

## Somerset County Council

## Cabinet

– 9 December 2015

 Paper **H**  
 Item No. 12
**Review of the SouthWest One contract**

Cabinet Member(s): Cllr Harvey Siggs – Cabinet Member for Resources

Division and Local Member(s): All

Lead Officer: Richard Williams, Commercial and Business Services Director

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<b>Report Sign off</b>	<b>Seen by:</b>	<b>Name</b>	<b>Date</b>
	County Solicitor	Honor Clarke	19.11.15
	Monitoring Officer	Julian Gale	19.11.15
	Corporate Finance	Kevin Nacey	26.11.15
	Human Resources	Chris Squire	17.11.15
	Property / Procurement / ICT	Richard Williams	25.11.15
	Senior Manager	Richard Williams	25.11.15
	Local Member(s)	N/A	N/A
	Opposition Spokesperson	Cllr Sam Crabb	18.11.15
	Relevant Scrutiny Chairman	Cllr Tony Lock - Scrutiny Committee for Policies and Places	17.11.15
	Cabinet Member	Cllr Harvey Siggs	17.11.15
<b>Forward Plan Reference:</b>	FP/15/11/13		
<b>Summary:</b>	<p>The current service contract between Somerset County Council (SCC) and the Joint Venture Company (“JVCo”), Southwest One (“SWO”), is due to expire in November 2017. Given the range and depth of involvement of Southwest One in SCC’s on-going business it is necessary to determine options and ensure that all those involved have adequate time and information with which to make appropriate decisions on the way forward.</p> <p>There is a confidential annex to this report (Paper H1) which sets out additional recommendations and contains commercially sensitive information. This annex will be provided at the Cabinet meeting and officers will take Members through it.</p>		
<b>Recommendations:</b>	<p><b>That Cabinet:</b></p> <ol style="list-style-type: none"> <li><b>Agrees the case for applying the exempt information provision as set out in the Local Government Act 1972, Schedule 12A and therefore to treat Paper H1 and its appendices in confidence, as they contain commercially sensitive information, and as the case for the public</b></li> </ol>		

	<p><b>interest in maintaining the exemption outweighs the public interest in disclosing that information.</b></p> <p><b>2. Subject to the approval of recommendation (1) above, agrees to exclude the press and public from the meeting for the consideration of Paper H1 and its appendices where there is any discussion at the meeting regarding exempt or confidential information.</b></p> <p><b>3. Considers and agrees the recommendation set out within Paper H1.</b></p>
<b>Reasons for Recommendations:</b>	<p>It is important that the recommendations are agreed by the Cabinet so that officers have sufficient time to implement the preferred approach given the contract's expiry date and the requirement that the Council delivers the maximum benefits and savings.</p> <p>Paper H1 to this report contains commercially sensitive information relating to the contract and the Council's financial and business affairs. Officers recommend that this is treated as exempt information.</p>
<b>Links to Priorities and Impact on Service Plans:</b>	<p>Key drivers for the approach recommended are the on-going budget constraints across the Council and the need to provide excellent services to stakeholders supported by effective and efficient back office functions.</p>
<b>Consultations undertaken:</b>	<p>The review and its proposals have been shared with the Joint Member Advisory Panel (JMAP) which has been established to run in parallel with the planning for the end of the Southwest One contract. JMAP is the mechanism by which representatives of all political groups have been invited to be involved in the detail of the process on behalf of other Members.</p> <p>Partners in the Joint Venture Company (Taunton Deane Borough Council and Avon and Somerset Police) have also been kept informed confidentially of SCC's review and the development of options.</p> <p>Wider consultation is not yet possible due to the commercial and confidential nature of the options being considered. At the appropriate time, there will be due consultation with staff, unions and other key stakeholders directly affected by the proposals in this report.</p>
<b>Financial Implications:</b>	<p>Costs will be incurred by SCC regardless of the option pursued but will these will differ in terms of the amounts depending on the option agreed. Further detail is set out in the Confidential report.</p>

