

REPORT FOR: **CABINET**

Date of Meeting:	15 January 2014
Subject:	Project Minerva
Key Decision:	Yes
Responsible Officer:	Tom Whiting, Corporate Director of Resources Directorate
Portfolio Holder:	Councillor Paul Osborn, Portfolio Holder for Communications, Performance and Resources Councillor Tony Ferrari, Portfolio Holder for Finance
Exempt:	No, except for appendices 2, 3, and 4 which are exempt on the grounds that they contain “exempt information” under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information).
Decision subject to Call-in:	Yes
Enclosures:	Appendix 1 – Equalities Impact Assessment Appendix 2 – Exempt (Part II) - SAP Replacement System Financial Appraisal Appendix 3 – Exempt (Part II) - Internal Options and External Suppliers Comparison Appendix 4 – Exempt (Part II) - Details of Shared Services and External Suppliers contacted Appendix 5 – Ref from O&S Committee

1. Summary and Recommendations

This report analyses and evaluates options for achieving cost reductions within the Resources Directorate revenue budgets for 2015/16 onwards and makes recommendations accordingly. It also includes within the analysis undertaken, the rationale for proposing a re-tender of the IT Service.

Recommendations:

Cabinet is requested to:

1. Note the analysis, evaluation and findings of the options considered within Section 2 of this report.
2. Approve exercise of the early break clause within the Incremental Partnership Agreement variation for the provision of IT Services to permit cessation from 24th November 2015.
3. Agree that the Council does not extend the initial period of the Incremental Partnership Agreement currently scheduled to expire on 3rd October 2015.
4. Approve the re-tender of the IT Service contract under EU Procurement rules and in accordance with contract standing orders and delegate authority to proceed with the procurement to the Corporate Director of Resources in consultation with the Portfolio Holder for Communications, Performance and Resources and the Portfolio Holder for Finance and to bring a contract award recommendation to Cabinet for commencement of the IT Service contract. Delivery of the IT Service will require the delivery of major projects from time to time and this will need to be accommodated within the service scope of the re-tender.
5. Subject to approval of recommendation 4 above, give approval to run the process to appoint a Legal and Commercial provider for the re-tender of the IT Service.
6. Authorise the Corporate Director of Resources to continue exploring the potential for a shared service arrangement with suitable partners.
7. Approve the launch of a two-year cost reduction programme aimed at achieving a savings target of 17% (i.e. £2.0m per annum) identified from the options analysis in Sub-Section 2.2.1 of this report.

Reason: (For recommendation)

The Council has a balanced budget for 2013/14 and 2014/15 which includes the delivery of a total level of savings of £22.8m over the two years. However, the current national 'austerity' measures are anticipated to continue potentially up to 2020 and possibly beyond. The Council therefore needs to plan for further potential cost reduction challenges that are anticipated in addition to the £75.0m of savings it will have achieved between 2010 and 2015 (out of a controllable spend of approximately £188.0m).

Current projections are that the Council will need to achieve savings representing 30% of its budget between 2015 and 2020.

Concurrently with the above, the Council's existing outsourced IT Service contract with Capita contains a break clause permitting an early cessation of the contract from October 2015, if exercised.

In recognition of the above, Project Minerva was launched during 2013 to undertake an evaluation of options available to contribute towards anticipated cost reductions including the following activities:

- Determine a baseline revenue budget position;
- Perform an informal "soft" market test;
- London Authority research;
- Shared Services research;
- Discussions with relevant software providers;
- Engagement with clients (of the Resources Directorate);
- Engagement with Schools; and
- Engagement with Staff and Trade Unions.

Additionally, consideration has been given to the potential for service disruption, financial implications, risks, benefits and outcomes for the options set out within Section 2 of this report.

Following analysis and evaluation of the available options incorporating the above factors, the recommendations above are proposed.

2. Report

2.1. Introductory paragraph

The Council currently has a balanced budget for 2013/14 and 2014/15 which includes the delivery of savings of £22.8m over those two years. However, it is anticipated that the national 'austerity' measures already in place to address the national budget deficit are likely to continue up to 2020 and possibly beyond. The Council therefore needs to plan for further potential cost reduction challenges in addition to the £75m of savings it has already identified for achievement between 2010 and 2015.

Within the current economic and financial climate, the future service delivery model will need to change if further significant cost reductions are to be achieved. The protection of "front line" services is considered to be a pre-requisite to ensuring that the Council can continue to deliver services that meet customer

requirements and support and protect people that are most in need. Consequently, planning for the future delivery of services needs to be undertaken now in order for cost reductions to be delivered by 2015/16.

To facilitate the evaluation of cost reduction options, primary research has been undertaken into the potential for a shared service arrangement with another Local Authority, outsourcing services to a private contractor, implementing internal changes delivered through the services concerned, replacing the SAP system and relocating “back-office” services to cheaper alternative locations.

Additionally, the initial period of the existing Incremental Partnership Agreement with Capita expires on 3rd November 2015 but may be extended by up to five years by giving at least 12 months written notice. The variation to the above agreement for the provision of IT Services expires on 24th November 2020 and contains a break clause provision that can be exercised subject to giving at least 12 months prior written notice. As such, it has been considered prudent to also review and consider the current outsourced IT Service arrangements within the context of the above.

