

## **CABINET – 15 OCTOBER 2013**

### **EXTERNALISATION PROPOSALS FOR OCS & CEF SERVICES**

#### **Report by the Director for Environmental Services**

#### **INTRODUCTION**

1. Following the completion of soft market testing, this paper is intended to update Cabinet on the outcomes and to consider recommendations for the future direction of Oxfordshire Customer Services (OCS) and Children, Education and Families (CEF) services.

#### **BACKGROUND**

2. Proposals for the externalisation of a range of back office services provided by OCS plus the Schools and Learning Service and the Foundation Years Services provided by CEF were considered by Cabinet in July 2013.
3. There are serious concerns over the continuing viability of in-house back office services and support services for schools.
4. Cabinet has agreed that maintaining the status quo is no longer possible. Cabinet agreed that following Soft Market testing, updated proposals for the scope of externalisation, potential new delivery models and decisions on procurement should be brought to a future cabinet meeting – now scheduled for 15<sup>th</sup> October.
5. Soft market testing with a range of national providers and with a number of local providers has now been completed.

#### **KEY POINTS FROM PROVIDERS IN SOFT MARKET TESTING**

- 1.1 A timeline beginning in Autumn 2013 to deliver new delivery models for April 2015 is very feasible.
- 1.2 There will be market interest in all the service areas currently in scope.
- 1.3 With one exception, it is unlikely that providers will compete for all the service areas under consideration.
- 1.4 The most viable local interest appears to be in the Skills and Learning area.

## ESC9

- 1.5 Providers see Corporate Back-Office services as outsourcing opportunities and are highly unlikely to consider joint ventures. Joint Ventures for Corporate Back-Office services are a thing of the past.
- 1.6 Providers are more inclined to consider our current CEF Schools and Learning Service, Foundation Years Service and Skills and Learning for joint ventures.
- 1.7 Providers acknowledged that the Council has already reduced costs and taken a range of savings and that further savings will be required.
- 1.8 Providers were clear that without schools engaged as active participants and contributors in the areas that affect them, throughout the procurement process, future delivery models cannot succeed.
- 1.9 The Council needs to have a clear view of the Strategic client to be retained and the outputs and outcomes required of any service provider.
- 1.10 In broad terms, providers will deliver savings and efficiencies by end to end process re-engineering, introducing further automation, economies of scale and eliminating posts to reduce costs.
- 1.11 Providers expressed greatest confidence in delivering savings (up to 30% of current operational costs) if they were able to run Corporate back-office HR and Finance (including Procure to Pay) services.
- 1.12 Competitive Dialogue is likely lead to better outcomes than a restricted process.

### **Further Learning Points**

6. Whilst discussion took place with a range of national and local providers, further information has also been gathered.
7. More work has been completed internally to clearly identify and validate current running costs and overhead costs. Individual services have been subject to further review and analysis in terms of service specifications and key performance indicators.
8. Work has continued with other Councils to ascertain their experience of the procurement process, the scope of externalisation and their views on delivery models. It is clear that a large number of Councils are faced with the same issues as Oxfordshire and are taking similar journeys.

### **Further learning points have emerged as follows:**

- 1.13 The savings requirement for OCS (£3 Million from 2015/16) cannot be met if current service delivery models are maintained

## ESC9

- 1.14 The scope for savings from supplies and services is severely limited. To deliver savings on the scale required can only be found through a significant reduction in posts. Post reductions could be mitigated by TUPE to some degree but will still play a large part in business change driven by any external partner in any service delivery model.
- 1.15 Service commissioning in ICT will reach 50% of the current budget by the end of this financial year.
- 1.16 There is continuing concern over the suitability of SAP as a financial system for Primary schools in particular.
- 1.17 There is a lack of understanding about the mutual dependency of Corporate and School Back office HR and Finance services. They share common processes, the same central system and functional teams. Future consultation with schools needs to highlight this dependency.
- 1.18 Discussions with other County Councils have allowed us to examine 2 different models for continuing access to services schools need

