

**Report to the Leader of the County Council**  
**Report submitted by: County Treasurer**  
**Date: 7 November 2013**

**Part I - Item No.**

Electoral Division affected:  
All

## **Review of Telecare**

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### **Executive Summary**

A proposal for the Lancashire County Council Telecare, Community Alarm and Lone Worker services was developed by One Connect Limited (**OCL**) on behalf of the County Council during 2012 and the early part of 2013. This proposal was approved by the former Leader of the County Council and the Cabinet Member for Adult and Community Services on 29th April 2013. The contract to provide Telecare equipment supply and maintenance services was awarded to Tunstall Healthcare UK Ltd (**Tunstall**). Tunstall intended to subcontract with a company, Mears Care Limited, to provide a home response service. OCL would take on responsibility for the control centre monitoring for Telecare.

Following the decision by the former Leader and the Cabinet Member for Adult and Community Services, it was expected that OCL would work with Tunstall to finalise the details so that an implementation date of August 2013 could be achieved.

Negotiations between OCL and Tunstall were not concluded and no contract was signed. As a consequence of this, and the fact that OCL advised the County Council that they were not willing to deliver the proposed monitoring service element of the overall Telecare proposal, the 29 April 2013 decisions were revoked by the Deputy Leader of the County Council and the Cabinet Member for Adult and Community Services on 4<sup>th</sup> and 9<sup>th</sup> September 2013 respectively..

Tunstall have written to the County Council expressing their concerns about the contract discussions with OCL and in light of these concerns, a review has been carried out to establish whether the proposal from OCL represented value for money for the County Council and represented the best deal available.

This report focuses on the aspects of the Telecare service procured from Tunstall by OCL. Further work on the creation of the monitoring service can be carried out should this be required. The main findings of the review are:

1. Whilst it is anticipated that the rollout of Telecare Services will deliver savings to the County Council, it is estimated that the proposal from OCL would have cost the County Council £1.4m more than the tender prices submitted by Tunstall. The majority of the amount of £1.4m represents OCL increasing the prices tendered by Tunstall by adding mark ups to those tendered prices. The higher costs to the County Council are due to:
  - Tender prices for annual visits by Tunstall to service users for monitoring and repairs being increased by OCL by more than 20%.
  - Tender prices for one –off visits by Tunstall to existing service users for monitoring and repairs being increased by OCL by approximately 20%.
  - Tender prices for equipment to be provided by Tunstall being increased by OCL by on average 20%.
  - The County Council being charged by OCL for marketing costs that were already included by Tunstall as part of their tender price.
  - Monitoring equipment was purchased to establish a monitoring service that had not been fully assessed in terms of cost and benefits. The service is no longer being developed with OCL and therefore this equipment is now surplus to requirement. In addition to this, OCL increased the Tunstall tendered costs of the ICT equipment by 12% and the tendered annual maintenance costs by 20%.
  - Packages of equipment were proposed by OCL as part of the tender documentation. These packages could commit the County Council to purchasing equipment that may not have been needed by all service users. The potential financial impact of this cannot be quantified.
  - Inflation costs would be charged by OCL to the County Council even though this was not included in the tender documentation Tunstall were asked to price.
2. A one-off Investment of £2.8m was required from the County Council to establish a Telecare monitoring service without there being any evidence that savings for the County Council could be achieved. Other delivery models proposed by Tunstall were not provided to the County Council by OCL. There is no evidence that the investment would have offered value for money to the County Council or would have delivered significantly more savings to justify the investment.
3. No business case setting out the costs and savings to establish a Telecare, Community Alarm and Lone Worker Service compared to other delivery models, including utilisation of current service providers, was produced by OCL. Requests from existing providers of Telecare and community alarm services for the County Council to provide evidence on where savings could be achieved were never responded to in detail by OCL. Concerns raised by the Adult, Health and Wellbeing Directorate about the proposal and requests to consider other delivery models, including the use of current providers, were not taken forward by OCL.
4. OCL informed Tunstall that immediately upon signature of the contract document the parties (LCC and Tunstall) would be required to enter into a legal agreement to novate (transfer) the contract from the County Council to BT. The requirement to novate the contract was not agreed with Tunstall (in fact this proposition was not discussed with Tunstall during the procurement

process). BT is a direct competitor of Tunstall in the Tele care services market. Tunstall believed that a novation of the contract from the County Council to BT would have a significant adverse impact on the integrity of their commercial and intellectual property. As a result of this requirement from OCL, Tunstall were unable to sign the contract and following this OCL informed the County Council that they were not willing to deliver the proposed monitoring service element of the Telecare proposal.

