Taunton Deane Borough Council

Full Council - 26 January 2016

Southwest One Succession Planning

Report of the Assistant Director – Corporate Services
(This matter is the responsibility of Executive Councillor Parrish)

1. Executive Summary

The report and appendices summarise the work undertaken on the Southwest One Succession Planning Options Review together with the conclusions reached.

The Review identifies and recommends that the Council should seek an early and phased exit of services from the Southwest One contract, ideally via negotiation with Southwest One. This early exit of key services is required in order to facilitate Members ambitions for the transformation of the Council including our ability to unlock significant savings through the implementation of a new approach to customer access. Specifically the report identifies the ICT and Customer Contact services as being central to our ability to deliver these ambitions.

The ongoing suitability of the SAP software systems (Back Office, CRM and the Web Portal) has also been considered in detail by the Review. The Review concludes that these are no longer appropriate software platforms and should be replaced by cheaper and more flexible alternatives, which are better suited to an organisation of TDBC's size and to the rapidly changing world of local government.

The report sets out a number of detailed recommendations for Members to consider in relation to the early exit of services, the means by which this should be achieved and the replacement of the SAP systems. The recommendations include a request for funding to implement these proposals (NB. The costs of exit are similar whether we exit early or allow the contract to run to term).

This will be a major project and recommendations are also included to provide for appropriate Member involvement.

The Review is attached to this report together with Appendices some of which are confidential.

The report was considered by Corporate Scrutiny on 14 January 2016 who were happy to support the recommendations to Full Council.

2. Background

2.1 The Southwest One (SWO) partnership and contract was originally entered into by the Council in conjunction with Somerset County Council (SCC) and IBM (UK) Ltd in 2007. The Avon and Somerset Police (ASP) joined in 2008. The 10-year contract is for the delivery of a range of back office services and a number of key transformation projects. SWO is one of the Council's largest contracts and currently costs circa £1.7m per annum.

2.2 The world has changed significantly since we entered into the SWO contract in 2007. The recession has had a significant impact on local government funding and the levels of savings we now need to make. Year-on-year savings are built into the SWO contract, but we will need to review the way in which we continue to deliver these services in order to achieve additional savings. Additionally, the ambitions and direction of travel of the public partners to SWO are now significantly different to how they were in 2007. Whilst there are still opportunities to work together in specific areas we are no longer aligned to the extent that we should look to combine services in an organisation the size of SWO. The advice and guidance from central government has also changed and recognises that large, multi-faceted and lengthy contracts are not the right solution in the current environment. Instead best practice recommends smaller, more focussed contracts where outsourcing is being considered.

2.3 We have already brought back in-house a number of services from SWO during the past 3 years. The remaining services are Customer Contact, ICT, Procurement and the transactional elements of HR (including Payroll) and Finance.

2.4 The contract is scheduled to end on 1 November 2017. Under the terms of the contact the Council is required to give SWO notice of its intentions at contract end (i.e. whether we want to extend or exit) by the end of May 2016.

2.5 Consequently at Full Council on 31 March 2015 Members authorised officers to undertake a succession planning exercise to review and evaluate the options for ongoing service delivery at contract end. Members also agreed that the review should include an evaluation of the ongoing suitability of the SAP computer systems.

2.6 Additionally, Members requested on 31 March 2015 that the review be aligned with the ongoing work around service transformation (to support Phase 2 of the Joint Management & Shared Services programme) so as to ensure that the recommendations from the review support the delivery of organisational and service transformation.

2.7 The attached report sets out in detail the work undertaken during the succession planning review together with the conclusions and recommendations. Elements of the report are necessarily confidential in view of the commercial nature of the SWO contract and the discussions and negotiations that will be required to facilitate implementation of the recommendations.

3. Recent Developments

3.1 In March 2015, when the succession planning review was commissioned, the position of the other public partners in SWO in relation to their intentions at contract end was unknown.

3.2 That position has changed recently with SCC’s announcement on 9 December 2015 of their intention to end their contract with SWO and repatriate their services a year early in 2016. They have indicated that they would like to achieve this by a negotiated and phased return of services.

3.3 In contractual terms SCC’s early exit should not impact on ourselves or ASP, as we both have separate contracts with SWO. However, in reality this presents both risks and opportunities for TDBC. Consequently we need to engage with all of the partners to ensure we minimise the impact on service delivery of this change and also to ensure we do not miss the opportunity, where appropriate, to align the return of services to SCC with our succession planning approach. To this end we have already commenced informal discussions with senior officers in each of the partner organisations.

3.4 ASP have also announced some time ago their intention to pursue a strategic partnership with Wiltshire Police. In regard to SWO specifically they have now commenced a succession planning exercise, which is due to report back in March/April 2016.

3.5 Consequently we have amended the review to take account of partner intentions as they have become known.

4. Overview of the Succession Planning Review

4.1 In undertaking the review we have very much focussed on the future direction of travel and priorities for the Council in order to ensure that the conclusions and recommendations that flow from the review are aligned with our corporate and service transformation objectives. This is particularly important in relation to the Customer Contact and ICT services, as these will be key elements of the forthcoming transformation programme.

4.2 It is clear, from the work already undertaken in relation to implementing Phase 1 of the Joint Management and Shared Service project (JMaSS) and in developing the transformation programme, that having direct control over the delivery of and the direction of travel of the ICT service will be central to our ability to deliver transformation (and consequently significant savings) in a timely and cost effective manner.

4.3 Additionally, work recently undertaken in relation to our approach to customer access and new ways of working in this area has suggested the potential for us to deliver significant savings (£500k to £1m) by radically changing our approach to how we interact with customers. The need to have control over the delivery of our Customer Contact and ICT services underpins our ability to deliver changes in this area and unlock these savings.

4.4 A multi-disciplinary project team (combining project management, ICT, HR and finance expertise) was established to undertake the review. Additionally, specialist expertise was bought in, where required, to assist with specific technical aspects of the review.

4.5 Specifically the review has focussed on the following areas:

- Reviewing the suitability of the various options for future service delivery at contract end (contract extension, outsourcing, partnership working, in-house);
- Determining the ongoing suitability of the various SAP systems (Back Office, Customer Relationship Management and the Web Portal) and evaluating the alternative options;
- Understanding the costs, both one-off and ongoing, of contract end and the future service delivery options;
- Identifying the implications for staff (both our secondees to SWO and other staff in SWO who would potentially transfer to the council under TUPE) and an approach to minimise the impact on staff;
- Understanding the contractual approach to contract exit and potential early exit; and
- Undertaking a comprehensive lessons learned exercise both to inform the conclusions of this review and to assist in procuring future service contracts

4.6 The review of the SAP systems and potential alternatives involved the undertaking of a detailed market soundings exercise with potential suppliers, which has provided useful intelligence about potential alternative options and indicative costs.

5. Conclusions from the Review

5.1 The attached report outlines the conclusions and the thinking behind those conclusions in detail.

5.2 In summary, the report concludes that the Council should seek a negotiated and phased exit from SWO over the period up to 1 November 2017. The key determining factor behind this conclusion is the need to deliver our transformation objectives (and the significant savings this unlocks) and the recognition that to do so requires that we have control of the direction of travel of the ICT and Customer Contact services. The Review therefore concludes that we should phase the return of services through negotiation with SWO to enable the early return of the ICT and Customer Contact services to enable them to support our transformation objectives. This conclusion also takes into account the fact that SCC are intending to exit the contract by late 2016, which may have an impact in practice on SWO's ability to continue to deliver services to TDBC. In simple terms if we choose NOT to exit these services on an earlier timescale this is likely to have a significant detrimental impact on our ability to deliver our transformation programme quickly.

5.3 The Review also identifies that a negotiated approach, as opposed to contractual termination, is the best approach for enabling a cost effective and phased return of services. However, it also includes that, where a negotiated solution is not achievable, we should terminate using the contractual route if necessary in order to facilitate the early return of services.

5.4 Initially we should look to deliver the majority of the returning services either in-house, or, where required to facilitate early exit, as shared or co-located services for a limited period with SCC. However, the report identifies that in respect of the Customer Contact service it would be sensible to explore the potential for ongoing shared services with SCC. In respect of the Payroll service it would be sensible to continue to outsource, ideally to SCC.

5.5 The report also identifies that the SAP systems are no longer appropriate software platforms for the future and should be replaced with lower cost alternatives, which provide greater flexibility to change and adapt to the shifting world of local government. Additionally, implementing alternative and lower cost software platforms will provide greater scope for partnership working at district level. Ideally these systems would be replaced over a 15 to 18 month period.

5.6 There are significant one-off costs for ending the contract. It is important to understand that the costs of exit are broadly the same whether we choose to exit early or run the contract to term. These are detailed in the confidential appendix.

5.7 Where a negotiated phased exit is not achievable in our timescale we should, as a last resort, formally terminate the contract. The termination date being determined by when we can migrate away from SAP to replacement systems.

6. Implications for Staff

6.1 The Council still has 43 secondee staff in SWO. There are also secondee staff from the other public partners to SWO and directly hired staff some of whom may potentially transfer to TDBC with any return of services. The end of the contract also has potential implications for staff in associated retained services i.e. Finance, Debtors, HR, ICT and Customer Services.

6.2 Consequently the review has considered in detail the implications for staff of the ending of the contract and the implications of any earlier potential early exit. We have also engaged in discussions with HR representatives from all of the partners to seek to agree protocols for the return of staff.

6.3 A consultation exercise was commenced on 14 December 2015 with UNISON, the TDBC secondees and TDBC staff in potentially affected services regarding the conclusions and recommendations from the review. This exercise will end on 11 January 2016. Initial verbal feedback has been received from UNISON indicating that they are happy with the conclusions and recommendations from the review. Details of the results of the consultation exercise will be provided at the meeting.

7. Finance Comments

7.1 The SWO contract is one of our largest contracts with a current value of approximately £1.7m per annum.

7.2 There are significant costs associated with contract exit, whether we exit early or run to term (these are identified in detail in confidential Appendix E together with details of how these can be funded). Consequently the question is when do we want to spend this money rather than do we want to spend this money?

7.3 Preliminary work already undertaken in relation to our approach to the customer access element of the transformation programme suggests the potential for us to realise significant savings (circa £500k to £1m) by radically changing our approach to how we interact with customers in the future. Having adequate control of the ICT and Customer Contact services will be critical to our ability to implement these changes and deliver these savings. Consequently we should look at the early phased exit of these services from SWO as identified in the report. This earlier investment in the exit of services will enable us to realise savings from the transformation of customer access more quickly.

8. Legal Comments

8.1 The SWO contract is one of the Council's largest and most complex contracts. Implementing the exit from the contract will potentially require significant specialist legal input. This has been recognised in the report and provision has been made in the recommended budget to buy-in external specialist legal support. (NB. This approach has been used previously when we have brought services back and has worked well).

9. Links to Corporate Aims

9.1 A key corporate objective for the Council is to achieve financial sustainability over the next 2 financial years. The recommendations in the report will directly support that objective by helping to deliver corporate and service transformation which will unlock savings.

10. Environmental Implications

10.1 There are no environmental implications from the recommendations.

11. Community Safety Implications

11.1 There are no community safety implications.

12. Equalities Impact

12.1 An Equalities Impact Analysis has been undertaken and is attached to the report.

13. Risk Management

13.1 A detailed risk analysis has been undertaken and is attached to the report, although for commercial reasons this is confidential.

14. Partnership Implications

14.1 The Council has contractual obligations under the Memorandum of Understanding that was signed between the public partners to SWO in 2008. We need to ensure that we honour these obligations and the recommended approach to contract end takes these obligations into account.

15. Corporate Scrutiny Comments

15.1 The report was considered in detail by Corporate Scrutiny on 14 January 2016. Corporate Scrutiny were happy to support the recommendations, subject to minor changes being made to recommendation iii) to make it read more clearly. These changes have been incorporated in the revised recommendations outlined below.

