

CABINET – 16 JULY 2013

Oxfordshire Customer Services – Externalisation of Back-Office and Support Functions

Director of Environment and Economy

1. Introduction

- 1.1. This paper is concerned primarily with proposals for the externalisation of back-office support services currently delivered from Oxfordshire Customer Services (OCS).
- 1.2. Since October 2012, work has been underway to develop a strategic direction for the future of back-office services and school related services generally. In summary:
 - Scope for consideration is the whole of OCS
 - The primary driver is that back-office services and school support services are not the Council's core business
 - The default position is that services should no longer be provided directly by the County Council unless there is strategic value to retain
 - We need to ensure that schools and academies continue to have access to the services they need and where possible, these services should be based locally.
 - Customer Service Centre (CSC) needs to remain in-house because of the need to retain strategic control and oversight.
- 1.3. In June 2013, these proposals have taken on added significance because:
 - The current business strategy anticipates savings for OCS that from 2015/16 onwards are now considered to be undeliverable
 - The Comprehensive Spending Review requires further savings – potentially up to 10% of current spend – which is not achievable with the current OCS delivery model.
- 1.4. All services in scope have been subject to internal review. Arrangements undertaken by other Local Authorities have been reviewed. Work has been undertaken to confirm the actual cost of services and the risks and challenges ahead.

- 1.5. Similarly, work is proceeding to identify the basis for services continuing as now or not. Where services are non-statutory, consideration will now be given to which whole or part services could cease.
- 1.6. On the basis that services will be externalised, the review has also given consideration to possible delivery models.
- 1.7. A soft market test is currently running to test the options for externalisation including whether a Joint Venture for school services is appropriate and viable. The soft market test will include national and local i.e. Oxfordshire based providers. This exercise will provide further information to optimise the approach to the market i.e. single contract with two lots or multiple contracts, and the likely scale of financial return to the Council. The results of the soft market testing will not be available until late-July at the earliest.

2. Staff Engagement

- 2.1. All OCS staff have been briefed regularly on the progress of this work programme and on the Council's direction of travel as a commissioning organisation. All staff have been encouraged to contribute at team level to service reviews. Unison has also remained fully briefed on the conduct and progress of the work programme.
- 2.2. Staff are aware of the soft market test underway in July and are being briefed on this Cabinet report and its recommendations.

3. Services to be retained in-house & transferred back to Corporate Finance and Corporate HR

- 3.1. Several services have been excluded from consideration for one or more of the following reasons:
 - There are reasons of strategy and control for the service to be maintained and delivered by the Council
 - The future provision of this service is being determined by reason of other events and developments
- 3.2. Services to be retained in-house are:
 - HR Management & Advice
 - Health & Safety
 - Workforce Data Management
 - ICT (Various)
 - Financial Assurance & Reporting
 - Banking (Part)
 - Insurance (Part)
- 3.3. These services are in scope but further re-shaping is required prior to any recommendations— see Appendix 2

- Financial Assessments
- Money Management
- Learning and Skills

4. Back Office Support Services included for Externalisation

- 4.1. For OCS, services with annual budget of £17.3 Million and 325 FTE Establishment are in scope.

OCS Services include:

- Education Support Services (HR, Finance & ICT)
- Staff Care
- Pay, Employment Information
- HR Resourcing
- HR Vetting & DBS
- Workforce Initiatives
- Insurance (Part)
- Pensions Investment & Pensions Administration (See Annex 1)
- Banking (Part)
- Payments Team & NEF
- Occupational Health
- Accounts Payable
- Control and Enquiries
- Income
- Payroll Control
- Central Buying Team
- ICT Project Management
- ICT Desktop build and provision
- Network & Server build and provision

5. Business Strategy & Medium Term Financial Plan (MTFP)

- 5.1. The current MTFP profile for OCS (excluding CSC) is set out below. There is a high degree of confidence in achieving the savings set out for 2013/14 and 2014/15. From 2015/16 onwards there is significant risk. For HR and Finance related services at that point a further £0.445 Million savings from staff reductions are anticipated. These savings are not credible or sustainable without wholesale reorganisation of the functions and significant process streamlining.
- 5.2. Self-service changes that are implementing in 2013/14 will not provide sufficient dividends beyond 2014/15. Neither do we have the scale of operation alone going forward to justify the level of investment required to secure the necessary innovation and skill retention in-house. For school facing services (ESS), the trading account is expected to balance for 2013/14. Beyond April 2014, there is a significant risk that individual

services (Finance and ICT in particular) will fail to secure sufficient buy-in to remain viable.

