

Report to Cllr Bob Lanzer Cabinet Member for Economy and Corporate Resources

December 2020

Insource and procurement of Information Technology Services

Report by Director of Finance and Support Services

Electoral divisions: n/a

Summary

This paper sets out the proposal to insource and recommission, through new contracts, the services currently provided by Capita through the Information Technology Outsource contract ("ITO"). The report details the services to be recommissioned and the services to be provided in-house and outlines the process and timelines of the recommended options.

The current contract concludes at the end of September 2022 and the work on options demonstrate the benefits to the Council of moving to a new provision model at an earlier date, and the Council and Capita have mutually agreed this. The proposed approach will better support the delivery of council services and the ability to transform its services to provide a modern, responsive and flexible digital, data and technology service.

The intention will be for a phased recommission and in-source of services, with the objective of procurement activity commencing early in 2021, and the transition of services in Summer 2021.

Recommendations: That the Cabinet Member endorses:

- (1) The delegation of authority to the Director of Finance and Support Services to settle terms for the early termination of the Information Technology Outsource contract in summer 2021 (Option 4);
- (2) The commencement of the procurement of the Service Desk and End User Compute Services, Networks, Telephony, Cloud Hosting and Infrastructure and Application Management Services valued at £5.84m;
- (3) Delegation to the Director of Finance and Support Services the authority to award the contracts required following the procurement activity set out in the report in consultation with the Director of Law and Assurance; and
- (4) The allocation of implementation costs of £2.3 million to enable the transition of IT services to the new model.

Proposal

1 Background and context

- 1.1 In 2010 the Council entered a 7-year contract (subsequently extended to 2020) for the provision of Information Technology services, known as the ITO contract. Further in 2012 when the Support Services contract (SSO) was established additional clauses were incorporated which would allow the ITO contract to run co-terminus with SSO until 2022.
- 1.2 The Council's needs have evolved and we have the opportunity to take early action to modernise the approach to digital and data; deliver a cloud first approach and support the necessary changes to IT and services in response to Covid-19.
- 1.3 The arrangements have performed reasonably well until recent times. However, the constraints of the contract have resulted in a service which is not keeping pace with modern digital thinking and is hampering the Council's ability to fully develop digital, data and technology services.
- 1.4 Capita has agreed that a mutual early return of the contract would be attractive to them and aligns to their strategic direction. The return of the contract will be set out in a legal agreement.
- 1.5 The staffing complement within the current ITO Contract supplier has a headcount of around 70. In the future arrangements under the TUPE regulations staff may transfer to new service providers or to the Council.

2 Proposal details

- 2.1 Approval is sought to insource or recommission through new contracts, a range of services currently provided by Capita and to insource the service integrator and management functions to the Council's IT team.
- 2.2 It is proposed that this new model of service provision will better support the delivery of council services and the ability to transform its services to provide a modern, responsive and flexible digital, data and technology service by:
 - a. Building a new digital ecosystem that supports innovation yet aligns to the standard strategic design, policies, processes and measures.
 - b. Support to create and enable change for local residents and business opportunity growth by focussing on the development of The Place – with 'Smart Cities' and IoT (Internet of Things) approaches.
 - c. Increasing collaboration, working with specialist technology companies, other local authorities/public sector bodies and a range of other organisations making West Sussex an attractive place to invest in, work in and grow the community.
 - d. Focusing on great customer experience, driving positive and repeat custom, making products reliable and robust and enhance delivery of digital, data and

technology (DDaT) and business change. Engendering a frictionless approach to the acquisition and delivery of service and business projects.

- e. Changing the Council’s internal organisation to build the capability for confidently and reliably regaining control and being accountable for IT services and delivery.
- f. Making products and services reliable and robust - to support the business continuity requirements of the local community.
- g. Creating an operating model which ensures we don’t have long contracts that tie us into how we are delivering now, allowing us to change to meet the needs of the organisation.

