

Terms of reference and conduct of the inquiry

Terms of reference

1. On 19 November 2008 the OFT sent the following reference to the CC:
 1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 (“the Act”) to make a reference to the Competition Commission (“the CC”) in relation to a completed merger the Office of Fair Trading (“the OFT”) believes that it is or may be the case that—
 - (a) a relevant merger situation has been created in that:
 - (i) enterprises carried on by or under the control of **Capita Group plc** have ceased to be distinct from enterprises carried on by or under the control of **IBS OPENSystems plc**; and
 - (ii) as a result, the conditions specified in section 23(3) and 23(4) of the Act will prevail, or will prevail to a greater extent, with respect to the supply of revenue and benefits software and related services to local authorities in the UK; and
 - (b) the creation of that situation has resulted or may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services, including the supply of revenue and benefits software and related services to local authorities.
 2. Therefore, in exercise of its duty under section 22(1) of the Act, the OFT hereby refers to the CC, for investigation and report within a period ending on 5 May 2009, on the following questions in accordance with section 35(1) of the Act—
 - (a) whether a relevant merger situation has been created; and
 - (b) if so, whether the creation of that situation has resulted or may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services.
 3. In relation to the question whether a relevant merger situation will be created, the CC shall exclude from consideration one of the subsections (1) and (2) of section 23 of the Act if they find that the other is satisfied.

(signed) **Simon Pritchard**
Senior Director, Mergers, Office of Fair Trading
19 November 2008

Conduct of the inquiry

2. An invitation to parties to provide us with views on the inquiry was published on the CC website on 20 November 2008. A notice inviting interested parties to submit written evidence to the CC was also placed in the *Local Government Chronicle* on 11 December and *Public Finance* on 12 December.

3. We invited a wide range of interested third parties to comment on the proposed merger. We sent detailed questionnaires to competitors, potential competitors and customers (including local authorities and housing associations). Oral evidence was obtained from competitors and customers at hearings. Evidence was also obtained through telephone contacts and through further written requests.
4. [Non-confidential versions of the evidence provided to us by third parties](#) in response to our invitation to comment, and [summaries of our oral hearings with third parties](#), can be found on the CC website.¹
5. The [administrative timetable](#) for the inquiry was published on the CC website on 11 December 2008. It was revised and republished on 30 April 2009 to reflect the Group's decision to extend the inquiry by eight weeks. The inquiry was extended because of delays in the provision of information necessary to carry out the inquiry and the need to consider the effectiveness of both a full and a partial divestiture of the IBS business. The website also contains [biographies of the members](#) of the Group conducting the inquiry.
6. Members of the Group, accompanied by staff, visited Capita's offices at Trowbridge. During the visit Capita and IBS each gave presentations and demonstrated their software. Staff were also given software presentations by Capita and IBS at the CC's offices.
7. We published a [statement of issues](#) on the CC website on 19 December 2008.
8. We received written evidence from Capita and the remaining IBS management, and held separate hearings on 24 February with each of them. A [non-sensitive version of their main submission](#) can be found on our website.
9. In the course of this inquiry, we showed the main parties a number of working papers.
10. We also took steps to ensure the separate and independent operation of the Capita and IBS businesses during the course of our inquiry:
 - On 11 September 2008, Capita gave initial undertakings to the OFT under section 71 of the Act for the purpose of ensuring the separate management of the Capita and IBS businesses whilst the OFT proceedings were ongoing. On 24 November 2008 we adopted these undertakings, while considering whether any further changes were necessary to prevent pre-emptive action by the parties, which might prejudice the reference or impede the taking of any action by the CC under Part 3 of the Act which might be justified by our decision on the reference.
 - On 16 December 2008 we issued directions under the adopted undertakings requiring Capita to appoint a Monitoring Trustee (appointed 23 December) to ascertain the degree of integration which had occurred between the two businesses, to supervise the establishment of mechanisms for ensuring compliance with the undertakings and to monitor Capita's compliance. The Monitoring Trustee continues to perform this function.
 - Following the Monitoring Trustee's first report to us, we issued further directions to Capita on 13 February 2009 requiring Capita to make changes to the arrange-

¹www.competition-commission.org.uk/inquiries/ref2008/ibs/index.htm.

ments for the management of the IBS business to ensure its separate and independent operation from Capita.

11. A [summary of our provisional findings report](#) and the [Notice of Possible Remedies](#) were published on the CC website on 1 April 2009 and the non-confidential version of our [provisional findings](#) was published on 6 April 2009. The [Notice of Extension](#) was published on 30 April 2009.
12. We held remedies hearings with the main parties and a number of third parties. We placed a non-confidential version of [Capita's response](#) to the provisional findings and the Notice of Possible Remedies on our website.
13. We would like to thank all those who assisted in our inquiry.
14. The text of this final report has been placed on the CC website.

SOCITM data analysis

- The 2008 survey of SOCITM, a professional association for IT managers working in the public sector, lists the software installed in over 200 local authorities (out of a total of 408 local authorities in England, Wales and Scotland) and a small proportion of housing associations. This appendix summarizes the results¹ and compares the installed base in 2008 with that in 2003.

Revenues and benefits software

- Table 1 shows that software from the same software supplier was used for the administration of benefits (housing and council tax benefits) and council tax by almost all local authorities.

TABLE 1 Local authorities' software suppliers for council tax and benefits software applications

Council tax software supplier	Benefits software supplier						All
	Northgate/ Anite	Capita/ Academy	IBS	Civica	In- house	Other supplier	
Northgate/Anite	[X]	[X]	[X]	[X]	[X]	[X]	47
Capita/Academy	[X]	[X]	[X]	[X]	[X]	[X]	28
IBS	[X]	[X]	[X]	[X]	[X]	[X]	15
Civica	[X]	[X]	[X]	[X]	[X]	[X]	5
In-house	[X]	[X]	[X]	[X]	[X]	[X]	2
Other solutions	[X]	[X]	[X]	[X]	[X]	[X]	2
Total	100	100	100	100	100	100	100
<i>Base count</i>	134	81	43	14	4	6	282

Source: CC analysis of SOCITM Application Software Index 2008.

- Table 2 shows that the same supplier provided software for business rates and benefits for almost all local authorities² with supply concentrated within Northgate, Capita and IBS.

¹The survey lists factual details about software installations and opinions about suppliers' performance. This appendix does not discuss the latter.

²Differences between the base counts in each table arise because not all respondents answered every question.

TABLE 2 Local authorities' software suppliers for business rates and benefits software applications

Business rates software supplier	Benefits software supplier						All
	Northgate/ Anite	Capita/ Academy	IBS	Civica	In-house	Other supplier	
Northgate/Anite	[X]	[X]	[X]	[X]	[X]	[X]	45
Capita/Academy	[X]	[X]	[X]	[X]	[X]	[X]	28
IBS	[X]	[X]	[X]	[X]	[X]	[X]	15
Civica	[X]	[X]	[X]	[X]	[X]	[X]	7
In-house	[X]	[X]	[X]	[X]	[X]	[X]	3
Other suppliers	[X]	[X]	[X]	[X]	[X]	[X]	2
Total	100	100	100	100	100	100	100
Base count	133	80	44	14	4	6	281

Source: CC analysis of SOCITM Application Software Index 2008.

4. We compared the 2008 SOCITM survey responses to a similar survey conducted in 2003. We looked at the suppliers reported in 2003 and those reported in 2008 by the same local authorities. Table 3 shows (in the base count row) the number of these local authorities using benefits software from each supplier in 2003. The table also shows the percentages of these customers by their current supplier. [X]

TABLE 3 Changes in supplier of benefits software between 2003 and 2008

Current supplier	Previous supplier							All
	Northgate	Anite	Capita	IBS	Civica	In-house	Other supplier	
Northgate	[X]	[X]	[X]	[X]	[X]	[X]	[X]	41
Anite	[X]	[X]	[X]	[X]	[X]	[X]	[X]	8
Capita	[X]	[X]	[X]	[X]	[X]	[X]	[X]	29
IBS	[X]	[X]	[X]	[X]	[X]	[X]	[X]	14
Civica	[X]	[X]	[X]	[X]	[X]	[X]	[X]	5
In-house	[X]	[X]	[X]	[X]	[X]	[X]	[X]	1
Other supplier	[X]	[X]	[X]	[X]	[X]	[X]	[X]	2
Total	100	100	100	100	100	100	100	100
Base count	86	37	38	14	14	23	12	224

Source: CC analysis of SOCITM Application Software Index 2003 and 2008.

Note: Percentages based on low base counts should be interpreted with caution.

5. Overall 29 per cent of customers switched supplier between 2003 and 2008 (we consider Northgate and Anite as a single entity), which corresponds to an average rate of 6 per cent a year. If this pattern were replicated over all local authorities, about 24 authorities would be switching supplier each year. Another way of interpreting this result is that the local authorities surveyed have retained their suppliers for about 17 years on average, but have replaced their software every six years on average, suggesting that customers tend to retain their supplier when they replace their system.³
6. The evidence suggests that much of the switching that shows up in the SOCITM data was concentrated pre-2006 rather than occurring at a steady rate over the five years.

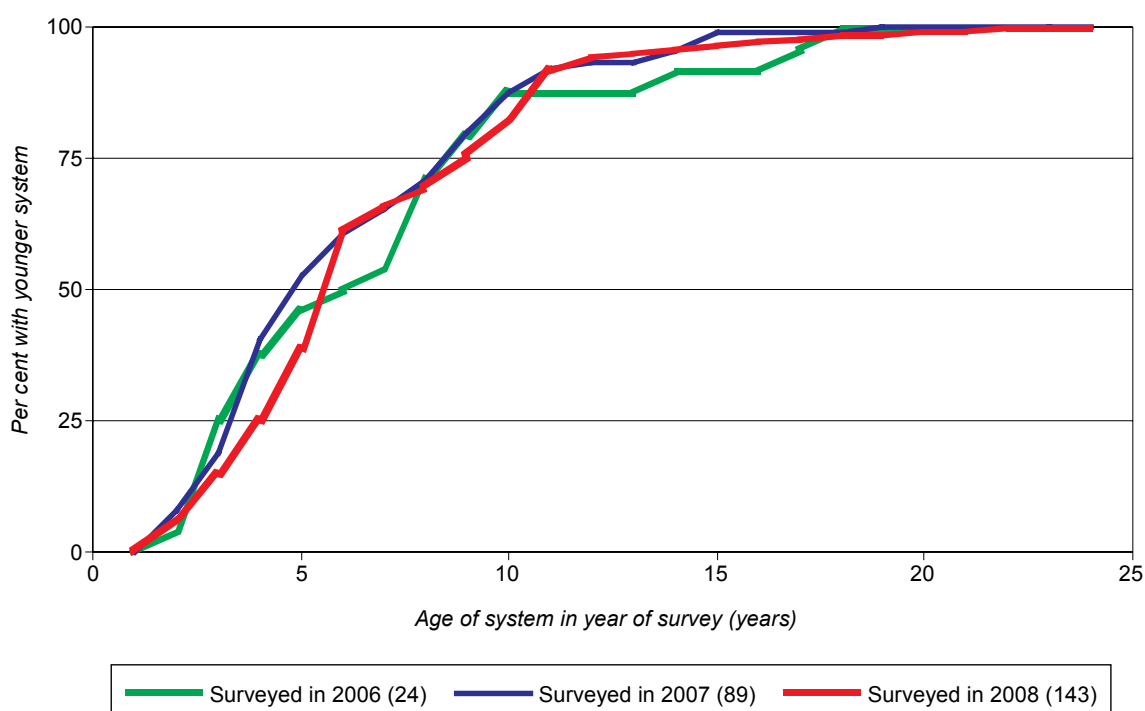
³The supplier turnover period corresponding to a switching rate of 6 per cent a year is about 17 years and, since the average lifetime of software was shown to be about six years, the time to replace suppliers is greater than that to replace software.

As shown in Appendix I, the number of new contracts per year⁴ has declined significantly in 2007. Capita considered that market conditions had changed such that the average rate of switching in 2007 and 2008 was a much more reliable measure of likely future switching rates. However, we noted that if the current low level of new contracts being issued were to be sustained, it would imply that the time to renewal for a local authority on average would be substantially longer than the renewal periods observed in the past.

7. Figure 1 shows the age of the installed base in the year when respondents replied to the survey. It shows that the age distribution was similar for each year surveyed and suggests that half the respondents had systems that were six years of age or more, so that any with five-year contracts would have rolled over these contracts.

FIGURE 1

Cumulative age distribution of housing and council tax benefits software by year of survey



Source: CC analysis of SOCITM Application Software Index 2008.
 Note: Figures in parentheses are numbers responding.

Social housing software

8. As for R&B software above, Table 4 compares the responses by the same local authorities to the 2003 and 2008 SOCITM surveys, this time in relation to SH software. The base count row shows the number of these local authorities using housing stock management software from each supplier in 2003. The table also shows the percentages of these customers by their current supplier, although these percentages are based on low base counts and so they should be interpreted with caution. Whereas in the R&B market the SOCITM survey allows an assessment of

⁴The number of new contracts each year will include customers switching suppliers as well as new customers and customers who conduct a tender process but then end up retaining their existing supplier, so will be greater than or equal to the switching rate.

switching across the entire customer base (which is made up almost entirely of local authorities), the same cannot be said in the SH market as a large proportion of customers are RSLs or ALMOs, to which the SOCITM survey does not refer. The table shows that suppliers typically retained the vast majority of their customers included in this survey.

TABLE 4 Changes in supplier of housing stock management software between 2003 and 2008

Current supplier	Previous supplier										All	
	Northgate	Anite	Capita	IBS	Orchard	Comino	Aareon	MIS	In-house	Other		
Northgate	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	29
Anite	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	6
Capita	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	13
IBS	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	8
Orchard	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	11
Civica/ Comino	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	12
Aareon	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	5
MIS	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	1
In-house	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	6
Other	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	8
solution Total	100	100	100	100	100	100	100	100	100	100	100	100
Base count	39	1	16	7	15	25	2	2	30	19		156

Source: CC analysis of SOCITM Application Software Index 2003 and 2008.

Notes:

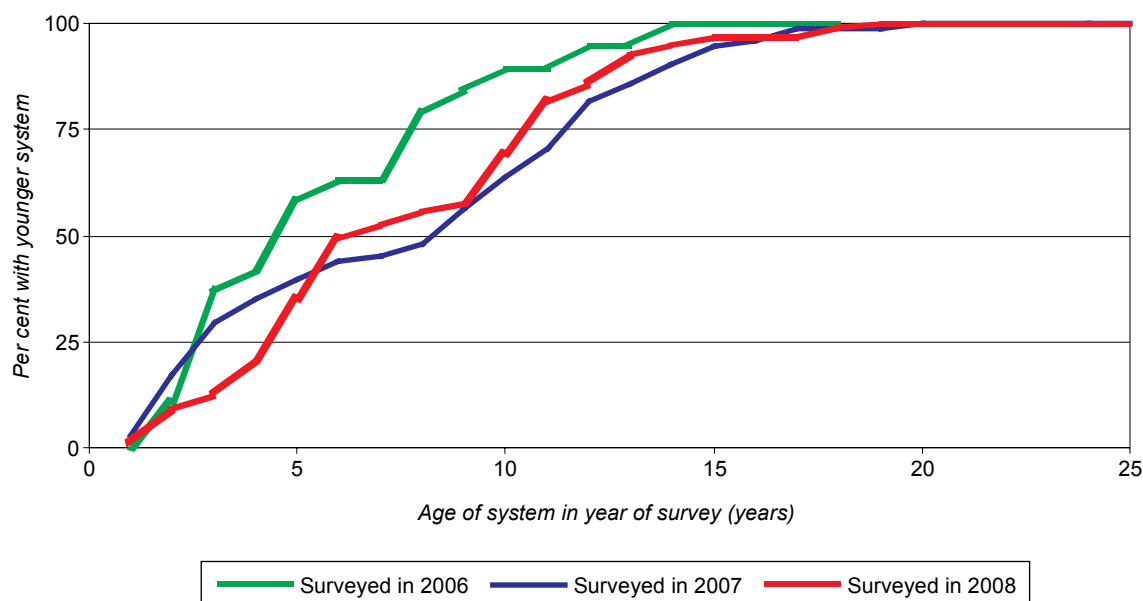
1. Percentages based on low base counts should be interpreted with caution.
2. Northgate and Anite have merged; Civica acquired Comino.

