

This Report will be made public on 12 November 2019

Report Number **C/19/33**

To: Cabinet
Date: 20 November 2019
Status: Key Decision
Responsible Officer: Tim Madden
Cabinet Member: Cllr Meyers

SUBJECT: PROPOSED CHANGES TO ICT SERVICE DELIVERY

SUMMARY: *This report relates to the provision of a future ICT service and the end of the current outsourced ICT contract. Due to changes in technology that are driving digital transformation the 10 year ICT outsourced service contract that was entered into in 2012 is becoming unfit for purpose in a number of ways as it was designed to support a working model of a largely static workforce based in a number of fixed offices. The contract does not take account of the range of devices that are increasingly being deployed and the uptake of the use of mobile working to drive efficiency are changing the requirements for supporting a modern workforce, nor does it take account of technologies such as cloud computing.*

The ICT contractor, Sopra Steria, have approached the council to discuss possibility of a mutually agreed early termination of the contract as they are operating at a loss. Officers believe that there are advantages to agreeing to this request in that it will allow the ICT service to be reshaped to fit with the council's wider transformation plans and provide the necessary support moving forwards as new technology is adopted.

REASONS FOR RECOMMENDATIONS (*Cabinet only*):

This reports highlights a number of issues with the current long term ICT outsourced contract and the advantages to the Council of agreeing to the contractors request to consider a mutually agreed early termination two years prior to the natural end date of March 2022.

RECOMMENDATIONS:

1. To receive and note report C/19/33.
2. To agree to the mutual termination of the current, 10 year ICT contract prior to the natural end date of March 2022 so that the ICT Service can be brought back in house enabling a new support model to be created that better fits to the Councils requirements to support new technology and digital transformation.
3. To delegate authority to the Corporate Director – Customers, Support and Specialist Services in consultation with the Cabinet Portfolio

Holder for Digital Transformation and Customer Services to agree the ending of the contract at a time which is appropriate for the Council.

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1. BACKGROUND

- 1.1 Prior to December 2000 the Council's ICT service was provided by Ashford Borough Council however at the time that adoption of ICT was on the increase, personal computers were appearing on every desk and paper based systems were being replaced by computerised business applications. It was felt that ICT support would be better placed under the direct control of the council and an in house service was created. For 12 years the in house team introduced and maintained many new systems and received awards for its development work under the e-government programme.
- 1.2 In 2010 the council looked at alternative ways to provide a number of its services, including the ICT service, in order to reduce costs. A number of models for ICT service delivery were considered including, reducing the in house team, shared services with other local authorities and outsourcing to the private sector. Following an options appraisal it was decided that the latter was the preferred option. This led to a fairly resource intensive 18 month contract procurement exercise which was signed off by council in December 2011 with a 10 year contract being awarded to the current supplier, Steria (now Sopra Steria) with a start date of 1st April 2012.
- 1.3 The in house ICT team transferred under TUPE arrangements into Steria while the council retained ownership of all hardware and licence assets and retained control over ICT procurement and budgets. Steria moved some of the support that was previously provided by the in house team to other areas of their business, for example the first line support helpdesk was moved to a call centre at Warrington.
- 1.4 The contract that was entered into in 2012 did successfully create some savings and helped realise some key benefits at the time in that it underpinned the Council's Ways of Working project that introduced (amongst others):
 - Home working and hot desking which rationalised the Civic Centre office space.
 - Electronic document management replaced many hundreds of thousands of paper records.
 - Improved web based services for customers.
- 1.5 More recently however it has been increasingly difficult to apply the contract as intended in 2012 due to changes in technology, changes to the supplier's business model and changes to the way the council wants to work in future. Sopra Steria have asked the Council to consider a mutual termination of the contract as that may be beneficial to both sides.

2. Request from Contractor for early termination

- 2.1 Sopra Steria have made the request to consider an early termination for a number of reasons:
 - 2.1.1 Firstly they claim they are operating the contract at a loss which is unsustainable for them. This is probably not unusual for many companies

providing contracted services to the public sector in the current economic climate who in the past would have expected to generate additional income to supplement the base charges during the term of the contract from undertaking new projects and rationalising elements of the service. However, new projects are undertaken less frequently than previously may have been the case, and at the time of the outsourcing many cost savings from ICT had already been achieved.

2.1.2 Secondly, since Steria merged with Sopra in 2014 they have made changes to their operating model and they have made a wider business decision to withdraw from the outsourced services market across a number of small accounts in favour of providing much larger centralised contracts that don't rely on having staff located in small pockets at remote sites.