5.3. Medium Term Financial Plan Savings – OCS Summary

Summaries

	2013/14	2014/15	2015/16	2016/17	TOTAL
OCS Management	-153	-499	-445	0	-1,097
OCS Finance	-10	-160	0	0	-170
ICT	-527	-738	-1,340	-200	-2,805
Procurement	0	-30	0	0	-30
HR (incl Skills & Learning)	-188	-188	0	0	-376
Education Support Services	-250	-250	0	0	-500
	-1,128	-1,865	-1,785	-200	-4,978

Information collected to date suggests that externalisation on the scale anticipated for OCS alone, will likely lead to savings of approx. £2 Million per annum from FY 2015/16. However, until soft market testing is completed it is not possible to provide a clear view on potential savings for OCS.

6. Implications of the June Spending Review Announcement

- 6.1. It is now apparent that the Government Spending Review will present all Councils, including Oxfordshire with stark choices. In broad terms, the Council will need to reduce spending further by 2017/18.
- 6.2. Given this position, the savings that could result from externalisation of back-office and school-facing services are potentially more important than otherwise would be the case. Savings that can be delivered in this area may mean avoiding reductions in direct frontline services.
- 6.3. At the same time, we will need to further reconsider the scope of activity tendered following soft market testing with a view to any specification being pared back to the bare minimum as opposed to “nice to haves”. The same consideration will need to be applied to services that continue in-house for reason of control and strategic necessity.

7. Timing Considerations

- 7.1. To date, it has been anticipated that following Cabinet decision in July 2013, externalisation would proceed with a view to completion for September 2015.
- 7.2. However, there are now growing concerns that the integrity of services could be at risk if actions are not taken quickly:
 - Key post-holders have left in a number of services and are difficult to replace

- Some traded services to schools are already at risk
 - Financial services to schools and academies require investment and significant change to remain viable
 - Specific skills are increasingly difficult to recruit in some areas
 - Staff are keen to know where they stand; uncertainty is unsettling
 - Clarity on office accommodation requirements for staff is increasingly important to the MTFP
 - The trading offer to schools from April 2014, will be difficult to promote and to deliver unless we can demonstrate a more robust strategic direction
- 7.3. For these reasons, it is strongly recommended that decisions are made quickly and a procurement exercise commences in September 2013 with the goal of completing service changes for April 2015 at the latest.
- 7.4. Consultation with stakeholders and staff should take place at the appropriate times.
- 7.5. For Occupational Health, where it is recommended that we outsource the activity, it is proposed to commence a procurement exercise immediately after the decision by Cabinet. This is because a proportion of the service is already contracted out until August 2013 (exemption being sought to extend until 31.12.13 to ensure continuity of service to the Council) we would wish to have a new contract in place for the whole of the service from the 1st January 2013.
- 7.6. £0.750 Million has already been agreed in 2013/14 and 2014/15 within OCS to support the externalisation programme and procurement, with an accurate forecast to be completed depending on the agreed approach to market.

8. RECOMMENDATIONS

The Cabinet is RECOMMENDED to agree the following

- 8.1. Updated service specifications alongside externalisation proposals and actions should form the basis for updating and delivering the Business Strategy as regards OCS and should therefore be at the heart of service and resource planning from now onwards.
- 8.2. All service specifications should be reviewed as to the business case for continuing wholly or in part from April 2014.
- 8.3. Subject to any amendments following soft market testing results, services listed in section 3 should continue to be delivered in-house
- 8.4. Subject to any amendments following the soft market testing results, HR, Financial and ICT back-office services listed in section 4 should be in scope for externalisation.

