

Committee(s):	Date(s):
Information Systems Sub Committee Finance Committee	5 November 2012 6 November 2012
Subject: IS Review Phase 3 (Sourcing Options) - Procurement Path	Public
Report of: Chamberlain	For Information
<u>Summary</u>	
<p>This report describes the procurement options for Phase 3 of the IS Review, which seeks to deliver a more cost effective IS/IT service through outsourcing elements of the current, fully in-house IS Division.</p> <p>Work to date, which includes Soft Market testing, concludes that the optimum procurement route is to use the OJEU restricted process. This process ensures CoL's statutory obligations to comply with EU procurement regulations and the Public Contract Regulations 2006 (as amended 2009) are met.</p> <p>If approved, the next step is to complete final preparations, leading to the launch of the tender by the end of 2012.</p> <p>The cost of the procurement exercise can be met from funds already identified for this purpose from this year's IS Division revenue budget.</p> <p>Soft Market testing, supported by the Serco exercise (summer 2011) clearly indicate there is significant service, functional and financial benefit in the selected outsourcing of IS Services.</p> <p>The main risk for this procurement phase would be that the bids received do not deliver the expected financial and service benefits. By using the OJEU restricted process, and having conducted a Soft Market test, this is not considered a significant risk.</p> <p>The EU procurement rules will be met by following the OJEU Restricted process. A mix of internal and external professional procurement and legal advice will be utilised throughout the procurement process.</p> <p>IS Division are working with the HR department to ensure all appropriate procedures are followed. Impacts on the structure and personnel in the IS Department will be defined by the procurement process. Union representatives will continue to be kept informed of progress.</p>	

The more immediate impact on staff and team morale will be planned and managed through communication and engagement in the process. Alongside this will be a programme of on-going development to support preparation for change.

Two issues to particularly highlight for members' attention are :

- The OJEU award criteria as set out in table 2b, paragraph 11. These have been weighted to be sure to give sufficient weight to quality, including corporate social responsibility (a new legal requirement from 2013, but already a City Corporation expectation) and Employment (fundamentally important in any outsourcing proposal; and
- The proposals in paragraph 16 to form to a reference panel of Members as part of the overall governance and project management arrangements.

Recommendations

1. That the IS Review proceeds to the formal procurement stage using an OJEU tender process.
2. The evaluation of bids is based on 35% cost and 65% quality.
3. A Members' reference group comprising a sub set of the IS Sub Committee membership is created and meets regularly to consult and review progress.
4. The decision for the approval of the preferred bid is delegated to IS Sub Committee

Main Report

Background

1. The last report on the IS Review presented to this committee in October, provided details on IS/IT services in scope for outsourcing that will form part of a formal tender exercise. Table 1 below, lists all IS services, and identifies those in scope for this procurement (column a) services likely to be added to the scope during the term of the agreed deal (column b) and finally services that will remain in-house (column c).

Table 1: IS Service Scope

(a) In Scope for Tender	(b) Optional/To add later	(c) Remaining In-house
Data Network	Application Development	Business Relationship Management
Voice Network	Application Management	Information Governance
Data Centre	Information Architecture & Application Rationalisation	Strategic Project & Programme Management

Server & Data Storage	Project Management	Information Management
Database Support	Business Analysis & Requirement Definition	
Desktop & Remote Access	Training	
Service Management		
Service Desk		
Disaster Recovery		

Current Position

2. The next stage for the Review is to launch the tender. The Review team has identified two options that could be used. These are described in the following paragraphs.

Options

Option 1 - Government Procurement Services Framework

3. This option is the pre-tendered Government Procurement Services (GPS) Framework for IT Managed Services. It is an established agreement, with the terms & conditions already negotiated with 11 suppliers via a fully EU-compliant competition.
4. We have reviewed the 11 suppliers and believe many would be capable of being a future partner for IS service delivery. Of these suppliers, 7 participated in the soft market test conducted during August and September
5. The scope of managed services available through RM717 is constrained. Although our 'core' service requirements (see Table 1, column (a)) are fully covered by the framework, adding further application services at a later stage would complicate the procurement process or cause further delays at a later stage.
6. The award criteria for a GPS procurement is also prescribed and cannot be altered beyond the set range of percentages used for each of the criterion (see Table 2a). We are proposing 35% cost and 65% quality in evaluating bids. These set criteria do not fully match our needs.

TABLE 2a: GPS Framework Award Criteria

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

7. The cost of using the GPS Framework would be the lower than the OJEU approach (see Table 3) and would take the least time. Framework agreements are time limited, RM717 runs until August 2013 which provides sufficient time to use this agreement. It is also likely that this framework will be extended past this date.

Option 2 - OJEU Tender process

8. The alternative path to GPS procurement is to use a fully EU-compliant process. The City's requirements (Table 1) can be met by using the Restricted Tender process. This would allow the City to state its requirements including an option to take up application service management during the term of the contract.

