Overview of the Business Case of the Municipality of Groningen's ICT Outsourcing Initiative

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This working paper will form the basis of an academic article, intended for publication upon further development. Comments and feedback to improve the article are welcome, and should be directed to Dr. Rainville at a.rainville@vtrek.eu.

1   Introduction & Outline

Public outsourcing of ICT is a strategy to reduce the number of internal personnel (and associated physical infrastructure) by purchasing a range ICT services provided (entirely) by external suppliers. In outsourcing ICT, public procurement can create opportunities for suppliers in the private market to provide innovative solutions that reduce public costs and increase the quality of services for end-users. However, the design of tenders for outsourcing requires careful consideration in order to maximize the likelihood that the tender captures the expected cost savings over the long term. Important factors influencing this are the degree of openness in the tender, the procedure chosen, information asymmetry between the market and public purchasers, the concentration of public demand in terms of tender size and contract duration, and the market characteristics that shape competition between potential suppliers.

The purpose of this working paper is to examine the business case of the call for tenders by the Municipality of Groningen entitled *Outsourcing generieke ICT - Referentienummer: 6-2017*,[1] published January 26, 2017. The intention is to estimate the extent to which the procurement will lead to the desired outcomes, and to identify what key issues might challenge this. This analysis is based on the 1) *Eindrapport greenfieldanalyse*[2] conducted to inform the

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[1] https://www.tenderned.nl/tenderned-web/aankondiging/detail/publicatie/akid/0ea498f0da4155de9e26e1e881f6d425

[2] Eindrapport greenfieldanalyse Gemeente Groningen. Versie 1.0. Quint, Dare to Challenge, Gemeente Groningen.

procurement, in Section 2; 2) the tender documentation itself, in Section 3; 3) an economic database of public procurements in the Netherlands, in Section 4; 4) a legal databases for public procurement in the Netherlands, in Section 5. We present conclusions regarding the business case for the tender in Section 6.

2   Motivation & Business Case Report

The *Eindrapport greenfieldanalyse* states a motivation to realize structural savings from $4,5 million in year 7, with a break-even point from year 3. The budget is €27 million, through which the municipality can expect higher quality, flexibility, and innovation from ICT. The quality received is expected to better conform with market quality. These services should also be more flexible and innovative, "realized through suppliers from the different lots". A current complication is the relatively high number of suppliers in the municipality's supplier portfolio; a more limited number of suppliers is desirable since that is more manageable. It states that outsourcing of ICT infrastructure will contribute to quality and financial goals, party through increased cost flexibility (A cluster); and migration to SaaS standards software is expected to deliver cost savings through standardization and rationalization (I cluster). Limited transition risks from the chosen process are expected, as is a greater internal maneuverability of the (smaller) I&A organization.

3   Tender Overview

The call for tenders is for outsourcing of ICT services through a competitive procedure with negotiation (Concurrentiegerichte dialoog), currently in the first stage of tendering and slated to begin March 2018. In the selection phase, the eligibility criteria dictates which companies may participate by stating the grounds for exclusion and minimum requirements.[3] In the next phase, they use the award criteria to select five parties with the highest points. The award criteria requires that the entire scope of the purchase is covered in a maximum of five references. These five suppliers who are then invited to make an offer by providing evidence, upon which they are scored using the award criteria to choose. The two tenderers with the highest points will be invited to negotiate; the third choice will be ask to take a reserved place. One of these companies will be awarded, and if this party does not perform then the second party can be chosen (who will also have an agreement that they are bound to this under the condition that the first choice does not perform). The contract is for €66 million over 6 years for a single lot, and can be extended twice for two years each time.

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[3] Chapter 7 in: Selectieleidraad ten behoeve van de Europese aanbesteding volgens de procedure Mededingingsprocedure met onderhandeling (artikel 2.31 Aanbestedingswet 2012) voor Outsourcing generieke ICT.

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Outsourcing, as the transfer of personnel, makes the supplier bound by law to take in the personnel of the municipality that fulfills certain criteria like the time spent on the services that are being outsourced. This will reduce the number of public employees working in ICT at the municipality by outsourcing them to a private company. The scope of the tender covers the following products/services: Network, hosting (servers), telephone and portals, service desk, technical applications management (TAB, technisch applicatiebeheer), and end-user services (workplace management applications, including software). The tender lists the main CPV (common procurement vocabulary) code of 72000000 – IT services: consulting, software development, Internet and support.[4] This is broad due to the type of tender procedure chosen, where suppliers invited to later stages will be involved in discussing more specific services offered. The award criteria provides points based in part on the capacity of the company, including number of (mobile) workplaces and users and applications, and number of telephone portals.

