

Item No.	Classification: Open	Date: 20 September 2016	Meeting Name: Strategic Director of Finance & Governance
Report title:		Gateway 3: Extension Approval Extension of the Capita contract	
Ward(s) or groups affected:		All	
From:		Head of IT	

RECOMMENDATIONS

1. That the strategic director of finance and governance approves an extension of the IT services contract with Capita Secure Information Systems (SIS) Limited for the continued provision of IT managed services for an initial period of six months from 1 February 2017 with provision to extend for a further period of up to six months at a total value not to exceed £12,136,000 (contract extension #1).
2. That the strategic director of finance and governance approves a further extension of the hosting services (which is currently one element of the IT managed services contract) with Capita for a period of up to 18 months from the end of the extension of the IT services contract (after recommendation #1 is completed) at an estimated total cost of £540,000 (contract extension #2).
3. That the strategic director of finance and governance notes that both contract extensions contain provision for the council to terminate parts of the service as required for service transition to the new IT providers.

BACKGROUND INFORMATION

4. Capita was awarded the IT managed service contract in October 2012 with the service commencing 1 February 2013. The contract covers the provision of the majority of council IT services through direct delivery, engagement with third party sub-contractors or through working in conjunction with other LBS suppliers (e.g. Northgate, Virgin Media).
5. Within the contract there is the facility for the council to extend on the same terms and conditions by any period up to a maximum of three years provided this does not alter the economic balance of the contract. Should we exercise this option we are required to give Capita a minimum of three month's notice.
6. As detailed in the gateway 0 report approved by cabinet on 9 February 2016 entitled 'IT Managed Services Sourcing Options', the cabinet endorsed the work by officers to design and procure a multi-sourced IT service to replace the existing single supplier IT managed service supplied by Capita SIS.
7. In that report cabinet noted that the timescale to procure and transition to a multi-sourced service was challenging and to mitigate this, officers were discussing a contract extension option with Capita. This report represents the formalisation of those discussions through the gateway approvals process.

KEY ISSUES FOR CONSIDERATION

Key Aspects of Proposed Variation

8. The council will require new providers of the IT managed service to complete their due diligence work and transition into their new role prior to exiting the Capita contract. It is anticipated that once a new provider has completed their due diligence and transition activities the council will be able to terminate the associated services being delivered by Capita, thereby keeping the time and cost arising from 'parallel running' to a minimum. It is likely that there will be a period of 'parallel running' where the council is paying Capita to maintain the IT services whilst paying the new provider to transition into the service. The extent of the parallel running of the contracts and budget requirement to enable this is yet to be defined and will be detailed in the gateway 2 report underpinning the IT procurement process.
9. There are contractual mechanisms within the exit provisions of the Capita contract which can be operated as the contract is closed to ensure effective delivery of the service. In addition, the council has linked a large proportion of the payment for a contract extension to performance over the extension period. Specifically, bringing down the number of outstanding service requests (SRs) and open incidents. This will provide a significant boost to customer satisfaction. In addition, the council will ensure that all assets, and their relationship to one another, are captured with an asset database.

Contract #1

10. Paragraph 11 to 14 of the closed report provides further detail around Contract # 1.

Contract #2

11. Contract extension #2 represents a continuation of only the infrastructure hosting element of the existing agreed IT managed service contract, and the continuation of this service will only commence once contract extension #1 comes to an end. The estimated monthly cost of this service is £30,000 with a total cost over the lifetime of the extension not to exceed £540,000 and for which budget provision exists.
12. The actual total cost for contract extension #2 is likely to be less than the stated amount owing to the council's strategy to move away from a hosting model to more cloud-based services including a Software-as-a-Service (SaaS) delivery for key applications. As a result the amount of hosting services we consume will decline over the lifetime of the extension.

Reasons for Variation

13. Whilst there has been significant preparatory work for the new procurement, a contract extension is required to provide sufficient time to complete the procurement of a multi-source IT service, which involves the procurement of five contracts, and to transition to those new providers. Changing the contract termination date from 31 January 2017 to 31 July 2017 and potentially to 31 January 2018 for the main Capita service provides us with up to an additional 12 months to enable this to happen.

14. In addition, it provides the officers with the flexibility to manage the 'parallel running' highlighted in paragraph 9. We can extend the contract for certain services and descope others (within the recommended 12 month envelope) depending on the readiness and capacity of the new providers to mobilise their service. Whilst this will not eliminate parallel running it will enable the procurement team to keep it to a minimum.
15. In parallel to this activity the Council will maintain the IT service and project delivery standards required under the current contract.
16. Contract extension #2 enables the Capita provision of hosting services for the council through two data centres which they manage and support. The council's long term strategy is to ultimately migrate all hosting to the cloud and move existing applications from 'on premise' solutions to a SaaS model.
17. As this is the direction of travel there is no operational or financial benefit to the council in moving from Capita's two data centres to an alternative data centre provider only to move from that alternative provider to a cloud provider. It adds an additional step in the overall migration to SaaS model that would incur cost, attract risk and add no value.

