

	London Borough of Hammersmith & Fulham CABINET 3 NOVEMBER 2014
TRI-BOROUGH MANAGED SERVICES – FINANCE AND HUMAN RESOURCES (TRANSACTIONAL SERVICES)	
Report of the Cabinet Member for Finance – Councillor Max Schmid	
Open report A separate report on the exempt Cabinet agenda provides exempt information in connection with the procurement process.	
Classification - For Decision Key Decision: Yes	
Wards Affected: None	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Services	
Report Author: Caroline Wilkinson (Head of Finance Systems, Controls and Payments)	Contact Details: Tel: 020 753 1813 E-mail: caroline.wilkinson@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. In February 2013, Cabinet agreement was given for H&F to call off a contract from the Managed Services framework for the provision of transactional Finance and HR services (referred to as “Lot 1”). Westminster City Council (WCC) had led the procurement for this framework, with assistance and funding from H&F and the Royal Borough of Kensington and Chelsea (RBKC). WCC remain the owners of the framework contract, which was awarded to British Telecom (BT).
- 1.2. The call-off contract with BT covers a range of transactional finance and HR services, which will be delivered from their shared service centre in the North East of England. Strategic capability and decisions making for both Finance and HR is being retained in-house.
- 1.3. This service was due to go live on the 1st April 2014, but it was agreed to reset this initial go-live following a number of challenges with the

implementation phase. A further decision was taken in July 2014 to reset the go live until the 1st April 2015. However, further funding will be required to allow the programme to continue to this new implementation date.

- 1.4. The original Cabinet Paper agreed funding of £4.15m to cover all costs (for both Finance and HR) to implementation, with proposed annual savings of £1.28m as a result of the move to Managed Services and a payback of 3.4 years. This was split into a cashable general fund element of £800k, with the remainder relating to schools, HRA and non-cashable areas. Further funding is now being requested to cover costs until the re-set go live date.
- 1.5. It is proposed that these costs are met from the existing Managed Services reserve.

2. RECOMMENDATIONS

- 2.1. That further funding be allocated to Lot 1 of the Managed Services programme from reserves, as per the exempt report.

3. REASONS FOR DECISION

- 3.1. The recommendation to provide further funding is based on the need to implement this out-sourced service so that it can deliver the following benefits:
 - Savings from adoption of the managed services are significant;
 - Adoption of services enables a greater Tri-Borough working and achievement of existing and future savings targets; and
 - Provides support to the Pan-London Athena Programme strategy of convergence across London Authority corporate services.

4. INTRODUCTION AND BACKGROUND

- 4.1 In 2011, Westminster established itself as the lead borough for the Managed Services element of the Pan-London strategy. Shortly after Westminster was recognised as lead for the Athena Managed Services work stream, Tri-Borough discussions recognised the value of a combined procurement, and common systems and processes stance for effective cross-borough working. Since then the Managed Services programme has been managed by Westminster with full engagement with, and funding from, LBHF and RBKC.
- 4.2 As well as generating savings in its own right, Tri-borough Managed Services enables the delivery of savings elsewhere across the Tri and Bi-

borough services. A combined back-office solution will enable all three Councils to be working in the same way, using the same processes. With this new single operating model, the potential for further efficiencies in “customer” service areas from more streamlined processes will become possible, reducing back-office processing costs and allowing more resources to be diverted to “front line” services.

- 4.3 The Cabinet report of February 2013 agreed that H&F would call-off a contract from the Managed Services Framework for Lot 1 services, and allocated funding of £4.15m for programme implementation costs. Due to agreed deferments in the go-live date, this funding is no longer sufficient to cover implementation costs until the revised go-live date of the 1st April 2015. It is therefore requested that further funding is allocated to allow the successful implementation of this service.

5 PROPOSAL AND ISSUES

5.1 Original Savings and Funding Assumptions for Lot 1

- 5.1.1 In the February 2013 Cabinet paper it was forecast that the programme would deliver annual savings of £1.28m to H&F. When the proposed transition costs of £4.15m were taken into consideration, this resulted in a payback period of 3.4 years. The table below summarises these figures.

