



London Borough of Hammersmith & Fulham

Cabinet

20 JUNE 2011

LEADER

Councillor Stephen Greenhalgh

CONTRIBUTION TO THE FUNDING FOR PROJECT ATHENA

**Wards:
ALL**

This report seeks the Cabinet's approval to fund a contribution to the costs of further analysis for and the development of a full specification for Project Athena – a programme that could lead to significant cost reductions in corporate services.

The City of Westminster and the Royal Borough of Kensington & Chelsea are also seeking approval for project funding. Additional funding from Capital Ambition has been agreed.

CONTRIBUTORS

DFCS
ADLDS

Recommendation:

Approve a contribution of £335,000, from the Efficiency Projects Reserve, toward the cost of developing a specification for the Project Athena Managed Solution Stream.

<p>HAS A PEIA BEEN COMPLETED? YES</p>
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1. BACKGROUND

- 1.1 As part of the prospective “Tri-borough” Authority agreement, Westminster, Hammersmith & Fulham, and the Royal Borough of Kensington & Chelsea propose to work as strategic partners on a number of different fronts to streamline services and deliver savings.
- 1.2 Joint working ideally requires joint support service provision. Currently the three boroughs have different Finance, HR, Procurement and Property IT systems and arrangements. Westminster has outsourced a number of these services.
- 1.3 Project Athena is a programme of work to look at a fully outsourced, managed solution for a number of corporate services that could provide a route to the three boroughs sharing these services.
- 1.4 The project could also provide benefits across London. Although the core is based on the Tri-Borough councils, the project will provide a framework and a body of experience available to other, named London boroughs.

2. PROPOSED MODEL

- 2.1 The ‘target operating model’ for this project is for the three councils to use common processes and share access to multi-tenanted, cloud-based, fully managed business services (see appendix 1), used in the same way to deliver a shared support function. For the avoidance of doubt this refers to a **fully outsourced** solution including the hosting and processing of transactions. Authorities will be purchasing an end to end managed service rather than a system.
- 2.2 The project is referred to as the Athena “**Managed Solution Stream**” (see appendix 1) which London Local Authorities can buy into under a framework agreement. The project will incorporate and build on some of the useful outputs expected from the other Athena streams such as standardised business processes and a common chart of accounts.
- 2.3 A Tri-borough team will lead a single procurement under a framework agreement with the support of additional Athena Authorities. The procurement will be let in four “lots” for the following functional, managed service contracts:
 - Finance / Accounting / Procurement – end to end Purchase to Pay;
 - HR / Payroll;
 - Property / Asset Management; and
 - Integration / Business Intelligence / Reporting
- 2.4 The key benefit of this proposal is a managed service arrangement allowing for flexibility, scalability, and a shared environment for handling and processing related transactions. Once delivered, this project will allow for a unique opportunity for participating councils to rationalise, streamline, share

and reduce resources applied to these services, significantly reducing unit costs. Flexibility is key as it facilitates tri borough working in particular and shared services in general.

- 2.5 In summary, the proposition is to procure a four-year framework to provide for the letting of contracts for up to four years (and an option for extending it for up to three further years) for participating London Boroughs, allowing organisations to buy into the service at their convenience within the four year period.
- 2.6 It should be in the interest of major, potential suppliers to develop such a service as:
- others will do if they do not;
 - their existing business of selling software licences (with endless updates and high costs of moving from one supplier to another) or providing piecemeal, outsourced services will disappear; and
 - The potential market in due course stretches well beyond London boroughs.
- 2.7 Unfortunately, this does not mean that this project is easy or will produce reliable results. It is path-breaking; it requires a comprehensive specification (entailing the diversion of officers' time from other tasks), probably some significant compromises on the part of participating Councils in the way they run corporate services and some as yet unknown and unknowable transition costs to a new model if one is successfully developed and if we choose to sign up for it. The number of existing interfaces between finance and other systems represents a complicating factor where the risks will need to be carefully managed. However the scale of potential benefits means that these are risks worth taking.

3. THE FINANCIAL CASE

3.1 The financial case is still being developed given the relatively early stages around tri-borough working. However, the tables below show the assumptions around current costs and cashable benefits:

3.2 The current annual costs of services for the Tri-Borough Authorities as at April 2011 within the scope of the Project are shown in the table below:

	HR	Finance & Procurement	Property *	IT Systems	Business Intelligence	Total
	£k	£k	£k	£k	£k	£k
Westminster City Council	2,355	6,010		2,935	750	12,050
Hammersmith and Fulham	2,930	5,664		1,360	750	10,704
Kensington and Chelsea	2,524	3,796		1,850 **	750	8,920
Total	7,809	15,470		6,145	2,250	31,674

**To date the Property workstream is less clearly defined and the existing costs and additional benefits will be added as this work is progressed.*

***Costs estimated based upon WCC costs – WCC costs include depreciation*

3.3 The cashable benefits will be firmed up for each workstream as the project progresses. However an initial estimate has been made based upon the current costs, work already completed on potential efficiencies from future process and system changes and benchmarking against other managed service projects. The anticipation is that significant cashable benefits of between 15%-30% can be delivered against each of the lots and that these will flow from April 2013 through to end of March 2016 as each lot is awarded and implemented by each Authority. Based upon the existing costs in the table above the cashable benefits are likely to be of the order of £5.9m. The table below splits out the benefits estimated for each of the lots.