Future Proposals for this Service

18. The future proposals for this service can be broadly defined as a multi-source SIAM model and were outlined at council cabinet on 9 February 2016 in the gateway 0 report entitled 'IT Managed Services Sourcing Options'; and agreed in the gateway 1 report entitled 'IT Sourcing Options' from July 2016, which form two of the background documents to this report.
19. The multi-source model segments the IT service into a number of service areas or "towers", with each delivered by a partner best able to fulfil requirements. The multi-source model enables a hybrid approach to support and development, maintaining existing key application partner relations whilst facilitating access to smaller companies with the ability to deliver transformative work at pace.
20. The process for procuring these services was initiated on 1 June 2016 with a highly successful market engagement event at the theatre at Canada Water Library attended by senior officers and over 60 vendors.
21. The new service will be managed by a restructured and reenergised retained IT function that will include critical functions such as IT strategy, enterprise architecture, business partnering and IT governance. Transactional services such as network management, the IT service desk and hosting (contract extension #2) will be outsourced to individual providers.
22. In essence, the procurement will enable us to deliver the vision for the council's IT service which is:
 - a. **Support Southwark's Digital Vision:** Increased availability and adoption of online services; greater use of self-service and automation; improved integration between front-office and back-office.
 - b. **IT as a strategic enabler:** Supporting business process transformation, efficiency savings, staff mobility, corporate information management and business intelligence to drive service improvements for residents and customers.

- c. **Customer centric service:** Services designed with the customer in mind which are intuitive and easy to use
- d. **IT which is Modern and Reliable:** Service is agile, scalable, secure and available resulting in high customer satisfaction.
- e. **An Enterprise IT function** with the capability to fully support and inform business aspirations.
- f. **Multi-Speed IT Capability:** supporting and delivering traditional corporate services whilst also meeting the rapid timescales for agile development and deployment. Taking positive action now to implement the sourcing model to deliver on these objectives will be a key action in responding positively to the LGA peer review findings.

23. The table below sets out a revised version of the procurement timetable for the new IT managed service, as set out in the Gateway 1 report which forms a background document to this paper:

Date	Action
Mon 19 September 2016	Publication of the Further Competition Invitation / Tender Clarification period starts.
Lot 8 (Integration)	
Monday 31 October 2016	Deadline for submission of tender to the authority
w/c 14 & 21 November 2016	Supplier Presentations
Friday 2 December 2016	Complete evaluation
07 February 2017	Cabinet decision
Mid-February 2017	Issue of Award notification
27 February 2017	Expected commencement date for the Contract
May 2017	Expected service start
All Other Lots	
Monday 31 October 2016	Deadline for submission of a Tender to the Authority Contact ("Tender Submission Deadline")
w/c 5 December 2016 & w/c 12 December 2016	Supplier Presentations
13 January 2017	Complete evaluation
21 March 2017	Cabinet decision
March 2017	Issue of Award notification
April 2017	Expected commencement date for the Contract
July 2017	Expected service start

Alternative Options Considered

- 24. The council explored procuring and mobilising alternative IT service providers by the current contract end date of January 2017. This was judged as unrealistic and would expose the council to significant risk around the quality of requirements and the ability of potential suppliers to complete appropriate due diligence.
- 25. The council also considered insourcing the IT function in its entirety as detailed in the gateway 0 report approved by cabinet on 9 February 2016 entitled 'IT Managed Services Sourcing Options', which forms one of the background papers of this report. This option was not considered viable for a number of reasons, including:

- The cost and time required to; establish the team, develop processes and procedures, provision the required management tools and support infrastructure and the increasing move towards shared services.
- A full in-source would require the council to recruit and build an entire IT service division from scratch. Whilst some Capita staff would likely be considered as in scope of a TUPE transfer from Capita to the council, the number is likely to be relatively low compared to the resource required to fully manage the service.
- It is 20 years since the council outsourced its IT service and therefore there is limited in-house knowledge of running a full IT service. Significant work would be required to develop the team structures and posts required and availability within the local and London-wide market for IT personnel with the requisite skills at the council's current pay levels is as yet untested.
- Whilst there is some evidence that a well-managed in-house IT service team is cost effective, many councils with in-house IT teams are looking to rationalise and derive further efficiency savings through adopting shared services. Full insourcing is therefore considered contra to the direction some councils are taking.

