satisfaction. May not provide sufficient flexibility to respond to technology changes over time.	Remotely based staff may not wish to transfer to a Barnet-based operation and recruitment of appropriately qualified and experienced staff within Barnet may be challenging. Ongoing capability and capacity in respect of cyber security and IT resilience. Ability to secure appropriate accommodation for the services. Complexity of separating systems, management, training etc. from shared service operations.
Mitigation of risks	On agreement of extension, the commercial and legal teams will ensure rigorous due diligence of any contract changes	On agreement of extension, the commercial and legal teams will ensure rigorous due diligence of any contract changes	On agreement of extension, the commercial and legal teams will ensure rigorous due diligence of any contract changes	Further resource could be brought in to mitigate risks, but at considerable additional cost to the council.

	OPTION 1	OPTION 2	OPTION 3	Option 4
	Give notice to extend contract by two years and seven months	Give notice to extend contract by three years	Give notice to extend contract by five years	Allow contract to expire at the end of 10-year term, with a view to returning services to the Council
	related to an extension. Maintain rigorous approach to contract performance management.	related to an extension. Maintain rigorous approach to contract performance management.	related to an extension. Maintain rigorous approach to contract performance management.	
Financial Benefits/ Disbenefits	As outlined below, this option would come in within the Council’s budget envelope. An extension contract would be subject of annual indexation measures.	As outlined below, this option would come in within the Council’s budget envelope. It also shows a greater saving than the 2 years 7 months option. An extension contract would be subject of annual indexation measures.	As outlined below, though this option does deliver a greater saving over the entire 5-year period, Capita have not shown any further savings past Y3 of the extension, leaving little incentive to commit to the final two years. An extension contract would be subject of annual indexation measures.	As outlined below, this option ranks least favourable and would create a significant budget pressure.
Non-Financial Benefits	This option aligns with the Council’s financial year, making exit from the contract a smoother process for all parties. Brings additional Social Value commitments that will benefit Barnet residents.	Brings additional Social Value commitments that will benefit Barnet residents.	Brings additional Social Value commitments that will benefit Barnet residents.	

Final Proposal – Finance Outline

The financial evaluation considers the overall budget impact of these proposals for the council, so it includes the impact of the Procurement and Estates services not being extended.

The below table outlines the impact on the council's budget for each of the four options considered. The financial modelling shown below is based on contract year (CY) 11, which would be the first year of any extension. The detailed breakdown of the key financial elements outlined below is attached as Appendix B, which is exempt from publication due to the commercial sensitivity of its content.

CSG - CY11 £'000	Option 1	Option 2	Option 3	Option 4
	Extend 2yrs 7mths	Extend 3 years	Extend 5 years	Return to council
2022/23 net budget	21,653	21,653	21,653	21,653
Expenditure (inc. Estates and Procurement)	23,582	23,346	23,346	23,906
Income	(1,865)	(1,865)	(1,865)	(1,366)
Opportunities (see below)	(743)	(743)	(743)	(631)
Total Expenditure, Income & Opportunities	20,973	20,737	20,737	21,909
Net Variance	(680)	(916)	(916)	255
Additional on-going resources/overheads and contingency	426	426	426	2,361
Total variance post additional items	(254)	(490)	(490)	2,616

Opportunities include capitalisation, removal of gainshare and adjustment of contract/financial year-end

Transition costs – one-off

There are additional one-off costs associated with each option. Please see below one-off costs required in each option as part of the transformation.

One-off costs £'000	Option 1/2/3	Option 4
Legal	10	25
Additional Finance team requirement	-	61
Additional Commercial	-	31
Additional HR requirement	44	83
Additional IT team requirement	-	226
Training	100	500
Equipment	91	302
Total one-off costs	245	1,228

Option 1 represents a net cost reduction against the overall budget for CSG services of £0.254m in CY11.

Options 2 and 3 deliver a marginally better cost reduction of £0.490m in CY11.

Option 4 would result in a budget pressure of £2.616m in CY11.

