

Committee/Meeting: Cabinet	Date: 3 August 2011	Classification: Unrestricted	Report No: (CAB 028/112)
Report of: Corporate Director: Resources Originating officer(s) Richard Parsons, Service Head Procurement and Corporate Programmes Resources Ext 4608		Title: Provision of Temporary Staff Wards Affected: All	

Lead Member	Resources
Community Plan Theme	One Tower Hamlets
Strategic Priority	Resources

1. **SUMMARY**

- 1.1 The Council's contract with Comensura for supply of a vendor neutral managed service provider function for the provision of temporary staff is due to expire in September. Following Cabinet approvals in 2010 to proceed with arrangements for a new contract, work has been progressing. However, the Executive has now asked officers:
- To set up a local talent pool; and
 - To look into bringing the provision of the managed service provider function in-house.
- 1.2 This report responds to those requests, with suggestions for an approach which maintains service, while working towards an in-sourced provision.

2. **DECISION REQUIRED**

Cabinet is recommended to:-

- 2.1 Agree that the Director of Development & Renewal investigates the feasibility of setting up a local needs-based talent pool as part of the work on the Enterprise Strategy, and report back to Cabinet in due course;
- 2.2 Agree that the award of a contract for a Managed Service Provider from September 2011 should proceed as

planned and previously agreed by Cabinet; but for a limited period ideally of 12 months, but not more than 18 months, to allow for a full review and corresponding implementation plan for bringing the service in-house to be undertaken;

- 2.3 Agree that a further report be brought to Cabinet subsequent to the feasibility study, on the practicalities, costs, benefits and timescales of bringing the service in-house.

3. REASONS FOR THE DECISIONS

- 3.1 The Constitution requires Cabinet approval of all contract awards over £250,000 in value. Cabinet has previously, in March, July and October 2010, noted the intentions to award a contract to appoint a managed service provider for the provision of temporary staff, devolving the contract award decision to the Corporate Director of Resources. However, the Executive has recently asked for a review of this decision.

4. ALTERNATIVE OPTIONS

- 4.1 The feasibility study referred to in this report will fully investigate the alternative options open to the Council.

5. BACKGROUND

- 5.1 Comensura was appointed as the Council's vendor neutral managed service provider for provision of temporary staff in September 2006, and the contract expires in September 2011. A managed service provider acts as an intermediary between the Council and its network of staffing agencies, performing the following roles.

- Coordination of total agency supply across the organisation.
- Provision of an appropriate management system, allowing full electronic exchange of all documents in the appointment and payment of temporary staff.
- Managing the supply base, including negotiating competitive mark-ups, monitoring of service quality, problem resolution etc.
- Provision of comprehensive management information, allowing transparency on total deployment of temps, and detailed workforce data.
- Payment of invoices to the staffing agencies.
- Assurance on legal matters, safeguarding, etc.

- 5.2 It is worth recalling the reasons for setting up the contract in the first place. The Cabinet report in September, which secured agreement to the contract noted:

- The Council's expenditure on temporary staff was around £30 million per annum.
- The Council was using approximately 400 agencies, and processing 30,000 invoices per annum.
- At the time, procurement processes for temps were not consistent and transparent across the Council.
- The key to success was seen as appointment of an experienced managed service provider, with skilled account managers, to provide a high level of service to all parts of the Council.
- There was a pre-requisite for excellent management systems which would produce effective management information and automate processes.
- A managed service provider would be responsible for re-negotiation of extant supply contracts to reduce supplier margins, and agreeing generic margins with suppliers, and benchmarking of pay rates, with a significant opportunity for financial savings.

5.3 In summary, prior to appointment of a Managed Service Provider, the Council's use of temporary agency staff was in disarray: there was no corporate control over which agents were used, or which staff were appointed; costs were inconsistent across the Council, and very much higher than they are today; perhaps most importantly, the Council was at risk of falling foul of safeguarding requirements, such as CRB checks. It is vital that, if the Council is to change the way it manages its population of temporary agency staff, it does so in a way which effectively manages costs and risks.

5.4 This is particularly relevant at the current time, as the new Agency Workers' Directive comes into force in October 2011. This legislation will provide temporary agency workers with equal treatment in terms of basic working and employment conditions as if they had been employed directly by the Council. The implementation of the Directive will have major implications on the costs and use of agency workers for local authorities, and the Managed Service Provider will have a key role to play to ensure that the Council does not contravene the regulations.

5.5 During the period of the current Contract, the Council has worked closely with Comensura to improve costs, service, controls and Workforce-To-Reflect-The-Community. This has included:

- Reduction in agency mark-ups of £8.1 million.
- Management of the population of temporary staff, which has led to a reduction in annual expenditure from a high of just under £30 million, to a sum expected to be in the region of £10 million for 2011/12.
- Implementation of the London Living Wage for all temps: Tower Hamlets was one of the first Councils to adopt the LLW in this way, and the use of a managed service provider has expedited this.