16. Recommendations

16.1 Members are recommended to:

i) Authorise officers to formally notify Southwest One that the Council will not extend its contract beyond the original contractual 10-year term which expires on 1 November 2017;

ii) Authorise officers to engage in formal discussions with Southwest One (and the other partners) to pursue and implement a negotiated and phased exit of services from the Southwest One contract in line with the suggested phasing outlined in the report. (This includes authorising officers to negotiate, agree and implement, where required to facilitate smooth or early exit, temporary shared service or co-location arrangements with the other partners);

iii) Authorise officers to implement the following service delivery methods for the returning services:
- In-house service delivery – Finance and HR transactional services, ICT and Procurement (NB. In-house delivery is recommended as the initial option to allow us to safely return these services from SWO. Once returned we will need to identify the best long-term delivery option for these services)
- External service delivery – Payroll (continue to buy-in the service, as we did prior to SWO and potentially via SCC)

- Potential shared service – progress discussions with SCC re continuing Customer Contact as a shared service dependent on this aligning with our direction of travel (or provide the service in-house);

iv) Authorise officers to, where a negotiated exit has not been agreed by 29 February 2016, serve the necessary notices on Southwest One to implement early termination of the entire contract in line with the contractual provisions;

v) Authorise officers to procure and implement alternative software solutions to replace the SAP Back Office, CRM and Web Portals;

vi) Approve the budget, as outlined in the confidential Finance Appendix E to the report to fund the exit from the contract and the implementation of alternative software solutions to the SAP system; and

vii) Set up a Member Steering Group to act as an oversight and advisory body in relation to the implementation of the exit from Southwest One.

Contact:	Officer Name	Richard Sealy
	Direct Dial No	(01823) 358690
	E-mail address	r.sealy@tauntondeane.gov.uk
	Officer Name	Adrian Gladstone-Smith
	Direct Dial No	(01823) 356546
	E-mail address	a.gladstone-smith@tauntondeane.gov.uk

APPENDICES

Southwest One Succession Planning Report and Appendices A, B and C

Confidential Appendices to the Report D, E, F and G

TAUNTON DEANE BOROUGH COUNCIL

SOUTHWEST ONE SUCCESSION PLANNING

January 2016

Freedom of Information Act 2000

Under Section 43(2) of the Act, information is exempt if its disclosure would, or would be likely to, prejudice the commercial interests of any person (including the public authority holding it).

Elements of this report are confidential as they contain commercially sensitive material which, if disclosed, is likely to detrimentally prejudice the commercial interests of the Council by weakening the Council's negotiating position with Southwest One, IBM or the other public partners.

There is a strong public interest in the Council obtaining value for money and obtaining the most preferable terms possible when negotiating with suppliers.

Consequently, the exemption provided by Section 43(2) of the Act will be applied to certain information within this report whilst negotiations with Southwest One and IBM are ongoing.

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Executive Summary

This report represents the conclusion of the first phase of the Southwest One Succession Planning Project commissioned by Members at Full Council on 31 March 2015.

The report concludes that the Council should seek a negotiated and phased exit from the Southwest One contract over an 18 month period ideally commencing in April 2016. A phased exit of services will allow us to prioritise their return in order to best support the delivery of the transformation element of the Joint Management and Shared Services (JMaSS) project. Additionally a negotiated exit carries far less operational risk; enables us to minimise the impact on our remaining 43 secondee staff; greatly reduces legal costs; and allows us to manage any potential reputational damage.

The report also identifies that the SAP systems (Back Office, CRM and Web Portal) are no longer appropriate software platforms for the future and should be replaced, and ideally phased over a 15-18 month period.

There are significant one-off costs associated with exiting the Southwest One contact and replacing the SAP systems. (NB. These costs are broadly the same whether we exit early or run to term). However, the report also identifies that exiting key services on an earlier timescale is critical to unlocking our ability to deliver significant savings through our transformation programme – essentially this is an invest to save recommendation.

Initially we should look to deliver the majority of the returning services either in-house or, where required to facilitate early exit, as shared or co-located services, for a short limited period, with SCC (who are also pursuing early exit). Alternative and wider delivery options can be considered in the future, but are not recommended in the immediate return phase. A short period of service stabilisation will be necessary and then, together with other services, we can look at different methods of delivery.

The report identifies that the Customer Contact service is an area where it would be sensible from both a customer, service delivery and possibly cost perspective to explore the feasibility of continuing to deliver a shared service in conjunction with SCC.

Where a negotiated phased exit is not achievable in our timescale, we should, as a last resort, formally terminate the contract; the timing of such termination being driven by the date by which we can safely migrate away from the SAP systems.

A brief history of Southwest One
Southwest One Ltd is a public/private joint venture partnership company. It was originally formed in 2007 by SCC, TDBC and IBM (UK) Ltd, with the Avon and Somerset Police joining in 2008. The contract lasts for 10 years (until Nov 2017) with an option to extend for a further 5 years.

Southwest One delivers a range of largely back office support services to the public partners, although both TDBC and SCC have already taken back in-house approximately two thirds of those services. Each public sector partner seconded staff to Southwest One who guarantee employment for those staff. The following TDBC services are still 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, Recruitment and Payroll
- Procurement Strategy and operational delivery

Additionally, Southwest One were contracted to deliver a number of transformation projects including the SAP systems and Procurement. The aim of the latter was to deliver £10m savings to TDBC, although, in practice this has not been met.

Southwest One was set up as a growth model for the South West region with a large number of other public bodies being original co-signatories to the initial procurement exercise. In practice there has been no significant growth or new business.

Southwest One as a company faces significant financial challenges, but is effectively underwritten by IBM (UK) Ltd. The company is loss making (circa £50m), which has at times severely strained relations with the public sector partners, as the company has, in the Council's view, focussed on minimising loss rather than service delivery.

TDBC has seen some significant improvements in service delivery through the contract, the Customer Contact service being a notable example. However, other areas, particularly ICT, appear to have seen little development that has been of benefit to TDBC and have required significant contract management input on our part.

In general terms the contract reflects the world of 2007 (i.e. pre-financial crisis) and is not flexible enough in its construct to allow us to make the radical changes required to reflect the current economic climate. None of the partners to the contract foresaw the recession or its impact on public sector finances.

The background to the Succession Planning exercise

On 31 March 2015 Members approved the undertaking of a Succession Planning exercise and commissioned officers to undertake work to evaluate the various options for future service delivery at the end of the Southwest One contract in November 2017. This included a review of the existing SAP systems and alternative software system options.

In addition Members specifically requested that the Succession Planning work be aligned to support the transformation element of the JMaSS programme.

Overview of our transformation priorities
Although no detailed plans have been approved yet for transformation it is clear, from the council's financial position and the work already undertaken with Members that we need to implement significant changes to remain sustainable.

Work recently undertaken in relation to the organisations approach to customer access and new ways of working in this area suggests the potential to realise significant revenue savings (circa £0.5m - £1m p.a.) by radically changing the way we interact with customers in the future. This can be achieved by implementing a new TDBC website, new customer access systems and substantial changes in our approach to customer contact.

Consequently the delivery of timely and cost effective ICT solutions and gaining control over the management of our ICT and Customer Contact staff and ICT infrastructure will be central to our ability to deliver the transformation programme. We have already identified a number of key ICT projects including, for example, the provision of a new website, new telephony, and the creation of a single ICT domain and associated functionality to facilitate flexible working.

Whilst there are costs associated with regaining control of these services it is clear that this investment will then unlock significant future savings and will play a key role in delivering sustainability.

Overview of recent developments
In March 2015 the intentions of the other public sector partners were unknown. That position has changed recently. SCC have taken a decision on 9 December 2015 to exit their contract with SWO in the next 12 months and ideally via a negotiated route.

We understand that SCC are not intending to continue to use the SAP system provided by Southwest One, but will be procuring and implementing a new SAP Back Office system, although they no longer use the Web portal and will cease to use SAP CRM so are not procuring these SAP modules.

Clearly SCC's potential early exit from the contract could have significant implications for TDBC, which we have consequently taken into account when evaluating the various options.

The Avon and Somerset Police have not as yet made any decisions about contract end. However, they have entered into a strategic partnership with Wiltshire Police and are clearly looking to develop in that direction. Additionally, they have recently commissioned external consultants to assist them in succession planning and with the intention of reaching conclusions in Mar/Apr 2016.

The approach to Succession Planning
A multi-disciplinary project team has been established to undertake a comprehensive review of the following areas:

- The various options for service delivery at contract end
- The suitability of the SAP systems and alternative options (external expertise has been used to assist with this exercise

- A detailed costing exercise to identify both the one-off and ongoing costs
- The implications for staff (both our secondees and those potentially transferring under the Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014 referred to as TUPE)
- A detailed contract review to understand the feasibility and implications of contractual termination (external expertise has been used to assist in this exercise)

In addition we have undertaken a comprehensive lessons learned exercise to ensure that we have identified areas of improvement for the future.

We have engaged with Southwest One and the other partners to obtain more detail regarding current service delivery issues and costs and to explore the potential alternative options.

A detailed market sounding exercise has been undertaken in conjunction with a number of potential ICT software suppliers to understand the options, costs and timeframes for replacing the various SAP systems.

We have continually adapted the review and the conclusions to ensure alignment to the developing transformation programme and also to take into account the implications of SCC's potential decision to exit the contract early.

Staff

The arrangements for staffing Southwest One are complex and consequently this makes the potential disaggregation of those arrangements at contract end complex.

Southwest One is comprised of a mixture of staff seconded from each of the founding public partners, directly hired staff, contractors and IBM staff. The seconded staff all have rights under the Staffing Agreements agreed between them and their respective employers (i.e. ASP, SCC and TDBC). TUPE legislation, as statute law, must be applied correctly at contract end in relation to any transfer of staff.

Consequently throughout the Succession Planning exercise our retained HR team have engaged with the HR representatives for each of the partners to discuss the issues likely to be encountered at contract end and to seek to agree protocols for dealing with these issues.

In addition we are undertaking a consultation exercise with UNISON and staff in advance of the decision making process which ends on 11 January 2016. Initial verbal feedback has been received from UNISON indicating that they are happy with the conclusions and recommendations from the review.

The key findings and conclusions

Summarised below are the key findings and conclusions from the review.

1. *Transformation Programme* - the Council's paramount objectives in relation to future options for the delivery of the Southwest One services are to ensure they align and support the delivery of the transformation programme. The preliminary work undertaken in relation to customer access and new ways of working in this area suggests the potential to realise significant savings (circa £0.5m-£1m p.a.) which can be delivered by implementing a new website, customer access systems and through substantial changes in our customer interaction.

   Elements of the ICT and Customer Contact Services (both with Southwest One) will be key in delivering the transformation programme. Having adequate control of these services is therefore crucial. However, the other remaining transactional support services in HR and Finance are not critical to delivering transformation.
   CONCLUSION: Having adequate control of the elements of the ICT service and Customer Contact service necessary to deliver transformation will be critical to our ability to transform organisationally and consequently we should look at early exit for the required elements of these services.

2. *Customer Contact Service* - during 2016/17 we will need to start making significant changes to the way we interact with customers (e.g. implementing a new website and associated processes). These changes may necessitate significant changes to the construct of the Customer Contact service. We would not recommend trying to make these changes with the service remaining in SWO and, in any case, this would be impractical in view of SCC's (with whom this is currently a shared service) early exit from the contract.

   SCC are also looking at options for how they deliver customer access in the future. Delivering access via a shared service arrangement has distinct advantages for customers. Consequently it make sense to explore with SCC the potential for an ongoing shared service in this area.
   CONCLUSION: We need to remove from SWO during 2016/17 the Customer Contact Service and it makes sense to explore with SCC the options for continuing with an ongoing shared service model. If this is not feasible we should provide this service in-house.

3. *Contractual Termination* - the contract provides for contractual termination either in its entirety or service-by-service. The ICT Service is our priority. However, terminating all of the ICT service (because it supports the SAP system upon which all the other services rely) effectively requires us to terminate the entire contract. This is achievable, but to deliver safely would require 12 to 18 months as it necessitates the replacement of all of the SAP systems but crucially delays our getting back control of ICT and frustrates our easily being able to progress transformation.
   CONCLUSION: Contractual termination is deliverable, but potentially delays and impacts on our ability to deliver transformation.