	<p>The Section 151 Officer has confirmed that the costs identified in the confidential Appendix will be met in the first instance by the earmarked reserve for the Unitary Charge and/or by the budget for the Unitary Charge.</p>
<b>Legal Implications:</b>	<p>Specialist legal advisors have been working with SCC and will continue to act on SCC's behalf to ensure correct process is followed and that all SCC's obligations are met.</p> <p>"Exempt information" is defined by Section 100 of the Local Government Act 1972, by Schedule 12A to that Act. The Council's Constitution (Access to Information in relation to Decision-making) sets out the relevant categories for information to be treated as exempt information.</p>
<b>HR Implications:</b>	<p>There will be implications for those staff providing services to SCC and TDBC from Southwest One. Any return of services to SCC will result in the repatriation of seconded SCC staff. The detailed implications are being assessed and will be carefully managed as part of the transition arrangements at the end of the contract.</p> <p>Staffing implications will be managed within HR policy and existing legislation including those concerning Consultation and TUPE (Transfer of Undertakings).</p> <p>There are approximately 183 SCC seconded employees currently providing SCC services through Southwest One and around 126 partner (TDBC, Southwest One and ASC) employees who have been listed as providing SCC services. An Impact Assessment which includes staffing impacts has been completed and is attached to this report.</p>
<b>Risk Implications:</b>	<p>There are a number of risks with the recommendations set out in the confidential report and these will be detailed in the confidential discussion at the Cabinet meeting. These risks have been considered and are being addressed as part of the review and any subsequent decisions.</p>
<b>Other Implications (including due regard implications):</b>	<p>Impacts already identified in the Impact Assessment will continue to be assessed and taken into account during implementation of the decision and in any further decisions made. The impact assessment is attached to this report for reference.</p>
<b>Scrutiny comments / recommendation (if any):</b>	<p>The proposals within this report have been shared with the Joint Member Advisory Panel and with Scrutiny Committee for Policies and Place through confidential workshop sessions and their comments have been taken into account.</p>

## **1. Background**

- 1.1. The current service contract between SCC and Southwest One (SWO) is due to expire in November 2017. Given the range and depth of involvement of Southwest One in SCC's on-going business it has been necessary to consider options and ensure that all those involved have adequate time and information with which to make appropriate decisions on the way forward.
- 1.2. The original term of the contract was 10 years with an approximate contract value of £535m across all partners. The other public sector partners are Taunton Deane Borough Council (TDBC) and Avon and Somerset Constabulary (ASC).

Due to negotiated changes to the contract and services provided by SWO since 2012 and 2013 the approximate current contract value over the contract term is now £158m.

- 1.3. Since the start of the contract, some services returned to SCC in 2012 and 2013 and a Unitary Charge reduction was achieved. The current annual Unitary Charge is approximately £14m.
- 1.4. Services now provided by SWO to SCC are Human Resources (HR) administration and payroll, finance and procurement transactional services, customer contact centre, property (hard facilities management) and Information and Communications Technology (ICT).
- 1.5. The “natural expiry” of the Contract in 2017 will give rise to costs for SCC in areas such as:
  - HR (if services are re-shaped) & Pensions (if staff directly employed by SWO are offered membership of the LGPS on return);
  - The buy-back of assets currently held by SWO (in accordance with the terms of the Contract);
  - Third Party contracts;
  - The costs of re-procuring the SAP ERP and associated systems;
  - Transition and transformation costs, such as any investment required to re-shape ICT provision to meet the changed (and changing) needs of SCC;
  - Internal project and change resource; and
  - Legal costs

Costs in these areas will be incurred by SCC regardless of the option pursued but they will differ depending on which option is decided.

## **2. Drivers for Change**

- 2.1 The Contract was envisaged as a much larger exercise in collaboration, with a wide range of public sector entities having originally expressed interest in the SWO framework. The fact that, in the end, SWO was unable to bring these further clients on board meant that the level of investment required to deliver the benefits originally envisaged became excessive and detrimental to all parties.

- 2.2 The fixed price nature of the contract means that as SCC has shrunk in response to austerity and service changes, the contract is increasingly unaffordable.
- 2.3 This coincided with a period of significant change for the public sector in general and particularly for SCC, which necessitated a re-think of our approach to service delivery in all areas of the organisation. This culminated in a new strategic direction for the Council and a corporate strategic objective for SCC to become a leaner organisation and to respond to the new commercial climate
- 2.4 In 2012 and 2013 some services returned and discussions have been on-going to see how SWO can assist SCC in delivering further savings towards MTFP target, however whilst some initiatives have been implemented, significant enough savings have not been achieved due to the lack of flexibility of the SWO contract.
- 2.5 In addition, opportunities for service transformation have been identified, which need to be implemented by a return of control over those services to SCC.
- 2.6 The client/provider objectives have been misaligned for some time and this has required a high level of management by SCC. These issues have been well documented (see report to SCC Audit Committee on 13 February 2014: <http://www1.somerset.gov.uk/council/board9/2014%20February%2013%20-%20Item%2011%20SWO%20Lessons%20Learnt%20report.pdf>).
- 2.7 The return of these services to SCC will improve their resilience, the Council's ability to modernise and improve service performance.
- 2.8 The return of the services will enable the Council to improve the agility of back office services and systems to support our transformation aspirations and respond to financial challenges, including in priority areas such as Children's and Adults' services.