Options Appraisal

2.3 The Council has engaged Socitm Advisory to support the development of the new model, and the initial investment objectives and critical success factors (see tables below) for the implementation of the new model are:

Critical Success Factor	Description
Business and ICT change is quicker and easier to deliver	The Council’s business areas see ICT as part of the solution rather than a hurdle to clear. The delivery model provides a relatively frictionless approach to acquisition of ICT services and delivery of projects. Delivery plans are transparent, with realistic costs and timescales.
User pain points fixed and services are consistent and reliable	Priority pain points are fixed to allow business areas within the Council to become more effective in delivering their roles. The resulting services should have a reduced level of incidents and positive reviews from risk audits.
Increased ICT staff engagement	The retained organisation within the Council buy into the culture of wanting to ‘do great things’ and step away from low value tasks to focus on working with the Council’s business areas to deliver initiatives of importance.
Reduction in commercial and technical lock-in	The resulting buying model has understood and tolerable levels of lock-in through shorter contract terms and appropriate pricing models; while technical solutions are designed to be able to cope with changes – to give the Council the ability to change course with technology and suppliers in the future.
Customer and resident benefit	In delivering its ICT services, the Council can deliver benefits for its customers and residents in terms of access to digital services.
Culture of ‘us and us’, not ‘us and them’ is in place	The Council wishes to engender a culture of collaboration with its ICT suppliers where the primary focus is upon meeting the user needs, rather than delivering to the letter of the contract.

Investment Objective
Effectiveness: Improve the quality of the Council’s ICT services such that the user pain points and business needs have been resolved.

Flexibility: To align suppliers with our vision such that they are motivated by our values and are flexible in delivering outcomes for our users. Remove constraints that makes change hard.

Control: Improve the level of control that the Council's ICT team has in deciding how to meet future needs such that the business see ICT as an enabling partner.

2.4 The following options have been explored:

Option 1	Do nothing (continue as-is with Capita) <ul style="list-style-type: none"> Continue with the current Capita ITO contract
Option 2	Retain and Improve <ul style="list-style-type: none"> Continue with the current Capita ITO contract. Utilise the intervening time to: move services to the cloud; plan for the transition at the end of that period; restructure the client side ahead of transition.
Option 3	In-house ICT delivery <ul style="list-style-type: none"> Exit the current Capita ITO contract and move services in-house. All staff delivering the existing Capita services TUPE into the Council and become direct employees.
Option 4	Exit 2021 and multi-source with in-house management <ul style="list-style-type: none"> Exit the current Capita ITO contract at a mutually agreed time Disaggregate services into smaller agreements managed overall by the council, bringing in-house the overall service integration. Services moving to the cloud managed by the internal team supplemented by staff TUPEing back from Capita.
Option 5	Exit Capita in 2021 and move to Single Outsource <ul style="list-style-type: none"> Exit the Capita contract and recommission a single source for all IT services Outsource the internal IT team to the new supplier

An assessment of the options was undertaken to determine the best fit against these success factors and investment objectives. This process demonstrated that Options 2, 3 and 5 would not deliver the Council's objectives or critical success factors. The Do-Nothing option was discounted as unviable.

2.5 Within the consideration of critical success and investment objectives was the intrinsic need to assess the affordability and financial viability of the defined options, balanced against the consideration that the investment for change would be necessary when the contract comes to a natural end in 2022.

2.6 The preferred option 4 demonstrated that beyond the investment for transition, the new services will be delivered in a more cost-effective manner, taking advantage of a healthy supply market to deliver savings to the Council and providing the increased control and skills in the services to drive ongoing improvements.

- 2.7 The outcome was to recommend that the Council pursue an early return (given transition costs would be similar at any time) of the ITO in 2021 and move to a Multi-Source approach with the market and strengthening the in-house management functions.
- 2.8 The Council and Capita have mutually agreed to the early return of the ITO contract and Capita have agreed to support a phased and smooth transition of services to new providers and inhouse provision, and in line with the exit clauses in the contract the council is required to fund the transition costs of Capita and will agree the appointment of Capita's transition resources.
- 2.9 The Council and Capita have been working together in the recent months and will continue to do this in a coordinated and managed way to ensure a safe and secure move to the new suppliers. The early return of the contract will be set out in a legal agreement, which has been agreed in principle between parties. The final agreement is under discussion and both parties aim to conclude the arrangement by the end of the third quarter.