If approved, the recommendations contained within Section 1 of this report will enable the Council to embark on a two-year cost reduction programme aimed at achieving an annual savings target of £2.0m from 2015/16. They also facilitate the re-tender of the existing IT Service contract to better support and facilitate achievement of the Council’s corporate priorities and secure greater value.

A number of the services in the Project Minerva scope are also provided to Schools and engagement with them from the outset has therefore been necessary.

2.2. Options considered

Project Minerva was launched during 2013 in response to three key challenges outlined below which need to be planned for accordingly:

1. Future pressures for cost reductions anticipated from 2015/16 and beyond.
2. The break clauses within the Council’s existing contract with Capita that may be exercised subject to one year’s prior written notice.
3. The future requirement and use of the existing SAP IT system.

The project scope included the following specific service areas:

- Finance and Assurance;
- Human Resources and Organisation Development;
- Payroll and Shared Services;
- Health & Safety;
- Collections and Benefits;
- Procurement; and
- Information Technology (IT).

A range of options have been considered and evaluated comprising of the following:

- Internal Transformation (including re-specification of services, SAP system replacement and relocation of services);
- Sharing Services (with another local authority); and
- Outsourcing (to a private sector company).

2.2.1. Internal Options

Services in scope within the Resources Directorate have developed cost reduction options including but not limited to internal change projects, service transformation and increased self service through channel migration. Internal options have been developed with an input from managers and employees across the Resources Directorate. Options have also been received from Trade Unions (i.e. Unison) in relation to some service areas.

Additionally, within the internal options investigated, the case to replace the existing SAP system with a lower tier solution and the establishment of an office and operation in the North of England was also considered.

Procurement has been excluded from the internal options exercise as any potential reduction in direct procurement service costs would be unlikely to have a sustainable and beneficial effect for the Council. Instead, an agreed financial target for savings to be achieved from Procurement processes conducted is being developed.

Unison has also prepared two alternative options, for HRD and Health and Safety and these proposals were considered and incorporated into the proposals for HRD and Health & Safety.

Table 1 below shows the overall cost reductions anticipated for the services in scope if they were to undertake their proposed cost reduction options. It shows that approximately 17% (i.e. £2.0m) could potentially be saved annually.

Detailed proposals for delivering savings internally will be brought to Cabinet as appropriate and employee consultation will be conducted in due course.

Table 1

Function	Estimated Cost – 2013/14			
	2013/14 Estimated Cost Provided to External Suppliers	Number of Staff	Saving Proposed	Investment
	(£m)	No	(£m)	(£m)
Revenues & Benefits	4.5	99	0.6	0.1
Finance & Assurance	3.6	56	0.9	0.3
Human Resources & Shared Services	3.5	71	0.5	0.9
Total	£11.6	226	2.0	1.3

2.2.2 SAP Replacement

The Council has been actively involved in Programme Athena which has been running across London Authorities. The objective of Programme Athena was to promote sharing and commonality for back office systems being run by the London Boroughs. This involved grouping Councils by the system they were running and assessing whether they could move to single instances of that system and potentially moving on to shared back office arrangements.

Harrow has been involved in the OneSAP stream of work and has therefore had discussions with the other Boroughs using SAP to seek convergence opportunities. The Corporate Director of Resources has been the OneSAP lead for London.

An outcome of Programme Athena has been increased exposure to trends in back office systems in use across the Boroughs. A number of Boroughs are migrating from some of the larger Enterprise Resource Planning (ERP) systems and onto mid-tier systems.

The potential for replacing the Council's existing SAP system (a top range solution in use across a range of commercial and public sector organisations worldwide) with a mid-range solution has therefore been considered with the input from two current market leaders for mid-range solutions in use by Local Authorities.

Research conducted indicates that there is a potential for reduced annual revenue costs achievable from a system migration due to the lower maintenance fees and less

complex upgrades involved. However, the cost of procuring and implementing a new system together with the upheaval and disruption that this would undoubtedly cause during a period of already significant change within the Council, has led officers to conclude that this option would not be viable for Harrow Council to pursue at this point in time.

Appendix 2 of this report contains relevant information relating to the financial appraisal of this option.

2.2.3 Relocation of Services

Research has been undertaken to investigate the potential benefits of “wage arbitrage” through the relocation of “back-office” services to cheaper alternative locations without having to procure the services of an outsourcing organisation. In this model, Harrow Council would continue to run the services in question but from a different location.

Research has indicated that salary savings could be achieved in most areas outside of London. However, the greatest savings can be found in the North East region of the UK with average salaries being 30% lower than Harrow Council. These findings have been further validated using comparative figures obtained from another Local Authority in the North East of England.

Research included investigating and obtaining the costs of operating a remote office and the provision of IT and telephony connectivity costs to Harrow Council.

In evaluating the financial feasibility for relocating operations to another part of the country, an assumption was made that the initial operations to be considered for transfer would include transactional “back-office” activity for Revenues and Benefits and Accounts Payable/Receivable services.

The annual saving in salary costs under the above assumptions amounted to approximately £1.0m per annum. However, ongoing rental and operating costs would effectively reduce this potential benefit to approximately £200K per annum. With the significant one-off costs involved in establishment of the offices, related infrastructure costs, and potential redundancy costs totalling approximately £3.0m, the outline business case indicates that the payback period would be in excess of ten years.