4   Economic Context

The large value, concentrated to one supplier, and the wide scope of the tender, raise questions regarding whether such an approach is atypical. To answer this question, we can examine similar purchases by other procurers in other parts of the country. Public procurers often publish their tenders at the European level – doing so is mandatory for tenders above a certain threshold value (differing by sector), but also considered best practice even when under thresholds, to attract greater market competition and consequently a better result. The best available data for these is the contract award notices (CAN) from Tenders Electronic Daily.[5] One CAN is granted for every completed tender, for which there may be multiple awards (lots). For this analysis, we used data from CAN from the years 2013 to 2015 inclusive, for contracts awarded by Dutch purchasing bodies.

For defining the products and services purchased, we then turned to CPV codes. In examining the data, we classified everything bought as a service (72000000 – IT services: consulting, software development, Internet and support) as outsourcing, and expanded beyond this to include three other categories, based on the broader scope of the tender in question. These additional categories were also chosen due to the presence of prior tenders with these CPV codes, as either the main or secondary CPV code.

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[4] IT-diensten: adviezen, softwareontwikkeling, internet en ondersteuning.

[5] Tenders Electronic Daily (TED) - public procurement notices from the EU and beyond. Retrieved from https://data.europa.eu/euodp/en/data/dataset/ted-1

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Using this method, the following are classified as outsourcing:

| CPV code	Description
64200000	Telecommunications services
71700000	Monitoring and control services
72000000	IT services: consulting, software development, Internet and support
79810000	Printing services

To compare, we chose other CPV codes for purchasing products that increase internal capacity and are used by internal staff, or services to support in-house facilities. This is because the tender in questions may weaken the internal capacity of the municipality, with just the staffing implications but also the physical infrastructure, which is needed for the staff to perform their tasks. The following are classified as "insourcing":

CPV code	Description
30000000	Office and computing machinery, equipment and supplies except furniture and software packages
30200000	Computer equipment and supplies
32400000	Networks
32500000	Telecommunications equipment and supplies
39134000	Computer furniture
45314000	Installation of telecommunications equipment
48000000	Software package and information systems
48800000	Information systems and servers
50300000	Repair, maintenance and associated services related to personal computers, office equipment, telecommunications and audio-visual equipment
51000000	Installation services (except software)

4.1   Economic Findings

The economic findings are presented below. When applicable, an orange circle appears in the graphs to highlight where the municipality of Groningen's tender would appear. According to the economic findings, outsourcing of ICT by Netherlands contracting authorities (including by municipalities) itself is not uncommon. The number of tenders for outsourcing has increased from 2013-2015, but so have total increases in public spending on ICT (Figure 2).   Compared with other levels of government, local authorities have a much higher proportion of outsourcing (Figure 4) – this is especially true for Amsterdam, with less than 2% of tenders for insourcing. With respect to award criteria, it is even more common to award based on the most economically advantageous tender (MEAT), which includes quality criteria, than with insourcing. Almost all of the tenders for outsourcing were based on MEAT (Figure 5b).
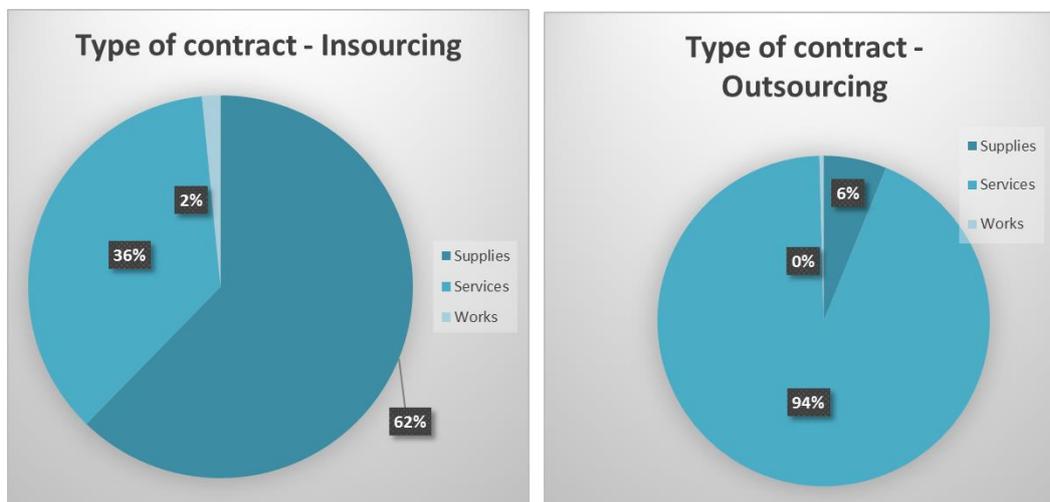
Figures 1a and 1b - Composition of the CAN for insourcing and outsourcing according to the chosen CPV codes. This supports the classifications of insourcing as including a greater proportion of supplies than services, where the opposite is seen and is more pronounced in outsourcing.

