

# POLITICAL PARTIES, ELECTIONS AND REFERENDUMS ACT 2000



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## THE SPEAKER'S COMMITTEE ON THE ELECTORAL COMMISSION

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### FIRST REPORT 2014

#### TITLE

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POLITICAL PARTIES, ELECTIONS AND  
REFERENDUMS ACT 2000



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**Title**

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Third Report 2012 was published in June 2012 as HC 201 of Session 2012-13  
First Report 2013 was published in January 2013 as HC 937 of Session 2012-13  
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# Speaker's Committee First Report 2014

## 1 Introduction

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# Appendix 1: The Local Government Boundary Commission for England: LGBCE's contract for back office services

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## Introduction

1. The Local Government Boundary Commission for England (the Commission) was established on 1 April 2010. The work of the Commission centres upon completing electoral reviews to ensure the internal ward boundaries of English local authorities provide for “electoral equality, effective and convenient local government, and reflect community identities and interests”. The Commission also undertakes principal area boundary reviews, looking at authorities’ boundaries with one another.
2. The NAO is required by statute to report annually to the Speakers Committee on an aspect of the value for money achieved by the Commission. Given the Commission's size and the risks of disproportionate inspection, we agreed with the Committee that we meet the statutory requirement with shorter reports in some years. The 2013-14 report is such a report.
3. Our first three reports<sup>1</sup> noted progress in the Commission's understanding of its variable costs of conducting reviews. This report focuses on the Commission's understanding and management of its fixed cost base. Fixed costs make up a significant proportion of total Commission costs. This report focuses on the Commission's most significant element of this, its contract with the Local Government Association (LGA) for back office services including human resources, financial and management accounting, facilities management and information technology. These services are provided by a third party service provider, Liberata.
4. The conclusions made and observations drawn during this study are based on analysis of costing reports, contracts, management accounts, and benchmarking data. We also conducted interviews with staff at the Commission, the LGA and Liberata and reviewed our findings against the Office of Government Commerce<sup>2</sup> (OGC) and National Audit Office best practice guidance on securing Value for Money in contract management. The review focuses on two key elements:
  - a. The contract costs, and;
  - b. The contract management.

## The contract costs

5. **The Commission's contract with the LGA for back office services is a significant cost to the Commission.** In 2010 the Commission entered into a five year agreement with the LGA to join the LGA's pre-existing contract with Liberata for the provision of back office services. The contract makes up almost a fifth of the Commission's total costs annually, and is

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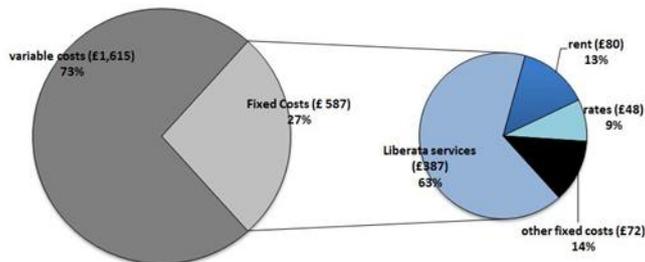
<sup>1</sup> Speaker's Committee Third Report 2013, HC1069, Appendix 1: The Local Government Boundary Commission for England: *The Costing System*; pp. 4–7; Speaker's Committee Second Report 2012, HC1898, Appendix 2: Local Government Boundary Commission for England: *Progress Against the 2011–12 to 2015–16 Corporate Plan*; pp. 22–35; and Speaker's Committee First Report 2011, HC 916, Appendix 2: Local Government Boundary Commission for England: *2011–12 to 2015–1: Corporate Plan*; pp. 37–61

<sup>2</sup> The Office of Government Commerce was absorbed in 2010 into the Efficiency and Reform Group in the Cabinet Office. Most of its functions are now carried out by the Cabinet Office's Crown Commercial Service.

in addition to the cost of the Commission's own corporate and office management staff. With rent and rates, also payable to the LGA, the LGA accounts for 88 per cent of the Commission's fixed costs, making it a significant partner for the Commission, although from the LGA's perspective the Commission only has a 5 per cent share of its contract with Liberata.

