

Item No. 17.	Classification: Open	Date: 19 July 2011	Meeting Name: Cabinet
Report title:		Gateway 1 – Procurement strategy approval for IT Managed Services	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance, Resources and Community Safety	

FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY

Getting the council's information technology right is fundamental to improving and modernising the council's services. This report proposes a procurement strategy for the council's IT Managed Services once the current contract with Serco ends in 2012.

Whilst there is a two year extension provision within the current contract, this strategy proposes to use the public sector Buying Solutions framework for this procurement to secure best value as quickly as is prudent.

Over the last eighteen months, the council has worked closely with Serco to improve the services that they provide. Whilst some progress has been made, the report identifies that the proposed procurement is likely to offer greater improvement than making use of the extension provision in the current contract.

RECOMMENDATION

1. That the Cabinet approve of the procurement strategy outlined in this report which utilises the Buying Solution framework, to procure an IT Managed Service (ITMS) in line with Contract Standing Order 3.3.2 , with an anticipated duration of four to a maximum of seven years

BACKGROUND INFORMATION

2. IT is a fundamental business function in Southwark that exists at the centre of service delivery, enabling flexible working within the workforce and provides a solid foundation to generate future service improvements. The Council is currently in the process of formulating a new IT vision which any new contract will be configured to deliver
3. The existing contract for IT Managed Services (ITMS) is with Serco and was awarded in 2007. Serco, originally as ITNET, were the incumbent suppliers at the time in a contract dating back to 2001. The duration of the current contract is 5 years with a provision for LBS to extend for a further 2 years to July 2014. In order to extend the Council is required to notify Serco by January 2012.

4. The ITMS contract currently provides for the basic hardware and the management of the IT infrastructure (e.g. desktops; server management; Helpdesk; Disaster Recovery etc).
5. During the past eighteen months the Council has identified the key areas where improvements to service delivery and performance are required. The Council has worked closely with Serco in these areas and as a result there has been some improvements which included the generation of revised performance indicators (to make them more relevant and intelligible), and an improvement in governance and working arrangements. It is noteworthy that a number of key projects have been successfully implemented in that period which required some level of input from Serco. These included projects such as the completion of the Citrix rollout, transition of revenue and benefit services, and upgrade to the Council's web site. Although those improvements were welcomed it is acknowledged that there is a need to continually improve performance, while addressing the overall ICT cost base. In view of this a range of options have been considered.
6. To determine a recommended procurement strategy a review was undertaken by officers taking into account current performance together, with the benefits and risks of extending the current contract. The outcome of these deliberations, for the reasons described in paragraph 8 below, was that an extension of the existing contract was not the preferred approach.
7. The Council's requirements of an IT outsourcer have significantly changed since this contract was let in July 2007. Any new contract will specifically accommodate the significant changes that the organisation expects to go through in the coming years, together with the new vision that the Council is keen to implement

Options for procurement including procurement approach

8. Other options were considered by the group were:
 - Full and comprehensive tender of services - This would require a full OJEU procurement exercise which would be resource intensive. There would be insufficient time to follow this route and complete the activities before July 2012 when the current contract terminates. In addition it would have little inherent benefit beyond the proposed method.
 - Bring services in house – Insufficient time to prepare and would require extensive external support to establish. In addition there is not currently the technical infrastructure in place to support an arrangement in the short term. This would remain an option post the conclusion of the proposed procurement/contract
 - Use of an existing Frameworks – With the exception of Buying Solutions, which is considered below, there are unfortunately no other mature or developed arrangements currently in place. A number of potential frameworks were considered but they were all found to be unsuitable due to legal impediments, or unacceptable conditions/scope of supply.
9. The Buying Solutions framework is a national procurement partner for public services and is a part of the Cabinet office and is the only realistic option, other than extending the Serco arrangement. There is a specific framework for the

procurement of Managed IT Services which mirrors the range of LBS requirements. (Paragraph 16 provides further particulars).