9. Overall 38 per cent of local authority customers switched supplier between 2003 and 2008 (considering Northgate and Anite as a single entity). This corresponds to an average rate of 8 per cent a year and if this pattern were replicated over all local authorities 31 would be switching supplier each year. Thus the surveyed authorities have retained their suppliers for about 13 years on average and have or intend to replace their software every eight years on average. However, only 15 new contracts were won across all SH software customers, including RSLs and ALMOs, in 2008 (and only 9 and 16 in 2006 and 2007 respectively—see Appendix I), which we argued was an upper bound on the 2008 switching rate. Therefore, the observed number of new contracts has been lower in recent years than would be inferred from the SOCITM survey, probably because there were more new contracts and more opportunities for switching prior to 2006.

10. Figure 2 shows the age of the installed base of housing stock management software in the year when respondents replied to the survey. It shows that those responding in 2006 reported younger systems than those responding in 2007 or 2008, but those responding in 2007 reported a similar age distribution to those responding in 2008. Half of the more recent respondents had systems that were seven to eight or more years old, which would suggest that over half of the local authorities with five-year contracts had rolled over their SH contracts with their suppliers.

FIGURE 2

Cumulative age distributions of housing stock management software by year of survey



Source: CC analysis of SOCITM Application Software Index 2008.

Comparing R&B and SH software supplier

11. We compared the supplier of housing stock management software with the supplier of benefits software to a particular customer. Table 5 shows the percentages, by housing software supplier, of customers using a particular benefits software supplier. Most (two-thirds of) customers source the two applications from different suppliers although customers who use Northgate, Capita or IBS for benefits management are more likely than the average customer to use the same supplier for housing management.

TABLE 5 Local authority housing stock management software suppliers and local authority benefits software suppliers

Housing software supplier	Benefits software supplier						All
	Northgate/ Anite	Capita	IBS	Civica	In- house	Other suppliers*	
Northgate/Anite	48	[X]	[X]	[X]	[X]	[X]	38
Capita/Academy	[X]	23	[X]	[X]	[X]	[X]	12
IBS	[X]	[X]	21	[X]	[X]	[X]	7
Civica	[X]	[X]	[X]	11	[X]	[X]	8
Orchard	[X]	[X]	[X]	[X]	[X]	[X]	14
Aareon	[X]	[X]	[X]	[X]	[X]	[X]	4
In-house	[X]	[X]	[X]	[X]	38	[X]	7
Other suppliers/solutions	[X]	[X]	[X]	[X]	[X]	14	11
Total	100	100	100	100	100	100	100
Base count	104	57	33	9	8	7	218

Source: CC analysis of SOCITM Application Software Index 2008.

*But not Orchard or Aareon.

Customer questionnaires

1. In this appendix we present data from responses to our customer questionnaires.
2. We sent both the R&B and SH software questionnaires to 182 local authorities and the SH software questionnaire to 105 other SH software customers.¹
3. We received responses from 42 R&B software customers² (approximately 23 per cent response rate) and from 24 SH software customers³ (approximately 8.4 per cent response rate). The following tables present, for ease of comparison, percentages of respondents. However, the counts of those responding are small and so the percentages are indicative of respondents' opinions rather than necessarily reflecting the opinions of all customers.

Technical restrictions

4. Table 1 presents respondents' opinions on whether the choice of the core R&B or SH software licence supplier restricted the choice of software suppliers for additional products/services.⁴

¹We sent questionnaires to all customers that had tendered in the last five years and all customers who we thought likely to be coming up for tender in the next three years (using the E-gov website). We then sent questionnaires to a further 20 R&B and 20 SH customers from the Capita and IBS customer lists to supplement these responses.

²The distribution of customers responding to the R&B questionnaires is as follows: 13 small district; 3 large district; 14 metropolitan/London borough; 10 unitary authority; 2 other (the two customers responded that they were a shared service and a 'medium' district respectively). We discounted one response from the analysis as we believed it did not refer to the software we were looking at.

³The distribution of customers responding to the SH questionnaires is as follows: 13 housing association; 2 small district; 0 large district; 4 metropolitan/London borough; 0 unitary authority; 5 ALMO; 0 other. We discounted three responses from the analysis as we believed they did not refer to the software we were looking at.

⁴Customer questionnaire: 'For your latest tender, does your choice of application software licence supplier restrict your choice of software suppliers for the following related services?'

TABLE 1 Degree to which software licence restricts supplier choice

	<i>Total R&B</i>					<i>Total SH</i>				
	<i>Not at all restricted (%)</i>	<i>Restricted to some extent (%)</i>	<i>Completely restricted (%)</i>	<i>Don't know (%)</i>	<i>Base (count)</i>	<i>Not at all restricted (%)</i>	<i>Restricted to some extent (%)</i>	<i>Completely restricted (%)</i>	<i>Don't know (%)</i>	<i>Base (count)</i>
Add-ons (eg mobile working)	27	62	12	0	26	45	36	9	9	11
Horizontal module (document imagery)	64	14	14	9	22	60	20	0	20	10
Software installation and implementation	31	17	52	0	29	8	31	54	8	13
Training	52	28	21	0	29	43	29	21	7	14
Support, eg help-desk support	28	14	59	0	29	23	23	46	8	13
Remote monitoring and database support	41	26	22	11	27	33	25	25	17	12
Other support and maintenance, eg regular updates as new revisions/fixes arise	30	17	52	0	23	17	17	58	8	12

Source: CC analysis of customer responses.

Buying behaviour

5. Table 2 presents respondents' opinions regarding which products/services, in addition to the initial software licences, were included in the respondents' latest contract with their software supplier.⁵

TABLE 2 Proportion of respondents that purchase the following components with the software licence

	<i>Total R&B</i>				<i>Total SH</i>			
	<i>Yes (%)</i>	<i>No (%)</i>	<i>Don't know (%)</i>	<i>Base (count)</i>	<i>Yes (%)</i>	<i>No (%)</i>	<i>Don't know (%)</i>	<i>Base (count)</i>
Add-ons (eg mobile working)	91	9	0	22	67	33	0	9
Horizontal module (document imagery)	88	6	6	17	33	56	11	9
Software installation and implementation	100	0	0	28	100	0	0	10
Training	100	0	0	28	91	9	0	11
Support, eg help-desk support	96	0	4	27	100	0	0	10
Remote monitoring and database support	74	13	13	23	43	29	29	7
Other support and maintenance, eg regular updates as new revisions/fixes arise	88	8	4	26	90	0	10	10

Source: CC analysis of customer responses.

6. In addition, Table 3 presents our findings as to whether respondents considered the combined (initial software licence plus each additional product or service) price or the price of each product/service separately.

TABLE 3 Proportion of respondents who consider a combined price

	<i>Total R&B</i>			<i>Total SH</i>		
	<i>Combined (%)</i>	<i>Separate (%)</i>	<i>Base (count)</i>	<i>Combined (%)</i>	<i>Separate (%)</i>	<i>Base (count)</i>
Add-ons (eg mobile working)	59	41	17	60	40	10
Horizontal module (document imagery)	67	33	6	50	50	4
Software installation and implementation	79	21	24	77	23	13
Training	75	25	24	75	25	12
Support, eg help-desk support	88	12	25	67	33	12
Remote monitoring and database support	73	27	15	67	33	6
Other support and maintenance, eg regular updates as new revisions/fixes arise	76	24	21	100	0	12

Source: CC analysis of customer responses.

Geographic scope

7. In terms of the geographic scope of the relevant market(s), Table 4 indicates whether respondents thought a UK presence was needed.⁶

⁵Customer questionnaire: 'In addition to software application licences, what products/services were included in your latest contract with your software supplier? Please also specify if you considered the combined (software plus associated services) price or the price of each component separately.'

⁶Customer questionnaire: 'Do you require that your supplier(s) for the following [R&B/SH] systems components have a UK presence?'

TABLE 4 Proportion of respondents that require a UK presence

	Total R&B				Total SH			
	Yes (%)	No (%)	Don't know (%)	Base (count)	Yes (%)	No (%)	Don't know (%)	Base (count)
Application licence	37	41	22	27	31	46	23	13
Add-ons (eg mobile working)	36	44	20	25	36	45	18	11
Horizontal module (document imagery)	50	27	23	22	11	67	22	9
Software installation and implementation	44	37	19	25	64	29	7	14
Training	52	33	15	27	64	29	7	14
Support, eg help-desk support	38	42	19	26	57	36	7	14
Remote monitoring and database support	32	56	12	25	45	36	18	11
Other support and maintenance, eg regular updates as new revisions/fixes arise	39	48	13	23	58	42	0	12

Source: CC analysis of customer responses.

Responses to price increases

8. Table 5 presents stated responses to price increases of different sizes (multiple responses were permitted).⁷

TABLE 5 R&B software stated responses to percentage price increases

Percentage price rise	1%	5%	10%	30%	50%	Above	Not an
						50%	option*
Percentage of customers							
Switch to another R&B supplier	0	0	12	39	12	17	20
Developing an in-house software system, ie self-supply	0	0	2	2	0	2	93
Outsource service to other supplier	0	5	5	27	2	12	49
Fostering new systems provider or existing software provider to develop similar software	0	2	0	7	2	7	80
Procure similar software and related services as part of a 'shared services' or unitary contract with other local authorities or groups of authorities	2	5	20	29	10	15	20
Punish supplier in unrelated software market	0	2	10	15	0	0	73

Base (count) 41

Source: CC analysis of customer responses.

*This category contains both respondents that indicated this would not be an option, or that did not indicate a price rise.

Note: This question allowed multiple responses, so respondents could indicate more than one strategy in response to a given price increase.

⁷Customer questionnaire: 'By how much would your supplier of R&B software application licences have to increase their price for you to consider the following options (assuming all other prices remained the same)?'

The extent of stand-alone provision of software and service components

1. In this appendix we review and assess the evidence on stand-alone provision of R&B and SH software and related services components.

Core modules

2. R&B and SH core modules can be procured on a stand-alone basis but this is uncommon (especially in R&B). The main parties told us that customers benefit from economics of scope by joint procurement.¹

Non-core modules

3. Software suppliers sell non-core modules (add-on and horizontal modules) developed by third parties alongside their own software.² In addition, third parties can sell stand-alone non-core modules direct to customers.
4. Civica told us that to attach any given non-core module to a software system it was necessary to purchase an interface. Whilst interfaces are proprietary, they are developed for an application rather than for a particular supplier's product. Northgate also told us that if a customer purchased an 'integrator',³ it could purchase non-core modules from any competitor.
5. The extent to which customers source non-core modules directly from third parties is unclear.
6. In Northgate's submission to the OFT, it stated that there was limited competition to provide certain R&B and SH add-ons and enhancements, such as mobile solutions. Northgate and Anite provide mobile solutions only to their existing customers and do not sell these add-ons on a stand-alone basis. Hence for these add-ons they do not target other suppliers' customers. In addition, Northgate told us that add-on modules are also available directly from niche software players such as Kirona, Blackberry and Consilium.⁴
7. For R&B and SH horizontal modules, such as document imagery and workflow, Northgate told us that there were numerous suppliers including Civica, IDOX, IDRMS, Metastrom, Hummingbird and Singularity. In its submission to the OFT, Northgate said that 68 per cent of Anite's Electronic Document and Records Management system (ERDM) sales were sold separately from R&B software whilst Northgate sold EDRM only as an additional module to its R&B system.⁵

¹In relation to R&B software, Capita told us that: 'an authority that decided they were going unusually to buy a benefits application from one supplier and a council [tax] application from another supplier, which quite frankly is not sensible because you lose the economies and you also lose the tight interface you need between those two applications'.

²Northgate told us that it had an exclusivity agreement with Kirona, as Kirona developed a product for Northgate. IBS told us that it sourced [redacted] modules from third parties for resale, and Capita resells [redacted] non-core modules in R&B and [redacted] in SH.

³Northgate told us that: 'Integrator is [redacted].'

⁴Northgate said that it competed with suppliers such as Civica, Hummingbird, IDOX and others for the supply of mobile working solutions to their customers.

⁵Northgate said that it competed with suppliers such as Civica, Hummingbird, IDOX and others.

Related services

8. The implementation of R&B and SH software is a specialist task. It appears possible to subcontract some work streams or have the customer perform some tasks such as training or maintenance support. But the lead contractor is the R&B/SH software supplier and some key tasks are too specialized for anyone else to undertake. There seems to be limited scope for stand-alone provision of implementation services.
9. After implementation, customers pay an annual fee (or fees) that can cover the annual renewal of the software licence, product maintenance, updates to take account of legislative changes, upgrades or bug fixes, technical support services and in-life training. The scope and pricing of the annual fee is subject to negotiation and contracts vary. Disentangling each product and service from the annual fee is difficult.
10. The evidence suggests that some services included in the annual fee can be provided only by the incumbent software supplier. Capita told us that these services included servicing, repair and maintenance that required modifications to the underlying software code. Northgate told us that third parties could not provide product revisions or bug fixes.⁶ It therefore appears that the main software supplier will typically provide system upgrades, revisions and maintenance.
11. Northgate told us that remote monitoring and database support was normally bought after initial implementation and that there were numerous suppliers including Serco, Liberator, WellData and Capita active in this area. In contrast, for R&B, Civica said that this was always purchased as part of the software purchase. For SH, Consilium told us that all customers purchased this alongside the initial software licence whilst Orchard told us that it was typically purchased later.
12. Capita told us that business consultancy and additional training may be provided by third parties, including RB Solutions, Synergy, Meritec, Brian Dyer and Eden Brown for R&B and Barry Larking, Stella Swann and Questril for SH. Northgate also told us that there were many contractors that could provide additional bespoke functionality.
13. The data we received did not provide a breakdown of contract revenue according to the individual components listed above (ie each core module, each non-core module and each related service included in the contract). As such, we could not analyse the relative size of customer spends on each of these components. We did, however, note that the revenue profile of a contract was heavily weighted to the first year, as the software licence is purchased and the implementation project is undertaken in the first year of a contract, whereas the annual charges are paid over several years, and typically range from 20 to 30 per cent of the initial software licence fee.

⁶We noted that what are generally referred to as 'regular updates' in fact cover a number of products/services (including new revisions and bug fixes). Suppliers will sometimes charge for new versions of software.

Customer base analysis

1. This appendix provides an analysis of R&B and SH software suppliers' customer bases by local authority population size for R&B software suppliers and by volume of housing stock managed for SH software suppliers. Data has been sourced from the suppliers concerned and Tribal Consulting.

Revenue and benefits software

2. Figure 1 shows the distribution of R&B suppliers' customers relative to the local authority's population. [✂]

FIGURE 1

Customer base by local authority population size for R&B software

[✂]

Source: CC analysis of [✂].

Notes:

1. Local authorities may be sourcing from more than one supplier in the same year.
2. Where a local authority has partnered with another, it has been treated as a single customer.
3. The data on UK local authorities relates to local authorities as defined in 2007.
4. For the reasons noted above, the sum of all customers may exceed the number of local authorities in a given category.

Social housing software

3. Figure 2 shows the distribution of SH suppliers' customer base relative to the volume of housing stock managed by those customers. Capita and IBS do not appear to sell to particular customer groups (in terms of size).

