

Special Cabinet

Date: Thursday, 26th May, 2022

Time: 6.30 pm

Venue: Council Chamber - Guildhall, Bath

Agenda

To: All Members of the Cabinet

Councillor Kevin Guy (Leader of the Council, Liberal Democrat Group Leader), Councillor Tim Ball (Cabinet Member for Planning and Licensing), Councillor Alison Born (Cabinet Member for Adult Services and Council House Building), Councillor Tom Davies (Cabinet Member for Adult Services and Council House Building), Councillor Manda Rigby (Cabinet Member for Transport), Councillor Dine Romero (Cabinet Member for Children and Young People, Communities), Councillor Richard Samuel (Deputy Council Leader (statutory) and Cabinet Member for Economic Development and Resources), Councillor Sarah Warren (Deputy Council Leader and Cabinet Member for Climate and Sustainable Travel) and Councillor David Wood (Cabinet Member for Neighbourhood Services)

Chief Executive and other appropriate officers
Press and Public

The agenda is set out overleaf.



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NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. Recording at Meetings

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

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4. Public Speaking at Meetings

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.

Further details of the scheme can be found at:

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

5. Emergency Evacuation Procedure

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are signposted. Arrangements are in place for the safe evacuation of disabled people.

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505>

Special Cabinet - Thursday, 26th May, 2022

in the Council Chamber - Guildhall, Bath

A G E N D A

1. WELCOME AND INTRODUCTIONS

2. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out in the notes.

3. APOLOGIES FOR ABSENCE

4. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is **a disclosable pecuniary interest** or an **other interest**,
(as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

6. QUESTIONS FROM PUBLIC AND COUNCILLORS

Questions submitted before the deadline will receive a reply from an appropriate Cabinet member or a promise to respond within 5 days of the meeting. Councillors may ask one supplementary question for each question they submitted, up to a maximum of two per Councillor.

7. STATEMENTS, DEPUTATIONS OR PETITIONS FROM PUBLIC OR COUNCILLORS

Councillors and members of the public may register their intention to make a statement. Statements are limited to 3 minutes each. The speaker may then be asked by Cabinet members to answer factual questions arising out of their statement.

8. HCRG CARE GROUP OPTIONS APPRAISAL (Pages 5 - 74)

The Cabinet is asked to consider all the benefits and disbenefits along with the associated risks highlighted in the report to inform the contract extension decision.

The Democratic Services Officer for this meeting is Marie Todd who can be contacted on 01225 394414.

Bath & North East Somerset Council			
MEETING/ DECISION MAKER:	Cabinet		
MEETING/ DECISION DATE:	26 th May 2022	EXECUTIVE FORWARD PLAN REFERENCE:	
		E3362	
TITLE:	HCRG Care Group Options Appraisal		
WARD:	All		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Exempt Appendix 1: BDO Supplier Due Diligence Review			
Appendix 2: HCRG Care Group Risk Analysis Table			
Appendix 3: HCRG Care Group Options Appraisal			
Exempt Appendix 4: Legal Advice			

1. THE ISSUE

- 1.1 Bath & North East Somerset Council (the **Council**) and Bath and North East Somerset Clinical Commissioning Group (the **CCG**) (together the **Commissioners**) entered into a contract with Virgin Care Services Limited (the **Provider**) for the delivery of a range of health, social care and public health services (the **Contract**) with effect from 1 April 2017. The contract is in the sixth year (2022/23) of the initial seven year term with an option for the commissioners to extend the initial term by three years, taking the full extended contract term to 2026/2027.
- 1.2 The contract covers 51 services to be delivered which are grouped into Children's, Adults, Wellbeing, Adult Social Care and subcontracted services (Virgin Care Services Limited operated as a prime provider and subcontracted services to several smaller community providers within the Bath & North East Somerset locality of which several are in the third sector).
- 1.3 The Commissioners each took a decision on 11 November 2021 (through the Council's Cabinet and the CCG's Governing Body) to approve exercising Option 3 (the **November Decisions**) as follows:

Council Decision:

"Approve Option 3 - Extend the contract term for the 3 year period (until 31st March 2027) but with identified services removed from block contract and/or improvement trajectories

for identified services and delegate to Suzanne Westhead, Director Adult Social Care (DASS) in consultation with Cllr Born, Member for Adult Services authority to serve notice to extend the contract once assured that the total price for the contract as varied is agreed and affordable.”

CCG Decision:

“Based on the information presented in the report and during the meeting, the Governing Body approved option three – to extend the contract term for the three-year period until 31 March 2027.”

- 1.4 On 1 December 2021, the Virgin Care Services Limited notified the commissioners that the business it formed a part of had been sold to T20 Pioneer Holdings Limited which is in turn ultimately held by Twenty20 Capital Limited (via another company) (T20). T20 is a private equity investor.
- 1.5 The change took effect from 30 November 2021 pursuant to the formal change of control notice. The change in ownership is several steps removed from the Provider with intermediate companies being retained but names changed. The Provider is now known as HCRG Care Services Ltd (**HCRG Care Group**). The Provider has stated that it “has no intention or proposal to make a consequential change to its operations”.
- 1.6 The Commissioners were not aware of the potential sale of the Provider prior to making the November Decisions.
- 1.7 Under the terms of the contract, HCRG Care Group should have been notified of the commissioners’ decision to extend or not to extend the contract by 31 March 2022. Due to the change of ownership the time period for such notification was extended to 30 June 2022 following mutual agreement between the commissioners and the HCRG Services Limited (the current Provider).
- 1.8 The November Decisions were made on an assumption that the commissioners would continue to deal with the same provider with the same intentions and risk profile. The various November reports do not explicitly refer to this but do frequently refer to the existing relationship and performance of the provider, its approach to the future and commitments (i.e. not to renegotiate the existing financial terms). That assumption proved not to be the case with the change in ultimate parent ownership.
- 1.9 Therefore, following the announcement on 1st December 2021, the Commissioners paused formal confirmation and notification of the extension decision until the Council and CCG had undertaken a full due diligence review of the change in control and sought legal advice on the change in ownership.

