

*“How bad does it
have to get?”*

A review of the Capita contracts.

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“The whole of the department knows Capita are a disaster. They know nothing about recruitment. How badly do you have to fail before you get sacked by your department?”

Conservative MP Mark Francois October 2018

<https://www.expressandstar.com/news/uk-news/2018/10/09/capita-is-failing-to-bring-in-the-recruits-the-army-needs/>

Capita in Local Authorities

Local Authority	Performance Issues	Cost Issues	Contract Status
Sheffield Revs & Bens & IT		£	Brought back in-house
Blackburn with Darwen Property & Highways		£	Brought back in-house
Southampton IT & Finance		£	Brought back in-house
Hounslow Pension Admin			Brought back in-house
Birmingham IT Council Tax & Call Centre		£	Brought back in-house
Salford Planning, Highways & Building Control		£	Brought back in-house
Vale of White Horse Finance & HR		£	Brought back in-house
West Sussex Pensions Admin			In-sourced to another Local Authority
Barnet Finance, Call Centre, IT, HR, Revs & Bens, Planning, Highways, Building Control, Pensions Admin		£ £	Still with Capita

Introduction:

Barnet Council at a Special Meeting of the Policy and Resources Committee on Thursday 19th July, 2018 the Committee:

1. *Agrees to review the council's partnership with Capita, and authorises the Chief Executive to develop a Full Business Case.*
2. *Agrees that the proposed strategic aims underpinning the Full Business Case should be to:*
 - a) *Deliver high quality services;*
 - b) *Secure best value for money for Barnet's residents; and*
 - c) *Strengthen the council's strategic control of services.*
3. *Notes the three options identified and considered in more detail in paragraphs 2.4 to 2.7 and Tables 1 to 4.*
4. *Agrees that option 2 – realigning the CSG and DRS contracts to bring back in house those services listed in Table 5 – is the proposed preferred option to be tested in the Full Business Case.*
5. *Agrees that option 3 is fully tested and considered in the Full Business Case.*
6. *Agrees that the Full Business Case should review the joint venture arrangement for the delivery of Development and Regulatory Services.*
7. *Agrees that the Full Business Case should be considered by Policy & Resources Committee, for referral to Council for final decision.*

The Full Business Case will be tabled at the Policy and Resources Committee on Thursday 11 December 2018.

Barnet UNISON have tabled over 50 reports to various Committees over the past decade in relation to outsourcing.

Barnet UNISON recognises that the report going to Committee is likely to be near completion early in November.

Unfortunately, the consultation promised in paragraph 5.8.5 of the Review of Capita Contracts –Strategic Outline Case report has not happened.

The relevant paragraph stated:

“In line with good practice set out above, work is already underway to agree a joint staff engagement and communication plan between the council, CSG and Re to ensure there is transparent and consistent messaging for all groups of staff and their representatives throughout the coming period. A dialogue has also

started with staff representatives and will continue throughout the decision-making process and any subsequent decisions taken by the Committee.”

In the absence of any engagement as to what is happening, Barnet UNISON has put together this report in the hope that all Councillors are aware of what is happening with other Capita contracts in other Councils.

It is critically important that Barnet Council are fully apprised with how other Councils are dealing with Capita in relation to their existing contracts.

Capita spend for both contracts

Capita (CSG)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 YTD Sept	Total
Contracted (£m) Full Year	35.96	24.48	26.67	29.48	25.45	25.95	167.99
Actual (£m)	46.68	37.02	41.85	75.16	22.91	18.17	241.79
Difference (£m)	10.72	12.54	15.18	45.68	-2.54	-7.78	73.80
Re	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 YTD Sept	Total
Contracted (£m) Full Year	8.61	14.85	15.08	15.31	15.35	15.35	84.55
Actual (£m)	8.61	14.76	24.45	29.90	33.78	7.85	119.35
Difference (£m)	0	-0.09	9.37	14.59	18.43	-7.50	34.80

Infographic courtesy of John Dix aka Mr Reasonable

The above info graphic shows the money paid to Capita since the contracts began.

The world of local government has changed for Barnet Council since the business case was prepared in 2012 for outsourcing.

Technology has changed as have the levels of staffing.

Local Government has been hit with unprecedented austerity cuts over the last eight years and the recent autumn budget promises no relief to Barnet Council.

Capita were a top 100 FTSE company when Barnet Council appointed the two big contracts.

