



Cabinet

18 JUNE 2012

**LEADER (+
REGENERATION,
ASSET
MANAGEMENT AND
IT)**

*Councillor Nicholas
Botterill*

**CONTRIBUTION TO THE FUNDING FOR THE
TRI-BOROUGH MANAGED SERVICES
PROGRAMME**

**Wards:
All**

This report seeks the Cabinet's approval to fund a contribution to the costs of undertaking and project managing the business change element of the Tri-borough Managed Services programme – a programme that could lead to significant cost reductions in corporate services.

The City of Westminster and the Royal Borough of Kensington and Chelsea will also be contributing to the project funding.

CONTRIBUTORS

EDFCG
DLDS
DHR
DPITS

Recommendation:

That a contribution of £300,000 be approved, from the Efficiency Projects Reserve, towards the cost of undertaking and project managing the business change element of the Tri-borough Managed Services Programme.

**HAS A EIA BEEN
COMPLETED?
N/A**

**HAS THE
REPORT
CONTENT BEEN
RISK
ASSESSED?
YES**

1. BACKGROUND

- 1.1 As part of the Tri-borough arrangements, Westminster, Hammersmith & Fulham, and the Royal Borough of Kensington and 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, Property, IT and Business Intelligence systems and arrangements. Westminster has outsourced a number of these services previously but its arrangements are reaching the end of the current contracts.
- 1.3 Managed Services 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.
- 1.5 The Cabinet received a report in June 2011 requesting funding for the procurement stage of the project. The total cost of this stage was £1.5 million, of which it was agreed that H&F would fund £335,000. Westminster City Council and the Royal Borough of Kensington and Chelsea also agreed to meet a similar share with the last £500,000 being funded by Capital Ambition.
- 1.6 This report seeks further funding of £900,000 (to be shared between the 3 boroughs) for undertaking and project managing the business change stage of the project which is due to begin shortly.

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, used in the same way to deliver a shared support function. This refers to a fully outsourced solution including the hosting and processing of transactions. The expectation is that authorities will be purchasing an end to end managed service rather than a system. However, software as a service has also been included as a potential fall-back option.
- 2.2 The project is often referred to as "Athena Managed Services" 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 working across London such as standardised business processes and a common chart of accounts.

2.3 The procurement process is underway and has already undertaken the initial selection at Pre-Qualification Questionnaire stage and is in the first phase of the Competitive Dialogue. The procurement is split into four lots:

- Finance & Procurement, HR & Payroll
- eSourcing
- Property & Asset Data Management
- Business Intelligence

The procurement will result in:

- a 4 year framework enabling the call-off of contracts up to 5 years plus 3 year extension (total 8 years)
- a set of managed services within each lot (including software as a service option)
- the ability to take none, all or some of the services under the lots (enabling flexible migration to full adoption as required)
- clear unit pricing with volume discounts
- clear transition pricing.

2.4 The procurement process is due to reach a conclusion with the award of the framework contract in December 2012, with a view to starting transition in early 2013.

2.5 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.

3. THE FINANCIAL POSITION

3.1 The current annual costs of services within scope for the Tri-Borough authorities are shown in the table below:

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017 – 2021/2022
Present Costs						
WCC	6,517,000	6,517,000	6,517,000	6,517,000	6,517,000	6,517,000 pa
RBKC	3,025,068	3,025,068	2,881,068	2,881,068	2,881,068	2,881,068 pa
LBHF	3,357,006	3,357,006	3,357,006	3,357,006	3,357,006	3,357,006 pa
Total	12,899,074	12,899,074	12,755,074	12,755,074	12,755,074	12,755,074 pa

3.2 An outline financial case has been developed which, assuming a 20% reduction in costs as a result of the tender process, suggests that there is an overall business case for the three Councils when taken together but not necessarily for each individual Council. H&F's business case appears to be stronger than RBKC's but not to be as strong as WCC's. However, this is

only an estimate as no prices have been provided as a part of the tender process to date (these will not be available until mid summer) and implementation costs are still to be discussed with potential suppliers.

- 3.3 The original forecast annual savings from the Tri-borough Managed Services programme, across the three boroughs, were estimated to be £6m by 2015/16. This will need to be validated once the costs of ongoing service provision are available from the bidders in the summer.
- 3.4 Funding of £1,500,000 was agreed in the summer of 2011. This comprised contributions from the three councils plus funding of £500,000 from Capital Ambition. This has provided a total procurement budget of £1,500,000.
- 3.5 The table below details the cost assumptions which were made for the procurement stage. The programme is still within this procurement budget.

