


<p style="text-align: center;"><b>London Borough of Hammersmith &amp; Fulham</b></p> <p style="text-align: center;"><b>CABINET</b></p> <p style="text-align: center;"><b>16 JANUARY 2017</b></p>	
<p><b>PROCUREMENT STRATEGY FOR DEBT MANAGEMENT AND BUSINESS INTELLIGENCE SERVICES</b></p>	
<p><b>Report of the Cabinet Member for Commercial Revenue and Resident Satisfaction: Councillor Ben Coleman and the Cabinet Member for Finance: Councillor Max Schmid</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification - For Decision</b></p> <p><b>Key Decision: Yes</b></p>	
<p><b>Wards Affected: None</b></p>	
<p><b>Accountable Director: Michael Hainge, Commercial Director</b></p>	
<p><b>Report Author: Michael Hainge, Commercial Director</b></p>	<p><b>Contact Details:</b>  Tel: 020 8753 6992  E-mail:  Michael.hainge@lbhf.gov.uk</p>

## **1. EXECUTIVE SUMMARY**

- 1.1. This report seeks agreement to begin procurement for a partner to deliver debt management services to H&F through a joint venture, and to sell these services, along with business intelligence services, to other public bodies.

## **2. RECOMMENDATIONS**

- 2.1. That the Commercial Director be authorised to begin the procurement process to appoint a partner to deliver debt management services to H&F through a joint venture, and in accordance with the procurement strategy at Appendix 1.
- 2.2. That delegated authority be given to the Commercial Director in consultation with the Cabinet Member for Finance to award the

framework agreement to the most economically advantageous tenderer.

### **3. REASONS FOR DECISION**

- 3.1. Contract standing orders require a procurement strategy to be agreed by Cabinet in advance of the commencement of any procurement with a value greater than £100,000
- 3.2. By agreeing with the recommendation at 2.1, the Commercial Director can begin such a procurement with the following four purposes:
  - To make sure our debt management activities effectively support the financial operations and requirements of the council.
  - That our treatment of debtors to the council is consistent with highest possible ethical and regulatory standards.
  - We create a joint venture to allow us to profit from the development of these services by selling them to other public bodies and social landlords.
  - To exploit existing analytic products developed by our Business Intelligence team to help residents avoid debt, and to use the JV to develop these and other techniques and tools, to commercial, financial and social advantage.
- 3.3. With reference to 2.2. above, the commercial nature of the procurement and the potential notional value of the framework agreement is likely to exceed £5,000,000 on paper. Council's Contract Standing Orders require the full Cabinet to approve all contracts that have a value of £5,000,000 or greater, but as actual value is indeterminate it would be more appropriate for the award to be delegated to the Cabinet Member.
- 3.4. It should be noted that any sums payable for services rendered would always be considerably less than the financial benefit received by the council from improved debt management.

### **4. INTRODUCTION AND BACKGROUND**

- 4.1. At present, debt management is largely left to individual service areas to manage. In common with other activities, such as contract management, procurement and risk management performance is mixed. And whilst the debt management industry in the private, regulated market has moved on considerably in recent years, our own debt management activities (in what is an unregulated market) are not all at the cutting edge of best practice.

- 4.2. We have in place a contract with Agilisys to help with debt management. This was envisaged to be rolled out across the council but, for a variety of reasons, was only delivered to a limited number of areas. Agilisys focussed effort on housing benefit overpayments work and, it must be said, with some success. This contract expires at the end of March 2017.

