

Overview, Scrutiny & Policy Development Committee

Engie Sub-group report



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Reason for the Study

Overview, Scrutiny & Policy Development Committee has a programme to undertake in-depth reviews into the out-sourced partnerships that deliver services on behalf of the Authority, with the aim to see if the Authority and its residents were receiving the service specified in the contracts.

The Committee established the Engie Sub-group to undertake this work to gain a clearer understanding of the partnership and its operation.

Continuing the policy to encourage cross party/committee involvement in scrutiny, an invitation was made to all Non-Executive Members of the Council to be part of the sub-group.

The following members volunteered to serve and took some part in the review:

Councillor Sandra Graham
Councillor Muriel Green
Councillor John O'Shea
Councillor Willie Samuel

The Sub-group met on 10 occasions.

Outsourcing Council Services

The Authority entered into a major outsourcing project that began in the summer of 2011 with a formal decision made by Cabinet in November 2011 to go to the market.

There were two distinct tenders offered (Business Services & Technical Services) for the management of the Authority's services and a competitive dialogue was undertaken at pace.

A decision was taken to manage the negotiations with interested parties with the responsibility for awarding the contract being left to a small in-house officer team, led by an interim Chief Executive who had previous outsourcing experience.

Procurement concluded in the summer of 2012 and contracts were awarded in November 2012.

Background to the Business Services Contract

The Authority completed a Business Services Partnership Agreement (the contract) with Balfour Beatty Workplace Limited late in 2012.

The contract was then sold by Balfour Beatty to Cofley, which has since changed its name to Engie.

At the inception of the contract the services that were to be outsourced were considered to be good and well performing, however the decision to outsource was taken in the knowledge that the Authority was facing significant budgetary pressure as a consequence of Central

Government austerity measures. It was considered that if no action was taken there was a possibility of significant redundancy and therefore service failure.

Initial Workstreams

The workstreams of the initial contract consisted of the following 6 workstreams;

- ICT
- Finance
- Human Resources
- Revenue and Benefits Services
- Customer Service
- Procurement

The Authority retained Client Strategic Roles that oversee the contract management.

It was noted that during the course of the contract the Procurement workstream along with Human Resource Advisory Services for the Council (2015) and Health & Safety, which included Occupational Health (2020) returned into the control of the Authority.

Objectives

The objectives of the contract were to ensure.

- Investment in the services areas in scope.
- Protect existing workforce jobs.
- Create growth in services and support additional jobs in the Borough.
- Guarantee financial efficiencies of at least £32.9million over the time of the Contract with ongoing culminative savings thereafter.
- Improve services.

Term of the contract

At the time of its procurement, it was determined that longer-term contracts resulted in greater cost savings and efficiencies due to the spread of risk and capital costs over the term of the contract.

Provisions of the Contract

Termination

The term of the contract commenced from the effective date 1 November 2012 and will continue for the Initial Term (10 years) 31 October 2022 and continue for a further period of 5 Years beyond the expiry date.

Subject to any other rights of termination that may arise to the Authority, the Authority would be entitled to issue a notice of not less than 18 months to terminate the Agreement. This provision allows the Authority to terminate the contract if a termination notice has been issued that has not been satisfactorily remedied or the benchmarking test demonstrates that

the partner is not providing value for money and is not willing to amend pricing to assure Best Value.

Benchmarking

The Authority requires the partner to complete a benchmark review of all charges, services and for service levels in years 4, 8 and 12 of the Agreement Term. If any benchmark review determines that any charges, services and service levels do not represent Best Value, the Authority would seek reduced charges or implement service improvement. If agreement cannot be reached the Authority is entitled to seek an alternative supplier or provider. At the year 4 review it was determined that the Procurement workstream would return to the Authority leaving the remaining five workstreams to be delivered by the Partner.

Performance

Each workstream has a series of associated performance measures, these are divided into;

1. Performance Indicators (PI's), which have no financial penalties associated with them and are used for monitoring purposes and;
2. Key Performance Indicators (KPI's), which if not achieved triggers a process that can result in payment deductions to the Partner, known as penalties.

Understanding the Payment & Performance Mechanism

The sub-group received a comprehensive explanation to the contracts payment mechanism where payments would be reduced for performance below expected levels. Payment reductions would be ratcheted up for continuing poor performance which could result on the issuing of a Warning Notice. If a contract Warning Notice is issued the Authority would undertake increased monitoring of the partner until such time the performance had satisfactorily improved.