2. RECOMMENDATION

- 2.1 Cabinet is asked to consider all the benefits and disbenefits along with the associated risks highlighted in the report to inform the extension decision. The options appraised have been ranked in order of risk and mitigation.

Cabinet is asked to make a decision between:

Option 1 - Extend the contract term for the 3 year period (until 2026/27) or

Option 3 - Allow contract to end with no contract extension beyond 31 March 2024

- 2.2 Delegate to Suzanne Westhead, Director Adult Social Care (DASS) in consultation with Cllr Born, Member for Adult Services authority to proceed with the agreed option and undertake any appropriate risk mitigation.

3. THE REPORT

Background:

- 3.1 A due diligence review was undertaken on T20 and the implications of the acquisition of the Provider for the Contract, the Commissioners and the delivery of services.
- 3.2 The review of the acquisition of Virgin Care Services Limited did not identify matters or issues of concern that would definitively change the decision taken by B&NES in November 2021.
- 3.3 The review highlighted if a decision is taken not to extend the contract this could adversely impact on other commissioners across the country due to the significance of the contract value to the provider. The loss of the B&NES contract could cause financial/operational difficulties for the provider.
- 3.4 In February 2022, the Commissioners instructed independent legal advice from Bevan Brittan LLP on the implications of exercising the November Decisions. The legal advice provided comments on the scope for the Commissioners to review the November Decisions and high level comments on the alternative options. It was recommended that Commissioners sought to agree an extension to the 31 March 2022 deadline until 30 June 2022. HCRG Care Group Limited agreed to the extension.
- 3.5 An Options Appraisal Workshop was undertaken to gather views and opinions from Commissioner senior managers from both organisations in order to conduct an options appraisal of the Contract based on the following four options:
- Option 1** - Extend the contract term for the 3 year period (until 2026/27)
- Option 2** - Extend for an alternative period
- Option 3** – Allow contract to end with no contract extension beyond 31 March 2024
- Option 4** –Termination of the contract before 31 March 2024
- 3.6 The options were put forward for consideration by the Commissioners to review the matters identified in the Bevan Brittan LLP advice of February 2022.
- 3.7 The workshop was structured to enable the review and discussion of each option, including an evaluation of benefits and disbenefits with associated risks. The output was to inform an agreed joint recommendation from key stakeholders.

Options dismissed on basis of carrying too much risk to Commissioners

- 3.8 Commissioners have dismissed **Options 2 and 4** as they were considered too high risk. Due to the short timescales **Option 4** would not be viable as alternative service provision could not be commissioned or delivered in a legally compliant manner within the 12 month period and would have a significant impact on the delivery of statutory services to the population of B&NES. High termination costs would be borne by the council.
- 3.9 There were some benefits of **Option 2**, the overarching factor that permeates through these benefits is the level of flexibility which this option provides to the design of the service and review of the financial implications of any change in future service delivery.
- 3.10 In relation to **Option 2**, an overarching risk identified by the Bevan Brittan advice of February 2022 and the options appraisal workshop is the need to negotiate an agreement with HCRG Care Group of a change to its current contract. Any change in extension term would need to be agreed and there is no guarantee that HCRG Care Group would accept this offer. This may result in the assurances from HCRG Care Group around operating

within the cost profile being withdrawn. This is a key risk identified by the Commissioners given the short timelines by which the extension decision needs to be taken prior to 30 June 2022.

3.11 The appraisal of **Option 2** also highlighted the risk of business continuity, transformational, operational and financial risk.

- **Business Continuity Risks:**

- HCRG Care Group may ask for an increase in the contractual value to account for the uncertainty an alternative extension will cause. This option is likely to impact HCRG Care Group's ability to negotiate favourable terms with sub-contractors and its own suppliers. This uncertainty could destabilise their workforce resulting in HCRG not being able to recruit and retain staff causing an increased use of agency staff and increase cost pressure on HCRG Care Group which will be passed on to commissioners.
- The approach creates uncertainty to Twenty20 Capital who may sell HCRG Care Group to realise their investment.
- There is a lack of clarity as to how services would be delivered to the B&NES population without affecting their quality of care or breaching statutory requirements.

- **Transformation and operational activities:** this option will likely cause current transformation activity and expected savings to be disrupted which will affect attainment of both the Council and the CCG's strategic goals; resourcing pressures for commissioners in managing a procurement process while the BSW is moving to the new Integrated Care System.
- **Financial risks:** appointing a new provider would incur mobilisation costs and the baseline value of the contract could be higher if terminated before the end of the three-year extension period.

