

READING BOROUGH COUNCIL

REPORT BY EXECUTIVE DIRECTOR OF RESOURCES

TO:	POLICY COMMITTEE		
DATE:	9 JUNE 2020		
TITLE:	ICT Future Operating Model Business Case		
LEAD COUNCILLOR:	CLLR EMBERSON	PORTFOLIO:	CORPORATE & CONSUMER SERVICES
SERVICE:	ICT	WARDS:	ALL
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The current Information and Communications Technologies (ICT) outsourcing contract with Northgate Public Services ends in March 2021 and has no option within it for further extension. The successor arrangements are known as the ICT Future Operating Model (FOM).
- 1.2 In February 2020, the Policy Committee approved the initiation of design work for the Future Operating Model, with the objective of producing an Outline Business Case. This report presents that Outline Business Case (provided in full at Appendices A and B) and seeks approval of the recommended option and authority to proceed with procurement and implementation.
- 1.3 This report has the following appendices:
 - a) Appendix A: Future ICT Operating Model Outline Business Case;
 - b) Appendix B: Future ICT Operating Model Outline Business Case – Commercially Sensitive Sections.

2. RECOMMENDED ACTION

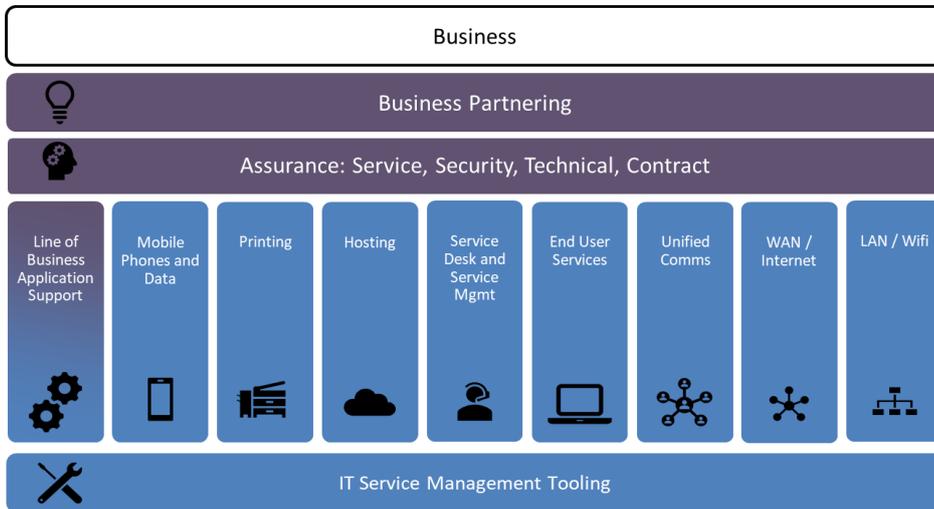
That Policy Committee:

- 2.1 endorse the preferred option recommended in the Outline Business Case (option 2A defined below);
- 2.2 grant delegated authority to the Executive Director of Resources, in consultation with the Chief Digital and Information Officer, the Assistant Director for Procurement and Lead Member for Corporate and Customer Services, to proceed with procurement and implementation of the preferred option, subject to delivery remaining within the financial envelope set out in the Outline Business Case, and a satisfactory report on progress being made to the Policy Committee in September 2020.

3. ICT FUTURE OPERATING MODEL

3.1 Strategic Case

3.1.1 The Future Operating Model for the Council's ICT service is founded on the model shown below, which sets out the current RBC ICT scope in terms of industry-standard, well defined towers of services.



Blue elements of the diagram are candidates for different sourcing options (e.g. in-house, external, or shared service), whereas those in mauve are in-house functions. Detailed descriptions of each of the Towers are provided in the Appendix A.

3.1.2 However, the Future Operating Model should not merely replicate current provision, but should meet the following strategic requirements, which were identified in consultation with senior business representatives across both the Council and Brighter Futures for Children:

- **robust, responsive delivery** - ICT is critical to operational service delivery and staff, customers and members need to be able to rely on it. As the range of ICT services has grown and reliance on ICT has increased, issues with the current model have emerged that impact delivery and which must be addressed for the future;
- **future fitness** - the flexibility to cope with changing business needs and new technologies, and to enable digital transformation such as that underpinning the Customer Experience Strategy, which is forecast to deliver both a transformation in customer experience and £580k in savings over four years.

