

APPENDIX 1

SUMMARY FOR BRINGING HIRING TEMPORARY WORKERS IN-HOUSE

Local Policy and Business Strategy

The current contract for the hiring of temporary workers is provided to all directorates and the Hackney Learning Trust. This contract is due to expire 10 July 2021 for the Council and 1st September 2021 for Hackney Education (formerly Hackney Learning Trust). There is no provision to extend the contract, but it can be mutually agreed with the incumbent supplier to extend the contract for a short period to allow the procurement process to be completed.

As the contract is coming to an end, it is timely and opportunistic to review the external provision model and consider whether to bring the service in-house.

The external model has been in place since 2005. In April 2017, after many years of a service provided by a master vendor, the contract was awarded to a neutral vendor. This new arrangement enabled the Council to benefit from reduction in spend initiatives, a wider agency supply chain, favourable margins, integration with Council systems, better management information on temporary workforce etc. In addition, it was felt at the time that the external service providers had better purchase expertise which should provide more effective supply chains.

The insourcing option is unlikely to be cost effective relative to the neutral vendor model currently operated because of the fixed margins, tenure rates, temp to perm and introduction fees, expertise etc. A contracted partner has the advantage and the ability to address these issues and reduce the overall cost to the Council due to economies of scale, bargaining power and expertise in the market.

The Workforce Plan recognises that there are always sound business reasons for the use of agency workers and recognises the excellent work they provide. However, there is a commitment to reduce the agency spend and headcount of agency workers. Insourcing could impact this aim because margins paid to agencies would be much higher than an outsource contracted service.

One of the aims is to ensure that the workforce reflects the make-up and talents of the borough and that local residents consider the Council as a viable employer. An insourced service would facilitate this but also the provision of a contracted service will also continue to facilitate the engagement of local residents to temporary engagement opportunities within the Council.

It is anticipated that the Council will experience financial challenges due to Fair Funding, Brexit and the recent COVID pandemic which will impact services in the coming years as a result of the economic pressures facing the UK. An insourced service will cost more annually than the fee a contracted partner would charge. As such, a contracted outsourced service will ensure best value to ensure that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes and services for the local residents.

Performance of the Current Service

When initially tendered in 2016/17, the business case provided the rationale for not recommending ('prescribing') a model of supply (e.g. Master vendor, Neutral vendor), but to approach the market with Council's requirement and then determine the best solution for meeting those requirements in terms of value for money, innovation and governance. The current suppliers bid was considered the best and complete by the tender evaluation panel. The tendered rates have strictly been adhered to subject to annual inflation for wages and statutory costs throughout the contract.

The contract has been delivered to a good standard. The contractor has supported the council in many initiatives, for example contributing to the Council's strategy of using local suppliers, Small Medium Enterprises and recruiting workers from the local area, and inputting to the strategic agenda of employment and skills and has been responsive to the needs of the Council. The contractor has supported the Council in its response to crises, for example COVID-19. There are still a small minority of service areas that have been reluctant to use the current contractor to engage temporary workers, this could be due to the fact that they want to use niche markets for hard to recruit agency requirements. Despite this, there has been a significant reduction in off contract spend. Issues with off contract spend continue to be addressed as and when they arise. Many agencies have inquired to supply to the Council directly but due to the margin levels on the contract they have decided not to enrol as a supplier.

During the contract period, the contractor has not experienced a turnover of staff and as such this has helped the contract to run by in large, relatively smoothly.

This contract has had challenges in niche areas and hard to fill roles. Occasionally there has been a perception that the contractor cannot fill these roles and processes have been implemented to ensure that all options are explored before any 'off contract' engagement is pursued.

During the contract period concerns have, from time to time, been raised by service areas about the challenges faced hiring agency workers. The contractor has been responsive to the issues and there have been meetings with the contractor at a senior level to address the issues and in the majority of cases this was successfully resolved.

The current contracting model is cost effective, provided the supplier bids an appropriate market value to enable them to resource the contract as it should be. By opting for this model, the Council avoids the risks detailed in the later tables and to some extent contributes to stimulating the local economy where the contractor sources staff from the local area. 24.3% of the agency workforce are local workers and 10.2% of the supply chain are local agencies. Furthermore, given the value of spend on this contract and the number of workers supplied, any replacement external supplier is likely to be a 'National' service provider and therefore have the flexibility to negotiate marketable margins, benefit from economies of scale, redistribute workload and resource; to and from other nearby contracts. None of this would be reasonably possible with an in house model. A Neutral Vendor or

Master Vendor should be able to provide dynamic supply chains which are essential to effective hiring of temporary workers, particularly where there is a high demand for workers in certain service areas such as qualified and unqualified social care, and environmental operations and areas under Hackney Education. Another issue that needs to be considered is the contractual relationship between the worker and the Council. The current model provides a high degree of transparency of this relationship and protects the Council against inappropriate claims from agency workers.

