

<b>REPORT TO:</b>	<b>FINANCE &amp; MANAGEMENT</b>	<b>AGENDA ITEM:</b> 9
<b>DATE OF MEETING:</b>	<b>1<sup>st</sup> DECEMBER 2011</b>	<b>CATEGORY: OPEN DELEGATED</b>
<b>REPORT FROM:</b>	<b>HEAD OF CORPORATE SERVICES</b>	
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<b>SUBJECT:</b>	<b>CORPORATE SERVICES STRATEGIC PARTNERSHIP: ANNUAL REPORT 2010 / 11</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

## **1.0 Recommendations**

- 1.1 That the annual report detailing the performance of the Partnership be considered and approved.

## **2.0 Purpose of Report**

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

## **3.0 Executive Summary**

### **Background**

- 3.1 The Council appointed Northgate Public Services (NPS) as its partner to deliver the Council's Corporate (back-office) Services under Contract, together with a range of strategic objectives around the creation of a Regional Business Centre and to provide transformation across all council services.
- 3.2 The Contract commenced on 1<sup>st</sup> 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 business case for Corporate Services and the wider Business Centre. The objectives contained in the business case were:
- 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.

- Finance, including Accounts and Exchequer Services
- Revenues and Benefits
- Customer Services and the Contact Centre
- ICT
- HR and Payroll
- Policy and Communications
- Procurement
- Printing and Design

3.4 The Council is still responsible for setting/reviewing strategy and policy, such as the Medium-Term Financial Plan, the IT Strategy and HR policies, etc. In addition, it has retained budgets for IT maintenance, upgrades/ replacement together with other corporate activities such as the banking contract, insurance provision and corporate training.

3.5 The contract value is fixed at around £3m per year subject to an inflationary increase on an annual basis. 84 staff was 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 and the IT helpdesk (back-up facility) take place off-site.

## **Guaranteed Savings**

3.6 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 Partnership. 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 over the first next 5-years of the Partnership through better procurement of council supplies and services.
- £142,000 over the first 5-years of the Partnership through transformation of other council services.

## **Risk Reward Mechanism**

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

- 3.8 They also represent cashable savings that can be identified in Council budgets.
- 3.9 This risk/reward approach rewards 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.
- 3.10 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."
- 3.11 The Partnership Contract 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**

- 3.12 Due to planned efficiencies in Corporate Services, it is expected that the overall numbers employed for the "core client" (SDDC) will reduce over the life of the Contract.
- 3.13 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 will also present redeployment opportunities for transferred staff.

### **Performance Framework**

- 3.14 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.
- 3.15 A default regime is in place which penalises 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 the transformational work (as detailed earlier).
- 3.16 This is a key element of the Partnership, alongside the Council's support to NPS to deliver a regional business centre in the district to help develop the business, whilst providing benefits for the local economy.

### **Management and Governance Arrangements**

- 3.17 The Head of 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. This Unit is also responsible for services such as fraud prevention, data protection and for co-ordinating freedom of information requests.

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

### **Performance for the Period 1<sup>st</sup> August 2010 to-date**

- 3.19 The contract was awarded to NPS on 29<sup>th</sup> April 2010. Following a successful transition and transfer of services, NPS commenced in earnest on 1st August 2010.
- 3.20 It is considered that the introduction of NPS, the concept of a Partnership approach as opposed to a pure out-sourcing contract, has provided challenges to the culture of both organisations. This was recognised in an independent review following the first 6 months.
- 3.21 However, this is becoming much less of an issue as lessons are learnt on both sides and both organisations have worked together in partnership to positively develop the relationship.
- 3.22 Generally during the first year, performance has been good with most KPIs being met and in some key areas exceeded. In particular extended targets in customer services and benefits processing have been met, with the Customer Services Team winning a local business award in October 2011. The overall Partnership was recognised in the Government Business Awards in January 2011.
- 3.23 However, there have been problems in meeting some targets, in particular on Finance Services regarding the provision of monthly information and the final accounts process. Following concerns raised by the Council, NPS took very positive action to remedy the situation and all but one KPI was put back on track very quickly.
- 3.24 Some of the issues stemmed from the implementation of a new system which caused a temporary dip in performance. In addition, the Council's capital accounting module of the Asset Management Database caused some problems in the closedown process.
- 3.25 However, the real issue was the failure to produce timely and compliant accounts in accordance with the statutory deadline. This was documented in the External Auditor's report which was reported to the Committee on 12<sup>th</sup> October.
- 3.26 The Council has therefore taken formal action in accordance with the Contract and the Default Mechanism in relation to these issues and a formal notice has been raised. As previously reported, the Council will be transferring back under its direct control the day to day service provision of Finance Services.

3.27 The process to achieve this has now commenced and an update will be reported to the Committee later in the year. In the meantime, NPS continue to provide the service and have responded very positively to the situation, in particular by employing extra resources to improve service provision.

### **Payroll**

3.28 The processing of actual payroll services off-site has also caused some issues during the year. Again the Council has taken more formal action. In response, NPS have taken reasonable steps to-date to remedy the situation to improve performance.

3.29 Again, this is a new way of working and although off-site processing is still continuing, additional administrative and management resource is being employed locally by NPS. This is being kept under review.