Figure 1

### The Commission's 2013-14 budgeted costs (£'000)



Source: Local Government Boundary Commission for England's monthly management accounts, period 8, 2013-14

**6. The contract cost has declined over the course of the contract.** Since 2010 total contract costs to the LGA have reduced by 23 per cent to £6.5 million. This reduction is the result of a programme of renegotiation of cost and rationalization of service initiated by the LGA. The Commission has benefited from a 19 per cent reduction in its pro-rated contribution since its share of the total employees covered by the contract has risen due to the LGA's staff reductions. It now pays an annual VAT inclusive fee of £387,000 to the LGA.<sup>3</sup>

### Understanding the Costs

**7. The LGA charge a contract fee to the Commission based broadly on headcount of employees, though fee calculations do not use up to date information.** Since 2010-11 Liberata has charged the LGA an additional annual fee of £129,000 for including the Commission within the main contract, due to the resulting increase in both volume and additional services to meet HM Treasury accounting requirements. The LGA broadly allocates the total Liberata cost across participating bodies on a per capita basis, and the LGA charged the Commission £323,000 plus VAT in 2013-14. We identified that the LGA's calculations have used unchanged staff numbers for the Commission in its calculations since 2010-11, whereas the Commission's current staff count (23) is approximately 20 per cent lower than the 28 used in calculations. The impact of the LGA using a 20 per cent lower staff count in its calculations would be potentially a £44,000 reduction to the 2013-14 contract charge.

**8. The charge to the Commission is not fully transparent and therefore the relative cost of specific services is not clear.** The LGA aims to apportion costs evenly. However, we identified it does not provide the Commission with a breakdown of calculations, or reconfirm

<sup>3</sup> LGA's contract costs allocation data. Total staff numbers within the main contract (including the Commission) have reduced from 837 to 401 per LGA data. The Commission's staff numbers used in this analysis are a constant 28.

staff numbers used in its calculations. Equally, although the Commission contributes an equal share, it does not receive an equal share of services. Of the 70 services provided to the LGA, the Commission is entitled to 51 (73 per cent), and 75 per cent of the Information Management services which account for the largest part of the contract.<sup>4</sup> The LGA maintains that the Commission is not charged for the parts of the contract it does not receive. However, since costs are not broken down at the service level, the Commission is unable to confirm this, or to interrogate the relative expense of different services.

**9. The cost of the Commission's specialist services in particular lacks clarity.** One particular area where its understanding of costs is not yet clear is where the Commission has required bespoke services to comply with HM Treasury reporting requirements. These services are not required by any other body in the contract, who are all local government bodies. The precise nature of the additional services for the Commission and what is covered by the standard contract services is not clear to all parties.

### **Benchmarking**

**10. The LGA has achieved savings within the contract through benchmarking.** Reliable comparable benchmarks are hard to establish for back office services without specific market research. The LGA did conduct its own benchmarking exercise in 2012 which led to savings in the renegotiated Liberata contract as a whole, which the LGA passed on to the Commission.

**11. The Commission should be aware of how its back office costs compare to government shared service offerings.** A NAO report<sup>5</sup> in 2012 outlined the cost per FTE across five shared service centres for the provision of core back office services to government, including to some organisations of similar size to the Commission. To increase comparability, we have adjusted the charge for Liberata services to exclude both information management and facilities management, which these shared service centres do not provide, though these account for the majority of the contract's cost (74 per cent). While the Commission would be unlikely to achieve the same level of Value for Money because its size does not make it such an attractive customer to a shared services centre, for comparable services (human resources, finance, procurement, and payroll) we estimate the Commission currently pays more than double the most expensive shared service centre (RCUK), and seven times more than the DWP centre which is used as the minimum benchmark for the Cabinet Office's new shared service centre plans (see paragraph 12).