2.1.3 Thirdly, changes in technology and ways of working are increasingly highlighting difficulties in applying a contract that was designed around a largely static, office based workforce who accessed computing resources and legacy applications hosted in the Civic Centre on a limited number of desk based computers. The uptake of mobile and flexible working on a wider range of laptop, tablet and smartphone devices all connecting via cloud technology that is replacing legacy systems is fast becoming the norm and this is reflected in the council's forward looking ICT strategy 2018 - 2023 which is now being delivered. This rapid change in technology is increasingly difficult for the supplier to support within the constraints of the contract.

- 2.2 Sopra Steria had previously suggested that some parts of the service, such as the onsite team could be brought back in house while other parts, such as the remote service desk, could remain with Sopra Steria. In practice it is difficult to see how this would work without considerable re-working of the contract. Sopra Steria had also previously suggested centralising some functions like network and server support across a number of client sites and providing them as a completely remote service however this model increases the risk to the Council of the service becoming less responsive than it currently is through a dilution of skills, lack of knowledge of the local infrastructure and an inability to programme in changes when it suits the council.

3. Advantages to the council of agreeing to early termination

- 3.1 As the council aims to transform itself with more digitally enabled working and improved customer self-service it seems an opportune time to consider Sopra Steria's request to mutually terminate the contract and bringing the ICT service back in-house enabling it to be re-shaped so that it is fit for purpose to meet the support the councils digital transformation aspirations. There are a number of reasons why the council would consider an early termination as an advantage:

3.1.1 **Avoid contract run down.** During the procurement of the service it was recognised that a 10 year contract was the maximum viable length for an ICT outsourcing contract and with hindsight 7 years may have been a better option. Irrespective of the difficulties of applying the current contract to modern technology, any long contract will lose its momentum in the final years especially if the supplier knows they will not be re-tendering. With less than 30

months to run on the current contract planning for the future of ICT service provision is something that the Council would have to start in 2020 ready for an exit in 2022 in any event, so a long run down of the contract can be avoided.

3.1.2 Changing support models. According to a recent report by the Local Government IT professional body SocITM, amongst local authorities outsourcing ICT to the private sector is on the decline because of the lack of flexibility to meet changing needs in such contracts, the inability for contractors to make sufficient profit margin and the rise 4 or 5 years ago of shared services operated between groups of authorities. It also points to the fact that those shared service arrangements that were in vogue are now at risk of breaking up as parties to the agreements may not always want to follow the same technology model in the long term, perceive them to be too inflexible in terms of service delivery or are not returning value for money for all partners. An in house core team providing stability and retaining key knowledge, backed up by 3rd party contracts for specialist skills that are not easily available, would offer the best ICT support model for the council.

3.1.3 Ability to shape the service. The council's digital agenda and ICT strategy of moving services to the cloud will require a different type of ICT service in the future, with a reduction in the need to support on premise infrastructure but with an increased need to manage and liaise with external suppliers at a technical level. This model would be best served by a strong cadre of in house ICT staff (including support for Systems and the Digital agenda) backed up by 3rd party specialists where additional expertise is required. Partnership working within Kent Connects and Kent Public Service Network would continue as long as it remains a cost effective way of providing connectivity to the internet and the Public Services network and various layers of Internet security as it currently does.

3.1.4 More efficient use of resources. The current cost of the Sopra Steria contract is £376k per annum. This is broadly comparable to the costs (£394k) of bringing the service back in house as is, without taking into consideration any savings that could be made through transforming the service. Better service provision and resilience for developing and supporting technical solutions can be achieved by merging ICT and the internal Systems Support teams into a new ICT/ Digital service as part of the current transformation. This would maximise the efficient use of resources available, though some reskilling to support new technology will be required. As the technology model described in the ICT strategy of reducing on premise infrastructure in favour of cloud services and by centralising business applications is delivered, savings in support costs will be realised over the medium (3 – 5 years) to long term (5 years +).

3.1.5 Certainty of costs. Since the acquisition of Steria by Sopra their business model has changed and they now seek to recharge for some elements that it could be debated were originally intended to be part of the contract, this is generally what is referred to as “Business as Usual” projects. Prior to the acquisition Steria operated more in the spirit of collaboration that

was intended under the contract rather than strictly what was defined and there was greater flexibility for the inclusion of certain works. Furthermore, there has been a tendency recently for Sopra Steria to propose prices for additional work (that the council considers part of the contract) that appear to be higher than the market rate or what the council could potentially obtain elsewhere outside the contract. This may be because Sopra Steria are running the contract at a loss and could be seeking to offset costs on of the day to day service other works. The council could obtain better value for money elsewhere for some of these works if it chose to do so but with the current contractual arrangement that could cause further dispute over responsibility for support thereafter.