Proposals - procurement activity

- 2.10 The intention is that the Council will undertake a soft market testing exercise to better understand how the market could support the delivery of the IT services listed below (a description of these services can be found at Appendix A), to meet the Council's future needs
- Service Desk and End User Compute Services
 - Networks
 - Telephony
 - Cloud Hosting and Infrastructure
 - Application Management Services
- 2.11 Following this exercise, the Council will conduct a procurement process in 2021 for some, or all, of the IT services listed above, with the objective of having services implemented and operational by Summer 2021. If there either isn't the market appetite, or through the procurement process the cost/quality of those services do not meet the council's needs, the services will be transferred back in-house.
- 2.12 The internal IT team will be redesigned to deliver the service integrator role, provide highly professional support to the Council and partners; and manage the relationships with Suppliers. The outcome of this will be the IT team working more collaboratively with council services on digital, data and technology projects that will enable better outcomes for residents.
- 2.13 Based on work done elsewhere our advisors, Socitm Advisory, have indicated that the implementation of the new model will require an investment of approximately £2.3 million. This is to deliver implementation and transition support resources over 2020/21 and 2021/22 as set out in paragraph 5.1. The Council recognises that this investment in change and cost would have been incurred in the lead into the contract end whether now or at the end of the 2022. By bringing forward the implementation of the new model to 2021/22 the Council will realise these cost benefits earlier.

3 Other options considered (and reasons for not proposing)

- 3.1 As outlined in section 2. we conducted a full appraisal of the options. The outcomes of this review were:
- Options 1, 2 and 3 were considered to have significantly less attractive financial impacts; on the basis that the continuation of the existing relationship would inherently mean investment in an outdated service, and not benefiting from the advantages presented by the IT supply market.
 - Option 5 would further create a position where the Council was investing in a single supplier, and the advantages presented by the IT Supply market would be significantly reduced.

4 Consultation, engagement and advice

- 4.1 There will be a formal consultation with affected staff at the appropriate time in the programme once the outcomes of the procurement programme have been completed.
- 4.2 Consultation will commence with services across the council to ensure organisational needs are understood and the new shape of the service will meet future needs.
- 4.3 Consultation has been completed with the Performance and Finance Scrutiny Committee Task and Finish Group and the feedback has been reflected in this report and shared with the Cabinet Member for Economy and Corporate Resources.

5 Finance

5.1 Revenue consequences

The move to a multi supplier model for the delivery of new IT services is estimated to cost £12,239,972 (from £12,989,972 currently) as detailed in the table below, and subject to the outcomes of the commissioning programme, this will generate an anticipated £500,000 of savings in 2021/22 and savings of £750,000 per annum from 2022/23.

		FY 19/20 (£k)	FY 20/21 (£k)	FY 21/22 (£k)	FY 22/23 (£k)
Estimated budget (revenue)	Current costs	£12,989,972	£12,989,972	£12,989,972	£12,989,972
Indicative cost of preferred option (revenue)	Predicted cost	£12,989,972	£12,989,972	£12,489,972	£12,239,972
Impact of preferred option	Net revenue cost/savings	0	0	-£500,000	-£750,000
	Investment	0	+£650,000	+£1,650,000	0
	Costs/savings including investment	0	+£650,000	+£1,150,000	-£750,000

The implementation of the new model will require £2.3m investment in implementation and transition support resources over 2020/21 and 2021/22 financial years. These costs will be met through the service transformation fund. These costs would be incurred if the ITO contract continued until its end date as transition and change would be required from the planned termination date in 2022.

The breakdown of costs as shown below:

Internal Team	£250,000
Capita Transition Costs	£300,000
Consultancy/Implementation support	£750,000
Supplier Transition Costs	£700,000
Legal and Novations Support	£100,000
Contingency	£200,000
Total	£2,300,000

The contractual payments to Capita will cease when the contract terminates. A step down of payments will be implemented aligned to the decommissioning of services from Capita and the transition to in-house and new service providers.

Developing the proposals to this point, which has included a business case, programme plan, a technology assessment, target operating model and development of the ITTs, has required an investment of approximately £450,000 to date. This investment is in addition to £2.3m outlined above and will be funded through the service transformation fund.