FIGURE 2

Customer base by housing stock size for SH software

[✂]

Source: CC analysis of data provided by Tribal Consulting.

Background to the transaction and the valuation of IBS

1. This appendix sets out further background information on IBS's 2008 sale process and assesses whether Capita's offer price for IBS was a reasonable valuation of the business.

Background to the transaction

2. Capita's acquisition of IBS was among a number of acquisitions it had completed during 2008 and did not represent a one-off transaction for Capita.
3. In 2008, Capita completed 12 acquisitions with total acquisition expenditure of £147 million.¹ IBS accounted for approximately 47 per cent of Capita's 2008 acquisition expenditure (based on a net cash consideration for IBS of approximately £70 million).² This compares to 12 acquisitions and total acquisition expenditure of £114 million in 2007.³ Morgan Stanley⁴ expected this figure to be approximately £130 million in 2009 as Capita capitalizes on falling valuations.
4. An internal Capita report on the IBS acquisition supported the decision to bid for IBS by stating that 'independent consultants agree the number of software houses in the public sector market will decrease through merger in the coming years and acting now ensures we obtain synergy with a good market player and adopt a positive customer base to up sell other Capita products and services'.⁵

Valuation of IBS

5. To assess whether Capita's offer for IBS of 187.85p per share could be deemed reasonable, we considered the following:
 - (a) the premium of Capita's offer over IBS's share price at various points in the months leading up to the transaction;
 - (b) whether the premium of Capita's offer over IBS's share price could be deemed reasonable when compared against recent transactions in the sector, namely 3i's acquisition of Civica and KKR's acquisition of Northgate;
 - (c) the synergy forecasts produced by both Capita and IBS during the sale process and the implied acquisition enterprise value (EV) earnings multiples for IBS; and
 - (d) the alternative offers made for IBS during its 2008 sale process and the valuation materials prepared during the 2008 sale process by both Capita's and IBS's financial advisers.

¹Capita 2008 preliminary results announcement.

²Capita 2008 results presentation.

³Capita Annual Report 2007.

⁴Morgan Stanley research report on Capita (21 November 2008).

⁵Report on the acquisition of IBS OPENSystems plc Project Zoo, 30 May 2008.

Share premium

6. We looked at the premium of Capita's offer over IBS's share price. Table 1 sets out the premiums of Capita's offer of 187.85p per IBS share over the share price on three different dates.

TABLE 1 Premiums of offer price over IBS share price

Premium %	Date 2008	Closing price pence	Relevance of date*
37.1	24 April	137.0	Last business day prior to IBS's announcement that it had received approaches from third parties
52.1	23 April	123.5	Last business day prior to any market rumours about a potential offer for IBS
65.5	24 January– 24 April	113.5 (3m average)	Three months prior to the last business day before IBS's announcement that it had received approaches from third parties

Source: Capita RNS announcement (5 June 2008).

*Capita RNS announcement (5 June 2008).

7. The premiums should be taken in the context of volatile and declining market conditions. Capita's offer of 187.85p per IBS share represented a 5 per cent discount to IBS's 52-week high price (over the trailing 12-month period to 4 June 2008, one business day prior to the announcement of Capita's offer for IBS) on 25 July 2007, albeit a 90 per cent premium to its 52-week low price on 19 February 2008.
8. Following the announcement of its trading update in January 2008, IBS's share price fell by 25 per cent. In a deteriorating economic climate, we cannot rule out the possibility of 'investor overreaction' to negative market news that could potentially have a disproportionate effect on IBS's share price performance. We note that whilst IBS's share price had fallen by about 12 per cent over this period (trailing 12 months to 4 June 2008), the AIM All-Share index also fell by 17 per cent over the same period. Therefore, given that any premiums calculated from this analysis may be overstated, we cannot determine whether Capita's offer price for IBS was reasonable based solely on our analysis of IBS's share price premiums.

Share premium in comparable transactions

9. We also looked at the premium of offer price over share price in comparable transactions. In March 2008, 3i's offer for Civica (deal size of approximately £190 million) included a 33.7 per cent premium on the share price a day prior to the offer announcement and a 39.8 per cent premium to the average share price over the last six months prior to the offer announcement.
10. In December 2007, KKR's offer of 95p a share in Northgate (deal size of about £596 million) represented a premium of 60.3 per cent on its share price prior to announcing that it had received an offer. Capita's offer represented a 37.1 per cent premium on IBS's share price (a day prior to announcing third-party approaches).
11. We noted that both of these comparable transactions were led by financial buyers, where synergies would not have been a key consideration in the valuation of the target business. Whilst we would expect a trade buyer, which might be able to extract both revenue and cost synergies, to offer a higher bid premium, Capita's premium of 37.1 per cent does not appear to be excessive when compared with the two recent comparable transactions.

12. We also note that Capita's bid premium was calculated against an IBS share price that had been affected by both its January 2008 trading update (a 25 per cent fall in one day) and a general decline in the AIM All-Share index.

Capita/IBS synergies and implied EV acquisition multiples

13. In its internal report on the acquisition, Capita estimated synergies arising from its acquisition of IBS at £[x] million for 2008 (four months of synergies post assumed completion date of 31 August 2008) and full-year synergies of £[x] million and £[x] million in 2009 and 2010 respectively.
14. Capita's due diligence on IBS also concluded that IBS had current annual steady-state earnings before interest, tax and amortization (EBITA) of about £[x] to £[x] million.⁶ We calculated that Capita's offer represents an EV/steady-state EBITA multiple for IBS of [x] times. This is based on: (a) an underlying steady-state EBITA figure of £[x] million (including annualized synergies);⁷ and (b) an EV of £[x] million.⁸ Excluding synergies, this multiple would rise to [x] times steady-state EBITA.
15. The multiple paid for IBS by Capita is significantly lower when compared with KKR's acquisition of Northgate, where KKR paid 18 times EBITA,⁹ and lower than the multiple paid by 3i in its acquisition of Civica, where 3i paid 11.8 times EBITA.¹⁰
16. We explored whether KKR's bid for Northgate was significantly above the multiple paid by Capita for IBS, due to the timing of the two different acquisitions. Based on the AIM All-Share index, the index fell by 6.8 per cent between 12 December 2007 (the date on which Northgate announced that it had received third-party approaches) and 25 April 2008 (the date on which IBS announced that it had received third-party approaches). The movement in the market therefore does not sufficiently explain the discrepancy between the multiples paid by KKR and Capita.
17. These comparable transaction multiples exclude any synergies which a trade buyer may be expected to extract (see paragraph 11), which suggests that Capita's valuation of IBS was reasonable.

Alternative offers and valuations by Capita's and IBS's financial advisers

18. IBS told us that Capita submitted the [x] offer (out of a total of three bids) for IBS. [x] submitted the [x] offer at [x]p per share. IBS told us that [x]. We note that Capita's offer was still deemed acceptable to the IBS board and the offer was subsequently recommended by IBS's board to its shareholders.
19. IBS recommended Capita's offer to its shareholders due to non-price considerations that made its offer more attractive to its shareholders, including shorter time frame, lower execution risk and the fact that it was an all-cash offer.

⁶Capita report on the acquisition of IBS (30 May 2008).

⁷Steady-state EBITA of £[x] million based on taking the mid-point of IBS's current steady-state profit of £[x] million, with no additional growth assumed, plus annualized synergies of £[x] million, grossing up four months of synergies of £[x]. The steady-state profit represents the profits for a business that have been adjusted to reflect the full-year impact of contract wins/losses; any partial year revenues/costs; and excluding any non-recurring items.

⁸Figure based on Capita's 2008 results presentation.

⁹Based on Northgate EV of £1.1 billion (source: www.northgate-is.com) and EBITA of £60.1 million (FY08 Northgate Annual Report).

¹⁰Numis Rule 3 presentation (4 June 2008).

20. Capita's offer of 187.85p falls firmly within the valuation range produced by both Capita's and IBS's financial advisers:
- (a) Capita's valuation range: []p to []p per IBS share; and
 - (b) IBS's valuation range: []p to []p per IBS share.

The nature, size and requirements of customers

Local authorities' requirement for R&B software

1. All local authorities have a business requirement for software to perform their statutory duties to collect revenues and distribute benefits to eligible local residents. These systems perform a range of functions, including: maintaining accounts for individuals, households and businesses; performing calculations of council tax charges and benefit entitlements; issuing of bills and statements; and interfacing with other local authority systems and central government departments for reporting purposes. The business logic underlying revenues and benefits software is specific to the legislative framework.
2. Council tax is a local tax, based on the value of properties, raised by local authorities to help pay for local services. Businesses and other occupiers of non-domestic properties pay non-domestic rates (also known as business rates) (NDR) to contribute towards the cost of central government services.
3. Council tax was introduced in April 1993 and applies in England, Wales and Scotland. Since 1990, NDR have been set centrally and collected by local authorities. In the financial year 2007/08 local government expenditure in England¹ was £98.0 billion, of which council tax revenue represented £23.6 billion (25 per cent of the total) and revenue from NDR represented £18.5 billion (19 per cent of the total). The balance of local government expenditure (56 per cent of the total) is provided by grant from central government.
4. No major reforms to the system of local government finance are planned in England and Wales at present. This is evidenced by the conclusion of the recent Lyons Inquiry into Local Government,² which concluded that the system of local taxes was broadly satisfactory, and that council tax and NDR should be retained.
5. Housing benefit and council tax benefit schemes are administered on behalf of the DWP by local authorities. Housing benefit is to help pay rent. Council tax benefit is to help pay council tax. Both benefits are based on income. The DWP is responsible for policy and legislation, and for paying a subsidy to local authorities for the administration and benefit costs. Annual expenditure³ on housing benefit in 2006/07 was approximately £14.9 billion and there were over 4 million claimants in November 2006.
6. The DWP undertakes national initiatives in relation to the benefits system, including the collection of national performance indicators and implementation of fraud detection and prevention measures via the introduction of data matching and risk profiling (fraud and error costs have been estimated at £150 million and £30 million a year for housing benefit and council tax benefit respectively⁴). In the current economic circumstances the number of people in receipt of housing benefit and council tax benefit is likely to increase, however at the date of our report the DWP was in the

¹Local Government Finance Key Facts: England, 2008.

²Lyons Inquiry into Local Government, Sir Michael Lyons, March 2007.

³National Audit Office, DWP, Progress in tackling benefit fraud, 23 January 2008. (In total, there were 18 million recipients of social benefits nationally in 2006/07, claiming a total of £119.8 billion across a range of benefits, the largest of which is the state pension, which amounts to £53.7 billion.)

⁴National Audit Office, DWP, Progress in tackling benefit fraud, 23 January 2008.

process of changing its data sources⁵ and there were no new figures available for publication.

7. Legislative changes and implementation of national initiatives drive regular changes to software. The DWP maintains direct relationships with software suppliers. The DWP told us that its software forum⁶ met quarterly. Changes to the benefits system are discussed and feedback sought on vendors' ability to implement changes. The DWP also told us that it had previously provided grants to local authorities to implement major changes to legislation, and we understand that a proportion of such funding may be indirectly attributable to software. The DWP told us that it currently had no firm plans to make major changes to council tax benefit or housing benefit although it noted that this would not necessarily remain the case in future.
8. In Northern Ireland there are 26 local authorities.⁷ However, council tax and NDR do not apply in Northern Ireland, as an alternative system of rates exists. Moreover, local authorities in Northern Ireland do not have responsibility for the collection of local taxes. In 2006, Land and Property Services Northern Ireland (LPSNI) became the sole billing authority for local taxes in Northern Ireland. In Northern Ireland, housing benefit is termed 'rate rebate'. For owner occupiers it is administered by LPSNI, whereas for tenants it is administered by the Northern Ireland Housing Executive. The business requirements for software are similar, resulting in two additional potential customers.
9. The Scottish Government carried out a consultation exercise⁸ in 2008 to gather views about the replacement of council tax with a system of local income tax. The Scottish Government has announced that it will introduce a bill to abolish council tax in Scotland.⁹
10. The replacement of the two-tier structure of county and district councils by unitary authorities in parts of England is expected to result in a reduction in the number of local authorities, and a consequent fall in the customer base for R&B software.
11. In the early 1990s the Government created the independent Local Government Commission (LGC) to look at the case for replacing the existing two-tier structure of county and district councils in England with a structure based on all-purpose unitary authorities. The main changes resulting from the review process were as follows: (a) the abolition of the three counties (Avon, Cleveland and Humberside) created in 1974 and their replacement with four unitary authorities in each case; (b) the abolition of the Royal County of Berkshire and its replacement with six unitary authorities; (c) the creation of 46 new unitary authorities in 22 counties between 1995 and 1998, mostly with large towns and cities such as Bournemouth, Milton Keynes and Derby becoming all-purpose authorities; and (d) the retention of the status quo in the remaining 12 counties.
12. Recent government policy has been to encourage local authorities to submit proposals for unitary authorities, rather than for central government to direct changes. In 2006, the White Paper *Strong and Prosperous Communities* invited local authorities in England to submit their own consensus-based proposals for unitary authority arrangement. On 27 July 2007 the Local Government Minister, John

⁵DWP Quarterly Statistical Summary, 13 May 2009.

⁶Software suppliers also operate their own supplier-specific forums for existing users of their software to meet and exchange views.

⁷Land and Property Service for Northern Ireland (www.lpsni.gov.uk).

⁸*A Fairer Local Tax for Scotland. Analysis of Consultation Responses*. The Scottish Government. November 2008.

⁹Moving Scotland Forward, The Government's programme for Scotland 2008–09, September 2008.

Healey, announced¹⁰ that nine proposals for unitary authorities would proceed, with the intention that they will be in place by 2009. The new unitary authorities announced were: Bedford, Chester, Cornwall, County Durham, Exeter, Ipswich, Northumberland, Shropshire and Wiltshire.

13. At the end of 2008, a review by the Electoral Commission of the unitary authority proposals in Exeter and Ipswich had not been concluded. Table 1 shows that eight new unitary authorities replaced 33 districts in April 2009. Of these, Shropshire had selected Northgate for a replacement R&B system during 2008 and the other unitary authority tenders had yet to complete. The decision with respect to the selection of appropriate software systems forms a small part of the larger project to implement the unitary authority proposal.

TABLE 1 Impact on number of local authorities due to creation of unitary authorities

<i>New unitary authority</i>	<i>Total</i>	<i>Local authorities abolished</i>	<i>Total</i>
Central Bedfordshire	1	Mid Bedfordshire, South Bedfordshire	2
Cheshire West and Chester, Cheshire East	2	Chester City Council, Congleton BC, Crewe & Nantwich and Macclesfield BC	4
Cornwall	1	Penwith, Kerrier, Carrick, Restormel, Caradon, North Cornwall	6
County Durham	1	Durham, Easington, Sedgfield, Teesdale, Wear Valley, Derwentshire, Chester-le-Street	7
Northumberland	1	Blyth Valley, Wansbeck, Castle Morpeth, Alnwick, Berwick-upon-Tweed	5
Shropshire	1	North Shropshire, Oswestry, Shrewsbury and Atcham, South Shropshire, Bridgnorth	5
Wiltshire	1	Salisbury, West Wiltshire, Kennet, North Wiltshire	4
Total	8		33
Net reduction			25

Source: Communities and Local Government, Electoral Commission.

Local government procurement strategy

14. Local government procurement is guided by the overall objective to gain value for money in purchases. Local authority budgets remain under pressure to secure ongoing efficiencies, and current economic conditions are likely to increase this pressure in future. Three specific trends, described below, affect the procurement strategy for revenue and benefits software:
- *Shared services*: the initiative by some local authorities to enter into joint arrangements for the delivery of local services within a county or region. Such initiatives will reduce the number of customers for revenue and benefits software.
 - *Strategic service-delivery partnerships (SSPs)*: long-term public private partnerships (PPPs) through which contractors deliver a service or range of services for councils.
 - *Outsourcing*: the transfer of responsibility for a local authority service to an external provider.
15. We consider each of these in turn.