### **3. Approach and Process**

- 3.1 The Leader of the Council took a non-key decision on 11 May 2015 authorising officers to proceed with development of options before contract expiry in order to secure the best outcome for Somerset. This includes the need to procure replacement hosting and support arrangements for SAP, the Council's business management system.
- 3.2 A programme has been established to manage the process of assessing the options for the end of the Contract. A programme team has been established and resource planning has been undertaken and resources identified. Significant planning has been undertaken to ensure options have been considered carefully and impacts anticipated.
- 3.3 Partners and Southwest One have been kept informed throughout to maintain good working relationships.
- 3.4 To ensure that SCC achieves a reasonable balance between meeting the challenging needs of confidentiality versus public accountability, a Joint Members

Advisory Panel (JMAP) has been set up to run in parallel with the end of the Southwest One Contract / commercial discussions/ process. JMAP is the mechanism by which representatives of all of the political groups have been invited to be involved in the detail of the process on behalf of the members of their group who will not be entitled to have access to the same detailed, confidential information.

- 3.5** The contents of this report have been shared with JMAP through confidential workshop sessions. Their view supports the recommendation in the confidential paper. JMAP acknowledges that there will always be costs incurred at the end of any large contract.

#### **4. Options considered and reasons for rejecting them**

- 4.1** Three options were considered as part of the review as set out in the following paragraphs.
- 4.2** All three options involve bringing services back to SCC. Longer term solutions for services will then be developed and considered on a case by case basis.
- 4.3** **Option 1: Extend the current contract.** This option was considered but has been ruled out due to scope, affordability and fitness for purpose of the current contract. This was acknowledged in the Leader's Non Key Decision in May 2015.
- 4.4** **Option 2: Contract expiry at natural end.** The Contract has a finite life, with expiry on 1<sup>st</sup> November 2017 already provided for under its terms.
- 4.5** **Option 3: Early exit from current contract.** Early exit from current contract has been explored and could be secured either by negotiation with Southwest One or by exercising contractual rights to terminate.
- 4.6** Options 2 and 3 have been considered and an assessment made of their respective risks and merits (see confidential Paper H1).

#### **5 Key Considerations for SCC**

- 5.1** The key considerations that were factored into the options appraisal are set out below.
- The fixed price regime means we can only drive significant savings from the contract once it ends
  - Where functions have returned we have driven out significant savings and improved the services
  - Service delivery can be focussed on Core Council priorities rather than shared service objectives
  - The opportunity to improve service performance.
  - To remove costly ongoing contract management requirements.
  - To remain on SAP ERP and associated systems

## **5.2 Financial Considerations**

There will be costs incurred by SCC regardless of the option pursued and these will differ depending on the option and timing of implementation. These costs will be in relation to:

- Transition and transformation costs (including those relating to SAP), such as any investment required to re-shape ICT provision to meet the changed (and changing) needs of SCC;
- Internal project and change resource; and
- HR and legal costs

- 5.3** Following an officer non key decision in May 2015 SCC commenced the re-procurement of SAP to ensure a smooth transition of current SAP arrangements to a new Supplier at the end of the SWO contract.

## **6 End of Contract Implications**

- 6.1** There are a number of key considerations that impact on the End of Contract arrangements. In summary these are:
- The end of the contract will require a substantial programme of work to bring the services back into SCC.
  - The timing of benefits realisation is linked to the end date of the contract.
  - Smooth transition arrangements are the key to ensuring business continuity.

## **7. Background Papers**

- A Cabinet Member Non Key Decision was taken on 11 May 2015 authorising officers to proceed with the development of options in relation to end of the service contract.

<http://www1.somerset.gov.uk/council/portfolio%2017/2015%20decisions/Review%20of%20SouthWest%20One%20contract.pdf>