3.12 It should further be noted that offering an alternative (shorter) extension period assumes HCRG Care Group would accept the change in contract term. A decision by the commissioner's to unilaterally impose an alternative contract period is not possible. This heightens the risk of HCRG Care Group using their own termination rights under the contract and serving 12 months' notice to commissioners.

Options for Consideration by Cabinet

3.13 The rationale for the original joint recommendation of the commissioners to exercise Option 3 was contained in the options appraisal presented to Cabinet on 11 November 2021. This is akin to **Option 1** referred to the current options appraisal.

3.14 There are some key elements of the rationale for the decision taken on 11 November 2021 referred to above, which are of relevance in the context of the current decision and options recommended to Cabinet following the change in parent ownership control of Virgin Care Services Limited. These included the following:

- the system remains under considerable pressure from the impact of COVID-19, extending the contract term will limit disruption in the system allowing for focus on response and recovery
- this is a period of significant change for the NHS and social care systems with the embedding of new Integrated Care System and B&NES Integrated Care Alliance from July 2022 and focusing on a re-procurement process would distract from this

- a re-procurement process would require significant capacity from both the Council and CCG and incur one off costs of approximately £1m and will require an approved funding source for both Council and CCG
- **Option 1** approach allows the CCG and Council to wait for the final legislative changes on procurement and consider its future approach.

Option 1 Extend the contract term for the 3 year period (until 2026/27)

3.15 The options appraisal workshop of 4 April identified the following benefits of **Option 1**, extending the Contract for a period of 3 years:

- removes the risk of legal challenge from HCRG Care Group on the basis that the decision to extend for 3 years is upheld
- allows commissioners to work with HCRG Care Group to deliver the previously agreed benefits of the transformation priorities for the remainder of the contract term (Year 2026/27)
- allows HCRG Care Group to provide certainty for their staff and supports their ability to recruit and retain staff. It also provides continued stability for subcontractors under the prime model
- continuation of integrated community services for health care and social care will likely reduce disruption in the system allowing for focus on COVID-19 recovery. This option also provides sufficient time to understand how the demand for services has changed and inform development of the future service model requirement
- HCRG Care Group is ostensibly the same entity as when operating as Virgin Care Services Limited in B&NES with the same staff and senior leadership. There is a formed relationship with HCRG Care Group's senior staff stating they are willing to work with the commissioners for the remainder of the contract to retain commissioner confidence and deliver improved services for the ten year contract term
- there is a known requirement to agree an improvement plan addressing HCRG Care Group's performance in a small number of services (as identified in the November 2021 report). Aside from this they are a known entity and continuity of relationship is likely to deliver improved outcomes for the residents of B&NES and ensure delivery of the Your Care, Your Way priorities
- the Health and Care Bill (and now the Health and Care Act 2022) will likely place requirement to provide integrated provision. This option will give time to understand the implications and develop how the commissioners can build on the work of HCRG Care Group to ensure they can be legislatively compliant with the expected requirement

3.16 Commissioners have considered the disbenefits of **Option 1** as referred to in the options appraisal, which in high level summary include risks under the following key categories:

- **Reputational challenge** to the Integrated Care Board by the presence of a private (equity) provider and such provider having a role as part of the new ICS structure.
- **Ownership** The ability of the provider to sell on the company without consideration and discussion with the commissioners.

- **Operational and contractual matters** such as onerous provisions for termination for convenience; challenges of managing an integrated adult and social care service through a single provider; impact of new legislation such as the Health and Care Act 2022 on contractual provisions
- **Financial risks** associated with HCRG Care Group potentially seeking to renegotiate the pricing structure; Twenty20 seeking to realise their investment and sell HCRG following the endorsement and risks to service delivery arising from the same.
- **Risk of Legal Challenge** by other third-party providers or campaign groups for **Option 1** on grounds that it would be a substantial variation under the Public Contracts Regulations 2015.

Option 3 Allow contract to end with no contract extension beyond 31 March 2024

3.17 The Options Appraisal Workshop of 4 April identified the following benefits of **Option 3** - Allow contract to end with no Contract extension beyond 31 March 2022:

- not extending the contract beyond its current end date could provide an opportunity to align contracts with neighbouring commissioners providing economies of scale when going to market
- opportunity to bring the Adult Social Care inhouse with greater control over how services are delivered. This potentially removes procurement risk from B&NES Council
- allows commissioners greater flexibility and control to adapt community services to changing demands and priorities
- allows commissioners to work with HCRG Care Group to deliver a revised list of previously agreed transformation priorities for the remainder of the contract term (Year 2023/24)
- allows greater integration between the NHS and the Council to plan the new operating model for the future
- both strategic and operational Safeguarding will be directly managed by the council whereas previously this was a delegated function to the provider. There will be an improved line of sight which will benefit the new CQC Inspection Framework
- streamline of IT systems ensuring better oversight of performance of the Adult Social Care Services
- workforce stability as the staff will be directly managed by the NHS and the council with the associated remuneration
- the council will directly commission Public Health and the third sector contract with the ability to align to NHS and Council priorities.

3.18 The NHS and Commissioners have considered the disbenefits and risks of **Option 3** as referred to in the options appraisal, which summarise risks under the following key categories:

- **Contractual:** Underperformance of services in the remaining contract term impacting on population of B&NES with key operational risks relating to safeguarding because of workforce destabilisation leading to increased use of

agency staff as recruitment to vacant posts is likely to be undermined by lack of long term job security. The contract management relationship with the provider is likely to change from one based on strategic partnering to a traditional contract relationship with no scope within the contractual terms for further investment, service improvement and innovation.