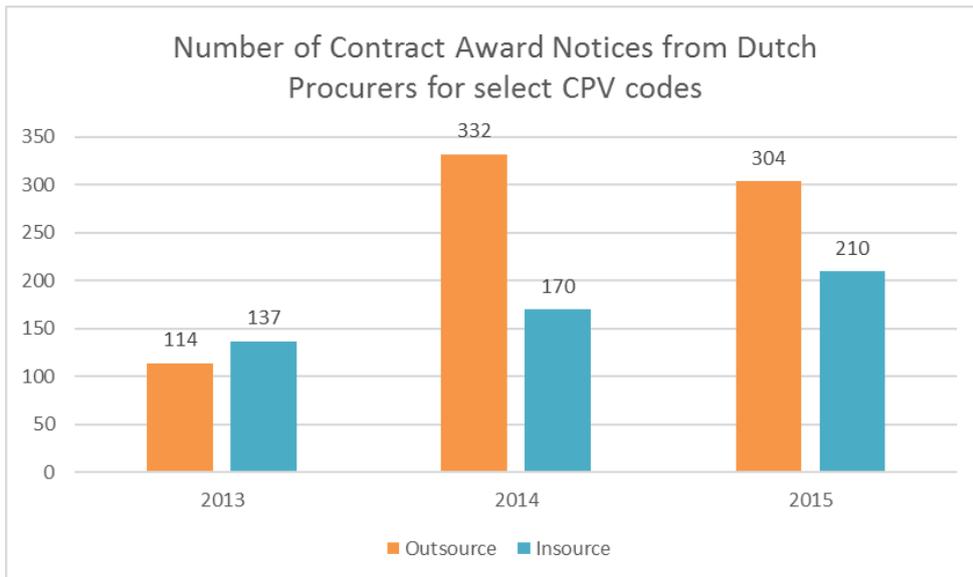Number of Contract Award Notices from Dutch Procurers for select CPV codes

Figure 2 - The yearly number of tenders for outsourcing has surpassed that of insourcing, while overall expenditures on ICT have increased from 2013 to 2015.
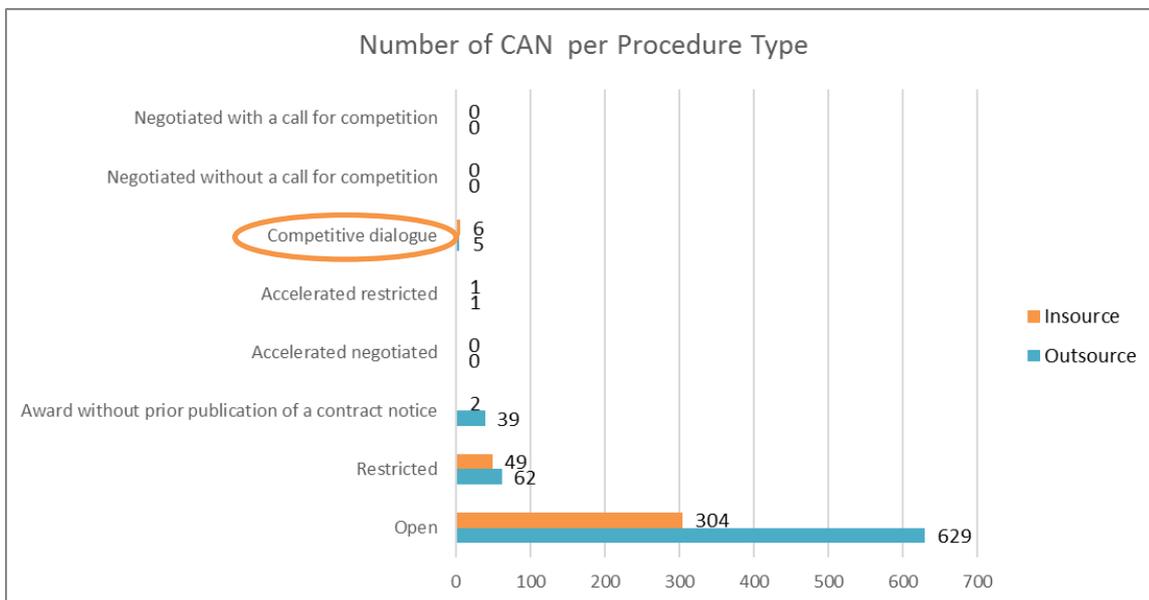