¹⁰Communities and Local Government press release, 25 July 2007.

Shared services

16. The concept of shared services is not unique to local government. A market research company, Gartner,¹¹ has published several reports on the topic covering public sector and commercial markets, including a case study of the South Worcestershire Revenues and Benefits Shared Services (SWRBSS) partnership in July 2007.¹²
17. SWRBSS told us that three local authorities (Malvern Hills District, Wychavon District, and Worcester City) combined their revenues and benefits services under the umbrella of the SWRBSS. These authorities aimed to reduce the cost and improve the performance of their revenue collection and benefit payment programmes. The original intention was to form a consortium of six local authorities, but three withdrew prior to implementation. Until fiscal year 2006/07, each of the three authorities ran revenues and benefits processes using its own site, sets of forms and data standards and IT systems. The Malvern Hills and Wychavon revenues and benefits departments used the IBS OPENRevenues solution (each of them with a separate implementation), while Worcester used Capita's Academy Revenues & Benefits solution. None of the three individual systems was due for replacement on its own. The implementation phase is currently under way, and due for completion in April 2009.
18. The Scottish Government has identified shared services as having an important role in improving efficiency.¹³ The Scottish Government has published¹⁴ guidance with respect to shared services and has a shared services team in place to provide guidance to public sector organizations.

Strategic service-delivery partnerships¹⁵

19. According to the Audit Commission, strategic service-delivery partnerships (SSPs) are designed to improve value for money without some of the drawbacks associated with traditional contracting. They are also designed to deliver additional benefits beyond those that a traditional contract could offer.
20. In 2008, the Audit Commission examined 14 SSPs in detail (comprising contracts valued at more than £2.6 billion, with an average value of £189 million and average contract length of 11 years). SSPs reached national prominence in 2006. The National Procurement Strategy survey found that 58 per cent of local authorities were in an SSP or were evaluating an SSP. However, SSPs represent a relatively minor proportion of local government procurement, which is approximately £50 billion a year. According to the Audit Commission report, local authorities involved in SSPs expected cost savings of between 1 and 15 per cent for services delivered through SSPs (average 8 per cent), and the average capital investment by the commercial partner was 7 per cent. The scope of 7 of the 14 SSPs included revenues and benefits services. The Audit Commission found that, of the SSPs it reviewed, most had obtained value for money benefits.
21. Northgate provided a list of 65 strategic partnerships that had been awarded to a variety of suppliers since 1998. This information shows:

¹¹Source: Gartner.com research catalogue.

¹²Business Process Analysis Underlies Launch of UK Local Government Shared Service Gartner, 24.7.2008.

¹³*Building a Better Scotland*, Scottish Executive, 2004. 'Efficient Government—Securing Efficiency, Effectiveness and Productivity.'

¹⁴*Shared services guidance framework*, Scottish Government, December 2007.

¹⁵*For better, for worse: Audit Commission: Local government National report*. January 2008.

- 38 of the 65 strategic partnerships since 1998 encompassed R&B software (58 per cent of total); 15 of the 23 strategic partnerships awarded since the beginning of 2005 included R&B (65 per cent).
- Capita won 16 of the 65 contracts since 1998 (25 per cent of total), and 9 of the 23 contracts since 2005 (39 per cent).
- Based on the list of strategic partnership suppliers, Capita is the only winner of a strategic partnership that also supplies R&B software.¹⁶ The remaining companies are diversified IT consultants and experts.

22. Table 2 shows the 23 SSPs between 2003 and 2008 in which R&B formed part of the scope. Based on the bidding analysis,¹⁷ a total of [X] contracts were awarded for R&B between 2003 and 2008. Based on this data, SSPs represented [X] per cent of the total number of R&B contracts. Northgate told us that strategic partnerships were popular six to seven years ago, but that it believed that in some large SSPs the commercial partner might be having difficulty recouping its initial investment and these organizations might be commercially vulnerable. Northgate believed that smaller partnerships would be the future trend.

TABLE 2 Strategic partnerships, 2003 to 2008, involving revenues and benefits

<i>Local authority</i>	<i>Scope</i>	<i>Lead contractor</i>	<i>Start</i>	<i>End</i>
Bath & North East Somerset	IT, HR & Payroll	Mouchel (HBS)	2003	2013
City of London Corporation of London	BR Collection Business Rates and Council Tax	Liberata	2003	2009
LB Hammersmith & Fulham	Support for Council Tax, NNDR & Bens applications	Liberata	2003	2009
Redcar & Cleveland Rotherham MBC	Revenues & Benefits Transformation Partnership	Capita	2003	2013
West Berkshire Council	Customer Services	BT	2003	2013
East Riding of Yorkshire City and County of Swansea	Outsourced corporate functions	Amey	2004	2013
Havant Borough Council	e-government services	Arvato	2005	2014
LB Harrow	Revenue & Benefits	Capgemini	2005	2009
LB Hounslow	Transformation Partnership	Capita	2005	2015
Rochdale MBC	Revenue & Benefits services over ten-year contract	Liberata	2005	2015
Oldham MBC	Management of highways, property, IT customer services and payroll	Agylisys lead, Mouchel sub-contractor	2005	2020
Pendle	Customer Contact, IT, exchequer, highways, property	Mouchel (HBS)	2006	2016
South Oxfordshire District Council	BPO	Liberata	2006	N/A
Swindon Borough Council	Joint BPO with Vale of White Horse	Capita	2006	2013
Rossendale Borough Council	Transformation Partnership	Capita	2006	2022
Sandwell MBC	Revenues & Benefits & Customer Contact	Capita	2007	2011
South Bucks District Council	Transformation Partnership	BT	2007	2017
Southampton City Council	Revenues & Benefits	Capita	2007	2011
Rushcliffe	Transformation Partnership	Capita	2007	2017
South Tyneside	BPO	Liberata	2008	N/A
	BT	BPO	2008	N/A

Source: Northgate.

¹⁶List of winning bidders for strategic partnerships: Agilysys, Amey, Arvato, BT, Bull, Capgemini, Fujitsu, IBM, Liberata, Mouchel, Pearson, Serco, Steria, Sungard, Vertex, Vivista, Xansa. Source: Northgate Annex 2 Response to the OFT info request 19 September 2008.

¹⁷See paragraph 6.39 of the report.

23. Outsourcing is a contractual arrangement under which a third party takes on responsibility for a business function. According to market intelligence company Kable, local authorities spent £1,103 million on outsourcing contracts in 2007 and Kable forecasts that this is to grow at an annual rate of 10 per cent to reach £1,890 million by 2013. Within the total outsourcing market, Kable forecasts Business Process Outsourcing (BPO) to grow at 12 per cent a year from £796 million in 2007 to £1,542 million in 2013, and Information and Communications Technology (ICT) to grow from £307 million to £348 million over the same period, an annual growth rate of 2 per cent. Kable estimates that the top five providers of outsourcing to local government in 2008 (market size: £873 million) have a market share of 70 per cent, (BT 20 per cent, Capita 19 per cent, Mouchel 14 per cent, Vertex 9 per cent, Liberata 8 per cent).
24. We received a variety of third party submissions on outsourcing of R&B services:
- [One local authority] told us that it did not outsource its R&B service. This local authority told us that if R&B were to be outsourced, it would be necessary for the outsourcing company to inherit the existing software supply contract, and that subsequent decisions on software selection would reside with the outsourcing company.
 - SWRBSS told us that the elected members had no appetite for full outsourcing of R&B services. SWRBSS also stated that in the implementation phase for its new R&B system, a temporary, partial outsourcing arrangement was in place, under which Capita was providing a call centre to handle customer calls from the public, with the call centre operatives using IBS software. SWRBSS said that, if full outsourcing were to be implemented, a service level agreement would be required, but that this agreement would not specify the software to be employed.
 - Liberata, a supplier of outsourcing services to local government, told us that it provided revenues and benefits outsourcing services to local authorities. Liberata told us that it was not aware of any examples of a tendering exercise combining the selection of R&B software and outsourcing supplier. Liberata said that it operated R&B software from Capita, IBS and Anite in order to perform outsourced services. These applications had been in place at the local authority prior to the outsourcing contract.

Social housing landlords' requirement for housing management software

25. RSLs have a business requirement for software to manage their housing stock and perform their day-to-day functions for tenants. These software systems perform a range of functions, including maintaining accounts for individuals, households and businesses; performing calculations of rents and service charges; issuing of bills and statements; managing repairs and maintenance responsibility; interfacing with other business systems within the organization; and interfacing with central government for statutory reporting purposes. The business logic underlying social housing management software contains elements which are industry specific, and may be driven by legislative requirements (eg supply of national performance indicators).
26. A number of local authorities manage social housing stock. Separate teams operate the respective systems. For a social housing tenant in receipt of housing benefit, there is a transactional link between R&B and social housing software where a recipient of housing benefits has a rent account, in which benefit is netted against rent. However, this is a minor issue, as all independent systems are compatible in this respect.

27. There are three categories of social housing landlord that may require social housing management software:
- *Local authorities*: local authorities that own and manage social housing stock.
 - *Arm's length management organizations (ALMO)*: a company set up by a local authority to manage and improve all or part of its housing stock. The company is owned by the local authority and operates under the terms of a management agreement between the authority and the ALMO.
 - *RSLs*: independent housing organizations registered with the Housing Corporation under the Housing Act 1996. They may be Industrial and Provident Societies, registered charities or companies.

Estimating the number of social housing landlords

28. The customer base for social housing management software comprises approximately 569 large¹⁸ social housing landlords in the UK.
29. Statutory public registers of social housing landlords are maintained,¹⁹ and the number of landlords is subject to continual change. Recent data from the Tenant Services Authority (TSA) identifies 1,863 social landlords in England, comprising:
- 479 large RSLs in England (RSLs that own or manage more than 999 units of stock);
 - 1,197 small RSLs in England (RSLs that own or manage 999 or fewer units of stock); and
 - 187 local authorities (LAs) owning or managing their own stock (includes ALMOs).
30. The TSA is responsible for social housing in England. A separate register of social housing is maintained in Scotland and Wales. The most recent published data recorded:
- 169 RSLs in Scotland²⁰ of which:
 - (a) 65 are large RSLs; and
 - (b) 104 are small RSLs.
 - 73 RSLs registered in Wales,²¹ of which:
 - (a) 25 are large RSLs; and
 - (b) 48 are small RSLs.

¹⁸A large social landlord is a manager of at least 2,500 social housing units.

¹⁹Responsibility for maintaining the Statutory Public Register of RSLs in England resides with the Registry Team of the TSA.

²⁰*Review of Scottish Registered Social Landlords, 2006/2007*. Business Analysis Unit Regulation & Inspection. Communities Scotland.

²¹*Registered Social Landlords—Stock Estimates for Wales*, 31 March 2008. Statistics for Wales, 6 November 2008. In addition, in Wales there were 481 English-registered RSLs, which are therefore included in the data for England.

31. In Northern Ireland there are 36 registered housing associations.²²
32. Two major trends affect the number of social housing landlords in the UK: the national stock transfer programme, and the expansion of social housing groups.

National stock transfer programme

33. Over the past 20 years, the national stock transfer programme (Large Scale Voluntary Transfer (LSVT)) has resulted in the transfer of 1.29 million social housing units²³ from local authorities to RSLs. This has attracted £18 billion in private finance.
34. Stock transfer activity has increased recently, from 13 transfers in 2004/05, to 27 transfers in 2007/08. The average number of housing units per transfer each year between 2004/05 and 2007/08 was 80,750.
35. The stock transfer programme was particularly active in 2007/08, according to *Social Housing*,²² an industry publication. The data supplied by *Social Housing* includes transfers to existing RSLs as well as the creation of new RSLs. Based on the information from *Social Housing*, at least six new large RSLs were established in 2007/08. The availability of commercial financing for new and existing RSLs may be constrained by the current economic conditions. However, the Homes and Communities Agency continues to promote expansion of the social housing sector via its £8.4 billion 'National Affordable Housing Programme'.²⁴
36. A new RSL may inherit the software system previously used in the local authority of which its housing stock was formerly a part. A newly-created RSL adds to the customer base for social housing software, except where the former LA transfers its entire stock to a single RSL.

Expansion of social housing groups

37. The Housing Corporation's Regulatory and Statistical Return for England provides details of the top 200 RSLs and the top 60 social housing groups.²⁵ This dataset indicates that many of the largest social housing landlords operate as groups, and that the largest groups are increasing their share of social housing units. The expansion has been achieved through a combination of stock transfer, admission of new group members and mergers (eg the data shows Amicus and Horizon combined into the same group).
38. In Scotland²⁶ over the past five years, the number of RSLs has fallen from 185 to 169. As the total stock grows and the number of RSLs declines, ownership and management of the sector is increasingly concentrated in fewer organizations. The distribution of stock among RSLs is becoming increasingly uneven.²⁷

²²Northern Ireland Government, Department for Social Development.

²³*Social Housing*, Vol 20, No 9, September 2008.

²⁴Homes and Communities Agency.

²⁵Housing Corporation, Regulatory and Statistical Return, 31 March 2008. The top 200 housing groups owned or managed 1.9 million units in March 2008, an increase of 12 per cent between 2006 and 2008. Of this total, the share of units owned or managed by the 5 largest group increased from 12 per cent in 2006 to 14 per cent in 2008. The three largest housing groups, Sanctuary (56,962 units), Guinness Trust (51,861 units) and London & Quadrant (51,603 units) increased their housing stock by 57 per cent, 67 per cent and 23 per cent respectively between 2006 and 2008.

²⁶*Review of Scottish Registered Social Landlords, 2006/2007*. Business Analysis Unit Regulation & Inspection.

²⁷83 per cent of RSLs have less than 2,000 homes each. At the other end of the scale, 7 per cent of RSLs (the 11 largest RSLs) account for nearly half of all homes in the sector. Four years earlier, the largest 7 per cent of RSLs accounted for only a quarter of all stock.

Overview of public sector procurement regulations

39. Local authorities and ALMOs are subject to public sector procurement regulations. Public sector procurement is governed by the UK regulations that implement EU procurement directives. These apply to the majority of procurements with a total value over €206,000 (£139,893).²⁸ Procurements below this threshold are not covered by the UK regulations, but are still subject to EU Treaty principles.
40. The size of R&B software contracts is such that EU tendering procedures apply to all such procurements. Some social housing software procurement may fall below the threshold.
41. The procurement regulations set out criteria designed to ensure that all suppliers or contractors established in countries covered by the rules are treated on equal terms, to avoid discrimination on the grounds of origin in a particular member state, throughout the tendering process.
42. Contracts covered by the regulations must be the subject of a call for competition by publishing a Contract Notice in the *OJEU*.²⁹
43. The award of contract is either on the basis of 'lowest price' or various criteria for determining which is the 'most economically advantageous tender' to the purchaser. Government policy is to use the latter criterion, as this is consistent with the obligation to achieve value for money.
44. It is customary for a public authority to issue a Pre-Qualification Questionnaire (PQQ) in order to pre-select those bidders which can demonstrate general capability with respect to supplying a public authority, and screen out potential suppliers that are unable to meet the product specification. The deadline for responses to the PQQ is set to coincide with the expiry of the request for expressions of interest.
45. An ITT is a more detailed specification of the requirement, including technical requirements that must be satisfied. The ITT also sets out the process that the purchaser will follow to select the supplier, including evaluation criteria and interaction between the purchaser and potential suppliers (eg presentations, product demonstrations and site visits). This is issued to parties that satisfy the PQQ.
46. The Office of Government Commerce (OGC) manages a list of contracts and Framework Agreements, known as Catalist, set up for public sector use by OGC Buying Solutions,³⁰ the commercial arm of the OGC. The aim is to speed up the procurement process and to achieve better value for money. All the contracts and Framework Agreements have already been let under the OJEU regulations and therefore there is no further need to advertise individual requirements or issue a PQQ to prospective suppliers when using the OGC Catalist.
47. In practice, most local authorities use either the restricted tender process or the Catalist process. In the conduct of a restricted procedure a selection is made of those who respond to the advertisement and only they are invited to submit a tender for the contract. This allows purchasers to avoid having to deal with an overwhelmingly large number of tenders.