- **Capacity:** Insufficient time (21 months) to recommission like for like (or redesign) in source (if an option), mobilise and ensure the safe transfer of services as capacity to undertake a procurement process whilst the system remains in COVID-19 recovery mode (a new provider will need to commence delivery on 1st April 2024, this would also come at a time when the CCG is also transitioning its functions into the ICS NHS Board from June 2022). HCRG Care Group could enact their contractual right to serving 12 months' notice of termination to commissioners resulting in having to re-procure and inhouse services within an even shorter timeframe
- **Financial:** Appointing a new provider, from a very limited market choice, would incur mobilisation costs outside the budgeted profile. The baseline value of any new contract could be higher as economies of scale are lost and will have to take into account current economic climate and there is no guarantee that another provider would deem the service to be financially viable which may result in additional costs. Additional costs of pension contributions could be considerable in this area when transferring into an NHS or Local Authority. This option will likely cause current transformation activity and expected savings to be disrupted which will affect attainment of strategic goals
- **Legal:** A risk of public law challenge on the basis that there was '*a legitimate expectation*' that the extension would be granted based on original decision or on the basis that the decision not to extend is irrational. Whilst acknowledged that it is difficult to bring a *legitimate expectation* challenge or an *irrationality* challenge, there is a risk that the provider could seek to bring a Judicial Review claim particularly given the significant implications of a decision not to extend for the provider.

3.19 The outcome of implementing **Option 3** will be the opportunity to completely redesign the community services in B&NES in 21 months.

- The NHS, including some Public Health services would need to secure a new provider for their service delivery requirement. The council would work closely with the NHS to ensure a safe transfer and a new model of service redesign
- Adult Social Care services could be directly managed by the council
- The third sector services will be recommissioned directly by the council and will align with the council priorities

3.20 The option recommended by officers, is that Cabinet should consider supporting the 3 year extension – **Option 1**. The contract represents good value to the Council and is delivering good outcomes for residents.

3.21 If **Option 3** is the preferred option of Cabinet, officers can put in place a range of mitigations.

4 STATUTORY CONSIDERATIONS

4.1 Contractual

- The original Your Care Your Way Full Business Case November 2016 sets out how the procurement and decision-making process for contract award to Virgin Care met legal and statutory duties.
- The decision to extend for the three-year term or not is a requirement that must be completed prior to end of the 30 June 2022 following the extended notification period.
- As joint commissioners the original decision to choose Option 3 included a decision agreed with HCRG Care Group for the removal of 2 statutory services from the contract in year 6. These include strategic adult safeguarding to be returned to the Council and Continuing Health Care returning to BSWCCG.

4.2 Regulatory

The council has reviewed the findings and concluded that there are no grounds under Regulations 57 and 72 of the Public Contracts Regulations 2015 (PCR2015) that the original decision to extend the contract cannot be made. The new owner (Twenty 20) is not excluded from public procurement under Regulation 57 of PCR2015 due to no evidence of:

- *Participation in a criminal organisation*
- *Corruption*
- *Terrorism offences or offences linked to terrorism*
- *Money Laundering or terrorism financing*
- *Child labour and other forms of trafficking human beings*
- *Non payment of tax and social security contributions*
- *Fraud*

The new owner is not subject to a possible discretionary exclusion from public procurement under Regulation 57 of PCR2015 due to:

- *Obligations in the fields of environmental social labour law*
- *Bankruptcy, insolvency*
- *Grave professional misconduct*
- *Distortion of competition*
- *Conflict of interest*
- *Been involved in the preparation of the procurement procedure*
- *Prior performance issues*
- *Misrepresentation and undue influence*
- *Breach of obligations relating to the payment of tax or social security obligations*

The extension is in line with Regulation 72 of PCR2015 as clarified by Crown Commercial Services guidance "Guidance on Amendments to Contracts during their Term" - *A contract/framework may change without re-advertisement in OJEU where certain corporate changes have occurred in the supplier such as merger, takeover or insolvency, provided:*

- *The new supplier meets the original qualitative selection criteria; and*
- *Other substantial modifications are not made to the contract/framework*

The procurement framework is currently changing due to the recently passed Health & Care Act and the Procurement Reform Bill announced in the Queen's Speech.

Within the Health & Care Act competitive tendering remains an important tool for arranging high quality health services, however commissioners will also be able to direct award under the following circumstances:

- where there is the absence of competition, such as A&E provision
- alternative provision is already available to patients through other means (competition within the market rather than competition for the market) for example, primary care contracts
- when they want to extend an existing contract where the incumbent is doing a sufficiently good job and the service is not changing
- where there are reasonable grounds to believe that one provider or group of providers is the most suitable provider
- decisions would have to be clearly justified based on the decision-making criteria:
 - quality and innovation
 - value integration and collaboration
 - access
 - inequalities and choice
 - service sustainability
 - social value

and be subject to appropriate transparency and scrutiny requirements.

Social care contracts will be subject to the Procurement Reform Bill. The Procurement Reform Bill Impact Assessment highlights there is a risk that the reforms result in more challenges to procurement decisions which will increase time taken to procure and increase legal risk. This will be a particular concern early in the implementation of the Act which aims to enshrine in law the objectives of public procurement including delivering value for money, maximising public benefit, treating suppliers equally and without discrimination, and acting, and being seen to act, with integrity.

