

## **SCHEDULE 8**

### **FINANCIAL PRINCIPLES**

1. The financial principles set out the way in which costs for Shared Technology Services are apportioned to each of the Councils.
2. It is important to note that costs could be apportioned in a number of ways, each with an underlying logic and validity, and there is often no right answer. Arguably, the most important aspects of the financial model are:-
  - that it sets out to apportion costs fairly across all three Councils,
  - that costs are transparent,
  - that the Councils work in a climate of mutual trust
  - that, over time, the principles are developed to reflect changing service delivery requirements, methods and circumstances.
  - Pay for what you use

#### **General Principles:**

3. There are six general financial principles:
  - i. The setting of each Council's ICT budget is a Reserved Decision for each Council.
  - ii. Each Council understands that changes to their ICT budget may impact upon Shared Technology Services and/or the other Councils. Each will therefore work in a spirit of trust and collaboration to minimise any adverse impact as a result of changes to budget.
  - iii. Each Council accepts that expenditure will increase as a result of inflation, wage settlement or other factors beyond the control of the Host Council.

Each Council will therefore reasonably commit to funding their apportionment of any such agreed increase in cost.

- iv. The Councils understand that the effectiveness of Shared Technology Services is underpinned by forward planning and financial stability and that this is supported by a multi-year budget setting period.
- v. The Councils understand that changing use pattern, consumption or volume of ICT services may not result in an immediate or any realisable saving. Consequently, changes or reductions in budget apportionment may rely on actual savings being achieved and should not generally result in increased cost to the other Councils.
- vi. The Councils accept that Shared Technology Services is effectively an in-house team. Consequently, cost risks associated with such a delivery model will be apportioned to the Councils in accordance with these financial principles if and when they arise.

**Apportionment Metrics:**

4. The financial model uses four means of apportioning costs to the Councils.

- User Based:

Costs are apportioned to each Council based on their number of active users as determined by live “Active Directory” user accounts rounded to the nearest one hundred. User based apportionment will be the default metric for charging of Shared Technology Services including treatment of surplus/deficit.

<b><u>Active Directory User Count</u></b>
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	<b><u>LB Brent</u></b> <b><u>(of which LGA)</u></b>	<b><u>LB Lewisham</u></b> <b><u>(of which LH)</u></b>	<b><u>LB</u></b> <b><u>Southwark</u></b>
<b><u>2017/18</u></b> Active Users (Original)	3,000	2,500	4,500
2020/21 Active Users (New)	3,350 (450)	3,400 (600)	4,800
<b><u>User Based Apportionment</u></b>			
2017/18 Apportionment (Original)	30%	25%	45%
User Based Apportionment (New)	29% (3.9 %)	29.44% (5.19%)	41.56%

**Table 1: Active Directory Users as at 1/06/2017 for Original apportionment and 11/11/2020 for new apportionment**

- Consumption Based:

Costs are apportioned to each Council based on their respective use of the resource being recharged.

- Equal Apportionment:

Costs are apportioned with each Council paying (33.3% or 50%) a percentage of the cost depending upon the number of Councils benefitting. An example being a project which is of equal benefit to all three Councils.

- Sole Use:

Resource can be identified as used by a single Council and is therefore recharged to that Council in its entirety.

**Shared Technology Services Costs:**

5. Shared Technology Services Costs can be categorised as:-

- 5.1. Staff Remuneration Costs: includes staff salary and associated on-costs (NI and pension contributions, holiday pay, sick pay, etc), overtime, allowances, training, travel, etc.
- 5.2. Staff Overhead Costs: includes accommodation costs, supporting staff and services (HR, payroll, pension, legal, procurement, management).
- 5.3. Infrastructure costs: Includes infrastructure hardware and software, data centre hosting, core network connectivity, internet connectivity, storage, backup, security services, 3rd party support and maintenance agreements, consultancy, etc.
- 5.4. Project Costs.
- 5.5. Transition and other one-off costs.
- 5.6. TUPE Protected Costs: agreed and identified miscellaneous (insurance, car, health or other allowances) costs arising from TUPE of Lewisham, Previous Lewisham Contractor, Southwark and/or Previous Southwark Contractor staff to Brent.
- 5.7. Reorganisation Costs: those costs as defined in the Agreement.
- 5.8. Dismissal and Early Retirement Costs: Costs incurred on the dismissal or early retirement of Shared Technology Services Staff other than Reorganisation Costs and Exit Redundancy Costs.
- 5.9. Exit Redundancy Costs: the costs referred to in clause 3.12.1 of Schedule 2 (redundancy and dismissal costs which may be incurred by Brent at the end of any Exit Period).
- 5.10. LGPS Capital Costs as defined in Schedule 2

**Staffing and Infrastructure Costs:**

Staffing and infrastructure costs will initially be apportioned as set out below.