²⁸Council Regulation 1422/2007 (L317/34 5/12/07). Sterling Equivalents were published in C301/07 13/12/07 Public Contracts Regulations 2006—from 1 January 2008.

²⁹<http://simap.europa.eu/>.

³⁰www.ogcbuyingsolutions.gov.uk.

Capita and IBS financial information and IBS's likely strategy absent the merger

1. This appendix sets out further financial information on Capita and IBS, in particular IBS's forecast profitability and historic cash flows, and detail on IBS's likely strategy absent the merger.

Capita: historic financial information, 2004 to 2008

2. For management reporting purposes, Capita's R&B and SH business units form part of its CSS division, which accounted for about [x] per cent of Capita's 2008 consolidated turnover.
3. The historic financial performance of Capita's R&B and SH business units for the period from 2004 to 2008 is presented in Table 1.

TABLE 1 Historic financial performance of Capita's R&B and SH business units

	<i>FYE Dec, £ million*</i>					
	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08†</i>	<i>FY04–FY08 CAGR</i>
Turnover						
R&B	[x]	[x]	[x]	[x]	[x]	[x]
% growth	[x]	[x]	[x]	[x]	[x]	
SH	[x]	[x]	[x]	[x]	[x]	[x]
% growth	[x]	[x]	[x]	[x]	[x]	
Capita Software Services T/O	[x]	[x]	[x]	[x]	[x]	[x]
R&B as % of CSS T/O	[x]	[x]	[x]	[x]	[x]	
SH as % of CSS T/O	[x]	[x]	[x]	[x]	[x]	
Group turnover	[x]	[x]	[x]	[x]	[x]	[x]
R&B as % of group T/O	[x]	[x]	[x]	[x]	[x]	
SH as % of group T/O	[x]	[x]	[x]	[x]	[x]	
Profit (pre-central cost allocations)						
R&B	[x]	[x]	[x]	[x]	[x]	[x]
Margin (%)	[x]	[x]	[x]	[x]	[x]	
SH	[x]	[x]	[x]	[x]	[x]	[x]
Margin (%)	[x]	[x]	[x]	[x]	[x]	

Source: CSS management accounts.

*All figures stated under IFRS.

†Capita preliminary statement (26 February 2009).

4. R&B and SH respectively accounted for about [x] per cent and about [x] per cent of CSS's 2008 turnover of £[x] million.
5. Between 2004 and 2007, R&B revenues fell slightly from £[x] million in 2004 to £[x] million in 2007, before rising to £[x] million in 2008. The proportion of CSS revenues accounted for by this business unit was about [x] per cent in 2004 and approximately [x] per cent in 2008.

6. Between 2004 and 2008, SH revenues increased from £[x] million to £[x] million. The proportion of CSS revenues accounted for by this business unit was [x] per cent in 2004 and approximately [x] per cent in 2008.
7. Against Capita's 2008 consolidated turnover, R&B and SH accounted for just [x] per cent and [x] per cent respectively. This split has been fairly consistent over the period considered, with R&B revenues not exceeding [x] per cent and SH revenues staying relatively constant at [x] to [x] per cent of Capita's consolidated revenues.

IBS: historic financial information, 2003 to 2008

8. IBS's historic financial results are presented in Table 2.
9. We note that IBS's 2008 results have been based on IBS's management accounts, which had been prepared under Capita's ownership. Following a number of significant accounting policy changes to bring IBS's reporting in line with Capita's and post-merger adjustments to IBS's 2008 figures, we concluded that IBS's 2008 results were not directly comparable to its historic results¹ and have been presented in Table 2 for information purposes only.

TABLE 2 Historic financial performance of IBS

	FYE Dec, £ million						
	FY03	FY04	FY05 (PF)*	FY06	FY07	FY08	CAGR (FY03–FY08)
Turnover							
SH	[x]	[x]	[x]	[x]	[x]	[x]	[x]
R&B	[x]	[x]	[x]	[x]	[x]	[x]	[x]
CON	[x]	[x]	[x]	[x]	[x]	[x]	[x]
SES	[x]	[x]	[x]	[x]	[x]	[x]	[x]
Other	[x]	[x]	[x]	[x]	[x]	[x]	[x]
% growth	[x]	[x]	[x]	[x]	[x]	[x]	[x]
Gross profit							
% margin	[x]	[x]	[x]	[x]	[x]	[x]	[x]
O/H as % of sales	[x]	[x]	[x]	[x]	[x]	[x]	[x]
Operating profit (excluding goodwill amortization)							
% margin	[x]	[x]	[x]	[x]	[x]	[x]	[x]
% growth	[x]	[x]	[x]	[x]	[x]	[x]	[x]
Net assets	[x]	[x]	[x]	[x]	[x]	[x]	[x]

Source: IBS Systems Plc Annual Report FY07, FY06, FY05 and FY04, International Business Systems (Public Services) Ltd Directors Report and Financial Statements FY04 and FY03. FY08 figures based on unaudited management accounts.

*FY05 (PF) represents pro forma results for IBS produced in the Annual Report for comparative purposes to be representative of full-year trading.

Notes:

- The material increase in FY05 net assets is attributable to the acquisition of the subsidiary undertaking at a cost of £[x] million.
- IBS historic financials up to and including FY05 are under UK GAAP. Thereafter, figures stated under IFRS.
- FY08 figures based on management accounts (unaudited), which were prepared under different accounting policies compared with prior years. Therefore, FY08 figures are not directly comparable with other years.

¹IBS's 2008 results are not directly comparable with historic results for the following reasons: (a) changes to IBS's revenue recognition policy to align it to Capita's policy; (b) as a consequence of (a), IBS's direct costs are now accrued differently under Capita's ownership; (c) no element of development costs are capitalized on to the balance sheet, but development costs are now fully expensed as a cost item in the calculation of IBS's profit; (d) changes to IBS's tangible fixed asset depreciation policy under Capita's ownership; and (e) impact of post-merger cost savings incorporated into IBS's 2008 figures that would not have arisen absent the merger.

10. In 2008, around [X] per cent of IBS's total revenues were generated by the SH business unit. Its CON business unit (which primarily serves the SH market) accounted for around [X] per cent. R&B revenues made up around [X] per cent of IBS's 2008 revenues.
11. Given that IBS's 2008 results are not directly comparable with its historic results for the reasons outlined in this appendix, the analysis below focuses on IBS's financial results from 2003 to 2007. The proportion of revenues from each of IBS's business unit was broadly similar over the period (2003 to 2007). Over this period, IBS's consolidated turnover grew at a four-year CAGR of approximately 11 per cent (from £13.8 million to £21.0 million). The fastest-growing business unit over the same period was SH, which grew at four-year CAGR of approximately [X] per cent. The business units SH and CON combined demonstrated a four-year CAGR of about [X] per cent. R&B represented the slowest-growing business unit, with four-year CAGR of about [X] per cent.
12. Over the period from 2003 to 2007, IBS has been successful in developing margin growth, with 2007 operating profit (before goodwill) margins at about [X] per cent compared with 2003 margins of about [X] per cent.
13. IBS released a trading update on 17 January 2008, stating that 2007 results were below analysts' expectations. IBS told us that the announcement was intended to inform the stock market that although IBS had seen some growth, its trading environment had deteriorated and was expected to deteriorate further.
14. A breakdown of IBS's turnover by business unit is presented in Figure 1. We note again that 2008 results are not directly comparable with historic years given the recent change in IBS's revenue recognition policy. Data for 2008 has been presented for additional information purposes only.

FIGURE 1

Summary breakdown of turnover by business unit

[X]

Source: IBS management accounts. IBS management accounts for FY08 results (prepared under Capita ownership).

IBS forecast financial information, 2007 to 2010

15. We present a summary of IBS's forecast performance based on Tenon's² due diligence report in Table 3. The 2009 projections contained within Tenon's report are broadly in line with IBS's latest 2009 business plan. For the purposes of presenting 2009 and 2010 forecasts for IBS against comparable historic figures, we have also shown the 2007 and 2008 results as presented within Tenon's report. The 2008 results presented in Tenon's report are forecast figures given that IBS's actual 2008 results are not comparable with the historic and forecast figures presented within the Tenon report for the reasons outlined in this appendix.

²Tenon Corporate Finance was commissioned by Capita to conduct financial due diligence on IBS. Tenon's findings were presented in a due diligence report dated 20 June 2008.

TABLE 3 IBS forecast financial performance, 2007 to 2010*

	FYE Dec, £'000				
	FY07	FY08	FY09	FY10	FY07–FY10 CAGR (%)
IBS gross profit†					
<i>R&B</i>					
Licences	[X]	[X]	[X]	[X]	[X]
Professional services—core‡	[X]	[X]	[X]	[X]	[X]
Professional services—non-core	[X]	[X]	[X]	[X]	[X]
Maintenance	[X]	[X]	[X]	[X]	[X]
<i>SH</i>					
Licences	[X]	[X]	[X]	[X]	[X]
Professional services—core	[X]	[X]	[X]	[X]	[X]
Maintenance (incl hardware)	[X]	[X]	[X]	[X]	[X]
<i>Contractor (CON)</i>					
Licences	[X]	[X]	[X]	[X]	[X]
Professional services—core	[X]	[X]	[X]	[X]	[X]
Maintenance	[X]	[X]	[X]	[X]	[X]
Services (SES)	[X]	[X]	[X]	[X]	[X]
IBS gross profit	[X]	[X]	[X]	[X]	[X]
Operating profit (excl synergies)	[X]	[X]	[X]	[X]	[X]
Margin (%)§	[X]	[X]	[X]	[X]	[X]
Operating profit (incl synergies)¶	[X]	[X]	[X]	[X]	[X]
Margin (%)§	[X]	[X]	[X]	[X]	[X]

Source: Tenon Corporate Finance draft due diligence report (20 June 2008).

*Based on our review of Tenon's financial due diligence report (20 June 2008) on IBS (commissioned by Capita).

†Gross profit = gross revenues less third-party software costs. Tenon defined gross profit as 'net revenues' in its report.

‡Breakdown of FY07 core and non-core professional services not available. Allocation based on available gross revenue data.

§Margin calculation based on operating profit divided by gross profit to aid data comparability.

¶Synergies based on Tenon's views (FY08: £[X] million; FY09: £[X] million; FY10: £[X] million).

Notes:

1. Projections based on Tenon's mid-case scenario (focus of its due diligence report). Projections based on Tenon's views.
2. There are small rounding differences in FY07 figures presented here and the figures presented in Table 2.

16. The forecast [X] in IBS's gross profit in 2009 is primarily driven by a reduction in forecast legislation-driven income and DWP funding within IBS's R&B business unit, from £[X] million in 2008 to £[X] million in 2009, which are inherently difficult to forecast.
17. The forecast [X] in IBS's 2009 operating profit margins (noting that this has been calculated by dividing operating profit by gross profit and not revenues) is primarily driven by [X].
18. We note that the forecasts for 2010 show a small increase in gross profit for both R&B and SH businesses, with only a very small decline in operating profit.

Assessment of IBS liquidity

19. We examined IBS's liquidity position in order to determine whether IBS had any underlying cash-flow issues which could affect its position as a competitive constraint in the relevant markets.

20. We reviewed the cash-flow analysis presented in the Tenon report.³ The report covers cash-flow performance for 2007 and the four-month period to 30 April 2008. Cash flows from operations⁴ amounted to £[redacted] million in 2007 and £[redacted] million for the first four months of 2008.
21. Given the large inflows of cash arising from its customers' advanced payments of maintenance fees, IBS benefits from a strong conversion rate of profits into cash.
22. We also note that IBS did not have any bank debt and therefore would not have had any interest or capital repayment obligations on its cash flows.
23. With cash balances of about £[redacted] million as at 31 December 2007 and about £[redacted] million as at 30 April 2008, combined with a relatively stable profile of underlying profitability underpinned by a relatively stable and loyal customer base, there is no evidence to suggest that IBS was facing any liquidity issues in the short to medium term.

IBS strategy absent the merger

24. We present detail here on IBS's strategy absent the merger to support our assessment of the counterfactual.
25. In IBS's 'Annual Business planning and Budgets 2007–2009' reporting pack⁵ (prepared in 2006), the IBS board stated that 'all growth, which has been substantial, has been organic only and whilst this approach may still provide good results over the next 2 or 3 years, it will become increasing[ly] difficult, as the sector consolidates, to continue to grow organically and achieve similar results'.
26. In response to this, the IBS board's strategy was to 'introduce new products and enter new markets' through acquisitions, citing the risks, time and costs involved in 'developing completely new software internally' made acquisitions the more attractive option. These new opportunities were identified as 'markets that are supported by Government funding', including healthcare. IBS stated that its strategy was to maintain at the same time 'good organic growth' within its existing markets (ie R&B and SH) and acquisitions of new products and customer bases.
27. [redacted]⁶
28. The remaining former management of IBS told us that IBS's strategy absent the merger would have been to make acquisitions or develop software solutions other than R&B and SH, but serving the public sector, stating that IBS would have struggled to meet the market's high revenue growth expectations without diversifying into new products and markets. [redacted]

³Tenon due diligence report on Project Zoo (20 June 2008).

⁴Defined as cash generated from operations, after tax and excluding capital expenditure and any payments to debt and equity investors.

⁵Annual Business planning and Budgets 2007–2009' (September/October 2006).

⁶Annual Business planning and Budgets 2007–2009' (September/October 2006).

Shares of supply

1. This appendix presents additional evidence on shares of supply of existing contracts and of new contracts for R&B and SH software.

Revenue and benefits software

2. We received various estimates of the shares of supply of existing contracts, including estimates from the DWP. The majority of estimates place the main parties' combined share of supply of existing contracts at about [35–50] per cent.
3. Table 1 shows that, with the exception of data provided by the E-gov website, which the main parties said was unreliable, estimates for R&B shares of supply of existing contracts are similar across various data sources.

TABLE 1 Shares of supply of existing R&B contracts according to various sources

	SOCITM 2008*	DWP 2008†	Numis report (SOCITM 2007 data)‡	Northgate share of supply by value 2006§	Northgate share of supply by number of installations 2006¶	Northgate share of supply 2008#	Government ICT trends 2004 data~	IBS info memo- randum★	Egov♦	SOCITM 2007▲	per cent
Northgate/Anite	[X]	[X]	[X]	[X]	[X]	[X]	46	[X]	27	[X]	
Capita	[X]	[X]	[X]	[X]	[X]	[X]	20	[X]	47	[X]	
IBS	[X]	[X]	[X]	[X]	[X]	[X]	8	[X]	23	[X]	
Combined	[X]	[X]	[X]	[X]	[X]	[X]	28	[X]	70	[X]	
Civica*	[X]	[X]	[X]	[X]	[X]	[X]			2	[X]	
In-house	[X]	[X]	[X]	[X]	[X]	[X]	9	[X]	0	[X]	
Other suppliers	[X]	[X]	[X]	[X]	[X]	[X]	17	[X]	1	[X]	
Total	100	100	100	100	100	100	100	100	100	96	

Source: CC analysis based on information provided by the main parties and third parties.

*CC analysis of SOCITM Application Software Index 2008.

†DWP—data based on returns from local authorities as of October 2008. The data does not cover council tax and business rates.

‡Data from Numis Report of 26 March 2008, based on SOCITM application software Index 2007.

§[X]

¶[X]

#[X]

~Government ICT trends to 2007—Briefing Paper.

★IBS information memorandum.

