



**Merseyside Fire & Rescue Service
ICT Outsourcing Procurement Support**

Final Report
Version 1.1 – Oct 2009

Contents

1. Executive Summary.....	3
2. Context and Background.....	3
3. Deliverables and Value Added	4
4. Lessons learned.....	5
Perceptions and exposure to challenge.....	5
Changing / adapting the procurement process	6
Making better use of the OJEU notice	6
Clear understanding of requirements.....	6
Sharing good practice and the lessons learnt.....	7
Effective benchmarking of outcomes and performance	7
5. Sign-off issues	7
6. Moving forward	8

1. Executive Summary

- 1.1. Our overall view is that MFRS can be classed as an intelligent client, with plenty to offer both potential suppliers and other public sector organisations about to embark on similar projects.
- 1.2. The outcomes from the Joint Development Plan with the incumbent contractor yielded savings of some £400k for 2008/2009 and these efficiencies have now been formalised as a minimum level of savings within the new contract. The new contract price is made up of a fixed element of £1.7m and a variable element of £0.3m. The new contract represents a £400k saving on the previous contract. In line with the ICT savings target of over 10% of total cost, this will contribute a £2m worth of savings over the life of the contract, the next 5 years as part of the procurement process.
- 1.3. Having invested this level of time, effort and resources it is sensible to promulgate this experience and insights into such procurement processes. A case study should be developed, written and circulated to other fire services (and the public sector beyond) – through the Regional Management Board and other forums for best practice and knowledge management.
- 1.4. This report outlines the outcomes of our assignment, including our views on the procurement process and its implementation, lessons to be learned and recommendation for future procurements and contract renewals.

2. Context and Background

- 2.1. Qedis was appointed to provide independent advice and assessment of the procurement process for the outsourcing of Information and Communication Technology (ICT) services for Merseyside Fire & Rescue Service (MFRS). The present outsourced contract was in its extension phase with the incumbent contractor and the assignment incorporated:
 - Assessment and “critical friend” advice on the procurement documentation, primarily the Invitation to Tender (ITT).
 - Development of an in-sourcing costing model to provide a benchmark for the evaluation of ITT responses.
 - Review and development (in conjunction with the MFRS team) of an exit strategy and a transition framework for a potential change in contractor.

- “Critical Friend” advice on the procurement process generally and any other related issues to add value.
- 2.2. Over the course of the procurement - from May 2008 to June 2009 – there were a series of workshop sessions and face-to-face meetings with the MFRS ICT team, as well as the incumbent contractors, where appropriate.
- 2.3. This report outlines the outcomes of our assignment, including our views on the procurement process and its implementation, lessons to be learned and recommendation for future procurements and contract renewals.

3. Deliverables and Value Added

- 3.1. Throughout our engagement, we have had a good working relationship with MFRS and engaged in productive two-way dialogue in our role as external advisers. The development of the ITT was as a result of review and refinement from both MFRS and ourselves. The final document was a fairly succinct tender invitation that gave bidders a clear picture in terms of service specification, requirements and expectations. It also presented a level playing field for all potential contractors, including the incumbent one. The ITT format and structure aided consistent and robust evaluation of bids and seemed to be well received by those contractors who responded.
- 3.2. A one-day workshop session was held with both the MFRS ICT team and telent the incumbent contractors to discuss and develop exit arrangements from the current contract, for each of the three potential scenarios:
- Renewal of the contract with the incumbent contractor
 - Transfer to an in-house service provision (i.e. in-sourcing)
 - Transfer of service provision to a new contractor

Prior to the session, we developed a “straw man” exit strategy for discussion and amendment.

- 3.3. The outcomes were an agreed exit strategy and a transition framework document, which clearly outlined the major tasks, timescales and responsibilities of the transition phase for each of the scenarios described above.
- 3.4. One key piece of work in the assignment was the development of a costing model for the in-sourcing of service provision. This “in-house” option considered all the revenue and capital cost implications of re-establishing an in-house ICT function, including any transitional costs, over the course of the five year contract. This model

could then be used to assess the ITT responses from bidders in terms of value-for-money.

3.5. The model itself was based on best practice examples from elsewhere in the Public Sector and consisted of:

- A clear set of user-defined assumptions, including a proposed organisational structure.
- Full assessment of the revenue implications.
- Assessment of the capital expenditure requirements (which feeds through to the revenue implications).
- Full breakdown of staff costs and other related costs.

3.6. In our role as “Critical Friend”, we also undertook objective assessment of the longer term planning for service provision, including:

- the expected move from MACC to regional control centres and the FiReControl system;
- the potential for in-sourcing at the next contract renewal;
- possible organisational design for the ICT function, looking forward (including any options for in-sourcing).

3.7. We also facilitated a session that looked at SWOT and PEST analysis for the ICT function in its current form.

4. Lessons learned

4.1. There are a number of areas in the procurement process, where valuable insights have been gained that will prove useful in future procurements of this nature.

Perceptions and exposure to challenge

4.2. It should be noted that whilst pragmatic in developing a fully up to date and accurate service specification, the closeness of the relationship between the MFRS ICT team and the incumbent contractor could be perceived as being less than equitable by other bidders. We raised this as an issue early on in the procurement and the team responded well in agreeing that the service specification within the ITT could not be

solely based on the nature and extent of the services provided under the existing contract.

Changing / adapting the procurement process

- 4.3. Consideration should be given to undertaking a competitive dialogue (CD) process, as opposed to restricted or negotiated tender. This could significantly shorten the procurement time and lead to a well-developed service specification. Competitive dialogue also has the advantage of reducing the effort that goes into producing tender documentation.