The relocation of “back-office” services outside of Harrow would increase the potential risk of service disruption arising particularly if resourcing requirements could not be met as anticipated.

On this basis, it is considered that the relocation of services into a Harrow owned and operated facility elsewhere in the UK would not represent the most cost efficient or effective way of achieving service cost reductions at this juncture.

2.2.4 Shared Services options

Primary research was undertaken by approaching 22 London Local Authorities to discuss their current back-office service arrangements and to enquire as to whether they would consider sharing services with Harrow Council. This included Local Authorities already operating an SAP system to determine whether there was any potential for sharing resources through the combination of either systems or services.

Existing shared service arrangements, such as the Tri-Borough arrangement (i.e. Westminster City Council, Royal Borough of Kensington and Chelsea and Hammersmith and Fulham), Elevate East (i.e. a joint venture arrangement comprising Barking and Dagenham and Agilysys) and One Oracle, were also approached to determine if there was the potential for a shared service with Harrow Council.

Research indicates that there is no current appetite amongst the Local Authorities contacted within London to share services with Harrow Council. The Local Authorities operating SAP systems were already following their own strategic paths and the existing shared service arrangements were either not seeking to increase their current client base or there were legal barriers preventing Harrow Council from joining the existing shared service arrangement.

Local Authority shared service providers outside of London were also approached but there was no current desire from the providers contacted to provide services to London boroughs.

The final element of primary research conducted concerned the appetite for a shared service with County Councils local to Harrow Council. Hertfordshire, Buckinghamshire, Surrey and Hampshire county Councils were approached and of these, both Surrey and Hampshire County Councils met with officers to discuss the potential for sharing services.

Surrey County Council were unable to progress with a shared service option at the time of meeting and although Hampshire County Council has had further discussions with officers, they are currently engaged in a major transition programme including the Fire and Rescue and Police Authorities that is scheduled to continue until November 2014. They are therefore unable at present to consolidate further services within their shared service provision but are willing to

continue exploring the potential opportunity for sharing services with Harrow Council in the future.

2.2.5 External options

Consideration has also been given to the potential for savings by outsourcing services to an external service provider.

Suppliers were invited to take part in a “soft” market test that involved attendance at two working sessions following the receipt of a prospectus comprising baseline information including costs, staffing and transactional volumes.

Six suppliers were initially approached of which five took part in the entire process and three gave responses that were sufficiently complete to enable a comparison to be made with the other options under consideration.

Whilst each supplier proposed slightly differing solutions, they were consistent in the following main points:

- All would prefer to migrate from Harrow Council’s existing SAP system onto another system as they are using alternative systems in their existing service centres,
- All proposed solutions that would potentially involve the transfer of activities on a large scale to lower cost areas of the UK (e.g. the North East and South Wales); and
- All would incur significant transformation costs, mainly through the implementation of new systems and processes and redundancy.

Appendix 3 of this report contains relevant information relating to the financial appraisal of this option.

2.2.6 IT Re-tender

The IT Service is currently outsourced to Capita. The initial period of the existing agreement with Capita expires on 3rd November 2015 but may be extended by up to five years by giving at least 12 months written notice. The variation to the above agreement for the provision of IT Services expires on 24th November 2020 and contains a break clause provision that can be exercised subject to giving at least 12 months prior written notice.

The contracted services currently provided by Capita include Business Transformation under a partnership agreement. This was one of the first major incremental partnership agreements entered into with an initial focus on SAP implementation for Finance, Payroll, CRM (Customer Relationship Management) and the delivery of Procurement savings.

The objective was to have a transformation partner within the Council that could contribute towards ideas and innovation and provide a faster route to implementation through commercial mechanisms designed to share and transfer risk.

Major projects delivered under the partnership agreement include HARP, Waste GPS / Route Optimisation, SNT 1 & 2, Libraries RFID, Customer Contact, Business Support, Towards Excellence and Business Support. Commercial mechanisms include Business Cases, Paid Work and Benefits Cards.

In 2010, the IT Service was incorporated within the existing partnership agreement as a contract variation with one of the key contractual requirements being a major IT upgrade programme. The ability to transfer risk to the supplier was a key factor in this decision.

In general terms under existing arrangements, key performance targets and risk transfer have been achieved. Additionally, the transformation partnership has been effective particularly where:

- the investment has been paid “up-front”;
- an opportunity for a demonstrable return exists; and
- risks and rewards have been shared.

The IT market is generally moving towards a “Tower Model” whereby contracts are awarded to Managing Agents to help deliver and manage critical services. These are characterised in general terms by Managing Agents who;

1. Take the risks for “end to end” delivery and operations,
2. Don’t necessarily hold direct contracts with service providers,
3. Provide full 24/7 service desks to support customer requirements; and
4. Work closely with the Council.

It is recognised that the Council would not be able to achieve such an operating model immediately and that to this extent a hybrid version (i.e. Master Vendor Model) would be an effective incremental step. Under this approach, an option would exist for suppliers to either bid for all “lots” as a single contract as well as permit small and medium sized entities (SME’s) and best of breed suppliers to join together under a Master Vendor arrangement.