3.2 Economic Case

3.2.1 We have identified and assessed the following options:

- a) Option 0 - Replicate as-is outsource: The Council procures the services of a single replacement supplier to take on the existing solutions and services, which do not change although a basic level of refresh is undertaken. Current levels of investment and support are maintained. The existing in-house service remains as is. This is a 'Do Minimum' option.
- b) Option 1 - Optimised outsource: The Council procures the services of a single supplier to provide all ICT Services and ensure the integration and innovation of those services to meet our strategic needs. This option builds on the current operating model but is enhanced to address the requirements set out at 3.1.2. In particular, in-house capabilities are enhanced (notably service and contract management, technical design assurance and project management) and technology refresh in line with common industry practice is planned in.

c) **Option 2 - Smart-sourced:** The Council transitions the service towers to the most appropriate provider or end state, creating a “best-of-breed” model that integrates interdependent services from various in-house, external or shared service providers, into a fully managed service. The in-house service is redesigned to assure and provide integrated management across the model. On the basis of soft market engagement, this option was refined into two variants. In both, there would be procurements for the Hosting, Network and Unified Communications towers. However, the options differ in their approach to the provision of Service Desk and Service Management, End User Services and IT Service Management Tooling:

i) **Option 2A** - Procure single managed service for this set of towers from a commercial provider or shared service provider (though no viable candidate for the latter has yet been identified);

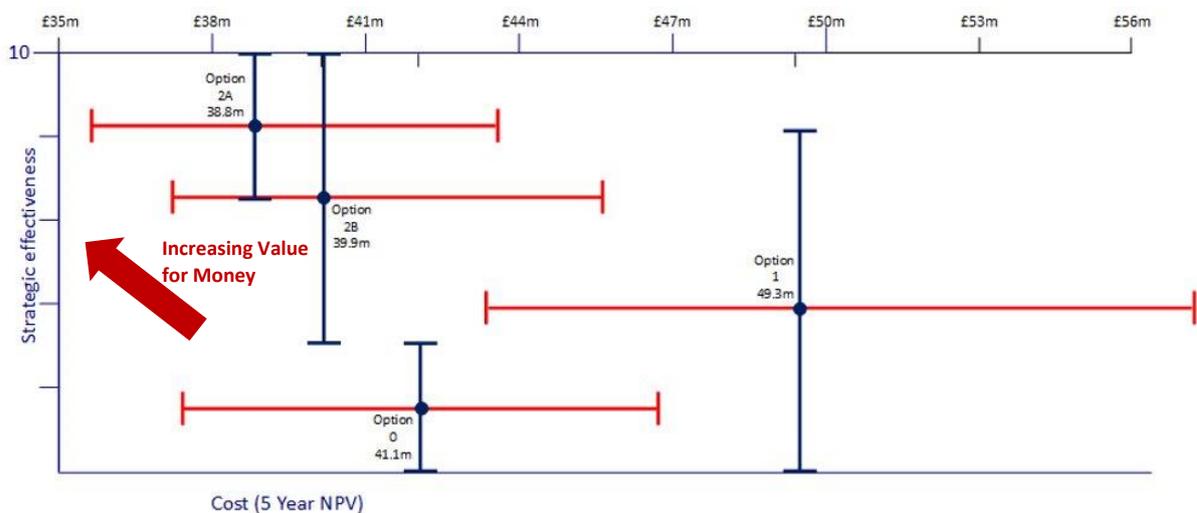
ii) **Option 2B** - Build in-house capability for this set of towers (potentially in collaboration with another Authority).

3.2.2 The relative Value for Money of these options has been evaluated by assessing their:

a) **Strategic Effectiveness** - a consultative, qualitative assessment of quality of service (robust, responsive delivery), the ability to respond rapidly to new business requirements and technical opportunities (future fitness), and management of risk; and

b) **Cost** - based on rough order of magnitude (ROM) costs identified through market engagement and costing of the internal team, together with weighted risk, expressed as a five-year NPV).

