

Report title: ICT Sourcing Programme Business Case

Wards affected: All

Strategic Director: Angie Ridgwell

Report Author: Paul Arrigoni

RECOMMENDATION for the Mayor's approval:

1. Approve the programme business case for the ICT Sourcing Programme, delivering the following benefits:
 - Enabling the delivery of the ICT needed to support business change programmes and meet the council's future business needs.
 - Increased customer satisfaction with service quality.
 - A scalable service, with a more variable cost base.
 - Reduced risk, including avoid cost escalation.
 - Increased market leverage for innovation from technology
 - Supports local economic development through investment in SME's and local business sourcing.
 - Delivers net cumulative (cash) benefit of £6.6m by yr 5
2. Agree to the allocation of £1.4m from business change in 2013/14 to deliver the business case, with a positive return on investment by 2015/16.

Key background

The purpose of this report is to seek Cabinet approval of the business case for the implementation of the ICT Sourcing Programme. The business case is based on a strategic review of the council's sourcing options for ICT, including an assessment of future business requirements and the ICT market place.

The proposed programme represents a robust application of the council's 'right service, right provider' principles through the application of the strategic commissioning framework. It offers a compelling case for change and proposes a clear way ahead for implementation and benefits realisation

Key Details

1. The council is becoming more heavily dependent on ICT to deliver its services. Most of the council's change programmes depend to some extent on ICT to deliver benefits, so it is essential we have the necessary delivery capability in place to enable these changes. Over £20m of ICT investment is currently planned by business change programmes, the largest of which is Bristol Work Place.
2. The ICT market place is changing rapidly, with substantial economies of scale being achievable through shared solutions and services, both private and public sector (e.g. cloud computing). Cloud solutions offer a much more flexible cost model than the traditional ownership of technology, operating much more on a 'pay as you go' basis.
3. Government procurement policy is also changing significantly, with a strong drive to a more open market place and a 'level playing field', enabling smaller suppliers to win a greater share of the government market.

4. Over the last three years the ICT service has already undertaken substantial restructuring through the 'Fit for the Future' change programme which closed in 2012. This has created a single ICT service and established more efficient working practices. This programme has already delivered a reduction in operational costs of £4.5m from the 2010/11 baseline budget, with staff numbers reducing from 235 to c120 by the end of 2013/14. However, we have a very fixed and inflexible cost base, with delivery primarily through internal teams.
5. A strategic review of ICT delivery options was completed in September 2012. It considered future business requirements for services, a market maturity assessment (including local suppliers) and developed high level options. It recommended moving to a multi-vendor model.
6. Bristol has a large number of strong and innovative ICT companies, particularly SME's, who can offer the council a range of ICT services. Therefore, part of the strategy is to ensure that at least 25% of the external ICT spend is with SME's by 2015, and to support local market development to promote these opportunities.
7. The proposed ICT change programme has two main elements:-
 - The establishment of the internal capability needed to operate in the new way, primarily through commissioning, supplier management and architectural controls, together with the ability to manage and integrate delivery through multiple suppliers.
 - The commissioning of services from the market over a 2-3 year period through the rigorous application of right service, right provider, aligned to business demand and the ending of current contractual arrangements.
8. Consequently, there are four primary objectives of the change programme:-
 - Meeting the substantial future requirement for new systems and technology identified through the business change programmes
 - Move the ICT delivery model to more variable cost base.
 - Further reduce the cost of ICT service provision over and above the 22% reductions in operating costs already achieved
 - Increasing the proportion of ICT spend with SME's to at least 25%
9. If we do not change, the current ICT service will increasingly fail to meet the council's future business needs and costs will increase due to the inflexibility of the current model.
10. In addition to the non-financial benefits outlined above, the programme delivers net cumulative (cash) benefits of £6.6m , with a reduction in baseline costs of c£1.4m by year 3, rising to £2.5m by year 5
11. To deliver the change programme an allocation of £1.4m is needed in 2013/14 to deliver the business case, with a positive return on investment 2015/16. This will be funded from business change reserves and repaid from benefits. The benefits claimed in the business case are robust, and it is anticipated that more can be delivered once further work is undertaken.
12. A detailed financial analysis of the costs and benefits profiles is available as part of the full business case and has been reviewed and agreed with Finance.

