Council Cabinet
10 June 2015

ITEM 13

Report of the Cabinet Member for Strategy and Policy

Information Systems - IS Service Review

SUMMARY

1.1   In December 2014 Cabinet agreed that the Council should seek a new arrangement for the provision of IT services upon the expiry of the contract with Serco; which ends March 2016. This report explains what progress has been made and seeks further approval to commence both procurement activities and formal contract exit procedures.

1.2   The report covers the following issues:

   i.   The design of the new service model which is a combination of bringing some services back in-house and sourcing others through the market.

   ii.   The extent to which we can move to cloud computing providing greater agility and flexibility in the future.

   iii.   The work needed to manage the exit of the contract from Serco and associated novation issues in respect of sub-contracts.

1.3   There is a private report that covers aspects of these that contain confidential information in accordance with both the contract with Serco and the soft market pricing information obtained to develop the cost model.

RECOMMENDATION

2.1   To approve the proposed new service delivery model with:

1) service desk and end user computing services returning to be delivered within the Council;

2) Voice and Data Network services to be procured using framework contracts, with consolidation of disparate contracts into a multiple lot procurement;

3) Data Centre and Server Hosting to be procured using framework contracts, adopting a cloud first policy;

4) application support and services to continue to be delivered in-house with the transfer of the small Serco application support team responsibilities; and

5) end user computing provision to be procured using either framework contracts and/or as part of a crown commercial services auction process.

2.2   To approve the use of framework contracts to procure the replacement services identified in recommendation 2.1 above, and to authorise that the award of contracts will be subject to approval by the lead member.

2.3   To agree to a change freeze between June 2015 and May 2016, whereby only systems that require essential upgrades for statutory purposes or where we need to retender in order to comply with procurement regulations will be changed.

2.4   To agree the principle of adopting cloud computing and cloud first as the design strategy, and having more traditional data centre services as a fall-back measure,

2.5   To note that adopting a cloud computing model requires the Council to utilise up to £ 1.96 million of revenue reserves but will allow savings of £ 996,000 (or 10.6%) a year to be achieved from 2016/17. The saving reduces to £603,000 (or 6.45%) a year if this includes paying back the reserves. It will also reduce the need for the estimated £ 7.5 million capital budget in 2017/18 to at most £ 5 million; thus even with the use of revenue reserves a cost avoidance of £ 0.5 million.

2.6   To agree the principle for how these costs should be shared between the Council, Derby Homes and Derby Museums; i.e. that this should be pro rata to the number of active users for shared services and specific costs for systems or servers just used by one party.

REASONS FOR RECOMMENDATION

3.1   A new target operating model has been developed following industry standards and has been refined to reflect the needs of the Council and of Derby Homes. This is attached as appendix 2.

3.2   The trigger for what should be performed in-house and what should be sourced is based on the resources, skills and staffing levels required and the need for local knowledge compared to generic industry skills. Thus service desk, end user computing and application support all require specific knowledge either of the Council or of local government systems whereas server and network management are all

generic.

3.3   The procurement team have looked at the best way to source the new services and have confirmed that use of framework contracts, including the Gcloud framework, offer the best route, particularly as they offer an expedited procurement timescale in comparison to traditional procurement routes. The time required for open or competitive tenders would mean the Council could not commence migration before January 2016, which would be too high risk.

3.4   Under the framework contracts the Council will contract with a main contractor, who will sub-contract elements of the service to smaller providers. Whilst it is recognised that having multiple contracts may increase the costs, the cloud computing model allows for greater flexibility and scalability with most contracts and service allowing changes with just 1 months' notice. It is anticipated that under the cloud model the Council and Derby Homes will only be required to commit to 12 month terms in many cases (with 5 years being the maximum in exceptional circumstances) allowing flexibility and the ability to vary services based on changes in demand.

3.4   The option to further review those services provided in-house and to possibly combine these in shared service arrangements with other Councils in the future remains but all feedback to date is that the Council should first bring these in-house and consolidate locally.

3.5   A change freeze is needed to reduce risks and to ensure that the Council does not implement changed solutions on the old service delivery model that then have to be repeated at extra cost on the new model. We need to manage carefully the work to achieve the new service delivery platform and too much change on top of this would be high risk.