- Table 2a shows costs that will be apportioned based on user numbers
- Table 2b shows any costs that are charged on a Sole Use basis
- Table 2c shows any costs that will be apportioned based on consumption

Table 2a: User Based Apportionment:

Type	Description
Default	Default charging metric for all costs/surplus/deficit/profit except where detailed below or agreed otherwise by the Joint Management Board
Staff Remuneration and Staff Overheads	Staff Remuneration Costs and associated overhead costs for Shared Technology Services staff and supporting services
ICT Hardware	Hardware used by ICT staff – desktops, monitors, laptops, etc
Consultancy	External specialist support as and when required by Shared Technology Services.
Hardware Maintenance	General repairs of workforce desktops, laptops, monitors – excludes consumables like batteries, keyboards, mice
Data Centre Hosting	Rack space including power (core).
	Rack space including power (service specific).
Shared Infrastructure	Support and maintenance of core network, server and storage infrastructure cost.
Network Maintenance	Support and maintenance for core network

Internet & PSN Connectivity	Resilient internet links with PSN services.
Premier Support	Microsoft Premier Support Agreement
Security Testing	Ongoing testing (PSN, PCI DSS)
Service Desk	License Subscription for Service Desk system
Password self-service	Maintenance & Support for Quest Password Manager.
Web Filter	iBoss licenses.
Email Filter	Proofpoint licenses.
Mobile Device Management	Maintenance & Support for Mobile Iron
2-Factor Authentication	Maintenance & Support for Freja Appliance licenses.

*Table 2a: Apportionment Metrics based on User numbers*

Table 2b: Sole Use Costs:

Type	Description
Consultancy	External specialist support as and when required for project or Council specific requirement.
Service Desk	License Subscription for Council Application Admins
SQL Replication	Maintenance & Support for Double-Take software
Data Centre Links	Links to connect each Council with the data centres and/or core network.

Microsoft Licenses	EA subscription covering Desktop licenses, Office products and Server components.
Certificates	Certificates for external web sites/services
Citrix Licenses	Citrix Support & Maintenance
Virtualisation Licenses	VMWare Support & Maintenance (core)
	VMWare Support & Maintenance (service specific)
Telephone Network	Maintenance & Support of telephony network including ACD
Telephony Lines & Calls	All telephony circuits / PSTN / call charges
Mobile Telephony	Mobile phone line rentals, call charges, data charges
Data Circuits	Rental of all Wide Area Network data circuits
Printing	Maintenance & Support of print devices and print charges (including consumables)

Table 2b: Sole Use costs

Table 2c: Consumption based Apportionment:

Type	Description
Consultancy	External specialist support as and when required for project or Council specific requirement.
Service Desk	License Subscription for Council Application Admins
SQL Replication	Maintenance & Support for Double-Take software

Table 2c: Consumption Based Apportionment

6. Except where identified above or as otherwise agreed by the Joint Management Board and/or Joint Committee, each Council will meet the cost of their local (non-Shared Technology Service) ICT staff, applications and other ICT services.

**Project related costs:**

7. It is anticipated that many projects will be delivered using Shared Technology Services project and technical support teams. The salary and on-costs for these staff are covered within the staff related support costs and therefore, subject to demand, for many projects no additional funding will be required for staff resource. Funding of infrastructure (hardware, software, licences, etc) required to deliver a project may still need to be funded and where this applies funding will be apportioned as set out in accordance with this schedule.
8. Some projects will be of such size or technical complexity that they require additional resource or skills or backfill staff. Where this is the case such costs will be met by the commissioning beneficiary Councils. Unless for a single Council or agreed otherwise by the Joint Management Board, project resource costs will be apportioned on an equal basis.
9. The Councils accept that project requirements will vary year to year and therefore apportionment of resource may not mirror cost apportionment in any single year – but should average out over a longer period.
10. Where appropriate Southwark intend to recharge project costs to internal departments. Southwark and Shared Technology Services will therefore agree a notional rate card for shared service support resources and the project initiation documentation for each project will identify the estimated resource requirement and notional rate. Southwark will be responsible for undertaking the internal recharge process.
11. Wherever the Host Council undertakes the procurement services or activities supporting the other Councils, this shall be deemed to be part of Shared



Technology Services and the Host Council shall be entitled to recover its costs in relation to the procurement services or activities as part of Shared Technology Services Costs incurred pursuant to this Agreement.