Consideration has been given as to whether the future IT Service could be delivered internally rather than through an external supplier. However, the rationale applied in outsourcing the service in 2010 retains its validity today and in particular the following key issues are considered to be

fundamental reasons for continuing this particular strategic approach:

- An in-house service would not support the underwriting of any solution design,
- There would be an absence of expertise and capability to deliver and meet both current and future requirements,
- The Council would still have a significant reliance on external organisations to deliver change and achieve expectations,
- It is difficult to recruit and retain staff in the IT Market,
- Flexibility to respond to changes in size of the organisation (increasing or contracting) and keeping abreast of developments in changes in the IT market and Environment generally,
- The Council may be limited to recruiting short-term available resources from the agency market for delivering ad-hoc projects whereas an external provider can draw upon wider available resources from within their organisation and more promptly,
- The Council has a lesser ability to achieve economies of scale or exploit supplier benefits with suppliers and the market place,
- The Council has lower levels of access to innovation to improve services.

An external IT Supplier would be able to provide greater assurance to the Council of the following:

- Cost certainty – Transition, Service and Performance would be underwritten,
- Delivery of the IT Service in accordance with contractual performance standards,
- Delivery of investment and improvement in accordance with contractual timetables,
- Provision of the necessary staffing resource – Quality, Quantity and Responsiveness,
- Ensuring the necessary IT Support for delivery of business cases is available,
- Providing relationship management and managers,
- Provision of a service that is ITIL compliant,
- Provision of a service that is designed and delivered upon Industry Best Practice,
- Can avoid, mitigate and reduce risks that an internal service provider may create / experience.

Consideration has also been given as to whether the existing IT Service contract should continue.

However, it is considered that as an option exists to re-tender the IT Service contract, the opportunity for securing greater value from the contract should be taken especially as the market has fundamentally changed over the past three years since the contract was let. Additionally, further changes in the delivery of IT services will undoubtedly be required as the Council moves forward. IT Services represent the largest cost base within the Resources Directorate and the existing contractual arrangement provides little “headroom” in which to address the above matters.

The requirement for the Council to achieve significant savings targets between 2015 and 2020 as described earlier in this report is also a material consideration.

Delivery of the IT Service will inevitably require the delivery of major projects from time to time and this will need to be accommodated within the service scope.

The future IT contract will need to take account of all potential scenarios, such as transformation of one or more in-house services with reliance on IT or the possibility of sharing services with another local authority.

Furthermore, a contractual framework is proposed that gives the Council options and flexibility and an ability to “draw down” on the delivery capability of the IT partner to support major projects. Should a new IT supplier be selected as a result of the re-tender, the project anticipates, and has planned for, 6 months of transitional activity between them and the incumbent. There are specific clauses in the current incremental partnership agreement (Clause 56 and Schedule 24) that Capita will need to follow in the case of contract termination.

2.2.7 Options Compared

It is not currently possible to show the extent of potential savings that Harrow Council could achieve through sharing services with another Local Authority due to the limited data and information that the shared service market is able to provide at this time.

However, comparisons of internal options against the solutions proposed by external suppliers have been set out in Appendix 3 to this report.

Whilst a marginal financial benefit may exist from an outsourcing solution, there are some significant risks associated with pursuing such an option at this stage. In particular;

- There are potential risks arising from a disruption to services where a proposed relocation of activities is involved,
- A migration of systems,
- A loss of experienced personnel,

- The payback period is greater than 2 years.

The payback period is significant because of the scale and complexity of change the Council is likely to experience over the next 2 years in the current economic climate.

Significant one-off costs in people, processes and technology would be required in an outsourcing solution. External suppliers have indicated additional costs that would need to be recovered through the contract price or paid up front by the Council.

Internal options have identified the potential for 17% savings across the following services; Finance and Assurance, Human Resources and Shared Services and Collections and Benefits. These account for potential annual savings of £2.0m on an annual cost base of approximately £11.6m.

Potential savings from the IT Service as an internal option was not included in this exercise. Additionally, Procurement was excluded from the above calculations as any potential reduction in direct procurement service costs would be unlikely to have a sustainable and beneficial effect for the Council.

The overall payback period for the internal options is less than two years.

In view of the above, work was undertaken to assess whether other services should be included in a procurement exercise for IT Services. Basing a tender evaluation process on the inclusion of other non IT services that may or may not be outsourced could present a greater risk to the Council in terms of selecting the right IT partner to deliver the specified services. As a result it is recommended that procuring IT Services only through an approach to the market represents the best opportunity to secure the best supplier for delivery of the specified IT services. The future shape of the organisation is uncertain and therefore scalability and flexibility will need to be essential features of the contract to meet the changing needs of services in terms of addressing variations to the levels of IT support they may require.

Should a conclusion to approach the market be determined in relation to other services in the future, a separate procurement could be undertaken at that time.

Consequently, it is proposed that the internal options should be planned for and implemented in order for savings to be delivered from 2015/16. In progressing with the internal options, there will be a requirement to redesign the provision of support services going forward and to include relevant management and employee input in that process.

It is proposed that a review of this position be undertaken in no more than 18 months time to ascertain progress in terms of delivery of the internal options, the viability of a shared service, the evolving shape and size of the Council and with due regard to the evolving landscape for local government finance and the potential need for further savings.