5.2 The effect of the proposal:

(a) How the cost represents good value

These savings will be delivered through taking advantage of a healthy supply market by reducing the costs of the ICT service towers as well as through the reduced combined workforce of staff following the integration of staff and the table below details the areas where savings are anticipated:

(b) Future savings/efficiencies being delivered

Based on work done elsewhere our advisors, Socitm Advisory, have indicated moving to a multi-source approach from the outsourcing suppliers like Capita in local government has a track record of success, both in terms of savings (from £100,000 to £800,000 per annum) and critically in terms of delivering digital, data and technology projects that will enable better outcomes for residents.

On the basis of engagement to date it is anticipated that savings are likely to arise from the following areas of business activity, these anticipated savings will be tested during the procurement process.

Area of Business Activity	Projected Savings
Reduction in the costs of Networks Services through the transition to a Cloud provision model	£175,000
Reduction in the costs of Change projects through improved commissioning and the approach to delivery	£190,000

Rationalisation of and improvements to the commercial arrangements for applications management and licensing	£215,000
Efficiencies in staffing costs where services are transferred to subsequent new Service Providers	£170,000
Total	£750,000

(c) **Human Resources, IT and Assets Impact**

The staffing complement within the ITO contract has a headcount of around 70 FTE. Under the future arrangements under TUPE regulations staff may transfer to new service providers or the council.

The internal IT team will be redesigned to reflect the new operating model including staff transferred to the council. The financial case includes indicative costs for TUPE provision, and these costs will be confirmed when the full TUPE position is known and the eligible staff defined.

6 Risk implications and mitigations

6.1 The following high-level risks and their corresponding mitigations have been identified at the commencement of the project:

Risk	Mitigating Action (in place or planned)
Migration to multi supplier model results in fragmentation of service model with reduction in quality due to lack of end to end accountability	Design service model up front with peer review from implementation partner(s) Solution review with potential suppliers prior to formal commencement of procurement Proving of new services prior to go-live
Delays to overall programme result in an extension of the Capita contract to the SSO with inflated costs/risk transfer; or alternatively Capita push for the two years under the current terms of agreement, resulting in inflated termination costs for exiting later	Development robust programme plan and management regime to track and identify risk and slippages Mitigations identified and in place in the event of potential delays to bring programme back on track
Technical ICT constraints over the transition period leads to either a reduction in service quality or a cost overrun in terms of implementation	Development of detailed technical transition plans with resource requirements. Development and regular review of a detailed RAID for technical transition Ensuring the programme is resourced from with the right mix of skills and experience

7 Policy alignment and compliance

7.1 Equality and Human Rights Assessment

The proposed changes to the way services, roles and processes are delivered will be assessed by the Council following the procurement exercise, to determine any impacts.

7.2 Social Value and Sustainability Assessment

The improvements of outcomes for residents is sought through the implementation of the new model for digital, data and technology services.

7.3 Crime and Disorder Reduction Assessment

None.

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Appendices:

Appendix A: Service Descriptors

Appendix B: Options Appraisal

Background papers

None

Appendix A: Service Descriptors

<p>EUC (End User Compute) & Service Desk</p>	<p>(EUC) Provision of technology and enabling services to allow end users to work 'any time' and 'anywhere' to operate as a member of staff for the Council. This includes support of physical devices (laptops, desktops & corporate tablets) and software installed on those devices. It also includes use and management of systems to deploy and manage software onto those devices and control their use.</p> <p>(Service Desk) Provision of service desk providing single point of contact for end users through multi-channel approach. The service desk supplier will execute its activities in concert with and in adherence to the Council's end to end service management processes and will provide day-to-day management of operational processes on behalf of the Council.</p>
<p>Networks</p>	<p>Provision of network management services to support the LAN and WAN infrastructure. Provide full lifecycle management of all network devices and connections. Manage supplier relationships for 3rd party provision such as WAN links and Internet. Manage implementation of new network services, operational management (i.e. patch schedules) and decommissioning of end of life services. Maintain full architecture and operational documentation for the network services.</p>
<p>Telephony</p>	<p>Provision of telephony services to support the telephony infrastructure. Manage all telephony services, dial plans and services that provide onward connection to 3rd party telephony services. Manage implementation of new telephony services, operational management (i.e. patch schedules) and decommissioning of end of life services. Provide reporting services on telephony usage. Maintain full architecture and operational documentation for the telephony services.</p>
<p>AMS (Application Maintenance & Support)</p>	<p>Provision of applications support to: manage suppliers and installed applications including managing suppliers that provide SaaS (Software as a Service) applications; configure applications to business processes and technology environment; integrate applications to both internal and external applications and technology services; and support the application technology stacks utilised by the Council.</p>
<p>Cloud / Hosting</p>	<p>Provision of a data centre services following a cloud first strategy. Manage the provision and ongoing management of cloud hosted (IaaS and PaaS) platforms. Manage any on premise data centre services (servers, storage, etc) including the provision of new services, management of existing services and decommissioning of end of life services. Manage the full life cycle of any supported services including the commissioning of new services, management of operational running (e.g. patch schedules), management of controlled decommissioning. Maintain full architecture and operational documentation for the data centre services.</p>

Appendix B: Options Appraisal

Table 1:

		1. Do nothing	2. Retain and improve	3. In-House ICT Delivery	4. Exit Capita in 2021 and Multi-Source with In-House Management	5. Exit Capita in 2021 and Move to Single Outsource Supplier
Investment objectives	Effectiveness: resolution of user pain points	x	x	✓	✓	x
	Flexibility: suppliers are flexible in delivery/ remove constraints that makes change hard.	x	x	x	✓	✓
	Control: improve level of control that Council's ICT team has in deciding how to meet future needs such that the business see ICT as an enabling partner.	x	x	✓	✓	x
Critical success factors	Business and ICT change is quicker and easier to deliver	x	x	✓	✓	x
	Increased ICT staff engagement (and satisfaction)	x	x	✓	✓	x
	User 'Pain Points' fixed and Services are consistent and reliable	x	x	✓	✓	x
	Reduction in commercial and technical lock-in	x	x	x	✓	x
	Customer and resident benefit	x	x	✓	✓	✓
	Collaborative culture of 'us and us, not us and them' is in place	x	x	✓	✓	✓
Financial*	Affordability	x	x	✓	✓	✓
	Commercial approach and flexibility to manage market advantage	x	x	x	✓	x
	Cost of Delivering Change	x	x	x	✓	x

* see Table 2 for further financial appraisal

Table 2:

Option	Appraisal
1. Do nothing	<ul style="list-style-type: none"> • Additional costs with Capita would continue to be incurred to progress projects required to meet the changing needs of service providers until the end of the contract • The costs of change and proposed savings will be the same as option 4 although incurred in later years.
2. Retain and improve	<ul style="list-style-type: none"> • The current model is outdated and to fix the model requires investment and there is little incentive for engagement with Capita as the contract approaches the end date. Therefore, the costs to operate this option would be more expensive than the previous option. • The costs of change and proposed savings will be the same as option 4 although incurred in later years.
3. In-house ICT Delivery	<ul style="list-style-type: none"> • The capital investment costs on the infrastructure required to deliver this option would be significant. • The council would have missed opportunities to take advantage of the available specialist technology suppliers and the flexibility to derive benefits from deploying this expertise to provide a cost-effective service
4. Exit Capita in 2021 and Multi Source with in-house management	<ul style="list-style-type: none"> • The cost of the new service when fully operational is anticipated at £12,239,972 and will be lower than current costs reflected by the introduction of new suppliers where the Council takes advantage of cost effective standardised solutions and a reduction in the combined staffing structure. • Ongoing and longer-term benefits of a more efficient and effective service with a positive impact on revenue costs and lower capital investment • There will be additional financial and non-financial benefits through reducing the cost of change on ICT projects across the organisation.
5. Exit Capita in 2021 and move to single outsource provider	<ul style="list-style-type: none"> • The costs would be in line with option 4. However, it will not derive the same longer-term benefits and flexibility of a multisource option as the supply market would seek a long-term contractual position to ensure commercial return on the investment. There will be additional financial costs through change on ICT projects across the organisation.