In numbers | Capita

- ◆ **Employees:** 67,000 (most of which based in the UK)
- ◆ **Revenue (2016):** £4.9bn
- ◆ **Proportion of business in public sector:** 47%
- ◆ **Dividend payout (2016):** £210m
- ◆ **Net debt:** £1.15bn
- ◆ **Share price peak:** £13.26 July 2015
- ◆ **Share price now:** 196p

A lot has changed and the Share Price has been languishing around £1.30 for the last few months.

A new Chief Executive was appointed just over a year ago.

Capita issued a Profit warning on 1 February 2018.

“Capita has underinvested in the business and there has been too much emphasis on acquisitions to drive growth. As our markets have evolved, the Group has not responded consistently to new customer demands. Since December, we have continued to experience delays in decision making and weakness in new sales.

Today, Capita is too complex, it is driven by a short-term focus and lacks operational discipline and financial flexibility.

Capita needs to change its approach.”

<https://www.investegate.co.uk/capita-plc--cpi-/prn/update-on-capita-s-transformation-and-outlook/20180131070000PBC80/>

(Jonathan Lewis, Chief Executive Officer of Capita)

The above are the words of the Chief Executive of Capita.

Capita are having to urgently change their business model and it should not surprise Barnet Councillors to deduce that Capita do not see a future winning big contracts in local government.

It could be that is one of the reasons other Councils who also awarded Capita big contracts are rushing to terminate the contracts and insource services.

What are other Councils doing?

1. Sheffield Council

Sheffield Council is pulling out of a deal with one of its largest contractors.

“The council will cancel its contact with Capita, which provides all the IT services for the authority, and instead bring some of the work in house and offer the rest to local, smaller firms. The council will pay an undisclosed penalty to be released four years early from the contract but says it will save £3 million per year over the next six years.

Read full article here

<https://www.thestar.co.uk/our-towns-and-cities/sheffield/sheffield-council-cancels-deal-with-major-contractor-1-9203948>

Barnet UNISON comment: Sheffield Council have been able to extract themselves from a contract with Capita and bring the IT in-house and use some local firms and **still make a saving**

- Why are Barnet Council not doing the same?
- Have Barnet Council been in contact with Sheffield Council?
- If not why not?

Council to bring revenues and benefits back in-house

“Capita currently operates the Revenues and Benefits service on behalf of the Council, the largest customer service area of any part of the council, which includes housing benefit and council tax support, council tax billing and collection and business rates billing and collection.

How the new in-house council service will operate is yet to be developed, but the council is proposing a system that will allow them to be more flexible in delivering services and be better able to respond to changes in welfare reform and the introduction of Universal Credit.”

Read full article here

<https://sheffieldnewsroom.co.uk/news/council-to-bring-revenues-and-benefits-back-in-house/>

Barnet UNISON comment: Revs and Bens were once a core Capita service. However Capita is trying to dig itself out of a crisis and are embarking on wholesale change. This is not the only Council to bring back Revs and Bens from Capita.

Revenue service should never have been outsourced in the current financial climate for local government the Revenue service is a critical service and should be brought back in-house.

- Have Barnet Council been in touch with Sheffield to listen to why they are bringing Revs and Bens in-house?
- If not why not?

2. Birmingham Council

Birmingham moves away from Capita JV and plans to 'become a systems integrator'

Birmingham City Council is starting work on a project to decouple itself from incumbent supplier Capita and become its own systems integrator.

The council is part of the way through the rollout of a five-year ICT strategy, plan which began in 2016. The strategy is, ultimately, intended to help Birmingham become "a technology-enabled council of the future".

Part of this process will involve the authority taking steps to better use data and digital platforms in service design and delivery.

Alongside is a project to dissolve its long-standing Service Birmingham joint venture with Capita and, eventually, eventually take responsibility for IT and digital services back in house, "with the council becoming the system/service integrator by 2021".

Read more here

<https://www.publictechnology.net/articles/news/birmingham-moves-away-capita-jv-and-plans-%E2%80%98become-systems-integrator%E2%80%99>

Barnet UNISON comment:

- Has Barnet Council contacted Birmingham Council to discuss why they are ending the Joint Venture?
- If not why not?

Birmingham's council run call centre £4 million a year cheaper than under private operator - and people are happier

Birmingham City Council's call centre has saved £4 million a year and proved more popular with customers since it was taken in house at the end of 2014.