Investment

Best Value Agreements are part of the contract and designed to secure added benefits from the Partner, they often include the creation of additional jobs in the locality and/or refurbishment of accommodation, creating growth, improving services and are generally provided outside of the provisions of core services.

Although these are not subject to service level regimes there is an obligation within the contract that the Partner provides these additional elements, the Authority monitors the measures to ensure they are achieved.

Contract Management & Governance

There has been robust management and governance mechanisms in place and are delivered in two configurations.

Change Control Procedure

The Authority (Client lead) and/or Partner (Service lead) may require or propose a change to any provision of the contract. These Notice of Change requests are mainly called upon to implement a change in service delivery.

Groups and Boards

- I. Monthly workstream meetings take place where service leads from the Authority and Partner meet to discuss the monitoring of KPI's, Risk, Staff, Engagement and New Business
- II. Monthly Operational Partnering Board (OPB) take place, where the Head of Resources and Partner Director meet to discuss financial performance and any issues accelerated from the workstream meeting.
- III. Quarterly Strategic Partnering Board (SPB), where reviews of service plans are discussed with the Authority Executive (Cabinet Members and the Elected Mayor) and Regional and National Partner Directors.

Engie Sub-group work

The sub-group scoped, made initial preparations and convened two meetings into the review in early 2020 but due to the Covid-19 pandemic it was decided that the review be postponed until a more appropriate time when staff resources could be deployed to the sub-group.

During November 2020, arrangements were made to resume the review and it was decided due to the time gap to conduct the scrutiny from the beginning so to understand any impact of the pandemic on the contract's operation.

Meetings took place for the 5 current workstreams ICT, Finance, Human Resources, Revenue & Benefits and Customer Service, where Service and Client lead officers were requested to attend the meetings and present information to a prescribed structure set by the sub-group.

The structure being:

- a. Service Provision
- b. Client Responsibilities
- c. Performance
- d. Added Value (Investment)
- e. Contract Amendments

Service Provision

At the outset the sub-group was provided with Schedule 2 Workstream Specifications to provide clear understanding the services that they were scrutinizing in each of the remaining 5 workstreams. In each of the service meetings the sub-group received further information with the additional metrics to the elements of provision being delivered. This provided the sub-group some insight to the levels of activity of each service.

Client Responsibility

The Authority has retained client roles, whose objective is to manage the relationship with Engie, providing the link between the Authority and the services being managed by Engie as well as monitoring the contract and performance.

There is also the responsibility to ensure the Authority's plans and vision for service delivery are implemented.

It was evident that throughout the review the role of the client managers was fundamental to ensuring the ambition of the Authority continued to be driven forward.

Performance

The sub-group received the performance level achieved/target for each KPI in the suite for 2020/2021 each service area.

It was evident that when monitoring KPI's for transactional activity, the targets were achieved in all services as expected. However, it was less obvious that the KPI's were achieved where the target was a Pass/Fail. There was an acceptance that this strategic KPI is subjective and difficult to monitor.

The sub-group also reviewed historical performance for years 2014 -2020 to understand the performance throughout the contract term to date

- ICT - 25 failures KPI's
- Finance – 10 Warning Notices that resulted to 5 Penalties being issued
- Human Resources – 6 Warning Notices that resulted to 1 Penalty being issued
- Revenue & Benefits – 22 Warning Notices that resulted to 19 Penalties beings issued (during the period Jan – Dec 2018).
- Customer Services – 19 Warning Notices that resulted to 23 Penalties being issued

The sub-group acknowledges that the majority of the failures occurred early in the contract, however issues still arise such as in 2018/19 where 16 penalties were issued in the Customer Services workstream. This gives an indication of the significant monitoring and use of Authority resources to negotiate and resolve issues of this nature and directly impacts the service to the public.

Added Value

It was not fully evident how the Authority is benefitting from the partly delivered Business Intelligence (BI) reporting QLIK system and there was concern with delays on implementation.

The QLIK system allows managers who are budget holders to access information through self-service, the sub-group heard that licenses were acquired for circa 300 budget holders, however the use of the QLIK system was less than half. An opinion was that budget holders had concerns with the integrity of the data and were reluctant to use the system, in addition there was concern to the level of training for its use.

