

# Taunton Deane Borough Council

## Full Council – 31 March 2015

### Southwest One Succession Planning

#### Report of the Assistant Director Corporate Services, Richard Sealy

(This matter is the responsibility of Executive Councillor Stock-Williams)

#### 1. Executive Summary

The Southwest One (SWO) contract is a ten year contract, which will expire on 1st November 2017.

In advance of the expiry date, the Council needs to assess its options in relation to its future aspirations, manage stakeholder expectations and decide how it intends to deliver the services post SWO. The Council also needs to decide its future technology requirements and specifically whether the SAP system continues to meet these needs.

This report provides details of the work involved in SWO succession planning and recommends that officers undertake a detailed options review for consideration by Members in September 2015.

Members are requested to note the position with regard to the expiry of the SWO contract and approve a budget to enable officers to undertake the necessary work in recommending future options in delivering the SWO services and its position on SAP.

#### 2. Introduction

2.1 The Southwest One (SWO) contract is a ten year contract, for the delivery of transformation and support services which expires on 1st November 2017.

2.2 This milestone means that we need to make decisions in the near future in regard to the future service delivery and ICT system arrangements for the SWO services post November 2017. The significantly changed financial position of the Council, our MTFP and service transformation challenges, together with the decreased scope of the SWO contract indicate that we need to undertake a fundamental strategic review of future service delivery options to inform decisions about future service delivery. In addition we also need to consider these options in the light of the direction of travel of the various SWO partners.

- 2.3 When TDBC entered the SWO contract in 2007 it was prior to the financial markets collapse and government spending austerity measures. Whilst savings were still required these were in the order of 2.5%, as per Gershon targets, rather than the 40% funding reductions we are now seeing as a result of the global financial crisis and resulting contraction in public spending. This has fundamentally changed the landscape of local government and consequently our approach to and requirements from service delivery and in particular the support services provided by Southwest One.
- 2.4 TDBC's MTFP shows a significant future budget gap. The implementation of the Joint Management and Shared Service (JMASS) project with West Somerset Council and consequent staff reorganisation has made a significant impact, but there is more to do. We now need to implement a major Transformation Programme in order to achieve financial sustainability. Viewed against this backdrop the annual savings on the SWO contract (2.5%) are now out of alignment with our new financial circumstances and savings requirements.
- 2.5 The direction of travel and key objectives of the original partners has also altered. The Avon and Somerset Police (ASP) have recently announced they are exploring the feasibility of a potential strategic alliance with the Wiltshire Police Force including back office functions. TDBC have entered into a Joint Management arrangement with West Somerset. Somerset County Council (SCC) are creating Alternative Service Delivery units for significant elements of their workforce. SWO has not attracted new partner authorities to the extent originally envisaged and has not grown as a business. The private sector partner, IBM, has in recent years disposed of much of the non-ICT element of its business and appears to be now focussing globally on its core ICT business.
- 2.6 The needs of our community have also changed. The public interacts with Local Government differently, transacting electronically to a far greater extent than could reasonably been envisaged in 2007. Computer data centres are being replaced by Cloud solutions and mobile technologies have become the norm in many business environments. ICT and improved access to electronic service delivery will be key components in supporting the delivery of our Transformation Programme. Services such as Customer Contact and ICT will be critical in helping us to deliver significant service transformation for the Council in the coming few years. Consequently it is vitally important that we have the right future delivery arrangements in place for these services that are affordable and meet our Council's ambitions.
- 2.7 We also need to take into account current recommended best practice in relation to the future procurement of services. Whilst central government once heralded large scale, multi agency and multi service partnerships with the private sector as the future their advice now appears to be changing. The recently published Government ICT Strategy includes a set

of commercial principles that should inform technology procurement in the future. These include sustained competition, disaggregated services, small short contracts, transparency and diverse supply. ICT is the highest value service still provided via SWO and these principles also seem sensible and relevant for the remaining SWO services.

- 2.8 In planning the succession of SWO, the lessons, current circumstances and future direction of the Council needs to be considered.

### **3. SWO Contract Background**

3.1 Taunton Deane Borough Council (TDBC) entered into a 10 year transformation and support services contract with Southwest One (SWO) in 2007. Two other public sector bodies, Avon and Somerset Police (ASP) and Somerset County Council (SCC) also entered into contracts with SWO.