3.2.3 The diagram below plots each option against these dimensions. The intersection for each is between the most likely cost and the average opinion on strategic effectiveness, with the red and blue lines illustrating uncertainty in the former and range of opinion around the latter.



3.2.4 Further detail is provided in section 3 of the Outline Business Case attached at Appendix A. The conclusion, however, is that:

a) The baseline Option 0 is not seen as viable and would not represent Value for Money.

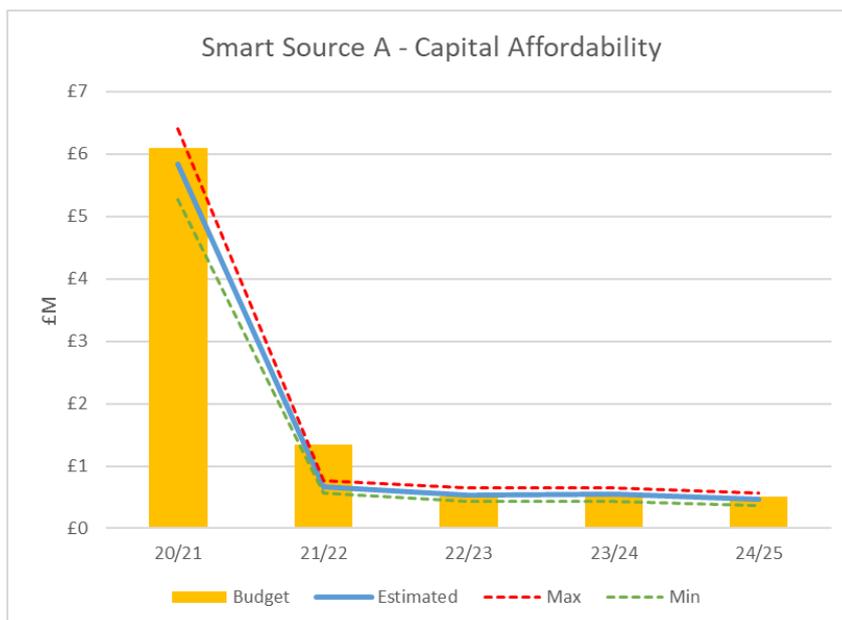
b) Option 1 is assessed to be higher cost than both variants of Option 2 and judged to be less effective than either, and therefore is not a preferred option. There is a

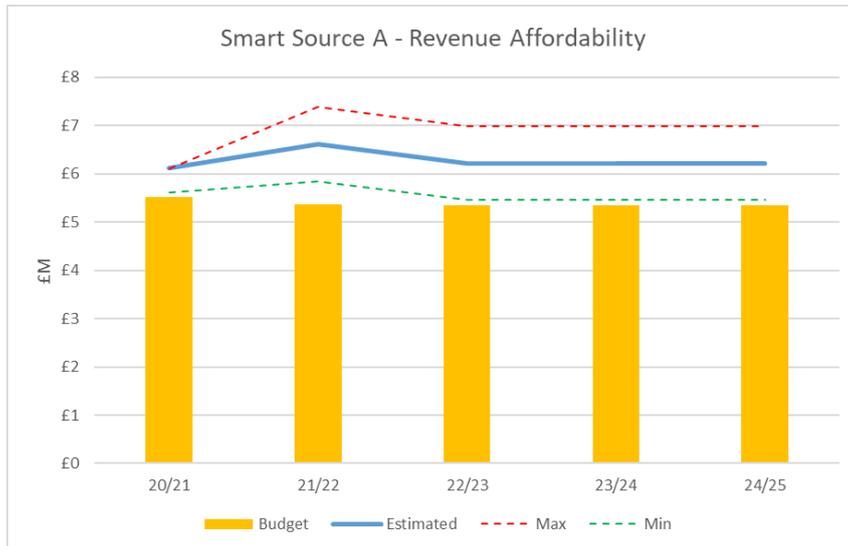
therefore a prima facie case that the project should proceed on a smart-sourcing basis rather than seek to procure a single strategic partner. However if a single supplier were to be successful on all lots under Option 2A, then the possibility of engaging that supplier as a strategic partner could be assessed. Hence the possibility for the market to demonstrate the value for money of Option 1 is not excluded.