4. *Negotiated and Phased Exit* – a negotiated exit potentially provides us with the opportunity to extract the services we want back and on a phased basis

that is more manageable within our capacity. This is critical in view of our having identified that we need back elements of the ICT service in early 2016. Additionally, a negotiated route should provide for greater clarity in relation to the costs of exit and provides an avenue for a mutually acceptable parting of the ways. Clearly it requires Southwest One to be prepared to negotiate as there needs to be give and take on both sides. We will need to agree a commercial arrangement with SWO and if successful this option provides for a much smoother and operationally safer transition of services. CONCLUSION: A negotiated phased exit is the best solution for allowing us to quickly get back control of the services we need to deliver transformation

5. *SAP System Review* – the review of the various SAP software platforms (Back Office, CRM and Web portal) indicates that these are not the right future platforms for the Council. The review also indicated that there are a number of alternative, more appropriate and affordable solutions, which would facilitate wider sharing of services at district level. The review also considered the viability of utilising SCC's proposed new SAP solution, but this is limited to the Back Office element only and, from the available information, appears to be significantly more expensive than the alternatives. Migrating away from SAP completely and safely requires a minimum of 15 to 18 months. The priority areas are SAP CRM and the Web Portal, as both are key elements of the transformation programme, but SAP Back Office is not urgent. CONCLUSION: We need to implement new software solutions for all three SAP platforms, the priorities are SAP CRM and the Web Portal and this will take up to 18 months

6. *Other Service Delivery Options* – outsourcing services or partnering with other local authorities is, from experience, likely to require the best part of 2 years to deliver safely and successfully. Therefore this is not an option in the short-term for the ICT Service and Customer Contact in view of our needing back control of these services in 2016. In the longer-term both options can be considered. CONCLUSION: Outsourcing or partnerships with other local authorities are not viable short-term options

7. *Shared Services with SCC* – the majority of our remaining in-scope services are run in partnership largely with SCC and to a very limited extent the Police. Consequently we have examined in detail and worked with officers from SCC to understand the viability of continuing to run these services in partnership with SCC on an ongoing basis. A key factor in this is the SAP system, which SCC are intending to continue to use to support their finance and HR transactional services, and possibly for their Payroll function, but not for their Customer Service team. They will however be changing suppliers of their SAP software, which will necessitate a migration away from the existing SAP systems.

   Running our procurement, finance and HR transactional services in partnership with SCC would require us to remain on the SAP system, fund the migration of our existing SAP data to the new system and agree a price with SCC for managing and delivering the services. The work we have undertaken indicates that the one-off costs for migrating the SAP data and ongoing running costs are significantly higher than the costs for implementing alternative software solutions. Additionally, SCC are unable to provide us with a price for running services for us in advance of their actually taking back control of their services. Consequently it is not recommended that we look to enter into long-term shared service arrangements with SCC at this stage in respect of our Finance and HR transactional services.

However, Payroll administration (which is a service we purchased from SCC prior to Southwest One) is a function we should look to continue to buy-in for reasons of managing resilience and costs. Consequently we are working with SCC to understand the cost of their continuing to run this service for us.

Customer Contact, for the reasons outlined above, is also an area where we are also exploring the options for ongoing service delivery in conjunction with SCC.

CONCLUSION: Ongoing long-term shared services with SCC for Finance and HR transactional services is not an option at this stage and we should look to bring these services back in-house. However, we should continue to explore the opportunity for a long-term shared service arrangement in respect of Customer Contact and 'buying in' Payroll from SCC.

8. *Costs of Contract End* – we can run the services in-house for the same amount as the existing contract cost and in due course can look to make savings from these services through the transformation exercise. There are significant one-off costs associated with contract exit and system replacement. The difference in cost between early exit and running to term is negligible.
CONCLUSION: We can run services for the existing contract cost and will have to fund the one-off costs, whether we exit early or wait until November 2017

9. *SCC Early Exit* – SCC have decided to exit the contract within the next 12 months and have indicated that they would like to achieve this via negotiation. This presents both risks and opportunities.
CONCLUSION: To ensure we minimise the risks and maximise the opportunities we should endeavour to align our discussions and phasing of services with SCC. However, we must not lose sight of the fact that our primary objective is the successful delivery of the transformation programme, the return of the services required to support that and not the early termination of the entire contract.

Recommendations
Detailed below are the recommendations for Members that flow from the Succession Planning review.

Members are recommended to:

i) Authorise officers to formally notify Southwest One that the Council will not extend its contract beyond the original contractual 10-year term which expires on 1st November 2017;

ii) Authorise officer to formally engage in formal discussions with Southwest One (and the other partners) to pursue and implement a negotiated and phased exit of services from the Southwest One contract in line with the suggested phasing outlined in the report. (This includes authorising officers to negotiate, agree and implement, where required to facilitate smooth or early exit, temporary shared service or co-location arrangements with the other partners);

iii) Authorise officers to implement and progress discussions to implement, where required, the following service delivery methods for the exiting services:
- In-house – Finance and HR transactional services, ICT and Procurement (NB. In-house delivery is recommended as the initial option to allow us to safely exit these services from SWO. Once returned we will need to identify the best long-term delivery option for these services)
- Bought-in – Payroll (potentially via SCC)
- Shared service – progress discussions with SCC re continuing to provide Customer Contact as a shared service;

iv) Authorise officers to, where a negotiated exit has not been agreed by 29 February 2016, to serve the necessary notices on Southwest One to implement early termination of the entire contract in line with the contractual provisions;

v) Authorise officers to procure and implement alternative software solutions to replace the SAP Back Office, CRM and Web Portals; and

vi) Approve the budget, as outlined in the Finance appendix to the report, to fund the exit from the contract and the implementation of alternative software solutions to the SAP system; and

vii) Set up a Member Steering Group to act as an oversight and advisory body in relation to the implementation of the exit from Southwest One.

Introduction

The Southwest One (SWO) contract is a ten year contract, for the delivery of transformation and support services which expires on 1 November 2017. Under the contract we are required to give SWO notice by 31 May 2016 of our intentions regarding future service delivery at contract end.

In recognition of the fact that we need to be taking decisions in the near future, Full Council, in March 2015, approved a project to undertake an options appraisal for the future delivery of the SWO services, including a review of the SAP computer system provided by SWO. This report is the culmination of a significant and detailed piece of work to deliver this project.

The report is structured to provide Members with a background overview of SWO, an overview of current performance, recent developments and a full appraisal of the available service delivery options open to TDBC at this point. A review of the SAP computer system is also included together with the options going forward.

The report also considers the lessons learned from eight years' experience of this ground breaking outsourcing arrangement and also balances it against the benefits received.

And finally, the report draws conclusions and makes recommendations to Members as to the approach to contract end.

1 Background to SWO Contract and Succession Planning

This section provides an overview of the SWO contract, current SWO performance, the lessons learned and the overall cost benefits.

1.1 Introduction

1.1.1 When TDBC entered the SWO contract in 2007 it was during an era of unprecedented funding of local government and the public sector. Central government, at that time, were heralding this type of long term, multiple agencies and private sector partnership as the future. In 2007 the partnership was considered ground breaking, signalling a new era in public service delivery.

1.1.2 The contract was negotiated and signed prior to the financial markets collapse and government spending austerity measures. Whilst savings were a cornerstone of the contract these were in the order of 2.5% p.a., as per Central Government efficiency targets at the time, rather than the 40% funding reductions local government is 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 and requirements from service delivery and in particular the support services provided by Southwest One.

1.1.3 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 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% approx.) are now out of alignment with our current financial circumstances and savings requirements. Furthermore, the constraints of the SWO contract will make it more difficult to deliver the transformation programme within time and budget.

1.1.4 The direction of travel and key objectives of the original partners has also altered. All are under severe pressure to reduce budgets. Avon and Somerset Police (ASP) are entering a 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 as originally envisaged and has not grown as a business and in fact the company is running at a significant loss. 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.

1.1.5 The needs of our community have also changed. Our customers want to interact with us electronically and by an increasingly wide range of devices to a far greater extent than in 2007. Local computer data centres are being replaced by Cloud based 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 are able to control the development and direction of these services in order to ensure that we have cost effective future service delivery arrangements in place which support the delivery of the Council's strategic transformation objectives.

1.1.6 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. Government advice now suggests a set of commercial principles that should inform procurement in the future, which include sustained competition, disaggregated services, small short contracts, transparency and diverse supply. These principles now seem sensible and relevant to the remaining SWO services.

1.1.7 In planning the succession of SWO, the lessons, current circumstances, performance and future direction of the Council need to be considered. This reflects the additional recommendation agreed by Members in March 2015 that the SWO Succession Planning be aligned with our corporate objectives and direction of travel.

1.2 Brief overview of the SWO contract

1.2.1 Taunton Deane Borough Council (TDBC) entered into a support services contract with SWO in 2007, for 10 years. Two other public sector bodies, Avon and Somerset Police (ASP) and Somerset County Council (SCC) also entered into contracts with SWO; SCC joining with us in 2007 and the Police joining six months later in March 2008.

1.2.2 IBM (UK) Ltd are the private sector partner.

1.2.3 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'.

1.2.4 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

1.2.5 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.

1.2.6 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, Recruitment and Payroll
- Procurement Strategy and operational delivery

1.2.7 The following services have been transferred back to the Council since contract commencement:

Date	Service	Reason
May 2011	Priory Depot Stores	Links to the DLO Transformation Review
April 2013	Revenues and Benefits	The impending legislative changes regarding Welfare Reform would have required a re-specification of the service requirements and re-negotiation of the contract price without any other competitive tenders
April 2013	ICT Strategy	The Council required independent direction for the ICT service and the provider needed a greater level of technical scrutiny than originally envisaged.
July 2013	Health and Safety	At request of SWO, following retirement of lead officer
February 2014	Design and Print Facilities Management Corporate Administration Finance Advisory HR Advisory	Various reasons following SCC withdrawal of the services: • Request of SWO • Assisted with Councils' transformation projects and opportunity • Performance issues

	Property Services	

1.2.8 The 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).

1.2.9 The amount we spend on the SWO services in providing the remaining services is approximately £1.77m per annum. This has reduced by approximately two thirds from 2007 levels, mainly as a result of the services we have taken back in-house.

1.2.10 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.

1.2.11 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 transformation, designed to generate additional benefits and savings over the term of the contract. The original target for TDBC procurement savings was £10m, but SWO have revised this to circa £5m. In practice only circa £3m savings have been identified to date.

1.2.12 In addition the contract contains provisions for continuous improvement in service delivery, although in practice this is difficult to measure for process improvements. Furthermore, SWO have been reluctant to improve performance targets, taking an inordinate amount of time to negotiate and implement relatively minor increases.

1.2.13 SWO has accumulated significant losses since inception, which are currently above £50m. This debt is the company’s responsibility, is effectively underwritten by IBM and cannot be passed to the public sector partners. There is no prospect of the losses being recovered during the remaining years of the contract. The company is maintained as a going concern through the mechanism of IBM providing funding and formally confirming its ongoing financial support for the company. A TDBC Member is a Director on the Board of the Company and is presently, Councillor Terry Hall with Councillor Norman Cavill acting as the Alternate Director.

1.3 Brief overview of current performance

1.3.1 The performance of SWO has been mixed. There are a multitude of reasons and they do not only sit with SWO but a combination of factors including:

- Contract construct in respect of complexity and inflexibility
- SWO was always envisaged as a growth model and the lack of growth in the company and consequent detrimental financial impact on IBM

has in our view resulted in SWO focussing more on minimising loss than improving service delivery
- The impact of the difficult and extended implementation of the SAP computer system
- The recession and consequent significant reduction in spending by the public partners and changes in priorities
- Cultural differences and lack of understanding by the partners of each other's work ethos
- Differing client approaches resulting in miss-aligned messages from partners

1.3.2 The current picture is as follows:

ICT
- The basic elements of the contracted service, based upon 2007 requirements and performance measures, are being delivered, but, in our view, the service to us is inflexible and has not kept pace with our changing priorities or best practice
- ICT support is now located offsite and consequently feels like arms' length provision. The service received by both Members and officers in response to calls frequently feels inadequate, although it may well fulfil the contracted standards for delivery. This situation has been exacerbated by the move of the Helpdesk function to Portishead.
- Significant Client input, and often 'micromanagement', required in managing the contractor from all levels to free blockages and obtain prioritisation of basic service
- IT development delays are frequently experienced at all stages of the project cycle: protracted pricing stage; inappropriate and unaffordable technical solutions initially proposed; and significant delivery delays
- Lack of flexibility and responsiveness to meet TDBCs changing needs
- Legacy issues with SAP installation, construct and ongoing development

Customer Services
- Good service and delivering to contract specification of 2007. However, the volumes have reduced, but we have no mechanism to reduce the price
- Contract measures are binary and meaningful call resolution not incentivised
- Adding additional services to the contact centre requires significant investment to construct electronic SAP CRM processes and consequent price negotiation
- The website is now out-of-date and requires urgent replacement to enable us to maximise efficiencies from customer channel shift

Finance: Accounts Payable, Accounts Receivable, Cashiers
- The contracted transactional service is being received.

