
REPORT TO:	FINANCE & MANAGEMENT COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	4th DECEMBER 2014	CATEGORY: OPEN DELEGATED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	
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SUBJECT:	CORPORATE SERVICES CONTRACT and STRATEGIC PARTNERSHIP ANNUAL REPORT 2013/14	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendation

- 1.1 That the annual report detailing the performance of the Contract and wider Partnership in 2013/14 be approved.

2.0 Purpose of Report

- 2.1 To provide details of the performance of the Contract and Partnership Agreement for the 4th year between the Council and Northgate Public Services. As one of the Council's most significant contract and partnership arrangements, this is in accordance with the Council's Corporate Partnership Policy.

3.0 Detail

Background

- 3.1 The Council appointed Northgate Public Services (NPS) to deliver a range of Corporate Support Services under Contract, together with a range of strategic objectives around the creation of a Regional Business Centre and to support transformation within all council services.
- 3.2 The Contract commenced on 1st August 2010 for 7 years, with the Council having an option to extend this period by a further 3 years. The Council appointed NPS to deliver its objectives for Corporate Services and the wider Business Centre. The overall aims are:

- To deliver on-going improvements in service delivery
- To achieve cashable savings
- To retain and grow jobs in South Derbyshire – a “net importer of jobs.”
- To protect and develop employees in times of change
- To provide stability and resilience in service provision
- To invest in ICT
- To provide the Council with access to additional skills
- To deliver innovation and transformation across all council services.

The Contract

3.3 NPS are responsible for day to day service delivery of the following functions for the Council.

- Revenues and Benefits
- Customer Services and the Contact Centre
- ICT
- HR and Payroll
- Health and Safety Governance, Advice and Support
- Training and Development
- Policy and Communications
- Procurement and Business Improvement
- Printing and Design
- Provision of Stationery, Mail and Postage Facilities

3.4 Financial and Exchequer Services were also transferred in August 2010 but were returned back to direct Council control in June 2012. Payroll will also be transfered back in February 2015.

3.5 The Council remains responsible for setting strategy, policy and work plans associated with the above services, such as the IT Strategy and HR policies, etc. In addition, it retains the budgets for IT maintenance, upgrades and replacement together with other corporate activities such as banking, insurance provision and corporate training.

3.6 The current contract value is approximately £2.6m per year subject to an inflationary increase on an annual basis. 84 staff were initially transferred across from the Council to NPS to deliver services. All services are delivered from the main Civic Offices, although the actual processing of payroll, IT helpdesk and some HR support take place off-site.

Guaranteed Savings

3.7 NPS have guaranteed to the Council a certain level of savings over the life of the initial 7-year contract. Firstly, the contractual price for the services transferred was £125,000 lower than the (then) current costs, a year on year reduction of 5%. This was applied on Day 1 of the Contract and is on-going.

3.8 The other guarantees are as follows:

- £42,000 per year through additional income from council tax and sundry debtor collection (£294,000 over 7-years)
- £356,400 on-going savings in total over the first 5-years of the Contract through procurement transformation.
- £142,000 on-going savings in total over the first 5-years of the Contract through transformation of other council services.

Risk Reward Mechanism

3.9 The guaranteed savings for procurement and transformation are the net amounts at a rate of 40%. Effectively therefore, gross savings are contracted at 60% higher, i.e. £891,000 and £355,000 for procurement and transformation respectively.

3.10 They also represent cashable savings that can be identified in Council budgets.

3.11 This risk/reward approach reimburses NPS for investing resources up front to generate budget/efficiency savings. Savings in the first year from any change, etc. are shared equally at the rate of 40% with the remaining amount (20%) placed in an Innovation Fund to resource future investment in efficiency savings. After the first year, all savings are for the sole benefit of the Council.

3.12 Any gain share on income collection is subject to the impact on the Bad Debts Provision. Unless this is physically reduced, no cash is available for distribution. If collection targets are exceeded, this will reduce the annual contribution to the Provision than would have otherwise been required and is effectively “cost avoidance.”

