



SIGN OFF ICT CCN 075 - Amendments to Schedule 15 Pricing (superseding CCN 057)
COUNCILLOR DAVID SEATON – CABINET MEMBER FOR RESOURCES
MARCH 2018
Deadline date: 27 March 2018

Cabinet portfolio holder: Responsible Director:	Councillor David Seaton; portfolio holder of Resources Marion Kelly; Interim Director Resources
Is this a Key Decision?	NO
Is this decision eligible for call-in?	NO
Does this Public report have any annex that contains exempt information?	NO
Is this a project and if so has it been registered on Verto?	NO

RECOMMENDATIONS
The Cabinet Member is recommended to agree to the sign off of ICT CCN 075 – which is the amendment to Schedule 15 Pricing (superseding 057).

1. PURPOSE OF THIS REPORT

1.1 This report is for the Cabinet Member for Resources to consider exercising delegated authority under paragraph 3.4.3 of Part 3 of the constitution in accordance with the terms of their portfolio at paragraph (p).

2. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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3. BACKGROUND AND KEY ISSUES

3.1 CCN 075 is to amend contract pricing for Contract Year 8 and subsequent years, superseding previous amendments to contract pricing under CCN 057 and CCN 067.

The reason for the change is to simplify the pricing mechanism across the following areas:

- Projects resource days
- Staff costs
- 3rd party costs – baseline, non-baseline, small works briefs (SWBs) and projects

- Annualisation of rent

Project resource days

CCN 057 introduced a new payment mechanism with respect to project days worked by the core ICT team. Under this mechanism, termed the Prepaid Project Resource (PPR), the Authority paid the Partner the annual sum of £372,549 in respect of 1,198 project days. The price of these days was based on:

- 1,198 project days across various roles as set out in CCN 057, multiplied by the applicable Day Rates set out in paragraph 11.2 of Schedule 15 of the ICT Partnership Agreement, totalling £592,549;
- Less a £220,000 per annum saving to the Authority, to reflect the Partner's ability to resource the project days from existing resources within the core ICT team.

During Contract Year 7, however, both parties have noted the following issues in relation to the PPR mechanism:

- The current demand for project days differs to that outlined in CCN 057, in terms of both volume and role type;
- As a result, the Authority has not experienced the full benefit of the £220,000 per annum saving set out in CCN 057. (Analysis of internal timesheets by the partner during Contract Year 7 estimates the real saving to have been circa £120,000.)
- In addition, the administration of the PPR mechanism has become overly complex, placing an unnecessary administrative burden on both parties.

It has therefore been agreed that the PPR mechanism will be terminated as of the end of Contract Year 7. No equivalent sum to the aforementioned £372,549 will be payable with respect to Contract Years 8 through 11, and all project days delivered by the Partner from 1st October 2016 will be charged at the applicable Day Rates as set out in the contractual rate card.

The days shall be charged to the Authority via a single monthly variable invoice to be raised by the Partner in arrears.

Core staff costs

As a result of the termination of the PPR mechanism, the £220,000 saving introduced under CCN 057 will no longer be available to the Authority.

It is agreed, however, that the Authority should continue to receive a saving reflective of the Partner's ability to resource project days from existing resources within the core ICT team. As a result, a discount of £120,000 per annum shall be applied to the core service fee from the commencement of Contract Year 8.

This £120,000 per annum discount is in line with the estimated real saving delivered to the Authority as a result of the PPR mechanism in Contract Year 7 (see above), and also reflects the Partner's use of circa 10% of the core ICT team to deliver projects (total staff costs: circa £1.2m). No retrospective rebates shall be paid with respect to Contract Year 7 or earlier Contract Years.

3rd party costs

Schedule 15 of the ICT Partnership Agreement included a baseline cost of 3rd party contracts, excluding the aforementioned internal cost of data centre and service desk provision by Serco, of £2,240k per annum at the service commencement date. After achievement of initial savings targets by the Partner during Contract Years 1 and 2, the

price per Schedule 15 assumed a fall in this baseline cost to £1,908k per annum from Contract Year 3 onwards.

CCN 057 subsequently assumed volume reductions of circa £770k per annum, reducing the baseline cost of 3rd party contracts within the core service fee to circa £1,138k per annum.

This saving has not been fully realised, however, as the fall in “baseline” contracts has been offset by a rise in “non-baseline” contracts and other ad hoc quotes, small works briefs and projects costs that have been recharged to the Authority via ad hoc invoicing. It is also noted that the pricing of non-baseline recharges has been inconsistent, with some costs having been recharged at nil margin whilst others have been subject to a mark-up of up to 15%.

It is agreed between the parties that a consistent charging mechanism should be applied to all 3rd party costs (irrespective of any previous or current categorisation as baseline, non-baseline, quotes, SWBs or projects). From Contract Year 8, the baseline 3rd party costs within the core service fee shall therefore be removed. All 3rd party costs shall instead be recharged to the Authority as and when they are incurred.

