CHESHIRE EAST COUNCIL
CHESHIRE WEST & CHESTER COUNCIL

SHARED SERVICES JOINT COMMITTEE

Date of Meeting:	19 May 2017
Report of:	Peter Bates – Chief Operating Officer (Cheshire East)
Subject/Title:	ICT Shared Service – Transformation Phase

Report Summary

1.1 The purpose of this report is to provide a progress update in relation to ICT Shared Services, focussing on the Transformation Phase of the service as agreed by the Committee on 24 March 2017.

1.2 This report provides the information that the shared service is required to provide to the Shared Services Joint Committee and/or Joint Officer Board under the Shared Services Agreement.

2.0 Decisions Requested

Members are asked to:

2.1 Note the contents of the report

3.0 Reasons for Recommendations

3.1 ICT has been a challenging area for both Councils and has undergone multiple reviews and transitions over the last 5 years. Both Councils wish to ensure that ICT is aligned to their strategic directions and is supported to deliver leading edge, value for money ICT in the future.

3.2 In November 2016, Cheshire East ICT Services commissioned Microsoft and Hewlett Packard Enterprises to examine the benefits, total economic impact and potential return on investment both Councils may realise by deploying Office 365 (consisting of Cloud deployments of Exchange Online, Lync Online, Sharepoint Online and Office Professional Plus) and the transfer of legacy data centre hardware to a cloud platform. A detailed business case was then produced in January 2017 which brings together Transformational activity to realise benefits for the councils alongside critical essential replacement activity to address compliance and operational stability issues.

3.3 The Councils have commissioned Ernst &Young LLP to conduct an independent review to provide assurance and to determine the optimum alignment and IT delivery model.

3.4 This report seeks to bring together the reporting of key initiatives that are underway in relation to the delivery and commissioning of ICT Services to report regular progress against strategic outcomes, key risks and issues together with key decisions that are required in the next 24 months.

4.0 Background

4.1 At the 24 March 2017 meeting of this Committee, Members were asked to approve a closure of the transition phase and concluded that the objectives of the phase had been delivered to an acceptable standard. The Transition phase objectives were:

- Closure of the inherited 2015/16 funding gap
- Business continuity, with minimal impact on customers
- Development and implementation of a new Target Operating Model (TOM)
- The development of a strategic business plan
- Development and implementation of a new commissioning model

4.2 At the same meeting the Committee agreed that the ICT service move into a Transformation Phase until 31 March 2019. ICT Services will report progress and risks to this Committee in the following key areas:

- **the Cost Model:** to ensure a balanced budget position
- **the ICT Services Transformation Phase & outline 5 year Infrastructure Investment Programme**: its expected outcomes and progress against key milestones. Given the significance of this proposed programme, the risks it will mitigate and the major change it will deliver, a joint governance board will be established in May 2017 to manage and assure the planning through to delivery phases.
- **Independent review of ICT:** the outcomes of the independent joint review of ICT strategic commissioning and delivery Operating models and councils future requirements.
- **the ICT Service Portfolio:** the future service portfolio is dependent upon the delivery of the transformation and Infrastructure Investment business case which is in turn reliant on commitment to investment and business side change.
- **Contractual Checkpoints:** progress updates against any key checkpoints written into the contract for services from 1st April 2017.

4.3 The ICT Shared Services' current status, for each of the key areas is outlined below. A RAG (Red – 'will not achieve', Amber – 'at risk of not achieving', Green – 'will achieve') rating has been applied to each in order to indicate progress, together with a 'direction of travel' indicator of progress since the last update.

5   Robust Cost Model – Maintaining a balanced budget

RAG Rating / Direction of Travel indicator   green →

5.1   The inherited funding gap of £4.275m was robustly managed by the ICT Shared Service Senior Management Team (SMT) during the financial year 2016/17.

5.2   The challenge of the inherited funding gap was exceeded and the final position netted an underspend of £358k which has been transferred back to both councils on a 50/50 basis.

The main reason for the underspend in ICT Service Delivery is due a one off Vodafone refund of £470k due to overcharging in previous financial years. A large proportion of this refund has been utilised to fund the dual running costs of PSN rather than making a request on reserves. The balance of underspend is made up of additional project hours being delivered which has been to the detriment of core services performance and a lower than anticipated cost of agency workers due to them terminating their contracts prior to year-end due to IR35 regulations.