HR: Administration, Recruitment and Payroll

- The contracted transactional service received and operates adequately

Procurement - Operational

- The contracted transactional service received and operates adequately

Procurement – Transformation

- Procurement savings not meeting projections. Approximately only £2m delivered to date with an additional £1.4m signed off and a non-evidenced 2017 forecast total of £5m approx., which has been revised down from the original £10m. However, as a result of the ‘true-up’ provisions TDBC only paid half the cost of this transformation project and our future ‘gain share’ obligations have been removed

1.3.3 Additionally, the SWO contract arrangement creates numerous contractual issues which are managed on a daily basis. The contract is large and complex, which, combined with changes in key personnel in SWO, often leads to issues of differing interpretation, which on occasions has resulted in expenditure on specialist legal expertise. This occurs particularly around the Output Specifications for individual services. The more significant issues are listed below:

- SAP implementation – problems remain around website public accessibility and electronic recruitment resulting in an unresolved contractual issue.
- Printer refresh project - initial discussions around liability commenced in 2008 and it took until 2014 for this project to be delivered
- ICT Asset investment – this is an annual investment plan in ICT assets. The first one was agreed in 2012 and included retrospective investment. No subsequent plan has been agreed and remains as unresolved contractual issue over liability
- ICT pricing – significant sums have been added to requests for additional work through the Request for Service (RFS) process and these take time to negotiate and resolve, which can cause considerable delay in delivery
- Software support contract – TDBC contributed 50% to a software support contract to resolve a long dispute and ensure compliance with Government regulations despite, in ours and our lawyers interpretation, SWO being categorically responsible
- Continuous improvement – the contract enshrines a principle of continuous improvement. In practice this has been difficult to evidence and enforce in some areas and agreeing performance enhancements in the key performance indicator (KPI) mechanism takes lengthy negotiation due to the financial penalties for failure
- SAP relocation and server refresh – a dispute of several years was settled with SWO being contracted to implement a SAP move and server refresh (at their cost) by December 2014. However, this date was not met, a further target of November 2015 was agreed, but current indications are that this will be further delayed into 2016.
- Deane House WIFI – protracted delays over the solution proposed and costs

- Internal Audit issues – during the last year we have seen a number of ‘partial’ assurance conclusions reported for the SWO audited services

1.4 Summary of key lessons learned

1.4.1 This review is primarily focussed on considering the options for the future and is not intended to be a fundamental root and branch review of SWO. However, in considering the future options it is important to identify and consider the implications of the key learning points from the SWO partnership experience to date.

1.4.2 These learning points must also be considered against the background to the SWO partnership i.e. that it was a ground-breaking partnership implemented at a time of unprecedented levels of public sector funding; the detrimental impact of having no new joiners; the impact of the recession; and the significant problems with the SAP implementation.

1.4.3 An exercise has been undertaken to identify the key learning points and assess their implications for the future options. Full details of this exercise are included in Appendix A. However outlined below are the key implications that we need to consider in relation to our decisions about future service delivery options:

- Control and flexibility – the ability to control services in order to respond immediately to changing requirements unhindered by the constraints of a contract improves speed and cost of delivery – this is particularly important during a period of significant change
- Quality and performance – the ability to determine quality and performance levels dependant on constantly changing circumstances whether through customer feedback or financial realignment is key going forward; as is measuring the right outcome
- Staffing – maintaining the loyalty and motivation of staff is key to the success of a service based organisation, whose demands are constantly changing
- Affordability – controlling costs going forward will be more important than ever
- Contract measurable services only – monitoring and measuring the performance of outsourced non-transactional services with unquantifiable outputs is extremely difficult leading to the conclusion that it is better to avoid outsourcing these elements of services. Defining requirements and whether they have been met is much more difficult where the outputs are not measurable, particularly around quality.
- Contract documentation – terms need to be unambiguous and the outcomes required adequately detailed and unequivocal. Shorter more focussed contracts are far easier to deliver, manage and monitor than large multi-faceted contracts.
- Clienting skills – need to manage relationships, drive performance improvement and measure and challenge the correct things

1.5 Benefits from SWO

1.5.1 Despite much criticism of the SWO Contract, TDBC have gained considerable financial benefits from the arrangement, although these may be lower than initially envisaged.

1.5.2 The costs and benefits of SWO are considered below although in undertaking this analysis it must be understood that some of the areas have been estimated as the Council do not hold all the data and information in a readily available format.

1.5.3 The most significant benefit is the reduction in the annual payment (Unitary Charge) to SWO for the delivery of back office services, which was unique to TDBC. In addition SWO also funded the secondees salary increments where staff were not at the top of the grade. The fixed service price also protected us from the huge escalation in utility costs as we contracted prior to the increases, although this was part of the Facilities Management service which was returned in February 2014. Over the contract period these contractual provisions will have saved the Council just over £3m.

1.5.4 The Procurement Transformation project will also contribute around £3m for savings initiatives already identified up to 2017 and is money actually cut from service budgets. Although this has not reached the targets originally envisaged the Council only paid 50% (£440k) of the original cost of this initiative.

1.5.5 The council also received an increase in performance in Customer Services. IBM had recognised pre-contract that in equalising performance with SCC for this particular service, TDBC were understaffed and identified that an extra 5 call centre staff were required. Although not an actual cash saving, this can be deemed to be an opportunity cost saving in respect of the increased performance and is quantifiable.

1.5.6 We have a fixed price in respect of desktop PCs and laptops and their associated software, which saves us around £100 per workstation on the current open market price. Over the contract period we have replaced around 500 items.

1.5.7 There is also a performance regime that provides TDBC with financial service credits where SWO have not reached certain operational targets. Whilst, ideally, the service would have been delivered to target and the financial penalty not incurred, the levying of penalties or their offset against other contractual liabilities has been of financial benefit to the Council.

1.5.8 In respect of costs, the significant areas of spend were the transformation projects which comprised:

- SAP Back Office and Technology
- Customer Access initiative
- Procurement
- PEM - employee management software
- Locality Based Service Delivery – proof of concept.

1.5.9 The total cost of these was over £3m. However, in any overall assessment it is reasonable to offset an element of this as the ICT systems required replacing pre SWO in 2007, such as finance, website and telephony, although it is accepted this would not have been SAP standard or pricing.

1.5.10 Other costs of the SWO initiative include contract set up; Client Team contract management; project costs for the transformation work; legal costs; and internal borrowing costs in respect of lost investment income.

1.5.11 There are also the costs of exit and disaggregating from SWO, which are detailed within the confidential Appendix E – Financial Implications. Funding of £102k (£47k from General Fund reserves and £55k from an existing reserve) was approved by Full Council in March 2015 to part fund phase 1 of the Succession Planning project. Furthermore, as was the position going into SWO, the major computer systems and website again require replacement and need to be offset in arriving at the SWO benefits.

1.5.12 Taking all these factors into account leaves a net gain to TDBC of just under £3m over the life of the contract, excluding exit costs. However, it is important to remember that a number of costs and benefits have been estimated but it should provide a useful ballpark guide.

SWO Contract - Estimated Savings

Savings	**£000's**
Annual payment reduction, fixed price benefits and staff increments	3,106
Procurement Transformation savings	3,050
Customer Services improvements – 5 FTEs funded	1,200
PCs and laptops saving	50
Service credits	220
Total Saving	**£7,626**
Costs	
Transformation projects and project support (less cost of replacing aging systems and procurement transformation refund)	2,871
Contract set up (incl staff resources and legal/commercial fees)	689
Contract Management (incl transformation project support and legal fees)	869
Cost of internal borrowing	321
Total Costs	**£4,750**
Total Estimated Saving (£000's)	**£2,876**

NB. The Total Estimated Saving shown above needs to be reduced by the cost of exit and SAP systems replacement. Such cost comprises the estimated budget which is detailed in the *confidential Appendix E* to this report and, in addition, the funding of £102k, which was approved by Full Council in March 2015 to undertake Phase 1 of the exit.

1.6 Succession Planning - Council Recommendation March 2015

1.6.1 SWO contract end requires significant preparation and planning and Members considered reports in this regard at Corporate Scrutiny of 26 March 2015 and Council of 31 March 2015. The full and Additional Information report are attached at Appendix B.

1.6.2 The report explains that planning and implementation of contract end needs to take place in three broad phases:

Phase 1 – Detailed Options Appraisal (this report)
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 on service delivery and options for SAP, which make recommendations to Members

Phase 2 – Implementation of Chosen Option
This phase is post the above Member decision and will involve the commercial negotiations with SWO and agreement with the public partners to implement the option(s) agreed by Members. This phase will complete with the de-secondment and transfer of staff and services to any agreed new service delivery option including implementation of the SAP solution.

Phase 3 – Service Stabilisation
Phase 3 recognises that, following any transfer of service delivery, there will need to be a service transition and stabilisation period to allow services to 'bed in' to any new arrangements. The system solution will need to be reviewed and issues resolved; and staff induction, integration and training undertaken.

1.6.3 The report listed the service delivery options available on expiry of the SWO contract and which would require assessment:

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

1.6.4 Additionally the report stated that the options appraisal needs to assess the technology options in respect of SAP, cost potential replacement systems and the implications on the SWO contract, its partners and contract end options.

1.6.5 The Council agreed the following recommendations at the meeting on 31 March 2015:

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;

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;

iii) That the SWO Succession Planning work is aligned to support the work on organisational and service transformation (which is delivered to meet the community's needs and aspirations); and

iv) That appropriate Member governance is put in place to support this project.

2 Contract End Provisions

This section provides information on the areas of work, costs and contractual provisions in disaggregating from the SWO contract. Appendix C provides further detail.

2.1 The SWO contract ends on 1 November 2017 for TDBC and SCC. TDBC and SCC are contractually required to notify SWO of their intentions at least 18 months in advance by May 2016. The contract does contain provisions that allow for a contract extension for a further five years. (NB: The Avon and Somerset Police contract ends in March 2018, as they joined 6 months later, and requires them to notify SWO of their intentions by 30 November 2016.)

2.2 SWO is obligated to produce an Exit Management Plan to ensure the smooth de-secondment and transfer of the staff and transition of service delivery including data at contract end, in the event that the option to extend is not exercised.

2.3 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 potential exit actions which in summary are:

- Contractual exit requirements
- Staffing implications
- SAP computer system
- Technical infrastructure
- Asset transfers
- Premises and accommodation
- Third party contract transfers
- Communications
- Logistics and system security and access
- Intellectual property and authority data
- Work in progress transfer
- Service transition, training and knowledge transfer
- Company dissolution.

2.4 Preparing for and implementing contract end and potentially an exit from SWO will require a significant amount of time and effort from all the partners due to the volume of work required, some of which is contractual and cannot be avoided.

2.5 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.

2.6 The resource requirement will be similar whichever future delivery option is selected and is likely to require a similar or greater effort to that at contract set up, depending on how adversarial contract exit becomes.

2.7 We have analysed the contract terms and detailed the requirements and issues likely to be faced at contract expiry. We have had this work independently reviewed and verified by external specialist contract advisors and lawyers in order to assist us in identifying and understanding the contractual exit provisions. However, this is a complex contract and the contractor, as a commercial organisation, will potentially endeavour to maximise revenues, so it is difficult to predict with certainty that all the areas of charging have been identified or will not escalate. The requested exit budget has included a contingency in this regard.

2.8 Appendix D, which is a confidential appendix, provides further details of these exit provisions.

3 Partner Intentions

This section explains the recent developments concerning partner authorities to the SWO contract and implications on TDBC

Please note subsequent changes post authoring (17 December 2015) of this section will be updated at the respective meetings.

There have been a number of recent developments in relation to SWO contract end concerning all the SWO partners, which have implications for TDBCs succession planning.

3.1 Notification of SCC intention to terminate

3.1.1 SCC's cabinet decided on 9 December 2015 to pursue an early exit from the SWO contract and return services within the next 12 months on a phased basis, to enable a smooth transition. Additionally, we understand that SCC are not intending to continue to use the SAP system provided by Southwest One, but will be procuring and implementing a new SAP Back Office system from the date of termination. They will cease to use SAP CRM and the Web portal altogether.

3.1.2 Clearly SCC's early exit from the contract will have significant implications for all SWO partners. TDBC have consequently taken this into account when evaluating the various options that may be open to us. TDBC has a separate contract with SWO and so they are contractually obliged to continue to deliver services to us for the same cost and to the same standard. However, in practice SCC's early exit is likely to present both risks and opportunities for the other partners and we need to remain flexible in our approach in order to ensure we minimise the risks and maximise the opportunities.