3.6   The list of systems that could be affected by a change freeze is attached as appendix 4; if any of these can be implemented with minimal effort in a cloud ready environment, which contributes to the new service delivery model those changes may still proceed.

3.7   The change freeze will reduce work pressures for the Information Systems Service and in business units involved with migration and testing activities. It may also allow the Council to better understand its future longer term need for some systems in light of further financial pressures. The change freeze will not apply to any mandatory changes needed to support statutory objectives or to comply with procurement regulations within this time period. Where procurement does need to take place during the change freeze, cloud based solutions will be the preferred solution and other solutions will only be considered in exceptional circumstances.

3.8   The ability to adopt cloud computing is the trigger for both initial cost reduction and for future flexibility. The cloud market is now much more mature and the high level design work shows that between 65% and 80% of our current server estate and systems can migrate to the cloud.

3.9   Adopting cloud computing reduces risks and reliance on single suppliers and allows more options for how the Council utilises IT resources. It will be easier to stand up or turn off servers and to adjust costs accordingly rather than having to buy servers that may then be under-used.

3.10   The implementation costs have been clarified since the December report and the five year cost model has been revised: an annual saving on total Council IT expenditure in the region of £ 603,000 to £ 996,000 (6.45% to 10.6%) a year is possible in terms of future operating costs. Some of the savings are achieved by better use of software rather than just replacing the IT service partner.

3.11   The new cost model includes:

i)   implementation over a 9 month period; this will involve some dual running costs as the Council transfers servers and services over time to reduce risks;

ii)   estimated exit management costs for Serco and for Council additional resources required to manage the exit process; and

iii)   costs of service migration and testing.

The cost model is included in the private report and has been reviewed by the Resources Directorate group accountant.

3.12   When the contract with Serco was awarded a pro rata sharing of costs was agreed between the Council and Derby Homes. This was based on a combination of factors:

i)   a pro rata share which was 10% Derby Homes and 90% Council for shared components based on the respective user population in 2009;

ii)   a specific cost for servers or services unique to either just Derby Homes or just the Council, some split 26% to 74%, some split 38.5% to 61.5% and some split 50% each; and

iii)   the overall split was 15.56% to Derby Homes and 84.44% to the Council.

It is proposed that going forward the Council adopt the same principles but now add Derby Museums to the list; and that we recalculate the user population based % apportionment. This may see a small change to the apportionment of costs but as we are moving to a cloud model is in line with cloud computing charging methods.

3.13   The core Serco contract costs in 2015/16 are £3.47 million of which the Council pays £ 2.99 million and Derby Homes £0.48 million (86% Council to 14% Derby Homes). This reflects changes made since 2009 including new ICT transformation systems that did not exist in 2009 and savings that both parties have negotiated since.

3.14   The implementation costs should also be shared on the same basis as the resulting savings are shared. Both the Council and Derby Homes would face such costs if they decided to exit the contract in another way or even if they sought to extend the contract as it would require technology refresh.

3.15 The contract does allow Serco to pass on charges for the exit process and estimates for these are included in the cost model. The Council also requires dedicated exit management resources, which have been included in the cost model.

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10 June 2015**

Report of the Acting Chief Executive

SUPPORTING INFORMATION

Exit Management

4.1   The target operating model (appendix 2) follows an industry best practice approach and has been split into 4 parts:

i)   The outer layer is management activities that will be performed in-house

ii)   The blue shaded area is services that will be carried out by Council staff, some of these are currently with Serco and some already in-House.

iii)   The orange shaded area is services either carried out by Serco or other suppliers today and will again be sourced from the market place; mainly using cloud computing contracts.

iv)   The green shaded area is call-off work that Serco undertake charging ad hoc day rates, the Council will be seeking a new supplier for such call off services with more competitive day rate charges.

4.2   The financial model (appendix 3) shows £10.404 million was spent on IS in 2014/15, this reduces to £9.344 for 2-015/16 when the MTFP savings are taken into account. The anticipated budget under the new arrangements is £8.3 million per annum with one-off implementation costs of £2 million. It is envisaged that this will require a release from reserves of up to £1.5 million as the remainder will be able to be contained within the existing IS revenue budget.

