

From: Paul Carter, Leader of the Council

Covering the following Directorates:

John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement

Gary Cooke, Cabinet Member for Corporate and Democratic Service

Bryan Sweetland, Cabinet Member for Commercial and Traded Service

To: Policy and Resources Cabinet Committee – 1st July 2015

Subject: **Facing the Challenge — Back Office Procurement Project including the following services; HR, Finance, ICT, EduKent, Contact Point and Digital Communications**

Classification: **non-exempt**

Past Pathway of Paper: n/a

Future Pathway of Paper: Education Cabinet Committee

Electoral Division: All

Summary: This report builds on previous updates to the committee to provide a detailed account of the back office procurement process and documents the journey of the Customer Services (Contact Point and Digital Communications), Finance, HR, ICT and EduKent procurement project which is part of Phase 1 of Facing the Challenge (FtC).

Recommendation:

The Cabinet Committee is asked to note and endorse the progress to date and the next steps. Separate reports will be brought to the Policy and Resources Committee at the appropriate time in the procurement process.

1 Introduction

- 1.1 In September 2013, the County Council agreed that Customer Services, Finance, HR and ICT Divisions should be included in Phase 1 of the FtC Service Review and Market Engagement work stream together with Edukent.
- 1.2 Following this decision, the first four stages of the review process explained in section 2.4 of this report were completed. This then led to the decision by the County Council in May 2014 to move to a procurement for transactional services.
- 1.3 The *Facing the Challenge: Phase 1 Service Review and Market Engagement Outturn Report* agreed by the County Council in May 2014 noted that the preferred option for

the Finance, HR and ICT review was to move to an integrated service offer and explore opportunities to work with an external partner by assessing the market further through a procurement exercise.

- 1.4 The integration of the transactional functions was already planned by the three services involved and so this approach will be applied irrespective of whether it is provided in-house or externally. As such, the three services are being taken forward as a joint review with a shared preferred option. The outcomes of the procurement will be benchmarked against an integrated services cost comparator.
- 1.5 In the same paper, the preferred option for Customer Services (Contact Point and Digital Communications) and the EduKent Service was to include them in the same procurement exercise and as a result of this, the procurement project commenced in June 2014.
- 1.6 The primary objective of this exercise was to explore the market and identify a potential solution that can reduce costs, provide growth from selling services, maintaining or improving current standards where possible and maintaining and creating jobs in Kent.

2 Review background

- 2.1 KCC support services have to make a contribution to the significant financial challenges facing KCC and ensure overheads are reduced. There is also a need to model the services provided, whether in-house or through use of external providers, to be sufficiently flexible to respond effectively as the organisation changes and directly employed staff numbers are reduced.
- 2.2 As a result of the FtC decision and being mindful of the need to reduce the overheads and become more flexible, work has been continuing on the three key components fundamental to the market engagement and service review:
 - The procurement project, which is being managed by the FtC team.
 - The work on establishing the Business Service Centre which brings together transactional activities from these services into a single integrated unit. This work will deliver 2015/16 savings and the outcome will provide the internal integrated services cost comparator.
 - Ensuring that the three Divisions and the Customer Services function have clear and robust commissioning and client functions to enable effective management of the commissioned services, wherever they are delivered

2.3 Targeted Benefits

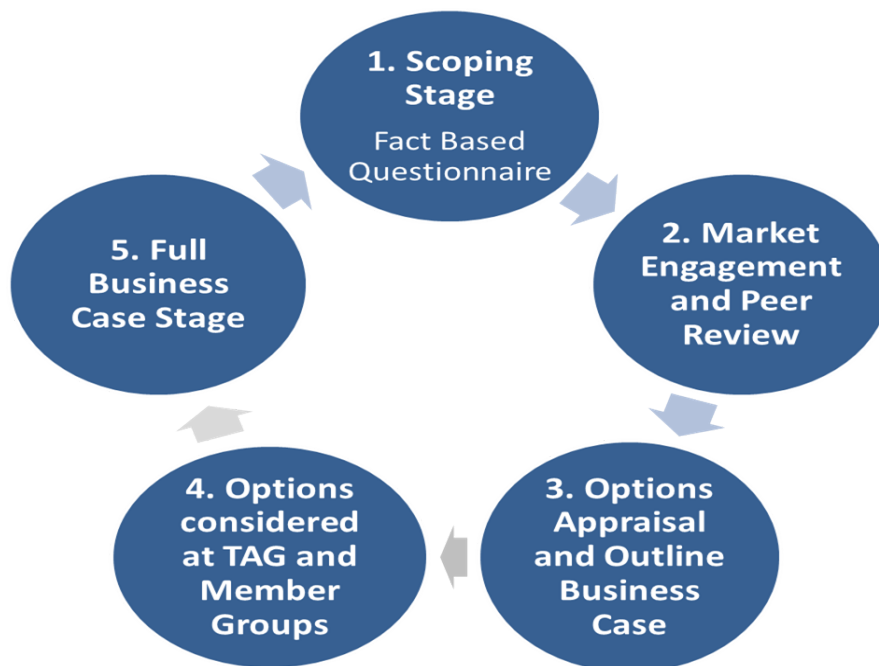
- 2.3.1 As part of the process, the following targeted benefits and desirable features will be considered against the proposed delivery model(s) and have also been captured within the evaluation of the tenders discussed later within this report. This is in line with the primary objectives of the review.

