

DELT SERVICES RENEWAL

Business case and rationale



Purpose of Report

This case provides Cabinet with recommendation on the way forward for the renewal of the services currently contracted for delivery to the Council from Delt Shared Services Ltd. The services covered are: IT operations, Payroll & Pensions and Print & Document Services. The contract for these services is due to expire at the end of September 2024, the new contract will commence from October 2024.

Summary Recommendation and Rationale

The conclusion of this case is to proceed with the recommendation to renew contracts with Delt Shared Services for another 10 years.

Delt is a unique and innovative operation that was established by Plymouth City Council in 2014 as a cooperative venture jointly with the local NHS Clinical Commissioning Group (now known as NHS Devon Integrated Care Board (ICB)). It operates with commercial freedom whilst at the same time the Council enjoys control over the company, in partnership with other shareholders. This ensures that Delt is well aligned with the Council's priorities and objectives. Appendix A details what Delt has achieved against the outcomes set out in the business case at formation.

The contract with Delt has been flexible enough to adapt to the constant evolution of IT. Over the last 10 years as the Council has invested in systems and processes to deliver services, Delt has had to increase spending on cyber security to protect our service delivery. In that time spending has risen to over 10 times the budget at the beginning of the contract.

Delt has also responded to the Council's drive to become carbon neutral by 2030. Delt has successfully reached a carbon positive state for the print and document service and is leading the way on waste and recycling in the IT service and a carbon audit to help target other areas of the business that can also be improved.

The Council benefits from much greater control and accountability for the spend and service delivery from Delt as compared to the in-house service prior to Delt. The contract between Delt and the Council defines service level agreements (SLA) and targets across a range of measures which are reviewed monthly. In the case of failing to hit an SLA, action plans are drawn up to ensure performance improves. PCC also have an investment cycle agreed for the maintenance and replacement of data centres, networks and other vital hardware. This ensures predictability of costs and a modern, secure and reliable IT operation to support service delivery for the people of Plymouth.

Alternative options have been considered in the development of this case: contracting with a commercial 3rd party; transferring the service back in-house and contracting with Delt for a shorter deal term. None of these options offers better value for money and/or a lower risk profile.

Benchmarking shows that the cost of service delivery under Delt is considerably below the UK average for local government. This analysis needs to be considered alongside evidence of the quality of service provided by Delt to help determine whether the lower cost is a result of good value for money or an indication of under investment. Over the last 12 months 91% of SLA metrics were hit with customer satisfaction averaging 97%.

The new contract amends the existing pricing mechanism to allow Delt to charge inflation linked (using the consumer prices index – CPI) cost increases on an annual basis for the services they themselves deliver. The last contract obliged Delt to absorb inflation on “non pass through” costs. Over the last few years IT costs have risen substantially more than consumer inflation and these cost increases have prevented Delt from making a profit. Any alternative delivery model for these services

would almost certainly require PCC to cover the cost of inflation or pay a substantial risk premium to a 3rd party.

Best fit model for Plymouth City Council

In 2014 the Council set up Delt Shared Services Ltd in partnership with the local Clinical Commissioning Group, now ICB. The company was founded to provide back-office services to the 2 founder shareholders and other public sector organisations within the region. Delt was also created to achieve a number of broader outcomes beyond the provision of back-office services to the Council. The business case set out the following objectives for the company:

- Reduce costs
- Support economic growth
- Reduce risk
- Improve service delivery
- Promote health and well being
- Drive the transformation agenda

Since its foundation in 2014 Delt's mission has been to "help people do amazing things". In this time, it has provided services supporting an estimated 18,000 public sector workers who in turn deliver services to around 1 million residents of the South West. It has also provided employment to 250 staff in an around Plymouth, the majority of staff employed by Delt are highly skilled and contribute significantly to the gross value added in the local economy. This level of local employment has also supported the city's agenda by creating and maintaining good quality jobs supporting tackling wider health and wellbeing determinants and therefore inequalities. A summary of the broader strategic outcomes delivered by Delt is provided in Appendix A to this document.

