

North Somerset Council

Report to the Council

Date of Meeting: 14 May 2024

Subject of Report: Support Services ICT Contract

Town or Parish:

Officer/Member Presenting: Leader of the Council

Key Decision: No

Reason:

Not an Executive decision

Recommendations

That council approves the commissioning plan for the provision of ICT services which will initiate a detailed exploration of a shared service for the delivery of its future requirements as the preferred option. The due diligence process will be undertaken at pace to provide an opportunity to commission a commercial service if the shared service is deemed unviable.

This recommendation assumes that a Shared Service model will be delivered via an established Local Authority Trading Company (LATC) to which the Council can become a partner and therefore retain its sovereignty and influence over future delivery and strategy.

1. Summary of Report

In September 2023, the Council agreed to the following four decisions which defined the initial stages of the commissioning intentions for the procurement of the existing Support Services contract services:

1. To move toward a multi-provider model.
2. To stagger contract end dates so that existing services are re-procured incrementally.
3. To procure the revenues and benefits service using a government framework.
4. To develop an options appraisal for ICT provision to compare a shared service within the public sector vs. a commercial supplier offer.

Connected to item 4 – the approach has been to engage market specialists to investigate and define a future delivery model for ICT services – service management, hosting, security, networks, applications, system administration, end-user devices and telephony.

The options appraisal undertaken by external consultants (SOCITM) concluded that a shared service model delivered by a Local Authority Trading Company (LATC) received the highest alignment with the assessment model, making it the preferred option for the delivery of future ICT services. Subsequent market analysis by SOCITM concluded that there is one such company (DELT Shared Services Ltd, a Teckal company of Plymouth City Council) with a suitable operating model, capability and experience to deliver the Council's requirements and achieve positive alignment per the assessment. The recommendation is

to undertake a detailed due diligence process to understand and test if the identified LATC could provide a viable delivery solution before committing to joining the partnership.

2. Policy

This project forms part of the Corporate Plan:

- Aim: Open and enabling
- Priority: Managing our resources and invest wisely

Additionally, the project specifically supports the ambition of the corporate services directorate to 'Strengthen our strategic partnerships to get the best deal for North Somerset, our residents, and communities'. This is predicted to support the delivery of two of the overarching outcomes:

- Delivered a multi-supplier model for support services.
- Service transformation to deliver medium-term financial plan savings.

3. Details

At its meeting on 18 September 2023, Council agreed the two options that would be considered to identify a new provider of IT services, viz. a commercial outsource solution vs. a shared service provider.

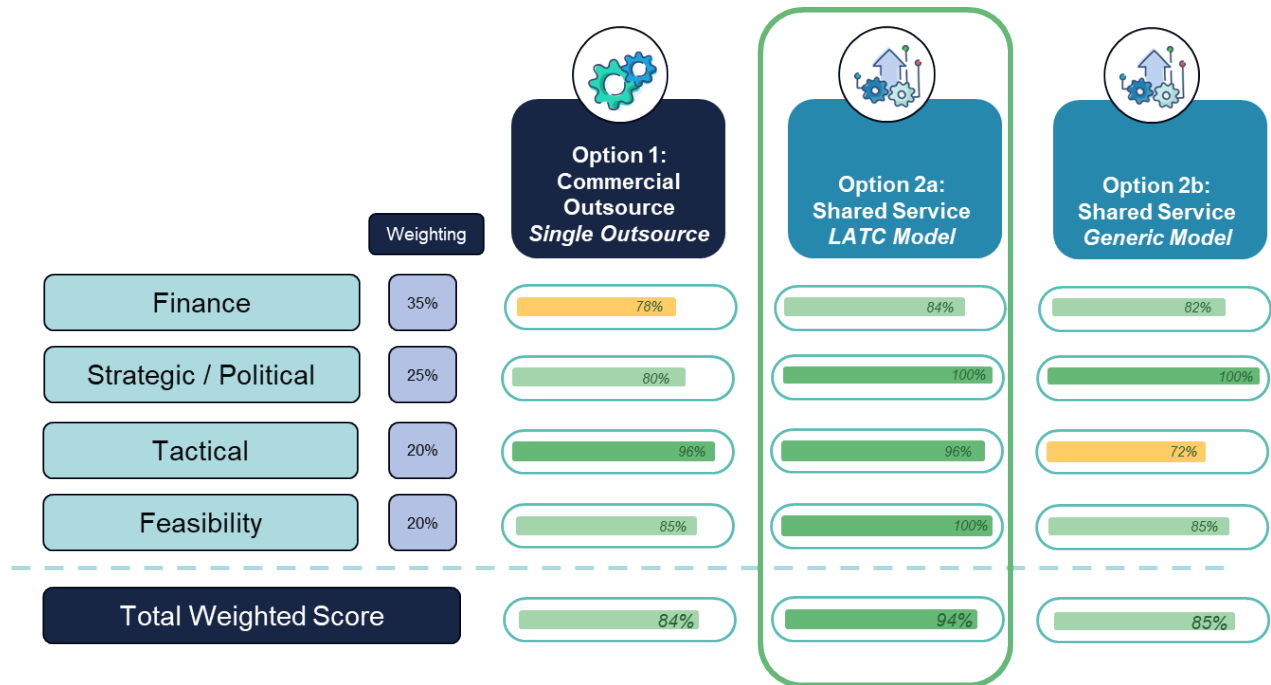
With support from independent external specialists, SOCITM, the council conducted a detailed appraisal and market assessment of the two options. While the appraisal considered these two approaches, the final assessment differentiated that of shared service providers into two categories which were:

- a Local Authority Trading Company (LATC) shared service model, and
- a generic shared service model.

The options appraisal considered the options using a quantitative model based on independently defined criteria comprising the following categories:

- Financial considerations,
- Strategic and political drivers,
- Tactical alignment, and
- Feasibility to deliver for the council.

A summary of the options appraisal scores are detailed below:



The shared service model aligned to an LATC Model (2a) received the highest alignment with the assessment model and therefore score, making it the preferred option. In summary, the reasoning behind this assessment is the LATC model allows the council to:

- Retain control of the IT environment and set architectural direction.
- Minimise initial capital expenditure as an LATC would run the existing service as-is from day 1 and not insist on immediate change.
- Access a service with greater alignment with the criteria and requirements.
- Leverage additional available shared services under its shareholder agreement.
- Commit to the development of regional services providing skills and employment within the SW region.
- Experience more rapid cultural alignment as a result of TUPE'd staff moving to an LATC model.

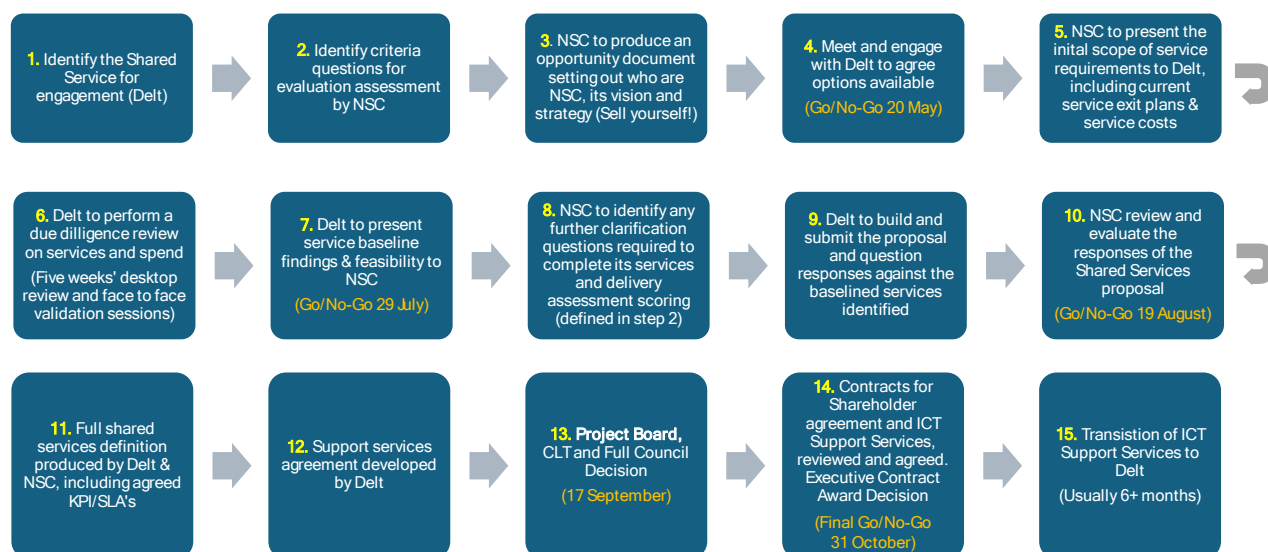
Considering the available market, while several companies provide a mixture of different services e.g. Back Office Services and Customer Services or the generic shared service model, based on published information and SOCITMs knowledge of the market, there is only one company nationally that fits the LATC model when compared to NSC requirements. While other companies have attempted to create a similar model, the resulting organisations would not meet the Councils strategic objectives, in areas such as a partners ability to retain sovereignty and influence over future delivery and strategy. On this basis, the due diligence process will focus on the acceptability of joining the existing LATC Delt Shared Services Limited which is based in the south west region.