Number of CAN per Procedure Type

Figure 3 - Open procedures are the most common, while a high proportion of tenders for outsourcing are awarded without prior publication of a contract notice. The competitive dialogue used in the Groningen tender is one of the least common methods.
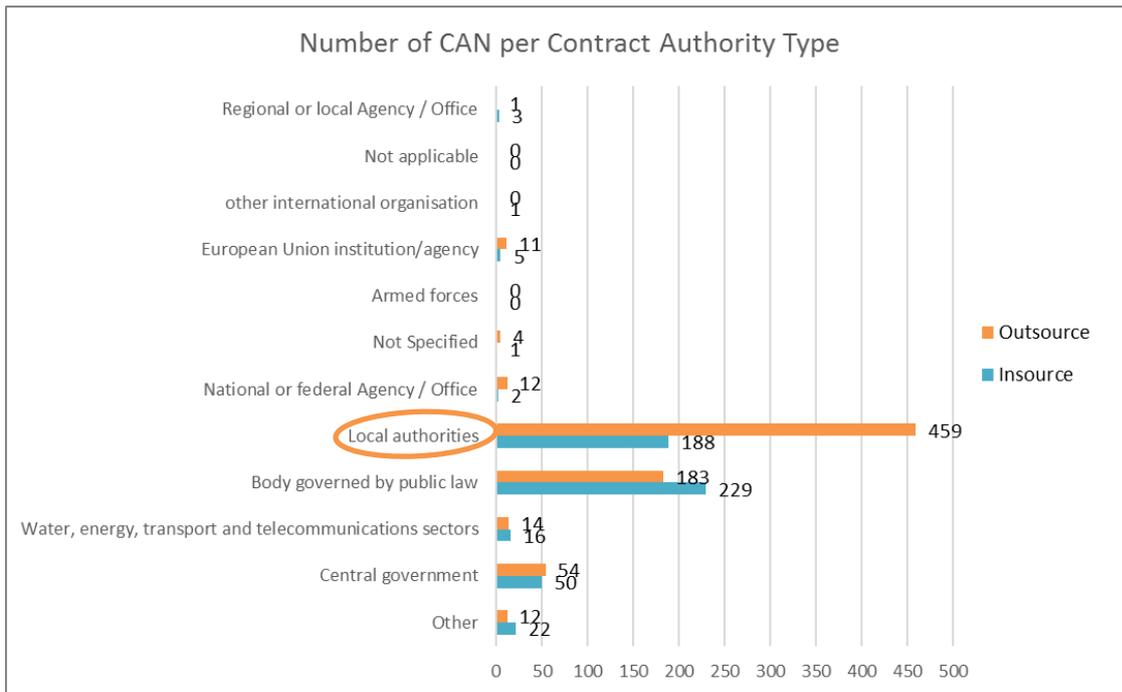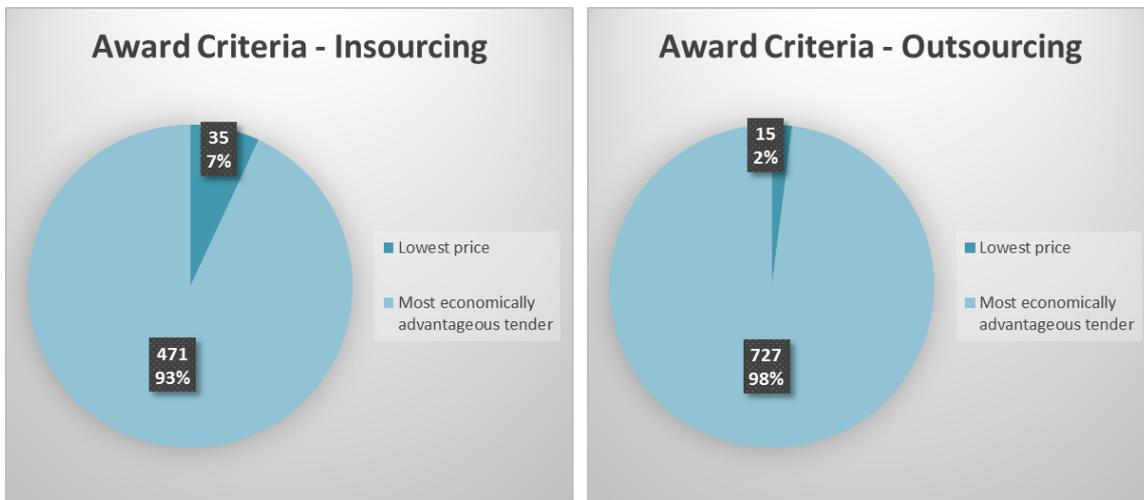
Figure 4 - Local authorities tender the most for outsourcing – more than twice of what they do for insourcing. In contrast, while central governments have fewer tenders overall, they may also be more concentrated and for larger values rather than split into separate lots, which results in multiple awards for a single tender.