The sub-group were made aware that the current version of Oracle E Business Suite (BMS) would be no longer supported from December 2021 and the Authority was leading a project to look at a replacement for this system.

The group was unsure to the delay on the Implementation of alternative to Enterprise Resource Planning system to replace BMS but it understood that planning for a project of this nature takes a period of 18-24months. The sub-group viewed that the delay could have a

detrimental effect to the ability of the Authority to perform at its optimum and questions the delay which has resulted in the need to procure a 3rd party to support the current system until a new system can be procured.

In relation to the Human Resource workstream the sub-group were informed that a review using Lean Methodology had been completed. The Lean Methodology is defined as a way to optimise the people, resources, effort, and energy of and organization toward creating value for the customer, however it was viewed that no demonstrable outcomes had been realised from the review. The sub-group questions tasks undertaken that do not provide a demonstrable value.

Contract Amendments

A common theme throughout the review were the process of charging for services not specified in the contract.

It is acknowledged that the services were outsourced to make savings, secure services and jobs and the partner has assisted to do this. There is also the realistic view that the partner operates to make a profit. There is concern that the need to do both could affect the ability to deliver the services that our customers expect.

To provide an example the sub-group heard that at the time when the Authority in-sourced its housing property and construction services, it was accepted that there was a need to ensure the necessary work could be completed and a Notice of Change was negotiated with the partner to undertake the increased workload.

A further example was given to the operation of ICT support to staff and members working out of normal hours, such as in early evening when Committee meetings take place or at weekends. The sub-group was informed that this requirement was not part of the contract, however, the sub-group considered that changes to operational activity such as these should be viewed as business as usual activity and no Notice of Change should be required.

In the need to adapt to the changing ways of working, the sub-group viewed the need to negotiate and implement through the process of a Notice of Change was too restrictive and questioned would the costs and delays in service delivery exist in the same way if the service was delivered in-house. It was further felt that the significant time this took in negotiating such changes could be better spent simply providing the service at cost to our residents.

Findings

It was considered that from the outset that the decision to out-source services and the pace to its completion, insufficient time had been provided to allow full consideration of the contract.

In the scrutiny of the partnership with Engie it is clear that performance of the transactional day to day activity is rated good. This is contrasting to the areas of the contract where the Authority seeks strategic support and guidance.

There is a lack of evidence of strategic planning in Financial advisory support to the Authority, where it is believed should be fully embedded as part of the finance service.

It is the belief by the sub-group that this is driven by Authority officers rather than Engie.

There is little evidence of succession planning in relation to high level strategic staff and evidence how Engie could help deliver the Investment Plan has been an ongoing challenge. The client team appeared to be paramount in the strategic role of adding value and budget setting had been very delayed and lacking. It is the sub-groups view that the skills gap produced more financial challenges.

The Authority and its partners need to be strategically proactive however the view of the sub-group is that the partner works reactively and responds only when prompted by client managers to do so.

This was evident during the presentation in the Finance service and monthly budget monitoring. There is concern that the strategic advisory support to the Authority is insufficient and it was not demonstrable how the partner was providing this contract requirement fully. It was also clear there is not a consistent strategic approach in supporting all budget holders, which could affect the efficacy of budget monitoring and forecasting.

There is further concern to the issues where penalties have been issued and the effect of not having sufficient robust financial reporting. When occurrences such as these transpire, there is an increased risk in the decision making of the Authority.

When questioned to the challenges for the future, the response was to continue with Business Partnering. Business partnering is defined as the development of successful, long term, strategic relationships between customers and suppliers, based on achieving best practice and sustainable competitive advantage. It is understood that Business Partnering only commenced in 2019 and it is unclear why this did not commence at the outset of the contract.

The sub-group has concern that the number of qualified and experienced staff supporting services is not at the appropriate level. The Authority must be confident that it is being supported fully by qualified and experienced resource to fulfil all the contract requirements. Also there is a need to provide real opportunities within the partnership for succession planning as it is unclear that this is happening to ensure smooth running of the contract when people leave or move on.

The Authority should demand real deliverable outcomes to any reviews, implementation of new systems or devices. The sub-group heard of reviews with no real beneficial outcome, partially implemented systems that were not fully useable and devices that were regarded inadequate for use.

