

Update on Lessons Learnt from the Experience of the South West One Contract

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1. Summary/link to the County Plan

- 1.1. Good commissioning is at the heart of the Council's operating model and aims to ensure provision of value for money for the residents of Somerset.
- 1.2. The Audit Committee, as recommended by our external auditors, Grant Thornton, asked for this report to be re-assured that the experience of a major contract such as the Southwest One contract has been passed on to all managers responsible for commissioning within the Authority.
- 1.3. A previous report was presented to the Audit Committee back in February aimed specifically at the Commissioning lessons that had been shared with SCC's core commissioning staff. At that Audit Committee meeting views were expressed that the report needed to be more comprehensive and cover the audit, governance and contractual and other arrangements surrounding this contract, so that all lessons learnt could be absorbed and passed on to the rest of the Council. This report therefore concentrates on those wider lessons but also still refers to those issues reported previously.

2. Issues for consideration

- 2.1. The Committee is asked to consider and comment on the report.

3. Background

- 3.1. Somerset County Council (SCC) entered into a support services contract with Southwest One (SWO) in 2007. Two other public sector bodies, Avon and Somerset Police Authority (ASPA) as it was then, and Taunton Deane Borough Council (TDBC) also entered into contracts with SWO. SWO is a company, governed by the terms of a Joint Venture Agreement (JVA); IBM is the majority shareholder and provides financing under the JVA, whilst each of the public authorities nominates a director at the board and maintains a shareholder veto on certain 'reserved matters'.

- 3.2. SWO provides vital operational services (including ICT, Finance and HR/Payroll) to SCC and the other public authorities – these services, and any associated financial liabilities, are subject to a Parent Company Guarantee (PCG) between IBM and each of the public authorities.
- 3.3. The SCC Client team over the past four years has obviously assembled a great deal of information about what works well and what does not in terms of the SWO contract. This information was also reviewed and analysed by Pinsent Mason, the legal firm who assisted in the renegotiation of the contract during 2013.
- 3.4. The learning from this has been shared with lead commissioners within the Authority with two directors, Richard Williams and Kevin Nacey, speaking to the commissioning managers about their experience. The in-house legal team has also been informed and future contracts will benefit from this experience.
- 3.5. The renegotiation of the contract finalised in March 2013 returned to the Council a number of the more strategic functions originally placed with the provider. This redrawing of the client – provider split was necessary to address some of the issues experienced and to align better with the Council's operating model.
- 3.6. Since the renegotiation SCC has had an internal audit conducted by SWAP on the performance of the Client function and SCC has also commissioned some advice from a SAP consultant on how to make best use of the system, including a review of what SCC needs to do in the future to gain maximum value before and after the end of the contract. These more recent pieces of work have assisted in the update of this lessons learnt report.
- 4. The following paragraphs cover the main lessons learnt that have been shared with the Commissioning managers within the Council.
- 4.1. One of the most significant lessons learnt related to the sheer size, breadth and complexity of the contract. Both the provider and the Council would agree that the contract is incredibly complicated. A contract with over 3,000 pages was drawn up back in 2007 which was considered necessary at the time given the range of services and the partnership and contractual arrangements created.

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 an understanding of each partner's requirements. Of course, 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 net effect is that at times the provider and partner aims in service delivery do not always match and discord and dissatisfaction can occur.

- 4.2. The Client function monitoring a major contract needs to be adequately resourced. At the outset the size of the client unit was deemed

commensurate with the tasks ahead, such as monitoring a range of performance measures and reporting on such to various management and Member forums. Liaison between partners, approving service development plans and approval of payments under the contract were other significant roles performed by the client unit. However, as performance issues became evident and legal and other contractual disputes escalated, the team had to cope with increasing workloads and increasing pressure from service managers and Council Members to address these issues. This is a difficult balancing act. You do not want to assemble a large client function that in part duplicates the management of the services being provided nor overstaff to the extent that there is insufficient work if contract performance is such that no issues are created. With hindsight, the initial team was too small to manage the contract when SAP and other performance issues were not resolved quickly enough. Sizing the function is tricky but we do now have an extremely knowledgeable and experienced client team.

- 4.3. Performance indicators need to be meaningful rather than simply what can be measured. Agreement between the provider and the SCC client of all the appropriate performance measures was a long and difficult exercise at the beginning of the contract. Early on in the first year of the contract, there were a large number of meetings held to agree how to record performance and what steps would be necessary should performance slip below targets. Internal audit advice was taken (and has been at least twice since under further reviews) on the quality and value of the performance indicator regime. It is regrettable and again with hindsight a learning point that too much attention was paid to these contractual mechanisms rather than ensuring the relationship between provider and SCC was positive. Perhaps the regime was too onerous for both sides to administer.
- 4.4. Contract periods need to be different for different services as the pace of change is different. The range of services provided under the initial few years of the contract were quite extensive. On another related point the provider also had to manage different services for different clients. This level of complexity was perhaps too ambitious for all parties. Although there were many successful parts to the contract, it is inevitable that most will remember those that did not work so well. The contract period of 10 years is a long time for 9 different services to change at the same pace. Of course, service development plans were agreed for each service to attempt to keep pace with service needs as they changed.
- 4.5. The secondment model introduced as part of the contract arrangements had been used elsewhere in the country. Nevertheless, it was the first time that 3 separate organisations had seconded staff into one provider. In many ways the model worked as staff felt both loyalty to their “home” employer, keeping the public service ethos we all felt to be important, and to Southwest One as they merged staff into a centre of excellence model. The disadvantage was that Southwest One was hampered by the terms and conditions staff kept as they tried to find savings for their business

model and to provide savings to the Council in recent years given the changing financial conditions we now operate under.