3.13 The Partnership Agreement also allows for other authorities within the East Midlands Region to buy-in services from the Regional Business Centre. The value of any work is subject to a one-off gain share payment to the Council.

Jobs Guarantee / Regional Business Centre

3.14 Due to planned efficiencies in Corporate Services, it was expected that the overall numbers employed for the “core client” (SDDC) would reduce over the life of the Contract.

3.15 However, NPS have guaranteed that 100 new jobs will be brought into the District by consolidating business in South Derbyshire and from work brought into the Regional Business Centre. This also presents redeployment opportunities for transferred staff.

The Performance Framework

- 3.16 The performance of NPS against the objectives is monitored through a set of key performance indicators (KPIs) covering all service areas. These come with a set of targets and measures designed to maintain and improve service provision, together with the achievement of the strategic objectives.
- 3.17 A default regime is in place which penalises continuously poor or failing performance. However, there is also a reward mechanism in place where performance exceeds target or where NPS provide the basis and framework for budget savings (subject to Council approval) based on their transformational work.
- 3.18 This is a key element of the Partnership Agreement, alongside the Council's support to NPS, to deliver a regional business centre in the district to help expand services to benefit the local economy.

Measuring Performance

- 3.19 With over 70 indicators, the framework prioritises targets and recognises that some activities and functions are more important than others. Any failure to achieve a target is measured on the degree of severity from a Level 3 up to Level 1.
- 3.20 Level 1 is the most serious and could lead to a financial penalty or even a service being terminated. A Level 3 failure is considered to have less of an impact on service provision. However, a series of Level 2 and Level 3 failures could lead to a Level 1 failure on an accumulated basis.
- 3.21 The system aims to recognise the proportionality of any failure and does not seek to penalise the service provider for minor variations in performance. Therefore, some leeway on performance is built in to allow for peaks and troughs in workload, one-off events and change in circumstances, etc.
- 3.22 However, a Level 1 default is serious and can lead to more fundamental action being taken.

Tolerance Levels

- 3.23 Across the main targets, tolerance levels have been set which measure volumes, for example, the amount of benefit claims or number of customers dealt with. At the outset of the contract, the Council passed over to NPS resources to deal with a certain level of workload.
- 3.24 The tolerance levels are designed to review service provision and targets due to changes in workload. Typically, where workload shifts by 10% to 15% up or down from that existing at the outset, this triggers a review.

3.25 Through agreement, targets can be relaxed or the Council may need to provide additional resources where the increased workload has been sustained for an-going period and has effectively become the norm.

Management and Governance Arrangements

3.26 The Director of Finance and Corporate Services has overall responsibility for managing and working with NPS to deliver the services and wider objectives. Day to day monitoring of KPI performance is undertaken by a Client Services Unit, which was formed from retained staff who did not transfer to NPS.

3.27 An Operations Board considers performance on a monthly basis, with a Strategic Partnership Board taking an overview and monitoring the strategic objectives on a quarterly basis.

The Key Performance Indicators (KPIs) 2013/14

3.28 Performance against all the individual KPIs by service area over the last year is monitored monthly. All the KPIs are detailed in **Appendix 1**. Failures and defaults during the past year are shown in the following table.

Service Area	KPI	Reporting Period	Number of Failures
Customer Services	CS 01 Less than 10% of telephone calls are abandoned	Monthly	Two S2 at 12% and 21%
Customer Services	CS 02 80% of Telephone Calls answered within 20 seconds	Monthly	Five S2 ranging between 69% and 75%
Customer Services	CS 08 Percentage of contacts classed as avoidable is less than 22%	Monthly	One S2 at 28%
ICT	SD 07 A 5% on going reduction in service desk calls	Annual	One S3 at 1% reduction
Council Tax Collection	CT 03 Collection of Arrears b/fwd is greater than 30%	Annual	One S1 - performance was 23%
Housing Benefits	HB 02 Average time taken for processing new claims is less than 18 days	Quarterly	One S2 at 30 days
Housing Benefits	HB 03 Average time for processing change of circumstances is less than 8 days	Quarterly	Three S2 at between 18 and 29 days

Key:

S1 – Severity level 1 – Fundamental Service Failure – Default Payable

S2 – Severity level 2 – Moderate Service Failure – “x” times S2 = S1

S3 – Severity level 3 – Minor Service Failure – “x” times S3 = S2

Telephone Calls (CS 01 and CS 02)

- 3.29 These are measured monthly with the targets being based on best practice. Performance did not meet the target in April and May 2014 (CS 01) and on 5 separate occasions for CS 02. Together, these failures amount to a Level 1 Default.