BRISTOL CITY COUNCIL CABINET 29 May 2013

REPORT TITLE: ICT Sourcing Programme Business Case

Ward(s) affected by this report: All Wards

Strategic Director: Angie Ridgwell : Interim City Director

Report author: Paul Arrigoni Service Director, Business Change and ICT

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Purpose of the report:

The purpose of this report is to seek Cabinet approval of the business case for the implementation of the ICT Sourcing Programme. The business case is based on a strategic review of the council's sourcing options for ICT, including an assessment of future business requirements and the ICT market place.

The proposed programme represents a robust application of the council's 'right service, right provider' principles through the application of the strategic commissioning framework. It offers a compelling case for change and proposes a clear way ahead for implementation and benefits realisation

RECOMMENDATION for the Mayor's approval:

1. Approve the programme business case for the ICT Sourcing Programme, as defined in this report and the supporting documentation, delivering the following benefits:
 - Enabling the delivery of the ICT needed to support business change programmes and meet the council's future business needs.
 - Increased customer satisfaction with service quality.
 - A scalable service, with a more variable cost base.
 - Reduced risk, including avoiding cost escalation.
 - Increased market leverage for innovation from technology
 - Supports local economic development through investment in SME's and local business sourcing.
 - Delivers net cumulative (cash) benefit of £6.6m by yr5

2. Agree to the allocation of £1.4m from business change budgets in 2013/14 to deliver the business case, with a positive return on investment by 2015/16.

1 The proposal:

1.1 Strategic Context

Internal

The council is becoming more heavily dependent on ICT to deliver its services. Most of the council's change programmes depend to some extent on ICT to deliver benefits, so it is essential we have the necessary delivery capability in place to enable these changes.

The current business change programmes indicate over £20m of investment in new technology will be needed over the next three years, with the Bristol Work Place programme being the largest of these. Changing working practices will also require a new ICT support model to be in place, one that enables staff to operate much more flexibly.

As the council changes the way it delivers services over the coming years, it is important that support services such as ICT can be flexed to meet new requirements. Moving to a more variable cost model is essential to enable this to be accommodated.

External

There are significant shifts in the wider use of technology, resulting in increased expectations of our stakeholders in the way the council provides its services. Expectations are increasing for services to be available at any time using a wide range of devices and channels (e.g. Facebook, smartphones). This will significantly change the demands for ICT support.

The ICT market place is also changing rapidly, with substantial economies of scale being achievable through shared solutions and services, both private and public sector (e.g. cloud computing). Cloud solutions offer a much more flexible cost model than the traditional ownership of technology, operating much more on a 'pay as you go' basis.

The Council's current policy to strongly adopt an open standards approach for ICT solutions is essential in enabling greater interoperability with partner organisations and avoiding supplier 'lock in'.

Government procurement policy is also changing significantly, with a strong drive to a more open market place and a 'level playing field', enabling smaller suppliers to win a greater share of the government IT market.

The impact of these drivers is that ICT organisations will increasingly need to move from owning and developing solutions to being an agile commissioner of services, aligned to rapidly changing business needs.

1.2 Current Position

Our current delivery of ICT services is primarily in-house, supported by a large number of 'ad hoc' support contracts, with a high proportion of fixed costs. Unlike many other local authorities, the council has not undertaken any significant outsourcing of its ICT services and therefore is not locked in to any long term contracts with suppliers.

The council's ICT budget for 2013-2014 for operational services is £15.6m (excluding traded income) of which circa £8m is spent externally. Investment in new technology or replacing end of life solutions, delivered through business change programmes, is typically an additional £5m-£7m per year.