- The use of Skillsmatch as the first port of call for all posts at scale 6 or below.
 - Tiering of agencies, to ensure that all posts are initially channelled towards local agencies and Skillsmatch, before being opened up to the wider network.
 - Assurances in respect of safeguarding, which ensure that CRB and other necessary checks are completed and all temps are legally entitled to work.
- 5.6 One of the concerns expressed about the use of an external Managed Service Provider has been that they will not actively seek to work with local agents, recruit local staff, or address Workforce-to-Reflect-the-Community objectives. In reality, this need not be a concern, as the Council's priorities in these areas can be an integral part of the appointment process for the provider, and it will be possible to establish appropriate performance indicators.
- 5.7 Plans to award a new contract for the appointment of a managed service provider for the provision of temporary staff were reported to Cabinet as part of the Contracts Forward Plan in March, July and October 2010. Cabinet agreed to proceed, devolving the contract award decision to the Corporate Director of Resources. However, with plans for the letting of a new contract at an advanced stage, the Executive has recently expressed a wish for:
- Establishment of an in-house talent pool of local people available for work with the Council; and
 - The provision of the managed service provider for the provision of a temporary staff function to be brought in-house.
- 5.8 This report sets out how these objectives may be achieved without damaging service, or increasing risk and cost.

6 LOCAL TALENT POOL

- 6.1 A talent pool is a database consisting of profiles of individuals available for work with the Council. When a vacancy arises, the Council can draw on the talent pool and match the job specification with the profile of candidates in the pool. The people in the pool would develop a knowledge of how the Council operates, and the requirements of the Council as an employer. Access to the pool would allow the Council to ensure that jobs go to local people.
- 6.2 A local talent pool can be a very effective vehicle for attracting local people into general administrative and clerical posts. However, it is complex to operate and is not a panacea. Individuals in the pool will not necessarily possess the right skills and experience for the Council's needs. In particular, it is debatable whether the talent pool can provide the specific skills and qualifications required in posts such as workers in social care, healthcare, ICT, education, and legal and executive

positions, which currently make up almost 50% of the temporary staff population. The talent pool must reflect the needs of the organisation, or it will fail both the Council and the individuals seeking work.

- 6.3 The Children, Schools and Families Directorate's Contract Services operates a form of staff pool, but not a fully-fledged talent pool. The service remains reliant on the use of temps through the Comensura contract.
- 6.3 The concept of a local talent pool may be seen as integral to the work on the Council's Enterprise Strategy, and it is therefore proposed that the Director of Development and Renewal should investigate the feasibility of setting up a needs-based talent pool as part of the strategy's action plan and report back in due course on a possible implementation.

7 PROVISION OF TEMPORARY STAFF

- 7.1 Through the efforts of members and officers, the reliance on temporary staff has fallen dramatically over the last two years. From an annual expenditure of approximately £30 million when the contract with Comensura started in 2006, the level of business in April and May 2011 indicates a likely spend in the current financial year of under £10 million.
- 7.2 The population of temporary staff at the end of May 2011 totalled 385 people. The jobs performed by the agency temps are wide and varied, but include the following:
- 62 home carers;
 - 61 social care workers;
 - 42 catering staff working in school kitchens;
 - 28 workers involved in care for children and families (family support officers, crèche officers, nursery assistants, etc.);
 - 21 building and maintenance specialists (architects, clerks of works, surveyors, engineers, etc.);
 - 14 drivers and passenger assistants;
 - 11 lawyers and legal specialists; and
 - 11 Civil Enforcement Officers.
- 7.3 These 250 posts represent 65% of the total number of temps, and demonstrate the breadth and complexity of the Council's requirements. Many require specialist skills and/or safeguarding checks, and they are essential to the service which the Council delivers to its residents. These categories of staff are unlikely to be those which can be sourced through a local talent pool.
- 7.4 The service provided by a Managed Service Provider is complex, and the risks of a transfer to an in-house provision, if not properly planned and implemented, are great. These risks include:

- Increased agency mark-ups, with an estimated annual increase in prices of approximately £400K.
- The need to deal with the new Agency Workers' Directive, which becomes effective in October; immediately after the end of the Comensura contract. Failure to properly respond to the Directive would leave the Council exposed to potential litigation from temps, and significant costs.
- The prospect of losing control over safeguarding checks: Comensura currently audit all agencies for matters such as CRB checks, and this assurance would be lost without adequate alternative arrangements being put in place.
- An increase in invoice processing, from the current 12 invoices per annum, to an estimated 20,000: a significant administrative burden and cost. The Council processes a total of 120,000 supplier invoices each year, across all goods and services, so a reversion to direct payment of temporary staff invoices would increase the number of invoices processed by 16%. When the Comensura contract was implemented, all Directorate budgets were top-sliced to reflect the reduced administrative burden, and it is possible that this would need to be factored back into budgets.
- Increased staffing costs and lack of availability of appropriately skilled and experienced personnel to run the service.
- Inability to staff a 24/7 helpdesk, and therefore failure to fulfil key roles needed at short notice – e.g. kitchen assistants.
- Potential difficulties in selecting, procuring, installing and implementing an appropriate management system, with interfaces to the JDE finance system and R2P;
- Reduction in "fulfilment" rates: Comensura are currently able to fill 99.6% of posts; a typical in-house service runs at approximately 70%. A fall in fulfilment rate of this magnitude would be likely to lead to either a serious impact upon services provided, or managers being forced to recruit temporary staff from non-approved sources, and a consequent loss of control and visibility.
- If the role of managed service provider is to be bought in-house, the Council must separately procure the service of the agencies providing the temps: this will in itself take a minimum of six months.