The table below provides the final outturn position for 2016/17:

	Budget £000	Actual Year End £000	Variance £000
Staffing	11,323	11,106	-216
Non Staffing	5,766	9,253	3,487
GROSS	17,089	20,359	3,270
Income	-17,013	-20,641	-3,628
NET	76	-281	-358

5.3   Based on the 2016-17 outturn position, and current information regarding current staffing establishment costs (including the apprenticeship levy) and planned third-party expenditure, the service is confident that a balanced position will be delivered in 2017-18. ICT Services will continue to robustly monitor and report on the financial position of the service, particularly in light of the significant landscape of business and technology change that is planned over the next 2 years. The service fully understands the necessity and importance of practicing strong financial controls and this will be at the heart of the Transformation Programme and the Infrastructure Investment Programme. The next finance update to the Joint Committee will be the Mid-Year report around November 2017. In the event of any financial issues arising in the interim these will be reported at the earliest opportunity.

5.4   Section 11 provides further detail of the funding of the Infrastructure Investment Programme.

6   ICT Services outline 5 year Infrastructure Investment Programme / emerging Transformation Programme

RAG Rating / Direction of Travel indicator   green →

6.1   The Infrastructure Investment Programme recommends the strategic engagement of Cloud migration partner/s to support ICT Services in the implementation of an aspirational and transformational hybrid (80% cloud and 20% in house) solution which will enable the following objectives:

- Deliver significant financial benefits for both Councils service areas and ICT Services; and is future proofed to meet the needs of both Councils.

- Supports the ambition to facilitate Council staff to work in an agile and flexible way and enable services to be delivered from anywhere on any device and promoting the use of online tools.

- Improve data capture and quality features, which will not only provide more accurate operational information, but will also, support efforts to predict service demand patterns and trends more accurately.

- Support staff cost avoidance, achieved through a combination of implementing a new core IT platform and business process improvements.

- Be scalable to ensure that any growth or decrease in demand can be serviced.

- Ensure that both Councils only pay for the service they consume.

- Enable existing ICT restrictions and inflexibility to be removed to provide opportunities for partnership working and collaboration.

6.2   The detailed business case to support the full 5-year ICT Infrastructure Investment Programme has been reviewed through Council corporate governance procedures: Joint Officer Board (9th February), CEC Technical Enablers Group (1st March), CEC Executive Monitoring Board (21st March) and CEC Cabinet process (11th April – 9th May). Cheshire West and Chester are seeking financial approval through appropriate internal governance.

6.3   ICT Services through Cheshire East cabinet process have approved procurement of Microsoft Cloud migration partner services up to a potential estimated total cost of £5.31m (excluding VAT) over a 2-year contract period; funded jointly from the Cheshire East Council approved ICT Infrastructure Investment Programme budget and Cheshire West and Chester (through programme recharges or staged payments as agreed). The Councils are only committing to £741K plus Microsoft premier support agreement. Details can be found in Section 11.

6.4   The financial benefits of the business case are included in the CEC 2017-20 Medium Term Financial Strategy.

6.5   **Governance** is key to the successful delivery of this transformational investment programme. It is proposed that the purpose of the strategic programme board is to engage the senior ICT stakeholders from both Councils in delivering the ICT Investment Programme from a strategic perspective and, to deliver the required outcomes and benefits; act as sign off authority for key decisions or significant changes in scope; and to assure quality and alignment to Corporate and Service objectives.

6.6   In many organisations' transformation programmes there is a tendency to focus attention on 'hard changes' (the structures, systems and processes) as these are the visible signs of change, quicker and easier to implement. However, experience shows that without due consideration to the 'soft changes' **(culture, behaviours and leadership)** the chances of the programme delivering on its aspirations are significantly diminished.

6.7   Our **leadership** team and managers will play a critical role in delivering the transformation. The future profile requires inventiveness, resilience and the ability to flex quickly to changing situations and circumstances. We have started work on realigning our culture and recognise this work must continue as creating sustained cultural change that supports organisational change is one of the most difficult leadership challenges.

6.8   From the ICT strategic business plan a number of **design principles** are being developed for how the Service will operate into the future. These principles will be supported by design tests that will be based around a number of criteria, which will include necessity, proportionality and value. The approach to **re-design** is much more fundamental than anything undertaken before. It is not around the existing Service elements looking at what they currently do and considering how that could be improved upon (doing the wrong things better), but instead looking at everything from a 'zero base' and, from a client and customer point of view, considering the very purpose of that activity.