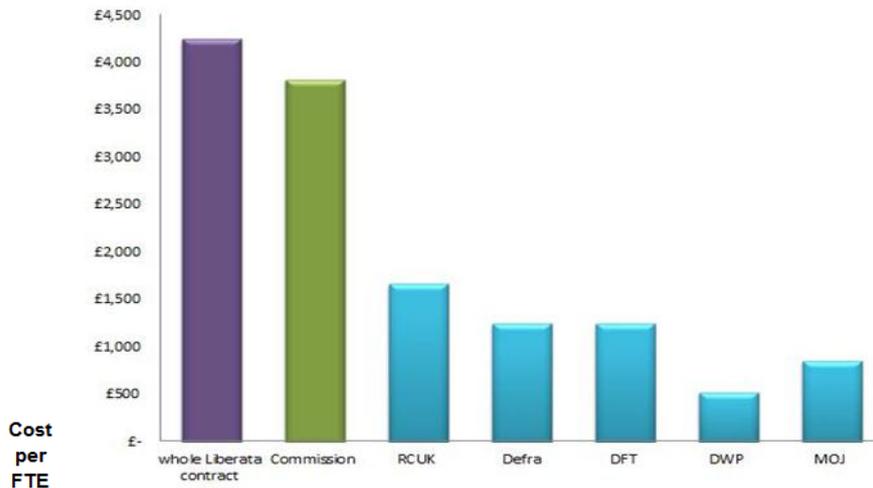
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<sup>4</sup> Local Government Association, *Service Specifications 2*, Appendix 1.

<sup>5</sup> Comptroller and Auditor General, *Efficiency and reform in government corporate functions through shared service centres*, HC 1790, National Audit Office, March 2012. Some shared service centres provide back office services to organisations of comparable size to the Commission. For instance, Defra shared service centre provided services to 14 organisations including one with 34 members of staff, and four with around 100 staff or less.

Figure 2

### Commission back office costs benchmarked against shared service centres



Source: LGA Benchmarking exercise, NAO analysis of shared service centres across government

#### Notes

1. The total per capita costs of the Liberata contract for the Commission are £14,660, rather than £3,820 as shown here, since they include information management costs and facilities management of the Commission's premises. For a fairer comparison with services provided by other shared service centres, the LGA and Commission's costs have been adjusted to include only those services provided by the other shared service centres: finance, payroll, procurement, and human resources. Costs for information management and facilities management have been omitted. Thus this chart benchmarks the total per capita cost against only 26 per cent of the Liberata contract cost.
2. The costs associated with each shared service centre date from 2010-11 and have been adjusted for by a 2% per annum inflation
3. Benchmarked shared service centres provide back office support to large volumes of users, ranging from 8,800 (Defra) to 135,000 (DWP), though including providing for organisations of comparable size to the Commission. The Liberata contract has a total 400 users, and the Commission has 23 staff, which limits possible economies of scale, especially when a bespoke service offering is required. See: Comptroller and Auditor General, *Efficiency and reform in government corporate functions through shared service centres*, HC 1790, National Audit Office, March 2012

**12. The new shared services landscape for central government provides the Commission with an opportunity to explore its back office options for core services.** In 2011 the Cabinet Office published its plans for the first of two independent shared service centres, the ISSC 1, with the intention of providing core back office services specifically for central government bodies. There are early plans to develop a reduced offering for small entities. Costs, including joining fee, are currently unpublished, though the charging basis may be offered on either a transactional basis or a headcount basis. Given the Commission's relatively low number of transactions, a contract charged on a transactional basis may prove cheaper and more transparent. This new landscape provides a context for the Commission to consider how it might reduce back office costs as a proportion of its total costs.

**13. For information management and facilities management services, there may also be opportunities for the Commission to explore savings.** For the 74 per cent of the contract costs outside the shared service core offering, we estimate based on the LGA's own benchmarking that 50 per cent relates to the costs of information management services and 24 per cent relates to facilities management. The Commission's information management costs equate to approximately £7,000 per employee. While all its services are not covered by the standard shared services there may be other competitive options which meet the Commission's needs. Similarly, the Commission's facilities management costs equate to £34 per square foot.