### **Scope of Externalisation and Procurement**

9. In Soft Market testing, providers confirmed that services currently in scope were sensible and there would be market interest. Several were keen to see a greater range of services on the basis that greater volume and scale would create better opportunities for savings and for a commercial return.
10. However, for the Council, this view needs to be balanced against the need to ensure continuing control and accountability.
11. Internal discussion has now led to most of HR services now being in scope and for inclusion of commissioning as well as delivery for Skills and Learning..
12. Further reconfiguration of Schools and Learning may lead to inclusion of the Virtual School. There are different potential solutions for the Music Service.
13. The scope for externalisation by lot as follows:
  - OCS Corporate Back Office Services
  - OCS School Back Office Services
  - CEF Schools & Learning/Foundation Years (this **includes** out-county Outdoor Learning and **excludes** Hill End, Meadowbrook, the Hospital School and the Music Service)
  - Oxfordshire Learning & Skills
14. Note that an exercise is currently underway to externalise Occupational Health from 1<sup>st</sup> January 2014 and the Staff Care Service at a later point in 2014 (as previously reported due to current contracts expiring and staff changes).

15. Through soft market testing we have established that whilst there are advantages to a single provider, only one supplier we spoke with would have an interest in all the lots we might offer. Likewise, it is very unlikely that the Council would end up with a single delivery model.
16. It is most likely that the Council will arrive at a position where there is more than one provider and more than one delivery model.

## **Proposed Direction for Each Potential Lot**

### **OCS Corporate Back Office Services**

17. **ICT Business Delivery** is already subject to considerable change that is being managed internally and will lead to 50% of the service being fully commissioned by April 2014. There is no real advantage to the Council in having ICT considered alongside HR & Financial transactional services. It is proposed that the reshaping of ICT and extension of commissioning should continue as an internally managed programme.
18. **HR & Financial Services** provide very little opportunity for further improvement or additional savings using the current delivery model.. This is the most mature part of the market place for both the private and public sector and outsourcing in some form is the only real option. Our view is that the Council should seek a fully outsourced service from one of the national providers which could see cost reductions of between 20 and 30%.
19. **OCS School Back Office Services** could be linked in a procurement exercise with Corporate back office (5.1) or with Schools and Learning/Foundation Years services (5.3) but the £2.5M trading position will not be attractive in its own right.
20. Schools value HR services most and as with other school related services below, they are most unlikely to participate in an outsourced solution.

### **CEF Schools & Learning/Foundation Years**

21. Pure outsourcing is not the market preference and is also very unlikely to be supported by schools and settings locally. The most likely options are **either** a joint venture with a national provider **or** new public sector providers established by other Councils acting with local schools..
22. Engagement and discussion with local school organisations has started and market feedback and that of other Councils suggests that the active participation and commitment of schools will be essential to any option. There has not yet been any active participation of early years providers other than nursery schools. The externalisation of the Foundation Years Service is dependent on other strategic decisions due to the service being funded by a finite and reducing Dedicated Schools Grant.

### **CEF Music Service**

23. There are Trust options that can be considered:
  - As a trust where the service operates independently from the Local Authority.
  - Joining an existing trust arrangement.
24. **Oxfordshire Skills & Learning** is really a 2 part business where there is opportunity for continuing local delivery.
25. **Oxfordshire County Council skills and learning** requirements is already largely externally sourced and the few remaining areas of direct delivery should take the same route using local Oxfordshire providers where possible. Some skills/learning is currently delivered free of charge by in-house staff to social care providers in Oxfordshire and this needs to be reconsidered
26. **Community Learning and Workforce (former Adult Learning activity). This activity is, by and large, funded by the Skills Funding Agency and Education Funding Agency.** One choice would be to simply stop delivering these services, however taking that choice would deliver no real savings.. The other choice would be to construct a joint venture partnership and we know there is interest from national and local providers. The Joint Venture could also include the residual skills and learning activity for the Council. A Joint Venture would reduce the Council's risk and costs (from redundancies) and would be more likely to safeguard national funding (SFA/EFA) for Oxfordshire.
27. Whichever route is taken, there is an operational need to reduce the number of centres used for delivery in order to maintain service viability. This is still work in progress.

### **Maintaining a Strategic Client Function**

28. Soft market testing provided a number of examples where Councils have taken quite different approaches to the strategic client function, contract monitoring and provider accountability. The Council now has considerable experience to draw upon from joint commissioning in S&CS to a range of high profile contracts running elsewhere in the Council.
29. At this stage, our view is that where services are to be commissioned, the strategic client function to be retained for each service area has to be part of the planning process. Likewise, best practice here and elsewhere points to the need for a dedicated OCC staffed unit to monitor and manage and to ensure continuing value for money. This will need to be quantified and costed.