**Transition and other one-off costs:**

12. Developing the shared service offer, due diligence and subsequent transitioning is being treated as a project. Costs for the first two phases of transition will be defined and will be met by Southwark. These costs are included in the estimated budget for year 1 of Shared Technology Services and Southwark will look to capitalise these.

**TUPE, Reorganisation, Dismissal, Exit Redundancy Costs and LGPS Capital Costs:**

13. At any future transfer date a transferring Council will pay any related TUPE Protected Costs as agreed by the Joint Management Board.

14. Any Reorganisation costs and their apportionment as a result of any future reorganisation of Shared Technology Services, shall be agreed by the Joint Management Board.

15. Dismissal and Early Retirement Costs: these costs will be apportioned using the user based metric applicable at that time subject to Schedule 2, clause 5.2.

16. Exit Redundancy Costs:

16.1. Where these costs arise on the withdrawal of a Council under clause 14 of the Agreement these costs shall be met by the Withdrawing Council.

16.2. Where these costs arise on the termination of the Agreement under clause 15 of the Agreement these costs are met by the Councils as set out in Table 2a of this Schedule unless termination occurs pursuant to paragraph 28.1.2 of this Schedule in which case they are met by the Withdrawing Council.

17. LGPS Capital Costs these costs shall, subject to the agreement of the Joint Management Board on each occasion, be apportioned as follows:

- 17.1. where they fall within Reorganisation Costs they shall be apportioned in accordance with the applicable Reorganisation Costs apportionment set out in paragraph 14 above;
- 17.2. where they fall within Dismissal and Early Retirement Costs they shall be apportioned in accordance with the applicable Dismissal and Early Retirement Costs apportionment set out in paragraph 15 above;
- 17.3. where they fall within Exit Redundancy Costs they will be subject to the apportionment set out in paragraph 16 above.

**Budget setting:**

18. To support clause 5 of the Agreement:-

- 18.1. Shared Technology Services budget will be reviewed in August/September for the following financial year taking into consideration service performance, inflation and other cost pressures, Council savings targets, the requirement to increase or decrease resource as a result of changes in service requirements or demand and any other factors considered relevant.
- 18.2. the proposed budget requirement will be agreed by the Joint Committee no later than 30 November.
- 18.3. the Councils will be responsible for agreeing the ICT budget within their respective Councils.

**Billing:**

19. Shared Technology Services will produce a monthly invoice in arrears for all Shared Technology Services Costs and additional agreed staff, infrastructure, 3<sup>rd</sup> party, project and other costs incurred on behalf of Southwark.

20. Shared Technology Services will take over and continue to provide itemised billing for telephony and printing to facilitate recharging within Southwark. This is an area for review in the future.

**Financial Review:**

21. At the end of each financial year the Managing Director of Shared Technology Services will present to the Joint Management Board the Annual Accounts for the previous 12 months as set out in clause 12.10 of the Agreement. If there isn't an acceptance, instigate the Dispute Resolution Process set out in Schedule 10.

22. At the start of each financial year the Managing Director of Shared Technology Services will present to the Joint Management Board the agreed Shared Technology Services budget for the coming 12 months.

**Budget Surplus / Deficit:**

23. At the end of each financial year:-

23.1. if any surplus or unused agreed budgeted costs of Shared Technology Services (as viewed against the Annual Budget and Annual Service Plan) arises it will be distributed between the Councils apportioned using the same cost metric as was used for charging as set out in table 2.

23.2. any deficit between the actual Shared Technology Services Cost and the agreed budgeted Shared Technology Services Cost will be apportioned to Councils using the appropriate apportionment metric as set out in table 2. All payments due under this clause will be made within thirty (30) Business Days of such agreement or determination.

**Managing Change:**

24. Subject to clause 31.4 of the Agreement, any changes to the level of service commissioned by the Councils during the year, or in the associated service costs will be reported to the Joint Management Board for consideration. It is expected

that this will occur annually to align with budget setting; however the Managing Director of Shared Technology Services may bring a report to the board at any time if the change impacts the service or budget such that it warrants their early attention.

**Income:**

25. Unless agreed otherwise by the Joint Management Board, any surplus income generated from using Shared Technology Services resources to deliver services outside of the agreed partnership or through mutual investment in new services will be apportioned to the Councils as set out in table 2.

**Expansion of Shared Technology Services:**

26. Should the shared service expand in the future the Joint Management Board will review and agree the metrics to be used. It is expected that any expansion of the shared service must be to the benefit of all existing Councils.