In summary, this report therefore recommends;

- The exercise of the early break clause within the Incremental Partnership Agreement variation for the provision of IT Services to permit cessation from 24th November 2015.
- Not to extend the initial period of the Incremental Partnership Agreement currently scheduled to expire on 3rd October 2015.
- The re-tender of the IT Service contract under EU Procurement rules and in accordance with contract standing orders and delegate authority to proceed with the procurement to the Corporate Director of Resources in consultation with the Portfolio Holder for Communications, Performance and Resources and the Portfolio Holder for Finance and to bring a contract award recommendation to Cabinet for commencement of the IT Service contract.
- Authorisation for the Corporate Director of Resources to continue exploring the potential for a shared service arrangement with suitable partners.
- Approval of the launch of a two-year cost reduction programme aimed at achieving a savings target of 17% (i.e. £2.0m per annum) identified from the options analysis in Sub-Section 2.2.1 of this report.

2.3 Current situation

The Resources Directorate currently provides services to the Council, Schools and its Residents through the following service delivery models:

- Internally: Finance and Assurance, Human Resources, Payroll, Shared Services, Procurement, Collections and Benefits; and
- Externally: ICT and Business Transformation (BTP).

2.3.1 Baseline

The ICT service is currently outsourced to Capita in a contract that is scheduled to expire in October 2020 with a break clause permitting an earlier cessation from October 2015.

The annual revenue expenditure for IT services based upon the 2013/14 budget is £7.7M excluding capital expenditure and special projects. The annual revenue expenditure for

the remaining internal service budgets referred to in Section 2.3 of this report totals £12.6M.

The baseline revenue budget and staffing analysis is allocated within the Resources Directorate services as shown in Table 2 below:

Table 2

Function	Estimated Cost – 2013/14				
	Cost of Staffing including on-costs	Other Direct Costs	Other Direct Overheads	Total Costs	Number of Staff
	(£m)	(£m)	(£m)	(£m)	#
Information Technology (IT)	0.5	6.4	0.8	7.7	7
Revenues & Benefits	3.2	-	1.3	4.5	99
Finance & Governance	3.0	-	0.6	3.6	56
Commercial & Procurement	0.8	-	0.1	0.9	14
Human Resources & Shared Services	3.0	-	0.5	3.5	71
Transactional Processing carried out in other Areas # #	0.2	-	0.0	0.2	7
Total	£10.7m	£6.4m	£3.3m	£20.4m	254
Notes:					
1. Costs exclude all Support Service Scheme Recharge as majority of Services included in above					
2. # Staff numbers relate to Harrow Staff only					
3. # # Numbers relate to transactional processing activity being carried out Access Harrow and is subject to validation. Other transactional activity carried out in other Directorates is being investigated.					

Note: The staffing numbers shown for the IT Service exclude staff employed directly by Capita.

2.3.2 Research

Primary research was undertaken to consider and evaluate the options identified in Section 2 of this report as follows:

- Over 20 London local authorities have been approached to determine their current “back-office” service provision arrangements for the services in scope. This included initial discussions about the potential for sharing services. From these discussions it was established that there was currently little or no appetite for sharing services.
- Local County Councils (i.e. Hertfordshire, Buckinghamshire, Hampshire and Surrey) were approached to determine their appetite for shared services and any potential interest for sharing services with Harrow Council. Both Hampshire and Surrey County Councils expressed an initial interest in discussions although only Hampshire County Council remain engaged in discussions regarding the future potential for a shared service.

- Specific shared services and joint venture arrangements were approached to determine whether it was possible and practical to join their partnership arrangements. These are referred to within Appendix 4 to this report.
- IT software providers were approached to determine the cost of replacing SAP and other systems.
- An informal “soft” market test was undertaken with six private sector outsourcing companies. These are referred to in Appendix 4 to this report.
- The potential difference in salary rates for similar roles performed in a number of regions within England was investigated to determine whether it would be financially beneficial to relocate one or more of the services to a lower cost location.

2.3.3 Client Engagement

Continued financial pressures arising from national “austerity” measures are likely to require Council services being supported in a very different way from how services are currently supported. Savings are likely to be driven by increased levels of self service and delivery by employees who may not always be present on site in the event that services should be outsourced.

Engagement therefore started early with service areas involving

- Workshops with selected managers and staff from in-scope services;
- Surveys with each Directorate Management Team; and
- Workshops with in excess of 30 managers from all Directorates to understand current perceptions of services and their likely appetite for receiving services differently in the future.

Additionally, a Stakeholder Consultative Group has been established with representatives from each of the Directorates as well as the Trade Unions. This group meets monthly and provides a communication channel into the main client groups for the in-scope services.

Engagement with Schools receiving support services provided through the Resources Directorate has also been undertaken. This comprised of an initial letter setting out the project terms of reference, two presentations to Head Teachers, meetings with School clusters and a conference for Head Teachers and Governors that was held in November. These have been to both update School

representatives on project progress and to seek their comments and views on options under consideration.

Employee and Trade Union Engagement

Presentations to staff within the services in scope were conducted during September and October to ensure that consistent and timely information was imparted. “Drop-in” sessions have been held for employees to attend and ask questions about the project and a dedicated Intranet page has been established for accessing project information and viewing frequently asked questions with the responses given. An email address is also available for employees to submit questions for response.