3.1.3 Therefore it would be sensible to endeavour to align our discussions and potentially the phasing of service transfer with SCC where this does not disadvantage us organisationally and commercially. In doing so, we must not lose sight of the fact that our primary objectives is the successful delivery of the transformation programme and not the early termination of the entire contract.

3.2 Avon and Somerset Police Position

3.2.1 The Avon and Somerset Police (ASP) contract with SWO expires seven months later than the other two authorities and therefore ASP are not contractually obliged to inform SWO of their decision until November 2016. This later timescale potentially causes operational problems for SWO, as it means SWO need to scale down and reduce costs whilst still meeting their contractual obligations to just one remaining partner.

3.2.2 In respect of succession planning ASP have not as yet made any decisions about contract end. However, we know they have entered into a strategic partnership with Wiltshire Police and are clearly looking to develop in that direction. Additionally, they have recently commissioned external consultants to assist them in succession planning and with the intention of reaching conclusions in Feb/Mar 2016.

3.3 TDBC Implications

3.3.1 It would be extremely difficult for TDBC to exit the SWO contract on the same timescales as SCC, as we cannot migrate to new systems safely by November 2016. Therefore, a negotiated phased return is still the better way for us, but we may need to be flexible in order to accommodate other partners' requirements and priorities.

3.3.2 A major partner to the SWO contract removing services and staff unilaterally will have significant operational implications for SWO in delivering their contractual obligations to the remaining authorities and no doubt this is something that SWO will be well aware of in their exit discussions with SCC.

3.3.3 In disaggregating services from SWO, the operational and contractual implications which need to be resolved are covered in Chapter 3 and the confidential Appendix D - Contract End Provisions.

3.3.4 The priority for TDBC is bringing back early the elements of the contract required to deliver the transformation programme i.e. the non-SAP elements of ICT. Repatriating all services in one go potentially creates significant operational risks and the Authority's focus switches to service return at the expense of organisational transformation. A negotiated approach will allow us to phase the return of services and remains a far better option for us

3.3.5 We have already held informal discussions with SWO regarding the potential for the early termination and phasing of priority SWO services back to TDBC i.e. the negotiated exit. These non-binding informal discussions are at an early stage and seem promising. However, no commercial settlement has been reached and therefore we must keep other options open including contractual early termination.

3.3.6 To this end we are continuing a two track approach where we are undertaking the necessary groundwork to allow us to formally terminate the contract and implement replacement systems for SAP, in the event that negotiations breakdown and Members agree to this course of action. This work is planned to migrate us away from SAP and therefore exit the SWO contract at March 2017.

3.3.7 We are also continuing discussions with all the partners including SWO in joint meetings in order to ensure all parties reach an agreeable conclusion in respect of their future intentions.

4 Service Delivery Options Appraisal

The section explains the service delivery options available to TDBC post the SWO contract; the exit approach the Council should adopt; and the viable delivery options going forward. It also details the financial and staffing implications of exiting the SWO contract in relation to those options.

4.1 Introduction

4.1.1 One of the key recommendations agreed by Full Council on 31 March 2015 was “that the SWO Succession Planning work is aligned to support the work on organisational and service transformation (which is delivered to meet the community’s needs and aspirations)”. This review has therefore considered in detail how best to align the SWO Succession planning with the service transformation work and makes recommendations in relation to the optimum timing and approach to the end of the SWO contract.

4.1.2 In assessing the options we have considered how they align with the Council’s transformation programme, direction of travel, and other key criteria. We have also analysed the financial implications, examined the staffing consequences and considered the options regarding the SAP computer system and its impact on the various delivery methods. In assessing all this information we have suggested an approach to exit which should be beneficial to all parties to the SWO contract.

4.2 Alignment to the Transformation Programme

4.2.1 The Joint Management and Shared Services partnership (the JMaSS Programme) is helping both councils in delivering significant financial savings and sustainability thereby assisting each in delivering their wider strategic objectives. Delivery of the JMaSS Programme has been split into two broad phases. Phase 1, which is now complete, involved the implementation of a single “One Team” officer structure with TDBC as the employing authority, delivering ongoing savings of £1.5m to TDBC. Phase 2, which is in its initial phase, will see the development and delivery of an organisation wide programme of transformation to both deliver further significant savings and a delivery model that will enable both councils to meet their key objectives.

4.2.2 During the summer, Members from both WSC and TDBC participated in workshops to create a vision of the type of councils they wish to become. This Corporate Planning process has been key to determining the Council’s direction of travel and will shape Phase 2 of the JMaSS programme. The delivery of Phase 2 of the JMaSS programme will commence in 2016. In considering the options available to the Council in delivering the SWO services it is imperative they align with the Council’s strategic direction of travel.

4.2.3 Work has already started to develop a new approach to customer access to support the transformation programme and to help inform the development of the ICT Strategy and Delivery Plan. The research undertaken to date suggests the potential to realise significant savings by radically changing the way we interact with customers in the future, which would necessitate a new website, customer access systems and new ways of working. The potential savings are circa £0.5m-£1m pa. Clearly however our ability to unlock these savings quickly and cost effectively hinges around having sufficient control of ICT and Customer Contact services.

4.2.4 The ICT service is a major cornerstone of Phase 2 of the JMaSS project as it will need to deliver the technological changes to enable the organisation to transform its ways of working, not only to support our new approach to customer access, but also to deliver flexible working arrangements. It is therefore vital that we have sufficient control of the ICT service to ensure that it is responsive, flexible, effective and cost efficient in delivering the significant change and multitude of ICT enabled projects.

4.2.5 The transformation programme clearly indicates that work needs to commence as soon as possible in order to create the necessary efficiency savings to balance the Council's budget. Many of these projects are heavily ICT dependant, and may include:

- New websites and Customer Relationship Management
- Document imaging and management
- Mobile and flexible working
- Data centre migration - joining ICT infrastructure and communications links with WSC
- Common software packages, incl One Team intranet
- Member ICT enablement.

4.3 Implications of SWO Contract on the Transformation Programme

4.3.1 One major element of the JMaSS ICT programme, is the joining up of the TDBC and WSC ICT infrastructure which will unlock greater efficiencies between the two organisations. In practice this will be far easier to achieve with the TDBC ICT service being under our direct control.

4.3.2 Our experience in commissioning projects via SWO indicates that there is likely to be considerable delay in implementation whilst we work through the contractual Request for Service processes to agree the price and solution. Additionally, delivering via SWO also means that we lose control over the direction and delivery of the projects, which will be crucial in the fluid environment in which we are currently operating. There is also significant risk in commissioning major projects from SWO in the lead up to contract end and in particular where the projects go beyond the contract end date. This will potentially be made more acute as a result of the SCC element of the ICT service exiting the contract in 2016.

4.3.3 An alternative solution would be to deliver the transformation work via the West Somerset based ICT team. However, this is a very small team and the work that they could undertake would be severely limited by our not being able to join the two separate ICT domains.

4.3.4 Our conclusion is that we should look to repatriate as soon as possible control of the elements of the ICT service required to enable us to implement a single ICT domain and deliver the ICT elements of the transformation programme.

4.3.5 Furthermore, the transformation programme is likely to have a significant impact on our approach to the way we interact with customers in the future. The work on Customer Access Strategy that we have already undertaken indicates that we can greatly improve the experience of our customers and deliver substantial savings by making significant changes to the way in which customers access services. Having control of the direction of travel of the Customer Contact function will be critical if we are to progress these objectives.

4.3.6 The Procurement service is another area where early return assists as staff resource can be prioritised to undertake a number of the transformation enabling procurement activities.

4.3.7 Therefore, the Council should consider early, and ideally phased, termination of the parts of the contract required to enable us to control and deliver the customer access and ICT elements of the Transformation Programme. Ideally, we also require the early return of the Procurement service to assist in the procurement elements of the transformation programme. This will necessitate a negotiated exit with SWO. Where a negotiated phased exit is not achievable the Council should consider early termination of the entire contract in order to facilitate the delivery of the Transformation Programme.

4.4 Possible Approaches to Early Termination

4.4.1 Negotiated Phased Exit

The optimum approach to early termination is a negotiated and phased return of services starting with the ICT service (excluding SAP). This enables us to amicably part company in manageable phases as opposed to the more "aggressive" contractual termination outlined below. We can then bring back services in a way that works for us by allowing us to prepare for the return of the other services. Crucially, and if successful, this allows us to bring back the elements of our ICT service we require to progress the urgent transformation work quickly and then, at a later date, the SAP replacement. This approach would require SWO to continue to provide the SAP system to us post the return of ICT and we would need to reach a commercial agreement and pay additional monies for this.

4.4.2 This solution would need to be progressed by way of negotiations with SWO. Clearly there are going to have to be benefits for SWO in agreeing to a negotiated approach, which, realistically, are likely to be financial. However, the potential costs to us for agreeing a negotiated exit need to be balanced against the likely additional costs of having to pursue a contractual and more "aggressive" termination potentially without the cooperation of SWO.

4.4.3 There are risks to this approach:

- Clearly it requires the flexibility and co-operation of SWO as well as a mutually beneficial commercial agreement
- It would also need to minimise any impact on the other partner organisations, and possibly fit with their SWO succession plans
- The contract exit provisions provide some protection to the Council on exit and we would need to ensure we agree similar protections as part of any negotiated exit
- We must guard against a protracted negotiation that results in no agreement and delays further the early exit and therefore our ability to implement transformation. To reduce this risk we will also continue to plan for a contractual termination, including SAP replacement, so we can revert to that approach if absolutely necessary.

4.4.4 Contractual Termination

This involves using the termination provisions in the contract.

4.4.5 If we used 'contractual early termination' we cannot terminate ICT in isolation of the other services.

4.4.6 A consequence of contractually terminating the ICT service early is that all the remaining services will need to be terminated at the same time as they are all heavily dependent on SAP.

4.4.7 That would mean either:

- TDBC providing a SAP solution for the SWO services remaining ie Finance and Procurement transactional; HR and Payroll; Customer Services; CRM and Website. But bearing in mind we do not see SAP as a long term solution, or
- Replacing the SAP system at the point ICT returns but it would require a contract change as SWO will need to operate new software and system processes. This would potentially be expensive and illogical given where we are in relation to contract end and our transformation ambitions

4.4.8 Neither of these options appears operationally feasible and we would have no choice but to terminate all the services at the same time.

4.4.9 We therefore recommend that we pursue a 'negotiated early termination' which includes ICT initially and if this fails we revert to 'contractual early termination' of all the remaining services, to a manageable date.

4.4.10 Terminating the SWO contact early rules out a number of service delivery options that are not available in the short term. The options available to TDBC at this time are detailed below. For completeness the non-viable options at early exit are shown later in this section.

4.5 Viable Service Delivery Options on Early Exit

4.5.1 Introduction

There are currently the following options for the delivery of the SWO services, where TDBC wish to exit the SWO contract early:

- In house delivery
- Shared services with SCC

4.5.2 Option Details

To better understand the arrangements being assessed, set out below are further details. These arrangements have been produced following detailed discussions with SCC and in respect of the In House option with TDBC Service Managers who are responsible for these services.

4.5.3 In House Delivery

- Services provided by in house TDBC staff integrated into Council management structures
- TDBC secondees and possibly some SWO Direct Hires, SCC and ASP secondees would transfer to TDBC
- Transfer services into One Team structure opening up the opportunity to share with West Somerset Council and drive efficiency savings in these areas through the transformation process

4.5.4 Shared Services with SCC

This was originally proposed as a temporary solution to facilitate the early exit from SWO. However, the up-front costs of migrating and setting up SAP, together with the requirement to agree a 5-year SAP contract, means this option is no longer ‘temporary’, but would have to be enter into on a long-term basis.

4.5.5 Services to be shared with SCC under the following principles:

- Actual costs of service including SAP system to be split accurately without any cross subsidy. However, SCC are unable to provide a price as they do not know the current costs to SWO of providing the services. (NB. Consequently we would NOT know the costs for service delivery at the point of entering into any agreement, which is a significant risk.)
- TDBC staff would be de-seconded from SWO and then TUPE transferred into SCC ie the TDBC staff would become SCC employees

- Services to be integrated into the existing SCC hierarchy
- TDBC continue to use SAP Back Office (Finance, Procurement and HR) following 'lift and shift' to SCC's 3rd party SAP supplier, although some initial functionality and process changes are necessary to ensure operation. This solution does not cover SAP CRM and website which would still require replacement software as SCC do not use SAP for their website and will procure a different version of CRM. Longer term changes to SAP will be subject to the 'to be agreed' Governance arrangements which determine timings and prioritisation of change
- Cost apportionment 'principles' have been drafted but are unable to be modelled into actual costs (other than SAP Back Office indicative prices), as neither party has visibility over SWO internal budgets. Annual SAP running costs are higher than those for alternative system options
- Staff would remain located in the same accommodation at County Hall, and in respect of Customer Services, Deane House
- Joint governance arrangements would be set up, but to date, 'weight of vote' and other details are to be determined
- Service Level Agreement to be drawn up by lawyers representing both parties and will require management and monitoring
- Performance regime to be agreed and set up in monitoring delivery.

