

Decision Maker: EXECUTIVE

Date: 9 August 2017

Decision Type: Urgent Executive Key

Title: TRANSFER OF REMAINING ISD SERVICE TO BT

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Chief Officer: Mark Bowen, Director of Corporate Services

Ward: N/A

1. Reason for report

- 1.1 As part of the 2017/18 Budget process all areas of expenditure have been scrutinised by officers with a view to delivering services in a more efficient and effective way, particularly given the significant funding gap identified in the four year financial forecast. This has included looking at the option of outsourcing services where appropriate.
- 1.2 This report is looking at the remaining IT in-house functions and the option of transferring these services to BT through a variation to the existing contract.

2. **RECOMMENDATION(S)**

2.1 **Members of the Executive are asked to:-**

- a) **Agree that the transfer of services take effect from the 1 November 2017 for a minimum of 6 years with a total contract sum of £9.3m.**
- b) **Note and agree the one-off funding in 2017/18 of £62.2k for mobilisation of staff as set out in para 6.9 of this report, funded from the Central Contingency.**
- c) **Agree to a variation in the Council's Pensions Policy, including a fixed employer contribution rate as set out in paragraph 6.16**
- d) **Agree that £65k p.a. be set aside in an earmarked reserve funded from the BT savings for provision against potential future pension liabilities as set out in para 6.8 of this report.**

- e) Agree that £279k of the overall budget be retained to fund 5 staff within the Client Unit as detailed in para 3.11 of this report.**
- f) Agree that £180k is retained by the Client Unit for Project Support to be drawn down and allocated when required as set out in paras 6.2 – 6.3 of this report.**
- g) Note the additional savings identified by officers of £30k for Outlook archiving and Citrix Mobile working as set out in para 6.10 of this report.**
- h) Note there may be one post made redundant as a result of these proposals amounting to £28k, to be funded from the Central Redundancy Reserve, as set out in para 6.13 of this report.**
- i) Note and comment on the outcome of staff and trade union consultation, along with the management response to any issues that may have arisen during consultation. These are set out in Appendix 1.**

Impact on Vulnerable Adults and Children

1. Summary of Impact: Not Applicable
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Corporate Policy

1. Policy Status: Not Applicable
 2. BBB Priority: Children and Young People Excellent Council Quality Environment Safer Bromley Supporting Independence Vibrant, Thriving Town Centres Not Applicable: Further Details
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Financial

1. Cost of proposal: Estimated Cost: Potential savings of between £282k and £436k dependent on Oracle savings. In addition, one-off costs of £62.2 for mobilisation costs and £28k for potential redundancy costs
 2. Ongoing costs: Net saving of between £47k and £75k per annum
 3. Budget head/performance centre: ISD & various other budgets across the council
 4. Total current budget for this head: £4.9m
 5. Source of funding: Existing revenue budget, central contingency and earmarked reserve for redundancy costs
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Personnel

1. Number of staff (current and additional): 26.83 ftes
 2. If from existing staff resources, number of staff hours:
-

Legal

1. Legal Requirement: Non-Statutory - Government Guidance
 2. Call-in: Applicable
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Procurement

1. Summary of Procurement Implications:
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A
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Ward Councillor Views