- c) The choice between Options 2A and 2B is more finely balanced. Once established, their strategic effectiveness and running costs are likely to be broadly comparable. However, the setup costs and transition risks for Option 2B are assessed to be significantly greater than for Option 2A because of the significant work required to build an in-house capability from ground up.
- d) Because of this up-front need for investment, with associated cost and operational risk, we assess that Option 2B would offer poorer Value for Money than Option 2A. This would be the case at any time. However, current circumstances make the difference between the options even clearer.
- e) The impact of the additional costs of Option 2B would fall at a time when the organisation is under increased financial pressure owing to covid-19. Meanwhile, the short time available for transition would increase the potential consequences of transition risk, threatening both normal operations and the loss of momentum on transformation programmes such as Customer Experience.
- f) Given that Option 2B offers poorer Value for Money, and also poses additional short-term risks, **Option 2A is recommended as the preferred option.**

3.3 Financial Case

3.3.1 The graphs below show the capital and revenue profiles of Option 2A, relative to budget, based on soft market testing. The blue line represents the estimated cost, and the red and green dotted lines represent the maximum and minimum costs respectively. The wide envelope between them reflects both risk and the high estimating uncertainty at this stage.





3.3.2 As is evident from the graphs, while the capital element of Option 2A is affordable (with a possible need for minor reprofiling), there is a revenue affordability challenge estimated to be of the order of £0.5m in 20/21, £1.2m in 21/22 and £0.8m per annum thereafter.

3.3.3 Nonetheless, given that Option 2A provides both the best value for money and the lowest cost in each year compared with other options, it remains the recommended option to take forward. All appropriate steps possible will be taken in the procurement and implementation process to minimise cost and reduce the affordability challenge.

3.4 Commercial Case

3.4.1 Through the soft market engagement exercise, we have confirmed that there are suitable suppliers in the market to meet our requirements and that there are suitable commercial vehicles to support the procurements required.

3.4.2 Key features of the commercial strategy set out at section 5 of the Outline Business Case attached at Appendix A are:

- a) the use of government frameworks to maximise Value for Money and streamline procurement, noting that the services being procured are of a standardised and, in some cases, commodity nature;
- b) enabling suppliers to bid for multiple services so that any additional value they can offer in doing so can be recognised;
- c) enabling Shared Service providers to be considered alongside commercial providers;
- d) the incorporation of social value into procurement evaluation criteria to ensure that Value for Money is assessed in its fullest sense;
- e) the use of shorter contract terms (eg the 2+1+1 or 3+2 year terms typical of government digital frameworks) to enable flexibility for the future;
- f) a phased approach to both procurement and transition to minimise cost and risk.