Figures 5a and 5b - Procurer practices for purchasing ICT and services within an outsourcing approach are more based on the most economically advantageous tender (MEAT), rather than on the lowest price. This supports that there may be a slightly greater value received in procurement for outsourcing, which is upheld by procurer expertise and knowledge of how to adequately structure a tender design that awards based on cost-effectiveness rather than a "race-to-the-bottom" response by industry, which can undermine quality and lead to higher costs in the long term.
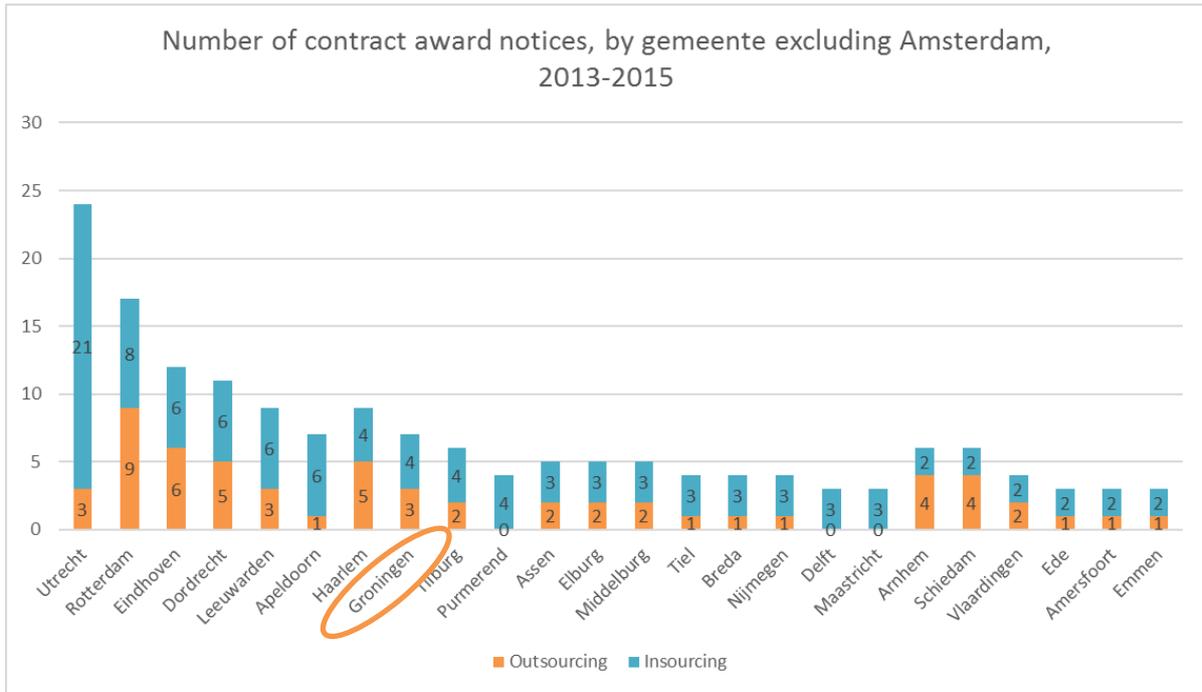
Figure 6 - At the municipal level (purchases by local authorities), Amsterdam has the lowest ratio of insourcing to outsourcing, at only 1.4% over 2013-2015, when there were 365 contract award notices for outsourcing and only 5 for insourcing.
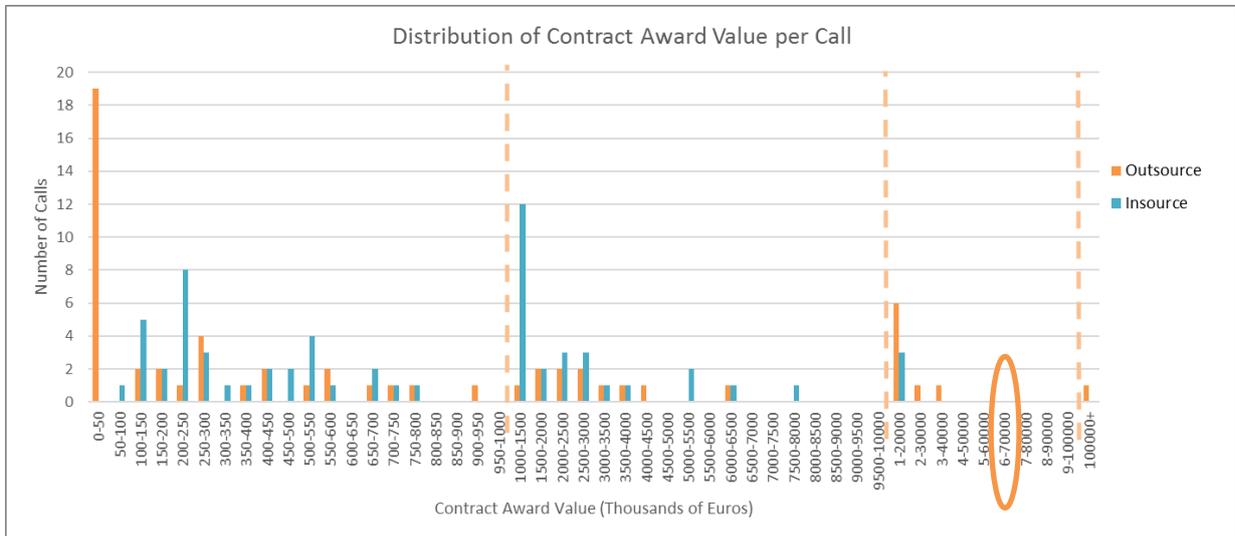