1. Have Ward Councillors been asked for comments Not Applicable
2. Summary of Ward Councillors comments:

3. COMMENTARY

- 3.1 The Current BT contract was awarded on 1st April 2016 as part of the pan London Framework and consist of 3 elements which are:-
- Lot 1 - End User Compute, business as usual (BAU)
Lot 2 - Helpdesk, network support
Lot 3 - Data Centre services
- 3.2 In addition to this the Council via the Framework can also access Project support at the agreed day rates with the potential for discounts for larger projects.
- 3.3 The Council needed a replacement for its previous IT contractor CAPITA and the use of the BT framework, which covers all IT Services, provides the Council with the flexibility and leverage required as the Council moves to becoming a commissioning organisation.
- 3.4 BT only provided services that had been let under the previous contact The council retained an in-house service comprising the Head of ISD and 5 teams (26.83 ftes) which are as follows:-
- Infrastructure,
 - Systems Management,
 - Systems and Integrations,
 - Contract monitoring & Application Helpdesk
 - Business Services.
- 3.5 In addition to delivering the Client function the in house service looks after the corporate line of business systems along with technical design and validation, application support and the ISD ordering processes.
- 3.6 Moving forward it is proposed that the majority of functions provided in house by the current service, such as application support, line of business administration, development & integration and technical design move to BT leaving a much smaller more focussed Client Unit that, at a high level, will develop the ICT strategy, provide technical assurance, validation for projects & roadmaps as well as the management of the overall contract. The proposal would also ensure that there is greater resilience as the current in house services include several single points of failure.
- 3.7 Within the current Client Unit there are two staff dealing with Information Management and these two posts will not transfer across to BT as it is important that the Council retains ownership and security of all its data, regardless of where it is located. For these reasons these two posts were deemed to be out of scope. There are major changes on data management and security coming into effect next year and a further report will be submitted on this function in the autumn.

Health Check

- 3.8 Over the last few months officers have been in discussion with BT on whether they could take on all or any of the services that are currently in house. This has involved aligning what posts should be in scope and the potential savings that could be delivered if a contract variation was undertaken moving more of the existing Client functions across to BT.
- 3.9 BT was therefore asked to undertake a Health Check to review existing in-house functions and where improvements might be made. This also included detailed 1:1 meetings with the staff involved.

3.10 Initial feedback from BT highlighted the following:-

- 3.10.1 Service Resilience. Many aspects of the existing Council ISD service have single points of failure due to knowledge of systems and services being with one member of staff. If a member of staff is not available then the Council may suffer service downtime and disruption. This issue is pronounced where there are competing work pressures or unplanned absences from work. A number of the Council's key financial systems such as EBM (employee budget monitoring), FBM (full budget monitoring) and the contracts database have been developed in-house. In practice this means that a single officer has developed and understands the system. There is limited scope for knowledge/skills transfer in the present structures and should a system expert leave the Council it would be difficult to replace this knowledge immediately, meaning that the Council is carrying risk.
- 3.10.2 If the proposal is agreed, then one of the first pieces of work BT will undertake is to identify service gaps, and deploy contingency arrangements for all services as much as possible before service move across. BT is a large IT service provider and a priority would be to ensure knowledge transfer around bespoke systems to give far greater resilience. As a 'quick win', BT's existing service desk for Bromley will be extended across all ISD services as soon as possible so work gets logged and prioritised for delivery which will give additional resource and consistency of service standards.
- 3.10.3 Performance Management. BT identified that some areas within ISD had suffered due to lack of demand management, prioritising of resources and performance measurement. Like most external organisations BT has well developed performance management systems, which will be rolled out to all transferring staff. This will result in improvements to service delivery and control and improve resilience of the service, by channelling work through BT's 24*7 service desk.
- 3.10.4 Procure to pay process. The existing process for users to request IT equipment and changes is very resource intensive and again suffers from a lack of resilience. BT will work with the Council to streamline this process – including:
- Using its service desk as a point of contact for these requests
 - Allowing access to online portal(s) to request services and equipment
 - Holding lists of authorisers such that approvals can be gained quicker
- 3.10.5 IT Strategy. The transfer of ISD functions to BT is an opportunity for the Council to re-focus its priorities on its business strategy and the policies that support this. Its retained intelligent client function will be able to work more closely with its IT service provider to:
- Define the IT strategy that will support its business objectives, rather than be prescriptive on solutions
 - Create proactive system roadmaps to anticipate end of life services/obsolescence
 - Develop business cases for capital funding to support the transformation of business services through IT
- 3.10.6 Project delivery. If the proposal is agreed the charging mechanism for the services will be a fixed monthly fee, plus a variable fee based on the amount of resource days spent delivering projects. In order to ensure the Council get at least the same level of project effort that they do from the staff pre-transfer, BT will be introducing a rate card ('TUPE rate') that aligns to the actual cost of the resource which will not exceed current in-house rates. The benefits to the Council are:

- Project Support is completely variable; if the Council does not use its revenue budget for project delivery then this will deliver savings. Alternatively all ISD project support could be charged against the relevant Capital Scheme (at the moment there is a mix of both)
- Low/no margin added to these resources by the service provider, ensuring value for money to the Council
- If the Council uses more resources than it forecasts, then the subsequent rate for these resources will be the 'TUPE rate' (comparable rates to the rates being paid to the employees that would TUPE transfer to BT). Normally the Council would have to bring in significantly more expensive resource to deliver this work, thus saving the Council money when its project demand is high.
- Any excess resources that are within the service are at BT's risk to deploy to other work/contracts with BT if the Council does not require any project support
- As the Council changes shape/size and demand fluctuates, the Council is not held to a fixed charge for its IT provision.

3.10.7 Third Party Contractors. BT is proposing to negotiate and manage the Council's 3rd party IT contracts during the Contract term. In order to incentivise both the Council and BT to drive out savings, a "gain/share" arrangement will be introduced. The principles of 3rd party contract delivery will be that no contracts procured through BT will cost the Council more than it does prior to transfer, and any savings generated will be split 50:50 between both parties to incentivise savings to be identified

3.10.8 The above will need new processes to be implemented which will be more streamlined and through direct contact, these will be defined during the transition phase.

Client Team

3.11 The Client Team will comprise of 5 staff, broken down as follows:-

		FTE's		£'000
Head of IT	MG5	1	New	88 *Indicative grade
Monitoring Officer	BR12	1		45
Technical Solutions Manager/Architect	MG6	1		68
Technical Solutions/ Support	BR13	1		50
Admin Support*	BR9	1	New	28
		<u>5</u>		<u>279</u>

- 3.12 The two Information posts that currently sit within the in house service are not in scope and will initially report directly to the Director of Corporate Services. Given significant changes to information management and security which will arise through the General Data Protection Regulations and linkages with work around the accommodation move this function will be kept under review.

4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

- 4.1 There are no implications arising from this report for vulnerable adults and children.

5. POLICY IMPLICATIONS

- 5.1 Moving to a Commissioning Authority is in line with the Council's Corporate Operating Principles and is key to achieving the Building a Better Bromley 2020 Vision in ensuring that services continue to be provided as efficiently and effectively as possible.

6. FINANCIAL IMPLICATIONS

- 6.1 It is proposed that 14.83 FTE posts will transfer to BT as part of the core work with a current staffing budget of £730k in 2017/18 (2 posts are vacant). In addition to this there will be 5 ftes posts that will also transfer to undertake Project Support which currently costs the Council £254.7k. This budget will be retained by the Client and used as and when resources are required.
- 6.2 Within the project support costs there is an element of "core" work that officers undertake amounting to £75k to support key financial systems such as EBM, FBM and the Contract Database. This sum will be included as part of the core contract payment. The balance of £180k will be used as and when the Council undertakes new projects along with any capital projects. Showing these separately will provide us with transparency around what the Council is spending on IT project support.
- 6.3 The Project Support is a variable cost based on a rate card calculated on existing staffing costs to ensure that the Council only pays for project support at that rate and no higher. This amounts to £270 in this proposal. This should ensure that going forward the Council gets VFM from the variable budget.