Service and Value For Money

It may be possible to provide similar services if bringing this contract back in-house. The hiring of temporary workers must meet the broad spectrum and be flexible to match the diverse end user requirements which can be extremely reactive creating regular pressure peaks on resource requirements. With the external model, the council pays the contractor the hourly or day rate, statutory costs and the margins. At the outset, the contract model was designed to ensure savings for the Council whereby the Council pays the contractor and the contractor is responsible for paying the supply chain enhancing 'value for money' for the Council. In addition, the contract provides a rebate on expenditure and the use of an associated company that provides payroll, compliance and contracting services for workers that are not engaged by temporary recruitment agencies or no longer want to operate under their agency at a significantly lower margin cost than the supply chain margins.

With the in-house model the Council would have to be in a position to build a supply chain, negotiate favourable marketable margins, establish processes. Tangible and intangible costs impacting the in-house model other include the following:

- higher overheads;
- training costs;
- software and continued contractual management of that software;
- lack of knowledge and expertise to manage supply market;
- lack of economies of scale, thus an increase in cost due to significantly higher agency margins;
- out of hours service may be needed in addition to standard business hours to meet emergency requirements for temporary workers, for example in social care (maintain minimum staffing levels);
- management of the end to end engagement of temporary workers would become the Council's responsibility, so the Council would assume all contractual liabilities;
- the establishment of performance monitoring and accountability of the in-house service;
- payroll, compliance and contracting services for workers that are not engaged by temporary recruitment agencies or no longer want to operate under their agency.
- Audit of supply chain to ensure compliance

Given the performance of the current contract, there is little potential for improving quality with the in-house model, particularly in the early years of the contract. Indeed, it is highly likely that by bringing services in house will lead to a substantial reduction in quality and an increase in cost (particularly in the short term). Given the number of workers required, this would substantially and materially impact on the service delivery to residents.

To achieve the optimum level of service, Table 1 below provides a relatively detailed breakdown of recurrent estimated costs.

Table 1 - In-House Calculations

Job roles	Number	Total Salary	oncost	Total cost
Staffing				
Relationship Manager	1	£50,184.00	£21,579.12	£71,763.12
Senior Account Manage	1	£30,000.00	£12,900.00	£42,900.00
Account managers	2	£52,000.00	£22,360.00	£74,360.00
Other costs				
Out of hours - evenings and weekends				£10,000.00
Contingency				£10,000.00
Total employee cost				£209,023.12
Other costs				
IT technology fee (maintenance, updates and support) (*)				£358,900.00
Total cost				
(*) 0.97% of annual spend				£567,923.12

Assumptions

In order to put some indicative costs forward for bringing the service back in-house a number of known facts and assumptions have been made in the absence of known information.

Many of the costs used for these calculations are estimated as waiting for official financial information from the supplier regarding their employee and overhead costs could delay the procurement by several weeks.

The following table represents the contract fees and margins during the current contract period.

Agency margin	Management Service Provider fees
4.84%	0.46%

Assumptions – Salaries

TUPE information is not available regarding the posts. However, it is established that the current contract provides 3 on-site staff; 1 senior accounts manager and 2 account managers. These staff are likely to be under TUPE. Other staff under the contract are not directly employed to work solely with the Council and as such would not be affected by

TUPE. When TUPE occurs the current pay and Terms and Conditions of the staff transferred are protected until such time that an organisational change process takes place; this can only happen for a technical, organisational or economic reason. There will be an increase in staffing cost if the staff transfer over to the Council's Terms and Conditions.

Due to the Council's standard working week of 36 hours there will also be a need to pay overtime, where agreed, for covering a longer working day; out of hours; weekend and bank holiday cover particularly to cover the emergency engagement of agency workers that work in Waste Services, Adult and Children's Social Care, all of which have been included in the cost table.

Assumptions – Technology

As part of the contract, the supplier manages the end to end engagement of temporary workers through their technology solution. The technology solution is cloud based and owned by the contractor. The technology solution interfaces with Council's financial systems, thus streamlining the ordering, budget approval and invoicing for temporary workers. The solution has been configured to meet the Council's requirements.

To bring the service back in-house would require a technology solution to be leased. As there has been an investment of time and effort to configure the current solution, it has been assumed that the same technology would be used. There would be a cost for the system to be reintegrated again. More enhancements may be required for the in-house provision. The contingency cost will cover any enhancement required. The cost to lease the system from the current contractor is based on 0.97% of annual agency expenditure.

There would be other costs which are difficult to determine for ad hoc reporting, Business Information suite tools, reintegration and management of the reintegration.

There are other technology solutions available on the market. However, the contract cost to acquire the technology solution and to integrate to the Council systems will be costly. In addition, the implementation lead time needs to be factored in.

Assumptions – In-House Labour Rates

Accounting for all of the above, it has determined that the in-house service would need to charge internal users of the service at a rebate fee of £0.38 per agency hour.

Teckal, Hamburg exemptions or Section 95 models

Kent Commercial Services has established an arrangement to support in-house services and work with other local Authorities to efficiently implement a number of recruitments of temporary worker solutions through the Teckal, Hamburg exemptions or Section 95 models, or a blend of each. This solution is in its infancy stages as only 2 councils have taken up this solution (one of them is Kent County Council itself).

Current Contractor Spend

The expenditure includes the statutory costs, management service provider fee, and the margins to the supply chain. The expenditure also includes annual inflation increases and data for part years extrapolated to assume a full 12 months for that year.