♦CC analysis of data from e-gov website (www2.brent.gov.uk/egr.nsf).

▲[X]

*Civica pointed out that it had [X] contracts, and so this DWP data was incorrect. We note that the difference between the DWP data and Civica's stated number of contracts could be because DWP data only refers to benefits contracts, not council tax or business rates contracts, and that furthermore the DWP data is based on returns from local authorities, so may not be precise.

Social housing software

4. Table 2 presents various estimates of SH shares of supply of existing contracts according to different data sources. There is some variation in these estimates, and we consider Tribal Consulting's own best estimates to be the most reliable.

TABLE 2 Shares of supply of existing SH contracts according to various sources

Year	Source								per cent
	Tribal (from own best estimates)*	Tribal (from Housemark survey)†	Tenant Services Authority‡	SOCITM§	IBS response to FDL¶	Capita response to FDL#	[A third party] (share by value) 2006	[A third party] (share by properties under management) 2006	
Capita	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
IBS	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Parties combined	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Northgate	[X]	[X]	[X]	[X]	[X]	[X]~	[X]	[X]	[X]
Orchard	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Civica	[X]	[X]	[X]	[X]	[X]	[X]★	[X]	[X]	[X]
Aareon	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
MIS	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
In-house	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC analysis of Tribal report, SOCITM survey, Tenant Services authority, Capita, IBS and [a third party].

*Includes only customers with more than 2,500 housing units.

†Includes only customers with more than 2,500 housing units.

‡Based on a sample of 515 RSLs (of all sizes of housing stock) so does not reflect local authority customers.

§Based on a sample of local authorities (of all sizes of housing stock), so does not reflect RSL customers.

¶Based only on the largest 150 housing associations, so does not reflect local authorities or smaller housing associations.

#Based on a sample of RSLs and local authorities with more than 2000 housing units.

~This figure is actually the combined share of supply of Sx3 and Anite, both of which Northgate subsequently took over.

★This figure is actually the share of supply of Comino, which Civica subsequently took over in 2005.

5. Table 3 presents yearly shares of supply of existing contracts for the main parties and competing SH software suppliers.

TABLE 3 Shares of supply of existing SH contracts, 2006 to 2008

	Number			Share of supply (%)		
	2006	2007	2008	2006	2007	2008
Capita	[X]	[X]	[X]	[X]	[X]	[X]
IBS	[X]	[X]	[X]	[X]	[X]	[X]
Parties combined	[X]	[X]	[X]	[X]	[X]	[X]
Northgate	[X]	[X]	[X]	[X]	[X]	[X]
Anite	[X]	[X]	[X]	[X]	[X]	[X]
Orchard	[X]	[X]	[X]	[X]	[X]	[X]
Civica	[X]	[X]	[X]	[X]	[X]	[X]
Aareon	[X]	[X]	[X]	[X]	[X]	[X]
MIS	[X]	[X]	[X]	[X]	[X]	[X]
Other supplier	[X]	[X]	[X]	[X]	[X]	[X]
Total	557	552	546	100	100	100

Source: Housemark survey of suppliers' customer lists; Tribal Consulting analysis.

Notes:

- All customers with at least 2,500 units of housing stock. Social housing organizations with fewer than 2,500 units generally require simpler software than that provided by the main suppliers listed in the table.
- Customers in the UK include RSLs, arm's-length management organizations and local authorities.
- Figures are those supplied by suppliers for the Housemark/Tribal Survey.
- Anite is presented separately from Northgate prior to their merger in 2008.

6. Table 4 presents two estimates of the number of new contracts won by various SH software suppliers between 2006 and 2008. The two estimates vary considerably, and we consider Tribal's estimates based on the Housemark survey to be the most reliable.

TABLE 4 Total number of new SH contracts won in 2006 to 2008 according to various sources

	<i>Source</i>	
	<i>Tribal (from Housemark survey) 2006–2008</i>	<i>[Third party response] 2006–2008</i>
Capita	[REDACTED]	[REDACTED]
IBS	[REDACTED]	[REDACTED]
Main parties combined	[REDACTED]	[REDACTED]
Northgate	[REDACTED]	[REDACTED]
Orchard	[REDACTED]	[REDACTED]
Civica	[REDACTED]	[REDACTED]
Aareon	[REDACTED]	[REDACTED]
MIS	[REDACTED]	[REDACTED]
Total	40	24

Source: CC analysis of Tribal Report, [third party response].

Note: [Third party] data is based on website research and internal knowledge.

7. Capita internal documentation contains evidence on market trends which broadly supports these figures, and notes that prior to 2008 [REDACTED].

Market entry supporting evidence

Key market entry and exit events in the R&B software market

1. The table below summarizes the key entry and exit events in the R&B software market.

TABLE 1 Summary of strategic activity in the R&B software market

<i>Identified participant</i>	<i>Key events</i>	<i>Current participant</i>
Academy Bull IBS Steria	1994: West Wiltshire Software became Academy Information Systems 1998: Capita acquired Academy 2002: Steria acquisition of Bull 2003: Steria partnered with IBS to replace LoGoS product 2005: IBS listed on AIM 2008: Capita acquired IBS	Capita/IBS
Anite Northgate (formerly MDIS) ICL (VME product) SX3	1994: Northgate listed (McDonnell Douglas spin-out) 2001: Anite acquired ICL (VME) 2005: Northgate acquired SX3 2007: KKR acquired Northgate 2008: Northgate acquired Anite	Northgate
Civica Comino Context Saffron	2000: Comino acquired Context 2001: Comino acquired Saffron 2006: Civica acquired Comino 2008: 3i acquired Civica	Civica

Source: Capita and IBS, supplemented by CC desktop research.

2. [REDACTED] entered the market prior to the introduction of council tax but halted development [REDACTED] due to lack of customers and partnered with IBS to retain customers.¹ ICL sold its business to Anite in 2001.² Northgate acquired Anite in 2008 reducing the number of market participants from five to four.

Estimated cost of R&B software market entry

3. Several parties provided estimates of the cost and time for a software vendor to enter the market. These estimates range from £0.5 million to £10 million, and from one to three years. Based on the range of estimates supplied, the cost of market entry is high relative to the size of the contestable market:
- Northgate estimated that the cost of entry to the R&B software sector would be in the region of £[REDACTED] million and would take up to [REDACTED].³ Anite estimated that the development of a new R&B software product to replace Pericles would cost in the region of £[REDACTED] million.⁴

¹Source: [REDACTED]. [REDACTED] had [REDACTED] customers at the time it made a decision to exit the market.

²Source: Northgate.

³Source: Northgate.

⁴Source: Northgate.

- Civica illustrated the market entry investment as a three-year project employing a team of 30 software developers costing an average cost of £50,000 per developer (total: £4.5 million).⁵
- Capita estimated that the cost of market entry would be in the region of £[redacted] million, depending on the identity of the new entrant, with the lower end representative of the costs to an existing supplier of software to the local government sector, and the higher end of the range representative of the cost to a 'start-up'. Capita estimated that market entry would take [redacted] assuming a sufficient number of contracts.

Estimated timescale for R&B software implementation

4. We understand that a typical implementation phase for R&B software lasts [redacted]. For example, evidence from the South Worcestershire Revenues and Benefits Shared Services Partnership indicates that the time elapsed between contract award and completion of implementation for the South Worcestershire shared services contract is expected to be 11 months (May 2008 to April 2009), and the project timetable attached to the West Devon contract for R&B software indicates a 12-month project starting April 2006.

Estimated cost of social housing software market entry

5. As in the case of R&B software, it is difficult to reliably estimate the cost of market entry. Capita estimated that a new entrant's start-up costs would amount to around £[redacted] million, and estimated that this cost would be lower if the new entrant had some experience of providing similar software systems to other sectors, or in other jurisdictions. Capita further estimated that, with a pool of readily available staff, a new entrant would be able to enter the market within [redacted].
6. Northgate estimated that the cost to develop social housing software would be [redacted] that for R&B software (which it had estimated at £[redacted] million).

Estimated timescale for SH software implementation

7. [A third party] stated that, as an estimate, the implementation of a new system would take between 12 and 18 months.

Switching costs for R&B software

8. A local authority may evaluate whether to replace its R&B software at the expiry of an existing supply arrangement. Local authorities must follow EU tendering procedures if the cost of the services exceeds the European threshold value. If, following a tendering process, an alternative supplier were to be selected, the local authority would need to pay an initial licence fee for the new software and undertake an implementation project, which would result in fees payable to the software supplier plus additional internal costs for the customer (eg project management and training), to remove the old system and configure the new system.

⁵Source: Civica.

9. The costs of tendering, initial licence fees and implementation would not be incurred if a local authority decided to retain the existing software, but annual maintenance charges would still be payable.
10. Capita estimated that an average contract (initial licence and implementation) currently costs £[X] and an average annual maintenance fee currently costs £[X]. Based on these indicative costs, the procurement of a brand new R&B software system would trigger an EU procurement process, whereas rolling forward each additional year of maintenance from the current supplier on an annual basis (eg at the end of a previously agreed five-year contract) would cost less than the threshold value, and would therefore not require an EU procurement process.
11. Additional costs would be incurred by the customer in the conduct of a tender exercise and in management of the implementation process. A local authority may also incur indirect costs, for example staff resources and external consultants.
12. Before changing supplier, a customer would compare the annual support and maintenance cost for each system; assess the potential advantages (eg improvements in performance or productivity) that may be achieved over the life of the new contract; and consider the potential risks of migrating to a new system.
13. The principal risk of changing R&B software is potential disruption to the day-to-day operation of a local authority's R&B service, which is a statutory responsibility, during the migration. Changing R&B software may involve replacement of the local authority's database that holds personal and property records for the residents and businesses in its geographic boundary. For example, the database underlying Capita's R&B product is called Ingres. The need to change the database stems from the software architecture. In brief, each R&B software product is written to function with a specific database.⁶ The process of data migration requires careful management to preserve the data integrity of underlying records.
14. We understand that it is extremely rare for a customer to re-tender before the end of a contract term due to the significant risk of disruption. We were told by [a third party] that a local authority would only consider switching supplier during the life of the contract in catastrophic circumstances, such as insurmountable technical problems or supplier bankruptcy.

⁶Northgate uses Oracle; Capita uses Ingres; and IBS uses Progress.

Pre-merger competition supporting evidence

IBS's view on pre-merger competition in the relevant markets

- Table 1 shows IBS's view of its competitors and their product offerings in the R&B and SH markets as presented to institutional investors in 2005.

TABLE 1 IBS's view of competitors and their product offerings, 2005

	<i>Housing</i>	<i>Revenues/Benefits</i>	<i>Contractor</i>
Capita	[X]	[X]	[X]
Northgate	[X]	[X]	[X]
Sx3 (Now Northgate)	[X]	[X]	[X]
Anite (Now Northgate)	[X]	[X]	[X]
Orchard	[X]	[X]	[X]
Consilium	[X]	[X]	[X]
Civica	[X]	[X]	[X]
Comino (Now Civica)	[X]	[X]	[X]
Aareon	[X]	[X]	[X]

Source: IBS management presentation to institutional investors, prepared by NUMIS.

✓✓ = Main competitor. ✓ = Solution exists. ✗ = No solution exists.

Note: IBS submitted that this data represented IBS's view of the competition as at 2005, and so should be treated with caution when extrapolating to more recent or future years.

Revenues and benefits software

Individual and total revenue from new contracts

- Table 2 shows the average lifetime contract revenue according to a number of sources and the estimated total revenue of all new contracts coming out to tender, assuming either 5, 10 or 15 contracts awarded per year, based on these average contract revenue.

TABLE 2 **Average lifetime revenue of R&B contracts and estimated total revenue of new contracts coming out to tender**

	North- gate*	North- gate†	Anite‡	Capita —win data§	Capita— win + initial bid data¶	Capita— OFT data#	Capita —CC initial sub~	IBS— win data★	IBS—win + initial bid data◆
Number of contracts	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]			[REDACTED]	[REDACTED]
Total lifetime revenue £'000	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]			[REDACTED]	[REDACTED]
Average lifetime revenue £'000	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Estimated total revenue from new contracts, £'000, assuming:									
—5 contracts	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
—10 contracts	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
—15 contracts	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CC analysis of data provided by Northgate and the main parties.

*[REDACTED]

†[REDACTED]

‡[REDACTED]

§Capita win data. Tenders 2005 to 2008 that Capita won.

¶Capita win + initial bid data = contracts 2005 to 2008 which Capita won and data for tenders that Capita submitted bids for but did not win.

#Capita response to the OFT dated 15 September 2008. Average revenue of an R&B software licence fee is £[REDACTED] (range £[REDACTED] to £[REDACTED]); average annual maintenance fee £[REDACTED] (£[REDACTED] to £[REDACTED]), implementation fee was not specified. Average lifetime revenue calculated based on five-year support. Capita stated that £[REDACTED] is an estimate for 2009, and that this estimate is lower than the average revenue in 2008 due to the exclusion of contracts awarded by large authorities in 2008.

~Capita. Average revenue of software licence and implementation fees is £[REDACTED], average annual maintenance fee is £[REDACTED].

Average lifetime revenue calculated based on five-year support. Capita explained that this calculation was based on contracts awarded in 2008 but it excluded a tender put out by a large local authority.

★IBS win data. Tenders 2005 to 2008 that IBS won.

◆IBS win + initial bid data = contracts 2005 to 2008 which IBS won and data for tenders that IBS submitted bids for but did not win.

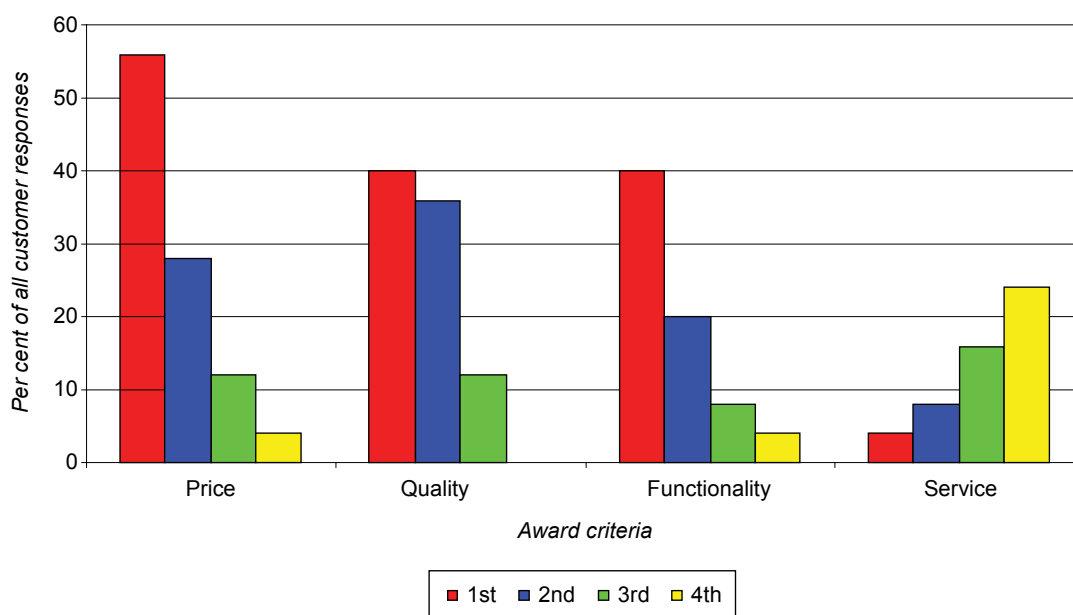
Award criteria weightings

- Figure 1 shows the proportion of times each award criterion—namely price, functionality, quality and service—was ranked first, second, third or fourth by those R&B software customers that responded to the questionnaire when choosing to which supplier to award a contract.¹ 56 per cent of respondents ranked price first (or joint first) and 40 per cent ranked functionality and quality first (or joint first).