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- 8.5. Subject to soft market testing results, externalisation proposals should be prepared in September 2013 for Cabinet decision on outsourcing and/or joint venture with a view to procuring and implementing the solutions necessary by 31st March 2015
- 8.6. As recommended in Annex 1, to agree to the further exploratory work needed to develop a full business case for the future merger of the Buckinghamshire, Oxfordshire and Berkshire LGPS Funds, including detailed discussions with the Department of Communities and Local Government

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Annex 1

Future Arrangements for Management of Pension Services

1. The Independent Public Services Pension Commission chaired by Lord Hutton looked at a number of issues around the long term sustainability of the public sector pension schemes. In its final report published in March 2011 it encouraged further work to look at improving the efficiency and cost effectiveness of the current arrangements through greater sharing and collaboration. In light of this, the Chief Financial Officers, with the agreement of key political leaders asked the head of pensions at Buckinghamshire, Oxfordshire and Berkshire to undertake a review of the future management arrangements for the LGPS in the Thames Valley.
2. The report from the three Head of Pensions was presented to the Informal meeting of the Pension Fund Committee on 14 June 2013. This annex highlights the key elements of that report, and the comments from the Pension Fund Committee. The report is also due to be discussed by the Pension Fund Committee and Cabinet at Buckinghamshire and Windsor & Maidenhead (who administer the Berkshire Pension Fund).
3. The report looked at a number of options for further sharing and collaboration. These ranged from extending joint working and the sharing of limited resources, to a full shared services model administering three separate funds, to the merger of the three funds into a new single Pension Fund for the Thames Valley. It is the view of the Officers that to deliver savings of the level necessary to justify initial investment costs, the most efficient and effective option to pursue further is the option for the merger to form a single new Fund. Such an option could see financial benefits in the region of £2.5m a year across the 3 funds through reduced costs and improved investment performance.
4. Such an option would entail significant further work and would require statutory change to establish the new Authority. However it is clear from recent statements from Government that this is also an option they wish to consider further. Indeed since this report was initially considered at the Pension Committee, the Government have issued a call for evidence aimed at reducing the costs of the LGPS by increasing fund co-operation (including mergers), transparency and accountability to taxpayers. Getting in at this early stage would have the benefit of helping to shape future policy (rather than having to react to any policy potentially imposed at a future date), as well raising the potential of Government funding for some of the next stage costs.

5. If the proposal is supported by the Cabinet, and the Cabinets at Buckinghamshire (15 July 2013) and Windsor and Maidenhead (25 July 2013), then next steps would be to make formal contact with the Department for Communities and Local Government and set out the necessary steps to deliver on such a proposal. At this stage it should be noted that the recommendation is to further explore the option of a full merger. Any decision to proceed with a merger would need to be based on a fully detailed business case. At this stage it is expected that such a business case would not be available until Spring 2014 when a further report would be brought to the respective Pension Fund Committees and Cabinets.
6. The Pension Fund Committee were broadly in favour of further exploring the Merger option, subject to the costs of the next steps. They would wish for Government funding for the project to be further explored, as much of the work required in terms of developing the Statutory Instrument required to support a Merger would then act as a template for further mergers across the country.
7. The Pension Fund Committee are keen to ensure any business case shows clearly how the proposals will be to the benefit of the scheme members (in line with their key statutory duty) as well as saving costs to the Councils and other employers within the Scheme. (On this point it should be noted that under the cost management arrangements currently being discussed for the new scheme from April 2014, improving cost effectiveness may directly relate to the benefit package available to ensure costs do not rise above the cap set by Government.
8. The Pension Fund Committee were also keen to explore how the governance arrangements would work under a merger proposal to ensure appropriate representation of the key employers.
9. Finally the Committee were keen to understand whether the option to retain three separate funds but operate a series of procurement frameworks for Fund Management would deliver a similar level of savings. Officers had initially come to the view that given the flexibility for each fund to make its own decisions on asset allocation and timing of appointments, such a model would not deliver the full economies of scale expected from Merger.
10. The Pension Fund Committee therefore asked to be fully involved in the process going forward, subject to the decision of the three Cabinets to support the further exploration of the Merger Option.

