

**Contract Variation Report**

Date of meeting	18/11/21
By	Tara Kellard, Transactional Finance Manager, Finance Investment and Risk
Title	Income Management, Cash Receipting and Electronic Payment processing system
Project Sponsor	Black, Catherine Head of Payments, Revenues, Benefits and Debt
Executive Director	Richard Ennis Interim Director of Finance Investment and Risk and Section 151 Officer
Lead Member	Cllr King Cabinet Member for Croydon Renewal
Key Decision	5921RFG  The notice of the decision will specify that the decision may not be implemented until after 13.00 hours on the 6th working day following the day on which the decision was taken unless referred to the Scrutiny and Overview Committee.

**1. Recommendations**

The Leader of the Council is recommended to :

1. Approve the variation of the current contract with Capita Business Services Ltd for the provision of Income Management, Cash Receipting and Electronic Payment Processing services for an additional contract term of 7 years from 01/5/2022 to 30/04/2029 (which includes additional barcoding bill payments service) for a value of £3,709,741 bringing total contract value to £4,789,741 and total contract length to 10 years.

**2. Background & strategic context**

The Council currently operates Income Management, Cash Receipting and Electronic Payment (e-payment) processing systems as part of arrangements to receive and manage payments into the organisation.

The contract with Capita was let on 1/5/2019 under the Kent County Supplies (KCS) managed services for business solutions framework for 3 years at a value of £1,080,000. Decision Ref 1119FR. CCB reference CCB1477/18-19.

The Council currently uses an income management system for cash collection and income distribution, e-payments and card payment processing. The Council relies on the system as a mechanism for processing payments made to the council. The arrangement provides the platform to ensure payments totalling an average of £783.5m per annum can be processed accurately and efficiently.

The system needs to interface with a number of critical business systems across the organisation to ensure income is correctly managed.

The Council also utilises a hosted solution for credit and debit card payments. This includes telephone payments, automated telephone payments, face to face payments and on-line payments. Through this system the Council processes over 419,400 card payment transactions per year, with a value of approximately £69.2m.

Payments are verified immediately with the banks to ensure that the card is valid and sufficient funds are available. Acting as a merchant (card payment transaction processors) the Council must comply with the

payment card industry data security standards (PCI DSS). The hosted solution is PCI DSS accredited, which passes on much of the responsibility for compliance to the supplier and reduces the Council's potential exposure.

Retailers or merchants who accept debit or credit cards pay a merchant service charge to their merchant service provider which is passed on to the Council by the provider.

The contract will be managed by the payments team and contains a performance mechanism to monitor supplier performance via regular service review meetings.

The Council is facing significant budget pressures and has been working with current suppliers to elicit genuine contract savings. The result of these discussions is an offer from Capita Business Services to lower card processing charges and support costs to the Council in exchange for committing to a variation of our current for an additional 7 years via the current KCS Managed Services Framework from Kent County Council. This is an allowable variation under the framework. The Council, on current transaction volumes, would save approximately £27412 per annum in charges and achieve an overall saving of £191,884 over the 7 year term.

In addition by adding barcoding electronic bill payments to this contract (current supplier Allpay) when the current contract expires 30 September 2022 will achieve approximately another £42,000 in savings. If the Council were to change supplier there would be significant ICT/Project costs as well as resource issues across the Council in changing critical back office systems that interface with the income management system.

### **3. Contract Providing for a Statutory Requirement**

The income management, cash receipting and electronic barcoding payment processing services supports statutory services such as income from the processing of Council Tax and NNDR which is a statutory requirement under the Local Government Finance Act. Income collection is critical for the council and a number of payment channels are available to meet our obligations for payment of statutory services through a number of payment channels.

### **4. Financial implications**

#### **Section 114 Essential Spend**

The requirement is considered to meet the essential spend criteria:

- Expenditure required to deliver the council's provision of statutory services at a minimum possible level (The income management, cash receipting and electronic payment processing services are essential to enable income collection for statutory services offering a number of payment channels)
- Expenditure necessary to achieve value for money or mitigate additional in year costs

By extending the current contract and adding an additional service this will ensure that the Council achieves maximum savings on current contract costs and will enable us to continue the service without interruption.

The current annual contract costs are £58,000 for annual support and maintenance for the income management system plus £434,103.03 for card charges for 2020/21 - total £492,103.03 pa.