Table 1: Summary of Costs, Savings and Payback Period

	Summary of Costs and Savings
Current Costs (£m pa)	2.88
New Contract Costs (£m pa)	1.50
ICF Contribution (£m pa)	0.10
Savings (£m pa)	1.28
Transition (£m)	4.15
Payback¹	3.4

- 5.1.2 The annual savings were a combination of some departmental savings which were already included in the MTFS, and additional Finance and HR savings which were then added to the medium term budget plans.
- 5.1.3 The table below shows the breakdown of the original £4.15m of funding which was allocated to the Lot 1 programme with explanations as to how these estimates were arrived at.

¹ Higher LBHF ICF costs in Years 1 and 2 of the contract reduce the annual saving by £110k pa for these years. This increases the payback period from 3.24 to 3.40.

Table 2: Breakdown of Transition Costs from February 2013 Cabinet Report

Type of Cost	Estimate (£m)	Notes
Bidder Transition Cost	0.30	Bidder transition costs are set out in their pricing documentation.
Hosting of Existing systems (dual running)	0.83	There will be the requirement to run existing systems in parallel with the managed service to fulfil statutory requirements.
Redundancy	0.35	This is an estimated value
Interface rework	0.58	With a best practice approach being adopted, existing interfaces from business systems will need to be reviewed and updated to comply with new requirements
Loss of Profit from HFBP Joint Venture	0.12	Reduced systems support and work from HFBP may reduce the profit share received by LBHF
Tri Borough Programme Management Costs	0.68	These programme costs ensure the programme is delivered on time and to specification
H&F Programme Management Costs	0.66	These programme costs ensure the programme is delivered on time and to specification.
H&F Communications	0.05	
H&F Training	0.08	
H&F Legal	0.05	
Data Cleanse	0.15	This is a significant piece of work with the onus on the Council to cleanse all its finance and HR data to the standards required by the Managed Service to streamline and regularise processes in the future
Contingency for Staff Retention during Transition	0.30	This ensures departmental staff are able to input to the process and are fully able to implement the new solution
Total	4.15	

5.2 Further Cost Assumptions

- 5.2.1 Further funding is being requested for the implementation of Lot 1. The impact of this change on the payback period is reflected in Table 1 of the exempt report.
- 5.2.2 Table 2 in the exempt report reflects where funding has already been spent and the forecast total spend figure for each area assuming a go live date of the 1st April 2015.
- 5.2.3 The 2014/15 forecast spend figures in the table above are not all additional costs as a result of the delay to go-live. Some costs only become effective at go-live ie. redundancy or BT transition costs, and hence slip into the final year of the programme. The key areas of additional spend as a result of the delay are:
- 5.2.4 **Hosting of Existing Systems** – The original cost assumption of £830k was to cover the running of our existing finance and HR systems until part way through 2014/15 to cover the transitional period, existing contract requirements and finance processes such as closing the accounts.
- 5.2.5 The revised go-live date of 1st April 2015 means that a number of finance system contracts are now having to be renewed to ensure consistency of service until go live and to cover the closing of accounts for 2014/15.
- 5.2.6 **Tri Borough Programme Costs** – The programme implementation team has been retained in 2014/15, and covers all aspects of the programme. This includes
- HR and Finance System Build, all aspects of testing (integrated systems testing, user acceptance testing. operational acceptance testing etc.
 - data (extraction, cleansing, transformation of data and loading)
 - change management
 - programme management (includes PWC costs)
- 5.2.7 The additional cost reflected in Table 2 of the exempt report is based on retaining the full team until May 2015, and half of the team in June 2015. This is to reflect the fact that programme support will still be needed in the immediate post go-live period.

5.3 Funding Additional Costs

- 5.3.1 It is proposed that the additional costs are funded from the existing Managed Services Reserve.