1. Reduction in cost
2. Growth and margin from selling services
3. Maintaining or improving standards
4. Creating jobs in Kent

2.4 The Process Explained (the detail)

2.4.1 The review process consists of five steps and is illustrated in the diagram below as has been explained in previous reports but repeated here for ease of reference.

2.4.2 **Stage 1** - Initially, each service was considered in isolation and a scoping



document was drafted for each that described the functions that were included in the review process and highlighted those that were not. This was agreed with the Service Leads and communicated to Officers and Members through various Groups.

2.4.3 **Stage 2** - A key part of the initial activity included talking to other Local Authorities, external providers and suppliers by submitting a Prior Information Notification (PIN) and also in depth desktop research looking at and assessing different models which, in turn, informed the detailed options appraisal and Outline Business Case.

2.4.4 As this stage progressed, greater opportunities and synergies were identified by considering the services in clusters. This was established through learning from the market engagement and the peer reviews and also from our external independent expert advisors as well as already agreed internal plans to integrate the transactional services into a business service centre. Following discussions with Officers and Members including Executive Cabinet Members Meeting, Transformation Cross Party Board and Transformation Advisory

Board, and also at Corporate Directors Meetings, it was accepted that the services would be considered in the following clusters.

Back Office Service Review	EduKent Service Review	Customer Services Service Review
HR	All services for schools provided through the EduKent window and others	Contact Point
ICT		Digital Communications
Finance		

*please note: not all of the functions in the services described in the table above are included in the procurement exercise.

2.4.5 Through the PIN Notification, over 100 organisations expressed an interest in working with KCC to explore opportunities to introduce different models to drive efficiencies and growth. From this, KCC invited providers in and tested their ideas, to gain a clear understanding of how feasible the business models were to achieve and to realise the tangible benefits that they identified.

2.4.6 During this stage we also engaged with over twenty local authorities and analysed their models to assess both good and bad practices from their experiences. This assisted us in understanding potential savings opportunities by introducing alternative service delivery models by introducing a commercial partner.

2.4.7 **Stage 3** - An Options Appraisal and Outline Business Case was then drafted, informed by the market engagement and peer review activity as well as advice from external experts. From this, we moved into **Stage 4** where the recommendation was presented to the Cabinet Members, Transformation Cross Party Board and Transformation Advisory Board as well as Policy and Resources Cabinet Committee and for decision in May 2014. The recommendation to continue with more detailed market engagement and to test further the option to seek a commercial partner to deliver the services with and on behalf of KCC was endorsed. This then led to the initiation of the procurement project.

2.4.8 **Stage 5** – The outcome of the procurement project is to create a full business case for the in-scope services, reflecting the evidence from the procurement exercise and making a recommendation for Members and Officers to consider. This will be written and provided in the form of a ‘recommendation report’ and will also include a s151 Officer value for money assessment. The drafting of this document will take place once the competitive dialogue process is completed and is due in September 2015. This process will inform the key decision.

2.5 In Scope Services and Lot Design

2.5.1 The services have been divided into specific ‘Lots’ for procurement consideration and are illustrated in the diagram overleaf. This structure was advised and established through the early market engagement exercise carried out within stage 2 described above.