4.3 Legal advice

The legal advice is contained in **Exempt Appendix 4: Legal Advice**

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 Finance summary

Additional Cost arising from Options

	Option 1	Option 2	Option 3	Option 4
Council including Public Health	£482,000	£1,128,000	£0	£3,781,000
CCG including Better Care Fund	£483,000	£1,662,000	£1,745,000	£6,510,000
Council Cumulative Revenue Budget Funding	£0	£0	£7,819,000	£0
Total	£965,000	£2,790,000	£9,564,000	£10,291,000

- **Option 1** – contract will run to Year 10 and be re-procured, additional costs included are procurement costs that would be incurred prior to end of extension period. No additional costs assumed as prices and direction at Year 10 unknown. Any change to the contract value will have to be reviewed in line with any procurement rules in place at the time around substantial/material variation.
- **Option 3** – contract will run to Year 7 and be re-procured, additional costs included are procurement costs and mobilisation costs as council services will be insourced and health funded CCG services will be re-procured. The CCG costs reflect procurement and mobilisation. The council costs are the insource cost for the remainder of the 10 year comparison term and reflect salary uplifts in line with the MTFP.
- If **Option 3** is the adopted option, there will be one off mobilisation cost over 3 years of £2.5m for the council the majority of this costs will be staffing costs to enable the safe transfer of services. From 2024/25 there will be ongoing additional costs of £830,000.

Funding Source (Council)

	Option 1	Option 2	Option 3 ¹	Option 4
ASC Reserves*	£482,000	£1,128,000		£3,781,000
Cumulative Revenue Budget Requirement**			£7,819,000	
Total	£482,000	£1,128,000	£7,819,000	£3,781,000

*ASC Reserves Balance £4.5m

**The cumulative figure is the revenue budget requirement each year for the 3 year period 2024-25 to 2026-27

¹ Inflation of 2% has been applied to the original service values, 3% inflation has been added to future years values

Annual Budget Impact (Revenue)	Option 3
2024-25	£2,150,000
2025-26	£452, 000
2026-27	£465,000

The material annual budget impact is in 2024-25, the above illustrates the additional incremental increase budget requirement for the 2 years thereafter.

One-off costs incurred will be met from the Council's Social Care reserve, future years Council budgets will be aligned following this decision.

6 RISK MANAGEMENT

6.1 A risk assessment has been undertaken in line with the Council's risk management processes. Key risks have been considered within the main report and mitigations considered (see 3.19). Overall **Option 1 and 3** are considered medium risk. If either **Option 1 or 3** are adopted actions will be required to mitigate the increased risk exposure. Not all risks will be able to be fully mitigated

6.2 The identified risks are service continuity when the NHS and Adult Social Care are delivering entire system change under the provisions of the Health and Care Act, which recently received royal consent. The services continue to assess the impact of Covid on services, address backlogs and support a system under pressure due to high demand.

6.3 The risk of legal challenge cannot be completely mitigated; however, the Council and the NHS have followed the legal advice to complete due diligence, review the options, to ensure relevant factors are taken into consideration to avoid a legal challenge

6.4 For either **Option 1 or 3** there will be mobilisation cost either in year 7 of the contract or in the final year of the contract if extended. The increased costs are noted in the resource implication of this report.

7 EQUALITIES

7.1 As with all contracts HCRG Care Group are monitored in terms of their compliance with equalities requirements. Further details can be provided if required.

7.2 The original Your Care Your Way Full Business Case November 2016 sets out how the procurement and decision-making process for contract award to Virgin Care met legal and statutory duties.

8 CLIMATE CHANGE

8.1 The Council has declared a climate emergency and has resolved to enable carbon neutrality in B&NES by 2030. HCRG Care Group as part of the transformation of the service are putting in place mechanisms to reduce the impact of climate change such as mobile working, the integrated care record, multi-disciplinary teams and also multi-agency hubs; the Community Wellbeing Hub is a clear example of this.

9 OTHER OPTIONS CONSIDERED

9.1 All options have been included within the report.

9.2 A joint review of service delivery models will be undertaken by the newly formed Bath, Swindon and Wiltshire Integrated Care System and the council. This will be undertaken irrespective of which option is agreed by Cabinet. Future delivery models will include consideration of the in-sourcing of adult social care services and council commissioned services.

10 CONSULTATION

10.1 Consultation was undertaken in advance of the original decision made on 1st November 2021.

Contact person	Suzanne Westhead – Director of Adult Social Care
Background papers	11 th November 2021 Cabinet Report
Please contact the report author if you need to access this report in an alternative format	

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 852460

Meeting / Decision: Cabinet

Date: 26th May 2022

Author: Suzanne Westhead – Director of Adult Social Care

Report Title: HCRG Care Group Options Appraisal

Exempt Appendix 1: BDO Supplier Due Diligence Review

Appendix 2: HCRG Care Group Risk Analysis Table

Appendix 3: HCRG Care Group Options Appraisal

Exempt Appendix 4: Legal advice

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information)

5. Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Exempt Appendices be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Cabinet wish to consider a matter with press and public excluded, they must be satisfied on two matters.

Firstly, they must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972.