- 4.6.** Another aspect of this contract in terms of complexity is the nature of the partnering arrangement. It is not easy for all partners to have exactly the same view or stance on an issue. Southwest One had to manage competing priorities from its clients and the partners also had varying opinions on the level of performance provided. Remedy for such circumstances differed depending upon initial views of the scale of the performance issue and what each client required for its service.
- 4.7.** It has been particularly challenging to achieve effective audit of the contract, both by internal and external auditors. Access for auditors has been a prime issue with clearance of those auditors often being slow as process involved all clients being satisfied that audit scope, coverage and findings were appropriate. The contract allowed for transparent audit access and there is no suggestion here that SWO did not welcome audit. Indeed, for the first few years of the contract there was a team within business controls in SWO that enabled and carried out their own audit work on behalf of IBM. It again proved to be the controls required by all partners and the complexity of access that stifled quick audit work to be performed. Increasingly, there was debate about capacity to support audit work within SWO and therefore, SWAP suffered in terms of their ability to conduct audit work in good time. In addition, Police levels of security needed to be far higher than SCC and this complicated access for auditors.
- 4.8.** The most recent SWAP audit of the contract client function found that there has been effective monitoring of SWO performance. The problem is that reporting of that performance has been hampered by arguments over commercial confidentiality and sensitivities about the validity of reporting. It is fair to say that the three clients do not always agree on the quality of service provided, which of course gives rise to SWO management challenging SCC's robust approach if other clients do not agree when in our view service is deficient. The transparency surrounding contract performance has been a contentious issue given these difficulties, and especially at times of dispute and with court proceedings pending. Future contracts must make these issues clearer and give the authority the ability to follow the national agenda for transparency more explicitly and without fear of upsetting either partners or the provider. The Freedom of Information legislation is there to serve the transparency agenda but such requests have been incredibly difficult to answer because of need to ensure all parties are sighted on information made public.
- 4.9.** A further issue is that of data ownership and responsibility. SCC must make available data if indeed it has that data. On a number of occasions SCC did not and SWO held data that contained references to other authorities. The shared service platform and the nature of service delivery occasionally made it costly to segregate data to respond to FoI and other requests. Seconded staff were also often torn between their allegiance to their

‘home’ employing authority and their commitment to SWO, which did cause some confusion regarding information ownership. In all contracts SCC must strive to ensure transparency is foremost in our thoughts and that clearance of data release is not subject to other parties’ views.

- 4.10.** Another lesson learnt from this contract relates to the use of ICT systems to be delivered and managed by the provider in any contract. Of course, being a support service type contract including ICT places a strong emphasis on systems and applications but even so, there are a few transferable issues to other contracts that we may let in the future. Firstly, the introduction of SAP so early in the contract life and the system issues experienced meant that SWO performance became synonymous with SAP performance. There were many other benefits provided by SWO in the first few years of the contract related to other improvements in the network and associated applications but this was overshadowed by the SAP technology issue. Over time SAP has worked for SCC albeit there are still outstanding issues with its configuration and its flexibility to adjust to the Council’s changing needs. The creation of one vendor database in support of the shared service agenda is now with hindsight going to be a bigger issue for all clients as we approach the end of the contract. There is still insufficient knowledge transfer to secondees and this will leave a legacy issue for our authorities. Future contracts must clarify asset ownership, system maintenance and replacement infrastructure issues.
- 4.11.** In summary, this was a very ambitious venture. The service provided in some cases got off to an unfortunate start with the issues generated by SAP problems and relationships were strained and attracted much inside and outside attention. All parties have been working very hard to keep good relationships and to fix service issues as they arise. The sheer size and complexity of this contract has proven difficult to manage and future commissioning decisions will bear this in mind.

5. Consultations undertaken

- 5.1.** Over the years officers running services that receive support from Southwest One have been surveyed regularly on how they feel the contract has been progressing. Despite all of the issues and lessons learnt outlined in this report, it is worth pointing out that many of the customer satisfaction and performance levels under the contract have been met by Southwest One.

Members of the client team provided useful input into this exercise, with the workshop held to discuss these lessons learnt providing useful material for this report.

6. Implications

- 6.1.** The implications of the report are plain for all to see in that future commissioning decisions need to take into account the experience reported.

7. Background papers

7.1. None

Note For sight of individual background papers please contact the report author