

Changes to STS core budget following a step-change in user numbers

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Version Control

<i>Version</i>	<i>Summary</i>	<i>Date</i>	<i>Editor</i>
0.1	First version	10/08/2022	TDG
0.2	Additional scenario added for mid-year change	11/08/2022	TDG
0.3	Additional section showing historic Cost/User	12/08/2022	TDG
0.4	Including LGA and LH figures in scenarios	18/08/2022	TDG

Document Approval

<i>Version</i>	<i>Date</i>	<i>Approver</i>
1.0	18/08/2022	Fabio Negro
	31/08/2022	JMB

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Introduction

This document outlines a proposed change to the treatment of step-changes in user numbers either at the start of, or during a financial year cycle.

If accepted, the mechanism will be included in the next revision of the Inter Authority Agreement.

Recommendation

The recommendation is to use the simple cost per user model for budgeting purposes, and to review its effectiveness on a regular basis.

This paper and proposal was discussed at JMB on 31st August 2022, and consensus was reached that it would be difficult to identify and manage tiers of users (full and light, as described below). It may result in a drive to increase the number of light users in an effort to reduce overall costs. However, a change in the mix of full/light users would simply result in a change to cost per user for each to redress the balance of payments.

IAA Schedule 8 - Apportionment

Since its inception, the STS apportionment & charging mechanism has fundamentally remained unchanged.

The section of the Inter Authority Agreement (IAA) related to charging in Schedule 8 Financial Principles currently reads:

Apportionment Metrics:

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.

<u>Active Directory User Count</u>			
	<u>LB Brent</u> <u>(of which LGA)</u>	<u>LB Lewisham</u> <u>(of which LH)</u>	<u>LB Southwark</u>
<u>2017/18</u> Active Users (Original)	3,000	2,500	4,500
2020/21 Active Users (New)	3,350 (450)	3,400 (600)	4,800
<u>User Based Apportionment</u>			
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.

The apportionment percentage is reviewed on an annual basis, in September, to assist with budgeting for the following year.

However there is also a provision in the IAA to cater for in-year changes:

- 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.

Whilst this would cater for a significant change in user numbers, and therefore to the apportionment, it doesn't address the increased burden on the STS budget, resources and service ticket volumes that would subsequently occur with such an increase.

Historically, where we have onboarded a whole service (e.g. Lewisham Homes), the increased cost of support has been calculated as a one-off exercise, usually as part of any onboarding project. However, this hasn't been the case where significant (≥ 100) users, who may have in the past not required IT services, now do. The impact of such changes is that our service teams, without a commensurate increase in resource to manage the increase, are unable to meet the new demand placed upon them.

Proposed change

To address this omission from the IAA, it is proposed that we have a mechanism to increase overall STS budget in line with the increase in users supported. This has the following benefits:

1. STS is more equipped to manage the demand for support
2. STS is able to more easily increase capacity of storage etc. to meet the increase demand
3. The Partner Councils not increasing user numbers will be less impacted by the increase in demand
4. The Partner Councils not increasing user numbers will overall not see significant change to IT budget, as any increase would be in-line with the apportionment change (see below for examples)
5. Additional spend for user-based licenses (not M365 as these are directly charged based on use / licence type) could be managed within STS.

Cost per user

In order for this mechanism meet the IAA principles of being fair, transparent and “pay for what you use”, we are proposing the introduction of a Cost Per User calculation.

In previous years, the total cost per user (Total STS budget ÷ Total number of users) has progressively reduced year by year:

	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23 (CURRENT)
TOTAL BUDGET	£14,669,240	£14,597,314	£14,621,914	£15,035,423
TOTAL USERS	10,000	10,000	10,950	11,750
TOTAL COST PER USER	£1,467	£1,460	£1,335	£1,280

Whilst this demonstrates the increased efficiency in STS operations over time, any step-changes in user numbers would have an immediate impact on our ability to deliver services.

To calculate a realistic cost per user, we need to take into consideration those costs that are fixed, which would not vary dependent on user numbers.

Therefore, the cost per user would be based on any variable element to STS budget; variable being any element that would need to flex with the change in user base, including:

- Staffing
- Storage
- Core licenses
- Subscription costs for device-based licenses (M365 licenses are not part of STS budget)

The calculation of Cost Per User based on FY2022/23 budget is:

£1,029 per user, of which:

£651 is staffing

£378 is variable licenses / capacity costs

Tiered approach to cost per user

It has been suggested that, as there are different types of users in each partner, it may be more appropriate to model the cost per user based on these user types.

The typical user types would therefore be classified as:

“Full” user (laptop and/or phone)

“Light” user (no corporate device)

Currently, there is no definitive data on these user types. However, with the implementation of our asset management system, we should be able to categorise users based on the devices they have been allocated.

The additional support required for users with corporate devices would typically be provided by STS On-site support teams, relating to:

- Hardware issues relating to the laptop (1336 tickets raised in last 90 days, 4.8% of total)
- Hardware issues relating to the phone (965 tickets raised in the last 90 days, 3.5% of total)
- Connectivity / Wi-Fi issues relating to the device (1408 tickets raised in last 90 days, 5.1% of total)

The total tickets raised in last 90 days is 27,608, of which 3709 are device related, or 13.4%.