Figure 7 – The majority of contracts for outsourcing are under €50.000 – the second highest concentration is between €10-20 million. For insourcing, the largest proportion of contracts is between €1-1,5 million. Changes in scale are demarcated by three dotted partitioning lines. The project for €100 million was by Dienst voor het Kadaster en de openbare Registers for IT services: consulting, software development, Internet and support. The body governed by private law used a restricted procedure and awarded the single contract to Capgemini Nederland B.V. in 2013.

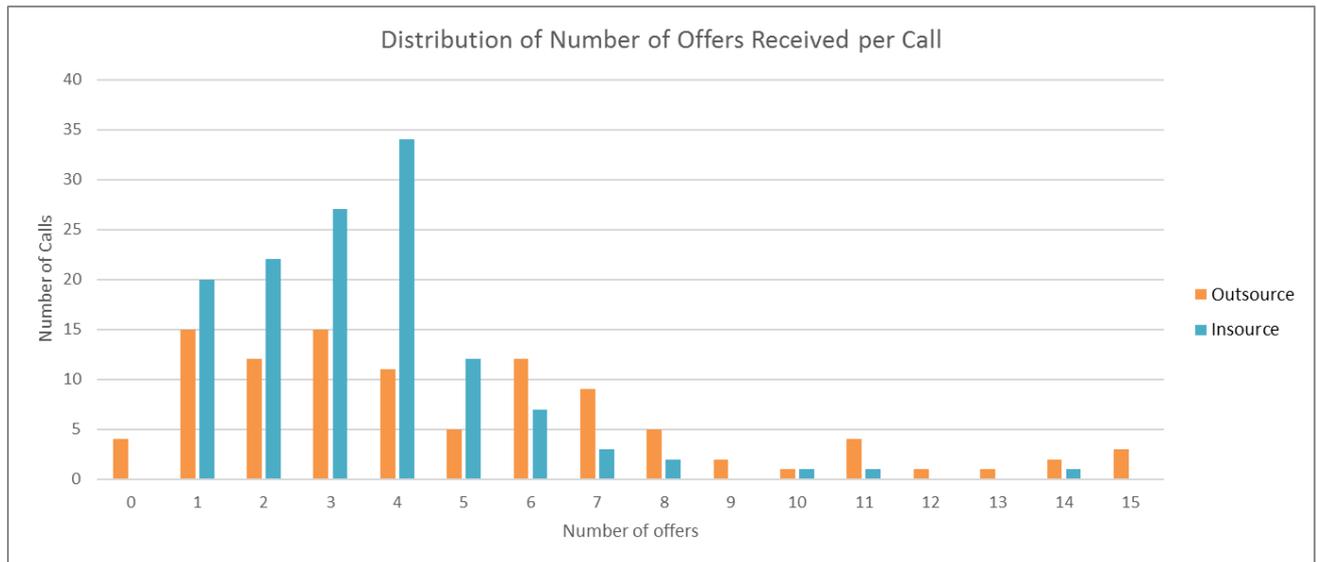Vtrek

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Figure 8 – Distribution of number of offers received per call. Most calls have between 1 and 4 offers per call. For outsourcing, this number is more distributed.