10. In addition to an achievable time frame which meets the need to have in place a service as quickly as possible, the benefits of using the Buying Solutions approach are:
 - Best Practice Procurement - All twelve of the suppliers providing Buying Solutions framework agreements have been subject to a rigorous procurement process, ensuring they offer the scope and quality services required by customers in the public sector. Pre-agreed terms and conditions offer customers sound contractual safe guards. The majority of the prospective suppliers are major market providers of these services. It should be noted that the current incumbent, Serco, has not applied to be registered on the Buying Solutions framework for IT Managed Services.
 - Value for money - Competitive rates have been secured and are regularly benchmarked. Transparent pricing structures and the facility to conduct further competition ensures that value for money is consistently achieved.
 - Legislative compliance - The Buying Solutions framework agreements are compliant with the EU procurement directives as well as UK procurement regulations. The adoption of the Model Call-Off Contract which has been constructed by Buying Solutions based on the OGC Model Contract for ICT Services, and is designed to be flexible, clear and a stimulus to good contract management
 - Efficiency - Using the framework agreements can save considerable time and costs compared with undertaking a full tender exercise. Easy ordering processes and their ecommerce facility makes the framework extremely simple to access and use.

Procurement Strategy

11. This procurement is for services and its contract value will significantly exceed the EU threshold and is therefore subject to EU procurement regulations and an EU compliant process must be followed.
12. The council is in a position to fully understand the ITMS requirements as this will be the third occasion that this service has been the subject to a tendered procurement. The requirement statement will specifically take on board the lessons learned from previous contracts, together with an assessment of other contracts in place.
13. There will be a need to engage external specialist resources both to support the procurement and to effectively manage the transition from the current contract... These technical resources will be need to be experts, with practical experience of IT contract definitions, the current market place and managing the complex elements of the exit negotiations with Serco such as asset assessment and transfer. These requirements are currently being detailed as a part of the project resource plan and timeline. Any external support necessary will be subject to normal Council approval processes and costs will be contained within the appropriate budgets.
14. The overall timeline from a decision to approve this procurement approach to contract start is estimated to be 12 months; and with the approval of this

procurement strategy, it is feasible to procure the contract and ensure continuity of service within these time frames; provided there is very little slippage.

15. The preferred approach is therefore to procure a contractor through the established Buying Solutions ITMS agreement which is the national procurement partner for all UK public services and is part of the Efficiency and Reform Group within the Cabinet Office.
16. There are twelve contractors listed on the Buying Solutions IT Managed Services framework which was procured under an EU restricted process:
 - 2e2 UK Limited
 - Bull Information Systems Limited
 - Capita Secure Information Systems
 - Centerprise International Ltd
 - Civica UK Ltd
 - Computacenter
 - Getronics UK Limited
 - Logica Uk Ltd
 - Northgate Information Solutions (UK) Ltd
 - Servo Limited
 - Specialist Computer Centre
 - Steria Ltd
17. Under the BS framework the IT Managed Services suppliers will be able to deliver the provision of IT services, including but not limited to:
 - Managed Desktop
 - Disaster Recovery and Business Continuity
 - Programme and Project Management Services
 - Managed Data Hosting
 - Network Services and Systems Integration as delivered as part of an overall managed service
 - Print Services
 - Maintenance contracts
 - Service Desk
 - Asset Management services
 - Computer Estate Management including mobile devices and laptops
 - Remote Access services

Together with other IT related services that can be delivered as a Managed Service, Shared Service or as a fully outsourced contract.

18. There will also be general requirement to follow industry standard best practices such as ITIL which prescribes key areas such as Incident, Release, Change and Problem Management. In addition it is intended to build in more local/client accountability.
19. In line with best practice for IT contracts of this nature this contract will be for a four year duration and have an extension provision for an additional 3 years. After the initial four year period there will be an opportunity to extend up to the three year period with the flexibility to terminate the contract during the

extension period with sufficient notice (for example 3 x 1 year, 2 x 1.5 years, or the full three years), making a total estimated maximum contract value of £42m.