For all third parties a quote shall be issued to PCC, subject to a mark-up of 5.25% to cover the Partner’s administration costs and overheads; PCC will then raise a PO and Serco will invoice against that PO once goods are received.

A one-off payment of £20,783 shall be paid by the Partner to the Authority, being a true-up of 3rd party baseline costs in relation to Contract Year 7, i.e. £1,136,126 paid by the Authority to the Partner within the core fee, less £1,115,343 paid by the Partner to 3rd party suppliers. There shall be no retrospective adjustment with respect to 3rd party costs prior to Contract Year 8.

The following table summarises the impact of this CCN on core invoicing for Contract Years 7-11:

	Year 7 £	Year 8 £	Year 9 £	Year 10 £	Year 11 £
Cost of core contract (Schedule 15)	3,847,686	3,837,196	3,810,544	3,804,419	3,804,419
Invoice profiling	371,315	381,805	408,457	414,582	407,621
Discount for quarterly invoicing	(27,845)	(27,845)	(27,845)	(27,845)	(20,884)
Core invoicing (Schedule 15)	4,191,156	4,191,156	4,191,156	4,191,156	4,191,156
Core service discount	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Reduction in 3rd party baseline (volume)	(772,317)	(770,719)	(769,201)	(767,759)	(767,759)
Core invoicing (CCNs 057 & 067)	3,388,839	3,390,437	3,391,955	3,393,397	3,393,397
Core service •		(120,000)	(120,000)	(120,000)	(120,000)

discount					
Removal of 3rd party baseline	-	(1,137,723)	(1,139,241)	(1,140,683)	(1,140,683)
Reconciliation of CY7 3 rd party baseline	(20,783)	•	□	□	□
Core invoicing (CCN 075)	3,368,056	2,132,714	2,132,714	2,132,714	2,132,714

Notes

- Core invoicing during Contract Year 7 has been in line with CCNs 057 & 067, i.e. £282,403.25 per month (£3,388,839 for the year, excluding PPR);
- Core service discounts totalling £120,000 per annum shall be applied from the commencement of Contract Year 8;
- 3rd party baseline costs of circa £1,138k per annum shall be removed from the core service fee and instead recharged to the Authority via a single monthly variable invoice, subject to a standard mark-up of 5.25% (or 10% for specific projects of higher value or risk) to be applied to all 3rd party costs;
- As a result of the above, core invoicing during Contract Years 8-11 shall be at the rate of £177,726.17 per month (£2,132,714 per annum).

In addition to the above changes to core invoicing, the pricing of Projects will be amended as set out in the Projects section below.

The rent will now be paid annually in April of each year in advance, the amount due is as per the original contract £50,401 for CY8

Amendments to clauses and Schedule 16 (Projects)

The Prepaid Project Resource (PPR) mechanism introduced in CCN 057 shall be terminated as of the end of Contract Year 7. No equivalent sum to the £372,549 paid for Contract Year 7 will be payable with respect to Contract Years 8 through 11.

From 1st October 2016, all project days shall be charged to the Authority via a single monthly variable invoice to be raised by the Partner in arrears, at the applicable Day Rates as set out in the contractual rate card.

For the avoidance of doubt, the Day Rates to be used in Contract Year 8 are as set out below:

Level of resource	Day Rate (£)
Programme Manager	559
TA	844
TS Apps	528
TS Networks	750
TS Servers	583
TS Desktops	371
Networks	441
Servers	508
Desktops	307
Apps	419

4. CONSULTATION

- 4.1 All relevant internal consultation has been undertaken with appropriate officers. It is not felt that any external consultation is required.

5. ANTICIPATED OUTCOMES OR IMPACT

- 5.1 The anticipated outcome of this report is an adjustment to the Serco ICT contract to reflect the current position on the contract and associated costs as set out in section 3.1.

6. REASON FOR THE RECOMMENDATION

- 6.1 That changes have been made to the Serco ICT contract and there is a requirement to update the pricing mechanism to take account of these changes to Project Resource Days, Staff Costs, 3rd Party Costs and Annualisation of rent as set out in Section 3.1.

7. ALTERNATIVE OPTIONS CONSIDERED

- 7.1 The alternatives to not implementing this change request are:
- a) Remaining on the present contractual terms – which is to the detriment of the Council
 - b) Using a different supplier for the delivery of ICT services, which is a possibility but would require a full tender process, and the present contract does cover these Services.

8. IMPLICATIONS

Financial Implications

- 8.1 Financial implications are set out in Section 3.1 above.

Legal Implications

- 8.2 Regulation 72 of the Public Contracts Regulations 2015 applies. Regulation 72(1)(e) permits modifications which, irrespective of their value are not substantial within the meaning of 72(8). The modifications referred to within this report are not considered substantial.

Equalities Implications

- 8.3 There are no equalities implications arising from this decision.

9. DECLARATIONS / CONFLICTS OF INTEREST & DISPENSATIONS GRANTED

- 9.1 None

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985) and The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

- 10.1 Serco ICT Contract
Serco ICT Contract Change Requests implemented and agreed since implementation

11. APPENDICES

- 11.1 None.