4.5.6 Assessment Criteria

The two delivery options (in-house and shared services with SCC) have been assessed below. These options have been assessed robustly and objectively, and follow consistent assessment criteria. The criteria has been designed using some standard categories but also encompasses priorities and issues unique to TDBC. The following criteria has been used to assess each of the two viable options:

Affordability		
Criteria	**In House**	**Shared Services with SCC**
On-going running costs within existing budgets and includes SAP solution and any clienting – see confidential appendix E – Financial Implications	Yes - All can be delivered within existing SWO cost of £1.7m. Some risk around costs as TDBC does not currently have full visibility of SWO budgets/expenditure	Unknown – A shared service price has not been calculated pre Member decision, except for SAP Hosting, due to non-disclosure of SWO costs. Possibly some economies of scale, although the basis of cost sharing is 'full cost recovery' by SCC. Ongoing SAP Back Office costs are higher that TDBC replacement systems. Common aim to reduce costs, although a large element of risk as TDBC will not fully control the service but are still subject to paying actual cost apportionment. There is an additional cost to TDBC to cover an element of SLA management and governance.

Affordability		
Criteria	**In House**	**Shared Services with SCC**
One-off service transition costs including SAP or SAP replacement – see confidential appendix E – Financial Implications	Lower - Transition costs for this option are lower, particularly in respect of SAP replacement	Higher – New SAP Back Office one-off costs are higher than TDBC replacement systems. Additionally TDBC have to sign up to a 5 year SAP contract with SCC.
Ability to reduce costs going forward	Yes - Service fully controlled so will be subject to same budget reduction directives as remainder of authority	Yes – but will be subject to prior agreement with SCC, and as a much smaller partner our ability to influence may be slight. An element of SLA management and governance will be required going forward and needs to be factored against any economies of scale.
Service cost provides VFM	Yes – there should be a direct correlation between service cost and output where managed adequately	Yes - There is potential for this arrangement to deliver some savings although the lack of full service control and SLA management costs will reduce it
Clienting costs eliminated	Yes	No – there will be some clienting necessary to manage governance arrangements, monitor performance and approve service changes

Corporate Priorities		
Criteria	**In House**	**Shared Services with SCC**
Ability to deliver Transformation programme	Yes – service resources may need to flex to deliver peaks of activity but all within service gift without contractual constraints	Yes – although additional resources for TDBC transformation projects will have to be agreed and paid for as it is over and above current service levels. Projects will need to be scheduled well in advance for prioritisation purposes alongside SCC initiatives
Meets WSC/One Team objectives	Yes – Once repatriated these services will be shared with WSC subject to both councils approval	Unknown – this is sharing with SCC and any subsequent joining of WSC into the arrangement is subject to a separate WSC Member decision
Alignment of vision and priorities	Yes – the services would be fully aligned to local priorities	Unknown – This could be the case at entry but any significant deviation by one of the partners may result in misalignment of vision and subsequently differing task prioritisation, service quality and ways of working. May be greater synergies in respect of Customer Contact Centre
Facilitates wider partnership	Yes – although once services	Yes – potentially opens up

working	are shared with WSC it does not prevent wider partnership working in the future	opportunities to share further TDBC/SCC services
Meets TDBC's emerging Business Principles	Yes	Yes
Meets new ways of working	Yes – service fully controlled and can meet or quickly adapt to the Authority's new ways of working	Unknown – flexibility to change processes or methods of delivery is restricted to the extent of the governance arrangements.

Control and Flexibility		
Criteria	**In House**	**Shared Services with SCC**
TDBC has control of service and the ability to respond quickly to changing requirements including organisational direction of travel, service objectives, project and task prioritisation	Yes – full control and ability to re-prioritise and respond quickly to changing business needs. Maintains complete flexibility over future delivery models	No – changes require a longer planning timeframe, and subsequent agreement and will need to consider SCC's own needs via a governance process. There are concerns that SCCs own transformational changes after a very short period of stabilisation will disrupt TDBCs service delivery. SCC are intent on developing services and this could be to TDBCs detriment if it is in a different direction or to our benefit if we remain aligned
Straightforward governance arrangements and processes to either obtain service or make changes to existing agreement	Yes – Service managers have jurisdiction within own organisations regulations and procedures. No additional cost of clienting.	No – governance process required to manage and agree changes outside SLA. Governance process still to be determined although as a much smaller partner there is inevitably a reduced level of influence over strategic and service decisions. Governance will add a layer of bureaucracy requiring regular input at a senior level

Quality and Performance		
Criteria	**In House**	**Shared Services with SCC**
Likely to perform adequately and provide required quality in meeting objectives	Yes – quality and performance should be directly related to resources employed. Service managers will have the local knowledge to meet the service objectives.	Yes – will provide services to the SLA and agreed service measures. Some reliance on partners initial direction of travel remaining constant as service may deteriorate if SCC direction differs to ours
Organisation has a good reputation, relationship and history of successful delivery	Yes – these services were provided well by TDBC pre SWO. The previously repatriated SWO services and other TDBC functions all perform well within available resources.	Yes – SCC have the experience to deliver these services, although as with all large organisations the bureaucracy can be a barrier.
Ability to improve service where	Yes – TDBC can stabilise	No – this is a 'lift and shift' at

currently below standard	services immediately, previously repatriated services have all improved and this is an expectation of the remaining SWO services. Where stepped change is required the authority can prioritise the improvement of these services to meet business needs.	current performance levels. There should be some natural improvement once SWO constraints are removed, however any stepped change will require a change to the SLA. In respect of Customer Contact a good service is already being delivered.
Provides added value, innovation or investment	Yes – in respect of goodwill and loyalty of staff	Yes – a larger service can draw on wider experience and additional capacity and therefore resilience. Possibly benefit from any SCC investment in services but trend is divesting.
Potential positive impact on service users ie external customers, Members and internal staff	Yes – expectation that services will improve from current levels. Returning services have an important role in delivering transformation which will improve user experience	Yes – although delivering transformation projects will require further negotiation

Staffing		
Criteria	**In House**	**Shared Services with SCC**
Views of staff and UNISON from consultation	Removes the uncertainty of secondment. Initial verbal feedback has been received from UNISON indicating that they are happy with the conclusions and recommendations Comments from the staff consultation will be provided at the meeting	Initial verbal feedback has been received from UNISON indicating that they are happy with the conclusions and recommendations Comments from the staff consultation will be provided at the meeting
Minimises liability and risk around provisions of the staffing agreement ie 10 year assured employment	Yes – staffing agreement will need to cease as with previous service repatriation	Yes – staffing agreement will need to cease and TUPE applied
Minimises potential liability to TDBC around redundancy	Yes – TDBC would potentially ‘inherit’ fewer staff. Risk may be around a skills gap although an appointment management process will be agreed in advance	Yes – subject to the detailed consultation and agreements with SCC

SAP Solution		
Criteria	**In House**	**Shared Services with SCC**
System Solution meets long term aims of Authority	Yes – SAP is not the long term solution for TDBC and as this option replaces it, TDBC would move to a permanent solution immediately.	No – continuing with SAP is seen as a medium term solution (see Chapter 5 – SAP Systems review) and will need to be replaced. This presents greater combined expense and

		additional risk. In respect of Customer Contact, SAP is not the proposed system solution by SCC and is therefore not a barrier
System solution minimises risk to service continuity	Yes – although moving to new software is never risk free, this option only requires that it is done once. There is a risk around the peak of activity in migrating systems, repatriating services and other transformation work all at the same time but can be managed if adequately resourced. New systems will be unfamiliar initially.	Yes – although based on SWO's delayed SAP migration from Warwick to Bridgwater it indicates this is a technically complex, high risk and expensive option. However, staff will be more familiar with the functionality.

Transition		
Criteria	**In House**	**Shared Services with SCC**
Ease of service transfer minimises risk of service failure, including SAP solution	Yes – greater effort required by TDBC but control not relinquished. Service disaggregation adds additional risk. SAP migration to replacement systems will require robust programme management but still carries risk if all implemented over the same period	Yes – need to balance ease of transfer by not disaggregating services versus the risk to service continuity through relinquishing control to SCC. SAP move to a 3rd party may present additional risk of service failure and process changes may be inevitable

4.5.7 Summary of Viable Options

The analysis demonstrates that 'In House' delivery is the more beneficial option for the majority of services. However, it is possible that the following areas of service could either be shared or 'bought in' from SCC, where it either suits TDBC as a short term solution to facilitate exit or where a longer arrangement is operationally beneficial and not commercially disadvantageous:

- Payroll: 'buy in' payroll bureau service from SCC subject to mutually beneficial terms. Payroll is complex and for a small organisation is inefficient to provide 'in house' when it can be bought in at a lower overall cost

- Customer Services: SCC are also looking to make significant changes to the way in which they deliver customer access in the future. Delivering council access via a shared service arrangement has distinct advantages for customers. Consequently it make sense to explore with SCC the potential for an ongoing shared service in this area. This is also a service where a short-term sharing arrangement could be operated to facilitate exit from SWO.

- Procurement: possibility of ‘buying in’ part of this service from SCC where additional procurement expertise and capacity is required within TDBC, although ‘in house’ delivery is recommended for the main service

4.6 Non-Viable Options on Early Exit

4.6.1 Introduction

These are the service delivery options not available to TDBC in the short term following an early termination, as we need to exit the contract and set up new arrangements quickly.

4.6.2 Extend the Contract with SWO

There is a contractual option to extend the contract for a further 5 years, subject to SWO agreement.

Advantages
- Saves service disaggregation issues and costs
- Risk of service disruption minimised (as long as SCC remain).

Disadvantages/Risks
- Opens the Council to procurement challenge as the current contract is two thirds smaller than originally procured with different terms
- The constraints of the SWO contract hinders transformation
- Does not resolve the areas where we have concerns regarding service delivery, as outlined earlier in the report
- Services being in SWO is in practice a barrier to wider partnership working
- Would require authority to remain on SAP or pay SWO to replace and run new system
- SWO have indicated terms would be different ie less beneficial for TDBC and likely to affect staffing agreement and annual discount
- Contract extension is likely to require at least one of the larger partners to also agree to extend
- From earlier presentations there does not appear to be any appetite from Members to extend this contract
- Client management and legal costs still required to manage delivery.

This is not an option as it is the constraints and lack of flexibility of the SWO contract that will hinder progress with transformation. Additionally, an extension would probably contravene procurement legislation and open the Council to possible challenge as the current contract is two thirds smaller than originally procured and would also be on vastly different terms.

4.6.3 Continuing SWO with different managing partner

Continues the SWO Company in various forms, including:

- With a different managing private sector partner (ie not IBM)
- Without a managing partner
- With one authority taking ownership
- Following a management buy out.

Advantages
- Saves service disaggregation issues and costs
- Risk of service disruption minimised (as long as SCC remain)
- Continues original two or three authorities joint working model.

Disadvantages/Risks
- Significant time period to set up
- Dependent on at least one other partner also extending
- The SWO 'banner' is potentially a barrier to further partnership working
- Substantial SWO company debt although underwritten by IBM, may prevent the company from continuing or transfer the risk to public partners.
- Direction of original partners no longer aligned
- Where this involves IBM being replaced with another private sector partner a long and expensive procurement process would be required offsetting any potential savings
- Would require authority to remain on SAP or pay SWO to replace and run new system
- An element of client management still required
- Joint working can be achieved without the contractual framework of the SWO Company on a service by service basis.

This is not an option due to the time to set up, would require all authorities to require the same objective and exit at the same time. In respect of the latter ASP are not co-terminus.

4.6.4 Outsource

Outsource the SWO services to a new external provider.

Advantages
- May deliver savings
- Transfer costs and new investment mainly funded by incoming contractor.

Disadvantages/Risks
- Long procurement timeframes unless existing framework arrangements can be utilised
- The majority of the services are likely to require some form of reorganisation and stabilisation on exit from SWO and do not lend themselves to immediate outsourcing. Contractual arrangements can be a barrier to partnership working – need a flexible approach
- High risk to replacing SAP on transition by a new provider

- Mixed success of major outsourcing nationally
- Passes control to a third party
- Set up costs may outweigh potential savings of relatively small service outsourcing
- Costs of client management need to be considered
- Risks to service disruption.

