

## Options Appraisal for ICT delivery

London Borough of Brent currently have an in-house ICT service. The service is considered by staff and colleagues from peer organisations to be of good quality and low cost, offering value for money. As part of the council's overall savings targets, the ICT service has to achieve a saving of £1.62m from a total budget of £5.7m by the 16/17 financial year. Officers have been looking at areas for potential savings, however have not been able to identify anything more than approximately half of that target, and that at the cost of offering some level of reduced services.

Since Brent have recently invested significantly in their ICT infrastructure, there is the potential for return on that investment by either sharing some of the benefits with another organisation and/or sell IT services. This is considered essential not only to achieve the current savings targets, but also to maintain a viable ICT service, necessary to deliver the authority's digital agenda and support transformation.

London Borough of Lewisham have an outsourced contract with Capita for the maintenance of their ICT infrastructure, while most of their application support is done in-house. The Capita contract ends on the 31<sup>st</sup> March 2016 and Lewisham are exploring their options going forward.

Officers have been in discussions with the London Borough of Lewisham regarding the potential to work together to setup a shared ICT service. This is time critical to both authorities: for Brent, it is a key decision to determine how they are going to meet their savings targets by 16/17, while Lewisham have an urgent need to refresh their infrastructure which is in a critical state due to lack of investment. For both of these factors to be addressed, Brent and Lewisham need a decision as a matter of urgency, since if they are going to establish the shared service they would need to start work on transition arrangements by June 2015; on the other hand if they were to procure a new contract they would need to start the procurement process at the latest within the same timescale.

The proposed joint working between Brent and Lewisham presented itself as an ideal opportunity for the two authorities: officers had a good understanding of the Lewisham environment; Lewisham was looking for a partner to resolve their infrastructure issues and provide a stable ICT environment, while Brent had the infrastructure necessary and was looking for the opportunity to share it and achieve return on its investment; Brent were looking for a partner to share disaster recovery while Lewisham did not have a disaster recovery facility. Lewisham needed to replace their complete infrastructure, an opportunity to have an identical IT environment between the two councils at no additional cost to either council. The distance between the two councils is manageable, something that was identified by established shared services as a potential issue. Significantly the contract end date for the Capita contract at Lewisham was a good fit to our need to vacate Brent House.

Establishing a shared service with Lewisham would not preclude Brent from working with other partners going forward, in fact it would help Brent Digital Services become stronger and enhance their reputation, supporting the pursuit of further opportunities in the future. Having said that, officers have also looked at neighbouring councils and identified that at least within the West London Alliance there currently are no other opportunities for a shared service.

The key area that needs to be in scope for the shared service at least in the first instance is infrastructure support. Application support is yet to be reviewed; however both authorities have stable in-house support arrangements for applications, and therefore although this can still be consolidated this could potentially follow as a second phase of joint working.

As part of the work to define the way forward Brent and Lewisham have completed this options appraisal examining all the potential options to deliver the ICT service to their authorities:

- Do Nothing (option for Brent – for Lewisham equivalent would be to bring the service back in-house).
- Setting up a separate company jointly owned by the two councils and move IT staff from both authorities to the company.
- Establish a shared ICT service under a single management structure, and managed by a joint committee of members and officers from both authorities. All staff are employed by their original employer.
- Outsource the ICT service, individually or jointly, on a single contract covering all aspects of the ICT service.
- Outsource the ICT service using the Towers Model, awarding contracts to different suppliers for different elements of the service.
- Extend the current contract with Capita (option only for Lewisham).
- Individually or both authorities join another established ICT service.
- Form a Public-Private Partnership (PPP) with a private sector company.

As part of this options appraisal officers have scored the different options based on the following factors and weightings:

- Lower cost: the potential to lower the existing cost of the ICT service to the council whilst maintaining an acceptable quality of service (Weighting: 5)
- Timescale to establish: how quickly we can implement the option, as there is a sense of urgency for both councils (Weighting: 5)
- Ability to follow a phased approach: can the specific model enable us to phase the transition of different elements of the service (Weighting: 4)
- Ease of gaining external work: this is a key element of the model to allow us to raise income in order to address budget constraints going forward (Weighting: 4)
- Ability to make future savings: how much control do we have of the overall cost of the service, to allow us to meet any future savings targets (Weighting: 4)
- Pension fund issues: the level of potential costs relating to pensions that result from establishing the new model (Weighting: 3)
- Governance effectiveness: how complicated/costly/effective are the governance arrangements of the model? (Weighting: 3)
- Ease of implementing organisational change: how are staff affected, what is the impact to staff and expected level of concern the model may raise with employees in both authorities? (Weighting: 3)
- Flexibility in service delivery: level of ability that the model provides to vary the service (Weighting: 2)
- Flexibility to evolve model: does the model allow us to vary it or even retrospectively move to one of the other models discussed (Weighting: 2)
- Resilience: how likely is the model to cope with the demands of the service over the period of the agreement (Weighting: 2)
- Potential for cultural change: what is the model's potential to support cultural change amongst ICT staff (Weighting: 1)
- Local employment opportunities: how much control does the provide to determine the location of ICT staff (Weighting: 1)

We have not scored the “do nothing” option for Brent, as it simply does not address in any way the fundamental requirement to achieve a significant saving from the ICT budget.

All factors were given a score per model of 2 for fully met, 1 for partially met and 0 for not met. The scores can be found in the following table with explanations following in this document:

|  | Weight | Company | Joint Committee | Outsource (Single Contract) | Outsource (Towers Model) | Extend Outsourced Contract (Lewisham) | Join another Shared Service | PPP |
|--|--------|---------|-----------------|-----------------------------|--------------------------|---------------------------------------|-----------------------------|-----|
| Lower Cost                                 | 5      | 10      | 10              | 5                           | 5                        | 5                                     | 10                          | 5   |
| Timescale to establish                     | 5      | 5       | 10              | 5                           | 0                        | 10                                    | 5                           | 5   |
| Able to follow phased approach             | 4      | 8       | 8               | 4                           | 8                        | 0                                     | 8                           | 4   |
| Ease of gaining external work              | 4      | 8       | 4               | 0                           | 0                        | 0                                     | 4                           | 4   |
| Ability to make future savings             | 4      | 8       | 8               | 4                           | 4                        | 4                                     | 4                           | 4   |
| Pension Fund issues                        | 3      | 0       | 6               | 0                           | 0                        | 6                                     | 0                           | 6   |
| Governance Effectiveness                   | 3      | 6       | 3               | 3                           | 0                        | 3                                     | 3                           | 3   |
| Ease of implementing organisational change | 3      | 3       | 6               | 3                           | 3                        | 3                                     | 3                           | 3   |
| Flexibility in service delivery            | 2      | 4       | 4               | 0                           | 2                        | 0                                     | 2                           | 2   |
| Flexibility to evolve model                | 2      | 0       | 4               | 0                           | 2                        | 0                                     | 2                           | 2   |
| Resilience                                 | 2      | 4       | 4               | 4                           | 4                        | 4                                     | 4                           | 4   |
| Potential for cultural change              | 1      | 2       | 1               | 2                           | 2                        | 0                                     | 2                           | 1   |
| Local employment opportunities             | 1      | 2       | 2               | 1                           | 1                        | 1                                     | 1                           | 2   |
|  |        | 60      | 70              | 31                          | 31                       | 36                                    | 48                          | 45  |

## Lower Cost

Evidence from SOCITM benchmarking in London appears to support the argument that outsourced ICT services are in most cases more expensive than their in-house counterparts. Brent have been in the bottom 3 boroughs across London in terms of overall ICT expenditure for approximately 10 years with the exception of the year of the move to the Civic Centre, as this included a significant level of capital investment. We have asked SOCITM for any data they can provide from their wider range of benchmarking they collect from both inside and outside London. For a sample of 70 Local Authorities ICT departments they had recent data on, of which 7 were outsourced and 8 were shared services, they reported that the shared services were consistently the lowest cost services (their calculations were based not on absolute ICT budget but rather on percentage of total budget spent on ICT).

Work previously done by Brent finance officers showed an expected saving from establishing a shared service in excess of 20% on the already low ICT budget. The experience of other ICT partnerships in London agrees with the assertion that a shared service should be able to deliver a minimum 20% saving in the budget of both partners.

This level of saving is anticipated for Lewisham when looking at their contract with Capita; achieving a similar saving through an extension or a new outsourced contract would appear unlikely given that they already have to spend significantly outside their contract to maintain a service, as well as the fact that similar outsourced contracts elsewhere tend to be of higher value.