Customer Services - Volumes

- 3.30 During 2013/14, approximately 130,000 calls were dealt with in the Contact Centre. This has steadily grown since 2009 with around 60,000 calls taken in 2008/09.
- 3.31 However, the number of customers and queries dealt with face to face in the Civic Offices has fallen over the same period, from 46,000 in 2008/09 to 34,000 in 2013/14.
- 3.32 In total, the number of customer transactions has increased from 106,000 in 2008/09, to 162,000 in 2013/14, an increase of over 50%.
- 3.33 The tolerance level for Customer Services is based on the number of transactions at the busiest time of the year, i.e. April. At the outset of the Contract, this was 16,000. In April 2014, the number of transactions exceeded 21,000, an increase of over 30%, against a tolerance level of 10%.

Avoidable Contact

- 3.34 This measures the amount of contact made as a result of the Council failing to provide, at the correct time, a service it is responsible for delivering, or sending correspondence that the customer cannot understand, i.e. the contact could have been avoided.
- 3.35 This is a measure the Government use to identify areas for improvement. Dealing with avoidable contact requires time and resources that could otherwise be used more productively. Avoidable contact can also have a negative impact on the Council's reputation.
- 3.36 The target is less than 22% avoidable contact per month. Excluding the one failure, the average performance was 11% in the year. The failure of 28% occurred in October 2013 and was due to the implementation of the new Kerbside Recycling Scheme. This led to a sharp increase in queries regarding clarification and further details, etc.

ICT – On-going Reduction in Service Desk Calls

- 3.37 This measures the impact and efficiency of IT development. It is based on the principle that as systems and equipment are improved and in particular standardised across the organisation, this will reduce the amount of support calls to deal with individual problems.

- 3.38 During 2013/14, approximately 3,300 calls were dealt with by the help desk, down from approximately 3,400 (3%) in 2012/13 and 4,600 in 2011/12. Despite the substantial changes made in the delivery of ICT, in particular, to the infrastructure, equipment and general approach, the trend has continued downwards.
- 3.39 Under the terms of the contract, the 3% reduction (compared to a target of 5%) is considered to be a low level failure (Level 3) and on its own, does not attract a default penalty.

Collection of Council Tax Arrears

- 3.40 This fell below target for the third consecutive year. However, performance is aggregated with 3 other collection rates and combined under the Income Guarantee arrangement. The combined rate exceeded target and so no default applied. This is detailed later in the report.

Processing of Housing Benefit Claims

- 3.41 As previously reported, performance in this service worsened during the year. This mainly arose from the impact of changes to systems implemented by the DWP which were designed to improve the efficiency of future administration. It also reflected the increase in claims and number of transactions over the last 2 years due to Welfare Reform.
- 3.42 Clearly, all councils who administer housing benefit have been affected. Whilst a survey showed that the effect on South Derbyshire has been greater compared to other authorities, changes to processes and systems has been slower. Although additional resources were employed (financed by the Government) the problems caused a backlog of claims and a slow-down in performance.
- 3.43 This worsened during the year and has only recently started to improve. It is planned to bring performance back to normal levels by the end of December.
- 3.44 Over the last 2 years, benefit claims have exceeded an average of 10,000 and during 2013/14, peaked at over 10,500. On commencement of the Contract, the average was 9,500, an increase of over 10%, which is the tolerance level.
- 3.45 As part of the DWP changes, data is now being provided to councils electronically. In the long term, this is designed to speed up the process and ensure claims are accurate by notifying councils of a change in circumstances.
- 3.46 However, this new approach required a number of additional checks to be undertaken by claims assessors which has had an impact on service delivery. Although the accuracy rate remained above 95%, automation at the Council end of the process was slow and has only recently reached an average of 80%; this is now reducing the amount of manual intervention.