Trade Unions (i.e. GMB and Unison) have been invited to regular weekly meetings and Unison Trade Union representatives have attended the meetings to keep informed of project progress.

2.4 Why a change is needed

A key consideration is that irrespective of the strategic model determined, demand for IT Services and back-office transactional support services are likely to reduce. Concurrently with the above, other activities, particularly relating to channel shift, will increase volumes of online activity, data storage requirements and requirements for 24/7 system availability

It is anticipated that the existing “austerity” measures in place to reduce the national budget deficit are likely to continue beyond 2014/15 with further consequential financial challenges expected. Whilst a balanced budget has been determined up to 2015, there is a need to plan for further cost reductions accordingly. The need to mitigate the potential impact of any cost reduction to “front-line” services means that opportunities for improving efficiency within “back-office” services must be sought.

Additionally, the existing IT Service contract with Capita is scheduled to expire in October 2020 but comprises a break clause enabling the Council to achieve an earlier cessation date of October 2015 provided that written notice is given by September 2014.

It is anticipated that the achievement of further significant savings may only be realised by making fundamental changes to the way in which services are currently provided and delivered.

Consequently, the timing of the break clause within the existing IT Services contract and the likelihood of needing to achieve further revenue budget savings present an opportunity to consider and evaluate alternative options for service delivery in order to address the likely financial challenges ahead.

A Cross Party Member Steering Group, with representatives from the Conservative, Labour and Independent Labour Parties, was created to discuss progress on Project Minerva. They met on a regular basis to discuss the approach, findings and recommendations as set out within this report.

2.5 Implications of the Recommendation

The implications of the recommendations of this report are set out below.

2.5.1 Resources and Costs

The recommendations contained within this report are anticipated to require resources for the following strands of work.

1. There will be a need to undertake and manage the procurement of the IT Service contract under EU Procurement rules and it is anticipated that external assistance will be required to support this process.
2. There is likely to be a resource requirement within services in order to support, progress and implement their internal options including an investment in IT.
3. There will be a need to establish a Transformation Programme including appropriate resourcing to manage and track progress and benefit realisation incorporating a benefit tracking tool and reporting framework.

The internal option “one-off” costs of approximately £1.3m are to be met through a combination of service revenue budgets and the medium term financial strategy implementation reserve.

The Council is considering a Competitive Dialogue process for the procurement of the IT Service contract and will make a final decision about the process in due course. The procurement would be designed to enable down-selection from the initial pool of bidders to allow final negotiations with those presenting the most advantageous, to allow the Council to achieve the optimal outcome within the cost parameters specified above.

The financial implications arising from the recommendations in this report will be incorporated within the budgetary planning process for 2015/16.

2.5.2 Staffing and Workforce Considerations

At the point at which detailed proposals are prepared for the implementation of the internal options, Equalities Impact Assessments will need to be undertaken and due regard had to any potential adverse impact that these may have on

employees and Trade Unions. There will also be a need to consider and conduct any appropriate consultation with employees and stakeholders affected.

Community Safety

It is not currently anticipated that there are any implications on community safety with regard to this report.

2.6 Legal Implications

Duty of Best Value

Under Section 3 of the Local Government Act 1999, Local Authorities are under a general Duty to secure Best Value services. The duty is to *“make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness.”*

The recommendations in this report will help to achieve Best Value

Contract

The Council can end the existing IT Services contract on 12 months' prior written notice and the main Incremental Partnership Agreement expires on 3rd October 2015 unless the parties agree to renew it.

Procurement

The value of the proposed new IT Services contract over its lifetime is higher than the current EU financial threshold for Services and so the procurement and award of the contract is subject to the full application of the Public Contracts Regulations 2006.

The award of the contract is also subject to the Council's own Standing Orders in respect of High Value contracts and Financial Regulations. As a result, Cabinet approval will be required for the award of the contract.

An indicative timetable for the procurement exercise, based on a Competitive Dialogue approach is included in Table 3 below. This may change dependent upon the approach taken and any other relevant procurement factors.

Table 3

Timing	Activity	Assumptions
Feb 2014	Issue OJEU Issue PQQ and ISOS ¹ Bidder Day	January Cabinet approve the re-tender exercise Service specification for ITO needs to be determined
Mar 2014	PQQ submissions and evaluation	
July 2014	Issue ISDS ² and Contract Documentation	
Aug – Dec 2014	Detailed Dialogue (if required) Selection of Preferred Supplier Build discussions into contract	
Jan – Sep 2015	Contract Award and Transition	

Public Sector Equality Duty

Decision makers should have due regard to the public sector equality duty in making their decisions. The equalities duties are continuing duties. They are not duties to secure a particular outcome.

The equalities impact will be revisited on each of the options as they are developed.

Consideration of the duties should precede the decision. It is important that Cabinet has regard to the statutory grounds in the light of all available material such as consultation responses. The statutory grounds of the public sector equality duty are found at section 149 of the Equality Act 2010 and are as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

¹ Invitation to Submit Outline Solutions

² Invitation to Submit Detailed Solutions

Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
- (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) Tackle prejudice, and
- (b) Promote understanding.

Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act. The relevant protected characteristics are:

- Age
- Disability
- Gender reassignment
- Pregnancy and maternity
- Race,
- Religion or belief
- Sex
- Sexual orientation
- Marriage and Civil partnership

It is important that robust equalities impact assessments are completed. The potential for adverse impact has been identified but before a proposal is progressed, a full Equalities Impact Assessment will be undertaken to assess whether the potential is likely to occur and to consider any mitigating actions to be taken.

The equalities impact will therefore be revisited for each of the internal options as they are developed.

2.7 Financial Implications

The Council is expecting to experience cost reduction targets of up to 30% across service areas commencing 2015/16. This is currently an estimate that cannot be more accurately determined at present although it is being applied for planning purposes.

The annual value of the services in scope is approximately £20m.

The financial implications arising from the internal options indicate the potential for securing annual savings of £2.0m per annum (i.e. 17%) on an initial investment of £1.3m. This would achieve a payback period of less than two years. Savings will also be sought from the IT Service contract to contribute towards the savings target.

The internal option investment costs of approximately £1.3m are to be met through a combination of service revenue budgets and the medium term financial strategy implementation reserve.

The proposed savings outlined above are additional to any savings already submitted and agreed under the Council's mid term financial savings (MTFS) programme.

There are also anticipated costs that will need to be quantified and considered for any support needed for a re-tender of the IT Services and Project Minerva. It is currently anticipated that these will be met from the medium term financial strategy implementation reserve.

There are no anticipated effects on income collection or tax.

Any procurement process required in pursuance with the recommendations in this report will be conducted in accordance with EU procurement rules and Council standing orders as appropriate.

2.8 Performance Issues

The internal options proposed for the delivery of services are likely to see services delivered in a different way in the future if further significant savings are to be realised. For example, there are likely to be opportunities for increased channel shift towards online and telephone service provision, and away from the more expensive face-to-face provision.

Current key performance indicators for the IT Service and the performance associated with them are shown in tables 4 to 7 below.

Table 4 - Service Availability

Ref	Key Performance Indicator	Target	Cumulative Score for 12 month period ending November 2013
SA01	Telephony	99.88%	99.96
SA02	Internet (including harrow.gov.uk)	99.79%	99.92
SA03	Aggregated Business Apps SLA for Key Apps (MSI)	99.16%	99.60
SA03.1	Email	99.36%	99.62
SA03.2	Office (via thin client)	99.36%	98.76
SA03.3	Remote Access - Citrix	99.36%	98.29
SA03.4	i-World – Capita	97.86%	99.62
SA03.5	Framework-I – Devolved	97.86%	98.90
SA03.6	Libraries – Devolved	97.86%	100.00
SA03.7	Northgate OHMS – Capita	97.86%	99.79
SA03.8	IKEN – Capita	97.86%	99.93
SA03.9	EMS – Capita	97.86%	100.00
SA03.10	MVM M3 – Capita	97.86%	99.97
SA03.11	Radius ICON – Capita	97.86%	100.00
SA03.12	Modern Gov – Capita	97.86%	100.00
SA03.13	Civica Parking – Capita	97.86%	99.91

Table 5 - Service Desk

Ref	Key Performance Indicator	Target	Cumulative Score for period ending November 2013
SD01	Abandoned Calls (IT Service Desk queuing) The percentage of lost calls over 20 seconds, due to queuing time at the IT Service Desk during Core Service Hours	6.00%	2.31

Table 6 - Helpdesk Services

Ref	Key Performance Indicator	Target	Cumulative Score for period ending November 2013
SD02	Priority 1 Respond within 15 minutes and achieve full fix or workable workaround as soon as reasonably practicable and in any event within 4 (four) hours within Core Service Hours	95.00%	97.65
SD02A	Premium / VIP Services	95.00%	97.51

Ref	Key Performance Indicator	Target	Cumulative Score for period ending November 2013
	Respond within 1 Hour and achieve full fix or workable workaround as soon as reasonably practicable and in any event within 18 hours within Core Service Hours		
SD03	Priority 2 Respond within two hours and achieve full fix or workable workaround within 18 hours within Core Service Hours	95.00%	93.34
SD04	Priority 3 Respond within one day and achieve full fix or workable workaround within 36 hours within Core Service Hours	95.00%	94.60
SD05	Priority 4 Respond within five days and achieve full fix or workable workaround within 90 hours within Core Service Hours	95.00%	99.17

Table 7 - IMAC/Authorised User Set Ups

Ref	Key Performance Indicator	Target	Cumulative Score for period ending November 2013
MAC01	Installs, Moves, Adds, Changes and Authorised Service User Set-ups	98.00%	98.67
MAC01.1	Minor office move 3 days		100.00
MAC01.2	Minor office move (more than 4 people) 3 days		100.00
MAC01.3	Meeting Room IT (AV equipment) Supported during Core Service Hours 3 days		100.00
MAC01.4	Agreed timescales: New Starter/Leaver		97.38

Ref	Key Performance Indicator	Target	Cumulative Score for period ending November 2013
	5 days		
MAC01.5	Agreed timescales: Authorised Service User System Access or Denial 4 hours		100.00
MAC01.6	Agreed timescales: Network Password Reset 4 hours		98.84
MAC01.8	Authorised Service User Active Directory role changes within 24 hours subject to Core Service Hours		100.00

The recommendations within this report are aimed at ensuring the Council has planned and prepared for potential cost reduction pressures anticipated from 2015/16 onwards. However, specific performance outputs for internal options and the IT Service will need to be developed and agreed as part of the business case for the changes concerned and any subsequent implementation plans. In the event that the internal options cannot be delivered as planned, a further report on proposed actions may be submitted to Cabinet.