Device Management	Active Laptops (in last 90 days)	Active Users	Percentage with Laptop
Brent	3,340	3,706	90%
Lewisham	2,731	3,174	86%
Southwark	4,720	5,028	94%
Total / Average	10,791	11,908	91%

Mobile device management	Number of Active devices	Active Users	Percentage with Phone
Brent	2991	3706	80%

Lewisham	3527	3174	111%
Southwark	5421	5028	108%
Total / Average	11939	11908	100%

Example Scenarios

Example 1 (full year change): LBS increase ICT supported user base by 200 users, start of financial year.

Current Apportionment / Budget per Partner (FY22/23):

Partner	Users	Apportionment	Budget per partner
Brent	3650	31.06%	£4,670,578
<i>of which LGA</i>	450	3.83%	£575,825
Lewisham	3300	28.09%	£4,222,715
<i>of which LH</i>	600	5.11%	£767,766
Southwark	4800	40.85%	£6,142,130
TOTAL	11750	100.00%	£15,035,423

Current mechanism - With additional 200 LBS users (apportionment only):

Partner	Users	Apportionment	Budget per partner	Difference
Brent	3650	30.54%	£4,592,410	-£78,169
<i>of which LGA</i>	450	3.77%	£566,187	-£9,637
Lewisham	3300	27.62%	£4,152,041	-£70,673
<i>of which LH</i>	600	5.02%	£754,917	-£12,850
Southwark	5000	41.84%	£6,290,972	£148,842
Total	11950	108.79%	£15,035,423	£0

In the current model, with no increase to base budget, STS would not be correctly sized to manage the increase in user numbers.

New proposal - With additional 200 LBS users (apportionment + cost per user):

Partner	Users	Apportionment	Additional Per User	Budget per partner	Difference
Brent	3650	30.54%	£0	£4,655,269	-£15,309
<i>of which LGA</i>	450	3.77%	£0	£573,937	-£1,887
Lewisham	3300	27.62%	£0	£4,208,873	-£13,841
<i>of which LH</i>	600	5.02%	£0	£765,250	-£2,517
Southwark	5000	41.84%	£205,800	£6,377,081	£234,951

Total	11950	108.79%	£205,800	£15,241,223	£201,396
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This more fairly reflects:

- the additional variable cost increase to LBS and the apportionment increase for fixed costs
- the decrease to LBB and LBL reflect the reduction in apportionment for fixed costs.

Example 2 (mid-year change): LBS increase ICT supported user base by 200 users, starting September in the financial year.

Current Apportionment / Budget per Partner (FY22/23):

Partner	Users	Apportionment	Budget per partner
Brent	3650	31.06%	£4,670,578
<i>of which LGA</i>	450	3.83%	£575,825
Lewisham	3300	28.09%	£4,222,715
<i>of which LH</i>	600	5.11%	£767,766
Southwark	4800	40.85%	£6,142,130
TOTAL	11750	100.00%	£15,035,423

Current mechanism - With additional 200 LBS users (apportionment only):

Partner	Users	Apportionment	Budget per partner pre September	Budget per partner September onwards	Total	Difference
Brent	3650	30.54%	£1,946,074	£2,678,906	£4,624,980	-£45,598
<i>of which LGA</i>	450	3.77%	£239,927	£330,276	£570,203	-£5,622
Lewisham	3300	27.62%	£1,759,464	£2,422,024	£4,181,489	-£41,226
<i>of which LH</i>	600	5.02%	£319,903	£440,368	£760,271	-£7,496
Southwark	5000	41.84%	£2,559,221	£3,669,734	£6,228,955	£86,824
Total	11950	108.79%	£6,264,760	£8,770,663	£15,035,423	£0

New proposal - With additional 200 LBS users (apportionment + cost per user):

Partner	Users	Apportionment	Additional Annual Per User	Budget per partner pre September	Budget per partner September onwards	Total	Difference
Brent	3650	30.54%	£0	£1,946,075	£2,715,574	£4,661,649	-£8,929
<i>of which LGA</i>	450	3.77%	£0	£239,927	£334,797	£574,724	-£1,101
Lewisham	3300	27.62%	£0	£1,759,465	£2,455,176	£4,214,642	-£8,073
<i>of which LH</i>	600	5.02%	£0	£319,903	£446,396	£766,298	-£1,468

Southwark	5000	41.84%	£205,800	£2,559,222	£3,719,964	£6,279,186	£137,056
Total	11950	108.79%	£205,800	£6,264,763	£8,890,713	£15,155,477	£117,485

In this mid-year example, the full increase (+£205,800) would be reflected in the following financial year's budget.

Example 3c Change to mix of users in LBS (100 full users changed to 100 light users)

Current Apportionment / Budget per Partner (FY22/23):

Partner	Users	Apportionment	Budget per partner
Brent	3650	31.06%	£4,670,578
<i>of which LGA</i>	450	3.83%	£575,825
Lewisham	3300	28.09%	£4,222,715
<i>of which LH</i>	600	5.11%	£767,766
Southwark	4800	40.85%	£6,142,130
TOTAL	11750	100.00%	£15,035,423

Step decrease in user numbers

The proposal above would take place immediately when users are onboarded; this is required for additional licenses, increasing staffing headcount etc.

However, in the instance that there's a step decrease in headcount (≥ 100), we wouldn't be able to decrease budget immediately; this is due to the potential impact on our staffing establishment, and ongoing license costs for users (e.g. E3/E5) until the account and data is deleted.

If a step decrease were to occur, it is proposed that this is factored in for budgeting the following financial year. If this resulted in a net underspend in budget, this would be distributed to the partners as usual.