Recommendation

11. **The Cabinet are RECOMMENDED to agree to the further exploratory work needed to develop a full business case for the future merger of the Buckinghamshire, Oxfordshire and Berkshire LGPS Funds, including**

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detailed discussions with the Department of Communities and Local Government.

Appendix 1

Soft Market Testing

In helping to define the future of a service and in identifying and considering the options available, a soft market testing with service providers active in the market place will be completed. This will take place in July with results expected late July at the earliest. It was not possible to conduct a soft market test prior to the local elections.

This will be a joint exercise engaging senior staff from OCS and CEF.

Soft market testing is the process of seeking the input from the market as to what might be the most attractive way of scoping and packaging a service. It provides the opportunity of gaining an understanding as to how service providers in the market might approach the delivery of a service, and how they might address particular local circumstances of key issues that are likely to impact on the delivery of the service in future. Importantly, it helps give an early insight into the likely level of interest there is from the market in delivering a service.

The information sought will include: scope of services, level of interest, costs / savings potential, payment mechanisms, risk sharing and mitigation, potential contractual arrangements and issues relating to timing of the exercise.

A soft market testing pack will provide information about the market for the Council, the services under consideration, the basic proposals and the scope of the exercise. The pack outlines what it is that is being sought from the market and how the market should respond. It should also be noted that a soft market test does not include or preclude any organisation from participating in any subsequent procurement that may follow. It is permissible to simply approach named suppliers which in this instance is the approach being taken in order to gain market feedback in the shortest possible timeframe. Consultation with national and local suppliers will be undertaken with care being taken to ensure that the process is fair and auditable.

As part of this exercise, existing Joint Venture opportunities established by other Councils for school support services will also be explored.

Appendix 2

(a) Services that will externalise separately and on different timelines

Pensions Investment & Pensions Administration (**See Annex 1**)

Occupational Health

Staff Care

Oxfordshire Skills & Learning

(b) OCS Services to Remain In-House until further development work has been completed

Money Management

The team supports vulnerable adults through managing their financial affairs through either an Appointeeship or Deputyship. They safeguard the finances of these vulnerable people and protect them from financial abuse. The team ensure the security of the client's capital & income whilst providing them with the access to resources that maintain their living standards, and if possible enhance the quality of life of the client.

This service is currently the subject to review and considerable reshaping is anticipated with some delivery being externalised. A residual service will transfer to S&CS in April 2014..

Financial Assessments

The purpose of this team is to financially assess a client's ability to pay towards the cost of their social care, in-line with legislation. The team provides Residential and Fairer Charging Assessments in support of SCS. The team also makes payments on behalf of the NHS Oxfordshire & Oxford Health NHS Foundation Trust for clients receiving nursing care in registered care homes.

As with Money Management this service is currently under review and therefore the future delivery model is currently uncertain. Considerable reshaping for this area is underway alongside changes in SCS and elsewhere. Consequently, line management for a reduced and reshaped team is expected to transfer to S&CS from 1st April 2014.

(c) OCS Services to Remain In-House at This Time

HR Management & Advice

HR MAT supports the council is achieving its objectives through providing professional advice and support to its managers on a wide range of HR situations and uses relating to the management of the Council's workforce. The team works

with managers to ensure that relevant policies are applied in the correct way and that the council meets its legal and statutory duties. The team also work closely with partnering organisations to ensure they carry out the council's statutory obligations in relation to HR legislation.

This team is essential in ensuring that council HR policies and procedures are carried out appropriately across the organisation, retaining this function in-house increases the control that the council has in ensuring that its legal and statutory obligations are carried out appropriately.

Health & Safety

The primary function of the Health and Safety Service is to provide the Council with competent advice and guidance in meeting its management duties and responsibilities in accordance with Health & Safety legislation. The team also lead on serious or complex accident/incident investigations.

