WILTSHIRE COUNCIL   **AGENDA ITEM NO. 12**

IMPLEMENTATION EXECUTIVE
13 JANUARY 2009

EXTENSION OF THE STERIA CONTRACT

Executive Summary

A comprehensive, coherent and integrated ICT service must be put in place for the new Wiltshire Council by 1 April 2009.

The County Council's ICT services contract with Steria Ltd has been running since October 2006. It provides critical ICT infrastructure services that cannot currently be provided in any other way. Current district council ICT support is disparately provided and unsustainable for the new unitary authority. The Steria contract is therefore the only viable route to integrated ICT support for all staff by April.

The main objectives of the proposed extended Steria agreement are contractually to secure
- a single point of customer contact for ICT (to access both Steria and non-Steria ICT services);
- transition activity to deliver the managed implementation of the new ICT service on district council sites by April 2009;
- transformation activity to deliver the infrastructure to enable the new council to work effectively and sizeable reductions in ongoing ICT support costs (c1.1m between now and the end of the contract).

The district councils' Heads of ICT and the County Council ICT management have worked jointly on these plans through. The Service Management Working Group (SMWg). This body has approved the initial transition schedule and associated risk register.

Negotiations with Steria have defined a cost bracket:
- A transition plan (max. cost £670k).
- A programme of transformation projects (max. cost £1.15m).
- Support cost rises of an average £1.35m p.a. (max. cost £6m over 4.5 years).

This is affordable within the ICT budget:
- Annual support costs will come from the current ICT budgets utilising former district contract and staff costs.
- Transformation project costs will be funded from ICT capital and annual project revenue funding which is already in place.
- In 2009/10 there is a peak of transition costs which will be made affordable through spreading the costs across this and later years.

This paper recommends a contract extension with Steria as the only realistic option to provide the required services within the available time and funding.

Proposal

That the Implementation Executive

a) approve the extension of the Steria ICT Support Services contract to cover ICT support to the new Wiltshire Council from 1 April 2009.

b) delegate authority to the Corporate Director, Resources, in consultation with the ICT portfolio holder, to sign the renegotiated contract with Steria Ltd, within the agreed cost bracket.

Reason for Proposal

Wiltshire's existing councils currently have five disparate sets of ICT support arrangements and there is a need to put in place a consistent set of arrangements for the new Wiltshire Council. The only practical way of doing this is by extending the County Council's existing ICT Support Services contract to cover the whole of the new authority.

Carlton Brand
Corporate Director, Resources

EXTENSION OF THE STERIA CONTRACT

Purpose of Report

1.   The purpose of this report is to gain approval for the extension, within a defined cost bracket, of Wiltshire County Council's (WCC) ICT Support Services contract with Steria Ltd to cover ICT support to the new Wiltshire Council.

Background

2.   Steria. WCC signed the current contract with Steria in June 2006 following a thorough, competitive process that yielded 25% cost reductions over the previous arrangement. The contract has a term of seven years running from 1 October 2006 to 30 September 2013. It contains a mandatory five year break clause which, if not removed, will cause the contract to terminate on 30 September 2011. The effective initial term is therefore five years. WCC currently pay circa £2m per annum for the core infrastructure support contract.

3.   The scope of the contract includes the provision of a single point of contact for customers (a "service desk") ICT hardware support to 3500 PCs/laptops and some 250 servers, some limited IT Service Continuity (ITSC) provision and project work. It excludes telephony, most inter-site network support and does not cover applications. These are all supported by internal staff. In general, Steria have delivered an effective overall level of service. Their performance has not been faultless but, in recent months, Steria have deployed additional staff to successfully resolve most of the identified issues. Furthermore, independent review has observed that some of the original performance thresholds are unrealistically high for an organisation of WCC's size and complexity.

4.   A recent independent audit of the Steria Year One and Two Certificate of Costs for WCC has been conducted. Year Two shows an 8% loss. This reflects the impact of Steria having to deploy considerable additional resources to address their performance shortcomings and the reality that they may have bid too low to secure the contract in the first place.

5.   Authorities' Current ICT Support Arrangements. The County's five existing authorities have a disparate range of ICT support arrangements that are unsustainable going forward:

- West Wiltshire District Council is completely outsourced to SunGard Vivista. This contract was due to expire on 30 September 2009, but following agreement with SunGard and the Council, it will now terminate in June 2009.
- Salisbury District is partly outsourced to BT Northern Ireland. This contract expires on 31 March 2009.
- Kennet District Council is partly outsourced to Alexis. This contracts expires on 31 March 2009.
- North Wiltshire District Council supports all ICT using council staff.
- Wiltshire County Council infrastructure support is outsourced to Steria.