Total Cashable Benefits compared to baseline	2013/2014	2014/2015	2015/2016
	£k	£k	£k
Lot 1 - HR - Total Benefit 15%			
Assume one Auth per year	390	780	1,170
Lot 2 - Finance & Procurement - Total Benefit 15%			
Assume 2 Auths from 2014/2015 earliest	0	1,545	2,318
Lot 3 - Property			
Costs not yet calculated	0	0	0
Lot 4 - Business Intelligence - Total Benefit 20%			
	450	450	450
IT Systems - Total Benefit 30%			
Assume benefit 50% HR/Property 50% Finance	299	1,294	1,991
Total	1,139	4,069	5,929

3.4 The forecast savings by 2015/16 are about £6 million across the Tri-Borough authorities. Each borough is anticipating an investment of £335,000 to match fund the £500,000 agreed from Capital Ambition.

3.5 The Capital Ambition bid estimates IT savings of around 30% which would equate to around £2 million across the three boroughs with additional gains around reduced service provision. Licensing costs are likely to remain broadly the same.

3.6 On headcount, the efficiencies on HR have already been quantified in Westminster through market testing at £500,000 per annum against their existing contract. It is not unreasonable to assume a further gain of 10 to 20 per cent against current costs through service consolidation across all three boroughs, rising further in line with a volume based scaling model as more councils join the service.

3.7 The Business Intelligence element of the business case is the provision to managers of information, such as:

- dashboard reports of staff performance metrics, individual service costs and key performance indicators and outcomes reports.
- wider borough demographic context and customer satisfaction levels.
- channel utilisation and progress in migrating to cheaper channels
- one view of the truth since both Organisation PI's and dashboards and Service Managers PI's and dashboards would be based on the same data. Ad hoc data will be able to be obtained more easily allowing managers more insight into service optimisation and opportunities for transformation.
- impact of service cuts can be modelled against outcomes; a 'continuous customer access strategy' scenario.

3.8 It is likely to provide a significant payback on technology alone (a conservative estimate of £450,000 has been included in the business case). The greater benefit, however, will come from scaled managed services including headcount reductions and access to provision through self service across finance, procurement, HR and property as the labour intensive support to service managers provided by these functions is replaced by more automation and business intelligence.

3.9 It is expected that the aggregate service will be lower cost and that an outcome based managed service is key to releasing efficiencies that historically have been constrained by varied local practices and prescribed technology solutions, which limits the ability of the market to reduce cost but does maintain high quality provision.

4. PROPOSED APPROACH - FUNDING

4.1 Funding of £335,000 is required from LBHF for Phase 1 of Project Athena. If funding is agreed then it is proposed that it should be funded from the Efficiency Projects Reserve.

4.2 There are two key phases of the project – Phase 1 which focuses on developing the business case, requirements analysis and procurement, and Phase 2 which focuses on the detailed design and implementation.

4.3 The LBHF funding is matched by equal contributions from Westminster and Royal Borough of Kensington & Chelsea (RBKC) and funding of £500,000 from Capital Ambition. This will provide a total budget of £1,500,000 for this project. Westminster Council have already agreed their contribution, whilst RBKC are discussing the proposal. The Capital Ambition Board agreed their share of the funding in June 2011.

4.4 The funding required for Phase 1 of the project will produce the following deliverables ;

- Develop a detailed business case
- Work to produce sufficiently detailed specifications
- Detailed procurement phase leading to a framework contract for all 33 London Authorities

4.5 Costs will need to cover:

- Programme and Project Management
- Procurement Expertise & Legal Expenses
- Support for Business Analysis
- Subject Matter Expertise from the business areas
- Data Migration

4.6 The table below details the cost assumptions which have been made at this stage.

Implementation Costs					
	2011/2012	2012/2013	2013/2014	2014/2015	Total
	£k	£k	£k	£k	£k
Overall					
Programme Manager *	80	80	40	40	240
Procurement Expertise	120	120	60		300
Legal Expenses	50	50	50	50	200
Project Manager HR/Finance *	70	70	70	70	280
HR					
Business Analysis	30	60	30		120
SME	30	60	30		120
Finance & Procurement					
Business Analysis		60	60		120
SME		60	60		120
Property					
Project Manager	Not included as benefits not yet calculated				0
Business Analysis					0
SME					0
IT System / Business Intelligence					
Data Migration	Costs part of procurement & 5 year contract				0
Total	380	560	400	160	1500
* Assumes fixed term contracts rather than temporary agency rates					

4.7 Given the potential savings that this project could deliver, and the matched investment of our tri-borough partners and Capital Ambition, this project provides LBHF with a fair and economic opportunity to be “in” on the formative stages of the development of this solution.