27. Should a partner choose to in-source a previously outsourced service, or agree with another organisation to manage their ICT needs, this should be treated as an uplift to the partner's apportionment by number of active users, plus other 'Sole Use' costs identified.

**Exiting Shared Technology Services:**

28. The principles governing exit from Shared Technology Services are;-

28.1. that where pursuant to clause 14 of the Agreement a Council issues notice to withdraw from Shared Technology Services, unless the three Councils agree otherwise exit costs which arise will be apportioned in accordance with either;

28.1.1. table 3a of this Schedule, or

28.1.2. in the event that their withdrawal results in the effective termination of the Agreement, table 3b of the Schedule.

- 28.2. Where in relation to termination of this Agreement:
- 28.2.1. where pursuant to clause 15 the Councils agree to terminate the Agreement any exit costs which arise will be apportioned in accordance with table 4 of this Schedule unless paragraph 31.1.2 applies.
  - 28.2.2. where pursuant to clause 25 the Councils agree to terminate the Agreement or one Council withdraws from the Agreement any exit costs which arise will be apportioned in accordance with table 4 of this Schedule.
- 28.3. that no Council will be unduly financially penalised as a result of exit and Shared Technology Services principles of fairness will prevail.
- 28.4. that the Withdrawing Council will be responsible for making its own future arrangements at no cost to the Remaining Councils for the re-procurement of replacement assets or services.
- 28.5. that the Remaining Councils will be responsible for making their own future arrangements at no cost to the Withdrawing Council for the re-procurement of replacement assets or services.
- 28.6. that as detailed in clause 14.5 of the Agreement, the Withdrawing Council will remain liable for its share (as calculated in accordance with the terms of this Agreement) of any costs incurred by Shared Technology Services during its time as a member up to and including the date upon which its membership terminates even if such costs do not become apparent or become due for payment until after the date of such termination.
- 28.7. That where contracts are renewed in the Exit Period the Withdrawing Council shall be liable for reasonable existing financial commitments post Exit Period but shall not be required to commit to contracts which extend further than 12 months beyond the agreed Exit Period and each Council shall be responsible

for their own on-going costs including any future increase in cost which arises as a result of loss of volume discount.

28.8. that the Withdrawing Council shall not be liable for any payments in relation to the use of Host Council Assets, as detailed in the Asset Register or other relevant documents, which arise after the Exit Period.

28.9. that in the spirit of partnership and value for residents all Councils will seek to minimise exit costs.

29. Table 3a below sets out in detail the responsibility for costs arising from a Council withdrawing from Shared Technology Services pursuant to clause 14.

Cost Description	Shared Technology Service	Withdrawing Council <sup>i</sup>	Comment
Shared Technology Services Exit Manager	*	X	Where practical to avoid or limit cost this should be resourced from within Shared Technology Services. Should resource capacity not allow this the Withdrawing Council shall be responsible for the cost.
Council Exit Manager		X	Each exiting Council shall pay for their own Exit Manager
Shared Technology Services resources to undertake Exit activities.	*	X	Where practical to avoid or limit cost this should be resourced from within Shared Technology Services. The Withdrawing Council and other exiting Council(s) may choose to scale back project work to free resource for exit activities.

			The Withdrawing Council and other exiting Council(s) are responsible for cost of any additional/backfill resource.
Council resources to undertake Exit activities.		X	Each exiting Council shall pay their own costs.
Activities related to selection and appointment of replacement contractor(s)	*	X	Each exiting Council will cover costs (including legal, procurement, HR) of selection and appointment of replacement contractor(s).  Shared Technology Services will provide asset and other technical information as required to prepare a Council information pack for tenderers and reasonable resource to respond to clarification questions.
Assets required by Withdrawing Council	*	X	The treatment / cost apportionment of all Assets will be as set out in the Asset Register and in Schedule 5 (Exit Management).
Physical and logical migration of assets to Council or replacement	*	X	Each exiting Council will have primary responsibility for the relocation, migration and/or transfer of assets and services to them or their replacement contractor(s).

contractor(s).			Such transfer will likely require the assistance of Shared Technology Services and where practical to avoid or limit cost this should be resourced from within Shared Technology Services. Should resource capacity not allow this the exiting Council shall be responsible for their proportion of the cost.
Employment costs		X	The provisions of Schedule 2 (Employment and Pensions) and paragraphs 19 and 20 of this Schedule 8 shall apply
Increased cost arising from loss of volume discount	X	X	Each party shall be responsible for their own costs.
Costs for Shared Technology Services arising from loss of anticipated income post Exit Period	X		Host Council and Remaining Councils have liability for committed costs post Exit Period.