<b>Impact Assessment Form and Action Table 2014 - 2016</b> (Expand the boxes as appropriate, please see guidance <a href="http://www.somerset.gov.uk/impactassessment">www.somerset.gov.uk/impactassessment</a> ) to assist with completion)			
<p>"I shall try to explain what "due regard" means and how the courts interpret it. The courts have made it clear that having due regard is <b>more than having a cursory glance</b> at a document before arriving at a preconceived conclusion. Due regard requires public authorities, in formulating a policy, to give equality considerations the weight which is <b>proportionate in the circumstances</b>, given the potential impact of the policy on equality. It is not a question of box-ticking; it requires the equality impact to be <b>considered rigorously and with an open mind.</b>"</p> <p><b>Baroness Thornton, March 2010</b></p>			
Why are you completing the Impact Assessment?			
Proposed New Policy or Service	Change to Policy or Service	MTFP or Paper	Service Review or SCC Change Programme
	X		
What are you completing the Impact Assessment on (which policy, service, MTFP reference, cluster etc)?		Southwest One Contract	
Section 1 – Description of what is being impact assessed			
<p>The current service contract between Somerset County Council (SCC) and the Joint Venture Company, Southwest One, is due to expire in November 2017. A programme has been established to consider options for delivering those services currently provided by Southwest One - Human Resources (HR) administration and payroll, finance and procurement transactional services, customer contact centre, property (hard facilities management) and Information and Communications Technology (ICT) - following contract expiry.</p> <p>This assessment considers the impact of the expiry of the contract.</p> <p>The expiry of the contract will mean that those SCC employees who had seconded from SCC to Southwest One at the start of the contract in 2009 will end their secondment and transfer back to SCC. There is likely to be a number of other employees providing SCC services within Southwest One who may be transferred to SCC through TUPE (Transfer of Undertakings – Protection of Employment) procedures. The services those staff deliver will continue to be delivered but under the direct management of SCC.</p> <p>Southwest One also hosts and supports SAP, the County Council's integrated management system for finance, HR, payroll and procurement. SCC is following a procurement process to find an alternative provider to transition SCC's data from the Southwest One SAP system and provide a hosting and support service at the point at which the contract with Southwest One ends.</p>			



**Section 2A – People or communities that are **targeted or could be affected** (for Equalities - taking particular note of the Protected Characteristic listed in action table)**

Southwest One delivers services to SCC, Taunton Deane Borough Council (TDBC) and Avon and Somerset Constabulary (ASC). Most of these services are support services and only few directly impact users of SCC's services or other members of the public. Southwest One does though provide the County Council's Customer Contact Centre which handles telephone calls relating to SCC services.

During 2014, 24% (approximately 62,000) of contacts were categorised as Adults' Services. The majority of these enquiries were in relation to Blue Badge applications, applications for assessments for home care or occupational therapy. 18% were classified as relating to children and young people, with approximately 10,500 enquiries relating to Children's Social Care and 330 for children with Special Educational Needs or disabilities.

Because the Joint Venture includes other partners (TDBC and ASC), those organisations will be affected by this decision.

**Section 2B – People who are **delivering** the policy or service**

There are approximately 183 SCC seconded employees currently providing SCC services through Southwest One and around 126 partner (TDBC, Southwest One and ASC) employees who have been listed as providing SCC services.

No information is available on secondees' protected characteristics at this point. SCC has rights under the Southwest One contract to obtain employee information during the exit period. Further, there is a requirement under TUPE (Transfer of Undertakings) for the current employer to provide specific employee information prior to any transfer. This is permitted under the Data Protection Act (DPA) as it is a legal requirement to provide such data. However to ensure compliance with data protection principles sensitive data will be managed by an HR sub group.

All services delivered by Southwest One on behalf of SCC will transfer back to SCC at contract end. SCC will review those services and determine longer term arrangements.

There are provisions within the contract that require Southwest One to assist SCC in any exit from the contract or transition of services to a new provider. We will also work with partners to ensure there is a smooth exit.

SCC will re-procure a dedicated SAP service for SCC to replace the SAP service currently used by Southwest One to deliver back office services to all four Southwest One partners.

**Section 3 – Evidence and data used for the assessment (Attach documents where appropriate)**

Statistical data showing the number of secondees, partner secondees and employees directly employed by Southwest One have been provided by Southwest One. This data is subject to further verification following receipt of specific individual data from Southwest One.

Information on call volumes was taken from a detailed call analysis undertaken by the