Over the last three years the ICT service has already undertaken substantial restructuring through the 'Fit for the Future' change programme which closed in 2012. This has created a single ICT service and established more efficient working practices. This programme has delivered a reduction in operational costs of £4.5m from the 2010/11 baseline budget, with staff numbers reducing from 235 to c120, by the end of 2013/14.

The current organisation is primarily a technically based service with a strong focus on internal delivery. There is limited commercial expertise within ICT, which will become an increasing risk as we move to an organisation that 'buys' rather than 'makes'. We will need to ensure we obtain the best value from our substantial spend. A number of other key capabilities need to be developed to act an effective broker of services, managing business and supplier relationships to align supply and demand and to design and integrate an increasingly complex technical landscape.

1.3 Sourcing Strategy – Options Analysis

A strategic review of ICT delivery options was completed in September 2012. It considered future business requirements for services, a market maturity assessment (including local suppliers) and developed high level options.

The options considered were:-

- outsourcing all ICT provision to a single supplier
- retain delivery in-house
- move to a multi-vendor delivery model

The third option was supported by the Executive Member at the time and SLT, which moves the ICT service to one that increasingly buys in services as a commodity. This offers the best value for money and greatest organisational flexibility. It will involve working with multiple vendors, rather than moving to a single outsource provider, and will require the council to retain responsibility for the integration of systems and services.

Bristol has a large number of strong and innovative ICT companies, particularly SME's, who can offer the council a range of services. Therefore, part of the strategy is to ensure that at least 25% of the external ICT spend is with SME's by 2015, and to support local market development to promote these opportunities.

The other options were discounted at this stage as they did not meet the primary requirements, represented higher risks and higher costs.

Consequently, a business case for change has been developed to move the council's ICT service to the preferred option.

Further information on the strategic options analysis is provided in Appendix 2

1.4 The Future ICT Organisation

The proposed ICT change programme has two main elements:-

- The establishment of the internal capability needed to operate in the new way, primarily through commissioning, supplier management and architectural controls, together with the ability to manage and integrate delivery through multiple suppliers.
- The commissioning of services over a 2-3 year period through the rigorous application of right service, right provider, aligned to business demand and the ending of current contractual arrangements.

Through this change the ICT service will become:-

- Become an "Intelligent Customer" with capability to enable the successful planning, specification, acquisition, implementation and use of ICT to achieve business objectives at best value for money.
- Operate a model where services commissioned from multiple vendors are managed to ensure they are effectively integrated.
- Reuse common services as the norm, with a much greater agility in delivering changes at pace.
- Strengthen the commercial relationship between the customer and supplier of technology services, particularly to achieve value from more effective supplier management.
- Be seen as an 'attractive customer' - one that clearly understands what it wants and is easier to do business with.

1.5 Business Case Objectives

There are four primary objectives of the change programme:-

- Meeting the substantial future requirement for new systems and technology identified through the business change programmes, underpinned by high quality support services as the council's dependency on ICT increases.
- Move the ICT delivery model away from its current fix costs base, to a more variable cost base model.
- Further reduce the cost of ICT service provision, over and above the 22% reductions in operating costs already achieved, by exploiting new low cost delivery models offered by the market place (e.g. cloud computing) and through shared services.
- Increasing the proportion of ICT spend with SME's to at least 25% of external spend, providing opportunities to maximise reinvestment into the local economy.

If we do not change, the current ICT service will increasingly fail to meet the council's future business needs and costs will increase due to the inflexibility of the current model.

1.6 Benefits and Costs

A full business case for change has been developed that underpins this report, including a detailed financial analysis of the costs and benefits.

A summary of the supporting documentation is provided in Appendix 1.

Benefits

The change programme will deliver the following primary benefits:-

- Enabling the delivery of the ICT needed to support business change programmes and meet the council's future business needs.
- Increased market leverage for innovation
- Increased customer satisfaction with service quality.
- A scalable service, with a more variable cost base
- Reduced risk, including avoid cost escalation
- Supports local economic development through investment in SME's and local business sourcing.
- Delivers net cumulative (cash) benefit of £6.6m, with a reduction in baseline costs of £1.4m by year 3, rising to £2.5m by year 5.

