

Meeting of the

CABINET

Wednesday, 14 March 2012 at 5.30 p.m.

SUPPLEMENTAL AGENDA

PAGE NUMBER

WARD(S) AFFECTED

10 .1 Future Sourcing Preferred Bidder Report (CAB 086/112)

1 - 14 All Wards

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Angus Taylor, Democratic Services

Tel: 020 7364 4333, E-mail: angus.taylor@towerhamlets.gov.uk



Agenda Item 10.1

Committee/Meeting:	Date:	Classification:	Report No:
Cabinet	14 March 2012	Unrestricted	
Report of:		Title:	
Corporate Director Resources		Future Sourcing Project– Preferred Bidder Recommendation	
Originating officer(s) To be completed by author Name and title		Wards Affected: To be completed by author	

Lead Member	Cllr Alibor Choudhury	
Community Plan Theme	One Tower Hamlets	
Strategic Priority	Ensuring Value for money	

1. **SUMMARY**

- **1.1.** This report informs Members of the process undertaken to create a Strategic Partnership for the Council, the scope of this partnership and the benefits to be realised for the organisation and the community through its creation.
- 1.2. It also details the outcome of the final evaluation process of the Future Sourcing (FS) Project, which has resulted in the recommendation of a Preferred Bidder (Partner) to work with the Council to establish the Partnership commencing 1 May 2012.

2. <u>DECISIONS REQUIRED</u>

Cabinet is recommended to:-

- 2.1 Agree to appoint the organisation named in the Part 2 report to be tabled at Cabinet as the Preferred Bidder (Partner) for the Future Sourcing Contract which will deliver an ICT Service, implement a new Finance and HR system and provide the appropriate support for a range of back office services.
- 2.2 Note the benefits for the Council and community to be realised through establishing the Partnership, in line with the Mayor's priorities and the Council's Community Plan.
- 2.3 Agree, wherever possible, to novate to the Preferred Bidder and where this is not possible to appoint the Preferred Bidder as Managing Agent for the contracts all of the Council's existing IT supply and services contracts with effect from the commencement date of the Future Sourcing Contract
- 2.4 Agree subject to the Preferred Bidder entering into all necessary documentation to admit the preferred bidder into the Local Government Pension Scheme as an admitted body
- Authorise the Corporate Director of Resources in consultation with the Lead Member for Resources and the Assistant Chief Executive (Legal Services), to finalise contract arrangements with the Preferred Bidder in order that a contract may be signed for 1 May 2012.
- 2.6 Authorise the Assistant Chief Executive (Legal Services), to execute all necessary documentation to enter into the contractual arrangements with the Preferred Bidder including pension documentation and documentation to novate the IT contracts or appoint the Preferred Bidder as Managing Agent for them.

3. REASONS FOR THE DECISIONS

- 3.1 The FS Project was initiated in response to a number of drivers, in particular to establish an ICT Service that is 'fit-for-purpose' to support current business requirements, as well as the transformational agenda of the Council moving forward. Coupled with this has been the need to achieve organisational savings; Medium Term Financial Plan (MTFP) savings targets have been defined for the ICT Service as: £2.5m in 12/13, £500k for 13/14 and a further £230k in 14/15.
- The project has therefore sought an outcome which will enable both the savings profile to be achieved, but also attract the desired investment to improve current ICT service delivery, implement a new Finance and HR system and enhance the current capability of the organisation to undertake change projects.
- 3.3 It is for these reasons that a Strategic Partner is being sought by the Council. The decisions being sought in this report will enable the appointment of the Preferred Bidder as the Partner of the Council, to progress the objectives above as well as meet the Mayor's priorities.