Should the Council not wish to proceed with the internal options, there will still be a need to identify savings in order to meet the anticipated financial pressures from 2015/16 onwards. The option to outsource some or all of the services in scope would remain but is unlikely to be achievable within the timescale remaining up to 2015/16 and therefore could not guarantee a full year's equivalent of savings from that year.

2.9 Environmental Impact

There are no direct environmental impacts anticipated from the recommendations contained within this report. However, there may be indirect benefits achievable through the re-tender of the IT Service contract particularly for example in terms of increased online / electronic processing, increased self service supporting increased opportunities for mobile and flexible working and the provision of more energy efficient hardware wherever reasonably practicable.

The above may have the effect of reducing reduce greenhouse gas emission through reduced car travel, reducing electricity usage through more energy efficient hardware and reducing paper

documents issued to customers and thus contributing to the sustainability of woodland and plantations.

The recommendations proposed within this report, if agreed, will permit a continued local provision of services thus potentially benefiting the local economy and maintaining local employment.

2.10 Risk Management Implications

Risk included on Directorate risk register? No

Separate risk register in place? Yes

Risks associated with the project are documented on the project risk register and proactively managed through the Project Reporting arrangements.

2.11 Equalities implications

There is no prescribed manner in which the equality duty must be exercised. However, the council must have an adequate evidence base for its decision making. This can be achieved by gathering details and statistics on who use the facilities. A careful consideration of this assessment is one of the key ways in which the Council can show “due regard” to the relevant matters.

Where it is apparent from the analysis of the information that the proposals would have an adverse effect on equality then adjustments should be made to avoid that effect (mitigation).

The duty is not to achieve the objectives or take the steps set out in s.149. Rather, the duty on public authorities is to bring these important objectives relating to discrimination into consideration when carrying out its functions.

“Due regard” means the regard that is appropriate in all the particular circumstances in which the authority is carrying out its functions. There must be a proper regard for the goals set out in s.149. At the same time, the council must also pay regard to any countervailing factors, which it is proper and reasonable for them to consider. Budgetary pressures, economics and practical factors will often be important, which are brought together in the Equality analysis form.

The weight of these countervailing factors in the decision making process is a matter for the Council in the first instance.

An overview Equalities Impact Assessment has been undertaken for the project and was considered by the Equalities Impact Assessment Quality Assurance Group at their meeting of 17th December 2013.

As the IT service is presently outsourced, it is not currently anticipated that there will be any significant implications for Harrow Council employees and its stakeholders. If the recommendation to re-tender the service is agreed, due regard to equalities considerations will be addressed through the procurement and commissioning process.

In relation to internal options, these will need to be supported by full Equalities Impact Assessments and any relevant consultation as appropriate in order that due regard may be had to their impact. Where internal options require a key decision to be made, these will be brought to Cabinet for consideration and decision together with their Equalities Impact Assessments.

There are 254 posts within the scope of the proposed cost reduction programme of which approximately 40 to 50 may be deleted under the options proposed. Therefore, the following immediate measures are proposed to be effected, other than in exceptional circumstances authorised by the Corporate Director Resources, to mitigate against the potential impact arising from this:

- Recruitment freeze for vacant posts
- Use of agency staff or staff on short term contracts for vacant roles.

A potential for adverse impact has been identified relating to the protected characteristics of age, race, disability and gender although this cannot be more precisely determined at present. However, full Equalities Impact Assessments will be undertaken as internal options are developed and due regard will be given to any potential adverse impact identified with mitigating actions considered accordingly.

It is currently anticipated that “Minerva” will become a programme management role that will include ensuring Equalities Impact Assessments have been undertaken and due regard given to any potential adverse impact and mitigating actions. The timings and frequency of proposal monitoring arrangements will be determined having regard to the nature and extent of the options to be progressed and may include key stakeholders in their preparation and evaluation.

Furthermore, it is anticipated that the results of any monitoring will be analysed, reported and publicised in the manner determined and agreed as appropriate for the specific proposal under consideration.

2.12 Corporate Priorities

The recommendations contained within this report support the corporate priority for being “cleaner, safer and fairer”. By making efficiencies and improvements through “back-office” processing, it is anticipated that the effects of any changes on “front line” resources may be minimised thus ensuring seamless service provision and safeguards for those customers most in need.

3 Statutory Officer Clearance

Name: Simon George	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 11 December 2013		
Name: Matthew Adams	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 20 December 2013		

4 Performance Officer Clearance

Name: Alex Dewsnap	<input checked="" type="checkbox"/>	Divisional Director Strategic Commissioning
Date: 11 December 2013		

5 Environmental Impact Officer Clearance

Name: Gary Alderson	<input checked="" type="checkbox"/>	on behalf of the Corporate Director (Environment & Enterprise)
Date: 11 December 2013		

6 Contact Details and Background Papers

Contact: Rob Bonneywell, Project Minerva Project Manager
Tel: 020 8416 8902 (Int Ext 8902)

Background Papers: None.

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

[Call-in applies]