Costs

To deliver the change programme an allocation of £1.4m is needed in 2013/14 to deliver the business case, with a positive return on investment 2015/16. This will be funded from business change reserves and repaid from benefits. The benefits claimed in the business case are robust, and it is anticipated that more can be delivered once further work is undertaken.

The change costs include:-

- The commercial skills needed to procure new suppliers, underpinned by robust contracts.
- A realigned and smaller internal ICT service with the capabilities needed to operate in the new environment. This includes all staff development costs, and investment in new processes and technology.
- Any TUPE and redundancy costs associated with the change
- Programme management and associated change costs.
- Transitional support to move to the new operating model, primarily in first year.

A detailed financial analysis of the costs and benefits profiles is available as part of the full business case and has been reviewed and agreed with Finance.

2. Consultation and scrutiny input:

Internal

Executive Member for Resources

Strategic Leadership Team

Portfolio Management Group

Internal customer groups

Staff groups

Commissioning and procurement service

External

Suppliers – through market development events

Current suppliers

Executive Programme Director, G Cloud, Cabinet Office

Independent review by external specialists in ICT

3. Risk management / assessment:

The Programme is using the risk manage approach and control regime framework provided by the Portfolio offices. Risks are assessed and mitigation applied. Risks are frequently updated.

The risks associated with the implementation of the <i>(subject)</i> decision :							
No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (ie controls) and Evaluation (i.e. effectiveness of mitigation).	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	Market not mature enough to support approach,	High	Medium	<ul style="list-style-type: none"> Incremental approach reduced risk Active market development In line with wider government policy & Market Trend 	High	Low	
2	High levels of business change impacts service	High	Medium	<ul style="list-style-type: none"> Active change management Track record of delivering change with minimal impact Tie new contracts and services to tighter performance management regimes 	High	Low	
3	Increased risk through greater use of SME's to deliver services	High	Medium	<ul style="list-style-type: none"> Active supplier management to review supplier performance Assessment of risk when selecting SME's to deliver services Retaining options within the supplier portfolio to quickly access other service options 	High	Low	

The risks associated with <u>not</u> implementing changing the ICT delivery model:							
No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (ie controls) and Evaluation (ie effectiveness of mitigation)	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	Will not meet future business needs to support changes across the council	High	High	Implement the preferred option in the business case	High	Low	

Public sector equality duties:

In consultation with the equalities manager the following approach has been agreed as it is anticipated that the projects within the ICT Sourcing programme will have varying levels of equalities relevance, and by integrating equalities thinking into the assessment of the 'as-is' – we seek to gain understanding of where the key equalities opportunities and impacts are. This will allow us to develop an understanding of equalities impacts at programme level.

Advice given by Annabelle Armstrong-Walter Equalities Manager
Date 01/05/2013

Eco impact assessment

It has been agreed with the councils Eco advisor that the impact will not be assessed until services are commissioned. Impact assessments will be built into the commissioning / procurement process, as it is built into other tenders that go through the Strategic Commissioning and Procurement Service via a sustainability assessment

Advice given by Giles Liddell, Environment Officer
Date 30/04/2013

Resource and legal implications:***Finance*****a. Financial (revenue) implications:**

The cost of this programme is £1.4m and it will deliver £2.5m of annual savings. The Programme will show a return on investment against baseline by 15/16

The new costs to undertake this programme will initially be funded from the Portfolio of Business Change. This funding source will be reimbursed from future benefits derived directly from this Programme.

Advice given by Claire Burston Finance Business Partner

Date 11/05/2013

b. Financial (capital) implications:

No implications

Advice given by Claire Burston Finance Business Partner
Date: 11/05/2013

c. Legal implications:

The commissioning strategy for implementing the ICT Sourcing Programme will need to comply with the Public Procurement Regulations and the Council's own Procurement Rules. Targeting local suppliers or SME's may be possible to a degree within these rules, but needs to be considered carefully to avoid criticism or challenge from other suppliers. Particular care would need to be taken if seeking to favour local suppliers.