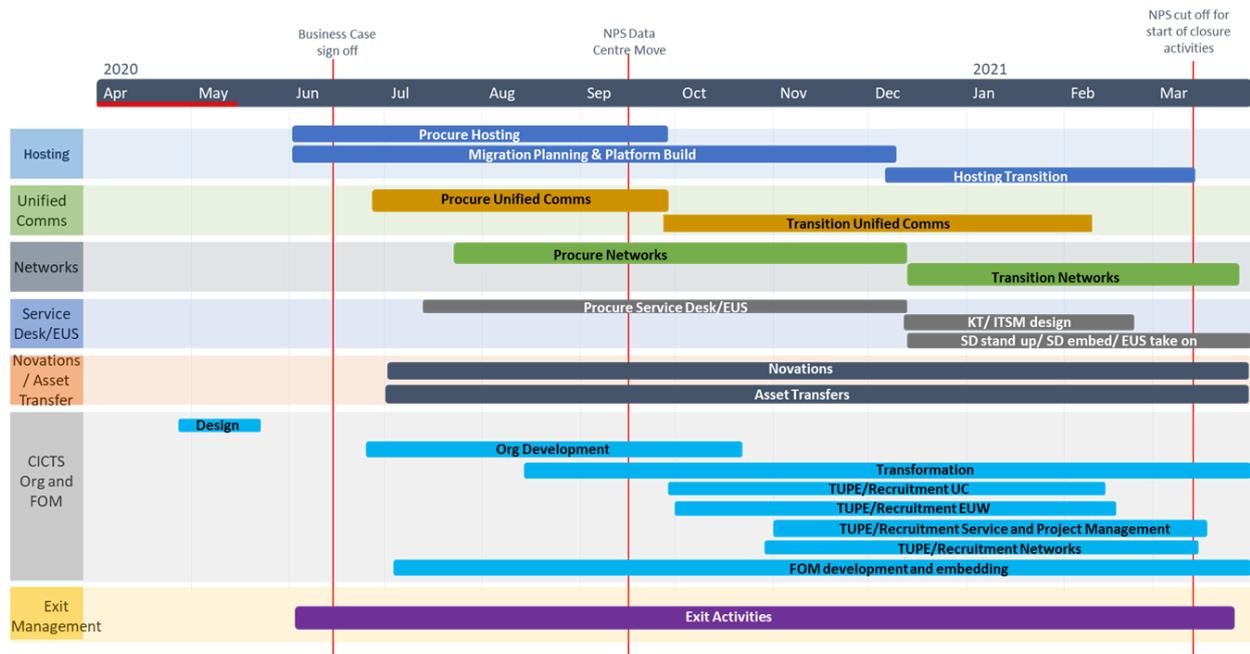
3.5 Management Case

3.5.1 To provide assurance that the preferred option is deliverable, a project plan has been developed encompassing:

- a) Preparation of specifications, procurement materials, information to support bidder due diligence, and plans for procurement and evaluation;
- b) Market engagement and running of procurement processes;

- c) Transition, including knowledge transfer, asset transfer, data migration and controlled cutover;
- d) Organisational change, including consultation over new structures, recruitment and onboarding, learning and development, and TUPE activities.

3.5.2 The high-level project schedule is shown below (and is in larger format at Appendix A section 6).



3.5.3 As agreed at Policy Committee in February 2020, a Design and Transition Partner has been appointed, the competition for this having been won by Channel 3 Consulting Limited. This, coupled with the allocation of time from senior specialists within the Council, provides assurance that there is a team in place to deliver the plan.

4. CONTRIBUTION TO STRATEGIC AIMS

4.1 The FOM is critical to the operation of the Council and therefore underpins all strategic objectives. In particular:

- It directly aligns to the corporate priority "Ensuring the Council is fit for the future".
- The Customer Experience Strategy approved at the January 2020 Policy Committee cited the FOM as a critical dependency.

5. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

5.1 The proposal and decision being recommended have no direct impact on the Council's ability to respond to the Climate Emergency and achieve a carbon neutral Reading by 2030. The proposals are however intended to provide a suitable technology platform for the Council and services to be better placed in responding to the Climate Emergency. Furthermore, energy efficiency will be taken into account wherever relevant in design and procurement, for example in the selection of the Hosting solution.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1 The Future Operating Model Business Case has been consulted on with key service stakeholders and through the Officer-led Digital Futures Board. In creating the

Business Case, the consultants supporting the Design phase (Channel 3 Consulting) have undertaken market engagement to confirm market interest and obtain estimates to underpin the analysis in the Outline Business Case.

7. EQUALITY IMPACT ASSESSMENT

- 7.2 There are no direct Equality implications arising from this report. It will be necessary to ensure that equality aspects are considered in the specification of goods and services (eg considering the needs of users with disabilities) to be procured, and in the implementation of organisational change.

8. LEGAL IMPLICATIONS

- 8.1 It is critical that this project is undertaken as the current contract with Northgate Public Services cannot legally be extended beyond the end of March 2021. (Provision does exist, as a contingency, for Northgate's involvement in transition activities to extend beyond that date, but it remains critical to have the new supply arrangements in place.)
- 8.2 All procurements will be subject to Public Contracts Regulations 2015 and the Council's Contract Procedure Rules.

9. FINANCIAL IMPLICATIONS

- 9.1 The financial implications of the proposal are summarised at section 3.3 above and covered in more detail at section 4 (Financial Case) of Appendix A.

10. BACKGROUND PAPERS

None