### **Financial and HR Implications**

30. Total current budget of services in scope is £25 Million, comprising £17 Million from OCS and £8 Million from CEF.

31. Approximately 526 FTE are in scope comprising 306 FTE in OCS and 196 FTE in CEF. Because of part-time working, this represents in excess of 600 staff.
32. £750,000 has already been agreed by council to support the Externalisation programme through to April 2015. Given the multiple strands to the programme, further costs may be incurred and a definitive position will be reported back to Cabinet in December 2013.
33. Soft market testing has confirmed that externalisation of the services in scope should yield annual seven figure savings but the final position will not be clear until a procurement process is complete. Key to this will be the service specifications that will be developed over the next 3 month period and whether services continue as now or are required to stop in whole or in part.
34. It is clear that from April 2015, there will be fewer posts in these services. Until the procurement process is complete, it is not possible to estimate how many of the 600+ staff in scope will transfer from the Council to employment by other providers. Equally, we cannot be clear at this stage, how many staff redundancies could result. We will seek to minimise redundancies but they are likely to occur.

## **RECOMMENDATIONS**

35. **The Cabinet is requested to endorse the following recommendations:**
  - (a) **a single major procurement exercise with multiple lots should be undertaken, commencing January 2014 to address the following requirements:**
    - (i) **a fully outsourced service to replace existing back office Corporate facing HR and Finance Back office services;**
    - (ii) **a joint venture with a national private provider OR another public sector provider to cover school back office, Schools and Learning and Foundation Years support from April 2015 –subject to (3) below;**
    - (iii) **skills and learning requirements should be sourced locally if possible but otherwise we should seek a joint venture with a national provider;**
  - (b) **ICT should continue as an in-house service with the expectation that work to re-shape ICT will continue and thereby, ultimately, the majority of the service requirements will be commissioned;**
  - (c) **final decisions about schools back office and CEF services should be taken in December after there has been an opportunity during the Autumn to shape proposals with Headteachers, Governors, Schools Forum and other stakeholders. Proposals should include arrangements for school representatives to participate directly in the major procurement exercise to begin in January 2014;**
  - (d) **trust options for the future of the Music Service should be considered in consultation with stakeholders during the Autumn**

**with a proposed direction of travel to be considered by Cabinet in December;**

- (e) The remaining in-house delivery to meet the Council's own skills/learning needs should cease and all future requirements should be commissioned as necessary;**
- (f) discussion should be opened now with local Oxfordshire providers first with a view to externalising qualification based learning and to determine the future of the remaining skills and learning provision.**

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October 2013

**Glossary**

**Outsourced** - the whole transfer of a business process to another provider, involving the transfer of staff and typically for a finite period of time

**Joint Venture** – 2 or more parties establish a new entity, jointly resourced and controlled to deliver agreed outcomes. Shared revenues, costs and risks.

## Annex A – Supportive Information

National provider meetings and their primary interest(s) in OCC services

Provider	Back Office	School Improvement	Skills & Learning
A	✓		
B	✓		
C	✓	✓	✓
D	✓	✓	
E	✓		
F	✓		
G	✓		
H		✓	
I		✓	✓
J		✓	

44 Oxfordshire Based SMEs were invited to the local event with the following finally attending:

Provider	Back Office	School Improvement	Skills & Learning
K	✓		
L	✓		
M	✓		
N)	✓		
O			✓
P			✓
Q		✓	

### New models of delivery to schools advanced by two Local Authorities

One Local Authority has a school based company where schools have shares in the company. The Board consists of mainly of schools with LAs reps. The services that are located in this are those that contribute to the School Improvement agenda, including Schools HR and Finance. There is a recognition of the broad range of statutory functions that exist for the LA and the delivery of this is commissioned from the school company.

The other Local Authority has established a user-led Trust. The LA is giving the trust a grant and in five years time the service will go out to the market. The services that are included in this Trust are about direct services to schools but do not include the back office services.



# Oxfordshire Skills and Learning

## Community Learning and Social Inclusion

Creative  
Healthy Living  
Modern Foreign Languages  
English and Maths  
GCSEs  
ESOL  
Family Learning  
**£3.425m**  
)

## Workforce

Apprenticeships  
Traineeships  
Vocational Qualifications  
NEETs  
IAG  
**£1.15m**  
)

## OCC Workforce Training Plan

Management Development  
Staff Development  
Career Coaching  
ICT  
Health and Safety  
Social Work / Care Development  
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