5. The whole tender process and evaluation was led by the OCL Lancashire Procurement Centre of Excellence (**LPCoE**). The Adult, Health and Wellbeing Directorate were not involved in the full evaluation process and were only given access to non-financial/commercial data. The commercial discussions were carried out by OCL. The lack of transparency meant that the County Council was unable to establish whether the final proposal from OCL reflected the prices tendered by Tunstall.
6. Different funding options were proposed by Tunstall as part of the tender process which may have reduced some of the financial risks to the County Council. Tunstall were however informed by OCL that the County Council was not interested in other models. They were also instructed by OCL not to speak to any County Council officers. The different funding options were not disclosed by OCL to the County Council.

## **Conclusion**

Based on this review, there is little evidence that the Telecare proposal developed by OCL would have offered the best value for money option for the County Council. On the contrary, the findings demonstrate :

- a comprehensive approach by OCL to increasing the costs to the County Council by on average 20% more than the prices tendered by Tunstall;
- a fundamental lack of transparency in OCL's procurement processes ;and
- a failure on the part of OCL to work in partnership with the County Council to secure the best deal financially, whilst at the same time delivering the best option for service users.

OCL led on developing the telecare proposal for Lancashire including carrying out the commercial negotiations and the procurement processes. It is of concern that, on the face of it, OCL have used this position to secure financial benefits for itself and BT at the expense of the County Council. This is evident from the mark-ups on the prices tendered by Tunstall and OCL's inflexibility to address material concerns raised by Tunstall regarding the proposed novation of the contract.

The approach by and actions of OCL including LPCoE do not therefore appear to be in the best interests of the County Council. Clearly should similar practices have been applied by OCL to other contracts which OCL has dealt with on behalf of the County Council, the potential financial implications for the County Council could be significantly more than the £1.4m increase in costs identified in this report.

## **Recommendation**

The Leader of the County Council is asked to:

- (i) note the findings of the review of OCL's approach and actions in shaping the Telecare Services proposal for Lancashire County Council ;and
- (ii) request officers to raise the findings of the review with BT and OCL as a matter of urgency and report back to the Leader on any further recommendations considered necessary .

## **Background and Advice**

### **1. Introduction**

In 2012 Lancashire County Council took steps to develop a new model of delivery for Telecare services. During 2012 and the early part of 2013 , a proposal for the Lancashire County Council Telecare, Community Alarm and Lone Worker services was developed by One Connect Limited ("OCL ") on behalf of the County Council. This proposal was approved by the former Leader of the County Council and the Cabinet Member for Adult and Community Services on 29th April 2013. Following this, OCL worked with Tunstall to finalise the details so that an implementation date of August 2013 could be achieved.

Negotiations between OCL and Tunstall were not concluded and no contract was signed. As a consequence of this, OCL advised the County Council that they were not willing to deliver the proposed monitoring service element of the Telecare proposal. This is evidenced by an e-mail from the former Chief Executive Officer of OCL to the County Council's Assistant Chief Executive on 21 July 2013 which states ' If Tunstall don't sign with us (OCL) via you (LCC) and novations on day one there is no service from us (OCL) to deliver'. In light of this, the original decision was revoked by the Leader of the County Council and the Cabinet Member for Adult, Health and Wellbeing Services in September 2013.

Tunstall have written to the County Council expressing their concerns about the contract discussions with OCL and in particular that;

- upon signature of the contract document the parties (the County Council and Tunstall) would be required to enter into a legal agreement to novate (transfer) the contract from the County Council to BT. BT are a direct competitor of Tunstall in the Telecare services market. Tunstall believed that a novation to BT would have a significant adverse impact on the integrity of their commercial and intellectual property; and
- they had presented multiple funding options as part of the formal procurement submission to reduce financial risk to the County Council but were informed by OCL that the County Council was not interested in other models.

In light of these concerns, a review has been carried out to establish whether the proposal from OCL represented value for money for the County Council and reflected the best deal available. This report focuses on the aspects of the Telecare

service procured from Tunstall .Further work on the creation of the monitoring service can be carried out should this be required.

## **2. Business Case**

On 6 September 2012 Lancashire County Council's former Chief Executive, Phil Halsall wrote to all Chief Executives of District Councils in Lancashire to set out the County Council's vision to establish a cost effective monitoring service for the complete range of Telecare and community alarm services in Lancashire. In the report he states 'OCL has been asked by the County Council to develop a new model of delivery for Telecare' and that the proposal would see:

- The number of people receiving a Telecare service increase from 1,100 to 6,900 over a 3 year period; and
- the creation of a control centre within OCL to provide monitoring for Telecare and Community Alarm services which would require the transfer of more than 17,000 clients from current providers to OCL.