6 OPTIONS AND ANALYSIS OF OPTIONS

- 6.1 This report is seeking additional funding for the extension to an existing contractual arrangement which has already been entered into, rather than authority to embark on a new programme. There is therefore limited scope for option appraisals. However, where possible, varying options have been considered to minimise costs. These include:
- 6.1 Discussions with HFBP and system suppliers to minimise contract extension periods where possible, and balance risk against cost when deciding how to support systems in the future, eg. minimal, skeleton support for legacy systems in 2015/16 as they are not being used for transactions, the cheapest data centre option for housing finance systems once they are no longer needed and are for audit/archive purposes only.
- 6.2 Re-organisation of the programme management structure and governance to ensure that it balances effective delivery with value for money.

7 CONSULTATION

- 7.1 Within H&F there are 34 permanent FTEs who are subject to outsourcing. In addition, a small number of permanent staff employed by H&F Bridge Partnership will also be affected. The staff at risk are subject to TUPE legislation and have the right to migrate to the new supplier. Consultation with both affected staff and trade unions has already taken place in relation to this programme.
- 7.2 Affected staff and trade unions have been kept fully informed by both senior management and HR about delays to the programme and any resulting impacts on staff.

8 EQUALITY IMPLICATIONS

- 8.1 This paper does not make any recommendation for changes to the original Managed Services equalities impact assessment. The paper relates to financial management of the programme and not to its predicted outcomes and their effects on service users and other impacted parties. Therefore there are no direct equality impacts.
- 8.2 Implications verified/completed by: (David Bennett, Head of Change Delivery, Innovation and Change Management Division – 0208 753 1628)

9 LEGAL IMPLICATIONS

- 9.1 The change to the contract price will have to be implemented in accordance with the Change Control Procedure in the contract, unless that procedure does not apply to changes such as this; in that case the contract will have to be varied by way of a deed of variation.

- 9.2 Contract variations are subject to Procurement Law which makes certain variations are unlawful particularly those which alter the balance of the commercial risk in the contractor's favour, e.g. where it is paid more for doing what it should have done anyway. Provided that the price of the change has been calculated so as to ensure that it fairly reflects the extra work / costs properly incurred by the contractor and the extent to which, if any, it is responsible for the delays, the risk of a successful challenge is low
- 9.3 Implications verified/completed by: Keith Simkins Principal Solicitor 020 7361 2194

10 FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1 The report provides an update on the implementation of the Managed services framework for Lot 1 services. Additional costs will be incurred due to the delay in the go-live date. These will be funded from the existing Managed Services Earmarked reserve.
- 10.2 Savings of £1.28m per annum are expected following implementation. In addition the move towards a single operating model will result in more efficient working across the Council.
- 10.3 Implications completed by Andrew Lord, head of Strategic Finance and Monitoring, Ext 2531.

11 RISK MANAGEMENT

- 11.1 Managed Services is a significant change programme with procurement programme and change risk management being the responsibility of Westminster City Council. Finance and Human Resources systems are inherently highly complex by their nature and in 2013 the Council was exposed, amongst many others, to a high risk situation with the collapse of the software provider of the finance system, 2E2. Whilst this position was stabilised and an alternate provider stepped in to provide immediate continuity, Managed Services was seen, in part for the finance system, as a long term solution to this risk. The programme has had two revisions to its go-live date and the consequence of this has impacted on such areas as;
- early realisation of benefits from the programme.
 - staff retention.
 - upgrades, extensions or renewals to existing hosted systems, and their cost.
- 11.2 The report highlights some of the mitigations required as a consequence of the delays. These mitigations are to be noted in the form of a service resilience plan for the Managed Service. Successful delivery of a Managed

Finance and Human Resources service would contribute positively to the management of Strategic Risk number 1, managing budgets and finance risks, Risk number 4, business resilience through a stable finance system, Risk number 8, maintaining reputation and service standards and Risk number 9 identification and management of fraud.

- 11.3 Implications completed by: Michael Sloniowski Bi-borough Risk Manager ext 2587.

12 PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 12.1 The revised go-live date of 1 April 2015 has required some suppliers to be approached for a second time to negotiate contract extensions. This has limited the ability to obtain best prices for applications essential to maintaining consistency of service to go-live.
- 12.2 Implications verified / completed by: Mark Cottis, e-Procurement Consultant. 0208 7532757.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Managed Services Costing Working Papers (Exempt)	Caroline Wilkinson x1813	FCS – Corporate Finance