Finally, looking at a number of examples of project work for which Capita have more recently provided quotes, and having costed the delivery of the same projects through an in-house service, we can see the external quotes can be well in excess of 100% higher.

On this basis we have given the maximum score to all the fully public-sector based options, showing limited potential to reduce costs with the outsourced options.

### Timescale to establish

Establishing a shared service managed by Joint Committee is likely to be the quickest model to implement for both councils as it does not involve any significant changes to staff terms and conditions or any lengthy procurement process. Outsourcing following a towers model would probably take the longest due to the complexity of having to procure several contracts. For Lewisham alone, extending the current contract would be again the quickest model.

Therefore we have given the maximum score to the Joint Committee model and the contract extension, and the minimum score to the Towers Model, with all the other options scoring equally in the middle.

### Able to follow a phased approach

It is not possible to phase the extension of the contract for Lewisham, and it would be challenging to phase the outsourcing of the ICT service into a new single ICT contract. All other options allow a phased transition.

### Ease of gaining external work

By far the most straightforward model for selling services to other organisations would be by setting up a company jointly owned by the two councils. It has been demonstrated by other ICT partnerships in London that is not however a prerequisite for selling services. We have seen examples from both OneSource, the Newham and Havering partnership, as well as the Kingston and Sutton ICT Shared Service, where they sell ICT services to other organisations without having formed a company. For obvious reasons, the outsourced models do not really support this, with the PPP option having limited scope through having a shared reward model.

### Ability to make future savings

Having a jointly owned company or a shared service formed by the two councils are both models that offer the maximum potential for meeting future demands for savings. The outsourced models would be heavily dependent on negotiation with the vendor(s), while the option to join another shared service would mean a larger number of stakeholders that would need to agree how to achieve the savings.

### Pension fund issues

All options apart from the Joint Committee model or the contract extension for Lewisham involve TUPE of ICT staff. We do not at the moment have any estimates for the total cost of the exercise, however it is anticipated that the cost could be significant. It should be noted however that for Lewisham the Joint Committee option also has TUPE implications, in this case though for staff coming back to the council from Capita.

### Governance effectiveness

The Company model appears to offer the simplest and most effective governance model, the joint committee or joining an existing shared service adding some complexity. Outsourced models are simple but at the cost of having to maintain a client function; on that basis we are giving the lowest score to the Tower Model, where a number of contracts need to be managed, potentially leading to a larger – and therefore even costlier – client team.

### Ease of implementing organisational change

The Joint Committee model allows all staff to remain on their existing terms and conditions, so it is considered to be the easiest model to implement. The process of establishing the shared service will obviously lead to a restructure, new job descriptions and changes in reporting lines, however with this model we are not adding the complexity of TUPE and potential changes to staff current and/or future terms & conditions – for example staff may move to a private sector partner under their current terms, however a future promotion or change to their role would lose them that protection.

### Flexibility in service delivery

Having a partnership either setup as a company or managed by committee would give Brent and Lewisham the maximum level of control around service delivery. Outsourced models tend to be more rigid, driven by what is written in the contract for the full period of the agreement. The Towers Model potentially allows a level of control by the fact that it is a collection of smaller contracts that could be terminated/re-let independently, while the option of joining an existing shared service does allow some flexibility, however with more partners needed to agree on changes.

### Flexibility to evolve model

The joint committee model allows the partners to freely vary the model as long as they can agree on the changes. Any other model would either not be possible to change or at least not without incurring significant costs.

### Resilience

All models are considered as equally resilient.

### Potential for cultural change

By definition any model that transfers staff to a different organisation maximises the potential for cultural change. The potential is limited with the joint committee and PPP models, while the option for Lewisham to extend their contract is a no-change option.

### Local employment opportunities

Lower score has been given to the outsourced options as they are considered to offer lower levels of support for local employment opportunities.

### Recommendation

The recommendation based on the above appraisal is to set up a joint ICT service for Brent and Lewisham, managed by a Joint Committee. This option has attracted the highest score and is also the option that seems to be favoured by other partnerships in place.

This is a low-cost easy to implement model, allowing the partners flexibility, the potential for additional savings and/or raising income through external work in the future. Therefore it is recommended that the legal departments of Brent and Lewisham jointly start work on an agreement

for the two boroughs, allowing for transition arrangements to commence by May 2015 and aiming for the shared service to be fully in place by April 2016.