9. The range of suppliers for an OJEU Tender is potentially unlimited. To manage the potential volume of interest, a Pre-Qualification Questionnaire (PQQ) would be used to select a limited range of suitable suppliers (i.e. 8-12) who we consider would be able to deliver our requirements, subject to minimum compliance standards. By restricting the number of suppliers invited to tender we make the process more manageable and focussed.
10. Service specific terms & conditions will be created, and although the process is likely to take longer than a GPS procurement (Table 3) a critical benefit would be the ability to determine our own award criteria (Table 2b).
11. An OJEU Tender procurement is likely to provide the optimum match of a supplier that could meet our full requirements.

TABLE 2b: Suggested OJEU Award Criteria

Evaluation criteria	Criteria Weighting %	Sub-criteria	Sub-criteria Total %
Technical solution	15%	Innovation Quality of solution Transition Plan	100%
Commercial	35%	Pricing Gain Share	100%
Projects	10%	Delivery proposal Rate Card	100%
Business Value	20%	Demonstrates understanding of CoL Service Levels	100%

		Partnership approach	
Corporate Social Responsibility	10%	Local area benefits Sustainability	100%
Transfer of Undertaking (Protraction of Employment) – TUPE approach	10%	Transfer Proposals TUPE track record Staff view	100%
	100%		

Proposals

12.It is proposed that the IS Review follows an OJEU tender process to outsource a range of services currently delivered in-house.

13.The difference in time & cost to run an OJEU tender over a GPS Framework (see Table 3) is outweighed by the reduction in risk of matching our full requirements, and the ability to determine the award criteria.

Table 3: Procurement Path comparison data

Requirements	GPS	OJEU
Scope - Infrastructure	Yes	Yes
Scope - Project Management	Yes	Yes
Scope - Applications	Yes*	Yes
Can include other parts of CoL	Yes	Yes
Choice of suppliers	Good (11)	Good
Commercial Deal potential	Very Good	Very Good
Length of Term for deal	5 years +	5 Years +
Estimated cost to run (£/Hours staff time)	£100k 1900hrs	£150k 2300hrs
Time to run	6-7 months	7-8 months
Selection Criteria	Restricted	Unrestricted

*only when part of a wider managed service deal

14. The basis for the award will weigh the evaluation towards quality rather than simply accepting the lowest cost bid. Following the relative weightings shown in Table 2b, this would mean 35% of the evaluation based on cost and 65% based on quality.
15. It is proposed that a reference panel of Members is formed from the existing members of IS Sub Committee. This panel will meet regularly and would be consulted on key decisions and kept informed of progress throughout the formal tender process.
16. The decision to approve awarding the contract to the preferred bidder is delegated to IS Sub Committee.
17. An outline timetable for the next stages in the Review is shown in Table 4 below.

Table 4: Activity timetable

Activity	Timescale
Decision on procurement route	5 th November 2012
Completion of tender documents	Mid- November 2012
Initiation of procurement	By end of November 2012
Receipt & evaluation of bids	Winter 2012 through Spring 2013
Decision on winning bid	Spring 2013
Transition to new operating model	Starts late Spring/early Summer 2013

Corporate & Strategic Implications

The aim of this latest phase of the IS Review is to provide the best possible technology in the most cost effective manner. By doing this IS Division will be better able to support the goals of the Corporate Plan, the Departmental Business Plan and the Transformation Board.

Implications

18. The engagement with Serco in summer 2011 highlighted the potential for significant revenue savings by outsourcing elements of IT/IS services currently delivered by IS Division.
19. In the event that IT/IS infrastructure services are outsourced, the decommissioning of the data centre, currently in the former Justice Rooms, would fit within the corporate property strategy
20. IS Division are working with the HR department to ensure all appropriate procedures are followed. Impacts on the structure and personnel in the IS Department will be defined by the procurement process. Union representatives will continue to be kept informed of progress.

21. The more immediate impact on staff and team morale will be planned and managed through communication and engagement in the process. Alongside this will be a programme of on-going development to support preparation for change.
22. The cost to run a procurement exercise can be met from the existing revenue budget for IS Division.
23. The main risk for this procurement phase would be that the bids received do not deliver the expected financial and service benefits. By using the OJEU restricted process, and having conducted a Soft Market test, this is not considered a significant risk.
24. EU procurement rules and Public Contracts Regulations 2006 (amended 2009) will be met by following the OJEU restricted process. A mix of internal and external procurement and legal advisors will be utilised to support the procurement process.

Conclusion

25. Soft Market testing, supported by the Serco exercise clearly indicate there is significant service, functional and financial benefit in the selected outsourcing of IS Services in line with the scope defined in Table 1 of this report
26. This paper recommends that this scope is taken into formal procurement through an OJEU process.
27. That Members are engaged in this process through a review panel comprised of a sub set of Members from the IS Sub Committee. This panel would meet at regular intervals and key decision stages during the procurement process.

Background Papers:

IS Review Phase 3 (Sourcing Options) Progress Report –

Finance Committee (September 2012) and

Information Systems Sub (Finance) Committee (October 2012).

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