

From: Paul Carter, Leader of the Council
John Burr, Transformation Director

To: Governance and Audit Committee – 23rd July 2015

Subject: **Facing the Challenge — Legal Services and 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: n/a

Electoral Division: All

Summary: This report aims to provide an update to the Governance and Audit Committee on the progress of the Legal Services and the Back Office Procurement Project to date and the next steps.

Recommendation:

The Committee is asked to note the progress to date and the next steps, for assurance. Separate reports will be taken to the Policy and Resources Committee at the appropriate time in the procurement process.

FOR ASSURANCE

1 Introduction

- 1.1 The Back Office and the Legal Services Procurement Project commenced in July 2014, following the decision from County Council to proceed to procurement as an output of the Phase 1, Facing the Challenge Market Engagement and Service Reviews.
- 1.2 The primary objective of the Market Engagement Reviews was to explore the market and identify a potential solution that can reduce costs, provide income from selling services across the Country, maintaining or improving current standards where possible and maintaining and creating jobs in Kent.

2 Back Office Procurement

- 2.1 As a result of the County Council decision and being mindful of the need to reduce the overheads and become more flexible, work has progressed under three key components arising from the market engagement and service reviews:
 - The procurement project, which is being managed by the FtC team that includes service leads from HR, Finance, ICT, EduKent, Contact Point and Digital Communications.
 - The work on establishing the Business Service Centre which brings together transactional activities from the HR, Finance and ICT Services into a single integrated unit. This work will deliver savings in 2015/16 and will provide the

basis of the 'Should Cost' model that is necessary for assessing Value for Money during the tender evaluation process.

- Ensuring that the three Divisions and the Customer Services and EduKent functions have clear and robust commissioning and client functions to enable effective management of the commissioned services, wherever they are delivered.

2.2 The integration of the transactional functions was already planned by the three services involved. As such, the three services are being taken forward to procurement as a joint review with a shared preferred option.

2.3 As the service review progressed, greater opportunities and synergies were identified by procuring 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, in alignment with already agreed internal plans to integrate the transactional services into a business service centre. These can be shown in the Lot structure below.

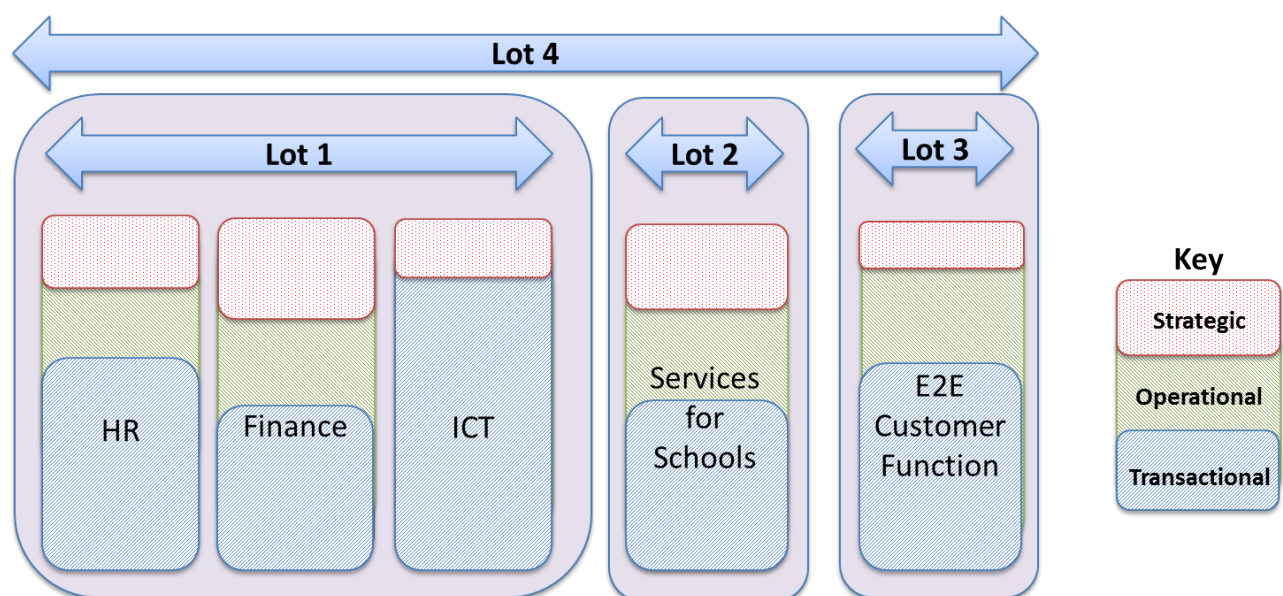


Diagram not to scale

Lot 1 = HR, ICT, FIN

Lot 2 = Services for Schools (EduKent)

Lot 3 = Customer Functions – Contact Point and Digital Communications

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

Please note: following the provider's assertions that there were greater scale synergies in combining Lots 1, 2 and 3, a fourth lot was introduced in order to test this theory.