6.9   The committee will receive regular progress updates on the entirety of the ICT Transformation Programme which encompass both the 'hard' and 'soft' transformational changes.

7   Independent review of ICT

RAG Rating / Direction of Travel indicator | green | → |

7.1   Following a procurement process, Ernst & Young LLP (EY) have been appointed to lead the joint Independent Review of ICT. Its primary aim is to seek some independent assurance on the 'whole picture for ICT' and to assist in the design and supporting business case of an optimal operating model across the commissioning and delivery of ICT Services.

7.2   At the time of writing (this report) Phase 1 of the review is ready to formally mobilise. It is anticipated that Phase 1 will continue for five weeks and will, through collaborative workshops and primary stakeholder interviews, deliver:

- Establish strategic priorities
- Establish business requirements
- Initial Capability Maturity Assessment
- Leading Practice Comparisons
- Initial Recommendations
- Independent review report

7.3 Subject to the findings in Phase 1, Phase 2 is anticipated to be for 8 weeks and will look to further build on Phase 1 and deliver:

- Development of an optimum target operating model
- ICT change assessment
- Gap assessment from current mode to target mode
- Outline business case and roadmap for implementation of recommendations

7.4 The outputs from the phases will be brought to this committee for decision.

8   ICT Service Portfolio

RAG Rating / Direction of Travel indicator   **green** →

8.1 Work is underway to develop an ICT Service Portfolio. The Service Portfolio is aimed at the customer and seeks to describe ICT services that they can expect to consume, written in customer-centric language and is outcomes focussed.

8.2 The Service Portfolio approach is welcomed by councils' ICT strategy teams and they are involved collaboratively in the development of this Service Portfolio approach. The Portfolio will be a living and dynamic activity and will constantly align with the future Target Operating model and evolve as councils requirements change.

9.0   Service Agreement – Key Milestone Checkpoints

RAG Rating / Direction of Travel indicator   **green** →

9.1 The Administrative Agreement & ICT Service Agreement is being redrafted in line with the Committee's decision to authorise the Head of Legal and Democratic Services (Cheshire East) and the Director of Governance (Cheshire West) in consultation with the Section 151 Officers for each authority to finalise the detailed terms and conditions for, and enter into, all necessary legal documentation for the two year agreement. It is anticipated that this will be completed by 31 May 2017.

9.2 Key contractual milestones are currently under discussion and an update will be brought to the committee at its scheduled meeting in July.

10.0   Next Steps

10.1 This section sets out some of the key next steps and decisions required in the next 6 months. It should be noted that should there be slippage in these deliverables there will be a significant impact on the ability of the Infrastructure Investment programme to enable savings to be realised as incorporated in the CEC 2017-20 Medium Term Financial Strategy.

10.2 The following table sets out some key milestones:

Action	Milestone Date
Councils agreement in principle to ICT Transformation Investment Business Case	May 2017
Appointment of 3rd party specialist team to lead the implementation of initial phase 1 activities (Microsoft cloud offerings) via G-Cloud v8	May 2017
ICT Transformation Programme team and governance mobilised	May 2017
Outcomes of phase 1 of the Independent review of ICT (maturity assessment and stakeholder interviews)	June 2017
Phase 2 of Independent review of ICT commenced (if commissioned)	June 2017
Alignment of Councils Digital & ICT strategies	July 2017
Customer 2018/19 requirements & forward plan developed	July 2017
Business Case and Roadmap for implementation of optimum Target Operating Model	July 2017
Shared Services Joint Committee – progress update and decision checkpoint	14 July 2017
ICT Portfolio in place	September 2017
Shared Services Joint Committee – progress update and decision checkpoint	22 September 2017
Revised Service Agreement Specification, Payment Mechanism, and Performance Management Framework in place for 2018/19 financial year.	30 September 2017

11.0   Financial Implications

11.1   ICT Services will to continue its robust financial management processes within agreed cost model and commissioned projects by both councils. As stated in section 5.4. the service is confident of delivering a balanced financial position in 2017-18.

11.2   CEC Cabinet has approved for authority to be delegated to the Chief Operating Officer in consultation with the Shared Services Joint Committee and Portfolio Holders for ICT from both Cheshire East and Cheshire West and Chester Councils:

- to enter into all necessary contractual arrangements to deliver the solution; and
- to use the Digital Marketplace G-Cloud 8 framework to procure an ICT migration partner to transfer ICT shared services into the Cloud.