The detailed due diligence process will produce a robust evaluation and assessment framework and will consider the following:

- Financial model to deliver the published MTFP savings.
- Company composition and future governance processes.
- Initial budget benchmarking.
- Commercial arrangements regarding dividend sharing.
- The initial shareholder investment.
- Exit schedules.
- Termination for convenience.

- Flexibility on sole provider rights (ability to buy products & services from other providers).
- Opportunities for other services (Payroll etc).

The plan and broad timeline are set out in the following diagram:



In terms of next steps and responsibilities for review and approval of the final decision, the Project Board will adopt the daily governance, with updates to the Corporate Leadership time and via informal engagement with the Leader and the Executive. A final decision regarding contract award being taken by Executive subject to approval of the Commissioning and Procurement Plan (this paper) and a later decision of Full Council to becoming a shareholder of the company. The proposed timeline is as follows:

- May 2024 - Full Council – Commissioning and Procurement Plan
- September 2024 - Full Council - SSP 2025 “Contract 3: ICT” Shareholder Agreement
- October 2024 – Executive – Contract award

4. Consultation

Engagement has taken place across the organisation based on shared requirements and historical knowledge of the services. Recommendations have been tested and discussed at several governance groups including local subject matter experts in the Client Team, the dedicated Project Board and the Corporate Leadership Team.

SOCITM was appointed as a technical specialist and using its experience, knowledge and information sources available nationally has shaped their Assessment and recommendation. Please see Background Papers A & B for the SOCITM outcome reports.

5. Financial Implications

Becoming a joint shareholder of the LATC involves the transfer of the Council budget to deliver services, and will provide the opportunity to receive a shareholder dividend payment at the end of each financial year and the options appraisal concluded that an appropriate level of savings to meet future MTFP targets can be achieved. However, it is important to note that these are not contractually guaranteed as per the historic configuration of a commercial contract, therefore represent a risk. The Board (of which will be a member) will be required to recommend dividend payments for partners.

Any new partnership will require a new approach to the management & governance arrangements with finance being central to the oversight. Hence, having the correct commercial skills and monitoring information will be essential to the model's success.

The Council's medium term financial plan from 2025/26 contains budget provision of £5.5m per year for delivery of core ICT services (subject to inflation) in addition to c£1m of headroom for trading activity. Currently, an appropriate revenue budget exists for the provision of ICT services alongside an annual capital allocation to support software replacement and transformation., which is set via the Capital Strategy. Any services commissioned from Delt would be constrained by these budgets and it is envisaged that across the life of a 10 year contract budgeted expenditure will be up to £65m.

There is an ambition to continue trading activities as these will provide opportunities for income generation and cost avoidance as partner organisations choose to share infrastructure, development or implementation costs.

6. Legal Powers and Implications

The services covered under this scope are essential corporate functions as required for the effective operation of the local authority and support the organisation in the delivery of all of its statutory functions.

The contract currently providing these services to the council has exhausted its initial term and all available extensions. The Public Contracts Regulations 2015 restrict the Council's ability formally to extend the existing contract beyond the term specified in the original procurement, therefore no compliant mechanism exists that would allow for the existing commercial contract to continue in its current form. Establishing a shared service or tendering a new contract is therefore the Council's only compliant option for the provision of its future services.