This is not a current option due to the long lead in times for the procurement, subsequent detailed contract agreement and service transition times. Clearly it does not rule this out as an option in the medium term once services are returned and stabilised.

4.6.5 Other Alternative Service Delivery Models

These include Non-profit making organisations, Mutuals, Social Enterprises, Local Authority Company.

Advantages

- Surpluses are reinvested back into the service
- Staff delivering the services have more ownership
- Gives the flexibility and freedom of being able to trade commercially.

Disadvantages/Risks

- Timeframes and complexity to set up
- Full service control relinquished, reducing flexibility and ability to respond to changing requirements
- Any surpluses should be reinvested in wider Council services
- Governance structure would need to be supported and resourced
- Have to compete in the commercial market and face the same challenges and risks common to all businesses.

This is not a current option due to the timeframes to set up. Clearly it does not rule this out as an option in the medium term once services are returned and stabilised.

5 SAP System Review

This section reviews the SAP Computer system and the options TDBC have going forward.

5.1 Introduction

5.1.1 In delivering the SWO shared services model the councils and ASP invested in a new ERP (Enterprise Resource Planning) computer system, SAP, to replace the multitude of computer systems deployed by the public sector partners, which particularly for TDBC, were nearing the end of their useful life.

5.1.2 The SAP solution was selected as it was considered world renowned technology that is scalable, in the expectation of new joiners to SWO.

5.1.3 It was also essential for SWO, in order to maximise the efficiencies of a shared service operating model, to have all of the partners using a common and integrated ICT platform. However, on exiting SWO the public sector partners need to find their own system solutions. Migrating from the existing SAP platform, either to another SAP platform or alternative systems, will be complex and high risk.

5.2 External Review of SAP Jan 2015

5.2.1 Towards the end of 2014, TDBC commissioned an external company, Ember PSS, to undertake a high-level desktop review of the SAP system to inform our options in relation to the future use of SAP. The scope and objectives of this review were twofold:

i) Review the SAP system and whether it is the right future option for the Council

ii) If SAP is not the correct solution, to identify potential replacement systems with high level estimated costs.

5.2.2 This review identified a number of key themes which concluded SAP is not the right long term platform for delivery of TDBC services. The review found:

- The 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.

5.2.3 The review identified that the system was both ineffective for our future requirements and too costly to consider as a long term solution, post SWO.

5.3 Key Objectives of the SAP System Replacement

5.3.1 The SAP system can be broken down into the following areas:

- Finance and Procurement
- HR and Payroll
- Customer Relationship Management (CRM)
- Website.

5.3.2 The replacement solution must achieve the following:

- Fit for purpose
- User friendly, intuitive with quick, efficient processes
- Agile and responsive to users as well as development
- Accommodate new ways of working and access from mobile devices
- Cost effective solution
- Scalable in size up as well as down and for multiple entities
- Adding value to the business
- Provides management and performance reporting that drives business decisions and identifies areas for improvement
- Easy to manage, maintain and upgrade
- Must be able to interface seamlessly with other systems
- Simple to use tools that provide accurate and effective reporting
- Accommodate wider partnership working, particularly WSC.

5.4 SCC Offering of SAP Solution

5.4.1 As detailed in the Service Delivery Options Appraisal in Chapter 4, SCC have offered to provide shared services following SWO contract end. SCC are currently looking to procure a new SAP platform to which they intend to migrate their existing SWO SAP data at contract end. This solution will be hosted by a third party supplier. Were we to accept SCC's offer of creating a shared service they propose also migrating our existing SAP data to this new platform. The procurement exercise includes solutioning and pricing for TDBC.

5.4.2 For the above option to be viable, the solution would need to satisfy the following criteria:

- Costs would need to be reasonable and less than TDBC SAP replacement;
- The system would need to mirror current processes ie 'lifted and shifted as is';
- There has to be high confidence that service delivery will not be adversely affected
- The costs charged for service delivery need to be affordable.

5.4.3 It is currently unlikely that these conditions will be met to our satisfaction. Estimated cost information indicates the option is more expensive (both one-off and on-going) than TDBC sourced replacement systems. There is also a high probability of technical issues and impact on service delivery of 'lift and shift'.

5.5 Ember Review of Alternative Systems Nov 2015

5.5.1 Building on their earlier report Ember, at our request, have undertaken a further detailed and more technical review, which has taken into account the Council's current financial situation, emerging direction of travel and ICT Strategy and which has specifically focussed on identifying alternative options to the SAP systems. The scope of this review is as follows:

- Obtain SAP user feedback and Professional users system requirements
- Assess SCC's SAP offering (Please note this was assessed as a temporary solution at the time of the review but SCC are now only proposing a permanent solution with a minimum 5 year SAP contract)
- Undertake a 'market sounding' exercise to explore solutions
- Recommend affordable replacement systems to meet TDBCs requirements
- Provide indicative costings and realistic implementation timelines.

5.5.2 The results of Ember's thorough evaluation are as follows:

- It is in the best interests of the Council to eventually replace SAP with a suite of new solutions
- The safest way of achieving this is through a controlled phased migration with the co-operation of SWO who will provide SAP in the short term
- The SAP solution, hosted by SCC, will be more expensive than the alternative solutions and require another migration to a longer term solution, which will create additional risk and expense
- The 5 year costs of SCC hosted SAP are significantly more expensive than a TDBC replacement solution.
- Including the procurement process, the implementation timeframe from pre-procurement to go live should be around 18 months
- It is not cost effective for TDBC to provide its own payroll solution so a managed payroll service is recommended.

5.5.3 In regard to the alternative systems costs we have refined the information presented in Embers review and although there is synergy between the costs shown in their report and the SAP replacement budget requested here, Embers report shows slightly higher costs for the following reasons:

- The main difference is that the budget requested in this report includes only a like for like SAP functionality replacement, whereas the Ember report includes additional costs for functionality attributable to organisational transformation and enablement eg new ways of working and customer access

- The Ember report includes an estimate of annual ongoing system support costs, which we have already accounted for in the ongoing service running budgets.

5.6 Procurement and Implementation Costs

5.6.1 The costs for the procurement, implementation and ongoing support of the SAP replacement systems are detailed in confidential Appendix E – Financial Implications

6 Summary, Conclusions and Recommendations

This section summarises important areas of the report and the conclusions and recommendations emanating from the presented information

6.1 The report sets out to provide a comprehensive position on the SWO contract, taking Members along the journey from contract inception in 2007 to SCC's recent decision in December 2015 to exit 12 months early. In summary the report concludes and recommends the following:

6.2 Background to the SWO Contract

- The SWO services currently cost TDBC £1.7m pa
- All the partners' original direction of travel have changed and are no longer aligned
- TDBC have previously removed a number of services equating to two thirds of the original contract value
- Current performance is mixed and together with numerous of contractual issues requires constant day to day management
- All partners have learned lessons from the arrangement, but despite this TDBC have saved around £3m on the contract, excluding exit costs

6.3 Contract End Provisions

- The contract is complex and disaggregating the remaining services will be challenging and expensive

6.4 Partner Intentions

- SCC have decided to end the SWO contract a year early, which has significant implications for the remaining partners
- ASP are on a later timescale for decision which reflects their later contract end of June 2018

6.5 Service Delivery Options Appraisal

- Delivering organisational transformation is key to the sustainability of TDBC
- Key SWO services need to be repatriated early in order to deliver and implement technical elements of the transformation programme: Non-SAP ICT, Customer services and Procurement
- A negotiated and phased exit is both operationally safer and less expensive than a contractual 'big bang' exit and is the recommended approach
- The negotiated exit entails continued use of SWO SAP until such time as all systems are replaced and services are repatriated

- Of the viable service delivery options assessed, the report recommends that the SWO services are delivered ‘in house’, other than:
    - o Customer Services where we need to explore remaining in a shared service with SCC
    - o Payroll which is inefficient for an organisation of this size to deliver ‘in house’ and should be ‘bought in’. We are currently discussing this with SCC.

6.6 SAP System Review

- TDBC need to find its own system requirements on exiting the SWO contract
- An external review concluded that the current system, SAP, is both ineffective for our future requirements and too costly to consider as a long term solution, specifically:
    - o It is resource intensive, costly and not responsive to our requirements
    - o Is a barrier to sharing services with other district councils
    - o Does not support the customer access agenda in respect of channel shift and the SAP website is inadequate
    - o The system is overly complex and the processes are inefficient
- A review of alternative systems and a market sounding exercise has demonstrated that TDBC should replace SAP with a suite of new solutions
- The review also rejected the SCC SAP offering both as it is not TDBCs long term solution (and only a long term contract was being offered) and is more expensive than alternatives
- The costs of these replacement systems and implementation is included in the report.

6.7 Financial Implications of Contract End (non-confidential summary)

- The returning services can be delivered within the cost envelope of the existing SWO budgets
- One-off costs of exit are significant and vary depending on whether the exit is ‘negotiated’ and co-operative or ‘contractual’ and therefore adversarial
- There are also significant costs for replacing the SAP system, but are lower than remaining on SAP.

6.8 Staffing Implications (non-confidential summary)

- TDBC have 43 staff seconded into SWO who will return at contract end or may choose to TUPE to other partners
- Directly employed SWO staff and other partners secondees may TUPE to TDBC
- The assured employment model will cease once employees transfer back to TDBC.

Appendix A - Lessons Learned

A1. The following lessons reflect the views of TDBC officers involved in procuring, managing and working with the SWO contract and should be considered in any future outsourcing and contracting arrangements. They do not necessarily represent the views of the partners.

A2. *Contract Complexity* - One of the most significant lessons learned is not to make contracts overly complicated and consequently to limit the extent of the services they cover. The 3,000 plus page contract drawn up in 2007 between the partners (and as advised by our respective lawyers) was necessary to reflect the range and scope of the partnership, but in practice is difficult to manage. This problem was exacerbated by the high turnover of IBM staff, particularly in the early years, as they take time to understand the contract complexities and uniqueness of clients' business requirements. The contract was also designed for significant expansion throughout the South West which added certain robustness and complexity but the necessity never materialised. Effectively from SWO's perspective they are now managing three fundamentally different contracts.

A3. *Client/Contractor Split* - Renegotiations of the contact have returned to the Council a number of key strategic functions originally placed with the provider. This redrawing of the client and provider boundaries was necessary to address some of the issues experienced, particularly in relation to highly technical services such as IT. It is clear that only the transactional element of services should be outsourced as outputs can be more easily measured, anything else, such as strategy results in the contractor either dictating policy or doing very little, as it fails to understand the context of the service.

A4. *Contingency Plan* – There needs to be a contingency plan if the main contractor benefit fails to materialise. The SWO model was based on growth throughout the south west and the reverse was not anticipated as a likely scenario. SWO were unable to spread their high IBM recharge costs across a multitude of client contracts which has contributed to the SWO company continually returning a loss. The founding partners have suffered as SWO have attempted to minimise costs and maximise revenues across a smaller base. Although clearly seen as a contractor risk at the outset, there is a high negative impact on the founder partners.

A5. *Mutual Incentives* - The partnership between the provider and the three clients has at times been adversarial and at times worked well. What has become clear over time is that any such partnership depends upon having similar incentives and shared values, goals and ambitions. Requirements change and the nature of local government changed considerably as a result of the national austerity programme. The well-documented financial difficulties faced by the provider early into the contract life also affected its ability to meet client expectations. The effect is that at times the provider and partner's aims in service delivery do not always match and negatively affects performance.

A6. *Client Function Resourcing* - The Client team has to contend with contractual issues that range from low level service delivery problems to significant high liability contractual disputes. Experience was lacking at commencement despite some initial training, although extensive experience has now been accumulated or can be called upon. Earlier recognition that this is a pure contractual arrangement rather than 'partnership' may have assisted in some areas. Reducing the in-scope services by repatriating the non-transactional elements and TDBCs former head of ICT, has allowed the client staff to refocus their efforts towards the more significant issues.