The Adult Services, Health and Wellbeing Directorate fully supported the roll out of the Telecare service and continue to do so. It is an essential part of the Directorate's financial strategy to deliver savings in future years. The rationale for the transfer of the Community Alarms service, other than it being more cost effective( which was not evidenced) , was however not fully understood and concerns were raised by both the Directorate and from existing providers. Other delivery models including leaving the monitoring of community alarms with current providers were all considered suitable by the Adult Services, Health and Wellbeing Directorate; however representations from the Adult Services, Health and Wellbeing Directorate to the Chief Executive do not appear to have been pursued.

In relation to the cost effectiveness of the new service, the Chief Executive's report states 'full costs are not available at this stage; however, given the size of the potential market, it would be reasonable to assume that OCL would be able to deliver value for money'.

This issue was raised with the County Council in correspondence from the Lancashire Provider Forum on 16 November 2012 who asked 'Before further progress can be made, Lancashire Provider Forum request that further information is provided detailing the implementation plan in respect of anticipated financial efficiencies and savings analysis'. There is no evidence of any further financial analysis being provided, and other than the final proposal for the establishment of the new service, a business case was not produced setting out the costs and the benefits.

## **3. Procurement**

To establish the new service, a two stage procurement process was undertaken by the Lancashire Procurement Centre of Excellence (**LPCoE**) located in OCL:

- Invitation to Tender 1 -procurement of a monitoring system and associated training to Customer Service Officers; and
- Invitation to Tender 2 - supply and management of Telecare equipment, installations, repair and maintenance.

*Invitation to Tender 1 - Procurement of a monitoring system and associated training*

A procurement exercise was led by OCL, which commenced in April 2012. In July 2012, Tunstall were awarded the contract to provide a monitoring system and to train customer service officers within the OCL Customer Service Centre at Accrington. The equipment was purchased and the County Council received a quote from OCL for 'Delivery of the Telecare Monitoring System and Service Setup' of which an element related to equipment and services provided by Tunstall.

*Invitation to Tender 1 – Main Findings*

The total cost of the OCL proposal was £240,870 of which the Tunstall element being charged to the County Council was £85,100. The remainder of the costs of the proposal related to services provided by OCL. A comparison of the Tunstall related costs in the OCL proposal with the prices tendered by Tunstall has established that:

- OCL were charging the County Council 12% more than Tunstall tendered price for products.
- OCL were charging the County Council 20% more than the Tunstall tendered price for annual maintenance.

To date, due to the delay in the establishment of a monitoring service, the equipment has not been installed and the training has not been provided. At this stage we have been unable to ascertain whether the equipment has been paid for by the County Council although Tunstall have confirm that they have received payment it isn't clear from whom. Costs of £90k for equipment that is not currently needed and may not be needed in the future should a different delivery model be agreed have been incurred.

*Invitation to Tender 2 - supply and management of Telecare equipment, installations, repair and maintenance.*

In August 2012 a tender process for Telecare Services in Lancashire was undertaken by the Lancashire Procurement Centre of Excellence through the Government Procurement Website. This approach, whilst legitimate, prevented any of the current telecare service providers from tendering as they aren't listed on the Government Procurement Website.

The OCL rationale was that the use of the Government Procurement Website would deliver greater savings for the County Council.

Tunstall, who are market leaders, were the only company to tender for the contract. As a consequence of the decisions of the former Leader of the County Council and the Cabinet Member for Adult and Community Services on 29th April 2013 the contract was subsequently awarded to them for a 4 year period to the end of September 2017 with an option to extend for a further 2 years. The service elements included:

- Provision of telecare and lone field worker equipment
- Installation and maintenance
- Home assessment
- Home response

The OCL Invitation to Tender document set out the County Council's intent to increase from a current volume of 1,100 telecare services users to 6,900 telecare services users over a 3 year period. The Invitation to tender covers new users as well as existing users who would transition from the current scheme to the new one. The transition from the current arrangements creates two types of user for which the County Council will incur costs of which some are annual costs and some are one-off costs:

#### **Annual Costs**

- Annual Preventative Maintenance Visit including necessary repairs
- Annual Break Fix maintenance on site, including management of warranty returns.

#### **One-Off Costs**

- Telecare Home Assessment
- Installation of new service and equipment
- Reprogramming of legacy user's equipment on site
- Carer Home response when the monitoring service alerts a requirement for a visit
- De-Installation of equipment, including testing, refurbishment and recycling for new users where more than 3 months manufacturer's warranty term remains.