4.8 In order that all three authorities can reap the maximum reward from such investment, it is important for all three have input to the specification to ensure that our requirements are well represented in any solution.

- 4.9 For LBHF this investment may lead us to reap significant savings in the future, and whilst the sum is significant the Council is not obliged to implement such a service if it is not considered to meet our requirements fully, or does not deliver sufficient savings to warrant the cost of implementation or the impact of change.

5. PROPOSED APPROACH - TIMESCALES

- 5.1 The expectation is to have the business case and specification ready by July 2011 and the procurement complete by July 2012 for HR, running through to completion of all lots by April 2013.

6. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

- 6.1 The forecast annual savings from Project Athena, across the three boroughs, are estimated to be £6m by 2015/16. This is based on the anticipated potential for savings having taken account of current costs
- 6.2 Approval is now requested for phase 1 of Project Athena. This will include the preparation of detailed business cases that firm up forecast savings. The estimated cost of phase 1 is £1.5m of which the Hammersmith and Fulham contribution will be £0.335m. It is proposed that this funding come from the Efficiency Projects Reserve.
- 6.3 It is expected that Westminster City Council will be the accountable body for Project Athena and that the Hammersmith and Fulham contribution will be paid to them in line with the actual spend profile.
- 6.4 The actual delivery of savings will potentially require further investment under phase 2. The level of such investment, and decision to proceed or not, will be subject to the findings of phase 1.

7. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)

The Assistant Director (Legal and Democratic Services) has no legal comments.

8. COMMENTS OF THE ASSISTANT DIRECTOR (HUMAN RESOURCES)

The Assistant Director (Human Resources) has no HR comments.

9. COMMENTS OF THE ASSISTANT DIRECTOR (PROCUREMENT AND I.T. SERVICES)

- 9.1 At this early stage of the project there are no specific procurement related issues identified, however consideration should be given to having a co-terminus expiry dates of contracts across the three lead boroughs. The size and scale of the Athena Project will mean that the proposed framework agreement will have to be advertised in the Official Journal of the European Union.
- 9.2 The Council is contributing about 22.3% to the development costs for a project that will potentially, in the long run, benefit all the other London boroughs. As part of any future admissions agreement for other boroughs to access it some mechanism needs to be put in place to recover the implementation and set-up costs of the tri-boroughs.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Capital Ambition Strategic Business Case	Hitesh Jolapara	FCS / Corporate Finance
2.			
CONTACT OFFICER: Deputy Director of Finance		NAME: Hitesh Jolapara EXT. 2501	

APPENDIX 1

Cloud Computing

Cloud computing is not a new concept, just a refinement of how companies provide managed services in commercial and operational terms. The key components are:

- managed services based on infrastructure already in place to provide commoditised commercial offerings ;
- Services are paid for using simple consumption based charging models, ranging from a “pay per click” through to a fixed price per user per annum specified services ;
- Infrastructure free – the purchaser/customer doesn’t own and run the kit and communications, it’s provided and supported for them ;
- Replicable, scalable and resilient because it’s based on much larger multi-user hardware, software and communications platforms ;
- Secure, trusted and accessible from wherever you need to get it, making full use of the Internet for access ; and
- More risk and liability rests with the service provider for service provision, especially around disaster recovery and business continuity

At the heart of cloud computing is making the best use of what the market can provide at the best price whilst meeting core business needs, rather than building and running your own.

Business Intelligence (BI)

This is a much newer concept, although it is borne out of previous best practice around asset management and performance reporting. In technology terms BI is about making use of statistical, presentation and analysis software to better inform operational, investment and efficiency based business decision making. What makes the concept new is that it uses tools to pull complex data together from multiple sources and manipulate it to provide answers to the questions people are asking, rather than just tracking data based on performance metrics within individual systems and service areas.

Examples of BI are:

- Family Recovery, the project in Westminster where information was drawn from multiple agencies and compiled to give a wider view of chaotic families, helping to identify root causes and therefore more effective ways of dealing with their difficulties ;
- Spotlight on Spend, drawing down financial information and manipulating it give a more transparent view of expenditure in Councils ; and

- Neighbourhood statistics, providing a holistic view of government information from across Whitehall at a sub-ward level across the country

The potential for this in a corporate services environment is significant. By being able to draw together HR data with property and general expenditure data, organizations can then take a view on how best to drive out costs on workforce and estate management. You can go further by overlaying this data with front line service performance data to get a view on total cost of service provision, and then be able to examine options for efficiency is appropriate.