Recent analysis by independent consultants for another local authority has validated the benefits of the Delt model to public sector organisations in the South West. The analysis compared Delt against a commercial provider and also against a bilateral shared service. The recommendations were clear that Delt offered the following unique benefits:

- Retention of control of the IT environment and the ability to set architectural direction
- Minimise initial capital expenditure
- Access to a service provider with greater alignment with the criteria and requirements
- Regional services providing skills and employment within the SW region

As a shareholder PCC is entitled to purchase services from Delt via the Teckal procurement exemption. This legal exemption allows the Council to avoid competitive procurement exercises where it wishes to transfer services to or buy/renew contracted services from Delt. Teckal obliges the Council to exercise control over the company, via appropriate governance and thereby to treat Delt as if it were one of its internal directorates. The recommendation to award contracts to Delt in this paper would be achieved under the Teckal procurement exemption.

Flexibility

The Delt ownership model has allowed for unforeseen changes to be incorporated into the services Delt deliver to the Council over the last 10 years. With a long term contract, the adaptability offered by the Delt model prevents the Council being locked in. Examples of Delt's flexibility since 2014 include:

- Establishing recognition agreement for all staff within the company whether affiliated to a Trade Union or not

- Responding to the environmental crisis by embedding sustainability in all aspects of the business
- Reacting to the increased cyber threat by ensuring that IT security and data protection was invested in to keep pace with emerging best practise

It's not possible to predict what challenges will be faced over the next 10 years but the Council will be able to work with Delt to set objectives and priorities, with other shareholders, to ensure Delt continue to meet our needs.

Control and Accountability

The formality of a contract to define the services required by PCC and their cost provides the Council with a high level of control and accountability. Prior to the formation of Delt in 2014 capital investment in IT was reactive and irregular. Planning and budgeting for spend was very limited and as a result the profile of spending was erratic. Under the renewed contract capital will be forecast over a 3 to 5 year period and a maintenance schedule used to dictate when assets require replacement. The borrowing and revenue implications are forecast regularly as part of routine budget management.

The Council is also able to see what service it is receiving against the contract. Under the existing and new contract Delt provide a monthly report tracking service performance against a suite of measures and service level targets. The metrics focus on service quality and customer satisfaction with IT and payment accuracy with Payroll. Target service levels (SLAs) have been set against these metrics (where appropriate). The monthly report reviews performance across all metrics and interventions and actions are agreed where service fails to meet the SLA. Over the last 12 months customer satisfaction has averaged 97% and 91% of all metrics met or exceeded the SLA.

Alternative Options

There are a number of alternative delivery models available to the Council for these services:

1/. Transfer the services to be delivered by PCC

Whilst this option would provide the Council with full control over these services it is not recommended as it would be more expensive and create more risk than the option to renew contracts with Delt. For this reason, this option is not recommended.

The cost increases are in the following areas:

- One off transition costs of the services and the staff
- Ongoing additional management costs for these services within PCC
- Ongoing increase in pension costs for staff transferring back to PCC who are currently within the Delt defined contribution scheme

The risks introduced by this option would be:

- Transition could introduce instability in service delivery due to the change
- The appeal of working for Delt is different to the offer of employment by the Council and could lead some staff to want to leave
- Roles and skills in Delt that are shared across would have to be split between some transferring to PCC and others remaining in Delt, this could create a short-term risk of not having the required expertise to deliver services

2/. Contract the services from a commercial 3rd party

This option was explored via market testing with some of the leading providers of support services to local government. The potential advantage of a commercial contract was that cost might be reduced and controlled through that type of arrangement. However, the potential savings on offer at around

5% of our annual budget, were insufficient to cover the anticipated cost increases that would be required to manage this option. The disadvantages of this option are that the contract management is significantly more demanding than other options and that flexibility and responsiveness are either expensive or compromised by the strictures of a contract with an organisation over which the Council has no further control. The likely increase in overall cost coupled with the lack of flexibility of this option resulted in it not being recommended.