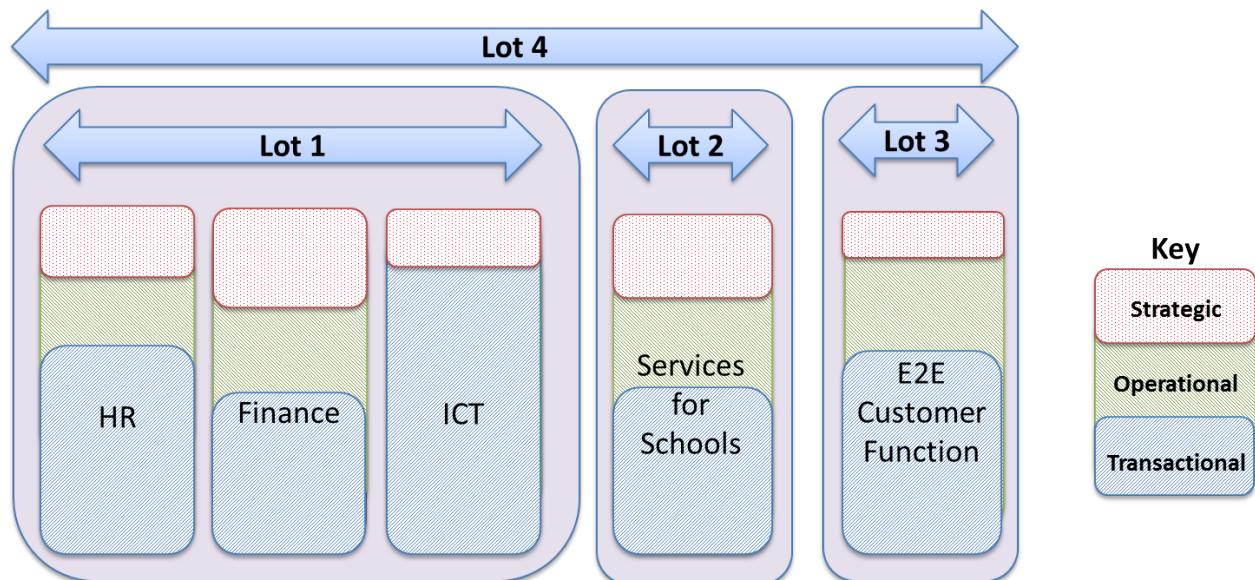


Diagram not to scale

Lot 1 = HR, ICT, FIN

Lot 2 = Services for Schools (EduKent)

Lot 3 = Customer Functions – Contact Point and Digital

Lot 4 = HR, ICT, FIN, Customer Functions, Services for Schools (EduKent)

2.5.2 A fourth lot was introduced following the providers assertions that there were greater scale synergies in combining Lots 1, 2 and 3, in order to test this theory.

2.5.3 An **OJEU Notice** was posted in June 2014 inviting suppliers to submit their interest in working with KCC and over sixty such expressions of interest were received. All interested providers were invited to attend a supplier day with twenty-nine actually attending to hear KCC outline its vision and expectations for the process moving forward.

2.5.4 The anticipated services in scope are:

2.5.4.1 End-to-end Customer Services

These services include the provision of direct contact and fulfilment with KCC. This lot is deliberately broad in scope to allow possible future partners/providers to use innovation to transform the entire customer experience.

2.5.4.2 Finance

Finance services include all of the transactional finance functions such as the payment of invoices, all aspects of income and debt, and the administration of the pension and insurance funds. There is the possibility of a further tranche of services following a further procurement exercise as an expansion to this contract, such as the support to budget managers. It does not include the KCC 's financial strategy work, nor its treasury management and investment activities.

2.5.4.3 Human Resources

Human Resources include the standard range of HR transactional services including staff and pensioners' payrolls, recruitment, learning and development and personnel administration. A further tranche of functions including HR advisory services and staff care services may be in scope as an optional service included in this contract whereas strategy and policy functions will remain in-house.

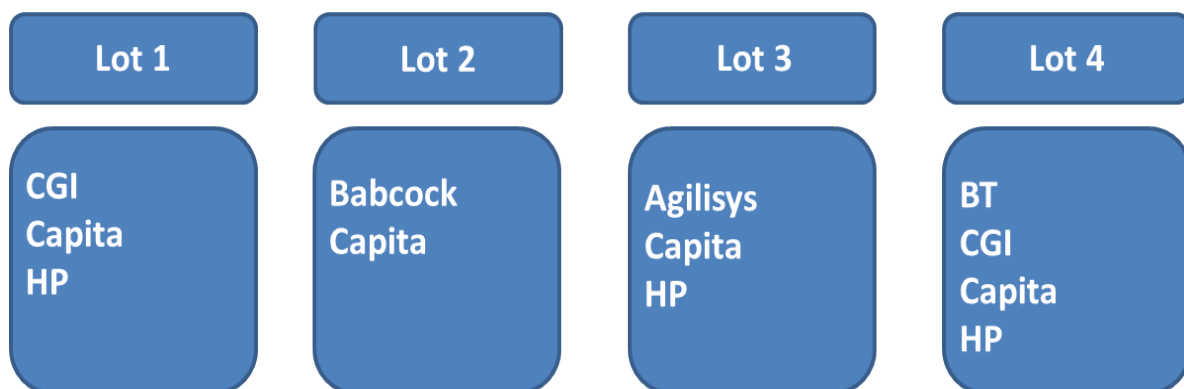
2.5.4.4 Information and Communication Technology

ICT includes the provision of ICT technical and professional support to the County Council as well as provision of voice and data services. ICT manages and supports the development of ICT services and applications across the Council. Out of scope will be strategic and policy functions.