Table 3a – Cost apportionment arising from withdrawal

30. Table 3b below sets out in detail the responsibility for costs arising from a Council withdrawing from Shared Technology Services pursuant to clause 14 of the Agreement which results in the effective termination of the Agreement.



Cost Description	Shared Technology Service	Withdrawing Council	Other Council/s	Comment
Shared Technology Services Exit Manager	*	X		Where practical to avoid or limit cost this should be resourced from within Shared Technology Services. Should resource capacity not allow this the Host Council shall be responsible for the cost.
Council Exit Manager		X	X	Each Council shall pay for their own Exit Manager
Shared Technology Services resources to undertake Exit activities.	*	X	X	Where practical to avoid or limit cost this should be resourced from within Shared Technology Services. The Host Council and other Council may choose to scale back project work to free resource for exit activities.  The Host Council and other Councils are

				responsible for the respective costs of any additional/backfill resource required to support their exit activities.
Council resources to undertake Exit activities.		X	X	Each Council shall pay their own costs.
Activities related to selection and appointment of replacement contractor(s)	*	X	X	Each Council will cover costs (including legal, procurement, HR) of selection and appointment of replacement contractor(s).  Shared Technology Services will provide asset and other technical information as required to prepare a Council information pack for tenderers and reasonable resource to respond to clarification questions.
Assets required by Withdrawing	*	X	X	The treatment / cost apportionment of all

Council				Assets will be as set out in this Schedule, the Asset Register and in Schedule 5 (Exit Management).
Physical and logical migration of assets to Council or replacement contractor(s).	*	X	X	<p>Each Council will have primary responsibility for the relocation, migration and/or transfer of assets and services to them or their replacement contractor(s).</p> <p>Such transfer will likely require the assistance of Shared Technology Services and where practical to avoid or limit cost this should be resourced from within Shared Technology Services. Should resource capacity not allow this each Council shall be responsible for the respective cost for the work they require to be actioned.</p>
Employment		X	X	The provisions of Schedule 2

costs				(Employment and Pensions) and paragraphs 19 and 20 of this Schedule 8 shall apply
Increased cost arising from loss of volume discount	X	X	X	Each Council shall be responsible for its own costs.
Costs for Shared Technology Services arising from loss of anticipated income post Exit Period	X			Host Council has liability for committed costs post Exit Period.

*Table 3b – Cost apportionment arising from a Council withdrawal and effective termination*

31. Table 4 below sets out in detail the responsibility for costs arising from the Councils agreeing to terminate the agreement pursuant to clause 15.

Cost Description	Shared Technology Service	Councils	Comment
Shared Technology Services Exit Manager	X		Where practical to avoid or limit cost this should be resourced from within Shared Technology Services. Should resource capacity not allow

			this all Councils shall be equally responsible for the cost.
Council Exit Manager		X	Each Council shall pay for their own Exit Manager
Shared Technology Services resources to undertake Exit activities.	*	X	Where practical to avoid or limit cost this should be resourced from within Shared Technology Services. All Councils may need to scale back project work to free resource for exit activities.  Each Council shall be responsible for their respective exit activity costs and any required additional / backfill resource.
Council resources to undertake Exit activities.		X	Each Council shall pay their own costs.
Activities related to selection and appointment of replacement contractor(s)	*	X	Each Council will cover their own costs (including legal, procurement, HR) of selection and appointment of replacement contractor(s).  Shared Technology Services will provide asset and other technical information as required to prepare a Council information pack for tenderers and reasonable resource to respond to clarification questions.

Assets required by Council	*	X	<p>The treatment / cost apportionment of all Assets will be as set out in this Schedule, the Asset Register and in Schedule 5 (Exit Management)..</p> <p>Each Council will cover their own costs for any additional or replacement assets required by them.</p>
Physical and logical migration of assets to Council or replacement contractor(s).	*	X	<p>Each Council will have primary responsibility for the relocation, migration and/or transfer of their own assets and services to them or their replacement contractor(s).</p> <p>Such transfer will likely require the assistance of Shared Technology Services and where practical to avoid or limit cost this should be resourced from within Shared Technology Services. Should resource capacity not allow this each Council shall be responsible for the respective cost for the work they require to be actioned.</p>
Employment costs		X	The provisions of Schedule 2 (Employment and Pensions) and paragraphs 19 and 20 of this Schedule 8 shall apply
Increased cost arising from loss		X	Each Council shall be responsible

of volume discount			for their own costs.
Costs for Shared Technology Services arising from loss of anticipated income post Exit Period	X		Host Council retains liability for committed costs post Exit Period.

Table 4 – Cost apportionment arising from termination