Contractual Position – Customer Services and Benefits Processing

- 3.47 As previously highlighted, compared to the starting point at the commencement of the contract, tolerance levels (i.e. the number of cases and transactions) have been exceeded in the year.
- 3.48 Following a review of resources in accordance with the tolerance mechanism, the Council provided additional resources of £25,000 for extra staff in addition to passporting the Government funding to change systems and processes.
- 3.49 For the purposes of the contract, Customer Services is aggregated with Housing Benefits, making a total of 12 separate failures across these services in 2013/14. In total, this amounts to a Level 1 default and a financial penalty.
- 3.50 It is clear that workload in these areas has steadily increased in these areas since the commencement of the contract and external factors have impacted. This has triggered tolerance levels.
- 3.51 Due to this, a Default Notice has yet to be issued, although this option is still open. The impact of the increasing demand needs to be balanced against the additional resources provided to support the services and provide investment for future efficiencies and service improvement.
- 3.52 The position will be reviewed shortly after 31st December, following work to clear the backlog and then will be kept under review for the remainder of the year. In addition, the Committee have previously requested Overview and Scrutiny Committee to review the Customer Services operation and this is currently on-going.

Regional Business Centre

- 3.53 The current status of jobs, which compares the number of transferred staff and the Regional Business Centre, is summarised in the following table.

Service Area	Start of Partnership	As at Sept 2014	Vacancies
Customer Services	21	15	0
Financial Services	11	0	0
HR, Payroll and Organisational Development	9	3	1
ICT	10	7	0
Management and Service Delivery	0	3	0
Policy and Communications	5	5	0
Print and Design	2	2	0
Procurement and Business Improvement	6	2	0
Regional Business Centre	0	20	8
Revenue and Benefits	20	19	0
TOTAL	84	76	9

Notes

These figures represent the fixed establishment and exclude the transformation resources of NPS supporting the above, together with resources provided off-site and on an ad-hoc basis, such as to support ICT investment.

Excluding Financial Services which has subsequently been transferred back to the Council, the net gain is currently 12 new jobs. This compares with 19 at the end of the previous year, 2012/13

Savings Achieved To-date

3.54 Besides the initial contract savings, the following cashable savings have been achieved to-date.

	Target	Guaranteed Minimum	Actual as at Sept 2104	On Target
Income Collection	£294,000	£294,000	£168,000	Yes
Procurement	£891,000	£356,000	£219,257	No
Transformation	£355,000	£142,000	£285,324	Yes

Income Collection

3.55 The figures for income collection are discrete each year and depend on the collection rates for Council Tax and sundry debtors. Four KPIs are used to measure performance and are aggregated for the purposes of the default/reward mechanism.

3.56 The income guarantee target is £42,000 per year. Performance in 2013/14 is summarised in the following table.

Performance Indicator	Target	Actual	Met
Council Tax – in-year collection	97.4%	97.8%	Yes
Council Tax – arrears collection	26.7%	22.1%	No
Overpaid Housing Benefit recovered	34.2%	37.5%	Yes
Sundry Debtor income collected	82.6%	91.0%	Yes

3.57 As highlighted earlier, the target for Council Tax arrears was not achieved. However, the performance on the other collection rates more than compensated for the reduction in arrears recovery (compared to target).

3.58 Overall, this reduced the contribution to the bad debt provisions than would have otherwise been required. Therefore, the income guarantee was in the form of cost avoidance to the Council but with no cashable savings falling under the risk/reward mechanism.

Procurement

3.59 Actual savings achieved to-date is still behind that required in order to achieve the guaranteed amount. The Council has recently seconded a technical support officer to the Central Procurement Unit. The aim is to strengthen a joined up approach and to generate savings from the larger contracts being let.

4.0 Financial Implications

4.1 As detailed in the report.

5.0 Corporate Implications

5.1 None directly.

6.0 Community Implications

6.1 None directly.

7.0 Background Papers

None