Contact Centre in 2014.
<b>Section 4 – Conclusions</b> drawn about the impact of the proposed change or new service/policy (Please use <b>prompt sheet</b> in the guidance for help with what to consider):
<b>Community Safety</b>
No impacts identified
<b>Equality</b>
No impacts as yet identified but will be reviewed by the HR Sub Group as the detail of the preferred option develops. These could include changes of workplace and changes to employment terms and conditions.
<b>Health and Safety</b>
No impacts identified
<b>Health and Wellbeing</b>
No impacts identified
<b>Privacy</b>
<p>The ending of the SWO contract will need to consider the personal data currently under the ownership of four data controllers, SCC, ASAP, TDBC and SWO. The disaggregation of this data must be completed to allow the transfer of all the data including that pertaining to both clients and employees to the appropriate data controllers post contract.</p> <p>SWO currently acts as a data processor for SCC and manages databases and applications for our major services including Adults' and Children's Social Care and HR / Payroll. To ensure the secure transfer back to SCC all Information Governance and ICT security must be maintained.</p> <p>In copying and transferring and hosting and supporting the replacement SAP system, the new service provider will need to be granted access to SAP and other databases holding personal data relating to SCC and other staff. Discussions are already taking place with SWO and other partners to understand and agree the approach to this.</p> <p>The security of the data must be maintained at all times to ensure it is not inappropriately accessed and/or used. To achieve this, access to systems will be strictly controlled and restricted to only those personnel (SCC and 3<sup>rd</sup> party) who have a business need and hold appropriate security clearance. After implementation of the new system, access will be reviewed and removed from anyone who no longer needs it.</p> <p>During the process SCC must ensure that all personal data pertaining to its Clients and employees is returned to SCC for suitable storage, archiving or destruction.</p>
<b>Sustainability</b>
At this stage no specific Sustainability issues have been identified. However, it is possible that there will be impacts when services come under SCC's management and are reviewed, and these will need to be fully addressed as part of any future decision making process.

<b>Risk</b>					
<p>There are risks associated with exit from the current service contract and the transition to the new SAP provider and these will be managed by careful transition planning and change management, working in close liaison with Southwest One, the other Southwest One partners and relevant third parties. There is a corporate risk recorded in the Council's risk register around the expiry of the Southwest One contract (ORG0038). The development of options and recommendations is part of SCC's continued mitigation of that risk.</p>					
<b>Likelihood</b>	3	<b>Impact</b>	4	<b>Risk Score</b>	12
<p><b>Section 5</b> – After consideration please state your final recommendations based on the findings from the impact assessment. Also include any examples of good practice and positive steps taken.</p>					
<p>Based on an analysis of the costs, potential savings and other risks and benefits associated with the options leads to the recommendation as set out in the confidential paper.</p>					
<p><b>Section 6</b> - How will the assessment, consultation and outcomes be published and communicated? E.g. reflected in final strategy, published. What steps are in place to review the Impact Assessment</p>					
<p>Impact assessments will accompany any future formal decisions made by officers or Members of SCC.</p>					
<b>Completed by:</b>		Catherine Young			
<b>Date</b>		1 December 2015			
<b>Signed off by:</b>		Richard Williams			
<b>To be reviewed by:</b> (officer name)		Catherine Young			
<b>Review date:</b>		The impact assessment will be reviewed in line with the consultation and transition phase around contract end.			
<b>Version</b>	2.0	<b>Date</b>	1.12.15		

Equality Impact Assessment Issues and Action Table					
Identified issue drawn from your conclusions	Actions needed – can you mitigate the impacts? If you can how will you mitigate the impacts?	Who is responsible for the actions?	When will the action be completed?	How will it be monitored?	What is the expected outcome from the action?
<b>Age</b>					
<b>Disability</b>					
<b>Gender Reassignment</b>					
<b>Marriage and Civil Partnership</b>					
<b>Pregnancy and Maternity</b>					
<b>Race</b> (including ethnicity or national origin, colour, nationality and Gypsies and Travellers)					
<b>Religion and Belief</b>					
<b>Sex</b>					
<b>Sexual Orientation</b>					
<b>Other</b> (including caring responsibilities, rurality, low income, Military Status etc)					

<b>Health and Safety, Sustainability, Community Safety Impact Assessment Issues and Action Table</b>					
<b>Areas of increased risk drawn from your conclusions</b>	<b>Actions needed – can you mitigate the impacts/risk? If you can how will you mitigate the impacts?</b>	<b>Who is responsible for the actions?</b>	<b>When will the action be completed?</b>	<b>How will it be monitored?</b>	<b>What is the expected outcome from the action?</b>
<b>Health and Safety Issues and Action Table</b>					
<b>Sustainability Issues and Action Table</b>					
<b>Community Safety Issues and Action Table</b>					
<b>Privacy Issues and Action Table</b>					
Increased number of people (including 3 <sup>rd</sup> party personnel) will need to be granted access to SAP.	Access to areas containing personal sensitive data will only be granted to personnel with a business need and the appropriate security clearance.	SCC data security manager. Peter Grogan	Throughout the SAP project.	SAP access logs will be monitored on a regular basis to ensure only appropriate personnel have access to sensitive data.	Personal data held in SAP is kept secure through well managed access and monitoring controls..

	Review of access to SAP to take place after implementation to ensure access is removed from personnel who no longer need it.	SCC data security manager. Peter Grogan	Checks will be on-going.	SAP access logs will be monitored on a regular basis to ensure only appropriate personnel have access to sensitive data.	Tight control of access to the sensitive data held in SAP.
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