## **5. PROPOSAL AND ISSUES**

- 5.1. It is proposed that H&F approaches the market with an opportunity to provide a wide range of support to the council in the area of debt management under a framework agreement. This will include training and development, consultancy, management and collection of debts. This will include further commissioning of sub-contractors for related work, such as enforcement agents (formerly known as bailiffs) as well as arranging debt purchase options where appropriate.
- 5.2. The successful bidder will be required to set up a joint venture company with the council and to sub-contract all work won under the framework (including the H&F work) to the joint venture. The council will be the majority shareholder of the joint venture and will have a majority vote on the board.
- 5.3. The joint venture will act as a Master Servicer for all debt related issues and opportunities across H&F. The range of activities will include from simply providing advice and consultancy, through to full debt management and issuing casework to enforcement agents
- 5.4. The council will set up a user panel (senior staff from service areas, finance and commercial) to agree the scope of work that the joint venture will carry out for H&F, set out in a three-year strategic document and annual business plans. The panel will also oversee performance of the joint venture. This approach will ensure effective oversight and coordination of all debt management related work.
- 5.5. The framework agreement will also include a requirement to exploit existing analytic products developed by our Business Intelligence team to help residents avoid debt, and to use the JV to develop these and other techniques and tools, to commercial, financial and social advantage.
- 5.6. The proposed procurement route will allow other local authorities and public bodies across the UK to call off from the proposed framework in terms of managing their debt management and business intelligence. This will alleviate the need for them to go through their own formal procurement process.
- 5.7. The successful bidder will be required under the terms of the procurement to sub-contract all orders to the Joint Venture, and in doing so provide an income generation for the Council. The

procurement will be structured in such a way to allow other services that the Council excels at to be merged into the Joint Venture at some future date.

## **6. OPTIONS AND ANALYSIS OF OPTIONS**

- 6.1. As an alternative, the council could continue to allow debt to be managed as each department sees fit. It is likely that this approach would be more expensive, fail to achieve broader strategic aims such as ensuring the highest ethical standards are achieved, and fail to catch up with the most leading edge practice in the debt management industry.
- 6.2. The proposals in this report and in the strategy (at Appendix 1) will also allow the council to benefit from the development of new approaches to debt management developed in the joint venture and sold on to other bodies. This includes our highly successful Business Intelligence team. This can only be achieved if we procure a partner and joint venture

## **7. CONSULTATION**

- 7.1. N/A

## **8. LEGAL IMPLICATIONS**

- 8.1 The services are subject to the Public Contracts Regulations 2016 (the Regulations) and must be procured using one of the proposed routes set out therein.
- 8.2 A Prior Information Notice (PIN) in respect of procurement of a single supplier Framework Agreement has been published in OJEU in accordance with Regulation 48. It is intended that the supplier will be procured utilising the restricted procedure as allowed for under Regulation 28. The Framework Agreement will also be available nationally to other public bodies as detailed in the PIN and procurement documents . There is also a requirement for the successful contractor to form a joint venture with the Council to which all work will be sub-contracted.
- 8.3 Framework Agreements are governed by Regulation 33 and the Council will need to adhere to the requirements set out therein both in the procurement of the Framework Agreement and the award of individual contracts under the Framework Agreement. The requirements will need to be clearly set out in the procurement documents.
- 8.4 There is a requirement under Contract Standing Order 8.12.1 that Procurement Strategies with an estimated value of £100,000 or greater must be approved by the Cabinet prior to the commencement of any tendering exercise.

(Legal implications completed by Margaret O'Connor, Tri-Borough Legal Service Tel 020 7641 2782)

## **9. FINANCIAL AND RESOURCES IMPLICATIONS**

- 9.1. No funding is requested to take forward this proposal.
- 9.2. The award of a contract, and confirmation of the structure of the Joint Venture, will be subject to future Member approval.
- 9.3. Implications verified/completed by: Andrew Lord, Head of Strategic Planning and Monitoring, Corporate Finance, Ext 2531

## **10. RISK MANAGEMENT**

- 10.1 The proposals seek to make existing processes in the council more efficient and effective ultimately contributing in improved value back to the local taxpayer and meeting the needs and expectations of our residents.
- 10.2 There will need to be consideration of the following risks;
  - Information Management,
  - Security and Data Protection
- 10.3 The risk from competition from other providers in a similar market. Insurances, if the service were to be providing advice to businesses on debt management.
- 10.4 Having a clearly agreed marketing strategy, revenue targets and timetable that enables the joint venture to grow the business and take opportunities.
- 10.5 Tax, TUPE and Pensions risks.
- 10.6 The above areas are not exclusive and risks should be identified and tracked as the project develops.
- 10.7 Implications verified by: Michael Sloniowski, Risk Manager, telephone 020 8753 2587

## **11. COMMERCIAL**

11.1 The Commercial and Procurement implications are contained in body report as the authors are Commercial Director and the Interim Head of Procurement (Job-share).