4.3   The Application Maintenance and Support Contracts that are due to be re-procured between June 2015 and May 2016 and will potentially be affected by the change freeze are shown in appendix 4. If any of these contracts can be implemented with minimal effort in a cloud ready environment which contributes to the new service delivery model those may still proceed during this timeframe.

4.4   The 2009 original 7 year contract price model with Serco was a total core contract spend of £ 18.97 million with £ 16.02 million (84.5%) for the Council and £ 2.95 million (15.5%) for Derby Homes.

OTHER OPTIONS CONSIDERED

5.1   The option to retender for a single contract has been rejected as it is believed that this would require a longer term lock in and incur similar hidden costs, loss of control and supplier profit margin as exists within the current contract with Serco. The cloud option has been further ratified by the additional design work.

5.2   The Council has rejected the option to extend the contract with Serco for a number of reasons including the legal and procurement advice that this would be in breach of procurement regulations; Serco have redressed some of the performance issues previously reported.

5.3   The option of a shared service solution has been considered and even if the appetite for such is now growing there is little momentum in the region and the fact that the Council does not manage its own services is seen as a major barrier by others.

5.4   To try and exit the Serco contract earlier would be very difficult, and with the improved service management and quality the need for such has reduced. A well managed exit with incremental change is the best approach and is better than either an early exit or a big bang transfer on 1st April 2016.

Legal officer	Emily Feenan
Financial officer	Peter Shillcock
Human Resources officer	
Estates/Property officer	
Service Director(s)	Nick O'Reilly – Director of Information Systems
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Background papers:	Cabinet Report December 2014
	Cabinet Report December 2013;
	Cabinet Report June 2013
	Detailed Cost Model Spreads-sheet
	Detailed Technology Options Proposals
List of appendices:	Appendix 1 – Implications
	Appendix 2 - Target Operating Model
	Appendix 3 – Cost Model
	Appendix 4 – Change Freeze Information

Appendix 1

IMPLICATIONS

Financial and Value for Money

1.1 The detailed cost model attached as appendix 3 shows a five year financial analysis that sees costs reduce by £ 3.016 million compared to the 2015/16 budget. The implementation and first years costs are £ 10.313 million compared to the 2015/16 budget of £ 9.344 million thus the return on investment occurs in the second year.

1.2 A detailed cost model has been prepared and has been analysed by the group accountants as being as robust a representation of the costs as is possible as part of a high level design and soft market testing process. These will be further reviewed and analysed when the procurement process is completed.

1.3 In addition to these revenue budget savings moving to a cloud model means the Council can reduce the future capital budgets needed to refresh the server estate. Thus the provisional capital budget of £ 7.5 million can be reduced by at least £ 2.5 million. The Council need to replace obsolete network infrastructure and to replace client devices but the server costs will no longer be needed.

Legal

2.1 The procurement approach using framework contracts is legally compliant and is in accordance with Council standing orders; where necessary, the Council will include bespoke clauses to complement the standard contracts available using the framework approach.

2.2 The requested change freeze will not apply to systems that have reached the end of their contracted term and where any further extension would represent a material change; in such cases the Council will retender in order to comply with procurement regulations.

Personnel

3.1 TUPE will apply on termination/expiry of the Serco contract (including where individual elements are the subject of early re-procurement). The Council has taken preliminary advice on these but it is planned that the actual flow of employee liability information will not be triggered until the commencement of the exit plan.

IT Impact

4.1 The report details the IT Impact.

Equalities Impact

5.1 None directly, although the personnel issues and the impact of either TUPE or

redundancies will need to be considered and all relevant legislation (including relating to equality) shall be applied in respect of consultation and selection of any staff for redundancy.

5.2   The software freeze will not apply to any software needed to fulfil equality requirements.

Health and Safety

6.1   None directly.

Environmental Sustainability

7.1   None.

Property and Asset Management

8.1   There will be a small number of staff transferring to the Council these can be largely accommodated within the IS department workspace and with the use of hot desking and home working.