¹These percentages refer to customers that responded to our survey and are indicative of respondents' views rather than reflecting the opinions of the entire customer base.

FIGURE 1

R&B software award criteria rankings



Source: CC analysis based on customer questionnaire responses.

Notes:

1. Attribute rank as a percentage of all customer responses. Price was ranked first by 14 customers which equates to 56 per cent of all responses (25 customers responded).
 2. Percentages will sometimes sum to greater than 100 because of joint rankings or less than 100 because customers did not rank all factors.
4. OJEU contract award notices sometimes list attribute weightings. A review of OJEU contracts over the last five years shows that 11 contracts out of 29 specify a ranking of product features. The feature most commonly ranked as the most important is price. Functionality, or the ability to meet the client’s requirements, is also often ranked first. Where price is not ranked as the most important, it is almost always ranked as the second most important. One contract award ranks quality of the product as the most important. Other factors cited as a basis for a contract award, though not the most important features, are the reputation or experience of a supplier, the implementation of the product, the training and support provided and occasionally the supplier’s awareness of data protection requirements.²
 5. Further, IBS’s internal documents highlight that the procurement decisions are strongly influenced by the reputation of the product supplier and system reliability, rather than simply pricing.
 6. Table 3 presents a comparison of scores achieved by several suppliers, including the main parties, in the five customer evaluation forms we received. [✂]

²The main parties said that limited information on weightings given by the customer to the various aspects of the winning bid might sometimes be published in a contract award notice in the OJEU, but that this was generally unhelpful.

TABLE 3 Supplier comparisons according to award criteria

Customer	Award criteria	Supplier percentage score			
		Capita	IBS	Sx3 (now part of Northgate)	Anite
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]

Source: CC analysis of customer evaluation forms.

*This score was given as a negative number, and it was unclear from the evaluation report how to interpret this. It is clear, however, that Capita performed better on cost than IBS for this contract.

Note: The scores have been converted to percentages out of the total available score for each criterion. In this way the scores are comparable across customers.

- IBS told us that its prices were competitive. In addition, IBS’s internal documents show that price is an important dimension to competition. For example, ‘Competition has been stronger and more aggressive’ and ‘In all areas we have recognised that there is extreme competitive pressure on prices particularly licence charges. We have assumed lower licence values than have been achieved historically’.

Innovation

- Table 4 presents expenditure on R&D³ between 2003 and 2008 (where data was provided).

³As we note in paragraph 6.35 of the main body of this report, the main parties’ R&D expenditure includes aspects which we would more usually term general operating expenditure, such as bug fixes, minor upgrades and responses to small legislation changes.

TABLE 4 R&D expenditure on R&B software, absolute values and as a proportion of total revenue

Year	IBS			Capita		
	R&D expenditure £	Total revenue £	R&D spend %	R&D expenditure £	Total revenue £	R&D spend %
2003	[X]	[X]	[X]	[X]	[X]	[X]
2004	[X]	[X]	[X]	[X]	[X]	[X]
2005	[X]	[X]	[X]	[X]	[X]	[X]
2006	[X]	[X]	[X]	[X]	[X]	[X]
2007	[X]	[X]	[X]	[X]	[X]	[X]
2008	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC analysis of Capita and IBS data.

Notes:

1. This table shows R&D expenditure that has been treated as an expense in the profit and loss statement (ie treated as a cost item in the calculation of profit) for both Capita and IBS. Whilst we understand from Capita that it treats its entire R&D expenditure as an expense in the profit and loss statement in both R&B and SH, in the case of IBS, the majority of R&D expenditure is capitalized (ie treated as an asset on the balance sheet) and therefore the above figures under-represent IBS's R&D expenditure.
2. R&D spend is R&D expenditure as a percentage of the total revenue for each year.
3. Capita's figure refers to expenditure on external contractors and not only includes R&D, but also the entire core product development. The figure may underestimate slightly the true R&D spend as Capita does not fully charge costs such as unit and product managers, time spent on planning and meeting customers, nor does it include central costs and general expenses such as travel and subsistence.
4. IBS development expenditure includes R&D spends that were expensed but may not fully represent the level of R&D expenditure, for example data on the central costs allocated to development workers are not kept.
5. Capita's 2008 revenue and expenditure only covers months up to and including September 2008.

9. [X]

TABLE 5 IBS total expensed and capitalized development costs

Year	IBS total development costs
2005	[X]
2006	[X]
2007	[X]

Source: IBS annual reports and accounts (2006 and 2007). CC analysis of IBS data.

10. Capita also told us that [X].

Bidding data

11. Tables 6 and 7 show the annual number of new contracts bid for by each supplier between 2003 and 2008, and the proportion of total contracts that this represents. A list of the contracts awarded in each year and the bidders for those contracts, according to both the main parties and Northgate, has been included in paragraphs 15 and 16.

TABLE 6 Number of contracts bid for in each year—data from the main parties

Year	Total contracts	Capita		IBS		Northgate		Anite	
		No	%	No	%	No	%	No	%
2005	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2006	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2007	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2008	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC analysis of data provided by the main parties.

TABLE 7 Number of contracts bid for in each year—data from Northgate

Year	Total number	Capita		IBS		Northgate		Anite	
		No	%	No	%	No	%	No	%
2003	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2004	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2005	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2006	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2007	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2008	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CC analysis of data provided by Northgate.

12. As shown in Tables 8 and 9, we also looked at how often the main parties, Northgate and Anite, bid against each other for contracts from 2005 to 2008.

TABLE 8 Number of times suppliers bid against each other, 2005 to 2008—data from the main parties

	No of contracts bid for	Capita	IBS	Northgate	Anite
Capita	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
IBS	[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]
Northgate	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
Anite	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	

Source: CC analysis of data provided by the main parties.

Note: Total number of contracts = [REDACTED].

TABLE 9 Number of times suppliers bid against each other, 2003 to 2008—data from Northgate

	No of contracts bid for	Capita	IBS	Northgate	Anite
Capita	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
IBS	[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]
Northgate	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
Anite	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	

Source: CC analysis of data provided by Northgate.

Note: Total number of contracts = [REDACTED].

13. Table 10 summarizes customers' responses when asked who they approached to provide them with tenders, proposals or quotations.⁴

⁴Customer questionnaire: 'It would be useful if you could summarize as many as possible of your tenders, proposals or quotations for systems since 2003 using the best available data (including those purchased as a result of closed negotiations).'

TABLE 10 Recent tenders and bidders

Customer	Year	Number of bidders at PQQ stage	Number of bidders at tender stage	Supplier tendered for contract				Contract winner	Top two bidders
				Capita	IBS	Northgate	Anite		
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC analysis of customer questionnaire responses.

Note: N/K = not known.

- 14. We present the data provided by the main parties and by Northgate on the bidders for each of the contracts awarded.
- 15. Table 11 shows the customer name, year, winner and who bid for each contract between 2005 and 2008 on which we were provided information by the main parties.⁵

⁵The main parties told us that in a number of cases where a contract was won by a company other than Capita and IBS, the winning company may have been unknown to Capita or IBS at the time the bidding data was submitted.

Customer	Year	Capita bid	IBS bid	Anite bid	Northgate bid	ICS bid	Decision
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: CC analysis of bidding data provided by Northgate.

*Contracts where Anite was qualified out—see paragraph 17.

17. [redacted]

Switching

18. Data migration is widely cited as the main switching risk. Since each R&B application is written to function on a specific database, changing suppliers usually involves replacement of the local authority's database containing personal and property records for residents and businesses. Databases are provided by third-party software suppliers (eg Oracle, Ingres, Progress), but are installed by the supplier of the R&B software system. The process of data migration requires careful management to preserve the data integrity of underlying records.

19. The cost of, and time needed for, implementing a new software system is material. Software suppliers typically charge customers for data conversion, training, project management, and various other implementation and consultancy services. Key findings are:

- (a) based on our analysis of contracts, the direct installation costs payable by the customer to the supplier are in the region of [redacted] per cent of the total contract revenue;
- (b) Northgate's average implementation fee is [£32,300–£612,500];⁶ and
- (c) customer and contract information provided mixed estimates on costs: data conversion costs £11,625 to £70,870; training costs £760 to £104,490 and project management £760 to £38,100.

20. Implementing a new software system is a lengthy process. Suppliers estimated that it took [redacted] to implement a new system depending on the size of the customer.⁷

21. These cost figures are likely to under-represent the true costs of implementation as (a) there is an opportunity cost to training and (b) they do not take into account the

⁶Northgate provided us with the total implementation fees charged for several new R&B software contracts in the years 2005 and 2008.

⁷Capita told us that migration would take [redacted] to [redacted] months and it would envisage supplying around [redacted] days' system training. IBS internal documentation stated that each new implementation required approximately [redacted] days' interface development and [redacted] days' bespoke changes to conversion programs to deal with local practices and resolve data issues, and IBS estimated that a new system could take between [redacted] and [redacted] days to implement, depending on the size of the customer. Northgate told us that there was a [redacted]. Civica told us that the migration of data and services to a new system would usually take around [redacted] to complete from the tender award to the go-live date on the new software.

customer's internal costs of general disruption and upheaval during the implementation phase. Furthermore, there are additional internal costs. The ratio of IBS's resource time to the customer's is in the order of [x] days, ie the customer will use [x] internal resources for every [x] of implementation provided by IBS. Northgate estimated that a large customer would typically require six to eight members of its own staff working full time on the project for the duration of the implementation period.

22. We asked customers to estimate the costs of switching contracts for an R&B software system. These estimates ranged from £150,000 to £7 million, and for those customers who have switched R&B software supplier in the last five years, the average estimated switching cost was £1.24 million.⁸
23. We asked customers by how much their supplier of R&B software application licences would have to increase its price for them to consider switching (assuming that all other suppliers' prices remained the same—see Table 5 of Appendix C). For ease of comparison, percentages of respondents are cited. However, the counts of those responding are small and so the percentages are indicative of respondents' opinions rather than necessarily reflecting the opinions of all customers. Of the 41 responses we received, 68 per cent of respondents indicated that prices would have to rise by more than 30 per cent for them to consider switching R&B software suppliers, and 29 per cent said that prices would have to rise by at least 50 per cent. A further 20 per cent of respondents told us that switching R&B software supplier is not an option they would consider in response to any price rises.

Social housing software

Individual and total revenue from new contracts

24. Capita estimated that the annual revenue (including maintenance and fees) from new contracts awarded would be approximately £[x] in 2007 and £[x] in 2008. Table 13 shows the average lifetime contract revenue according to a number of sources and the estimated total revenue of all new contracts coming out to tender, assuming either 10, 15 or 20 contracts awarded per year, based on these average contract revenue.

⁸It is not clear whether these estimated costs include the initial licence fee, which, once a contract had been put out to tender, would have to be paid regardless of a switch of supplier, as well as fees for services such as training and data conversion, which would likely only be required with a switch of supplier. It is reasonable to suspect that some do and some do not.

TABLE 13 **Average lifetime revenue of SH contracts and estimated total revenue of new contracts coming out to tender**

	Average contract revenue, £'000		
	Capita (information provided to the OFT)	Capita tender data	IBS tender data
Average lifetime revenue	[£]*	[£]	[£]
<i>Estimated total revenue of new contracts assuming</i>			
—10 new contracts	[£]	[£]	[£]
—15 new contracts	[£]	[£]	[£]
—20 new contracts	[£]	[£]	[£]

Source: CC analysis of data provided by the main parties.

*Average revenue of an SH contract is £[£] (range £[£] to £[£]); maintenance fee range is £[£] to £[£]—we take the mid-point.

Notes:

1. Capita tender data: average contract revenue based on the average total revenue for [£] contracts between 2005 and 2008.
2. IBS tender data: average contract revenue based on the average total revenue for [£] contracts between 2005 and 2008.

Award criteria weightings

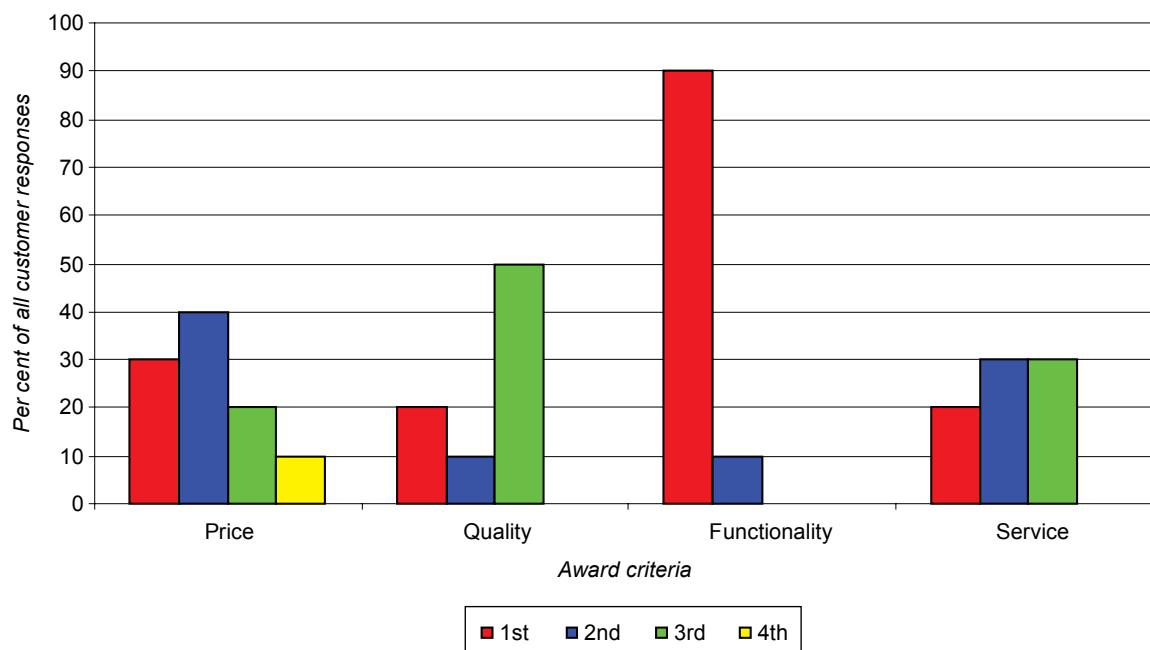
25. Figure 2 shows the proportion of times each award criterion—namely price, functionality, quality and service—was ranked first, second, third or fourth by those SH software customers that responded to the questionnaire when choosing to which supplier to award a contract.⁹ 82 per cent of customer responses ranked functionality first (or joint first) and 36 per cent ranked price first (or joint first).¹⁰

⁹Percentages calculated from a base of 11 customer responses. Percentages will sometimes sum to greater than 100 because of joint rankings or less than 100 because customers did not rank all factors.

¹⁰These percentages refer to customers that responded to our survey and are indicative of respondents' views rather than reflecting the opinions of the entire customer base.

FIGURE 2

SH software award criteria rankings



Source: CC analysis of customer questionnaire responses.

26. OJEU contracts sometimes list attribute weightings. A review of OJEU award notices for SH software contracts in the last five years showed that 15 contracts out of 20 specified a ranking of product features. The feature most commonly ranked as the most important was functionality. Price was also often ranked first. When either price or functionality was not ranked first, they were nearly always ranked second. Quality, meeting business requirements and meeting database requirements were each ranked most important in one contract. Other factors cited as a basis for a contract award, though not the most important features, included the reputation of the supplier, system implementation and post-implementation support.

Innovation

27. Table 14 presents expenditure on R&D¹¹ between 2003 and 2008 (where data was provided).

¹¹As we note in paragraph 6.84 of this report, the main parties' R&D expenditure includes aspects which we would more usually term general operating expenditure, such as bug fixes, minor upgrades and responses to small legislation changes.