The contact centre service, which citizens call to raise concerns or make enquiries about a range of issues from council tax and benefits to housing and bins, had previously been run by private firm Capita under the Service Birmingham contract, signed in 2005.

But it had been heavily criticised over soaring costs, poor service and a poor communication with council service departments, prompting the decision to take it under council control.

Read more here

<https://www.birminghammail.co.uk/news/midlands-news/birminghams-council-run-call-centre-14768489>

Barnet UNISON comment:

- Have Barnet Council contacted Birmingham Council to ask why they ended the customer services and how they were able to make a saving?
- If not why not?

3. Salford Council

SALFORD CITY COUNCIL SACKS URBAN VISION

Salford City Council is to finally end its relationship with Urban Vision when the current contract runs out in 2020, and is to bring the services back in-house.

Urban Vision is a joint venture company, set up in 2005, in which the Council holds a 19.9% stake, with Galliford Try Infrastructure holding 30% and Capita Property and Infrastructure holding a 50.1% stake. The company, which has an exclusivity clause with the Council, deals with planning, highways and building control services, and its current contract is worth around £90million.

Up until a new contract with Urban Vision was signed controversially and in secret by former City Mayor, Ian Stewart, in 2016 the Council was paying a £10million 'management fee' to the company, while receiving no dividends, despite holding a 19.9% stake. The Salford Star revealed last June that the Council was finally looking to ditch the company.

Salford City Council stated this week that it "has shared plans to bring property; highways and infrastructure; and planning and building control services back in-house after the contract with Urban Vision finishes at the end of January 2020. The council will be working with partners Capita and Galliford Try to ensure a smooth transition, continuing the delivery of existing programmes of works."

Read more here <http://www.salfordstar.com/article.asp?id=4525>

Barnet UNISON comment: Urban Vision was a showcase JV and touted by Capita as the future for these services. Salford Council clearly feel strongly that this JV does not work and are bringing the services back in-house.

- Have Barnet Council spoken to Salford Council about this decision?
- If not why not?

4. Blackburn and Darwen Council

Blackburn with Darwen Council scales down partnership with Capita

PROPERTY and highways services have been brought back in-house by Blackburn with Darwen Council.

The original 2001 15-year deal between the two was renegotiated and reduced when it ended in 2016.

Services taken back 'in house' then by the borough included accounts for debtors and creditors, revenues and benefits, parking, and design and print services.

The cost of running the in-house services for highways and property will be covered by the current contract costs and it is expected that the council will achieve budget savings as a result of the transfer.

Read more here

<https://www.lancashiretelegraph.co.uk/news/16981779.blackburn-with-darwen-council-scales-down-partnership-with-capita/>

More cuts to Blackburn with Darwen's Capita contract proposed

Blackburn with Darwen Council's executive board will tonight be asked to bring back-in house property and highways services.

The original 2001 15-year deal between the two was renegotiated and reduced when it ended in 2016.

Services taken back 'in house' then by the borough included accounts for debtors and creditors, revenues and benefits, parking, and design and print services

Read more here <https://www.lancashiretelegraph.co.uk/news/16975673.more-cuts-to-blackburn-with-darwens-capita-contract-proposed/>

Barnet UNISON comment: Blackburn was one of the first big Capita contracts along with Birmingham, Southampton and Swindon. It should be a significant concern to Barnet Council to hear that this big contract is unravelling. Of particular concern is that Barnet Councils Benefits service is run out of Blackburn.

- Have Barnet Council been in touch with Blackburn about their decisions to bring services back in-house?
- If not why not?

5. Southampton

Southampton staff affected as council ends Capita deal

Hundreds of employees face uncertainty after Southampton City Council said it would end its decade-long relationship with services company Capita.

Capita has run Southampton's customer services, HR pay, revenues and benefits, procurement, health and safety, print, post room and IT services for 11 years.

Read more here

<https://www.bbc.co.uk/news/uk-england-hampshire-44937942>

Southampton City Council opts to take raft of services in-house as it announces split from service provider Capita

After a relationship that has lasted more than a decade, civic chiefs have made the decision to cut ties with Capita, which has run the authority's customer services, HR pay, revenues and benefits, procurement, health and safety, print, post room, and IT services departments since 2007.

This comes after the council expressed a desire to bring these services back in-house.