3.2 SWO is a company, governed by the terms of a Joint Venture Agreement, of which IBM is the majority shareholder. IBM provides financing under this Agreement. Each of the public authorities nominates a director who sits on the SWO Board. The authorities as shareholders maintain a veto on certain 'reserved matters'.

3.2 The objectives of SWO in 2007, were agreed by the partners as follows:

- To improve access to and delivery of customer-facing services
- To modernise, reduce cost and improve corporate, transactional and support services
- To help modernise and transform the overall workings of Taunton Deane Borough Council and the County Council
- To invest in new world class technologies to improve productivity
- To create an excellent working environment and a more sustainable employment future for staff
- To generate economic development by attracting a partner willing to invest in Somerset

3.3 SWO provides vital operational support services to TDBC and the other public authorities. These services and any associated financial liabilities are subject to a Parent Company Guarantee between IBM and each of the public authorities, which effectively protects service delivery in the event of SWO failing.

3.4 Originally in 2007 TDBC put eleven services into SWO. In recent years a number of whole and part services have been taken back in-house. Since 1st February 2014 the following are the only TDBC services which remain delivered by SWO:

- Customer Services
- ICT (excluding ICT Strategy)

- Finance Transactional Services
  - Accounts Payable
  - Accounts Receivable
  - Master Data for SAP
  - Cashiers and Control Team
- HR Admin & Payroll
- Procurement

The full list of original and current services is detailed at Appendix A.

- 3.5 These remaining services are largely structured as genuinely shared services with at least one of the other authorities (e.g. Customer Services between SCC/TDBC; and Procurement between TDBC/ASP).
- 3.6 The annual contract price (the Unitary Charge), which we pay SWO for providing the remaining services is approximately £1.6m pa. This has reduced by approximately two thirds from 2007 levels, mainly as a result of the services we have taken back in-house.
- 3.7 The services are delivered by a mix of staff comprising: SWO employees (also known as Direct Hires); temporary agency staff; IBM staff and local authority staff who were seconded into SWO in 2007 for the full ten years. Their Secondment Agreement provides for “assured employment” for the contract term.
- 3.8 The contract has two distinct elements both of which are intended to provide financial benefits. The first relates to the Operational Services for which TDBC achieves an annual reduction (2.5%, but which is subject to inflationary uplift) in the Unitary Charge payments to SWO. The second are the Transformation projects, including Procurement, designed to generate additional benefits and savings over the term of the contract. The original target for procurement savings was £10m, but SWO have revised this to circa £5m. In practice only circa £3m savings have been identified to date.
- 3.9 In addition the contract contains provisions for continuous improvement in service delivery, although in practice this getting harder to measure and enforce.

#### **4. Contract End Exit Provisions**

- 4.1 The SWO contract ends on 1 November 2017, with the authorities contractually required to notify SWO of their intentions at least 18 months in advance by May 2016. (NB. The contract does contain provisions that allow for a contract extension for a further five years).
- 4.2 SWO is obligated to produce an Exit Management Plan to ensure the smooth transfer of the staff and transition of service delivery at contract end, in the event that the option to extend is not exercised.

4.3 Due to the scale of the task and complexity of issues to resolve, we have already started planning with the partners, including SWO, by identifying the exit actions which in summary are:

- Contracted Exit Requirements
- Staffing Implications
- Premises & Accommodation
- Asset & third Party Contract Transfers
- Communications
- Logistics, Technical Infrastructure and System Security & Access
- Intellectual Property & Authority Data
- Work in Progress Transfer
- Service Transition & Knowledge Transfer
- Company Dissolution

4.4 Preparing for and implementing contract end and potentially exit from SWO will require a significant amount of time and effort from the authorities due to the volume of work required, some of which is contractual and cannot be avoided. Contract end will require robust project governance and the appointment of an authority exit management team including work-streams around: exit management, HR, legal/contract representation, commercial, project management, communications, finance, technology and procurement. The resource requirement will be similar whichever future delivery option is selected.

4.5 We have analysed the contract terms and detailed the requirements and issues faced at contract expiry. We have had this work independently reviewed and verified by external specialist contract advisors in order to assist us in identifying and understanding all the contractual exit provisions.