4. ALTERNATIVE OPTIONS

- 4.1 A robust business case has supported the work undertaken to establish a Partnership to develop and improve the ICT Service. In preparing this key documentation, a number of alternative options were considered:-
- 4.2 Do nothing Not a viable option, in that the organisation's current ICT needs are not being met and further savings from the service are required in 12/13 and beyond. This option will also hinder progress and potentially derail the work that has already been progressed for the Smarter Working Programme, which in turn will prevent the savings that have been earmarked from this programme to be realised.
- 4.3 'In-house' development of ICT to meet the Council's needs The level of transformation expected by the Council in the next few years requires a range of services, capability and capacity enhancement, together with new approaches that the current in-house team cannot provide. This level of experience and expertise will have to be bought in as required to meet the deadlines of the savings targets.
- 4.4 Secure a third party provider to work in partnership with the Council This option provides the greatest likelihood of achieving both the capacity and speed of change required in order to deliver, and importantly maintain the improvements required.
- 4.5 Additional considerations Alongside the need to develop the ICT Service, there are a number of additional factors that have been taken into account as part of the consideration as to how best to proceed. Amongst these are:
- 4.6 Over the next year, the Council needs to replace its Finance System. The current system is 15 years old and will no longer be supported beyond 2012/13. Implementing a new financial system would cost the Council £3-4m if implemented on an 'in-house' basis. Implementation costs and risks will be minimised if undertaken with a Partner that has experience of such projects and is in along term relationship with the Council.
- 4.7 Also over the next year, the Council intends to improve the functionality of the HR system through upgrading some key system modules this could cost £200K if implemented on an 'in-house' basis.
- 4.8 The Council's plans to vacate Anchorage House. The working assumption has been that the ICT data centre and staff (currently occupying the third floor of Anchorage House), will no longer be located within the East India Dock complex. If this is not the case, the saving from decanting Anchorage House will significantly reduce.
- 4.9 The Mayor's priorities and how these could be supported by a new partnership. During the market testing exercise, we discovered that many councils had used their partnership in innovative ways to generate social

- benefits e.g., jobs and inward investment and so took the opportunity to develop this strand, with a view to protecting the current staff jobs.
- 4.10 In taking all of these considerations into account, a process to find a Strategic Partner was launched.

5. BACKGROUND

- Over a year and a half ago, the new Information Management Strategy (IMS), identified that the Council's ICT Service was not 'fit-for-purpose', recommended that the technology landscape and information sharing protocols were disparate and it acknowledged a need for investment to support the wider transformation requirements of the Council (such as supporting the Smarter Working Programme).
- The FS Project examined the option of establishing a Strategic Partnership to meet these needs. In addition to these requirements, is the necessity to achieve significant organisational savings, which could be met through initiatives such as reducing existing third party contract costs and through the economies of scale that come from a single supplier. It was also very important that any Partner was able to promote and support the Mayors' priorities.
- 5.3 The Mayor's priorities The Mayor articulated his priorities in the first public document that was produced in support of the FS Project the Memorandum of Information (MoI). This document was issued with to inform any potential bidder of what would be required from them. Extracts from the Mayor's introduction to the document capture his drive and vision for the Council and its residents, but also his ambition and requirements from a potential Partner for the Council.
- 'Over the next four years and beyond I will put my heart and soul into the delivery of better services, better outcomes and a better Borough: reducing overcrowding; helping local people gain employment; improving educational attainment; reducing crime and anti-social behaviour; and ensuring we enjoy a cleaner, greener environment.
- 5.5 These are my priorities because they are the priorities of the community, and they drive the basis upon which decisions are made in the Borough.
- To this end I'm looking to work with a strategic Partner that can help me meet the twin objectives of service improvement and significant cost reduction. I'm looking for a Partner with a genuine passion for local government, who shares my vision for cost effective, high quality and responsive public services. Also, a Partner who will recognise that their staff are their most important asset, who will help me to support talented individuals from within my community into work, and then to build their skills and prospects for the future. I want a Partner who can work with us, listen to us and most important put the community first'.

- 5.7 These messages have consistently been communicated with the Bidders throughout the procurement process. The Partner is completely conversant with the Mayor's priorities and so these priorities have formed the basis of the final proposition to the Council.
- The Procurement Process Last year an extensive study (soft market testing) was conducted to determine options available to deliver an effective ICT service, prior to firming up the requirements, scope and plans for the FS Project. This study involved both a review of other local authorities and an understanding of the sourcing strategies and models that they had/were in the process of adopting and an assessment of their strengths and weaknesses. There was also engagement with numerous suppliers to understand their offerings and approach.
- 5.9 It is through conducting this assessment of the various models that are available, that the FS Project Team in discussion with key stakeholders, developed the full scope and approach to establishing the Partnership.
- 5.10 Once the model had been determined, the formal procurement exercise started with an OJEU notice being published on 12 May 2011, alongside the MOI mentioned above. Over 40 supplier organisations then attended a 'Bidders Conference' to hear first hand what was expected from the new partnership. A robust and transparent 'competitive dialogue' procurement process has been followed from the outset and has moved through a number of stages, which has enabled the bidders to refine their bids in an iterative manner in-line with the Council's requirements
- 5.11 External support has been provided to the FS Project Team by commercial advisors (Impower) and legal advisors (Bevan Brittan).
- 5.12 In undertaking this complex and challenging exercise, the Project Team has involved over 30 Officers from a number of services across the Resources Directorate.