### **4. Main Findings**

Based on the estimated demand levels that are set out in the Invitation to Tender and assuming full annual costs for all service users are incurred, OCL have increased the costs to the County Council by £1.4million pounds. A break down is provided in Table 1 below and further information is set out later in the report.

In addition to this the County Council would have been required to fund one-off costs of £2.8m to establish the new service of which £150k is for services that were already part of the Tunstall tender and the remainder for set up costs for a monitoring service. Some of this expenditure would be incurred by the County Council and some by OCL. Without a clear business case it is difficult to establish whether the one-off investment represents value for money.

<b>Increased Cost of OCL Proposal</b>	
	<b>£m</b>
Increased costs in initial 3 year period	0.9
Increased costs - Year 4	0.2
Marketing Costs charged twice	0.2
Monitoring Equipment purchased but not required (ITT1)	0.1
<b>Total</b>	<b>1.4</b>

**Table 1**

There are a number of reasons why the cost of the OCL proposal is higher than that prices tendered by Tunstall including;

- increases by OCL to the County Council in the prices tendered by Tunstall

- Lack of Transparency by OCL
- Inflation added by OCL
- One Off Costs

#### *OCL price increases*

There is clear evidence that the prices offered to the County Council by OCL as part of the OCL proposal are significantly higher than those tendered by Tunstall in their tender. These increases have been made by OCL. This can be evidenced as follows:

- Annual costs for monitoring and repair are charged by OCL to the County Council at a higher amount than in the Tunstall tender. These are services that would have been directly provided by Tunstall and therefore the cost to the County Council should be at the amount tendered by Tunstall. The impact on the prices tendered by Tunstall is an increase of £407k to the County Council for the first 3 years of the contract as the service grows with annual recurring costs of £195k to the County Council each year thereafter.
- One-off costs are charged at a higher amount by OCL to the County Council than the Tunstall tender at an additional cost to the County Council of £133k over the 3 year period. Again there is no rationale for this increase. One-off costs beyond the first 3 years are not known at this stage as it would have been dependant on any growth in future years.
- As part of the OCL proposal the County Council would have charged for equipment provided to service users. This equipment is supplied by Tunstall and the prices are set out in the Tunstall tender. The OCL proposal sets out a list of prices for equipment and a comparison of these with those tendered by Tunstall show that OCL's prices for the same equipment are higher than those tendered by Tunstall. There is no rationale for these increases. Charges to the County Council should be the same as those tendered by Tunstall.
- The Invitation to Tender sets out a requirement to establish standard packages of equipment for different types of service user. The average cost of these packages from OCL is 20% higher than those tendered by Tunstall. The impact of the OCL increased prices is estimated to be £371k over the first 3 years of the contract. It should be noted that this figure is based on the average cost of standard packages only and in reality could be higher than this depending on service users mix and the volume of non- standard equipment that is purchased.
- Service users mix would have had an impact on the overall cost of standard equipment to the County Council. The Invitation to Tender indicated that 2,300 new service users per year would require equipment. The average difference between the Tunstall tendered price and the OCL price for a standard package is 20%, i.e. the OCL prices are 20% higher than Tunstall. However for service users at risk of falling the OCL price is 30% higher than Tunstall and for service users requiring a winter standard package, the OCL prices is 15% higher than Tunstall.



- A 10% discount proposed by Tunstall on all non-standard equipment has not been passed on by OCL to the County Council. The impact of this cannot be quantified at this stage.
- The Adult Services, Health and Wellbeing Directorate has questioned the need for standard packages of equipment as they feel that the requirements of service users can vary and by having standard equipment packages the County Council could be incurring costs for equipment that a service user may not need. This approach was taken forward by OCL, their rationale being that standard packages reduce processing costs. The process savings would have fallen to OCL and not the County Council. To date, officers have not been able to quantify the level of savings resulting from this approach
- Tunstall also stated 'we would be able to offer additional flexibility on pricing, up to agreement of a 5 year contract length'. The contract was awarded for 4 years with an option to extend for a further 2 years. Based on this proposed contract duration, Officers have been unable to ascertain whether OCL negotiated lower rates than those contained within the original Tunstall tender. However, to the extent OCL have achieved this, the savings have not been passed to the County Council