Table 1 - Contract Award Notices using a Competitive Procedure with Negotiation - Outsourcing and Insourcing ICT. The five items without an award value were omitted.

Type	Award Value	Number of Awards (Lots)
Insourcing	€ 330,579	2
Outsourcing	€ 500,000	1
Outsourcing	€ 1,769,874	1
Insourcing	€ 11,960,000	1
Insourcing	€ 16,614,000	1
Outsourcing	€ 39,554,282	4

From the above, we see that the largest award, for almost €40 million, was split into four lots. The tender was in 2015 by Rijkswaterstaat Centrale Informatievoorziening (also on behalf of the Highways Agency UK) as part of the international CHARM Pre-Commercial Procurement,[6] for the following products and services:

- IT services: consulting, software development, Internet and support
- Industry specific software package
- Transport equipment and auxiliary products to transportation
- Installation of traffic monitoring equipment
- Software package and information systems

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[6] CHARM Pre-Commercial Procurement project (PCP). https://www.rijkswaterstaat.nl/english/about-us/doing-business-with-rijkswaterstaat/charm-pcp/index.aspx

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5   Legal Context

From 2012-2016, there were 13 lawsuits in the Netherlands for procurements that used a competitive procedure with negotiation. Of the 13 lawsuits, only three were with a Gemeente (Eindhoven, and Den Haag), in the area of public facilities lighting and building works. 46% regarded ICT delivery, with the majority for software, but one was for service. Two of these were for elevation to a higher court, one due to issues with permissible specifications in the tender documentation and the other the suitability requirements of selection criteria. Two were for issues with awarding the contract to a third party, due to issues with permissible specifications in the tender documentation and with the degree of freedom of the evaluator used in the assessment method. Finally, two took issue due to their tenders not being allowed into subsequent phases for being not in accordance with specifications. In all but one of these lawsuits, the defendant was the prevailing party.

5.1   Legal Analysis

The tender is peculiar due to its choice of procedure; the use of a competitive dialogue procedure is extremely uncommon both for insourcing and outsourcing ICT. Most procurements in the area use an open procedure (Figure 3), especially for outsourcing – where requirements are clearly defined and all eligible market parties can submit an offer. Most lawsuits regarding competitive dialogue procedure in the Netherlands were due to tender specifications and assessment method, since the procedure only invites selected suppliers to further discuss services and costs. As such, it is of critical importance how the tender specifications are written. In this tender, the criteria are designed to give points to firms which are more experienced in providing services at the same scale as requested by Groningen (workplaces, etc.). This disadvantages suppliers who provide references for projects which are smaller and larger. Typically, ICT tenders do not disadvantage suppliers who are experienced with larger projects than that which is desired, since these demonstrate more complex infrastructure and service provision that could also be of use to a smaller project.

6   Conclusions

The business case motivating this tender has well established the current and the desired situation, with rationales for the selected approach for cost savings and quality increases. However, we do not expect that these benefits will be realized for the municipality of Groningen to the extent predicted, due to the economic and legal precedence noted above. While the content of the procurement (for ICT outsourcing) is not atypical, the tender procedure, division, and size are. The contract is larger and more concentrated than all but a single other ICT tender in the Netherlands. This price almost 2.5 times that used in the business case analysis, which could significantly reduce the return on investment. Awarding this tender to a single supplier over 6 years – with the possibility of two extensions, up to a total of 10 years – can close the chosen supplier from market competition. If the contract is not extended, then the €4,5 million of savings will not be realized. In the ICT industry, contracts are typically 3-5 years due to the high degree of innovation. If there are no incentives in the contract made by the municipality to require innovation, then they are less likely to receive newer products and services over the duration of the contract, to the detriment of service quality to the public.

Due to the intention to have the market guide in defining deliverables using the competitive dialogue with negotiation procedure, there is a high potential for information asymmetries between the market and the procurer. This can result in the movement of specifications toward the favor of the market. If there are information asymmetries, and the procurer has additional requests after the tendering and contracting is complete, then the procurer will incur additional costs if what they believed was included was in reality not. Additionally, there may be very few companies who can compete in singlehandedly offering such varied and intensive services – and especially Small and Medium-sized Enterprises (SMEs) – as indicated by the question and answer rounds.[7] While rationalization and transitioning to Software as a Service (Saas) can indeed result in cost savings through standardization, completion of this tender this tender is likely to lock the municipality into the solutions of a single supplier, which we predict will be a large firm.