Benchmarking has been done but without knowing the TUPE and other overhead costs that would be incurred the costs are not confirmed and these will not be known in detail until the tender process begins.

Workforce Issues

Whether the service is brought in-house or externalised, the temporary workers engaged in this contract would receive similar rates of take-home pay because of the Agency Workers Regulations 2010. It is recognised that there are hard to fill roles, niche roles and the issue of supply and demand which increase hourly and day rates.

It has been assumed that the expenditure related directly to temporary workers would be in line with current expenditure. It is likely that the Council will face challenges in the future which would increase expenditure, for example temporary home care staff following the COVID crisis, the ongoing difficulty to recruit permanent staff in social work, IT and legal etc

With regards to the in-house team, it has been assumed that industry related salary levels for each post and correlated them to the Councils established wage structure and on cost to cover the local authority benefits.

With the high standards of local authority employment, it is likely that all staff TUPE'd over to an in-house contract would eventually move to the Councils employment terms. This will ultimately increase costs.

The number of posts modelled in the in-house cost scenario demonstrates expected resource requirements including an increase in overtime to deliver the service to an acceptable level whilst covering peak demand.

Process Difficulties

There are other difficulties that make providing an in-house service challenging.

The service needs to be dynamic and extremely responsive to meet front line service user needs. This requires the ability and expertise to build and manage the supply chain. As a single entity, the Council does not have the bargaining power or economies of scale to negotiate margin discounts, tenures. In addition, it will be challenging for the Council to carry out market analysis, compliance. Legal support will be required to ensure supplier contracts and variations are continuously updated. Framework agreement would need to be established for suppliers and tiers following the initial procurement procedure. There will be no established performance and accountability monitoring of internal service.

Furthermore, the 'dynamics' of how the service runs may become influenced by the

internal politics generated by high demand service areas. As a separate contracted service this is less likely to occur and even if it does, remedial undertakings are easier to implement. The identity of an in-house service will need to be established to ensure that there is a clear line of responsibility and authority so that performance and effectiveness can be monitored and measured.

Landscape across London

Although a number of London Boroughs have explored this option there is only one borough that has actually opted for a partial in-house service. The council in question expenditure on temporary workers is about 45% of Hackney Council and the range of job categories is far less because a number of their services are externalised.

Information from London Council and other sources suggest that the main issue is not having the requisite skills in-house to manage a supply chain and the I.T. costs associated with purchasing a system that will give the benefits of single invoicing.

Risks

Service Requirement	Risk / Service Impact
Improved service of engagement of temporary workers	Higher price than external contractors due to higher overhead costs including an additional cost pressure to the pension schemes.
Faster response to issues particularly during peak periods	Requires dynamic resource management to meet demand across multiple sites with an increase in resource required to satisfy demand. Complex service delivery requires specialist management skills.
Invest in staff to improve skill levels of account managers	High staff investment at start of in-house service provision and no guarantee that trained staff will stay with the Council once trained. Existing structure and job roles may need to be reviewed

Efficient service	Both up-front and on-going management costs are high. Savings are only made when the organisation runs its own agency supply chains and can therefore internalise the cost saving from not having to pay agency fees.
Transparency of management relationship between agency worker and the Council	Agency workers may assume that the Council is the employer. Expectations to manage disciplinary and complaints (employer/employee relationship) resulting Increase in possible employment tribunal cases and other legal challenges
Potential for income generation by selling the service on to other local authorities. Teckal arrangements	Legalities and expected benefits require further research.
Recruitment skills and expertise	Increase cost to purchase these skills but can be purchased and internalised
Specialist recruitment I.T. systems with single invoicing	Expensive but these are often licensed as part of an external contract. Integration costs to the Council systems will be high.
Requisite skills in-house to manage a supply chain	Training costs
Requirement for dynamic and reactive purchasing.	Process difficulties due to other Corporate policies requiring all purchases to be completed through Cedar. Need to interface to enable the end to end firing process aligned to the Council systems. Costs high.
'Value For Money' on the supply chain. Being restricted to a small number of suppliers will not be helpful.	Lack of skills an intelligence in the early stages of an in-house operation will have negative impact

Flexible workforce to meet the needs of service areas	Contractor can resource flexibly within set margins whereas in house arrangements will allow control but would lead to higher costs due increased margins
Employee recruitment / retention.	A significant issue may be our inability to recruit appropriate temporary workers.

Conclusion

As the current contract has been procured with saving incentives

The new frameworks have been competitive in their pricing and this would be less expensive than providing the service in house, in particular the Managed Service Provider fee. The agency margins will be much higher than the current negotiated margins, as the Council does not have the bargaining power and the economies of scale.

Bringing the service in house would not result in large numbers of employees transferring to direct employment (estimate 3 employees), however, it is anticipated that there would be an estimated 187% increase in expenditure. There will be additional costs for acquiring technology and developing the systems to interface with the Council's systems to allow a dynamic end to end solution for managing the supply chain and engaging temporary workers.

Considering all the points, it is unfeasible or not desirable to bring this service in-house.