20. The expectation is that the new service, procured as recommended, will provide the following:

- A new and improved service to LBS users and recognised by them
- Increased capacity and ability to meet Council's future vision for IT service delivery
- Exploitation of technological developments and innovations
- Value for money through testing the market place and realise savings while minimising service impact
- An opportunity to introduce flexible and improved contractual arrangements - tied to current and future LBS needs, both organisationally and operationally.

Identified risks and how they will be managed

21. Risks relating to this procurement and how they will be managed are shown in the table below.

Risk	Mitigation strategy
There is a lack of available technical expertise and resources to effectively undertake current IT contract exit activities (including assessment of assets) and specify new arrangements (e.g. cloud computing and future technology)	<ol style="list-style-type: none"> 1. Engage external technical specialist with specific expertise in these areas 2. Provide clear and concise terms of reference
The council fails to dedicate sufficient time and resource to enable the project to proceed with sufficient input and in line with the project time scales.	<ol style="list-style-type: none"> 1. Resource requirements to be identified and put in place 2. Monitoring progress at fortnightly project meeting (governance structure in place) 3. Escalate through governance structure if required 4. Timely preparation of approval documentation including Review time by IDSD, finance, legal, procurement and all relevant stakeholders (quality, timeliness, approver briefing) right input at the right time 5. Ongoing consultation re impact on interim arrangements with legal & procurement
Market Place fail to respond positively or within budget threshold	<ol style="list-style-type: none"> 1. Early assessment of likelihood of responses 2. Option to give notice to current supplier to extend (contractual deadline is January 2012)

Risk	Mitigation strategy
The current ITMS service may degrade once the existing contractor notified of decision	<ol style="list-style-type: none"> 1. Undertake intensive contract management with existing supplier. Review portfolio responsibilities within IDSD management team 2. Introduce formal protocols with current contractor to deal with transition arrangements 3. Communication strategy and plan to be put in place. 4. Increased management awareness and support across the organisation
TUPE issues are not managed satisfactorily, potentially resulting in union, consultation and staff issues.	<ol style="list-style-type: none"> 1. Obtain relevant data from key parties as a matter of priority 2. Early involvement of HR resource 3. An effective consultation process for affected staff 4. Keep a strong focus on TUPE issues with bidders during the procurement process
Insufficient information of the current service and service requirements will result in an increased risk premium applied to the tender costs (data pack and specification)	<ol style="list-style-type: none"> 1. Ensure that service specification robust, succinct and complete (in progress) 2. Ensure the specifications reflect the lessons learned in previous awards and best practice 3. Engage with stakeholders/advisers to ensure quality of specification and associated measures (through governance structure) 4. Share outline vision and use an output based specification to enable contractors to be innovative, deliver required service, and drive out efficiencies 5. Obtain quality assurance and technical input from appropriate resources 6. Ensure that sufficient data provided with respect to existing services and provided through the invitation to tender (data pack preparation in progress)

KEY ISSUES FOR CONSIDERATION

Key /Non Key decisions

22. This is a strategic procurement (on the basis of value and potential impact on service delivery) and is therefore a key decision.

Policy implications

23. The key element of the corporate plan that this strategy supports is “transforming public services”. The provision of sound and reliable IT and how they are utilised are at the heart of the ICT strategy.
24. The medium term resources strategy aligns financial priorities with the management of assets and the associated resources with which the council delivers its services. A modern ITMS service platform and an informed ITMS client function will significantly support the council’s medium and long term objectives providing flexibility and opportunities for efficiency savings.
25. Other key corporate objectives are indirectly supported through an improving working environment, improving customer facilities and enabling more effective service delivery.

Procurement project plan

Activity	Complete by:
Forward Plan (if Strategic Procurement)	June 2011
Approval of Gateway 1: Procurement strategy report (this report)	19/07/2011
Scrutiny Call-in period and notification of implementation of Gateway 1 decision.	29/07/2011
Completion of further competition documentation	04/08/2011
Invitation to further competition	08/08/2011
Closing date for responses	19/09/2011
Completion of evaluation of tenders	31/10/2011
Approval of Gateway 2: Contract Award Report	13/12/2011
Contract award	06/01/2012
Contract start	31/07/2012
Contract completion date	30/07/2016
Possible extensions (up to 3 years)	30/07/2019

TUPE implications

26. For the bid TUPE will apply on a secondary basis (affecting staff of existing contractors). The project team will be advised by HR, procurement and legal on all aspects in relation to TUPE including consultation requirements; and pay implications; monitoring requirements on the council for two tier pension and pay and TUPE implications (both primary and secondary).
27. The council will be compiling the information in relation to pension provisions that will be needed in relation to TUPE transfer.