The EU Commission has issued a Code of Best Practice to facilitate access by SME's to public procurement contracts whilst staying within the rules. This identified a variety of measures to assist SME's, including sub-dividing contracts into lots; allowing economic operators to group together; the use of framework agreements; improving the quality and understanding of information provided; setting proportionate qualification levels and financial requirements (keeping selection criteria proportionate); alleviating administrative burden (short and simple standardised forms and certificates); placing emphasis on value for money rather than on price; allowing the submission of variant bids; allowing sufficient time to draw up tenders and ensuring that payments are made on time. These are considerations that the Council can lawfully take into account during the procurement process.

Advice given by Shahzia Daya, Senior Solicitor, Legal Services

Date 10/11/2013

d. Land / property implications:

There are no Land or Property implications in scope of this proposal.

Advice given by N/A

Date

e. Human resources implications:

A good level of consultation has already been undertaken with staff and trade unions and they are well informed. Management are committed to ensuring this continues. Any proposed changes to the workforce as a consequence of this Programme will be undertaken in accordance with the Council's Policies and Procedures including Managing Change. Additional support regarding organisational design, job roles, pay/reward and learning will also be provided.

Advice given by Rachel Falla People Business Partner

Date 02-05-2013

Appendices:

Appendix 1 – Supporting Papers

Document	Purpose
Project Mandate	Defines the desired outcomes of the ICT Sourcing programme and links those outcomes to the enabling benefits.
Vision Statement	The Vision Statement is used to communicate the end goal of the programme, and describes the desired future state that results from successful delivery of the programme.
Blueprint	Details the future states for ICT, in terms of core activities that will be changed by the effective implementation of the Programme.
Programme Plan	The Programme Plan allows rigorous project management to be undertaken and will include issues relating to risk management and cost control.
Benefits Profiles	Defines the anticipated benefits from the Programme and details each benefit; its dependencies and links; allocates ownership; timescales for realisation; assumptions and links to other projects
How “We work today”	Provides a snapshot of current operations across People, skills Organisation structure, technology, process and associated costs
Business Case	Provides a strategic; economic; financial; and project management case for the programme. This details how the programme will deliver benefits to the Council.
Strategic Options Evaluation	<p>To inform the selection of the best fit Sourcing Strategy for the Council.</p> <ul style="list-style-type: none">• An analysis of future business requirements and drivers• A market maturity review (particular focus on local/SME market)• An options assessment and high level business case for change

Appendix 2 – Strategic Sourcing Options Summary

In 2012 the Council commissioned a sourcing options evaluation with a local SME, who worked with our Commissioning and Procurement Service ICT Category lead.

The outputs produced through this work were:

- An analysis of future business requirements and drivers
- A market maturity review
- An options assessment and high level business case for change

This work informed the following three ICT Sourcing options:

	Option	Advantages	Disadvantages
1	Primarily in house	Lower business impact Lowest initial cost	Won't meet business needs Does not realise benefit from Market trends Highest total cost (5 year)
2	Single out source	Simpler procurement Risk with one supplier Some long term savings	High risk, high procurement cost Lock in to a single supplier Reduces flexibility and innovation
3	Multi-vendor model	Greatest agility Lowest 3 & 5 year cost Drives innovation Increases opportunity for local reinvestment	New capabilities required Management risk with BCC

The analysis used the following criteria to assess each option:

- Meet the council's future needs for high quality and innovative ICT
- Be more flexible in meeting the future business needs of the council.
- Cost of change
- Risk
- Wider value to Bristol City Council goals – specifically economic development / digital city
- Reduce baseline operational costs

Option 3 (Multi-vendor) offers the best 'strategic fit' and the best value for money. It provides the greatest flexibility and enables the Council to take advantage of a maturing technology market place at an acceptable level of risk.