The officer responsible for this item believes that this information falls within the following exemptions and this has been confirmed by the Council's Information Compliance Manager. The following exemptions are engaged in respect to this report:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information)
5. Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. It is considered that there is a public interest in information about property acquisition being disclosed into the public domain. Other factors in favour of disclosure include:

- furthering public understanding of the issues involved;
- furthering public participation in the public debate of issues, in that disclosure would allow a more informed debate;
- promoting accountability and transparency by the Council for the decisions it takes;

Weighed against this is the fact that the exempt appendices contains strategic and financial information which could prejudice the commercial interests of the Council if disclosed at this time. The exempt appendices also includes observations and opinions regarding the proposal. It would not be in the public interest if advisors and officers could not express in confidence opinions which are in good faith and on the basis of the best information available. It is important for public authorities to have some measure of 'private thinking space', and that they are able to share important information with Elected Members tasked with representing the local community.

The Council's funds are in essence public funds and there is an obligation to obtain best value for money. Disclosure of this information would prejudice the Council's ability to ensure it obtains best value in this matter. It is in the public interest that the Council is able to deliver cost-effective solutions. This depends partly on the Council being able to protect its commercial position while the detailed terms of relevant schemes are agreed.

It is considered that legal advice within the exempt appendices is subject to legal professional privilege. The principle of ensuring access to full and frank legal advice is fundamental to the administration of justice. Although the Council aim to be transparent and accountable to the public, in this case the safeguarding of openness in all communications between the client and lawyer overrides the public interest in disclosure.

It is considered that the public interest is best served in this matter by not releasing this information at this time and that a significant amount of information regarding the matter has been made available on these issues – by way of the main report. Relevant information regarding this matter will be put in the public domain at the appropriate time. Therefore it is recommended that exemptions 3 and 5 apply. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A).

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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HCRG Care Group – Options Appraisal Risk Analysis Table

Risk Category	Option 1: Extend the contract term for the 3 year period (Year 10 until 2026/27)	Option 2: Extend for an alternative period	Option 3: Allow contract to end with no contract extension beyond 31 March 2024 (Year 7)	Option 4: Termination of the contract before 31 March 2024 (Year 7)
Service Continuity	Service continuity risks remain low, however should HCRG Care Group be sold or cease to provide services the Council will have to undertake a further due diligence review to ensure the new provider can continue to deliver to the local population without affecting quality or breaching statutory requirements	Risk of early termination prior to year 7 as not willing to accept anything other than 3 year extension - this will create further workforce and supply chain risks and place pressure on commissioners to recommission services whilst trying to manage a contract with an unhappy provider CQC/Ofsted inspection outcomes compromised through workforce and service delivery destabilisation	Safe transfer of services in 21 months CQC/Ofsted inspection outcomes compromised through workforce and service delivery destabilisation	High risk of service failure and harm to the population of B&NES CQC/Ofsted inspection outcomes compromised through workforce and service delivery destabilisation
Finance	Financial certainty however the flat cash nature of the contract does create a risk to the Council in the current economic crisis Changes resulting from the Health & Care Bill may lead to material change or early termination of the contract - termination for convenience provisions within the contract are onerous should	HCRG Care Group not able to operate within the agreed funding envelope as no longer based on the certainty of a 10 year contract Loss of transformation activity and expected savings due to contract not running to 10 year term	Increased cost to Council of insourcing services or identifying alternative providers Loss of transformation activity and expected savings due to contract not running to 10 year term	Urgent in housing of services at significant financial cost Early termination costs under the contract

	Commissioners need to exit the contract before its expiry			
Reputational	The relationship provides a reputational challenge to the Integrated Care Board with HCRG Care Group having a position on the Board - commissioners are contractually committed to treating them no different to any other provider	Impact on current sub contractors who have a strong working relationship with the provider	Perception of providers in the market not wanting to enter into an integrated contractual relationship	Regulatory intervention for failing to meet Care Act Obligations
Legal	Minimal risk of legal challenge as original decision upheld, however decision may be challenged by other providers on grounds of material change despite due diligence and legal advice	Not mutually agreeing the contract variation resulting in contract not being extended and legal action disputing the extension decision	Risk of legal challenge from HCRG Care Group - BSWCCG has chosen to exercise the option to extend the HCRG Care Group Wiltshire contract and the Wiltshire Health and Care Community Contract to March 2024– Note must not be treated differently to other NHS providers	Risk of legal action for breach of contract
System	Uncertainty over the timing of changes with delays to implementation of legislation - the extension does not prevent contractual changes or early termination but there will be financial costs to such changes	Destabilisation of an already fragile health and social care system in COVID-19 recovery, with recovery plans and agreed transformation priorities put at risk	Destabilisation of an already fragile health and social care system in COVID-19 recovery, with recovery plans and agreed transformation priorities put at risk	Destabilisation of an already fragile health and social care system in COVID-19 recovery, with recovery plans and agreed transformation priorities put at risk

HCRG Care Group – Options Appraisal

On 4 April 2022, BDO facilitated an Options Appraisal Workshop to gather views and opinions from commissioner representatives from the Council and BSWCCG on the following four options:

- **Option 1 - Extend the contract term for the 3 year period (until 2026/27)**
- **Option 2 - Extend for an alternative period**
- **Option 3 – Allow contract to end with no contract extension beyond 31 March 2024**
- **Option 4 – Termination of the contract before 31 March 2024**

The outcome of the workshop has been summarised in the table below listing benefits and disbenefits of each option.