The cost increases are in the following areas:

- One off transition costs of the services and the staff
- Ongoing additional client function costs to hold the provider to account
- One off cost of procurement
- Change controls to the contract for new requirements through the lifetime of the deal

The risks introduced by this option would be:

- Transition could introduce instability in service delivery due to the change
- The lack of control over the provider that could frustrate or prevent responsiveness to business priorities – for example Delt's external spend is nearly 70% in the local market
- The transfer of staff from Delt to the new provider could lead to some of them wanting to leave
- Commercial tensions arise on the basis that the provider is seeking to maximise profits from the contract
- Roles and skills in Delt that are shared across would have to be split between some transferring to the new provider and others remaining in Delt, this could create a short-term risk of not having the required expertise to deliver services

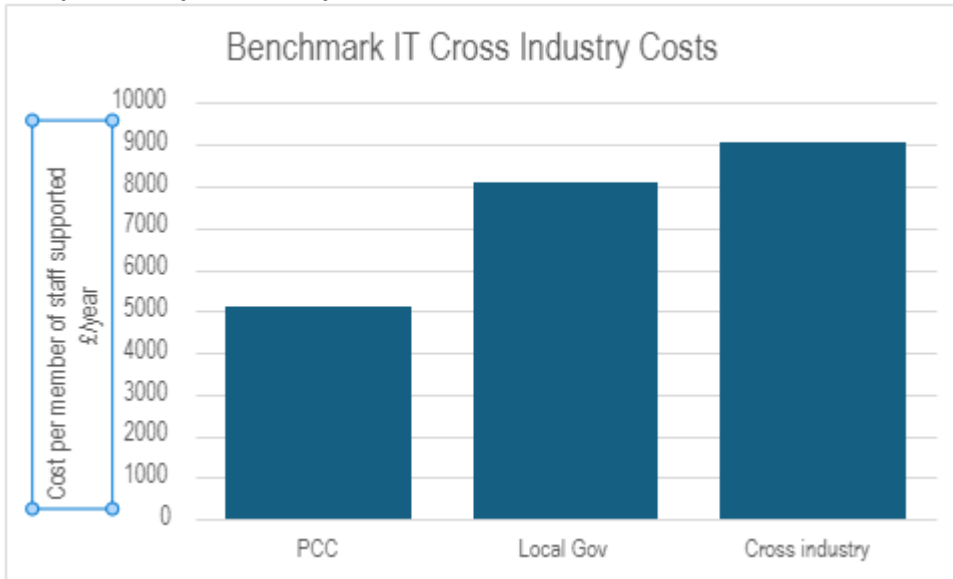
3/. A short-term contract renewal with Delt

This option was considered whilst the ICB reviewed whether they wanted to stay a partner in Delt. The CCG have now concluded that they see benefit in the partnership and intend to renew on the same basis as the Council (10 years). If Plymouth were now to request a shorter deal term it is likely to unsettle Delt and the ICB and could render Delt non-viable. A 10 year contract offers assurance to Delt and therefore the ability to attract and retain key skills and staff as well as strengthen their financial position making them a more attractive service provider to new shareholders and/or customers. Furthermore, IT and print requires a long-term commitment to manage and develop the supplier relationships and assets successfully. However, should the Council decide that they need to exit, the new contract offers PCC break clauses on years 3, 5, 7 and 9 as well as in the event of the ICB seeking to exit. In the absence of the uncertainty caused by the ICB there appears to be no material benefit to the Council in a short-term deal, as a result this option is also not recommended.

Value for Money

The remaining recommended option is to renew contracts with Delt for a 10 year term. The term and value mean it is important to establish whether the new contract will provide the Council with value for money. Although Delt is partially owned by the Council, meaning that profits from the business can be returned to the Council via dividend payments, the Council should be assured that spend with Delt is in line with or better than alternative solutions.

The benchmarking used in this case is from the Gartner Group 'IT Key Metrics' study. This is the largest IT expenditure survey of its kind. Using this analysis the cost of IT provided by Delt for PCC compares very favourably to other local authorities:



Data courtesy of Gartner benchmarking

The comparison shows that UK local government spends on average around £8,100 per supported user on IT per year. The PCC comparison for this is around £5,100 per user per year. This benchmark of PCC's current IT spend, includes not just Delt but also PCC cost to provide our IT services. Benchmarking complex services is challenging to develop reliable and fair comparisons from. However, the size of the cost difference between the average local authority and the Delt/PCC comparison suggests that we do enjoy good value for money from Delt.