TABLE 14 R&D expenditure on SH software, absolute values and as a proportion of total revenue

Year	IBS			Capita			Orchard
	R&D expenditure £	Total revenue £	R&D spend %	R&D expenditure £	Total revenue £	R&D spend %	R&D expenditure £
2000	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2001	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2002	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2003	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2004	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2005	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2006	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2007	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2008	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC analysis of Capita, IBS and Orchard data.

Notes:

1. This table shows R&D expenditure that has been treated as an expense in the profit and loss statement (ie treated as a cost item in the calculation of profit) for both Capita and IBS. Whilst we understand from Capita that it treats its entire R&D expenditure as an expense in the profit and loss statement in both R&B and SH, in the case of IBS, the majority of R&D expenditure is capitalized (ie treated as an asset on the balance sheet) and therefore the above figures under-represent IBS's R&D expenditure.
2. For Orchard, R&D expenditure between 2000 and 2002 was capitalized (and amortized), R&D expenditure from 2003 to 2007 was fully expensed in the year in which it was incurred and expenditure in 2008 was capitalized. Yearly revenue data for Orchard was not provided, so we could not calculate the proportion of R&D spend.
3. Percentage R&D spend is R&D expenditure as a percentage of the total revenue for each year.
4. Capita's figure refers to expenditure on external contractors and not only includes R&D, but also the entire core product development. The figure may underestimate slightly the true R&D spend as Capita does not fully charge costs such as unit and product managers, time spent on planning and meeting customers, nor does it include central costs and general expenses such as travel and subsistence.
5. IBS development expenditure includes R&D spends that were expensed but may not fully represent the level of R&D expenditure, for example data on the central costs allocated to development workers is not kept.
6. Capita's 2008 revenue and expenditure only covers months up to and including September 2008.

28. As we note in paragraph 9, IBS R&D spend appears to be [X] capitalized. We therefore present total development costs (capitalized and expensed) for IBS (including both R&B and SH) in Table 5.

Bidding data

29. Table 15 summarizes customers' responses when asked who they approached to provide them with tenders, proposals or quotations.¹²

¹²Customer questionnaire: 'It would be useful if you could summarize as many as possible of your tenders, proposals or quotations for systems since 2003 using the best available data (including those purchased as a result of closed negotiations).'

TABLE 15 Recent tenders and bidders

Customer	Year	Number of bidders at PQQ stage	Number of bidders at tender stage	Supplier tendered for contract				Contract winner	Top two bidders	
				Capita	IBS	Northgate	Anite			
London Borough of Redbridge	2004	10	2				✓	Anite	Anite	Orchard
Sandwell Homes	Jul 07	7	4		✓	✓		IBS	IBS	Northgate
London Borough of Barking and Dagenham	Apr 08	6	4	✓		✓	✓	Capita	Capita	Northgate
Radian Group Ltd	Mar 06	4	3		✓			IBS	IBS	Aareon
Aylesbury Vale District Housing	Oct 07	7	3	✓	✓			Capita	Capita	IBS
Kendoon Housing Association	Jun 05	1						SDM	SDM	
West Whitlawburn Housing Co-operative Ltd	Sep 05	0	3		✓			IBS	IBS	SDM

Source: CC analysis of customer responses.

Note: Customers were asked to tick which out of Capita, IBS, Northgate or Anite submitted a bid, but they also indicated where another supplier was a top-two bidder.

30. Table 16 presents Northgate data on shortlisted and winning bidders for those tenders in which Northgate participated between 2007 and 2008, and shows a similar picture to that received from the customer responses—namely that IBS participates in most tenders, but a number of other suppliers, including Capita, bid less often but not infrequently. Capita and IBS were shortlisted for the same contract only twice.

TABLE 16 Short-listed and winning bidders, April 2007 to April 2008, for those tenders in which Northgate participated

Customer	Short-listed bidders							Contract winner
	Capita	IBS	Northgate	Orchard	Civica	Anite	NIS	
Ashford	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Orchard
Westlea	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Orchard
Derby	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Capita
Luton	[X]	[X]	[X]	[X]	[X]	[X]	[X]	IBS
Sandwell	[X]	[X]	[X]	[X]	[X]	[X]	[X]	IBS
Slough	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Capita
Erimus (Middlesbrough Large Scale Voluntary Transfer)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	IBS
Durham	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Northgate
Reading	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Not known
Wolverhampton	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Northgate
Hackney	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Civica

Source: CC analysis of Northgate bidding data.

Note: This only shows the short-listed bidders for those tenders in which Northgate participated. Thus Northgate may be over-represented as a short-listed bidder for these contracts compared with the number of tenders as a whole.

Switching

31. Table 17 shows information on the reason why customers switched suppliers, for those customers that responded to our questionnaire, and had switched supplier since 2003.

TABLE 17 Customer switching and reasons for switching*

	<i>Most important reason for switching</i>	<i>New supplier</i>	<i>Old supplier</i>	<i>Date of new contract</i>
London Borough of Redbridge Sandwell Homes	Service improvement Product no longer being supported by supplier	Northgate IBS	Comino/ICL Aareon	Feb 05 Jul 07
Radian Group Ltd; previously three separate customers	Merger of three organizations	IBS	IBS, Aareon & Orchard for each customer separately	Jan 07
West Whitlawburn Housing Co-operative Ltd	Obsolete system	IBS	Harkins and Anderson	Dec 05
Places for People Group	Functionality improvement	Northgate	Capita	Apr 07

Source: CC analysis of customer responses.

*Customer questionnaire: 'In relation to your latest tender, have you switched R&B software and related services in the last 5 years? If yes, please indicate below: old supplier, new supplier, date of new supplier contract, single most important imperative for switching, product component.'

32. Software suppliers agreed that the costs and risks associated with switching SH software supplier were significant. Customers cited system installation as the main factor that inhibited switching, followed by data migration, and these factors were also highlighted by software suppliers.
33. The cost and time taken to implement a new SH software system are material. Some key findings are:
 - (a) based on our analysis of contracts, the direct installation costs paid by the customer to the supplier are in the region of [X] per cent of the total contract revenue;
 - (b) contract information provided mixed information on costs: project management costs £5,600 to £63,000, training costs £760 to £55,250 and data conversion costs £800 to £21,250; and
 - (c) the implementation of a new system usually takes between 5 and 12 months.
34. As in the R&B market, these costs are likely to under-represent the costs and risks of implementation and again IBS estimated that the ratio of IBS's resource time to that of the customer was around [X].
35. We asked customers to estimate the cost of switching SH software supplier. From the responses to the questionnaire, these estimates ranged from £40,000 to £1.7 million. For just those nine respondents who have switched SH software suppliers in the last five years, the average estimated switching cost is £1,225,000.
36. Relatively high switching costs are reflected in the apparent reluctance of customers to switch suppliers. Seventeen out of 22 customer responses we received indicated that prices would have to rise by more than 30 per cent for them to consider switching SH software suppliers, and seven said that prices would have to rise by at least 50 per cent.

Monitoring

37. There is evidence that Capita monitors competing SH software suppliers. [REDACTED]¹³ Business plans also provide general views on the relative strength of a number of competitors in the SH software market, including IBS.
38. IBS told us that it aimed to maintain an assessment of the winning and losing of contracts over price and functionality attributes for Aareon, Northgate and Orchard, although it did not record any of this information. Internal documentation contains evidence of this monitoring, and that it may be recorded. The 2005 IBS Information Memorandum states that 'IBS-PS frequently reviews competitor offerings and, in light of this, carries out product development to upgrade its technology or improve functionality'. Furthermore, IBS provided us with its business plans and budgets, which demonstrate that it had information on Capita, Northgate, Anite, Orchard, Aareon and Civica. The sort of information that IBS obtained included the number of customers supplied and won or lost by each competitor, the relative strengths of competitors' products and some details of innovations or product rewrites, competitors' pricing strategy, and whether customers are generally satisfied with the products supplied by IBS's competitors.
39. Northgate told us that it monitored the winning and losing of software bids. [REDACTED] Northgate said that it would seek to understand from customers how satisfied they were with their current supplier, and use this information to target new customers.
40. Orchard told us that it monitored the winning and losing of software bids. It monitored [REDACTED].
41. Civica told us that it monitored all won and lost bids with a win/loss review as appropriate, and that it specifically monitored Northgate, Anite, Capita, IBS, Orchard and Aareon.
42. Consillium told us that it monitored [REDACTED].
43. Some evidence on the main parties' perception of competition is provided below:
 - (a) Information from IBS:
 - (i) 'Competitors continue to be a challenge with some having greater success than others. Key rivals for 2008 will be Northgate, Aareon, Orchard and quite probably Capita. [REDACTED]';
 - (ii) '[Capita] have been a Housing provider for many years. We understand [REDACTED]';
 - (iii) 'Aareon remain [our] strongest competitor [REDACTED] ... Capita, Civica and Northgate remain key competitors, [we are] unlikely to see [a] new supplier'; and
 - (iv) 'we would identify our main competitor(s) as: Housing—Orchard, Aareon, Northgate'.
 - (b) Information from Capita:
 - (i) 'IBS strong in this market ... Northgate, Orchard and Comino considered better products';

¹³For example, [REDACTED].

(ii) 'The leading suppliers in the market in the last two years have been IBS and Orchard. However, they are now being seriously challenged by Aareon and Comino'; and

(iii) 'IBS and Orchard continue to dominate the housing market overall'.

44. We asked the main parties to describe how competitive other suppliers' offerings are in the SH market. Table 18 summarizes their responses.

TABLE 18 Main parties' view of competitors in the SH market

	<i>Main competitor?</i>	<i>Prices competitively?</i>	<i>Fully feature housing management?</i>	<i>All necessary implementation and support?</i>	<i>Other modules offered?</i>	<i>Other information</i>
Aareon	[X]	[X]	[X]	[X]	[X]	[X]
Civica	[X]	[X]	[X]	[X]	[X]	[X]
Northgate (including Anite products)	[X]	[X]	[X]	[X]	[X]	[X]
Orchard	[X]	[X]	[X]	[X]	[X]	[X]
MIS	[X]	[X]	[X]	[X]	[X]	[X]
Omniledger	[X]	[X]	[X]	[X]	[X]	[X]
SDM	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC analysis of main parties' response.

Glossary

Aareon	Aareon UK Limited.
Add-on module	Modules specific to the software application concerned—that is, they can only be used with the R&B or SH applications . These modules give additional functionality around the core modules , such as mobile working, fraud detection and management information.
AIM	Alternative Investment Market (a sub-market of the London Stock Exchange).
AIM All-Share Index	A stock market index consisting of all companies quoted on AIM.
ALMO	Arm's length management organization. A company set up by a local authority to manage and improve all or part of its housing stock . The company is owned by the local authority and operates under the terms of a management agreement between the authority and the ALMO.
Anite	Anite Public Sector Holdings Limited, now owned by Northgate .
Application	See software application .
Capita	Capita Group plc.
Catalist	A list of contracts and Framework Agreements set up for public sector use by the Office of Government Commerce (OGC) with the aims of speeding up procurement processes and achieving better value for money.
CC	Competition Commission.
Civica	Civica plc, a privately-owned group in which 3i (a private equity firm) has the majority shareholding.
Component	The various different items of software and services that together meet a customer's requirement for an R&B or SH software application .
Consilium	Consilium Technologies Limited.
Core modules	Modules which provide the essential functions for R&B and SH software. In the case of R&B software, core modules cover the local authority's statutory duties, ie collecting revenue via council tax and business rates , and making certain benefit payments. In the case of SH software, core modules cover the basic functions of housing management, housing repairs and rent and arrears collection.
Council tax	Tax paid by occupiers of domestic properties which contributes towards the cost of local authority services.

Council tax benefit	An income-based benefit to assist with the payment of council tax .
CSS	Capita Software Services.
DWP	Department for Work and Pensions.
Existing customers	Customers that are in the second year or more of supply by their current R&B or SH software supplier. There are two categories of existing customers: ' mid-term customers ' and ' roll-over customers '.
FTSE 100	A share index of the 100 most highly-capitalized UK companies listed on the London Stock Exchange.
Horizontal module	Modules which are not application -specific. For example, local authorities have a wide range of other software applications including Customer Relationship Management software (to enable more 'joined-up' provision of services across multiple departments), workflow software (to manage business processes across multiple departments) and document management software (to streamline the processing of incoming documents).
Housing benefit	An income-based benefit to assist with the payment of rent.
Housing stock	Dwellings managed by a social housing provider.
Housing unit	A dwelling.
IBS	The businesses now operated as a division of Capita Group plc which before the acquisition operated as IBS OPENSystems plc.
IBS AB	International Business Systems AB (Sweden): former parent company of its UK subsidiary IBS (Public Services) Ltd.
IDOX	IDOX Group Plc.
Mid-term customers	Existing customers in the middle of a contract period.
MIS	MIS Active Management Systems Ltd.
Module	A self-contained software item within an R&B or SH software application .
NDR	Non-domestic rates. Businesses and other occupiers of non-domestic properties pay non-domestic rates (also known as business rates) to contribute towards the cost of local authority services.
New customers	Customers that have just gone or are going out to tender for a new R&B or SH software contract. Customers are considered 'new' as long as they are within the first year of their contract.

Non-core modules	Modules for both R&B and SH software which provide non-essential functions.
Northgate	Northgate Information Solutions Ltd, a supplier of specialist software, outsourcing and IT services to the human resources, local government, education and public safety markets.
Numis	Numis Securities Ltd, underwriter to IBS 's initial public offering in 2005 and financial adviser to IBS on its 2008 sale process.
OJEU	<i>Official Journal of the European Union</i> . Refers to both the S-Series of the Journal in which public sector procurements are published and the procurement framework itself.
Orchard	Orchard Information Systems Ltd.
Pericles	An R&B software product produced by Anite .
R&B	Revenues and benefits.
R&B software/software systems	Software for the management of revenues and benefits collections and payments.
Roll-over customers	Existing customers that have reached the end of their initial contract terms and have renewed their contract with their current supplier on an annual basis.
RSL	Registered social landlords. Independent housing organizations registered with the Housing Corporation under the Housing Act 1996. They may be Industrial and Provident Societies, registered charities or companies. Since January 2009 this term has been replaced in England by the term Registered Provider following the abolition of the Housing Corporation and English Partnerships and the creation of the Tenant Services Authority and the Homes and Communities Agency.
SDM	SDM Consultants Ltd.
SH	Social housing. The provision of subsidized affordable housing by organizations including housing associations, local authorities and ALMOs .
Shared services	The initiative by some local authorities to enter into joint arrangements with other local authorities to achieve economies of scale for the delivery of local services within a county or region.
SLC	Substantial lessening of competition.
SH software/software systems	Software for the management of social housing.
SOCITM	Society of Information Technology Management. The professional association for information and communication technology managers working in and for the public sector.

Software application	The overall software package designed to meet a specific business requirement. R&B and SH software are both examples of software applications.
Software module	See module .
SSNIP	Small but significant non-transitory increase in price. The SSNIP test (also known as the hypothetical monopolist test) is an economic test for market definition. It involves considering whether a hypothetical monopolist of a certain product or set of products which might constitute a market could profitably impose a SSNIP.
SSP	Strategic service-delivery partnership. Long-term public private partnerships through which contractors deliver a service or range of services for local authorities.
SWRBSS	South Worcestershire Revenues and Benefits Shared Services. A revenues and benefits shared services arrangement comprising Wychavon District Council, Malvern Hills District Council, Worcester City Council and Worcestershire County Council.
Sx3	Service and Systems Solutions Ltd. An IT services and business process outsourcing business acquired by Northgate in 2005.
Tribal Consulting	Tribal Consulting Limited, the consultancy division of Tribal Group plc.
Tribal Report	A report on the market for SH software commissioned by the CC from Tribal Consulting .
Unitary authority	A single-tier local authority responsible for all local government functions with its area.
Workflow	Software designed to assist the management of business processes across multiple departments.