3 Legal Services

3.1 After a full independent review of the options available to KCC for the future delivery of Legal Services was undertaken, which included a 'soft' market engagement exercise to validate assumptions and confirm the results of the early desk top research, the County Council endorsed the recommendation to commence a procurement exercise.

3.2 The Outline Business Case recommendation that was endorsed by Members back in July 2014, was to progress with an option to seek a commercial partner to form a joint venture (JV), and then to apply to the Solicitors

Regulation Authority (SRA) for a licence to operate a legal practice under the Alternative Business Structure (ABS) arrangements.

3.3 The intention is for the JV/ABS to not only undertake KCC's legal work, also to trade in the wider market, unlike the current in-house model, which is not permitted to trade other than with a limited number of public sector bodies. This will provide the following potential benefits:

- The opportunity for KCC to receive an initial capital investment on set-up
- The opportunity for sustainable growth and for KCC to have an interest in an appreciating asset
- An increased income stream for KCC
- Recurring savings on the cost of the annual KCC legal spend

4 Procurement Approach

4.1 Both procurements are being undertaken in accordance with the Public Contracts Regulations 2006 using the most suitable of the available procedures namely the Competitive Dialogue Procedure (CDP).

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

4.3 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.

4.4 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.

4.5 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). Please note, for Legal Services there will not be a draft submission.

4.6 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.

5 Project Support and Partners - Assurance and Governance

5.1 The Back Office and Legal Procurement projects are governed by a Commissioning Group and a Project Board which is made up of the Directors/Lead Officer for each of the Services included in the process, the Director of Transformation and internal and external business advisors. These Groups

meet regularly and offer support and challenge to the process as well as allows for any key risks or issues to be escalated and where possible mitigated. They are responsible for making recommendations, based on the Project Manager's report.

- 5.2 Progress is reported and updates are provided to Members through Policy and Resources Committee and also the Commissioning Advisory Board (CAB) where Officers have sought advice and guidance from Members throughout the process.
- 5.3 There is a nominated 'Service Lead' from within each of the services who represent the individual services throughout the process and who have assisted in the writing and specifying key contractual and process documents. In addition to this, the Service Leads have offered 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.
- 5.4 Each of the project delivery teams 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.
- 5.5 The FtC team have also engaged KPMG to offer additional advice and guidance required and more importantly, to validate the process, including the 'Should Cost' model, as we move through each of the milestones.
- 5.6 All Legal advice for the Legal Services review has been sought externally from TLT, to avoid any conflict of interest. Additionally, TLT are also acting on both procurements to mitigate any potential contractual conflicts that may arise.
- 5.7 In addition to the above, our external auditors Grant Thornton are engaged and have been commissioning to assure the Value for Money process as we move through the evaluation period.

6 Next Steps

- 6.1 Competitive Dialogue will continue for both of the projects, to refine the solution and iron out any issues or concerns with the Bidders' solutions. During this time, we are on schedule to receive their solution and at this stage; we will get full visibility of the price and the quality documentation that form the Bidders' response.
- 6.2 For the Back Office project only, 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 the Financial team will read, review, understand and score, using the agreed evaluation criteria. Further clarifications may be sought during this time.
- 6.3 Upon completion of evaluation, an assessment paper 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 the output of the process. 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 2015.

7 Member Engagements

7.1 As part of the journey towards the key decision, the Project Team (have and) will continue to engage and have scheduled to attend with Committees/Groups. The tables below outline those key milestones:

7.2 Legal Services:

Legal Services		
Date	Item	Detail
9th Sep	CAB - Bidder Presentation	Bidder and the Internal Baseline as well as the findings from the Recommendation report is presented to CAB - with an open invite to all Members
10th Sep	Publish P&R and Cabinet Paper	Publish Cabinet Committee paper (with Recommendation paper) to P&R and to Cabinet Committee
18th Sep	P&R Committee	Present Recommendation paper to P&R Cabinet Committee - but invite Cabinet Members to sit in at P&R to hear any comments they have
21st Sep	Cabinet Meeting	Present Recommendation Report to Cabinet and Decision taken

7.3 Back Office Services (BoP):

BoP Project		
Date	Item	Detail
9th Sep	CAB - Bidder Presentation	Bidders and the BSC team as well as the findings from the Assessment Paper is presented to CAB - with an open invite to all Members (subject to approval)
10th Sep	Publish P&R and Cabinet Paper	Publish Cabinet Committee paper (with Assessment paper) to P&R and to Cabinet Committee
18th Sep	P&R Committee	Present Cabinet Committee paper to P&R Committee - but invite Cabinet Members to sit in at P&R to hear any comments they have
21st Sep	Cabinet Meeting	Present Cabinet Committee paper to Cabinet and take decision

8 Recommendation

Recommendation:

The Committee is asked to note the progress to date and the next steps, for assurance.

9 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

10 Contact details - report authors:

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