Other items that have been considered, but not quantified, are:

Other considerations	Option 1/2/3	Option 4	Impact
Redundancy costs		✓	Applicable if staff have transferred to the council and a later restructure takes place
Pension strain		✓	Applicable if staff have transferred to the council and a later restructure takes place
Lack of purchasing power		✓	Capita benefits from purchasing power, due to economies of scale by lining up other local authorities within the same contract
Lack of management information		✓	If or when services return in-house, previous experience from benchmarking, indicates a loss of performance measure information vs original contract.
Recruitment cost		✓	Cost as and when advertisement is required
Indexation	✓		Current estimates based on 2021 costs and are subject to new indexation terms. This is a known risk that the council sees affecting all extension options.

Additional requirement – IT investment

As part of Capita’s extension proposal (for options 1, 2 and 3), a capital investment requirement in IT infrastructure of £4.8m has been identified. Following agreement of any contract extension, Capita will work with the council to value engineer this total and confirm any items that are covered by existing capital investment approvals. The resulting investment requirement will then be subject to approval through the council’s normal capital allocation process.

Capita Final Proposal I.T Capital Requirement £'000				
Area	Y11	Y12	Y13	Total Capital
Azure migration	-	344	254	598
Azure parallel run	-	353	978	1,331
Networks	1,783	-	-	1,783
The council - CISCO	59	237	-	296
WIN11	190	71	-	261
Security	51	-	-	51
SOC/ SIEM	59	297	59	415
PCI Compliance	30	47	30	107
Total	2,172	1,349	1,321	4,842

4. Analysis, Evaluation and Preferred Option

Based on all of the information available, the preferred option is Option 1, an extension for 2 years 7 months for Information Technology, Revenues and Benefits (excluding Welfare Team), and Customer Services.

Strategic Case

Option 1 is consistent with the council's priorities in respect of providing good value for money and high-quality services to residents. It provides the optimum balance between securing continuity of service provision at reduced cost and maintaining the ability for the council to consider the longer-term strategy for these services within an appropriate timescale.

The Social Value commitments contained in Capita's Final Proposal were evaluated independently of other parts of the submission and have met the agreed criteria set for the Review. These commitments support the council's priorities in respect of digital inclusion, sustainability and equality, diversity and inclusion. Capita have committed to improvements that include (but are not limited to):

- Implementing initiatives that form the basis of a social value charter
- Provide a dedicated social value officer who will be supported by a wider team of social value leads
- Investment in apprenticeships, work experience and mentoring schemes
- Extending the existing programme to recycle laptops to digitally excluded residents (2-300 laptops per annum)
- Work with the Good Things Foundation to offer face to face coaching to increase essential digital skills
- Pro bono consultancy services to develop the council's Green Technology Policy
- Support the continuation of the Barnet Tree Policy which aims to plant 4,500 trees by 2023
- Work with Live Unlimited to, inter alia, offer work placements to Barnet's care leavers
- Deliver free workshops to Barnet SMEs and VCS partners, to cover subjects such as business planning, recruitment, applying for funding and grants, social media marketing, and setting and authoring employee policy
- Use the Social Value Maturity Index (SVMI) to measure Capita and its supply chain against key metrics. This will be re-baselined annually to evidence progress in Social Value maturity across the contract life
- Deliver an online eco-literacy course for staff, both Capita and the council

Economic and Financial Case

Option 1 (2 years 7 months extension) will require funding of £0.245m in relation to one-off transition costs. However, it is also expected to deliver £0.254m savings in the first contract year. Over the 2 years 7 months extension, cumulative savings are expected to be £0.596m as set out in Appendix B. It is considered that the preferred option will provide the best balance of cost, benefits and risks and therefore represents

the best value for money. It is also affordable within the context of the current budget envelope for these services.

Commercial and Management Case

The preferred option is both commercially viable and achievable. The extension of services represents the “least change” option and therefore carries the lowest level of risk. This is considered to be critical in respect of the services proposed for extension, which carry a much higher level of risk than those that are proposed for return to the council.