Main Considerations for the Implementation Executive

6.   The Requirement. The new authority needs a coherent, effective ICT service that is customer-focussed and responsive. It must be able to deal with a very high level of complexity: in terms of its ICT infrastructure across multiple sites, the multiplicity of business critical applications, the enormous amount of data and information held and the requisite security arrangements to protect it. The desired service cannot be achieved with the multiple parties currently in place.

7.   Rationale for Extending the Contract

   a.   Core Contract. Strategically, WCC decided to outsource most of the ICT support services some 15 years ago. The Steria contract provides critical core ICT support services. In the time to April 2009 there is no alternative means of providing these services in-house or with another contractor without a full scale competition. Furthermore, the new authority would incur a very significant contractual penalty were a decision to be taken to terminate the Steria contract early.

   b.   Review. Extending the scope of the Steria contract to provide support to the new authority requires a contract renegotiation. This has provided the opportunity for both parties to review current arrangements and associated cost schedules.

8.   Contract Scope, Transition and Transformation

   a.   Access to Services. Access to services must be clear and straightforward with a single point of contact to register and initiate action on incidents, faults and changes.

   - The Steria Service Desk will provide a single point of contact for members and officers to access all existing internally and externally provided services. It will be possible to contact the service desk via text, e-mail and phone and details of these will be distributed across the authorities as part of transition. Whilst, inevitably, this means many services will not be provided in the way they are now to former district council staff, Steria are committed to providing an effective and quality service which will be developed and enhanced during transformation.

   - It is proposed that the service hours and levels will be as currently provided for the County Council. These are generally more extensive than those currently provided in the districts. Additional changes include the provision of support outside core hours to the Social Services Emergency Duty Team and to Leisure Centres.

   b.   Transition. Steria will need to take on the service through an extensive transition programme between February and June 2009. The constituent projects have been thoroughly scoped and contractually bind Steria in terms of deliverables, milestones and associated "one-off" remuneration. Negotiations are continuing to minimise this cost and Steria "due diligence" work may reveal further savings. The cost ceiling for transition is £670k. The Transition Schedule is at Appendix A.

c.   <u>Transformation to Date</u>. Significant transformation of service is required during the first two years of the new authority. The groundwork has been conducted with the new Wide Area Network, computer room and the initial work on ICT infrastructure and applications. This, however, provides only a minimum level of service and maintaining these arrangements would seriously limit service flexibility and maintain costly duplication and technical complexity.

d.   <u>Further Transformation</u>. The ICT Transformation Programme for the new authority has been developed by the ICT teams and Steria and has been validated externally. The Programme has been developed to ensure effective service to support the business and to reduce on-going support costs, reflecting budget and risk constraints. Key transformational activities include:

- Creation of a single "Active Directory" domain for addressing mail and applications. This will enable user, site and application mobility and is currently planned to be completed by the end of 2009.

- Consolidation of the computer rooms and centres to two main sites from five (main site at Trowbridge, replicated to Chippenham). Completion is planned by May/June 2010, and by October 2009 in Salisbury. This will enable economies through server consolidation and rationalisation and a more effective service through simplifying infrastructure management and improving resilience and business continuity.

- The roll out of a Standard Operating Environment on all 5500 desktops and laptops within the new authority. This has been done for 85% of the County machines and would be completed for the remaining 2500 machines in the new authority by April 2010. This will enable effective management of the desktop and remote upgrades and fault resolution.

These projects have been programmed and costed at maximum cost of £1.15m. The cost will be met from project and capital funding within the ICT budget. However, costs in year one are considerable and the option of some internal borrowing or spreading the transformation cost across the life of the Steria contract are being explored. Transformation will reduce cost and improve service:

- More incidents and minor changes can be managed at first point of contact through remote access. The overall network service will be able to be monitored and managed more effectively.

- Support will require fewer staff as reflected in the planned overall reduction in ICT personnel.

- Hardware costs will reduce as fewer servers will be required on a like for like basis. The capital provision for replacement of district ICT equipment reflects this with a tapering down of capital provision over three years.

- Cost avoidance by simplifying the infrastructure. A complex, diverse infrastructure with limited remote management inevitably attracts higher support costs than a simplified, unified one.