3.1.6 Ability to take advantage of new technology. As the technology moves further away from the model that was in place at the start of the contract, it is getting increasingly difficult to clearly define what is or isn't a legitimate project for the supplier to undertake within contract costs and what could be chargeable work. This has led to some fairly lengthy discussions which have detracted from getting on and actually providing the service in some cases. Cloud technology is not covered in the contract neither is the growing demand for different types of user devices or mobile working. Some projects the council may wish to undertake, such as a move to Office 365, would require considerable negotiation and this is probably not a worthwhile use of time and resources at this point in the contract.

3.1.7 Flexibility and resilience. As Sopra Steria is running the service on below zero profit margins (in their view) they are reluctant to bring in additional, centralised resources to progress some works with the expediency required resulting in a backlog of maintenance projects, some systems are approaching end of life and it is difficult to have any additional works programmed in. The backlog problem not helped by the fact the onsite team seen a reduction in resources or have received little or no training in the last 7 years making it difficult for them to keep up to date with the technology they are now being asked to support. A well-resourced and well-skilled in house team backed up by a number of smaller 3rd party contracts where necessary would be able to provide a more flexible and resilient service and would be better able to take advantage of any new technology the council wishes to deploy more quickly than is currently the case.

3.1.8 Reduce risk through retaining key knowledge and skills. An early exit of the contract would reduce the risk of the council losing the key skills and knowledge of the councils systems held by the current on site team as those staff (some of whom have been with the council for nearly 20 years) would transfer back to the council under TUPE rules. The longer the contract runs towards the end date in 2022 the greater the risk of those staff with key skills being moved to other areas of Sopra Steria's business and this could impact future service delivery post contract.

3.1.9 Other benefits. When compared with an outsourced service provider whose primary concern is to generate a profit, the aim of an in house ICT team is to provide good service to internal customers while the council retains full

control of service delivery and resources are dedicated to the council rather than the contractor's organisation. The workforce is generally more stable and loyal and take a greater degree of ownership of problems through to resolution. In house staff may also undertake extra duties with a degree of good will e.g. working late at short notice, and may be available to undertake other duties often at short notice (Civic emergency, elections etc.).

4.0 Timescales

- 4.1 Sopra Steria have suggested that the service could be returned within 6 weeks, however, it is the view of officers that this needs to be extended as pension and TUPE arrangements would take longer to arrange. The contract has a formal exit schedule which sets out a 6 month transition plan to allow for a technical, legal and HR issues to be dealt with adequately; 31st March 2020 may be a more realistic date depending on transfer arrangements. This would tie in neatly to the anniversary of the contract start and end dates.

5. RISK MANAGEMENT ISSUES

- 5.1 There are number of risks involved in running the contract to the current end date in March 2022.

Perceived risk	Seriousness	Likelihood	Preventative action
Contractors' support wanes as the end of the contract draws closer. This is common in long contracts where the contractor does not want to retender for the business	medium	medium	Contract financial penalties can be applied for continued breach of service agreements however supplier may accept the penalties rather than try and improve the service
Contractor increasing seeks to recover costs in other ways by disputing what is and isn't covered by the contract	medium	high	There have already been examples where the contractor disputes what is covered by the contract. Strong supplier management can help but it is increasingly difficult to match the contract model to the new technology the council wishes to use.
ICT service does not meet the councils changing demands	medium	medium	The supplier maintains a small number of staff on site to provide a level of day to day service which would be

moving forward as technical model described in the contract is outdated and does not support new working methods and digital transformation			largely unaffected however the ability to deliver projects and updates to, and replacements of current systems would be affected. The council may have to pay to bring in expertise from elsewhere while continuing to pay Sopra Steria.
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7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 Legal Officer's Comments

External legal advice will need to be sought if the decision to terminate the contract early is agreed. In addition to dealing with the termination of the contract, external legal advice may be required in relation to the pension and TUPE arrangements for the current Sopra Steria staff whose employment will be transferred to the Council

7.2 Finance Officer's Comments

The additional annual cost of providing an in house ICT service is £16k, as detailed in section 3.1.4. This will be factored into the budget setting process for 20/21. Bringing the service back in house will provide the opportunity for future cost savings to be identified.

7.3 Diversities and Equalities Implications

There are no equalities implications directly arising from this report

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

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