The Health and Safety Service is strategic and spends all of its time in assisting the Council to meet its statutory and regulatory duties and responsibilities under health and safety legislation.

Workforce Data Management

The Workforce Data Management Team control and maintain the organisation management information in the council's HR & Payroll system SAP. This data is the background information which helps drive the payroll system, Self Service tools and other widely used systems. The team reports on this data regularly and work closely with managers across the council to ensure data held is up-to-date.

The use of organisation management information is crucial to the efficient running of a number of high profile systems across the council, and it is anticipated that this data will be used in an increasing number of way to drive systems in the future. Therefore it is imperative that the integrity of this data is of the highest order, which will be best achieved by keeping this work close to the corporate centre.

ICT (Various)

There are certain characteristics shared by areas that should be retained in house. These relate primarily to flexibility, control and cost. They include areas that:

- Are key in shaping business and / or technology strategy
- Require management control and the flexibility to adapt to changing business needs quickly and economically

- Enable more rapid implementation of business change based on local business and technical knowledge.

It is therefore proposed that the following aspects are retained in-house:

- Strategic and management control
- ICT Service Desk
- Local Business Knowledge and support of Business Applications

Financial Assurance & Reporting

This service acts as guardian of the County Council's financial information, providing quality assurance for forecasts, budgets & financial information. It ensures that the Council meets its Section 151 responsibilities regarding the management of financial information, and provide reassurance that this is the case to the Council's Chief Finance Officer. The service also provides activity, unit cost & forecasting information where there are large volumes of transactions each month, or where the information is held on a system other than SAP.

The work of this service is integral to the efficient and accurate forecasting and budgeting processes and should continue to be delivered by the Council.

Banking (Part)

The Banking Team carry out & support all aspects of the Banking service in the control, reconciliation and updating of items on the Council's Corporate Bank Accounts to the Financial Ledger, and to contribute to the financial control of Oxfordshire County Council.

The on-going close relationship between the council and its banking provider is seen as an important aspect of the council's Finance function and therefore this part of the service should be retained in-house.

Insurance (Part)

The Insurance Team is responsible for ensuring that Oxfordshire County Council's assets & liability risks are sufficiently protected by insurance or appropriate alternative methods.

While there are elements of the work which could be successfully carried out as part of a commissioning exercise, the role of the Insurance Manager is a strategic position and should be retained in-house. This positions covers work such as advising the council on its insurance requirements, reviewing insurance policy requirements to

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determine if increased coverage is required in any areas, or if there are any new areas that require insurance cover, reporting on trend identification and analysis.

Appendix 3 - Services included for Externalisation

Education Support Services (back office HR, Finance & ICT services for schools)

The Services within ESS are:

- Pay and employee Information
- Schools Finance
- Schools Health& Safety
- Schools HR
- Schools ICT Support and
- Education Support Service (Business Unit)

These services provide support services to Schools and Academies across Oxfordshire, these are traded services.

Staff Care

The aim of the service is to keep staff at work, help staff to deal with personal and work issues and reduce sickness levels. This is achieved by helping managers deal with difficult or complex staff situations providing advice, guidance and support, to enable the manager to support the staff member and keep them at work. The team also provide a reference point for staff who may want to “blow the whistle”, and through the Service’s link with the Tier 3 Service Managers enables issues of organisational concern to be escalated to the highest levels within the County Council avoiding reputational damage.

Pay, Employment Information (PEI)

The PEI Directorate Team pays OCC employees correctly and on time, ensuring the appropriate deductions have been made. The team carries out the administration of the employee life cycle transactions through the SAP system and other related systems and maintains all payroll and employment records for Oxfordshire County Council.

The PEI Control Team ensures that Oxfordshire County Council meets its statutory obligations in respect of statutory payments and deductions, builds posts and maintains structures on SAP for Schools and Academies. The team also works to minimise the risk of fraud by ensuring that there are clear controls and separation of duties in place as defined in the Local Government Fraud Strategy.

