

**SOMERSET COUNTY COUNCIL**

**SOUTHWEST ONE REVIEW**  
**June 2010**

**J Wilkins**  
**Chairman**  
**Review Panel**

## **SOUTHWEST ONE REVIEW**

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Ken Maddock - Leader of the Council

### **REVIEW PANEL**

John Dyke - County Councillor  
Frances Nicholson - County Councillor  
John Wilkins (Chairman) - County Councillor

Assisted by  
Andy Coupé - Head of Cabinet Office

## **Review of Southwest One**

### **Background**

This review has been undertaken at the instigation of the Leader of the Council to review the progress of the Southwest One contract, being now over two years into the 10 year contract period.

### **Scope**

The focus of the review was specifically to examine the current position from the point of view of Somerset County Council (SCC). Meetings have been held with a range of interested parties to obtain views and feedback.

It was not part of the review to re-examine the original contract negotiations, but the key business cases and projections have formed part of the base reference point.

## **Review of Southwest One**

### **Areas examined**

#### **1. Progress against financial projections**

It should be noted that the contract has two key financial elements. The first is to achieve and secure savings for SCC on the costs of services transferred to Southwest One and the second is to generate additional benefits and savings, mainly from transformation and procurement, over the term of the contract.

Southwest One would benefit under its own business plan from growth, efficiencies (including attrition gains) and systems savings.

It was found that the contract has been successful in the first objective of containing costs to SCC to within the original budget for the initial transfer of services, with evidence seen of additional savings and benefits also being achieved. These savings are ongoing.

A significant benefit for SCC has been the novation (transfer) of service contracts to Southwest One which effectively fixes these costs to SCC at 2007 levels. Price rises, and some volumes, are absorbed and controlled by Southwest One within their own efficiency model.

Regarding the achievement of additional savings and benefits under the second element (some of which are notional), it was found that the financial and benefits projections and measures are extremely complex and do not, the Review Panel considers, provide an easy view of the actual current position. Figures provided do, however, tend to indicate that the anticipated procurement savings are currently falling short of projections.

Currently identified projected savings to SCC from procurement (the most substantial individual element) are approximately £45m, with approximately £2m having been delivered to date. This is substantially below projections. See also Section 3 below.

It is, nevertheless, acknowledged that the greater share of gains is projected for the remaining term of the Contract.

There appears, however, to be insufficient clear plans for the identification and delivery of future procurement savings, and work also still needs to be done to ensure that the currently identified savings of £45m are delivered.

#### **2. Service provision**

A considerable number of varied service lines have been transferred from SCC to Southwest One.

Although compliance with key contract performance indicators appears to have been generally good, the experience of service delivery for users in some key areas has, in practice, not fully reflected these measures.

Both major and minor system problems and difficulties in implementation have been experienced which have often involved SCC staff in additional time and effort in working around these issues. A significant area of difficulty has been in relation to financial and processing components of SAP which have also had a serious effect on

others outside SCC. As a result, there appears to have been substantial but unquantified additional direct and indirect costs incurred by the County Council and others in resolving the various difficulties encountered.

Southwest One has also provided intensive additional resources at its own expense, notably in addressing the issues that arose in relation to the SAP phase one roll out where lessons have clearly been learned and applied to the more successful phase two implementation. More work is, however, still required as a priority in some key areas where concerns remain around the efficiency and effectiveness of service delivery and financial systems.

Whilst not dismissing the seriousness of these issues they have, understandably, drawn attention away from other enhancements that have been introduced during the same period.

Initial management, training and leadership gaps have, however, led to some weaknesses in working practices and confusion in establishing clear lines of responsibility for staff seconded to Southwest One with some staff unclear as to where their prime allegiances lie. In part, this issue relates to the staff secondment model used within the contract. A common concern also appears to exist about the efficiency of the largely process driven approach employed by Southwest One.

These areas need to be addressed if the overall benefits package is to be successfully realised.

In addition, it appears to the Review Panel that certain elements, such as advisory services, may no longer fit comfortably within the Southwest One umbrella and could be re-examined as they are flexible, reactive, and strategic in nature and a case could be made for them to be realigned. The impact of the lessened involvement of key associate companies Mouchel Parkman and HBS in the joint venture subsequent to contract inception will also need to be considered in this analysis.

There have, however, been notable achievements in some key areas such as Customer Contact. Business process re-engineering has helped to clarify and refine many systems, and SCC also now has greater management controls over spending. These achievements will need to be built upon in the future.

### 3. Projected benefits

It has already been mentioned that the financial and benefits measures and projections are extremely complex and do not easily show a clear view of the actual position.

The financial projections are made up of a number of key component parts such as a discount against the Unitary Charge, a move from fixed to variable pricing, performance and efficiency gains and direct investments by IBM into Southwest One. As such the consideration of value and progress must be seen in the context of these complex and long term aspects, the benefits of which are difficult to quantify at present.

Other deliverables, including the area of Economic Development, are also progressing and these, together with the direct financial benefits, now need to be driven out.

Whilst the potential gains from these components are substantial, the largest over the term of the contract is from procurement savings.

Southwest One is contractually bound at the County Council's request to bring forward savings proposals to the value of £192m gross which would need to be agreed and signed off by SCC and then delivered jointly by Southwest One and SCC. As noted in Section 1 above, however, figures provided tend to indicate that the procurement savings are currently falling short of projections, and that insufficient clear plans exist for the identification and delivery of sufficient procurement savings to achieve original projections.

## **Summary**

Whilst the original projections were detailed and based on accepted assumptions at the time, the experience of the last two years together with initial problems in establishing this innovative and complex project has, clearly, created difficulties in achieving the goals required from both sides. Following this intense learning process, a detailed review of the contract in respect of service fit and delivery, and a reappraisal of the financial projections and profile, would now be appropriate.

It must be borne in mind that considerable initial capital outlay has been incurred by both parties in transformation costs and systems enhancements which now need time to bed in and be brought to fruition and to recoup the investments made.

As mentioned in Section 1, the contract has been successful in a prime objective of containing base costs for transferred services to within and below original costs to SCC.

The contract is strong with many additional benefits for SCC projected but SCC needs to work with Southwest One to ensure these benefits are realised. Regarding questions over appropriate service fit, the contract does provide flexibility to renegotiate different elements within the overall package.

The Review Panel considers that SCC has three key options, as follows:

1. To continue to adhere to the current terms of the contract with existing obligations enforced for both parties.
2. To work towards the realisation of benefits projected and to mutually negotiate with Southwest One a realignment of the contract that seeks to secure efficiencies and both parties interests (N.B. This will need to be accompanied by a robust analysis of associated costs and financial adjustments).
3. To seek to negotiate a release from the contract, noting that this could invoke penalty clauses.

## **Recommendation**

Having taken into consideration all of the information available to the Review Panel, it is recommended that Option 2 be the preferred route and that negotiations should now be held with Southwest One to try to agree a mutually acceptable way forward.

The context of the refreshed vision for SCC will also need to be taken into account in these considerations, together with the impact on the other direct partners.