11.2 Implications verified/completed by: Michael Hainge, Commercial Director (Telephone 020 8753 6992) and Alan Parry, Interim Head of Procurement (Job-share) (Telephone 020 8753 2581).

### **LOCAL GOVERNMENT ACT 2000** **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
1.	None		

#### **LIST OF APPENDICES:**

Appendix 1 – Procurement Strategy

## **Appendix 1**

### **Procurement Strategy for Debt Management Services in H&F**

#### **1.0 Purpose**

The purpose of procuring a new debt management partner is fourfold:

1. To make sure our debt management activities effectively support the financial operations and requirements of the council.
2. That our treatment of debtors to the council is consistent with highest possible ethical and regulatory standards.
3. To create a joint venture to allow us to profit from the development of these services by selling them to other public bodies and social landlords.
4. To exploit existing analytic products developed by our Business Intelligence team to help residents avoid debt, and to use the JV to develop these and other techniques and tools to commercial, financial and social advantage.

With a turnover of around £1billion the council is in the company of the largest public and private institutions in the UK. The operation of our financial systems and processes are fundamentally important to our success and our ambition of being the best council.

One such area is debt management. At present (31st October 2016) we have £32m of overdue debt. This represents more than 20% of our net expenditure. The difficulties with the BT managed services contract has contributed greatly to this unsatisfactory debt position, but that is not the only cause.

Debt management is largely left to individual service areas to manage. In common with other activities such as contract management, procurement and risk management performance is mixed. And whilst the debt management industry in the private, regulated market has moved on considerably in recent years, our own debt management activities (in what is an unregulated market) are not all at the cutting edge of best practice.

Instead, and as a consequence of current practice, H&F has a piecemeal approach that results in sub optimal performance in some areas, potential duplication of effort and arguably less favourable terms for some of the contracts it enters into.

This is affecting both the top two purposes set out above and does not address the others.

We have in place a contract with Agilisys to help with debt management. This was envisaged to be rolled out across the council but, for a variety of reasons, was only delivered to a limited number of areas. Agilisys focussed effort on housing benefit overpayments work with, it must be said, some success. This contract expires at the end of March 2017.

## **2.0 Proposed Solution**

H&F will approach the market with an opportunity to provide a wide range of support to the council, including training and development, consultancy, management and collection of debts. This will include further commissioning of sub-contractors for related work, such as enforcement agents (formerly known as bailiffs), as well as arranging debt purchase options where appropriate.

The successful bidder will be required to set up a joint venture company with the council and to sub-contract all work won under the framework (including the H&F work) to the joint venture. The council will be the majority shareholder of the joint venture and will have a majority vote on the board.

The joint venture will act as a Master Servicer for all debt related issues and opportunities across H&F. The activities will range from simply providing advice and consultancy, through to full debt management and issuing casework to enforcement agents.

The council will set up a user panel (senior staff from service areas, finance and commercial) to agree the scope of work that the joint venture will carry out for H&F, set out in a three-year strategic document and annual business plans. The panel will also oversee performance of the joint venture.

This approach will ensure effective oversight and coordination of all debt management related work.

## **3.0 Leadership and Ambition**

The Commercial Director, in consultation with the Strategic Finance Director, will lead the areas of work that this procurement will cover. The Commercial Director will be accountable to the Cabinet Members for Finance and for Commercial Revenue and Resident Satisfaction as this procurement encompasses financial elements, commercial growth potential and will affect resident satisfaction.