6. PURPOSE OF PARTNERSHIP AND ITS OBJECTIVES

6.1 The IMS set out a vision for how the Council's ICT Service could help to deliver real improvements to services, while significantly reducing costs. The strategy sought to overcome some of the historic issues faced within the ICT service in Tower Hamlets – in particular:

Reducing the number of 'off the shelf' systems we have in operation and ensuring we work with fewer suppliers,

Join systems up, so that information is shared more effectively – in particular asking customers only once for information and using it across departments, rather than different teams asking the same questions over and over again.

Freeing ICT staff from day to day systems 'administration tasks', so that effort can be focused in delivering 'value add' activities - helping other parts of the Council improve service delivery to the community,

Reducing risk and the cost of implementing new systems, Finding new sources of finance to help reduce the investment cost burden on the Council, and Significantly reduce the cost of the day-to-day operation of ICT so that frontline services can be protected.

- To deliver these improvements and the required savings, significant investment in ICT infrastructure and access to the very highest technical ICT experience and skills are necessary. The FS Project also researched means of how to finance this investment and how to ensure the Council would be able to access the necessary skills without employing lots of very expensive ICT staff on our payroll or as external consultants.
- 6.3 It has also been made clear that the Council wants to ensure there are genuine opportunities for ICT staff; improved investment in learning and development portfolios and better career progression. In particular, there has been a strong steer to create innovative ways to encourage local talent to be a part of this change and define opportunities to facilitate their career development.
- 6.4 A detailed and robust business needs case has been finalised in conjunction with Impower. This supports the option selected by the Council and demonstrates the financial and wider benefits to be realised through the establishment of the partnership will be significantly better than any other option previously identified (as in 4.2.1 above). The examples below highlight some of the areas in which investment would be needed:-
- 6.5 Make ICT fit-for-the future to support the current requirements and future need £1.2m. The current ICT service is based on a dated model of ICT provision that increasingly does not exist outside Tower Hamlets and which does not meet the Council's aspirations for the use of new technology. To reorganise the section and train staff in new ways of working would take an extended time period and significant cost. This initiative would also factor in the need to refresh assets.
- 6.6 Migrate the data centre As part of the Anchorage Decant the Council's current data centre would have to move to a new location, costs of £2m have been identified to move and run this facility to Mulberry Place
- 6.7 New systems upgrade or replacement as in the case of the Finance and HR systems, would require an external service provider working with the Council, as the Council does not have the necessary technical skills and expertise to plan and implement such a significant change to our IT environment. This process will result in multiple supplier management costs, complex procurements, etc. Significantly all resulting risks would have to be managed by the Council, as opposed to a Partner who would have substantial experience to deliver these services and could even provide more innovative solutions at lower costs.

- The costs associated with the procurement and implementation for Finance and HR systems have been calculated to be £4m.
- 6.9 The total investment cost of making the necessary changes to the existing environment set out above would amount to approximately £7.2m. This level of funding/resource is not readily available in the current climate. It therefore concluded that the investment sought to upgrade and invest in the ICT environment can only be the result of an external source.
- 6.10 In summary, the objectives of this FS Project have been to develop a Strategic Partnership to:

Support the current ICT Service and provide investment in the infrastructure to develop the service to meet future needs, Refresh or replace the current Finance & HR systems (which includes the implementation of these systems).

Reduce the cost of providing these services; and

Seek investment into the Council, for the staff and the community.

7. IMPLICATIONS OF A NEW PARTNERSHIP

- 7.1 Two shortlisted bidders were involved in the final competitive dialogue process. Both provided commitments to ensure the delivery of robust ICT Services and to deliver the technical roadmap required to support the Council in delivering first rate services moving forward. They were both able to demonstrate that they could move the data centre in a timely and professional manner and meet our requirement to replace/refresh and implement the Finance and HR systems.
- 7.2 In order to achieve these deliverables most effectively, both prospective bidders have suggested that the transfer of staff to their organisations would be the most appropriate way forward. This will be governed by the TUPE regulations But in addition both bidders have offered contractual obligations negotiated as part of the competitive dialogue process, in that for all staff transferring, there will be:

Protection of existing terms and conditions;

No compulsory redundancies;

Same pension arrangements;

Enhanced learning and development and career opportunities; and A physical location within the Borough.