Making better use of the OJEU notice

- 4.4. By being less narrow in its scope, the OJEU notice for the procurement could have allowed more innovative solutions for the ICT function, including the ability of other fire authorities or public bodies to participate in the procurement or the development of a shared services approach.
- 4.5. A clear omission from the Invitation to Tender (ITT) was for every service within the specification, there needs to be more explicit descriptions on the 1st, 2nd and 3rd line support requirements and contracts (in this process, there were modifications to ITT throughout the process to ensure all bidders had relevant information).

Clear understanding of requirements

- 4.6. Going forward, more thought could be given to the drafting of OJEU notices to allow better flexibility.

Clear understanding of requirements

- 4.7. Whilst the final issued ITT document was robust and allowed a level playing field for bidders in terms of understanding the service, its needs and the requirements for the tender, it took several iterations of the ITT to get to this point. This entailed the documents being passed between the Legal, Procurement, Finance and ICT functions, as well as the external advisers – all lengthening the timescales in getting the ITT issued.
- 4.8. For future procurements, closer liaison between all the departments prior to initiating the procurement process should lead to shorter timescales and a better quality ITT

Sharing good practice and the lessons learnt

- 4.9. Having invested this level of time, effort and resources it is sensible to promulgate this experience and insights into such procurement processes. A case study should be developed, written and circulated to other fire services (and the public sector beyond) – through the Regional Management Board and other forums for best practice and knowledge management.

Effective benchmarking of outcomes and performance

- 4.10 It would be beneficial to benchmark performance of the ICT function and its contractors across a range of relevant measures with other fire services of similar size and nature. This will help assess the effectiveness of the current contractor and will help inform the ongoing development of the service specification and requirement when the contract is re-tendered after five years.

5. Sign-off issues

- 5.1. The outcomes from the Joint Development Plan with the incumbent contractor yielded savings of some £400k for 2008/2009, and these efficiencies have now been formalised as a minimum level of savings within the new contract. The new contract price is made up of a fixed element of £1.7m and a variable element of £0.3m. The new contract represents a £400k saving on the previous contract. In line with the ICT savings target of over 10% of total cost, this will contribute a £2m worth of savings over the life of the contract, the next 5 years as part of the procurement process.
- 5.2. The ongoing Joint Development now referred to as Gain share will be a mechanism for keeping the contract up to date (with change control being a purely financial management tool), to ensure minimum effort in pulling together the service specification for subsequent contract procurements.
- 5.3. Exit management arrangements have now been developed and agreed as part of the process, both for the current and subsequent contracts (although the transition framework document is still awaiting finalisation of the political and legal implications). It should be noted that as incumbent contractors, telnet were open and co-operative in the development of the exit strategy for the current contract.
- 5.4. Through the development of the in-sourcing model, the ICT team were able to compare like with like for outsourced provider costs, subcontractor costs, pass through costs (to be able to make a fair comparison). They also used a pro-forma financial schedule to ensure the ability to evaluate each bid.

- 5.5. There were some issues around due diligence with bidders, but it is felt that whilst there is scope for information gathering, site visits and interaction with the incumbent contractor during the ITT stages of procurement, actual due diligence needs to be restricted to those attaining “Preferred Bidder” status in the process.
- 5.6. Within the ITT, the services within the contract were placed in priority order – in order to ensure maximum focus for bidders.
- 5.7. In terms of assessing responses to the ITT, we collectively came up with a sensible split of overall criteria (i.e. technical - 45%, commercial - 20% & total cost of ownership - 35%) as well as sub criteria for the technical area (as outlined on page 4 of the ITT). Other teams from MFRS (Legal, Procurement and Finance) were comfortable with the criteria and weightings. Each area was scored by the appropriate specialist team. Each section was self contained to enable evaluation input by the specialist.
- 5.8. Scores were allocated with rationale to ensure transparent justification. Business representatives were involved in the technical evaluation process. There was then a group evaluation scoring through a meeting of all the people involved in the process. The Finance team also checked all the pass through contract figures and the in house models to ensure accuracy.
- 5.9. The overall consensus from all involved is that it was a fair procurement process, offering value for money. In the actual process, one of the bidders – Carillion - pulled out very late in the process (at the final quote stage) , but this did not affect the process since there was still evaluation of telent’s bid against a minimum quality threshold in place to enable either re-tender or use of the in house model . This threshold was passed and telent were awarded the contract,

6. Moving forward

- 6.1. Bearing in mind the lessons learned and in readiness for the expiration of the new contract, a schedule to audit the contract and procurement documentation every 6-12 months. The incumbent supplier will need to ensure that the ITT and service specification reflects the current scope of services being delivered, linked to the joint development plan.
- 6.2. There will also be an annual internal review to look at timelines and external factors (e.g. regional control) to assess the impact on the shape of the contract and renewals, as appropriate.

- 6.3. There will be continuation of the year-end report, with particular emphasis on the measurement and reporting of benefits realisation.
- 6.4. It has been recognised that at a point some 18 months before the end of contract (mindful of the fact that could have a 2 year contract extension) it will be necessary to look into options for contract renewal, including:
- 3-6 months allocated for options appraisal and revisiting the in-house model and specifications, as well as decisions about the procurement route to be followed (i.e. Invitation to Tender vs. Competitive Dialogue);
 - 6-9 months allocated for the procurement process itself;
 - 3-6 months for any handover.
- 6.5. Our overall view is that MFRS can be classed as an intelligent client, with plenty to offer both potential suppliers and other public sector organisations about to embark on similar projects.