6.4 The bid received from BT is shown in the table below, against existing budgets

	Current Budget £'000	BT Price £'000	Potential Saving £'000
Core Staff & related expenses	730	690	-40
Core project staff for BAU	75	75	0
Third Party Payments	762	726	-36
Mobile devices	100	85	-15
Less provision for future pension risk	0	9	9
	1,667	1,585	-82
Less provision for future pension costs	0	65	65
Net cost	1,667	1,650	-17
Other savings from Oracle			-28
Total potential savings			-45

6.5 As you can see from the table above BT have been able to secure savings of £82k on Staffing, Third Party payments and mobile phones. In addition BT believes that they will be able to make savings on the Oracle of £28k if the Council went forward with Support Resolution. This would make the overall saving £110k.

6.6 As far as the Oracle system is concerned the Council has three options:

- Remain with Oracle and move to Fusion – this is full implementation and not an upgrade
- Tender for a new financial accounting system
- Remain with Oracle but be supported by Support Resolution

Officer's view is that Support Resolution is probably the best option but before these savings can be banked, a full cost appraisal needs to be undertaken. If Members agree the proposals as outlined in this report, this piece of work will be done as a matter of urgency.

6.7 The staff transferring to BT will remain on site and therefore the accommodation will be a pass through rent, which means that the cost of the accommodation for IT staff of £81,810 will be grossed up to reflect an increase in the overall contract sum with a corresponding £81,810 income figure.

6.8 Using the framework with BT means that the Council's normal position regarding Pension's Liability would not apply, whereby the Council does not usually set a cap on or limit a contractor's liability during participation in or on leaving the Local Government Pension Scheme (see paragraph 6.15 below). Therefore the Actuary was asked to cost the potential risk retained by Bromley over the 6 year term of the contract and this was estimated to be £390k. The annual impact will therefore be £65k p.a. which will need to be netted off the BT savings and set aside in an earmarked reserve (although this may never be called upon).

- 6.9 There will be a one-off charge of £62.2k for mobilisation costs of which 20% will become payable on contract signature and the remaining 80% due on service commencement. The one-off costs will need to be funded from the Central Contingency.
- 6.10 As part of the review of the ISD team, officers have identified other potential savings of £30k relating to Outlook archiving functionality and Citrix Mobile working that will be replaced with a number of Microsoft provided solutions from 2018/19. The Council already has a number of Microsoft Enterprise licences so there will be no need to purchase additional licences.
- 6.11 The table below summarises the part-year and full year financial impact of this proposal outlined in this report: -

	Part Year £'000	Full Year £'000
Net savings from BT Proposal	-19	-82
Less provision for future pension risk	27	65
Savings from Insight Direct & Citrix	0	-30
Less one-off mobilisation costs	62	0
Net saving	<u>70</u>	<u>-47</u>
Plus Oracle		-28
		<u><u>-75</u></u>

- 6.12 As part of any contract with BT there will be on-going discussions around use of various frameworks to deliver further efficiencies and value for money for both organisations. Any further savings will be shared 50:50 with BT.
- 6.13 The Client unit will comprise of 5 FTEs with an estimated cost of £279k funded from the retained budget (posts are still being evaluated). As a result of the new Client Team, there may be one potential redundancy at a maximum cost of £28k, which will be met from the Central Redundancy Reserve.
- 6.14 As highlighted elsewhere in this report, many aspects of the existing Council ISD service have single points of failure due to knowledge of systems. The proposals outlined in this report will help provide resilience as well as capacity to support the organisation as it moves further towards becoming a commissioning organisation.

Pension Issues

- 6.15 Under the terms of the proposed Framework agreement, the pension provisions are contrary to the Council's existing policy.
- 6.16 The Framework provides for the contractor to meet a fixed ongoing Future Service Cost only with no liability for any proportion of a service deficit that may accrue, even if in relation to the period post transfer. The contractor would bear the costs arising from any discretionary employer decisions that may be applied. Any further clarification would need to be identified as part of due diligence.