The Localism Act 2011 and Local Government Act 2003 provide local authorities with the power to form and maintain companies and allow for those companies to undertake trading activity.

Regulation 12 of the Public Contract Regulations 2015 provides that a contract awarded by a local authority to a company under its control is outside the scope of those Regulations provided that more than 80% of the activities of the company are undertaken for the controlling authorities and there is no direct private capital participation in the company.

Accordingly if the company becomes a joint owner of Delt Shared Services Limited it can then directly award a contract to the company without the need for a public procurement under the Regulations.

7. Climate Change and Environmental Implications

Climate impact and detailed environmental implications will be fully assessed as part of the due diligence process. These environmental considerations will form a core part of any corporate social responsibility requirements of a future shared service.

8. Risk Management

Several risks have been identified for a shared service model, including potential limitations for product development due to funding and potential strategic misalignment outside of the council's control.

There is a full risk register and monitoring process in place for the Support Services 2025 programme. Following a risk assessment, the highest-scoring inherent risks and opportunities are:

Risk	Inherent risk score	Residual likelihood	Residual impact	Residual risk score	Mitigations
Council takes on a share of company risk as a result of the partnership	High	3	2	Medium	Due diligence process to assess level of risk and adequate cover
Arrangements will require executive-level resources to manage the shared service partnership	High	3	2	Medium	Define future governance arrangements and obtain CLT support.
Additional in-house resources to ensure best value is achieved	High	3	3	Medium	Align with OD review and an adjusted structure for the Client Team
The choice of LATC could limit options and strategic fit.	High	1	3	Low	Market assessment shows only one company aligned with requirements, test as part of Due Diligence
Cannot rely on dividend payments to support the revenue budget position.	Medium	2	2	Low	Monitor and establish forecasts to inform budget outturn. Consider future running costs as part of the due diligence process.
Opportunities	Inherent opport score	Residual likelihood	Residual impact	Residual opport score	Exploitations
Council retains control of its own ICT strategy and infrastructure. Also includes the ability to influence and shape the future service.	Medium	4	4	High	Need to define future ICT Strategy clearly to provide clarity of business desire.
Savings could be achieved via an annual dividend process	Medium	3	4	High	Create and agree the initial service budget baseline for year 1.
Mitigates increased resource costs and	Medium	4	3	High	Communicate with existing resources

the wider sharing of specialists					to reduce loss at the end of the contract.
Social economic impact from local employment and growth.	Medium	3	3	Medium	Consider wider options for expansion.

9. Equality Implications

Have you undertaken an Equality Impact Assessment? No

An equality impact assessment will form a core part of the due diligence process of a future shared service.

10. Corporate Implications

Failure to re-procure the services delivered by the contract fully will result in the council being unable to deliver its statutory and essential corporate functions.

Currently, North Somerset Council trades services for a modest annual income and shares examples of good practices with its peers. Entering into a shared service arrangement will not prevent the continuation of this model and such an ambition could be welcomed by the trading company.

11. Options Considered

Previous to agreeing to limit the two approaches explored by the option appraisal to that of a commercial outsource solution vs. a shared service provider, other possibilities were considered such as insourcing the ICT service. This was deemed too expensive and impractical due to:

- Limitations in the council's ability to access highly technical specialists to support expert roles such as cloud hosting, thin device configuration, security management, network design, etc.
- The creation of new cost pressures due to moving staff from private to LG pension schemes. The cost is estimated at £250k in extra resource costs, and
- A transfer of resources would not align with the employment grading structure (ICT professionals demand high salaries and LG banding recognises these as management levels).

The current delivery model (outsourced) allows access to technical specialist roles where costs are apportioned across multiple authorities. Access to these roles without the economy of scale of a commercial or shared service would be on an expensive consultancy basis which potentially would lack the knowledge of the current environments and configuration.

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Appendices:

Appendix A – SOCITM Options Appraisal



Updated Appendix 1
North Somerset Optic

Appendix B – SOCITM Market Assessment



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Background Papers:

None