Option 1: Extend the Contract term for the 3 year period (until 2026/27)	
Benefits	Disbenefits
Removes the risk of legal challenge from HCRG Care Group	Awarding the three-year extension locks commissioners into the existing care delivery model until 2027
Allows commissioners to work with HCRG Care Group to deliver the benefits of the transformation priorities for the remainder of the contract term	It presents reputational challenge to the Integrated Care Board by the presence of a private sector provider in the region and with HCRG Care Group having a position on the Board
Allows HCRG Care Group to provide certainty to staff and supports recruitment and retention of staff	Termination for convenience provisions within the contract are onerous should commissioners later look to exit the contract before its expiry
Stability for subcontractors under the prime model	Although an integrated community services contract, the expected benefits of being an integrated adult health and social care provider have not yet fully materialised, with some adult health teams and social work teams still reportedly working in siloes

Continuation of integrated community services for health care and social care will reduce disruption in the system allowing for focus on COVID response and recovery	There are differences between health and social care provision which are acknowledged by B&NES Council and BSWCCG as a challenge by being provided by a single provider. The disciplines operate within different statutory frameworks
Provides sufficient time to understand how the demand for services has changed and inform development of the future service model requirement	There is a risk that HCRG Care Group may renegotiate the pricing structure to cope with the cost of living crisis and impact on the global economy resulting from conflict in Eastern Europe
HCRG Care Group is the same entity as when operating as Virgin Care in B&NES with the same staff and senior leadership	New legislation such as the Health and Care Bill may be considered a major change under the Public Contracts Regulations 2015 a new procurement. If considered minor would still prompt a renegotiation of elements of the contract to be able to satisfy the statutory requirements emerging from the Act
There is a formed relationship with HCRG Care Group with senior staff stating they are willing to work with joint commissioners for the remainder of the contract to retain commissioner confidence and deliver improved services	There is a risk that endorsement of the extension may provide Twenty20 Capital with a basis to sell HCRG Care Group and realise their investment over this period
HCRG Care Group are performing well in most services and are a known entity, continuity of relationship is likely to deliver improved outcomes for the residents of B&NES and ensure delivery of the Your Care, Your Way priorities	Should HCRG Care Group be sold by Twenty20 Capital or cease to provide services there is a lack of clarity about how services would be delivered to the local population without affecting quality or breaching statutory requirements
The Health and Care Bill requires integrated provision, it will allow commissioners to understand the implications and develop plans that are legislatively compliant with the expected requirement	
Allows for a compliant procurement process over the extension period which provides time to agree and develop the future model for delivery of community health and social care services	
The current financial model for the contract provides certainty should no subsequent changes be made, the cost of living crisis and the	

impact on global energy markets from the conflict in Eastern Europe have created an uncertain environment for all providers and suppliers	
Service deliverables are already agreed in the contract, with performance standards known and changes to the terms for a three-year extension already agreed - this option is unlikely to require any detailed negotiation or intervention outside business as usual	

Option 2: Extend for an alternative period	
Benefits	Disbenefits
Depending on the extension period agreed, there will be some continuation of integrated community services for health care and social care, this may limit disruption in the system allowing for focus on COVID response and recovery by providing sufficient time to understand how the demand for services has changed and inform development of the future service model requirement	This option requires HCRG Care Group to agree to a change to the current contract, there is no guarantee that HCRG Care will accept this offer and this may result in HCRG Care Group not being able to operate within the agreed funding envelope
There is a requirement for an improvement plan addressing the five services identified in November 2021, aside from this they are a known entity and continuity of relationship is likely to deliver improved outcomes for the residents of B&NES and help drive delivery of the Your Care, Your Way priorities	Creates additional uncertainty on both sides as well as for HCRG Care Group's workforce and may result in increased use of agency staff and other cost pressures (such as early termination fees)
For health only - Opportunity for alignment of other BSW contracts which are due to expire or have decision on extensions: <ul style="list-style-type: none"> • Swindon GWH contract expires February 2024 • HCRG Care Group Children's Wiltshire contract expires April 2023 • Wiltshire Health & Care contract expires July 2023 	HCRG Care Group may require an increase in contractual payments to account for the uncertainty an alternative extension will cause

Depending on the period agreed this option would likely allow the new health and social care system model to be designed and a procurement process to take place	It impacts on HCRG Care Groups ability to contract with local sub-contractors and may create financial uncertainty for key voluntary sector organisations
Allows commissioners to understand the financial implications and staff requirement to manage the range of service lines at the end of the contracted period	Insufficient resource to run a re-procurement exercise to replace HCRG Care Group, manage multiple providers and the current sub-contractors should it be required
The Health and Care Bill requires integrated provision - it will allow commissioners to understand the implications and develop plans that are legislatively compliant with the expected requirements	Will cause current transformation activity and expected savings to be disrupted which will affect attainment of commissioners strategic goals
	Likely to reduce, but not eliminate, the risk of legal challenge - a challenge may result in enforcement of the extension, penalties, award of damages or impact on service delivery
	Appointing a new provider would incur mobilisation costs and the baseline value of the contract could be higher if terminated before the end of the three year extension period
	Any services that HCRG Care Group cease to provide will have to be provided by alternative providers or brought in house, as long as the contract is in place the overheads will continue to be paid as withdrawal of overheads is contractually not permitted
	The need to embed the new Integrated Care System and B&NES Council Integrated Care Alliance from June 2022 would be impacted by the need to focus on a re-procurement process - to re-procure effectively needs the health and social care model to be developed as well planning how to go to market which would further detract from embedding the new initiatives
	There is no guarantee that another provider would deem the service financially viable which may result in increased costs for

	commissioners, additional costs of pension contributions could be considerable in this area when transferring into an NHS or Local Authority
	An alternative extension period may provide Twenty20 Capital with a basis to sell HCRG Care and realise their investment, should HCRG Care be sold by Twenty20 Capital or cease to provide services there is lack of clarity as how services would be delivered to service users without affecting quality or potentially breaching statutory requirements
	For Health Only – Transition from HCRG Care Group would require an alternative model to be developed to deal with regulatory bodies such as CQC. This may create legal and safety issues for commissioners and service users