Given the high market concentration, the predicted cost savings of the municipality may be reduced by high transition costs. This may occur at the end of this contract, or in the future when they wish to transition to another supplier but are faced with costly reliance on the (solution of the) chosen firm. This risk could be mitigated by dividing the tender to award multiple lots, enabling more specialized companies to compete within these lots and increasing the likelihood of achieving higher price-quality ratios. Including standards within the tender would ensure compatibility between different providers of complementary services.

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[7] Nota van Inlichtingen (NvI) gemeente Groningen. Aanbesteding Gemeente Groningen. Beantwoording vragen Selectieleidraad Outsourcing generieke ICT / Referentienummer 6-2017. 28 February 2017.

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Annex – Tender Scope

Pages 12-13 (translated) in *Selectieleidraad Gem Groningen EA Outsourcing generieke ICT-Definitief.*

Domains in scope

Below is a Domain (11 total) shown in outline what they involve.

Domain	explanation
service Desk	• SPOC (Single Point Of Contact) domains being throughout in scope and SAAS solutions from third parties. • 1st and 2nd line user support and management of 3rd line support. • Management and maintenance of a self-service portal for users.
End User Services	• Provision and manage an IT workstation (in the broadest sense of the word) to all users, including printing, scanning, on-site and remote support. • give access and make available applications in the workplace (configuration, packaging and distribution, personalization). • Identity and Access Management.
Telephony	• Provision and management of on-site IPBX- and PABX telephone exchanges and connecting and configuring interfaces for voice connections. The provision, configure, and support fixed and mobile phones. Functioning as a single point of contact for entire telephony device (including conduct directed at another Providers of telephony services).
Network	• Manage and maintain high availability (24x7) and business critical IP network spread across many locations. Functioning as one contact for all network services, including the successful conduct directed at (WAN) connections provided by third parties. It is both LAN and MAN, wireless networking (Wi-Fi) and network facilities (including firewalls and proxy servers).
technical Applicatiebe-Mr. (TAB)	• Responsible for all technical aspects related to applications. This means that TAB, especially where this concerns applications, in other technical fields will be operational-steering (cement between the bricks). • All work related to put at the disposal of applications, such as installation, maintenance, security, continuity and performance monitoring. • Functional database management applications. • Installation, monitoring, optimization and management of middleware. • Application integration, including integration between on-premise, hosted and SAAS applications. This integration These include Web services, legacy integration and ETL.
hosting	• Housing (data centers). • Service at the level of managed operating systems (including in provision and manage server virtualization - hypervisor - and server hardware). • Providing and managing enterprise class storage (storage) backup and restore services. • Services in the field of database management (supply and technical management). • Operational Information regarding above

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Domain	explanation
	services.
IT Service Management	• (ITIL) service management processes, operational, tactical and strategic.
Service integration (SI)	• Providing a working unit (combination of software - for example in SaaS Providers) including various couplings and underlying hardware) for the end user. The end user gets as the access to a working unit and may have questions / disturbances in one rightly point which then the resources (tools, appointments) has to ensure that the requested functionality working again is becoming. • The end-to-end service delivery and / or services and thus ensure for appointments and control of other suppliers that are involved in the services / service chains that are submitted by the municipality of Groningen decreased.
project consisting of: -Transitie (Transfer & Transformation) -Re-Transition -Migration deployment	• Transition: The transfer (transfer) of the current ICT Services (as-is) the external supplier and then transferring (Transformation) to the standard of this Supplier Services. • Re-Transition: Keeping in order during the contract period records / documentation of the services in scope and at the end of the contract cooperate in the transfer of services to other party. • Migration, among other data, system software and applications. The conversion software in-house for, mostly, a SaaS vendor. • Implementation; the introduction of new or modified infrastructure or applications, so that new services can be provided. A Implementation may relate to (a combination of) technique, functionality or process.
Technical Integration (TI)	• Linking applications and systems running internally or externally with other applications and systems that run internally or externally, or may not be at the same or a other external party. At workplace level, in the front-end, back-end and 'the cloud'.
Information security	The reliability of the information an organization stored and the risks to reduce to an acceptable level in the field of: • Organization, Services / Products, Processes. • Staff / Applications, Messaging / Data, information exchange. • Technical Components, Data, Network, Certifications.

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