28. The current supplier will be requested to provide the details of their employees affected by TUPE and associated pension information which will be included within the bidders information pack.

Development of the tender documentation

29. The tender documentation will be designed to ensure that proposals are received which will help inform award decisions, and will include:
- Specification and key performance indicators (KPIs)
 - Details of where method statements, or innovative proposals, are required
 - Instructions to bidders document and associated appendices:-
 - Evaluation - methodology, matrices and statement of requirements
 - Pricing schedule and charges
 - Contract
 - Data pack comprising all available information in relation to the ITMS operations
 - Outline of the council's ICT strategy and Vision
 - Assets to be transferred
 - Applications supported
 - Performance data including existing reactive call volumes by discipline, severity and hours of support to be given,
 - Disaster Recovery and Business Continuity Plans
 - Initial information relating to TUPE.
30. The documentation is being developed through the use of workshops and individual meetings and, where appropriate, review stages by the relevant members of the project team and technical specialists from the council and elsewhere.
31. Consultation on the tender documentation is being undertaken with corporate support from legal, procurement, finance and HR where appropriate and these functions are also represented in the governance structure for the overall programme.
32. An ongoing briefing and consultation process is also underway with representatives from service departments, corporate strategy, business continuity and emergency planning, and health and safety. These areas have agreed to provide support during the procurement process.

Advertising the contract

33. In order to utilise the Buying Solutions ITMS framework it is necessary to give all contractors on the framework an opportunity to bid.. The invitation to tender will then be sent to all contractors on the framework that have not de-selected themselves from the process.

Evaluation

34. The evaluation methodology and models will be developed by the evaluation panel appointed by the project team and agreed through the project governance, so this can only be indicative at this stage.

35. Generally the Council uses a 70:30 price/quality weighted model is used to evaluate tenders. However In accordance with the Buying Solutions mandatory requirements the criteria presented below must be applied to IT Managed Services framework agreement suppliers' compliant tenders submitted through the Further Competition Procedure. It will however be made very clear when inviting tenders that cost savings and benefits are key to the Council and that there is an expectation of a net reduction in costs over the period of the contract.

Evaluation criteria	Criteria Weighting %	Sub-criteria	Sub-criteria Total %
Technical solution	25-45%	Innovation Benefits realisation Quality of solution	100%
Commercial	25-30%	Pricing Value for money Payment profile	100%
Service delivery	25-45%	Service levels Key Performance Indicators (KPIs) Transition	100%
	100%		

In order to assess the above the panel will assess the extent to which the supplier will provide the following:

- A fully supported business continuity and day to day operations
- Improved customer and user satisfaction
- A significant reduction in the baseline costs and charges
- Evidence of the ability to work with the Council in providing and supporting affordable IT
- A Definition of anticipated service improvements and vision to assist LBS in transforming services
- How they will exploit technological developments and innovations.

This will be via presentations, assessment of method statements and site references.

36. The tender evaluation panel will comprise the following:

- Head of I & D Services
- Head of Technology
- Specialist IT technical advisors
- User representation (nominated by the service departments)
- Head of Applications, Data & Operations

- Finance representative
- Other representatives (for relevant parts), including human resources, contract management unit, and, business continuity.

37. During the procurement period interim management arrangements will be put in place to deal with some of the issues currently being experienced under the current contract, or arising from the transition process. These arrangements will help ensure that service continuity and performance will be maintained during the remaining life of the contract

Community impact statement

38. All of the contractors on the framework will have their own supply chains in place. This contract will primarily provide a consolidated ITMS service contract to deliver part or all IT services to Council offices.
39. The proposals from the suppliers will contain the preferred location of data centres and service desks etc which may be within the borough boundaries.