Option 3: Allow contract to end with no Contract extension beyond 31 March 2024	
Benefits	Disbenefits
For health only – not extending the contract beyond its current end date could provide an opportunity to align contracts with neighbouring commissioners providing economy of scale when going to market	Capacity to undertake a procurement process whilst the system remains in COVID-19 response and recovery mode (a new provider will need to commence delivery on 1st April 2024, this would also come at a time when the CCG is also transitioning its functions into the ICS NHS Board from June 2022)
For adult social care only - opportunity to bring the service inhouse with more contractual levers to control how services are delivered and deliver Council savings. This potentially removes procurement risk from B&NES Council – subject to original decision not being legally standing	Destabilisation of an already fragile health and social care system in COVID-19 recovery, with recovery plans and agreed transformation priorities put at risk
	Legal challenge from HCRG Care Group particularly as BSWCCG has chosen to exercise the option to extend the HCRG Care Group Wiltshire

	contract and the Wiltshire Health and Care Community Contract – note contract clause whereby not be treated differently to other NHS providers
	No guarantee that another provider would deem the service to be financially viable which may result in additional costs. Additional costs of pension contributions could be considerable in this area when transferring into an NHS or Local Authority
	Appointing a new provider would incur mobilisation costs outside the budgeted profile. The baseline value of any new contract could be higher as economies of scale are lost and will have to take into account current economic climate
	Very limited market choice of providers with appropriate experience of delivering community health care and adult social care services - there is no guarantee that another provider would deem the service to be financially viable which may result in increased costs
	There are a small number of known issues about the performance of the provider which are planned to be addressed when the improvement plan was agreed in November 2021 to address the five services identified. There is a risk these will remain unresolved and handed on to another provider which may be less well equipped to deal with them
	Provides uncertainty for HCRG Care Group workforce which may result in staff seeking alternative employment. This may result in the increased use of agency staff
	This option will likely cause current transformation activity and expected savings to be disrupted which will affect attainment of strategic goals

	The need to embed the new Integrated Care System and B&NES Council Integrated Care Alliance from June 2022 would be impacted by the need to focus on a re-procurement process. To re-procure effectively needs the Health and Social care model to be developed as well planning how to go to market which would further detract from embedding the new initiatives
	For health (including Public Health) only – whilst social care can be brought inhouse by the Council the CCG and Public Health would need to secure a new provider(s) for their requirements. This is likely to affect ability to deliver integrated services
	For adult social care only – in housing of this (and possibly other services) would create cost pressure on B&NES Council as well as increase requirement for service delivery and people management

Option 4: Termination of the Contract before 31 March 2024	
Benefits	Disbenefits
Terminating the contract before the current contract end date could provide an opportunity to align contracts with neighbouring commissioners providing economy of scale when going to market	Likely to cause current transformation activity and expected savings to be disrupted which will affect attainment of strategic goals
For adult social care only - Opportunity to bring the service inhouse with greater opportunity to control how services are delivered and deliver Council savings. This limits procurement risk for B&NES Council	Appointing a new provider would incur mobilisation costs and the baseline value of the contract is likely to be higher given the current pressures of inflation and cost of living. There would be little time to develop and implement a plan to either in house or reprocure the services
	Capacity to undertake a procurement process whilst the system remains in COVID-19 response and recovery mode (a new provider will need to commence delivery on 1st April 2024, this would also come at a time when

	the CCG is also transitioning its functions into the ICS NHS Board from June 2022)
	Destabilisation of an already fragile health and social care system in Covid-19 recovery, with recovery plans and agreed transformation priorities disrupted and potential to add further pressures to wider system partners
	The risk of legal challenge which may result in damages being awarded or termination being set aside
	There is a very limited market choice of providers with appropriate experience of delivering community health care and adult social care services
	There is no guarantee that another provider would deem the service to be financially viable which may result in further increased costs
	There are a small number of known issues about the performance of the provider which are planned to be addressed when the improvement plan was agreed in November 2021 to address the five services identified. There is a risk these will remain unresolved and handed on to another provider which may be less well equipped to deal with them
	The termination for convenience provisions within the contract are onerous and may result in a cost pressure when factored against the lost opportunity to realise savings and the need to re-procure for services at short notice
	Appointing a new provider would incur mobilisation costs outside the budgeted profile. The baseline value of any new contract could be higher as economies of scale are lost and will have to take into account current economic climate

	This option will likely cause current transformation activity and expected savings to be disrupted which will affect attainment of strategic goals
	The current health care and social care system will be challenging to replicate as it is currently delivered. It is likely that service users will be impacted and services will potentially not be delivered
	For adult social care only – in housing of this (and possibly other services) would create cost pressure on B&NES as well as increase requirement for service delivery and people management

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