Benefits of the new contract

Customer service. The new contract follows recent investments by both PCC and Delt into new roles that will ensure clearer understanding of both organisations and better customer service.

Cyber security. Delt continue to invest in cyber defences to ensure our residents data is safe and services delivered by the Council have access to highly available systems and networks.

Decarbonisation. Delt have set embedded sustainability into their management decision making and will continue to reduce the carbon footprint of their activities and those in their supply chains.

Retention of local jobs and skills. The Delt business employs over 250 staff almost all of which live in the SW region. Delt are also committed to supporting apprentices and providing opportunities to employ them once fully qualified.

Gross value added. Delt have sought to develop economically beneficial relationships with many SW based small and medium enterprises to support the platform for local sustainable economic growth.

Based on employment of local staff and the local procurement spend Delt's estimated GVA is £19.2m in FY 23/24.

Adaptability. The last 10 years have shown how adaptable the Delt model is to changes in requirements from clients as well as shifts in the market. Renewal will allow the Council to continue to enjoy these benefits.

Low risk. Changing who delivers these services would introduce risk associated with the change. We have tried and tested experience in how to operate with Delt to minimise disruption to the service delivery.

Value for money. Benchmarking and market testing shows that Delt are the lowest cost option for the delivery of these services to PCC.

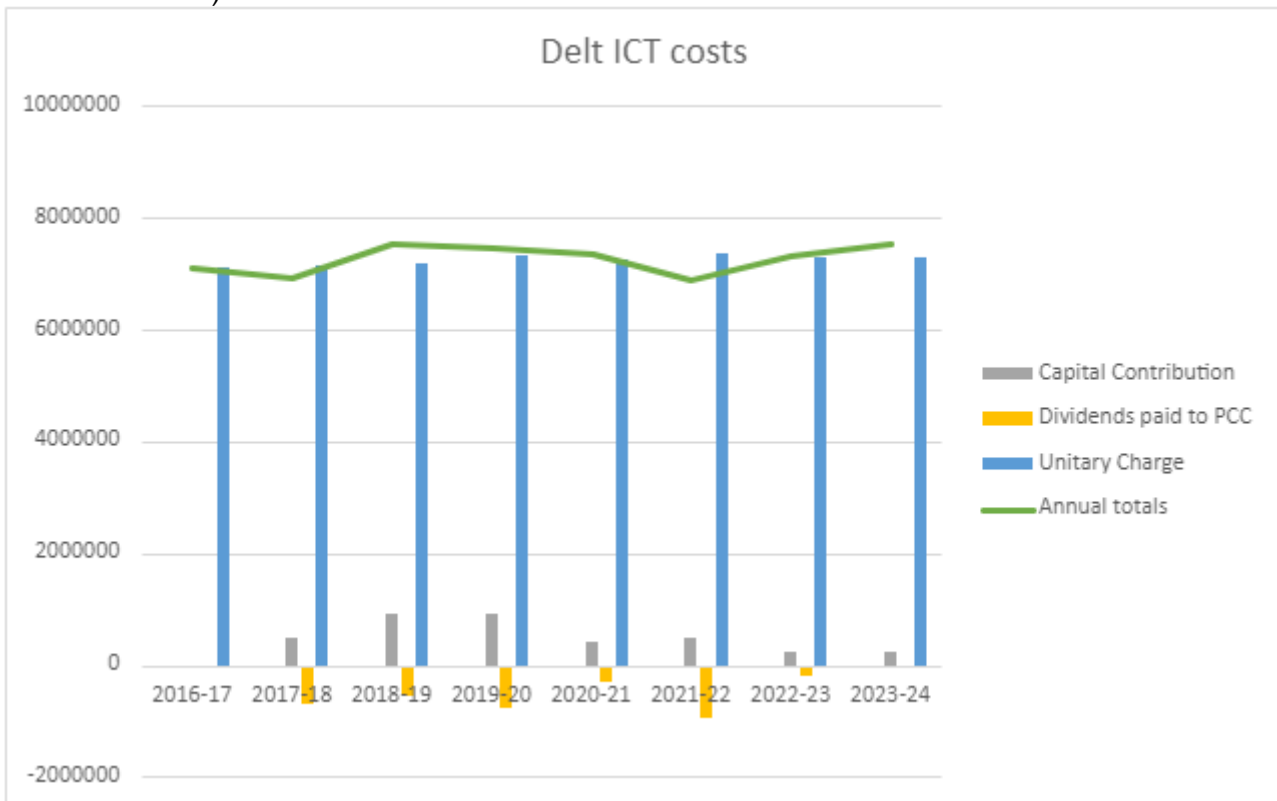
Appendix A – Review of the Delt Business Case Objectives