There were instances throughout the scrutiny where it was demonstrable that services, its officers and the Local Authority were committed and working together to the same values and ethos promoted by North Tyneside Council, this was evident in the Revenue & Benefit, Customer Services and in part Human Resources workstreams.

The sub-group acknowledge that Engie has cooperated and shown a more flexible approach in supporting the response to the Covid-19 pandemic. Remote working in particular was a challenge that was overcome to ensure employees could continue service delivery from their homes. It also acknowledges the distribution of payment transactions in business grants through Revenues and Benefits Service.

There were many instances before and during the current Covid-19 crisis that the Authority and its partners have shown flexibility in its operation. However, the sub-group also heard instances of where rigidity came to the fore and required extended negotiation and Notices of Change before the much-needed progress was made. Occasions of this nature should be reduced as much as possible to ensure we display the Authority values of We listen, We Care, We are Ambitious and We are good value for money.

Following issues with the resourcing of Customer Services in 2017/18, through the action of reducing staffing numbers which led to 16 penalties being issued the sub-group were assured that lessons had been learnt and once the correct staffing level were returned to normal customer satisfaction was re-established. The sub-group viewed this action as a cost saving enterprise by the partner, which ultimately affected service delivery and customer confidence.

The sub-group considered that throughout the length of the contract ICT delivery has been an issue from the reliability of the network, systems implemented, telephony, devices and training have all caused concerns. The security of delivering Teams meetings has also been an issue for Members and staff.

It acknowledged the Authority has made high value investment to the improvement of its systems, however its view is that ICT have over promised and under delivered and it was pleased to see the Authority had appointed a new client lead to drive service improvement. The sub-group felt that some parts of each of these workstreams dovetailed into each other – Finance, ICT, HR and Customer Service and an overall look at these workstreams together may be useful to aid efficiencies.

It was apparent that there was greater flexibility and issue resolution was quicker where client officers and partnership staff were displaying public service motivation and their focus on the residents/customers need. This is an endeavour that all services should work toward.

It is hoped that the findings and comments made throughout this report aids the thinking of Cabinet and appropriate officers towards areas of the partnership that the sub-group believes are not being fulfilled as expected.

Benchmarking and measuring performance of transactional activity is working well, however where performance is deficient is in the areas where a more strategic level of support is expected. The review could not determine if this was due to not having the right level of professional support in place or a business decision.

There is a need for a continued drive for efficiencies and having to devote Authority officer time prompting known responsibilities and negotiating changes, uses significant resources which could be better used for the benefits of residents.

It is recognised that the Authority has recent experience of gaining greater benefit and outcomes by managing its partnerships well. It is acknowledged that our partners are private organisations that work to make a profit. It is the view of the sub-group that managed appropriately the profit could be used to improve services to residents.

The sub-group would therefore recommend that Cabinet:

- 1. In its benchmarking activity pay particular attention to the strategic aspects of service delivery of the partnership.**
- 2. Following benchmarking testing, it believes if the Partner is not providing value for money it should consider amending the contract to assure best value and/or investigate all options to in-source parts/all services.**
- 3. The group feels that as and when legally possible and at the best and earliest opportunity that these services should be returned and insourced to the local authority.**

Acknowledgements

Janice Gillespie – Head of Resources
Suzanne Duncan - Senior Manager (HR)
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Jacqueline Laughton - Head of Corporate Strategy
Daniel Simms - Chief Information Officer
Andrew Scott - Senior Client Manager Revenues Benefits and Customer Services
Mick Ripley - Partnership Director
Angela Close - Service Development and Support Manager
Sue Graham - Principal Accountant
Jackie Mulvey - Revenues & Benefits Lead
Mick Nicholson - Senior Operations Manager
Christine Ponting - Senior Manager - Schools Human Resources
Mike Truran - Business Change Director

Background Papers

Presentations relating to each workstream:

- ICT
- Finance
- Human Resources
- Revenue and Benefits Services
- Customer Service

Recommendations

- R1: In its benchmarking activity pay particular attention to the strategic aspects of service delivery of the partnership.**
- R2: Following benchmarking testing, it believes if the Partner is not providing value for money it should consider amending the contract to assure best value and/or investigate all options to in-source parts/all services.**
- R3: The group feels that as and when legally possible and at the best and earliest opportunity that these services should be returned and insourced to the local authority.**