7.5 Time constraints simply do not permit a thorough analysis of the issues linked to in-sourcing the managed service provider function, and transfer of the service in time for the expiry of the Comensura contract in September 2011, although Appendix A shows an initial calculation of the additional costs of bringing the service in-house. It is essential that the benefits of a managed service provider are not lost, and that any migration to an in-house provision allows adequate time for a seamless implementation.

7.6 Officers' investigations have uncovered just five other Councils who have brought this service in-house, and all of these have been

collaborative ventures working with external partners. Examples of these authorities include:

- Birmingham City Council, a joint venture which is due to go live in September, has already taken over a year;
- Cambridgeshire County Council, with a much smaller requirement for temps, took 10 months to set up their in-house service, in an implementation which was seen as particularly aggressive.

7.7 It is therefore proposed that the award of a contract for a Managed Service Provider for the period from September 2011 should proceed as planned and previously agreed by Cabinet, for a limited contract period of up to 18 months. This will provide the continuity and cover to enable the undertaking a feasibility study for bringing the service in-house. Subject to the outcome of this study, and through Cabinet decision, this could then be followed by bringing the service in-house, on an implementation plan which would be likely to cover a 12-month period.

8. COMMENTS OF THE CHIEF FINANCIAL OFFICER

8.1 This report describes the proposals for reviewing the Council's contract arrangements for provision of temporary staff through its Managed Service Provide Comensura when the contract expires in September 2011. The current annual cost of the contract for a Managed Service Provider is £380,000.

8.2 The report makes two recommendations with financial implications described in paragraphs 2.1 and 2.2. The costs of the proposed feasibility study of setting up a local needs-based talent pool will be required to be contained within existing Directorate funding. Also, the costs of another Managed Service Provider contract from September will be subject to negotiations and how best it secures value for money to the Council.

8.3 Appendix A provides further details of the additional costs of in-sourcing a Managed Service Provider function in the Council as one of the proposals described in the report. The Council is under a legal duty to secure best value for the use of public funds and assets. Consequently, a further review of options for in-sourcing should be subject to whether the options meet these criteria as the Council is now subject to a much tougher financial environment.

8.4 In the event that the Council agrees further action in response to this report's recommendations then officers will be obliged to seek the appropriate financial approval before further financial commitments are made.

9. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 9.1 Under the Local Government Act 1999 the Council has a duty to secure continuous improvement in the way in which its functions are exercised having regard to a combination of economy efficiency and effectiveness. Members need to take this duty into account in taking their decision on this matter. The report highlights the risks involved in taking this service back in house particularly in light of the additional regulatory burdens which have been imposed since the service was last administered by the Council.

10. ONE TOWER HAMLETS CONSIDERATIONS

- 10.1 Equalities and diversity implications and Workforce-to-Reflect-the-Community are essential considerations when looking at the provision of temporary staff. The proposals in this report are intended to ensure that they are satisfactorily dealt with, and that there is a consistently high level of cost-effective service provided across the Council, which also engages the local supply community in the provision of the staff.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 11.1 Potential providers will be required to address sustainability issues in all of their activities, and sustainability will be taken into account in the contract-letting process.

12. RISK MANAGEMENT IMPLICATIONS

- 12.1 Risk management will be integral in the appointment of a managed service provider, and the provision of the service. Risk will also be taken into account in the work investigating setting up of a needs-based talent pool, and the in-sourcing of the managed service provision.

13. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 13.1 There are no specific crime and disorder reduction implications.

14. EFFICIENCY STATEMENT

- 14.1 This exercise is designed to manage the provision of temporary staff in the most efficient and cost-effective manner.

15. APPENDICES

APPENDIX A: Calculation of Additional Costs of In-Sourcing Managed Service Provider Function

**Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report**

None

APPENDIX A

Calculation of Additional Costs of In-Sourcing Managed Service Provider Function

Annual staffing costs, calculated at 7 staff x £40K per annum (1 Manager, 2 Relationship Managers, 1 Systems Administrator, 3 Helpdesk operators)	£280,000
Annual systems costs, calculated at £60K for procurement of the system, plus annual licence fees of £10K, plus implementation costs of £50K, amortised over 5 years	£32,000
Annual increased agency mark-ups, calculated at 5% higher than current, due to lost buying power	£400,000
TOTAL INCREASED COSTS	£712,000
Less Anticipated Cost of managing provider fee	-£200,000
NET TOTAL INCREASED COSTS	£512,000