The business case sets out the following objectives for the company:

- Reduce costs
- Support economic growth
- Reduce risk
- Improve service delivery
- Promote health and well being
- Drive the transformation agenda

Reduce Costs

The case for reducing costs is a difficult one to make given the increased importance IT now plays in our service delivery. Over the last 10 years PCC in common with all forward thinking organisations have consciously spent more on IT to gain efficiency and customer benefits. It's not possible to say whether another provider could have achieved similar beneficial outcomes at lower cost. However it is clear that the impact of inflation being absorbed by Delt over the lifetime of the contract has contained costs for PCC over the last 3 years in particular. It is also true that the non-passthrough costs for IT (those costs for the service that Delt themselves deliver) has fallen over the contract.



Support Economic Growth

The profits achieved in the first 5 years of the contract have been reduced over the last 5 years with the last 2 generating losses (caused by the contract obliging Delt to absorb inflation on their costs). The chart above also shows the £5.4m worth of dividends paid out to shareholders since set up, of which PCC has received £3.8m.

Whilst holding costs for PCC are relatively flat, Delt has grown revenues from new clients. The growth of the company is mirrored by the growth of jobs in Delt. At set up the company had 95 staff, it now employs 250.

There were 2 customers at set up, Delt now supports 4 big customers (PCC, ICB, DPT and Transforming Futures Trust with over 140 smaller customers, mostly schools).

Reduce risk

Delt's independent governance and focus on cyber security (which has seen a 10 fold increase in investment) has provided high levels of service reliability. Whilst there has been some recent instability in IT services caused the move of our data centre the only other time this was noticed as an issue was in 2018 when the

technology managing servers in the data centre was upgraded. Service availability has been tracked on a monthly basis through the life of the contract and very rarely falls below the target service level.

Improved service delivery

This outcome is often measured subjectively through the lens of whether or not a laptop or mobile phone has worked well recently and/or whether the last interaction with Delt fixed the problem. Delt are not perfect and sometimes their service fails to hit the mark, however, it is important to note that in a crisis they have always stood up and supported us and their other clients, for example during Covid. The danger of a commercial outsourcing contract is that a client in crisis is seen as an opportunity to drive profit. The other point of note is that Delt customer satisfaction scores have only dipped below the 90% SLA target in a few isolated months over the last 9.5 years.

Promote health and wellbeing

Delt have created a modern workplace balancing the commercial demands of clients with the interests and wellbeing of its staff. Delt staff are supported to get involved in their local communities and Delt invests in support for staff so that they are better able to cope with the demands placed on them in work and their personal lives.

Drive the transformation agenda

Delt have transformed the way they manage and operate the data centre and cyber security. Their role in providing stable, secure and modern software to support our business is the platform that PCC can build innovative digital and automation solutions to create efficiency and effectiveness in service delivery.

Other notable Delt achievements

Their print and document services operation is net carbon neutral. Delt overall are seeking to achieve certification equivalent to B Corp certification for the entire business. B Corp have refused to accept Delt's application due to the ownership being in the public sector, B Corp is for privately owned organisations.

Delt have also recently been listed 9th in the Newsweek most loved workplace awards . The award looks to recognise organisations that engage and motivate their staff through values and leadership rather than pay/perks.