Identified risks for the extension

26. The table below identifies risks associated with contract extension one and two, as well as appropriate mitigating actions:

Risk No.	Risk Identified	Risk level	Mitigation
R1	There is a risk that in order to facilitate the smooth transition to a multi-source SIAM model and enable providers to complete an effective due diligence exercise the council may require running the new and existing contracts side by side for a short period. This can be described as 'parallel running'.	H	The council has since February 2016 implemented far more robust contract management processes. This will minimise the need for 'parallel running'. In addition, Capita have confirmed that they are willing to allow early termination of the constituent parts of any contract extension as when the new service provider is ready to begin service provision.
R2	As the contract reaches its termination date, the incumbent service provider may be reluctant to invest in the contract at a relationship or service delivery level. It could impact on the overall user experience and user satisfaction.	M	There are contractual mechanisms within the exit provisions which can be operated as the contract is closed to ensure effective delivery of the service. In addition, the council has linked a large proportion of the payment for a contract extension to performance over the extension period. Specifically, bringing down the number of outstanding service requests (SRs) and open incidents. This will provide a significant boost to customer satisfaction. In addition, the council are working with Capita to capture all the attributes of any configuration items (CIs) in the configuration management database (CMDB) and their

			relationship/s to other CIs.
R3	A contract extension is designed purely to provide the time for the council to deliver the large scale procurement required for a multi-source SIAM model. However any significant slippage in the procurement process may require further contract extension/s.	M	This is managed through the following: <ul style="list-style-type: none"> • staggered procurement for the various suppliers of a multi-source SIAM model; • the sourcing of external consultancy and legal advice to ensure the procurement process is robust and the service requirements are truly reflective of our needs; and • significant market engagement enabling the market to both self select in terms of participation and fully understand our requirements.

Policy implications

27. There are no specific policy implications for this decision. However, a robust, resilient, agile IT function is a key enabler for the Digital Strategy as well as the Fairer Future Promises.

Contract management and monitoring

28. Monitoring and management arrangements already exist and will continue in accordance with the provisions of the current contract. These arrangements include:
- a. Monitoring budget spends and contract performance management.
 - b. Robust invoice analysis and comparison against spend.
 - c. Service management for users across the business
29. In terms of current Capita performance, 'key I.T. system availability' KPIs continue to show improvement. 13 fewer high priority incident tickets were raised during August 2016 compared to July 2016, and the aged ticket count for incident and service request categories has reduced significantly for both areas.
30. In total there are currently ten major projects in progress with Capita and a further 20 pieces of work under discussion or at the very early stages of development. These include:
- Improving the overall experience when using Citrix - A Citrix service improvement plan has been developed by Capita to address user experience issues. Target user group testing is in progress and the plan has so far completed 19 action items, leaving 35 items still in progress and being tracked on a weekly basis.
 - Non-Tooley Street locations are being focused upon for proactive IT health checks which are due to commence in September 2016.
 - Improvements to the core infrastructure and backup
 - Improving the provision of computing facilities for libraries and other public services

Community Impact Statement

31. This decision has been judged to have no or very little specific impact on the local community. However, a robust, resilient, agile IT function is a key enabler for the Digital Strategy as well as the Fairer Future Promises. This means it will have a significant impact on how the community access – and where relevant – pay for council services.

Social Value considerations

32. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the well being of the local area can be secured. The social value considerations included in the contract are set out in the following paragraphs.

Economic considerations

33. Please see financial implications.

Social considerations

34. Procurement of the current contract was commenced prior to the council becoming a London Living Wage (LLW) accredited authority, and there is therefore no specific requirement in the contract to require that the LLW (or above) must be paid to all staff, the terms being in the form of the model contract provided under the framework agreement. However, given the nature of the services being provided and our knowledge of typical salaries in this sector, it is envisaged that all staff working on this contract will be receiving a rate over LLW.

Environmental considerations

35. Capita will be responsible for the provision and upkeep of computer equipment, and associated environments, on behalf of the council. They have targets in place (as per the original contract) to minimise consumption of energy and emissions of pollutants and be able to demonstrate the effectiveness of these procedures, both in council premises and other establishments where equipment is managed on behalf of the council.
36. There are no direct environmental considerations.

Financial Implications

37. Paragraph 41 to 43 of the closed report details the financial implications.

Legal Implications

38. Please see concurrent from the Director of Law and Democracy.

Consultation

39. Significant officer and member consultation was undertaken as part of the preparatory works around the re-procurement of IT services. However, there is no specific consultation required for this decision.