Read more here

<https://www.dailyecho.co.uk/news/16375777.city-opts-to-take-raft-of-services-in-house/>

Barnet UNISON comment:

- Have Barnet Council been in touch with Blackburn about their decisions to bring services back in-house?
- If not why not?

6. West Sussex County Council

Capita to lose pensions administration service

Hampshire County Council is set to take over West Sussex County Council's pensions administration service, which was outsourced in 2012. Capita holds a ten-year contract to run IT and back-office services for West Sussex County Council. Last year the council took back control of the county's multi-agency safeguarding hub as delays were causing an 'unacceptable risk to children in the system'.

Read more at: <https://www.chichester.co.uk/news/politics/capita-to-lose-pensions-administration-service-1-8504916>

Barnet UNISON comment:

- Have Barnet Council been in touch with West Sussex County Council to end the contract with Capita?
- If not why not?

7. Hounslow drops Capita and heads for West Yorks

Capita's service threatened bad publicity

Hounslow had held a contract with Capita to provide pensions administration since February 2009. The council notified Capita in autumn 2017 that it would not be renewing its contract.

The council reviewed a number of options for pensions administration, and Capita was considered for a new agreement, according to Malhotra. But "there have been some concerns" about the company's service, he said.

At a meeting of the council's pension fund board in January 2017, the board drew attention to targets not being met for processing pension requests. It also observed delays concerning the transfer of pensions to "other funds", according to committee meeting minutes.

The board voiced the view that problems with processing requests "could be very detrimental and lead to adverse publicity".

It noted that "the examples given were consistent with the problems in performance previously experienced with Capita".

Read more here

<http://www.pensions-expert.com/DB-Derisking/Hounslow-drops-Capita-and-heads-for-West-Yorks>

Barnet UNISON comment:

- Have Barnet Council been in touch with Hounslow about their decision to terminate the contract with Capita?
- If not why not?

8. Vale of White Horse District Council.

Scrutiny of failed outsourcing 'all over the place'

Earlier this week, Vale of White Horse District Council's Chief Executive Mark Stone said the best possible return for the authority for being part of the Five Councils Partnership was that it would break even.

Senior managers and councillors had hoped it would save the authority £9m by outsourcing back office functions to Capita and VINCI.

But savings have not been as great as expected and the VINCI contract has been scrapped. New staff have had to be employed to make the contract viable and many programs promised by Capita have not been delivered on time.

Read more here

<https://www.oxfordmail.co.uk/news/16354673.scrutiny-of-failed-outsourcing-all-over-the-place-councillor/>

Barnet UNISON comment:

- Have Barnet Council been in touch with Vale of White Horse District Council?
- If not why not?

The Fraud

“Our view of both contracts has identified a number of significant weaknesses which may have resulted in contractual breaches. We have identified and reported what we believe are fundamental weaknesses in budgetary control and financial accounting.”

“We note both the DRS contract and the CSG contract detail consequences for the Service Provider of Persistent Breach”.

“Lack of effective review of controls over financial ledgers.”

“The monthly and annual budgetary control process provided by CSG Finance for capital projects in Re lack sufficient rigour to challenge unusual transactions and journal entries.”

“Significant financial control weaknesses”

“Poor accounting controls

“Weakened scrutiny over regeneration scheme KPIs”

<https://www.barnet.gov.uk/citizen-home/council-and-democracy/finance-and-funding/Financial-controls.html>

Barnet Council have paid a significant amount of money, money they will not have budgeted for, to commission Grant Thornton (GT) to look into how the fraud happened.

The serious breaches that have been discovered were never raised in either of the previous reviews of both Capita contracts.

It has taken a forensic audit approach to reveal the serious breaches that enabled the fraud to take place. However, the investigation has just provided a glimpse of how the contract has not been managed. The report explains a number of contractual breaches.

- Why have the Council only found this out now?
- What else is waiting to be revealed?

The fraud has caused serious reputational damage to the Council. The GT Report provides evidence for the Council to demand that Capita waive any penalty charges for terminating both contracts.

It is inconceivable that senior officers could submit a proposal to keep both contracts with Capita in light of what is happening in Barnet Council with funding issues, the fraud, and the serious risks of remaining in a contract for another year with Capita that the Council cannot simply afford.

Conclusion

Barnet Council must end both Capita contracts at the Policy and Resources Committee on 11 December 2018.