8.2   The Council will need to consider where best to locate the IS service desk function as by its nature this can be noisy and the work can be harder to perform in an environment not well designed for such. However the external customer service centre operate in the Council House and with the right planning and technology an IS service desk can be implemented in a similar manner.

8.3   Most of the assets used to deliver the current IS service belong to the Council but are hosted and managed by Serco; all of these can revert to Council management or could be transferred to successor suppliers. As the Council moves to cloud computing many of these will be released for disposal.

Risk Management

9.1   The technology options appraisals have included a risk assessment of the options for each technology service tower.

Corporate objectives and priorities for change

10.1   This review is consistent with the future shape of the Council and with the One Derby One Council approach; and is being undertaken to address the financial pressures the Council faces.

Target Operating Model

The proposed Target Operating Model is attached.

TOM Mapping
Service Lines 201503

Appendix 3

Finance Model

The spend on IS budgets' in 2014/15, utilising the existing arrangements was as follows:

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	Total 5 year £'000
DCC Staffing costs including schools support team	1,894	1,894	1,894	1,894	1,894	9,470
DCC Non-staff costs including schools support	6,523	6,523	6,523	6,523	6,523	32,615
DCC Capital Microsoft Licence Fees	410	410	410	410	410	2,050
Derby Homes Staff	286	286	286	286	286	1,430
Derby Homes Non-staff costs	1,292	1,292	1,292	1,292	1,292	6,460
Total	**10,405**	**10,405**	**10,405**	**10,405**	**10,405**	**52,025**

Due to the temporary nature of pay protection, no allowance for these costs have been made in either the current expenditure model or the proposed model.

The proposals for achieving a balanced budget under the MTFP for 2015/16 have not been included in the current expenditure model. IS's contribution to the MTFP in 2015/16 is £1.06 million.

The cost model building in the MTFP savings agreed for 2015/16 sees annual costs reduce to £9.344 million. Thus whilst the above table represents like for like costs as in 2014/15 the table below is the model against which savings have been calculated.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	Total 5 year £'000
DCC Staffing costs including schools support team	1,894	1,894	1,894	1,894	1,894	9,470
DCC Non-staff costs excluding schools support	6,523	6,523	6,523	6,523	6,523	32,615
DCC Capital Microsoft Licence Fees	410	410	410	410	410	2,050
Derby Homes Staff	286	286	286	286	286	1,430
Derby Homes Non-staff costs	1,292	1,292	1,292	1,292	1,292	6,460
MTFP Savings	-1,060	-1,060	-1,060	-1,060	-1,060	-5,300
Total	**9,345**	**9,345**	**9,345**	**9,345**	**9,345**	**46,725**

The anticipated expenditure on IS budgets, utilising the revised delivery arrangements is as follows:

	Set-up £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	Total 5 year £'000
Staffing costs	176	2,271	2,271	2,271	2,271	2,271	11,531
Hardware	227	56	56	56	56	56	507
Software	1140	1376	1376	1376	1376	1376	8,020
Third Party Contracts	421	4,646	4,646	4,646	4,646	4,646	23,651
Total	**1,964**	**8,349**	**8,349**	**8,349**	**8,349**	**8,349**	**43,709**

The costs of providing the service going forward have been derived from soft market testing of the various components that are required to provide the total IS service. It is anticipated that there will be some movement in these costs within the overall totals for the various components. A number of assumptions and caveats have been made in deriving this model:

- The IS Service will be an integrated service for both Derby Homes Limited and Derby City Council sharing a common infrastructure.
- The costs of providing schools services have been included but the income (estimated at £800k per annum) has not been included in the figures above.
- Limited provision has been made for replacing any client devices (laptops and desktops), the cyclical replacement of client devices will be funded separately.

- Microsoft licences will in the future be paid from revenue rather than capital as it is at the moment. The list price of Microsoft licences has increased by approximately 50% since the last costings model was prepared.
- Servers will be funded as a service from revenue rather than through capital, hence the capital required to provide the service will be significantly reduced.

Appendix 4

Systems Due for Re-tender

There are 26 systems listed that may need to be procured in parallel to the new IT contract, and where we will as part of the tender process be seeking to have any new system implemented in a cloud environment.

Appendix 4 -
Applications Maintena