### **New Systems**

3.30 A key factor in appointing NPS was the investment in IT. Over the first 12 months, NPS have invested in technology as planned. The driver for this was to give service managers more opportunity for "self service" together with increasing efficiency, better information and to reduce manual processes.

3.31 The impact of new IT and subsequent changes to systems and procedures has also presented challenges across the Council. These systems are bringing about fairly significant change in the way that the council operates some of its back office functions such as streamlining the procurement process and in the payroll function. This is also strengthening control and reducing manual intervention.

3.32 These systems are beginning to bed in; after some initial issues NPS have invested heavily in communication and training across the organisation to support implementation.

### **Regional Business Centre**

3.33 Some services have been brought into the Centre during the 1<sup>st</sup> year. These relate to NPS's Document Management Service being transferred to South Derbyshire; this is currently being expanded.

3.34 In addition, a contract for the processing of revenues and benefits for South Buckinghamshire District Council commenced on 1<sup>st</sup> November 2011. Other work is anticipated in the coming months.

3.35 Combined, these services have **created 23 new jobs to-date**, which have provided redeployment opportunities and also local recruitment, including an apprenticeship programme in partnership with Burton and South Derbyshire College.

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

## Numbers employed: SDDC Core Client and Regional Hub

Service Area	Start of Partnership	Employed as at 31 <sup>st</sup> October 2011	Posts Being Recruited
Finance	13	10	1
ICT	10	8	0
Customer Services	21	16	0
Revenues and Benefits	20	19	1
Policy, Communications, Print/Design	7	8	0
HR and Payroll	7	8	0
Procurement and Business Improvement	6	3	0
Leadership	0	1	1
Regional Business Centre	0	15	6
<b>TOTAL</b>	<b>84</b>	<b>88</b>	<b>9</b>

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

### Savings Achieved to-date

3.37 Besides the initial contract savings, the Partnership has achieved the following cashable savings in the first year.

#### Savings in Accordance with the Risk/Reward Mechanism (figures in £'s)

Area	SDDC (Year 1)	NPS (one-off share)	Innovation Fund (one-off contribution)	SDDC – Ongoing (per year)
Income Collection	£42,000	0	0	0
Procurement	0	0	0	0
Transformation – Service Reviews				
• Environmental Health (Jan 2011)	£20,997	£20,997	£10,489	£52,443
• Private Sector Housing (Sept 2011)	£34,963	£34,963	£17,482	£87,408

3.38 NPS have raised concerns with the Council regarding slippage in delivering some of the key projects which have been slower than anticipated despite the investment of specialist transformation resources. Consequently, this has been escalated by NPS and some re-profiling of the initial plan has been agreed.

3.39 NPS are identifying numerous opportunities for efficiency savings which is a key part of their remit. As they are involved in supporting services on an on-

going basis at a more detailed level in efficiency reviews (rather than it being a “one-off” consultancy exercise) this also impacting upon the culture of the organisation.

### **Income Collection**

3.40 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. Performance in 2010/11 is summarised in the following table.

<b>Performance Indicator</b>	<b>Target</b>	<b>Actual</b>	<b>Met</b>
Council Tax – in-year collection	97.3%	97.8%	Yes
Council Tax – arrears collection	26.7%	22.7%	No
Overpaid Housing Benefit recovered	34.2%	31.9%	No
Sundry Debtor income collected	82.6%	90.4%	Yes

3.41 Two of the targets were met and performance on the other two fell below target. It should be noted that NPS only took on responsibility for these indicators mid-way through the 2010/11 financial year. The targets were based on council performance in the year prior to NPS assuming responsibility.

3.42 In aggregate, the performance on sundry debtors in particular, 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**

3.43 Some minor savings were achieved during the year. However, the first year was used to lay the foundations from which to generate future savings. This included an analysis of aggregating spending across the Council together with bringing more expenditure onto a contract basis.

3.44 This is monitored through the Business Improvement Board. A separate report elsewhere on this Agenda provides further detail.

### **Transformation – Service Reviews**

3.45 Gross savings achieved to-date total £139,851 towards the gross target of £355,000, the net position (against the guarantee) totalling £55,960 against the target of £142,000.

3.46 Reviews have recently been completed in Environmental Services and this is being implemented. A review of Housing was completed in January 2011 which identified several opportunities for efficiency savings of up to £1/2m per year.

3.47 Some of these savings were already in place, but many others still remain. A review has recently commenced in Legal and Democratic Services. Future reviews are planned to take place across Planning and Leisure.

## **Governance**

3.48 Two independent reviews were undertaken during the year on the governance structure, including the contract and partnership agreement. Firstly, a post implementation review was undertaken in accordance with best practice. The main conclusion was the “culture” issue as highlighted earlier in the report.

3.49 Secondly, a more detailed internal review was undertaken. This concluded that the governance and monitoring structure was sound and no real weaknesses were identified.

## **4.0 Detail**

4.1 A review of performance against each of the business case principles is detailed in **Appendix 1**. Performance against each of the KPIs is detailed in **Appendix 2**.

4.2 Each of the service streams are now working on a service improvement plan for 2011/12. This has been agreed through the Operations Board and will be monitored in addition to the on-going KPIs.

## **5.0 Financial Implications**

5.1 As detailed in the report.

## **6.0 Corporate Implications**

6.1 Where applicable, as detailed in the report.

## **7.0 Community Implications**

7.1 None directly.