11.3   The delivery of a strategic investment programme will address the need to deliver financial benefits of £5m over a 5-year period, provide a flexible, utility based costing model and remove the dependency on ageing infrastructure through cloud-based solutions that are managed by a strategic technology provider/s. These financial benefits are included in the CEC 2017-20 Medium Term Financial Strategy. It will also prevent threats to customer information either from ageing technology or cyberattack.

11.4   All of Microsoft Services in G Cloud 8 (Lot 4) catalogue have an element of agility and flexibility in terms of scope based on the Contracting Authority's environment, infrastructure, skills and desired outcomes. As such, an initial scoping and discovery activity (Phase 1) will be undertaken to determine resource profiles required and pricing for any given requirement. The business case identifies specific requirements, tasks and has received a fixed price quotation from Microsoft Services for Phase 1 activities of £741k excluding VAT. This price includes an approved discount against current list rates.

11.5   An indicative price of £4.17m excluding VAT for Phase 2 activities which is based on the SFIA rate card which has been used to determine an indicative time and materials delivery price. Note that this is calculated at a substantial discount rate and may change after June 2017.

11.6 An overarching 3-year Microsoft Premier Support package is also required to deliver sections of the transformation programme and deliver business as usual support throughout, at a cost of £395k excluding VAT.

11.7 Microsoft Cloud migration partner services are therefore estimated at a total cost of £5.31m (excluding VAT) over a 2-year contract period, funded jointly from the previously approved Cheshire East Council ICT Infrastructure Investment Programme and Cheshire West and Chester (through programme recharges or staged payments as agreed).

11.8 The Joint Independent Review of ICT is estimated to cost no more than £150k (funded equally by both councils i.e. £75k per Council).

12.0 Legal Implications

12.1 The Shared Services agreement is undergoing further amendment following the end of the extended initial period (31 March 2017).

12.2 Where decisions flowing from reviews require procurement activity, this will be carried out in accordance with the Public Contracts Regulations 2015, including any pre-market consultation.

12.3 Legal advice will be sought on the licencing, intellectual property, procurement, contract and governance implications of any proposed changes.

12.4 The proposed procurement route (for elements of the ICT Transformation Investment Business Case) is using the G-Cloud 8 framework provides a compliant route for procuring the software applications.

12.5 The Crown Commercial Service conducts regular procurements under the Public Contracts Regulations for the G-Cloud Frameworks, the G-Cloud 8 Framework being the latest iteration of the Framework. Services are procured under the G-Cloud Framework via the Government's Digital Marketplace which enables Buyers to search for services which match the Buyer's criteria and draw up a short list of potential Suppliers. Buyers evaluate the short listed Suppliers on the basis of price or Most Economically Advantageous Tender (MEAT). In some instances only one supplier may meet the criteria meaning that further evaluation may not be required. This process takes place on the Digital Marketplace there is no call for further competition, suppliers are evaluated on the basis of the information they have supplied to the Digital Market Place. On completing the evaluation the Buyer chooses the service and awards the contract to the Supplier.

12.6 The Council's Contract Procedures provide that, where a legally procured framework agreement is used, there is an exemption to the requirements for competition.

12.7 The maximum duration of the call off is 2 years when the process may be repeated if necessary under the then relevant G-Cloud framework if the supplier meets the criteria applicable at that time as well as the MEAT principles, which enable qualitative, technical and sustainable aspects of a tender submission to be considered as well as price when determining which supplier to award to.

13.0   Risk Management

13.1   The risks associated with the ICT Strategic Business Plan, the Transformation and Infrastructure Investment Programmes and the Independent Review will be reviewed and developed as part of the mobilisation and implementation of the aforementioned Programme/Review.

13.2   Significant risks and/or issues, as part of the regular progress reports, are reported up through the agreed governance route to the Joint Officer Board.

14.0   Wards Affected

14.1   This report relates to Shared Services that operate across both Cheshire East and Cheshire West and Chester so all wards are affected in both Councils.

15.0   Local Ward Members

15.1   Not applicable.

16.0   Policy Implications

16.1   None.

17.0   Other Options

17.1   None.

18.0   Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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Background Documents:
Documents are available for inspection at:
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