Other implications or issues

40. None

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (H&M16/033)

41. This report seeks the extension of the council's IT managed services contract with Capita SIS, for an initial period of six months commencing 1 February 2017, with the option to extend in monthly increments for a further six months at a monthly cost of £753k (includes core, volume/activity and project costs). It also seeks the extension of the hosting services contract for a period of up to 18 months following the cessation of the managed services contract at a monthly cost of £30k. The extensions are predicated on the terms of the existing contract and are estimated to have a similar spend profile as now, dependant on the volumetric elements within the contract sum. Overall, and assuming the extensions run their full term, the maximum value is £9.036m (contract #1) and £540k (contract #2).
42. Contract #1 also allows for additional projects and third party costs up to a total value of £3.1m, which are currently sourced through the Capita contract. These are generally of a specific one-off nature funded through capital and revenue resources within IDSD, corporate and service department budgets as required. The value is predicated on previous spend history, which is at best only an indicator as to future spend.

Head of Procurement

43. This report seeks approval from the strategic director of finance and governance for two extensions options to the current IT services contract with Capita Secure Information Systems (SIS) from 1 February 2017.
44. The first extension covers the provision of the full IT managed service for an initial period of six months, starting 1 February 2017, with an option to extend the provision of these services for a further period of up to further six months. The maximum possible cost of this contract extension would be £12,136,000.
45. The second contract extension relates only to the provision of hosting services with the same provider and covers a period from the completion of the first contract extension, for a period of up to 18 months. The estimated total cost for this service is £540,000.
46. The report sets out the reasons for the proposed contract extensions and that these provisions are allowed for within the current contract terms. This includes the ability to termination parts of the full IT managed services to allow for planned transition to the new IT managed service contract providers that are currently being managed through a separate tender process.
47. The report sets out the risks associated with the proposed contract extension and planned mitigation strategies and actions in paragraph 30. It also details the arrangements for contract management and monitoring in paragraphs 32-34. To be completed post CCRB

Director of Law and Democracy

48. This report seeks approval for the extension of the IT services contract with Capita, as further detailed in paragraphs 1-3. The nature and value of these IT services are such that they are subject to the tendering requirements of the Public Contract Regulations 2015 (PCR15), and therefore any variation of the contract must meet the requirements of regulation 72 of the PCR 15. This provides that a contract may be modified during its term where that modification has been provided for in the initial procurement in clear, precise and unequivocal review clauses/options. The ability for the council to be able to extend the contract for any period or periods up to a maximum of three years was clearly set out in the procurement and contract documents, and is therefore a permissible variation.
49. Contract Standing Order 2.3 requires that no steps should be taken to vary a contract unless the expenditure involved has been approved. Paragraphs 41-43 of the closed report confirm the financial implications of this variation.

FOR DELEGATED APPROVAL

Under the powers delegated to me in accordance with the Council's Contract Standing Orders, I authorise action in accordance with the recommendation(s) contained in the above report.

Signature



Date 28.9.16

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Duncan Whitfield, Strategic Director of Finance and Governance

BACKGROUND PAPERS

Background Papers	Held At	Contact
Title of document(s): Gateway 1 – Procurement strategy approval for IT Managed Services (19 Jul 2011)	Title of department / unit Address: Head of Information Technology	Name: Mark Compton-James Phone number: 0207 525 1651
Link: http://moderngov.southwark.gov.uk/documents/s21010/Report%20Gateway%201%20-%20Procurement%20strategy%20approval%20for%20IT%20Managed%20Services.pdf		
Title of document(s): Gateway 2: Contract Award Approval - IT Managed Services (25 Sep 2012)	Title of department / unit Address: Head of Information Technology	Name: Mark Compton-James Phone number: 0207 525 1651
Link: http://moderngov.southwark.gov.uk/mgConvert2PDF.aspx?ID=31735&ISATT=1#search=%22Gateway%201%20-%20Procurement%20strategy%20approval%20for%20IT%20Managed%20Services%22		
Title of document(s): Gateway 0: IT Managed Services Sourcing Options (09 Feb 2016)	Title of department / unit Address: Head of Information Technology	Name: Mark Compton-James Phone number: 0207 525 1651
Link: http://moderngov.southwark.gov.uk/mgConvert2PDF.aspx?ID=59722&ISATT=1#search=%22Gateway%200%20-%20IT%20Managed%20Services%20Sourcing%20Options%22		
Title of document(s): Gateway 1: IT Managed Services Sourcing Options (21 Jul 2016)	Title of department / unit Address: Head of Information Technology	Name: Mark Compton-James Phone number: 0207 525 1651
Link: http://moderngov.southwark.gov.uk/documents/s63166/Report%20and%20appendices%20Gateway%201%20-%20IT%20Sourcing%20Options.pdf		

APPENDICES

No	Title
Appendix 1	None

AUDIT TRAIL

Lead Officer	Strategic Director of Housing and Modernisation
Report Author	Head of IT
Version	Final
Dated	20 September 2016

Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Governance	Yes	Yes
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet Member	n/a	n/a
Date final report sent to Constitutional/Community Councils/Scrutiny Team		