The contract extension will commit the council to expenditure of £53188 for annual support and maintenance plus £411,503.03 card charges based on current value and volume of payments – total £464,691.03. This achieves a saving of £27,412 per year and £191,884 over the term of the extension period of 7 years.

Transaction charges will be fixed for the contract period as no indexation will apply.

The annual cost is met from revenue budgets across the organisation from the various departments utilising the cash management income system. The contract is managed by the payments team and they are responsible for recharging all card processing charges on a monthly basis against the relevant departmental budgets.

In addition by adding an additional service to this contract, barcoding electronic bill payments, when the current contract ends in September 2022 will achieve further savings of approx. £7,000 per year and £42,000 over the remaining term of the contract (6 years). Transitioning electronic bill payments from one provider can take up to 6 months in total and there is sufficient time for this to be actioned before the current contract expires.

Total savings £233,884 over 7 year years.

Details	Internal		Period of funding	External		Period of funding
	Capital	Revenue		Capital	Revenue	
Cost of original contract		1,080,000				
Cost of variation		3,709,741				
Aggregated value		4,789,741				

*(All costs are met from current revenue budgets across various departments utilising electronic bill payments and taking card payments – recharged monthly)*

## 5. Supporting information

### TCR/PCR Compliance

The contract was procured using the KCS framework which is a PCR compliant framework.

A variation is allowed under the framework terms. There is no maximum contract term limit. A variation can be entered into as long as both parties agree.

There is a procurement risk as the value of the variation will exceed the thresholds set out in PCR Regulation 72 (1) [c] and the variation does not otherwise meet the safe harbour provisions of Regulation 72. The risk of procurement challenge is considered low however. Capita are the only supplier on the framework offering the services. The contract can be terminated on 3 months' notice after 31 March 2022.

### Performance of the contract and contract management

Supplier performance has been acceptable with no major concerns and no escalations. The service manage the contract that contains a performance mechanism with support from the Category Manager as required. Regular service meetings take place with the account manager.

### Options considered (including going out to tender)

The current contract expires 31 May 2022 and going out to tender would have been considered, however, with the impact of the pandemic and the financial position of the Council the focus changed to securing a contract saving and avoiding the costs of implementing a different income cash management solution. Also, as our current supplier can offer barcoding bill payments as an additional service this

means further savings could be achieved by transitioning this service to them over the next 12 months. Our existing supplier agreed to an immediate reduction in card charges upon the extension of the current contract.

- Re-procurement is not recommended at this time for the reasons of both securing a real reduction in contract charges and the avoidance of project and implementation charges. These costs would exceed £300k as we have seen with new interface costs and the recent housing re-procurement cost of £2.5m. There is no guarantee that we would achieve the same savings on annual support, maintenance and transaction charges.
- Reductions in transaction charges will take effect from the point of contract variation signature and the provider has agreed to fixed charges for the contract term – no indexation.
- Increases in transaction charges which take effect next year will be avoided.
- There is a discount against the support and maintenance charges by combining with the transaction services.
- Comparison of transaction rates offered by Capita on other frameworks shows that the rates offered for this arrangement are lower.
- The Council has already made a significant investment in the current solution for income management system, cash receipting system and e-payments, provided by Capita. The system interfaces with a number of critical business systems across the organisation which would mean a project to replace the existing system would be complex in nature, requiring expert resources from across the organisation and from a number of third-party providers, resulting in significant costs

### **Key Risks**

The Council holds licenses for the Capita Business Services Ltd income management system software in perpetuity. This manages the income into the Council and allocates income to the relevant systems to ensure records align across the organisation. It would not make financial sense to replace this unless there were issues as both the costs and risks of this change are very high.

The option of splitting the transactional services from the software support contract was investigated and, whilst this is possible, to tender for the payment system and the payment transaction services separately, it is a high risk approach that would incur significant costs/ resources at a time when ICT resources are already stretched with numerous projects. The discount received by the council for combining the two will be lost should we retain the same income management system but migrate to another payment transactions provider. It might cost us more and we have incurred project time and costs in re-procurement

The lack of payment and income processing would cause significant damage to the Council as it would be unable to take payments which will then impact on residents and on the services provided. This new contract will ensure a continuity of service through a PCR compliant framework negating the risk of challenge from others, provide best value whilst meeting the Council's needs and achieve savings on existing costs. The risk and cost of moving this critical service would then be avoided.