HR Resourcing

The Resourcing Team manages and administers the recruitment process for all vacancies in Oxfordshire County Council (excluding Tier 3 and above), including the Fire & Rescue Service, Schools and Academies.

HR Vetting & DBS

The purpose of this team is to carry out and manage Disclosure and Barring Service Bureau checks on applicants and staff for Oxfordshire County Council and external organisations in order to comply with OCC's safer recruitment practices. It advises on disclosure and barring legislation, application processes and procedures, and the roles that are eligible for employee vetting and level of check required.

Workforce Initiatives

This team works to support and co-ordinate the HR workforce initiatives projects which support the County Council's strategic future workforce needs, particularly where the council's role as an employer can support these objectives through working in partnership with the County Council Directorates.

Insurance (Part)

The Insurance Team is responsible for ensuring that Oxfordshire County Council's assets & liability risks are sufficiently protected by insurance or appropriate alternative methods. The transactional elements of Insurance such as investigating and processing of claims, query resolution and support for managers and witnesses are suitable for commissioning.

Investment & Pensions Administration

The Pensions Administration Team acts as the Administering Authority of the Local Government Pension Scheme on behalf of Oxfordshire County Council. It also administers the Fire Service Pension Scheme and makes discretionary payments to Teachers and Crombie pensioners.

Banking: Procurement cards

The Banking Team contains an element of administration for the setting up and monitoring of Procurement Cards.

Payments Team & NEF

The Payments Team provides a specialised payment function to both service providers & individual clients, where existing payment methods, such as, e-procurement, are not currently suitable.

Occupational Health

The team undertakes health surveillance and manages all health issues regarding managers and staff of Oxfordshire County Council, enabling the Council to meet in part its statutory responsibilities under the Health & Safety At Work Act 1974; Management of Health & Safety At Work Regulations 1999; Control Of Substances Hazardous To Health Regulations 2002; and Workplace Health and Welfare Regulations 1992. Focus is on the prevention of ill health and on undertaking health promotion, medical assessments, risk assessments, and giving advice concerning wellbeing and lifestyle. This service is already partly commissioned and existing contracts are subject to renewal therefore it is proposed to outsource this service completely and discreetly for January 2014.

Accounts Payable

The Accounts Payable team aim is to process invoices accurately and on time, and be the first line contact for internal & external customers with regard to accounts payable. The team ensures the Council meets its statutory duty to pay suppliers of goods & services.

Processing & Control

The purpose of the team is to process transactions & input data on the SAP system, and act as the guardian of the SAP system. To act as first line support to Cost Centre Managers regarding finance related queries.

Income

The Income Teams purpose is to protect Oxfordshire County Council's funds, by ensuring that as much of the income owed to the Council is collected and as quickly as possible. The team provides expertise & support to directorates and other key customers on income collection and debt recovery.

Payroll Control

The Payroll Control team ensures & provides reassurance that there is effective financial administration of Oxfordshire County Council's payroll, as required under Section 151.

The team ensures that the Payroll System is legally compliant. and runs the payroll on SAP so that employees are paid and deductions are made on time.

Central Buying Team

This purpose of the team is to provide a procurement service which is legally compliant and extracts best value and to deliver added value to the “Procure to Pay” process.

ICT Project Management

The Project Management element of ICT supports changes within the Council through the delivery of ICT projects for the Business Owner across six programmes, so that the projects deliver the agreed objectives & outcomes that enable those changes. It is proposed that there is an increased focus on using external resource to manage projects where ICT leadership is a clear requirement..

ICT Desktop build and provision

This is work relating to the provision of Hardware, there are already elements of this work contracted out. The standardisation of the desktop and laptop and minimal break-fix now evident means that there is no real value in retaining this in-house.

Network & Server build and provision

This area is closely linked to the Council’s data centre which will be relocated in the course of 2013/14. Infrastructure provision and management in this area is increasingly considered a commodity resource and there is little continuing value to retaining this in-house. Outsourcing should provide more flexibility and lower cost.