- Enable council staff to be utilised more flexibly by providing comprehensive flexible working arrangements in line with the developing property strategy.

e. <u>Steria Support Cost</u>. Steria have made their costed proposals for support on the basis that mutually they and the authority will deliver key ICT transformation activities within agreed timescales. They seek contractual commitments to this, as without transformation their costs will be considerably greater and the authority's internal costs would also be considerably higher. Furthermore, Steria are costing their proposal on the basis of the contract running its full duration until September 2013. If this is not agreed they will have to load the cost into the period until September 2011 which would make the proposal more expensive.

f. Steria is proposing an average increase in support costs to take on the current district services of £1.35m p.a. over the 4 ½ year period. This is some £200k over the figure originally provisioned and reflects the unsustainable financial pressure that Steria have been under within this contract. Whilst unwelcome, it is worth noting that WCC banked an annual £1m saving following the signing of the 2006 contract and there will be further savings in reduced numbers of ICT staff going forward.

9. <u>Contract Negotiations</u>. Contract renegotiation with Steria is progressing well. We are being supported with legal advice from Pinsent Mason (commercial solicitors) and Quantum Plus (IT consultancy) about service amendments and costings. It has been agreed that only the Services Schedule will require any significant amendment (i.e. we will be making/agreeing few if any changes to the general terms and conditions). Following external advice, and an internal review, we have also agreed to relax some of the performance thresholds in the service level agreement. In return Steria have indicated acceptance of a significant enhancement of the right to penalise and, in extremis, terminate the contract for severe or repeated underperformance. We are continuing our discussion about the required amendments and expect to conclude these, at the latest, by 30 January 2009.

10. <u>Financial Aspects</u>. The budget for the extended contract comprises one off sums to cover transition (i.e. take on of service at the district sites), the incremental increase in the scale of the core services and transformation (i.e. bringing together five separate ICT infrastructures) as projects. These sums are to be funded from monies already allocated by the authorities to their respective ICT support arrangements, the Wiltshire Council ICT Programme budget and savings on manpower realised both through transformation and the application of Steria's industrialised service model. The main issue revolves around year one (2009-10) where costs will exceed the budget by circa £1m which will need to be amortised over the life of the contract to make it affordable.

11. <u>Involvement of the District Councils</u>. The Service Management Workgroup (SMWg) was set up under One Council for Wiltshire (1C4W) governance arrangements to determine the ICT Service arrangements for the new Wiltshire Council. The group is chaired by the Head of ICT from Salisbury District Council (SDC) and its membership comprises the Heads of ICT from the other district councils and the Head of ICT Operations & Relationships (HOR) from the County Council. It met for the first time in March 2008. On 16 December, HOR briefed the group on progress towards

developing the contract extension proposal, particularly the draft Transition Schedule and the Contract Risk Register. The Group found the documents satisfactory.

12.   Timings. The key milestones are:

13 January 2009	Seek approval to contract extension from the Implementation Executive and delegated authority to Director Resources, in consultation with the ICT portfolio holder, to sign renegotiated contract.
Early February '09	DoR signs contractual documentation with Steria
February-April	Service transition preparations and communications strategy
1 April	New Steria service goes live. Transformation activities until late 2010

Other Options Considered

13.   Two other options to extending the contract with Steria have been considered:

a.   Extension of Existing In-House and Outsourced Arrangements. The extension of the County and the District councils' existing in-house and outsourced ICT support arrangements was considered but rejected for a number of reasons:

- It would be nigh on impossible to establish a coherent integrated service and the necessary coordination between Steria and the in-house teams delivering similar services; it would create extremely difficult contractual boundaries.
- It would be more challenging to consolidate the authorities' ICT staffs and achieve economies of scale.
- Transformation would still be vital but much more difficult to achieve.
- The integration of business services would be delayed.
- It would be difficult, if not impossible to sustain some sub-contracted relationships and services.
- Cost reductions would be slower to deliver and cost avoidance would not be possible.

b.   New Competition for Provision of the ICT Services. Under this option, the authority would use detailed information from data-gathering efforts already commissioned of Steria as the basis for launching a new competition for the provision of ICT Services to Wiltshire Council. This option was rejected as it could not be completed until many months after Vesting Day; the competition would be very costly and would provide challenging boundary issues with the residual Steria arrangements. There is no evidence to suggest that the competition would result in either improved services or a reduced overall cost of ownership for the new authority.

Environmental Impact of the Proposal

14.   The proposals will have a positive environmental impact. Steria will use remote management tools to reduce the need for engineer site visits. Waste will be significantly reduced by the use of optimised equipment and the reduction of three computer rooms. Additionally, transformation will significantly reduce the total number of servers operated by the authority. These measures will lead to a reduction in ICT's carbon footprint.