There is a risk in respect of non-compliance with PCR regulation 72. However the risk of challenge is considered low and are to be compared to the benefits of accepting the risk in return for cost avoidance and reducing operational risks as set out above.

### **HR**

There are no immediate HR implications that arise from the report for the workforce at Croydon Council.

### **PSP**

The supplier has not signed up to the scheme but will be invited to join.

### **Equalities Impact**

An Initial Equality Analysis was undertaken to assess the likely adverse impact the contract award would have on protected groups compared to non-protected groups. The analysis concluded that a full equality analysis was not required because the procurement of the Income Management, Cash Receipting and Electronic Payment processing systems would not have any adverse impact on protected groups compared to non-protected groups.

### **Environmental Impact**

There are no environmental impacts arising from this award.

### **Crime and Disorder Reduction Impact**

There are no Crime and Disorder impacts arising from this award.

### **Interdependencies**

There is a payment transactions processing contract with Allpay for processing payments to the council through PayPoint/Post office. Those transactions will be transferred into this contract when that arrangement ends in September 2022 at an estimated additional cost of 76k pa and that contract will be terminated.

The income management system interfaces with multiple Croydon systems.

### **GDPR**

Information Management have confirmed a DPIA is not required and have advised that there is no sharing of personally identifiable data and therefore there is no requirement to complete a DPIA and do not see any GDPR implications with the variation to the contract.

Note that the Capita service and solution is Capita fully PCI DSS level 1 compliant as below:  
PCI DSS Level 1 certified: Payment Card Industry Data Security Standard (PCI DSS) Level 1 Compliant since 2005.  
PA-DSS compliant software: Payment Application Data Security Standard (PA-DSS) certified since 2009.  
PCI PTS compliant card machines: PIN Transaction Security (PTS) on all our Chip & PIN devices.  
P2PE used for mobile Chip and PIN and Point-to-Point Encryption (P2PE) on our mobile Chip & PIN devices

### **Social Value**

Capita will be asked to provide social value deliverables under the varied agreement.

## **6. Conclusion and reasons for recommendations**

### **A summary of the purpose of the report and reasons for recommendations**

The report recommends the variation of the contract to extend the contract for a further 7 years and add an additional service utilising the KCS Framework in order to yield a saving in contract charges as part of the councils savings programme. Details below of options considered and rejected which support this recommendation.

#### **options considered:**

1. Do nothing - this would result on the contract expiring and use of the income management system would cease resulting in the lack of payment and income processing causing significant damage to the council as it would be unable to take payments which will impact on residents and on the services provided. This option is considered not viable.

2. Engage the market through a formal tender process - running a procurement would cost additional money in order to pay for project costs, resources and ICT cost involved in changed numerous back off systems that interface with the cash receipting system.
3. Separating the payment transaction services from the payment system support and tender for the transaction services. Would increase the support charges as the applied discount would end.
4. Re-contract with Capita for a new agreement via the new framework next year when current contract ends. Note transaction rates will be higher than under the current arrangement.
5. Vary the contract and negotiate a saving on contract costs in exchange for a longer term commitment.

## 7. Outcome and approvals

CCB outcome	Date agreed	
<i>Insert outcome of CCB discussion</i>	Service Director to confirm executive director approval – Richard Ennis	<i>Matt Davis 7/12/21</i>
	Cabinet Member for Resources & Financial Governance (C&P to action) – Cllr Young	<i>2/12/21</i>
	Finance – Matt Davis	<i>7/12/21</i>
	Legal (C&P to action) send to reportsforccb@croydon.gov.uk	<i>26.10.2021</i>
	Lead Member ( <i>for values +25% contract value</i> ) Cllr King	<i>7/12/21</i>
	C&P Head of Service	<i>11/10/21</i>
	CCB copy to ccb@croydon.gov.uk	<i>CCB1712/21-22 7/12/21</i>

## 8. Comments of the Director of Law and Governance

Relevant legal considerations are addressed in the report. Whilst the risk of successful procurement challenge has been judged as low, it would be prudent to negotiate a provision enabling the contract to terminate immediately in the event of challenge, or to bring forward the date from which termination on notice can be served.

Approved by Sonia Likhari, Corporate Solicitor, on behalf of the Interim Director of Law and Governance

## 9. Chief Finance Officer comments on the financial implications

*This award generates savings of £234k over seven years and as such delivers a saving*

Approved by *Matt Davis*

*Deputy r151 Officer*