Sustainability and other considerations

40. The new provider will be responsible to the provision and upkeep of computer equipment, and associated environments, on behalf of the Council. The successful contractor will therefore be required to have targets in place to minimise consumption of energy and emissions of pollutants and be able to demonstrate the effectiveness of these procedures, both in LBS premises and other establishments where equipment is managed on behalf of the Council.

Economic and social considerations

41. All of the contractors on the framework will have their own supply chains in place; however, local economic and social benefits will be built into the procurement in a variety of ways including an assessment of the contractors' approach to:
- Engagement with apprenticeship schemes which have a target of one apprentice per £1,000,000 annual contract expenditure
 - Engagement with local companies in their sub-contracting and supply chain arrangements wherever possible
 - Engagement with small to medium enterprises (SMEs) and black and minority ethnic, women and disabled owned businesses or those operated by the voluntary and community sector
 - How they will achieve continuous and measurable improvement while working in partnership with the council to deliver its objectives in this area.

Plans for the monitoring and management of the contract

42. This contract will be managed by the Information & Data Services Division (IDSD) within the Finance & Resource Department. The success of this contract is dependent upon best practice contract management principles including the establishment of appropriate KPIs and SLAs.

43. To ensure that IDSD set exemplar standards in relation to the contract management of this and future ITMS contracts the service has recently been reviewed, and the new structure implemented in April 2011, delivered the informed client with contract management and service support at its centre.
44. Concurrent to this review, work to define and establish a contract monitoring function to serve Finance & Resources department contracts is progressing. This will provide best practice contract monitoring; delivering effective contract performance reporting.
45. Best practice arrangements and systems will be put in place for the management and monitoring of the contract in respect of:
 - Compliance with the specification and contract
 - The performance of the contractor/supplier
 - Cost
 - Customer relationship management
 - User satisfaction
 - Risk Management.
46. The contract will be based on the Model Call-Off Contract which has been constructed by Buying Solutions based on the OGC Model Contract for ICT Services, and which forms part of the framework agreement between Buying Solutions and each supplier.

Resource implications

Staffing/procurement implications

47. The governance for this procurement project is provided through the agreed governance structure for the overall programme. There will be an overarching steering group which will be chaired by the Finance Director and will include Chief Officer representation, in addition to the Head of I&DS and other key stakeholders. This group will monitor general progress and provide challenge to the programme board.
48. The procurement project team will report into the ITMS strategic procurement programme board appointed by the Head of Information & Data Services Division who is the senior responsible officer for the delivery of this procurement. The team comprises the following:
 - Head of I & D S
 - Head of Technology
 - Specialist external IT technical advisors
 - User representation (nominated by the service departments)
 - Head of Applications, Data & Operations
 - Finance representative
 - Representatives from, legal, procurement, communications and finance to support the procurement process and provide professional advice.
 - Representatives from other council departments.

49. The programme board will meet on a weekly basis to drive forward this procurement. It reports into the ITMS strategic procurement steering group which is chaired by the finance director.
50. The user stakeholder group reports into the programme board and will provide user input into this and the other ITMS procurement work streams.
51. The internal and external resources required to deliver this procurement are to be funded through existing budgets.

Financial implications

52. The proposed contract is to be funded from the existing IT budgets (see closed report). These savings will contribute to the IT targets already identified for 2012/13 and 2013/14.
53. The contract will be subject to, and linked to, a price index which will be set out in the contract terms and conditions of contract. Payment may also be tied in to performance with the possibility of a “gain-share” mechanism being put in place based upon performance against KPIs and the delivery of further efficiencies.
54. In addition it is proposed to introduce mandatory and contractual benchmarking to ensure that the council continue to receive the most advantageous rates.

Legal implications

55. All legal implications are noted in paragraphs 60 - 61.

Consultation

56. This procurement strategy has been developed to deliver an element of the ICT strategy.
57. Consultation in the development of the procurement strategy recommended in this report has been undertaken with internal corporate functions including, legal, procurement, finance, corporate strategy and service departments,. Varying degrees of resource has been assigned from these areas and will continue to be engaged in the procurement during the development of the tender documentation, tender, evaluation and will continue to be involved during the procurement process.
58. Advice has been sought from external parties including Buying Solutions (in relation to the ITMS framework and its use). In addition to technical advice being provided from within the council, expert specialist advice is also being utilised to support this procurement where it is required.