Equalities Impact of the Proposal

15.   In consultation with the Council's Corporate Equality and Diversity Manager, we have assessed the relevance of the proposed contract extension to the authority's statutory E&D duties as "Low". The extension will be contracted in accordance with the equality elements in the Authority's formal procurement guidelines.

Risk Assessment

16.   There are three main risks associated with the proposed contract extension:

   a.   Steria fail to deliver transition activities on time or to acceptable quality standards. To mitigate this risk, we are defining transition within a contract schedule and in terms of well-defined deliverables, milestones and associated payments.

   b.   Steria fails to deliver ongoing services to acceptable levels. This has been dealt with by the agreed changes to the performance criteria and associated enhancements of our termination rights.

   c.   The authority fails to make the agreed investments in specific Transformation activities. If this occurs, Steria may be entitled to charge additional fees. This risk can only be avoided by the Authority adhering to the agreed investment profile.

Financial Implications

17.   The costs associated with the proposal are of three types:

   1.   Ongoing payments to Steria for taking on the existing ICT configurations at the districts;
   2.   One-off transition costs totalling £671k of taking on the extended service;
   3.   One-off transformation costs totalling £1,179,000 which will enable Steria to provide the service at a lower price. These costs cover such things as finalising the Standard Operating Environment for desktops and laptops and will provide savings of £2,292,000 over the 4 ½ remaining years of the contract.

18.   The funding position is as follows:

   •   The draft budget for 2009-10 includes £1,251,000 for extension of the Steria Contract to the districts.
   •   Some of the transition and transformation work set out by Steria could be done by in-house staff. It is estimated that £250k of the work could be done in this way with a corresponding reduction in the one-off charges from Steria.
   •   The draft budget also includes two provisions for projects as follows

- o £700,000 worth of 'Project days' within the Steria Contract;
- o £1,250,000 for other projects.
- It is proposed to meet the remaining costs of the contract extension using
  - o £500k of the Steria Project days on an annual basis;
  - o £263k of the "other projects budget" in 2009-10 only.
- Appendix C sets out the costs of the contract extension and how it can be funded from within the existing draft ICT budget. It also shows that there will be a saving from 2011-12 onwards.
- Funding from within the ICT budget impacts the amount of discretionary project work that can be undertaken. In the transformation prices c £700k is earmarked for Active Directory and e-mail upgrades and rework of the standard operating environment (SOE). This is largely work that we would have had to undertake anyway and pay for from existing ICT funds. ICT have yet to agree a programme for 2009-10 onwards with service departments. However, we are confident that we can complete all work mandated by statute or by Government policy, much of which attracts separate grant funding.

19. <u>Change to Existing Contract</u>. The extension of the contract will be executed through a Contract Change Notice (CCN) to the existing contract signed with the County Council in 2006. Pinsent Masons, who advised on the original 2006 contract, have been engaged to advise the authority on the legal aspects (see below).

Legal Implications

20. <u>Commercial Aspects</u>:

   a.   Steria have had sight of and have discussed with the Council the Council's proposed changes to the Services Agreement. The Council have sought to keep these to a minimum so as to avoid any issues with a breach of the procurement rules.

   b.   Whilst Steria have highlighted those matters that they themselves would like to change/discuss, the Council has not seen Steria's proposed wording. As such, the Council does not know Steria's exact position on its proposed changes and Steria have not confirmed that it is comfortable with the Council's changes to the Service Levels and rights of termination. To date, Steria have not expressed any concern with regard to what the Council has proposed. However, the process is still at the discussion and negotiation stage with no guarantee from Steria that they will accept the Council's proposed changes or that the Council will accept Steria's proposed changes.

21. <u>Procurement Aspects</u>. We can never entirely rule out the risk of a challenge and there can be no guarantee that no-one will challenge the process, fairly or unfairly. If the changes are due to external factors (e.g. 1C4W) and do not result in discrimination then they are potentially not in breach of the Procurement Rules. The risk of successful challenge is therefore considered to be minimal. Any changes to the services agreement will be reviewed by the Council's legal advisor prior to final signature.

Conclusions

22.   An integrated and coherent ICT infrastructure support service is vital to support the operation of the new authority. The current disparate arrangements are unsustainable.

23.   The Steria contract is the only viable option to deliver transition, the essential transformation programme and the ongoing support to the business. For them to do so cost effectively necessitates extending the current contract to 2013 and accepting some proportional cost growth in the support charges. The proposals are affordable.

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Appendices
A: The Contract Transition Schedule
B: Agreed Risk Register
C: Costs & Funding