- 6.17 The Council's existing policy with regard to the funding of pension liabilities is to require contractors to meet the cost of both future service and any deficit accrued in relation to the period of the contract. Any liabilities that arise relating to the period up to the contract start date would continue to be met by the Council. This excludes any decisions made or discretions applied by the contractor that may result in additional liabilities for which the contractor would be responsible in full. This takes account of the Council's agreement to 100% fund eligible employees up to the relevant transfer date whilst protecting the Council from liabilities that may arise from actions taken by a contractor. The Council also requires an Admission Body to provide a suitable Bond or Guarantee. It is understood that the contractor will be providing a bond.
- 6.18 The proposed pension provisions in the Framework would represent a significant departure for the Fund's existing policy, and would place far greater risk upon the Council with regard to meeting any further deficits that may accrue.
- 6.19 The Council has discretion to review the current pensions policy in individual exceptional circumstances (e.g. where significant savings may be realised). However, under the Local Government Pension Scheme Regulations, any deficit that is unable to be met (either in full or in part) by the contractor (or any person providing an indemnity, bond or guarantee) must be met by the "related employer". Any deficit that may accrue relating to the period of the contract that is not met by the contractor under the terms proposed would therefore have to be met by the Council and a contribution to the Fund to meet such a deficit would be required.
- 6.20 The actuary has provided a report giving an indication of the level of risk, which includes a number of variables. An estimate of the potential liabilities in relation to the 6 year contract period (the extent to which the contractor, or the Council should the policy be changed, may be required to pay to meet the cost) could be in the region of £390k. This could be mitigated by setting aside a sum each year from the savings achieved to meet any such payment.
- 6.21 It is therefore proposed that, should Members consider that the pensions position be reviewed in this case, a sum of £65k per annum be set aside as a provision to offset any liability in the future should it be required. This will be offset against the revenue savings identified by BT.
- 6.22 As a further deviation from the Council's standard approach, the BT proposal also requests that the Council underwrites any changes to the Employer Future Service Cost. Whilst it is not possible to estimate future changes at triennial valuations, as an illustrative example a 1% variation would result in a £8k cost or saving by way of increased or decreased contract payments.

7. PERSONNEL IMPLICATIONS

- 7.1 There has been engagement with staff within ISD since April 2017. Formal consultation with staff and their representatives commenced on 14th June 2017 and ended on 14 July 2017. The outcome of the consultation, along with the management response, will be tabled for Members to consider.
- 7.2. There are currently 25 employees (24.83 FTEs) working within ISD. In addition there are two vacant posts (26.83 funded posts altogether). Of the 25 staff there are 18 employees (19.83 FTEs) who it is proposed are in scope for the proposals to transfer services to BT
- 7.3. Of the remaining 7 employees (7 FTEs) within the service, there the two employees dealing with Information Management (see paragraph 3.7.) who are not in scope and will be retained in house. In addition there are three employees (3 FTEs) whose role would be part of the new Client team (see paragraph 3.11.). One employee is currently on secondment and will return to

their substantive role and one employee is at risk of redundancy. The Council will endeavour to avoid redundancies by seeking to redeploy staff to alternative employment wherever possible.

7.4. Any staffing implications arising from any recommendations or any potential award will need to be carefully planned for and managed in accordance with the Council policies and procedures and with due regard for the existing framework of employment law.

7.5. In event that Members agree to the recommendations set out in this report this would necessitate further consultation with staff and their representatives, pursuant to the Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014. In this event it is envisaged that the employment of 18 staff would transfer to BT.

8. PROCUREMENT IMPLICATIONS

8.1 Under the existing Framework the Council is able to include further IT services which are similar to those currently under contract. Therefore, the proposals set out in this report are permissible without the need for a competitive tendering process.

9. SUSTAINABILITY/ IMPACT ASSESSMENTS

9.1 The decision to add further IT services into the BT Framework is judged to have no impact on local people and communities.

10. LEGAL IMPLICATIONS

10.1 As is set out in section 3 above the BT services were procured under a Framework agreement which is consumption based and gives the council flexibility to add additional services

Non-Applicable Sections:	[List non-applicable sections here]
Background Documents: (Access via Contact Officer)	Files held in Finance and Exchequer sections