The council has a clear ambition to be the best council. One of the ways we will achieve this ambition is by running the council in the most business-like fashion, taking care of every pound we have to spend and at the same time looking after the people we are here to serve. Effective and ethical debt management has a significant role to play in both respects.

A further ambition is to generate additional commercial revenue to support vital services in the face of unprecedented cuts from central government.

The commercial opportunity this procurement presents us with could be significant. The appointment of a partner to develop a joint venture with H&F will build on our emerging expertise in business intelligence such as debt prevention (eg rent arrears for our tenants where we have improved the debt position year on year by c. £600,000). The potential revenue is likely to be significant. The size of the debt management market in UK local government is



measured in billions of pounds. By way of example, recently, Brent Council announced it would be looking for private sector help to deal with their £60M of debt.

#### **4.0 Local Economic Benefit**

We have not identified any local firms with the requisite levels of regulatory approval and, given the complexity of achieving such approval and the timescales to which we are operating, it is not possible to help develop a local market. However, the ambition to create a joint venture through this procurement means that the council has control of where the JV shall operate from in geographical terms. As a local employer, this means we will be benefitting the local economy through the growth we will achieve.

There may also be opportunities for additional local employment through the creation of the joint venture. These may be in sales, sales support and other back office functions. The scope of the procurement will require bidders to put forward their proposals to achieve this.

#### **5.0 Resources**

The structure of this procurement will mean that there will be no ongoing costs, other than those which are payable to the JV based on either successful collection or debt sale. As a shareholder in the JV, a share of the profit (terms to be negotiated) will return to the council. The successful bidder will be expected to provide the initial financial support the JV will require, repayable from future profits.

Where the JV is selling services to other bodies, there will be a positive flow of cash back to the council. The operating costs of the JV will be kept as low as possible in order to maximise profits.

#### **6.0 Project Management**

The Commercial Director will be leading this project with assistance from colleagues in finance and procurement. As the contract with Agilisys ends in March 2017, progress must be rapid.

As such, a Prior Information Notice has been published. This will also allow us to gauge market interest and potential bidders before calling for competition. No sooner than 35 days after publication we can call for competition and proceed quickly to the submission of tenders. The aim is to complete the process by the end of January 2017.

#### **7.0 Market and Commercials**

The current supplier is Agilisys. The scope of their work has not extended as far as we had originally intended although the areas they are operating in appear to

be performing well. However, having not gone to market for eight years, we cannot compare performance objectively.

The performance of the successful bidder will be measured across the four ambitions stated above: effectiveness of debt management, delivery of service to the highest ethical standards, the performance of the JV in commercial terms and the exploitation and development of our Business Intelligence resources. Whilst the Financial Conduct Authority do not regulate local government debt management, authorisation by the FCA is a requirement for all bidders. We expect the same standards, as a minimum, to be applied to all work carried out by the successful bidder.

Similarly, very high, demonstrable levels of customer care and investment in staff will be essential. Experience of bringing these attributes to bear in the not-for-profit sector would be highly desirable.

As our ambitions are very high, we are not expecting the market to present a large number of bidders. However, given the sensitive nature of the service being provided back to H&F and to the wider market, pursuit of the highest standards should not be compromised.

We wish to let the contract as a framework contract for the maximum period of four years. We have named all UK local authorities, police forces, fire authorities, the NHS, central government, social landlords and educational establishments on the PIN and have set a maximum contract value of £500m, to reflect the size of the potential market.

## **7.0 Contract Management**

Robust and outcome driven contract terms will be created to ensure the four purposes are delivered in full. Any significant failure – for example in ethical or regulatory terms – will allow the council to terminate at its discretion.

The contract will be managed by corporate finance for aspects of the service provided back to H&F by the JV. The Commercial Director will manage the performance of the joint venture, and will be accountable to the Cabinet Commercial Revenue Committee.