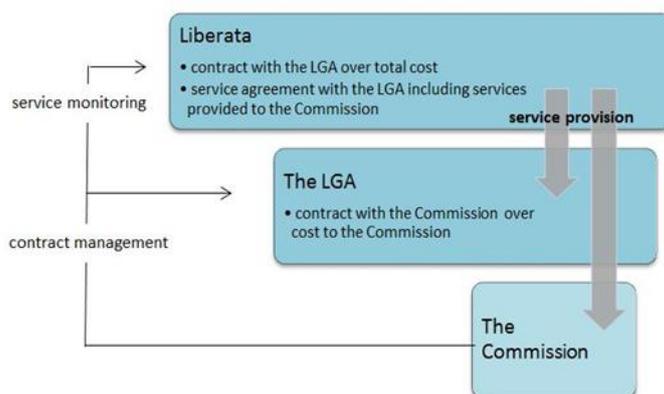
This includes the service charge of £7 per square foot and utilities costs, but also the cost of additional risk assessments, health and safety training and kitchen refreshments. The Commission may be able to look at whether it can reduce its requirements for some of these services.

## The Commission's contract management

**14. The contract requires the Commission to actively manage two relationships, with the LGA and Liberata.** In the current contractual arrangement, the Commission manages its contractual relationship with the LGA as well as service monitoring with Liberata. This relationship was informal and close when the LGA and the Commission shared a building but has required formalisation as the LGA relocated to other premises.

Figure 3

### The Contract Structure



Source: Source: NAO analysis

**15.** We reviewed the Commission's contract management against a set of criteria, developed by the OGC and NAO<sup>6</sup>.

<sup>6</sup> The Office of Government Commerce and The National Audit office, *Good Practice Contract Management Framework*, December 2008.

Figure 4

**Analysis of the Commission's contract management**

OGC/NAO criteria for good contract management	NAO assessment of the Commission's contract management	performance evaluation
<b>Planning and governance:</b> A senior manager responsible for driving performance.	The Commission has a clear chain of responsibility for contract management which ends with the Finance Director.	● ● ●
<b>People:</b> the contract manager has detailed knowledge of the contract, service agreement, and supplier performance.	Staff have extensive experience of day to day follow up on service needs, but a lack of clarity over contractual entitlements.	● ●
<b>Administration:</b> managing the physical contract and timetable for decisions.	Contract management is informal rather than fully formalised. The Commission had difficulty locating a copy of the contract held by the Commission. The contract timetable was not clear to them.	● ●
<b>Managing relationships:</b> the development of strong relationships that facilitate delivery	Strong personal relations with both Liberata and the LGA, but informal. Since the relocation of the LGA, relations have needed a more formal mechanism for effective communication.	● ●
<b>Managing performance:</b> Ensuring the service is in line with the contract.	Effective mechanisms for managing performance are missing, making performance monitoring reactive to issues rather than routine. Standard LGA performance meetings with Liberata are too high level for the Commission's needs. There is no periodic proportionate mechanism for the Commission to review performance. A complaints mechanism was recently established by LGA to respond to service performance issues.	●
<b>Payment and incentives:</b> payment mechanisms are documented and understood by all parties.	The payment mechanism is understood. Charges are effectively fixed for the Commission given the low level of impact their size and service needs have on Liberata's charges. There is limited understanding of cost apportionment. The charging basis is not an incentive for the Commission to act as an intelligent customer.	● ●
<b>Risk:</b> contractual risk management in place; risks formally identified, monitored and actioned.	The Commission mitigated its risk exposure by joining existing contract. Risks around charging are not managed fully as the Commission does not fully understand the basis around annual re-costing and was unaware of LGA's use of outdated figures in calculating the annual charge.	● ●
<b>Contract development:</b> 1) The contract is regularly reviewed to ensure it meets evolving business needs. 2) Vfm of current services takes place. 3) open book pricing is used when appropriate	As a small partner, the Commission has historically had a more reactive than proactive approach: 1) The Commission has had limited involvement in the LGA's renegotiation and rationalisation of the Liberata contract to ensure it is reasonably focused on the Commission's business needs. It is pressing for price reductions. 2) The Value for Money of the service offering, particularly of bespoke services such as HM Treasury reporting, is not systematically reanalysed by the Commission versus bringing them back in house. 3) Costs are not broken down by component service, the Commission does not engage in the annual process to calculate charges	●
<b>Supplier development:</b> improving supplier performance and capability, and understanding how supplier development fits within supplier goals	There is limited scope given the Commission's size. In 2012-13 the LGA engaged in a benchmarking activity looking to compare the vfm of the main Liberata contract. The Commission had limited engagement in this exercise and did not have a copy of the benchmarking results, though requested one during the course of the audit.	● ●
<b>Supplier relationship management:</b> a supplier relationship management programme is planned and structured.	The Commission manages its relationship with Liberata and with LGA through informal channels. Both Liberata and the LGA assert that more formal mechanisms of communication are needed and are being developed.	● ●
<b>Market management:</b> processes in place to evaluate options of delivering process in house and market intelligence to monitor for alternative suppliers.	The Commission has limited knowledge of market options, though project for exploring back office options from 2015 is underway, including options focused on central government such as ISSC1. There is limited exploration of bringing bespoke processes back in house to allow acceptance of more standard offering. Proposed consideration of cheaper options for information management and facilities management.	●