## **5. Contract End Planning and Service Delivery Options**

5.1 The implementation of contract end needs to take place in three broad phases which are outlined below:

### **Phase 1 – Detailed Options Appraisal**

The purpose of this phase is to undertake a detailed appraisal of the various options for future service delivery and to understand in detail the costs and implications of these options. The output will be a detailed and costed options appraisal which make recommendations to Members. In summary this phase will cover the following areas:

- Project commencement, resource assignment & agreement of deliverables
- Stakeholder engagement & communications including staff & partners
- Detailed appraisal of the future service delivery options
- Costed Business Case and recommendations
- Understanding the staffing implications, risks & HR advice

- Contractual implications & legal advice
- Financial implications
- Exploratory negotiations with SWO and discussions with the public partners
- Detailed review to identify the options and costs for potential replacement systems for the SAP system

### **Phase 2 – Implementation of Chosen Option**

This phase will involve the completion of commercial negotiations with SWO and agreement with the public partners to implement the option(s) agreed by Members. This phase will complete with the transfer of staff and services to any agreed new service delivery option. In summary it will cover the following areas:

- Post Member decision
- Project Implementation
- SWO formal engagement & negotiation/commercial discussions
- Service transfer including IT infrastructure, systems, data
- Staff transfer
- Contractual changes

### **Phase 3 – Service Stabilisation**

Phase 3 recognises that, following any transfer of service delivery, there will need to be a service stabilisation period to allow services to 'bed in' to any new arrangements. Any SAP replacement to be reviewed and issues resolved; and staff induction and training undertaken.

5.2 There are a number of service delivery options available on expiry of the SWO contract, for example:

- Continuing SWO – various options
- Outsource
- Shared Services
- In House
- Alternative Delivery Models

5.3 Each of these options needs to be evaluated in detail so that we can understand their respective advantages, disadvantages, costs, deliverability and how they fit with our transformation objectives. The intention is to undertake this assessment over the next few months and bring back a detailed options report with recommendations to Members in the autumn for a decision.

5.4 Although November 2017 seems distant it is important that the planning commences now and that decisions around service provision are made this year, in order that all service delivery options remain open.

## **6. SAP ICT System**

6.1 The SAP system was implemented by SWO in 2009 and is the Council's main platform for the delivery of its back office functions. The provision of SAP across the partnership is also key to SWO's ability to deliver shared services to all of the partners and to large organisations such as ASP and SCC.

6.2 The SAP system comprises two main elements – SAP Back Office and SAP CRM (Customer Relationship Management). In addition our website is linked to the SAP CRM module.

6.2 SWO use the SAP technology platform to provide the following services to the partner organisations:

<b>Service</b>	<b>ASP</b>	<b>SCC</b>	<b>SWO</b>	<b>TDBC</b>
Human Resource Management	Y	Y	Y	Y
Payroll	Y	Y	Y	Y
General Ledger	Y	Y	Y	Y
Finance	Y	Y	Y	Y
Procurement	Y	Y	Y	Y
Customer Relationship Management	N	Y	N	Y
Citizen Portal (Web Site)	N	N	N	Y

6.3 We have recently reviewed the SAP system to evaluate whether it continues to be the right ICT platform to support TDBC's emerging strategic agenda. This review has been independently verified.

6.4 The review identified a number of key themes that suggest SAP is no longer the right platform for delivery of TDBC services. These are:

- SAP platform support is costly, complex, resource intensive and not responsive to TDBC requirements
- It is a barrier to sharing services with other district councils
- It does not support the customer access agenda in respect of channel shift as the SAP Citizen Portal (website) is inadequate
- The system is overly complex and users find the processes inefficient

6.5 In view of these findings the Council needs to assess its technology options in respect of SAP, cost potential replacement systems and the impact on the SWO contract and its partners. This work informs the contract end options and consequently needs to be undertaken in conjunction with the review of those options.

## **7. Financial Implications**

### Contract Value

7.1 The value of the SWO contract is reducing significantly. On inception, TDBC were paying an annual Unitary Charge (UC) of just over £5m for the original services. As a result of contract revisions and the transfer back of various services (Revenues and Benefits, ICT Strategy, H&S, Property, Facilities Management, HR Advisory and Finance Advisory) the UC has reduced to £1.6m and provides the following services:

- ICT
- Customer Services
- Finance Transactional including Cashiers and Accounts Payable & Receivable
- HR Admin & Payroll
- Procurement

7.2 The Phase 1 report will provide details of the estimated costs for future service delivery for the various services delivery options and services. Undertaking this modelling is likely to require significant resource.

Exit Costs

7.3 At contract expiry, the costs of exiting from SWO are likely to be significant. In addition to the ongoing service delivery costs there are a number of one-off exit costs. Any disaggregation from the shared service model will be complex and resource intensive and will also be challenging for SWO as it attempts to satisfy the requirements of three partners whilst protecting and maximising its own financial position.