- 7.3 In order to support the commitment to the same pension arrangements and benefits, Cabinet are asked to agree to admit the Preferred Bidder into the Local Government Pension Scheme as an Admitted Body subject to them entering into an Admitted Body Status Agreement and associated documentation
- 7.4 Cabinet are asked to agree the implementation of the proposed solution offered by the Partner for the ICT Service, for the move of the data centre and for the Finance and HR systems and implementation plans.

- 7.5 Some of the most innovative commitments being made by the bidders in response to the Council's objectives of establishing a partnership, are to support the Mayor's priorities in bringing social benefits into the borough. Both have set out ways in which they can provide investment and opportunities for local people to improve employment issues.
- 7.6 The Part 2 report sets out in detail the proposals and organisational benefits to be realised from the Preferred Bidder.

8. CONTRACT TERMS

- 8.1 The contract has been agreed for a period of 7 years with an option of extending for a further 3 years if agreeable to the Council. In the interest of the Council, a break-clause has been factored in at year 4, which will enable the review and termination of the contract if it is not meeting the specified targets, deliverables and benefits that have been documented in the contract.
- The Partnership will deliver to the objectives that have been identified in section 6 of this report.
- 8.3 The Council is protected against the non-delivery of the agreed targets and deliverables through factoring in financial and other penalties into the contract.
- 8.4 The Council has established a straightforward but effective contract structure.
- 8.5 The Council will enter into the following agreements, each of which has been negotiated with the proposed Preferred Bidder during the dialogue process:
 - an overarching Strategic Partnering Agreement ("SPA");
 - a standard form ICT Operational Services Agreement ("OSA"); and
 - a standard form Business Management Support Services Agreement ("BMSSA").

Each of these agreements is described in further detail below.

8.6 Strategic Partnering Agreement

The Council and the Strategic Partner have agreed certain "partnering" terms during the dialogue process. These terms are set out in a separate and "overarching" Strategic Partnering Agreement. The SPA will form the conduit for all operational and business management support services agreements sets out the governance and reporting arrangements in relation to the Future Sourcing Project.

The SPA will:

- confirm the letting of the initial contracts (ICT Services, HR and Finance Systems, and Business Management and Support Services) and set out the process by which future contracts (contracts for operational services and/or for consultancy work) will be let to the Strategic Partner (and the Strategic Partner's rights to submit proposals for such contracts);
- incorporate the form of future services and consultancy agreements (the template OSA and the CSA), including standard form pricing and performance mechanisms:
- specify mechanisms enabling the parties to review the overall performance of the Strategic Partner (as distinct from day to day operational performance under the OSAs);
- incorporate mechanisms to incentivise the Strategic Partner to make continuous improvements;
- specify the potential impact of poor performance (across the board) on existing contractual arrangements and/or the Strategic Partner's right to bid for new contracts;
- set out the Strategic Partner's responsibilities in relation to management of its partners and supply chain(s).

8.7 Operational Services Agreement

The standard form OSA has been developed by drafting, negotiating and agreeing the contract for the ICT Services Once that contract has been agreed, the Council will create (and agree with the Strategic Partner) a "vanilla" services agreement as the agreed template for future operational services agreements (if required).

The Council will consider, on a project by project basis (and in conjunction with the Strategic Partner), whether or not the agreed solution in relation to each project will involve the retention or secondment or transfer of Council staff. The template OSA will incorporate drafting in relation to each of these options (particularly TUPE and pensions drafting). This drafting will be placed in square brackets and annotated accordingly.

8.9 Business Management and Support Services Agreement

The Council has created (and agreed with the Strategic Partner) a "vanilla" business support services agreement as the agreed template for future business support services agreements.

9. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 9.1 The Future Sourcing Project sought primarily to find a Strategic partner to work with the Council to establish an ICT Service that is 'fit-for-purpose' to support current business requirements, as well as the transformational agenda of the Council moving forward. At the same time the aim was to attract the desired investment to improve current ICT service delivery, implement a new Finance and HR system and enhance the current capability of the organisation to undertake change projects.
- Oupled with these objectives there has been the need to achieve organisational savings to reduce support service costs and thereby help protect frontline services. Accordingly the Medium Term Financial Plan (MTFP) 2012-2015 includes savings targets totalling £3.2m (£2.5m in 12/13, £500k for 13/14 and a further £230k in 14/15).
- 9.3 The Preferred Bidder (Partner) has presented proposals which will deliver at least the level of savings in the MTFP whilst also providing the opportunity to realise further support service savings through the planned investment in a new finance and human resources ICT system. A cost benefit analysis of the proposed system investment demonstrates a payback on the investment by 2014-15. The savings from this system implementation are over and above the savings built into the MTFP.
- 9.4 The proposed systems development work will also require the commitment of Council resources to support what will be significant transformation programmes and earmarked reserves have already been established as part of the MTFP to fund these programmes.

10. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 10.1 The Council has conducted the Procurement process for this contract using the Competitive Dialogue procedure in accordance with the Public Contracts Regulation 2006. This procedure is used in the case of particularly complex contracts where contracting authorities consider that the use of the open or restricted procedure will not allow the award of the contract.
- 10.2 A contract is "particularly complex" when the Authority is not able to objectively define:
 - the technical means capable of satisfying their needs or objectives and/or
 - the legal and/or financial make up of a project. This is broadly interpreted as contracting authority not be able to produce a single specification or legal/financial documents at the outset which would enable it to identify the best solution to meet its needs One of the purposes of the procurement process is to work with potential providers to identify which solution is best.

- 10.3 The Competitive Dialogue procedure was considered appropriate in this Case given that the Council is seeking to obtain efficiencies and savings resulting from packaging a range of services into the contract. The scope of OJEU notice was comprehensively drafted to enable the contracting authority to have discussions with bidders with the aim of identifying and defining the means best suited to meet the contracting authority's needs.
- 10.4 The Competitive Dialogue Process has produced a contract proposal which will fulfil the Council's immediate needs for a new ICT service and the provision of a new Finance and HR system capable of catering for the Council's needs over the initial 7 years of the contract (with a review at the end of Year 3) and a possible extension of a further 3 years . These will bring measurable benefits to the Council. The Contract also provides for further services to be commissioned from it should the Council require them in the areas of HR, procurement, finance, customer service, and revenues and benefits.
- 10.5 Service levels will be closely monitored through the governance arrangements laid out in the contract and new initiatives can only be approved using a robust business case system of approval.
- 10.6 This method of packaging a range of services into a larger contract is consistent with the Council's obligation as a best value authority under the Local Government Act 1999 to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

11. ONE TOWER HAMLETS CONSIDERATIONS

11.1 The Council will require the Partner to demonstrate that they comply with equality in employment legislation and will carry out an evaluation of their Equal Opportunities Policy against a set of standard criteria. The Partner has committed to creating opportunities for local residents in line with the Mayor's priorities and the requirements of the Community Plan.

12. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

12.1 The Preferred Bidder has committed to meeting our sustainability requirements. This was a requirement that was stipulated at the outset of this initiative via the Pre-Qualification Questionnaire (PQQ) response. Meeting this requirement was mandatory prior to progressing to the next stage of the process.

13. RISK MANAGEMENT IMPLICATIONS

- Any risks associated with establishing a Partnership for the Council are documented and form a part of the legal contracts. These have been reviewed and evaluated as part of a rigorous procurement process. Risk mitigation control measures are in place and in the main, the Partner will be held accountable for any implications/adverse outcomes.
- 13.2 The transformation projects of the scale required to support the proposed ICT investment will themselves carry risks which will be identified as part of the associated systems implementation plans and reflected in the Council's Risk Register.

14. CRIME AND DISORDER REDUCTION IMPLICATIONS

14.1 There are no direct crime and disorder reduction implications arising from the establishment of the Partnership, the contents of this report or the recommendations.

15. EFFICIENCY STATEMENT

- The Partner has committed ensuring that the MTFP target savings are met. The replacement of the Finance/HR systems will also result in further efficiencies, at the Council's discretion.
- 15.2 There will be considerable investment made into the transformation of the ICT Service as well as the Finance & HR functions through the Partnership.

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

17. Brief description of "background papers"

OJEU Memorandum of Information

16.

18. Name and telephone number of holder and address where open to inspection.

19. Nadira Hussain Project Manager, Future Sourcing Project London Borough of Tower Hamlets 6th floor, Anchorage House

Tel: 020 7364 1446 nadira.hussain@towerhamlets.gov.uk

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