A7. *Business linked Measures* - Underpinning the contract was a series of output specifications with a performance measurement regime, rather than a specification of the inputs. This relies on meaningful and quantifiable output measures rather than simply what can be measured, although certain aspects of performance which are non transactional are very difficult to quantify. The indicators needed to evolve with the contract and become more outcome based but instead many of the original measures and targets remain as the mechanisms within the contract that allowed change and continuous improvement where not strong enough; and it was clearly not in the contractors interest to agree new indicators they cannot easily attain. This resulted in contractor delay and little co-operation. A positive aspect of the few effective measures is that they have forced the contractor to deliver or rectify underperformance quickly where penalties are payable. Although disliked by the contractor as a route to a negative relationship, overall they have worked well in certain areas.

A8. *Contract Flexibility* - Local authorities business and funding has changed unrecognisably since the inception of SWO but the contract is not designed to flex so fundamentally and lacks the mechanisms to deliver savings of the magnitude now required and achievable by other means. Contract periods need to be different for different services as the pace of change is not the same and it is not possible to contractually cover the necessary changes without major renegotiation, and then it is absent of competition. The contract period of 10 years is a long time and services have stagnated. Although service development plans were agreed for each service in an attempt to keep pace with service needs as they changed, it involved some form of improvement and therefore contractor resources so any change was slow and relatively low level compared to the promises made pre contract.

A9. *Secondment Model* - The secondment model introduced as part of the contract arrangements had been used elsewhere. Nevertheless, it was the first time that three separate organisations had seconded staff into one provider and for such a long period. In many ways the model worked as staff felt both loyalty to their "home" employer, retaining the public service ethos, and to Southwest One as they merged staff into a centre of excellence model. The disadvantage was that Southwest One was hampered by the 10 year assured employment and terms and conditions staff retained as they tried to find savings for their business model.

A10. *Competing Priorities* – The partners often have different aims, priorities, performance requirements and views. The contractor had to manage these competing expectations and impose its own, and this level of complexity was too ambitious for all parties. The focus on many occasions has been on the larger partners to the detriment of TDBC.

A11. *Complex Governance Model* - Further complexity was inherent in the complicated governance model, which was a contractual requirement. Council staff have to attend the SWO Company Board and partnership and operational boards in addition to the various performance, risk management and account meetings. It is resource intensive and needs to be attended in the main by senior managers. Clearly if this was a south west wide JVCo serving many authorities then such a governance model would be necessary.

A12. *Contractor Experience* - Appoint a contractor with more local government experience. Initially the intention was that Mouchel Parkman and HBS who were part of the original consortium bid would provide this experience. However, their departure early in the process left IBM in a position of having to hastily backfill the areas that Mouchel and HBS had been going to cover.

A13. *Marketing* – There was too much reliance placed on the bid presentations prior to contract signature, although they do have some legal status. Much of the service transformation and new ways of working promised never materialised in practice and was not actually contracted. Additionally, in places the service delivery obligations are ambiguous, which means we waste valuable time and money in both the Council and SWO agreeing the interpretation of the contract.

A14. *Build in Cost Reductions* – The Council receives the benefit of an annual reduction in its Unitary Charge payments to SWO, and although not on the scale required to meet Central Government austerity targets it at least helps mitigate the deteriorated performance in some areas. Although indexation is added annually and to an extent cancelling out part of the reduction, it effectively fixes costs at 2007 prices. This is particularly relevant in respect of third party contracts which fall within the scope of SWO, such as ICT software and telephony. Without this reduction the remaining council would have needed to find even greater savings.

A15. *Service Resilience* - Shared services improves service resilience and capacity. This benefit is being realised in those services genuinely joined up within SWO. Clearly the Council is vulnerable to other organisations removing services unilaterally, which has occurred in the past, and although service continuity is contracted it does not always occur in practice.

A16. *Process Efficiencies* - Contractor designed shared services processes may not be efficient for all parties and must be periodically reviewed. Although the introduction of SAP by SWO has provided a common platform on which to create shared services and has generated efficiencies for SWO, the efficiencies generated for the retained organisation are less easy to identify. However, it has introduced a new standard in control for the organisation, which clearly comes at a cost, so must be periodically reviewed to ensure it remains the most appropriate solution.

A17. *Value for Money (VFM)* – It is both difficult and resource intensive to ensure the Council receive vfm on additional requests for work, as these usually involve additional costs and require negotiation to agree a final price. There is an ongoing issue around pricing transparency which results in protracted discussions and delays each time a request is made of SWO and subsequently challenged. This is exacerbated by the fact that SWO have contractual 'Exclusivity' over the in-scope services, meaning the Council cannot simply purchase elsewhere, without following a protracted process and often such requests are time critical.

Appendix B - Full Council Reports 31 March 2015: SWO Succession Planning and Additional Information

Taunton Deane Borough Council

Corporate Scrutiny – 26 March 2015

SWO 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 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 recommend that Full Council 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 and 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 and Accommodation
- Asset and third Party Contract Transfers
- Communications
- Logistics, Technical Infrastructure and System Security and Access
- Intellectual Property and Authority Data
- Work in Progress Transfer
- Service Transition and 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 and agreement of deliverables
- Stakeholder engagement and communications including staff and partners
- Detailed appraisal of the future service delivery options
- Costed Business Case and recommendations
- Understanding the staffing implications, risks and HR advice
- Contractual implications and 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 and 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:

Service	**ASP**	**SCC**	**SWO**	**TDBC**
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 TDBCs 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

<u>Contract Value</u>

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, Health and Safety, 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 and Receivable
- HR Admin and 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 and 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 and evaluation of potential replacement options

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 The 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 Corporate Scrutiny are asked to consider the report and support the recommendations to be considered by Full Council on 31 March 2015, which are set out below:

"Members are requested to:

i) 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) 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"

Contact: Officer Name Richard Sealy
Direct Dial No (01823) 358690
E-mail address r.sealy@tauntondeane.gov.uk

APPENDICES:
A. List of Services

List of Services

Service	Returned
Benefits	April 2013
Revenues	April 2013
ICT Strategy	April 2013
Health and Safety (HR)	July 2013
Corporate Administration	Feb 2014
Design and 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 o Accounts Payable o Accounts Receivable o Master Data for SAP o Cashiers and Control Team	Remains within SWO
HR o Admin and Payroll	Remains within SWO
ICT o Support and Development	Remains within SWO
Procurement	Remains within SWO

Additional information relating to agenda item 9 (Southwest One Succession Planning) on the Council Agenda for 31 March 2015.

1. Corporate Scrutiny requests

1.1 The Southwest One Succession Planning report and recommendations were considered by Corporate Scrutiny on 26 March 2015.

1.2 Corporate Scrutiny requested that further information be provided regarding the breakdown of the costs for Phase 1 of the Succession Project, as detailed in section 7 of the report. This information is provided in section 2 below.

1.3 In addition Corporate Scrutiny proposed an additional recommendation, which is set out in section 3 below.

2. Breakdown of the Phase 1 costs

2.1 Detailed below is a breakdown of the estimated costs for funding Phase 1 of the Succession Planning project, as detailed in section 7 of the report.

Project Management and specialist commercial support: report production, contractual exit arrangements, future service delivery options and business case	£32k
Specialist external legal advice: staffing implications, commercial legal advice on exit issues	£20k
HR support: managing communications with UNISON and staff, identifying staffing implications, agreeing the approach to staffing issues	£10k
Finance support: detailed financial modelling of potential future options	£10k
SAP system replacement: project manager to lead identification and evaluation of potential replacement options	£30k
TOTAL	£102k

2.2 The costs of £102k can be part funded from an existing reserve (£55) with the balance (£47) being funded from the General Fund Reserve.

2.3 Corporate Scrutiny also suggested that we obtain independent challenge and assessment of the review prior to Member decision. Please note that the costs of an independent challenge have not been included in the above costings and it is estimated that this work would require an additional £30k.

3. Additional recommendation

3.1 Corporate Scrutiny have proposed an additional two recommendations (iii and iv below) and so the full recommendations in section 17 of the report now read as below:

"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;

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;

iii) That the SWO Succession Planning work is aligned to support the work on organisational and service transformation (which is delivered to meet the community's needs and aspirations); and

iv) That appropriate member governance is put in place to support this project."

Appendix C - Equalities Impact Assessment

Where a relevance to equality has been identified, or where you know that the policy, service or function will have an effect on equality, then you need to undertake a full equality impact assessment to ensure that any gaps, impacts or effects are clearly identified. The writing in *Italics* is for guidance about what should be included in relevant sections.

<table>
<tr><td>Responsible person</td><td colspan="2">Richard Sealy</td><td>Job Title</td><td colspan="2">Assistant Director Corporate Services</td></tr>
<tr><td>Why are you completing the Equality Impact Assessment? (Please mark as appropriate)</td><td>Proposed new policy or service</td><td colspan="2">Change to policy or service
✓</td><td>Budget/financial decision – MTFP</td><td>Part of timetable</td></tr>
<tr><td colspan="2">What are you completing the Equality Impact Assessment on</td><td colspan="4">Proposed change in service delivery for those services currently in SWO</td></tr>
<tr><td colspan="6">Section One – Scope of the assessment</td></tr>
<tr><td>What are the main purposes/aims of the policy/decision/service?</td><td colspan="5">The SWO Contract expires in November 2017 and a new method of service delivery needs to be agreed by Members together with a solution on the use of the SAP computer system for the following services:
ICT
Finance
Procurement
HR and Payroll
Customer Services
It is recommended that the contract is terminated early and the services are brought back in house.</td></tr>
<tr><td>Which protected groups are affected or targeted by the policy/decision/service?</td><td colspan="5">TDBC employees within SWO and those within related retained services
TDBC currently have 43 staff seconded into SWO who will be offered de-secondment on contract termination. In addition the TUPE Regulations 2006 will apply to other staff at the point of transfer.
Staff in corresponding retained services may also be impacted as new structures are created.</td></tr>
</table>

What evidence has been used in the assessment - data, engagement undertaken – please list each source that has been used The information can be found:	A consultation exercise is currently being undertaken with all affected staff and UNISON the recognised trade union regarding the service delivery options available to the council. The results of that exercise will be reviewed to identify any specific impacts for protected groups. A detailed list of staff potentially affected by the transfer will be provided to the Council from SWO and will be reviewed for specific impacts in relation to protected groups.

Section two – Conclusion drawn about the impact of service/policy/function/change on different groups highlighting negative impact, unequal outcomes or missed opportunities for promoting equality

Disaggregating the SWO contract could potentially impact affected staff as follows:

- Pay and grading could change as new structures are created to deliver services
- Staff could be made redundant

The impact will be mitigated where the SWO partners can agree a staffing protocol that encompasses consistent rules on ending secondments, a vacancy freeze pre contract end and an appointment process at contract end to reduce the number of potentially misplaced staff.

No specific impacts have been identified in respect of protected groups from the proposal to bring the services back in-house as pay and grading processes and redundancy handling comply with employment law and equality legislation.

Secondee staff will be offered the ability to return to the Council on the termination of the contract.

Any termination will also affect other affected Southwest One staff working in the services at the point of transfer. They may transfer in accordance with the TUPE Regulations 2006. This may result in minor changes to terms and conditions such as pay date, annual leave year etc which are known as 'measures' within the TUPE Regulations.

I have concluded that there is/should be:

No major change - no adverse equality impact identified	
Adjust the policy/decision/service	
Continue with the policy/decision/service	✓ Actions have already been identified in the project plan that will help

	mitigate the impacts identified – ie staff and UNISON consultation, use of approved policies etc
Stop and remove the policy/decision/service	

Reasons and documentation to support conclusions The staff and UNISON consultation identifies where there is staff related concerns. The contract will cease in November 2017 at the latest and the mitigating actions will limit any negative impacts as much as possible.	
Section four – **Implementation –** timescale for implementation	
Actual timescales and implementation will be determined in discussions with SWO and authority partners	
Section Five – Sign off	
Responsible officer: Richard Sealy Date: 4 Dec 2015	Management Team Date: 7 Dec 2015
Section six – Publication and monitoring	
Published on	
Next review date	Logged on Covalent

Action Planning

The table should be completed with all actions identified to mitigate the effects concluded.

<table>
<tr><th colspan="6">Actions table</th></tr>
<tr><td>Service area</td><td colspan="2">SWO Contracted Services</td><td>Date</td><td colspan="2">December 2015</td></tr>
<tr><th>Identified issue drawn from your conclusions</th><th>Actions needed</th><th>Who is responsible?</th><th>By when?</th><th>Is a monitoring system required?</th><th>Expected outcomes from carrying out actions</th></tr>
<tr><td>No new actions have been identified – although see Conclusions drawn above</td><td>n/a</td><td>n/a</td><td>n/a</td><td>n/a</td><td>Protected groups will continue to be safeguarded</td></tr>
</table>