2.5.4.5 Services for schools

Services for Schools includes a range of discretionary services that schools can purchase from KCC which support schools in their daily operations but do not include core curriculum content, policy or education strategy. This includes but is not limited to HR advice and support, Finance advice and support, ICT technical and professional and support, teacher and Governor Development, extra-curricular and enrichment services and additional student support.

2.5.5 KCC then received ten formal **Pre-Qualification Questionnaire (PQQ)** responses from organisations that all have a history of providing services to local government, within this industry. The PQQ stage evaluated bidders' financial standing and examined their track record in undertaking a contract of this nature. At this stage, the bidders were shortlisted to six, to go through to the Competitive Dialogue stage. These are shown in the illustration below.



2.5.6 Early in the Competitive Dialogue Process, four of the providers left the procurement due to commercially sensitive issues therefore the remaining providers are as follows:

- Lot 1 – CGI
- Lot 2 – there are no providers who have bid for this lot alone
- Lot 3 – Agilisys
- Lot 4 – CGI

3 Procurement Background

3.1 The procurement is being undertaken in accordance with the Public Contracts Regulations 2006 using the most suitable of the available procedures namely the Competitive Dialogue Procedure (CDP).

3.2 CDP is best able to accommodate the complexity of the procurement and enable a solution to be developed which best meets KCC's needs.

3.3 CDP is specifically designed for complex contracts where there is a need for contracting authorities to discuss all aspects of the proposed contract with Bidders. The main features of CDP are: dialogue is allowed with selected suppliers to identify and define solutions to meet needs and requirements of the contracting authority; the award is made only on the most economically advantageous tender criteria.

3.3.1 CDP has allowed KCC to debate potential solutions with the Bidders and to test their thinking further in terms of how they would deliver those services on behalf of KCC. During this process KCC has challenged the Bidders to provide outline solutions and discuss those solutions in light of KCC's current and future challenges. As a result, the service specifications have been amended, within the initial scope, to reflect these discussions.

3.3.2 The remaining Bidders will shortly be asked to produce a draft final submission, based on their initial submission and on what has been discussed and explored further during the dialogue sessions. This is called the Draft ISFT (Invitation to Submit Final Tender).

3.3.3 Once dialogue has closed; Bidders will then produce their **final tenders** which will be evaluated throughout August, in line with our internal procurement policies and procedures and also the Public Sector Procurement Regulations.

3.4 The procurement is viewed as a strategic procurement (high value, high risk) and therefore in arriving at a weighting for the evaluation criteria a split between Quality and Commercial Criteria of 40:60 was agreed in accordance with best practice principles.

3.5 This approach should ensure that KCC receives a tender that meets its short and long terms needs, the design of which can be seen in the table below.

Evaluation Criteria	Description and Weighting	Base Points	Range Score	Maximum points
Technical / Quality 40%	Technical & Service Delivery Proposals			
	Service design and planning (6%)	6	0-10	60
	Resourcing & transitional arrangements (8%)	8	0-10	80
	Structure & process (6%)	6	0-10	60
	Performance and compliance to standards (8%)	8	0-10	80
	Innovation & continuous improvement (6%)	6	0-10	60
	Customer & stakeholder Management (6%)	6	0-10	60
Commercial 60%	Financial (35 - 40%)			350 - 400
	Business Development & Vision (10 – 15%)			150 - 100
	Legal & Commercial (5%)	5	0-10	50
	Proposal Integrity (5%)	5	0-10	50
				1000

3.6 Approach Explained

3.6.1 Each sub criteria has allocated points (weighting) and will be scored and rated on a scale of 0 – 10 from unacceptable to excellent.

3.6.2 The ratings relate to consistency, clarity, quality and robustness of proposals and the likely performance in achieving the desired and required outcomes.

3.6.3 There are robust requirements to score at least satisfactory (4) against the criteria in each of the service areas. It is anticipated that this will have been facilitated through the CDP including the Draft Final Tender Submission from Bidders prior to the Final Tender.