Funding Requirements for Phase 1

7.4 The work required to plan for and implement succession planning is significant and needs to be managed as a separate project from phase 1 onwards. This project cannot be delivered from existing resources. Set out below is the additional resource and funding required for phase 1:

Project Management and specialist commercial support: report production, contractual exit arrangements, future service delivery options and business case
Specialist external legal advice: staffing implications, commercial legal advice on exit issues
HR support: managing communications with UNISON & staff, identifying staffing implications, agreeing the approach to staffing issues
Finance support: detailed financial modelling of potential future options
SAP system replacement: project manager to lead identification &

evaluation of potential replacement options
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- 7.5 An element of this additional resource can be funded from an existing reserve. However, an additional £47k will be required from the General Fund Reserve.

## **8. Staffing Implications**

- 8.1 There are currently just under 50 TDBC secondees still in SWO.
- 8.2 The staffing implications of all the options will need to be assessed. Any exit from the SWO contract and the shared service arrangement will need to reallocate staff between the authorities, which will be complex.
- 8.3 The Authority will need to seek legal advice in respect of the application of TUPE and the Staffing Agreement for staff transfers at contract end and agree a protocol with all the partners.
- 8.4 There will be the usual legal requirement to consult with staff and UNISON at the appropriate times. Unison have been consulted in respect of this report.

## **9. Finance Comments**

- 9.1 The identification of the most suitable service delivery option post the SWO contract is a critical and significant project which will have significant implications for the delivery of the Council's transformation objectives and future financial sustainability. Consequently it is essential that we invest resource and additional funding into this project now.
- 9.2 The requested allocation of £47k from General Reserves is affordable with the residual reserves balance remaining comfortably above the minimum recommended. The current reserves balance is £1,782,000 (rounded) not including this supplementary budget request or any under/overspend in 2014/15. The Q3 forecast underspend is £102,000, and the final variance to budget at year end would increase/decrease available reserves accordingly.

## **10. Legal Comments**

- 10.1 The SWO contract is one of the Council's largest and most complex contracts. Planning for contract end will require legal support under a number of headings, including (i) employment (ii) contract (iii) corporate and procedural, and there will be a requirement for specialist legal support in some if not all of these areas.

## **11. Links to Corporate Aims**

11.1 SWO provides support services to the Council which assist services in the delivery of corporate aims and objectives. In addition a number of the services currently provided by SWO will be key to supporting the delivery of the Council's Transformation Programme.

## **12. Environmental Implications**

12.1 There are no environmental implications

## **13. Community Safety Implications**

13.1 There are no community safety implications.

## **14. Equalities Impact**

14.1 Equalities have been considered and no specific impacts have been identified at this stage. However, detailed equalities impact assessments will be undertaken, as relevant, where further reports are brought to members.

## **15. Risk Management.**

15.1 SWO end of contract planning is already recognised as being a key corporate risk. A detailed risk analysis will be undertaken as part of Phase 1 and a project risk register will be created and monitored.

## **16. Partnership Implications**

16.1 Succession Planning has an impact on all the SWO partners and officers with consult with them at the appropriate times.

## **17. Recommendations**

17.1 Full Council is asked to consider the report and support the recommendations which are set out below:-

i) To note the position with regard to the expiry of the SWO contract, system replacement challenges, and work needed to prepare TDBC for contract end; and

ii) To approve a supplementary budget of £47,000, funded from General Fund Reserves, to enable officers to undertake the necessary work in Phase 1 to produce a detailed options appraisal and recommendations for decision"

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APPENDICES:

- A. List of Services

**Appendix A****List of Services**

<b>Service</b>	<b>Returned</b>
Benefits	April 2013
Revenues	April 2013
ICT Strategy	April 2013
Health & Safety (HR)	July 2013
Corporate Administration	Feb 2014
Design & Print	Feb 2014
Facilities Management	Feb 2014
Finance Advisory	Feb 2014
HR Advisory	Feb 2014
Property Services	Feb 2014
Customer Services	Remains within SWO
Finance Transactional ○ Accounts Payable ○ Accounts Receivable ○ Master Data for SAP ○ Cashiers and Control Team	Remains within SWO
HR ○ Admin & Payroll	Remains within SWO
ICT ○ Support and Development	Remains within SWO
Procurement	Remains within SWO