● ● ● Satisfactory  
 ● ● Some areas to address  
 ● Immediate action required

Source: Source: NAO Analysis using OGC/NAO contract framework

**16. This review highlights that the Commission needs to prioritise its contract management.** Through its plan for formalised service meetings with both the LGA and Liberata, the Commission is looking to build its contract management capacity to monitor service quality in the short term and to be an intelligent customer of shared services going forward. Based on our assessment, the opportunity for management to improve in-house capability to ensure value for money lies around:

- a. Improving both its understanding of the contract and its detailed knowledge of its service entitlements and the precise costs of the services and additional services it is paying for; and
- b. Ensuring value through proactive management and formal monitoring of service provision and actual use in a periodic and proportionate manner.

**17. The Commission has begun to explore future options, but more work needs to be done.** The contract with the LGA expires in April of 2015. The Commission recognises this as an opportunity to secure a renegotiated contract which meets the business needs of the Commission, and is looking at options that allow it to take advantage of the savings available from standard shared service offerings.

## Conclusion and Recommendations

### *Conclusion*

**18.** While the Commission's back office costs have reduced since 2010-11, its understanding of these costs and the allocation of what it is paying for remains incomplete, particularly for bespoke services such as HM Treasury reporting. Benchmarking data suggests that even for an organization of the Commission's size, cheaper alternatives may be available if it can adapt its requirements to a standard offering.

**19.** The Commission's contract management with the LGA is not sufficiently formalised or proactive to ensure it is an intelligent customer of back office services within the constraints of its size. The Commission has not established mechanisms for proportionate service monitoring or fully engaged with the LGA's annual calculations or benchmarking exercises. The Commission has an opportunity to improve its contract management and review its contract needs and options in the coming year.

### *Recommendations*

**20.** The Commission should enhance its engagement in the contract management with the LGA and service monitoring with Liberata in order to ensure that it is currently receiving value for money and to inform future strategic decision making.

The key elements to improve its effectiveness as a current customer are to:

- a. Engage with the service agreement to understand the precise details of the entitled services;
- b. Develop a proportionate mechanism for the Finance Director to monitor service performance, and;
- c. Improve the transparency of billing to ensure the LGA's 2014-15 charge reflect an accurate staff count and services received.

The Commission should also continue its work to identify future options

- d. To inform medium term planning when the contract breaks in 2015, explore benchmarking with alternative suppliers particularly those who offer Central Government services such as the ISSC1, and;
- e. Identify if any services, such as statutory accounting, could be brought back in house so that the Commission is able to remove its requirements for non-standard services.