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					

- 3.6 It is now evident that alongside the procurement process it is important that the Managed Services programme also tackles the readiness of the business to take on these services. The implementation of Managed Services requires new target operating models to be developed and costed. The form and cost of the residual in-house provision will make up part of the business case equation. Questions need to be answered such as how the intelligent client function will operate and what level of customer self service can be expected. Business processes need to be mapped across the three

boroughs and reconciled to the vanilla/best practice processes being offered by the suppliers. Current processes will need to be flexed so that all three boroughs operate the same processes and that these match the requirements of the new systems.

- 3.7 It is estimated that further funding of £900,000 is required to undertake and project manage the business readiness work. A breakdown of the costs is set out in the table below.

	Days	£
Overall programme management	94	69,654
Project managers for each stream	843	547,950
Business analysis	237	142,200
Design authority	189	122,850
Total	1,363	882,654

- 3.8 The £900,000 will initially be funded equally across the Tri-borough authorities. However, once the level of savings available from this programme becomes clearer it may be necessary to re-cast the cost apportionment more in line with the savings actually achieved.
- 3.9 For H&F this investment may lead us to reap significant savings in the future, although 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.
- 3.10 Managed Services only relates to the transaction aspects of the functions in scope, ie finance, human resources, purchasing, property and business intelligence. Further consideration will need to be given to the structure of the retained functions, eg strategic and operational advice and support in these areas.

4. RISK MANAGEMENT

- 4.1 There is a risk that when all the financial details are available in the autumn that the business case is insufficiently attractive to warrant the significant investment that will be required to adopt services offered through the Managed Services framework. However, much of the work that is being undertaken as part of this next business change stage will be very valuable for aligning support services across the three boroughs even if common IT systems are not adopted.
- 4.2 This report assumes an equal sharing of the costs of the business change phase between the three boroughs. RBKC have requested that this apportionment be revisited once the business cases for each of the three councils have been established and that if there is little or no business case for RBKC that their contribution is reimbursed. This may lead to a greater

share of the costs falling on H&F. A check point has been agreed in July 2012 ie before the full £900,000 is committed.

5. EQUALITIES IMPLICATIONS

- 5.1 The programme is likely to result in TUPE implications for the staff working in the services that fall under the Managed Services framework. Any potential equality impacts of this will be assessed as part of the decision making processes in the autumn once the outcome of the tender process is known.
- 5.2 There are no direct service delivery implications for the purposes of this report and as such it is unlikely to have an impact on any protected group, or to engage the public sector equality duty arising from the Equality Act 2010.

6. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE GOVERNANCE

- 6.1 Much work is still to be done before the business case for the Managed Services programme can be proven for H&F. As well as completing the procurement phase, further input is required to prepare the business for change, e.g. to develop options for the future target operating model, to map business processes and to define how the intelligent client function will operate.
- 6.2 Approval is requested for the further funding required for the business change costs for the programme. These are estimated to be a total of £900,000 of which the Hammersmith and Fulham contribution will be about £300,000 if all three Councils agree to proceed. It is proposed that this funding come from the Efficiency Projects Reserve.
- 6.3 Westminster City Council is the accountable body for the Managed Services programme therefore the H&F contribution will be paid to them in line with the actual spend profile.
- 6.4 The actual delivery of savings will potentially require significant further investment for implementation costs eg systems set up, interfacing to other council systems and staff training. These costs could possibly run to several million pounds per borough. The level of such investment, and decision to proceed or not, will be subject to the findings of current tender process. The outcome of this process should be known by the end of 2012.

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

- 7.1 The Director of Legal and Democratic Services has no legal comments.

8. COMMENTS OF THE DIRECTOR OF HUMAN RESOURCES

- 8.1 The business change stage of the project will begin to look at future staffing structures and TUPE implications and will include staff consultation. This will be overseen by the Bi-borough Director of Human Resources for H&F and RBKC.

9. COMMENTS OF THE DIRECTOR OF PROCUREMENT AND IT STRATEGY

- 9.1 Consideration should be given to having co-terminous expiry dates of contracts across the three lead boroughs.
- 9.2 Given the development costs, as part of any future admissions agreement for other boroughs to access the Managed Services framework 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.	Outline Business Case	Hitesh Jolapara	FCS / Corporate Finance
2.			
CONTACT OFFICER: Deputy Director of Finance		NAME: Hitesh Jolapara EXT. 2501	