#### *Lack of Transparency*

As part of the tender evaluation process, officers in the Adult Services, Health and Wellbeing Directorate were provided with copies of the parts of the tender documentation from Tunstall. Officers within the Directorate were involved in the evaluation of the Tunstall tender from a quality of service aspect only and were not involved in any financial evaluation of the tender. This is supported by the fact that none of the documentation provided to these officers included any of the financial detail and officers were advised that this was due to the fact that OCL were responsible for all commercial discussions. In doing so, this meant that the County Council was not aware of the costs put forward by Tunstall and therefore, whilst they did see the costs in the OCL proposal, they could not compare to those tendered by Tunstall as part of the tender exercise

#### *Inflation*

OCL added annual inflation to their proposal despite the fact the Invitation to Tender document states at para 49.2 of Schedule 3; 'prices offered are to remain at the offered price from the contract start date for the period until the contract expiry'. The OCL proposal however states that retail prices index is to be used and for the purposes of this exercise 2.5% has been applied. The impact on the price is an increase of £75k on the prices tendered by Tunstall.

#### *One-Off Investment*

Within the overall proposal from OCL there is a requirement to invest £2.8m from the County Council in one-off costs. The report to the former Leader of the County Council and the Cabinet Member for Adult and Community Services on 29th April 2013 states:

'Request the approval of a one-off investment of £2.834m from the Prevention and early Intervention Reserve to fund the development of Telecare services. This will be drawn down over the next 3 financial years from 2013/14 – 2015/16, the detailed profile of the drawdown to be agreed by the County Treasurer'.

There is no detail within the report as to what the funding would have been spent on however an element of this would have been incurred by the County Council as well as OCL. A review of the documentation available suggests the costs in table 2 below may have been incorporated;

<b>One-Off Costs</b>	
	<b>£</b>
Telecare and Community Alarm Catalogue Set Up	850
Community Alarm Monitoring Service Set Up	67,500
Lone Worker Monitoring Service Set Up	14,730
Marketing Costs	150,000
Project Team	300,000
Training Costs (including backfill)	380,000
On-Line Training	57,000
Contingency	269,000
<b>TOTAL</b>	<b>1,239,080</b>

**Table 2**

Within the one-off costs is £150k for marketing. Marketing costs formed part of the Tunstall tender so it would appear that the County Council is being charged twice for the same thing. The remaining known costs all relate to the establishment of the monitoring service including the establishment of a project team as well as significant training costs. This still leaves £1.6m for which there is no detail. It is accepted that the release of funding from the reserve would have been subject to the provision of further information however without a business plan it is not possible to ascertain whether the considerable investment in this service will generate significantly more savings in order to justify the expenditure.

#### *Other Issues*

A variant pricing model offered by Tunstall was not made available by OCL to the County Council even though further savings could potentially have been delivered. The Invitation to Tender allowed Tunstall the opportunity to put forward alternative options and it is the view of the County Council that these should have been explored further to ascertain whether further savings were achievable. Other models are known to have been taken up in other large authorities including Birmingham.

A rebate of 10% on additional users above 6,900 (years 1-3) offered by Tunstall in the tender clarifications document has not been included in the OCL proposal to the County Council. This has not been quantified at this stage.

## **5. Conclusion**

Based on this review, there is little evidence that the Telecare proposal developed by OCL would have offered the best value for money option for the County Council. On the contrary, the findings demonstrate:

- a comprehensive approach by OCL to increasing the costs to the County Council by on average 20% more than the prices tendered by Tunstall;
- a fundamental lack of transparency in OCL's procurement processes ;and
- a failure by OCL to work in partnership with the County Council to secure the best deal financially, whilst at the same time delivering the best option for service users.

OCL lead on developing a telecare proposal for Lancashire including carrying out the commercial negotiations and the procurement processes. It is of concern that, on the face of it, OCL have used this position to secure financial benefits for itself and BT at the expense of the County Council. This is evident from the mark-ups on the prices tendered by Tunstall and OCL's inflexibility to address material concerns raised by Tunstall over the contracting process, i.e. novation of the contract.

The approach by OCL including LPCoE does not therefore appear to be in the best interests of the County Council. Clearly, should similar practices have been applied by OCL to other contracts which OCL has dealt with on behalf of the County Council, the potential financial implications for the County Council could be significantly more than the £1.4m increase in costs identified in this report.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

The report identifies that the approach by and actions of OCL including LPCoE do not appear to be in the best interests of the County Council. Clearly should similar practices have been applied by OCL to other contracts which OCL has dealt with on behalf of the County Council, the potential financial implications for the County Council could be significantly more than the £1.4m increase in costs identified in this report. It will be necessary for steps to be taken with BT and OCL to avoid any similar approach and actions occurring in the future.

**List of Background Papers**

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if applicable

N/A