Other implications or issues

59. This procurement will take into consideration the impact on other IS projects/programmes, and services including the provision of an improved IT infrastructure (i.e. Wide Area Network, Telephony and Local Area Network). In addition the procurement will have regard to the requirements within the “Modernise 2” programme as it relates to the provision of IT Services.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

60. This report seeks the Cabinet's approval to the procurement strategy to procure an IT managed service through the Buying Solutions framework. The decision to approve the procurement strategy for this service is reserved to the Cabinet.
61. The procurement of this service is subject to the full application of the EU procurement regulations, as this is a part a service over the EU threshold. However the proposal is to use the Buying Solutions framework which is an EU compliant framework. As a local authority, the council is a party who is able to place an order for IT managed services through this framework, and can place an order at any time during the term of the framework agreement. To ensure that the service meets our specific requirements and best value is achieved a further competition will be conducted from those suppliers on the framework. In using the framework there is requirement to use the OGC model call off contract for ICT services, but special terms are permitted to supplement the contract and deal with authority specific requirements. Officers from legal services will be working with IDSD to draft the special terms which will be included with the further competition documents.

Finance Director

62. This report seeks approval of the procurement strategy to utilise the Buying Solutions Framework to procure an IT Managed Service.
63. The indicative three year budget agreed by Council for 2011/12 to 2013/14 identified saving for IT services.
64. The report identifies that Buying Solutions have secured competitive rates from those on the framework and the tenders allow for these rates to be bettered by the firms competing for work. The estimated cost shown in this report is £6m per annum, but actual costs will not be known until tenders are received and evaluated. Value for money and affordability will be key criteria in the assessment process

Head of Procurement

65. This report is seeking approval to source a new IT management services contract via the Buying Solutions framework.
66. For a contract of this nature and value the EU regulations apply. The Buying Solutions framework is an EU compliant route for procurement. All of the providers that appear on the category list have been subjected to a full EU procurement process. By embarking on a further competition process LBS will assess these providers against local requirements ensuring our specific requirements can be met and the council's standards for equalities and health and safety satisfied. The benefits of using this procurement route are described in paragraph 9.

67. For this procurement route to remain EU compliant it is important that the operating rules for the framework are adhered to. Paragraphs 35 - 38 describe the proposed approach for evaluation. The framework rules allow for some flexibility with the evaluation methodology but have fixed a high level weighting range of between 25 – 30% price and 50 – 70% quality. This differs from the council's current recommended model of 70/30 in favour of price and officers will need to develop the evaluation model to ensure that it has the correct focus for the council whilst remaining within the parameters set by Buying Solutions.
68. The timeline for this project is very challenging and is dependant on the correct resources being assigned. The project team has been identified and the need for external expertise is highlighted in paragraph 49.
69. Paragraphs 48 - 51 outline the governance arrangements for the project which will ensure that the project is tracked and key tendering documentation receives the appropriate sign off. Corporate procurement is represented on the steering group and will provide ongoing support to the project.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
None	

AUDIT TRAIL

Cabinet Member	Councillor Richard Livingstone, Finance, Resources and Community Safety		
Lead Officer	Bill Cottrell, Head of Information and Data Services		
Report Author	Bill Cottrell, Head of Information and Data Services		
Version	Final		
Dated	7 July 2011		
Key Decision?	Yes	If yes, date appeared on forward plan	June 2011
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title	Comments Sought	Comments included	
Strategic Director of Communities, Law & Governance	Yes	Yes	
Finance Director	Yes	Yes	
Head of Procurement	Yes	Yes	
Contract Review Boards			
Departmental Contracts Review Board	Yes	Yes	
Corporate Contracts Review Board	Yes	Yes	
Cabinet Member	Yes	Yes	
Date final report sent to Constitutional Team			7 July 2011