3.7 The Value for Money Test

3.7.1 The design of the evaluation and award criteria enables the contract to be awarded on the basis of the most economically advantageous tender. When there is just one Bidder left in the competition, this assessment will be made by comparing the integrated services cost comparator with the tender submissions for Lots 1, 2, 3 and 4, where the assessment will compare the solution that delivers the best value for money. The sub process has been designed in consultation with external advisors and the s151 Officer.

3.7.2 The integrated services internal baseline that is being developed alongside the procurement activity will identify the actions necessary to achieve the savings target set out for each of the services, in the line with the Medium Term Financial Plan (MTFP) and will act as a 'plan b' option should the contract not be awarded.

4 Project Support and Partners - Assurance and Governance

- 4.1 The project is governed by a Commissioning Group which is made up of the Directors for each of the Services included in the process, the Director of Transformation and internal and external business advisors. This Group meet regularly and offers support and challenge to the process as well as allows for any key risks or issues to be escalated and where possible mitigated. It is responsible for making recommendations, based on the Programme Manager's report, to the Decision Group.
- 4.2 Richard Hallett has been appointed as the 'Senior Responsible Officer' (SRO) for the project and is taking a lead on ensuring that KCC get the best deal from the provider, should the contract be awarded. Richard is also the main contact for the bidders within the KCC team and is ensuring any decisions required are managed and escalated where required.
- 4.3 The project delivery team is headed by a Project Manager, with functional leads from each service working alongside external specialists, who offer direct support to the service leads, particularly with designing and creating the service specifications.
- 4.4 The FtC team have also engaged KPMG to offer additional advice and guidance required and, importantly, to validate the process, including the internal baseline comparator, as we move through each of the milestones.
- 4.5 There is also a nominated 'Service Lead' from within each of the services who have represented the individual services throughout the process who have assisted in the writing and specifying key contractual and process documents as well as offering expert advice and guidance in the dialogue sessions to help shape the contract as well as colleagues from our internal procurement and legal teams and other support services.

5 Member Engagements

- 5.1 As part of the journey towards the key decision, the Project Team (have and) will continue to engage and have scheduled to attend the following Committees/Groups:
 - Tuesday 16th June - Prospective bidders presented their solution to the Commissioning Advisory Board
 - Wednesday 1st July - Policy and Resources Cabinet Committee to receive a report on the procurement process to date
 - Wednesday 8th July - Education Cabinet Committee to receive a report on the procurement process to date
 - Tuesday 2nd September – present the details of the final tender and the recommendations paper to the Commissioning Advisory Board

- Thursday 10th September - present the details of the final tender and the recommendations paper to the Policy and Resources Committee
- Monday 21st September - Cabinet Meeting to take the key decisions on how to proceed

6 Next Steps

- 6.1 Competitive Dialogue will continue through August 2015 to refine the solution and iron out any issues or concerns with the Bidders' solutions. During this time, we are on schedule to receive a draft solution (ISFT) whereby at this stage, we will get full visibility of the price and the quality documentation that form the Bidders' draft response.
- 6.2 After discussions to refine the draft proposals are completed, KCC will receive a final proposal from the Bidders for KCC to then evaluate. At this stage, we will go into a period of 'lock down' whereby service leads, procurement and legal colleagues as well as a very robust Financial team will read, review, understand and score, using the criteria discussed above, the submitted proposals. Clarifications may be sought during this time.
- 6.3 Upon completion of this very intense period of evaluation, a recommendation report will be written that will also include a financial assessment report from the s151 Officer for Members to consider as part of the key decision process.
- 6.4 This paper will then be used to inform Members of this Committee and others of the output of the process as described throughout this report. It is then assumed that the key decision on how KCC wish to proceed will be taken by the Cabinet at the end of September.
- 6.5 Should the KCC decide to accept the Bidder's proposals, it is anticipated that the contract would commence in January 2016 with a period of mobilisation and transition from contract award in October 2015, to contract start . However, this timetable is dependent on the completion of the CDP.

7 Recommendation

Recommendation:

The Cabinet Committee is asked to note and endorse the progress to date and the next steps. Separate reports will be brought to the Policy and Resources Committee at the appropriate time in the procurement process.

8 Background Documents

Facing the Challenge: Phase 1 Service Review and Market Engagement
Outturn Report – County Council – 15 May 2014

Facing the Challenge - Customer Services, Finance, HR and ICT - To note a report that provides an update on the current progress of the Customer Services, Finance, HR and ICT service reviews being undertaken as part of Facing the Challenge - Policy and Resources Cabinet Committee
Friday, 19th September, 2014 10.00 am

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