



Three Rivers DC/Watford BC

External Audit 2011-12

IT Shared Services Update

February 2012

Status of IT Shared Services - for presentation to Audit Committee

March 2012

SCOPE OF AUDIT WORK

As part of our 2011-12 audit plan we have identified the need to review the arrangements in respect of the ICT Shared Service for both Watford BC ('WBC') and Three Rivers DC ('TRDC'), in particular to understand the plans for implementing recommendations from external consultants and audit, internal and external, and to assess the proposed scope for reviewing the future viability of the service. This work will inform our opinion for the 2011-12 accounts.

Our summary below is based on a number of key documents from both Councils including:

-ICT Roadmap 2012

-ICT 2012-15 Service Plan

-Actica Consulting's (third party consultants) reports on Service delivery and the Options Appraisal - both delivered in 2011

-Service Highlight reports to the Joint ICT Steering Group and the Joint Committee

We have discussed the above reports/documents with the Head of ICT but we have not performed any additional work to date to test the operating effectiveness of the controls in place to manage the service not the project plans to help deliver the future of the service.

During the 2010-11 audit year, we made a number of recommendations around controls relating to the key finance systems. We will follow up on this work during mid-March as part of our annual visit and will report separately

BACKGROUND AND CONTEXT

In November 2009, WBC and TRDC established a shared ICT service to provide a number of common applications. WBC has always provided its own IT service. From 2005 until 2009 the IT service for TRDC was provided by a third party, Steria.

This ICT service is resourced internally by both Councils with an annual cost circa £1.4m. It is based at TRDC under a single Head of Service, supported by three managers, and provides the following services:

- operating a single helpdesk
- implementing new IT projects including business process re-engineering
- providing application administration, web development and IT implementations
- managing the separate network infrastructures of each Council.

The ICT Shared Service currently provides thirty six applications to both Councils. Some shared systems are in place, such as the Revenues and Benefits and the main finance system. Work is in progress to continue to harmonise the ICT infrastructure and front-line applications to reduce costs, improve performance and increase resilience.

The ICT Shared Service was reviewed by an independent third party in May 2011. The review assessed the complete service as provided to both Councils and the resulting report made a significant number of recommendations for the ICT Shared Service to implement if it was to provide the service its users needed.

CURRENT PROVISION OF SERVICE

A Joint ICT Steering Group, whose role is to agree and prioritise ICT projects for both Councils, has been set up. With its support, the ICT Shared Service implemented a twelve week infrastructure programme, running between 20 October 2011 and 20 January 2012, to deal with urgent change/maintenance requests.

The programme consisted of seven key work streams covering both Councils. This included work around improvements to the network, virtualisation¹, backup re-design, TRDC SAN, security patch management, WBC thin client improvement, and replacement of critical hardware. This programme has helped prioritise key issues and associated projects. Key improvements have included:

- Helping to improve performance and resilience by establishing a new virtual server farm. This has meant replacing or decommissioning old servers. This has included the server supporting the Revenues and Benefits system
- Improving the log in times for WBC and Shared Services staff through reconfiguration and additional memory
- Increasing backed up data capacity by replacing hardware, including the purchase of additional back up tape drives
- Improving IT disaster recovery through the virtualisation project although there is much more to do in this area, particularly around further virtualisation. IT disaster recovery will be subject to an Internal Audit review during 2011-12 and we will assess the report's findings at the end of March 2012. In addition, the Head of ICT has arranged to meet one of the Councils' DR partner at the end February 2012 to discuss new tests following the changes made to improve resiliency and back up arrangements
- Improving network monitoring through the use of automated tools to allow problems to be monitored and dealt with in a more proactive manner.

There is, however, much that still needs to be done to improve existing service delivery, performance and controls. The ICT Shared Service has identified additional work in this respect and plans for subsequent phases are being drawn up.

All ICT Shared Service vacancies are currently frozen. However, to deliver some of the project work in progress and outlined above, the ICT Shared Service has had to rely on contractors. This has, therefore, resulted in additional staff costs.

SERVICE PERFORMANCE

Formal Service Level Agreements (SLAs) have been agreed between the ICT Shared Service and its customers at both Councils, as well as the Joint Committee. As part of the SLAs, performance standards have been identified as well as performance indicators that will be used internally by the Shared Service and are included in the 2012-15 Service Plan.

The defined key performance indicators are not all being monitored as outlined due to other priorities and the quality of the data available from systems. Performance, where the data is available, is reported monthly on the Shared Services intranet site and bi-monthly at the Shared Services Joint Committee. These reports only provide limited information on incident resolution and service availability. Set targets are yet to be consistently met with the service availability for WBC below target much more so than TRDC. Management are aware of the issues affecting performance and are working to resolving these, as witnessed by the twelve week programme of work.

¹ A virtual infrastructure lets you share your physical resources, creating 'virtual' multiple machines, across your entire infrastructure for maximum efficiency. This in turn provides a good level of resilience to ensure the availability of IT services and can help to improve IT disaster recovery. The ICT Shared Service has started on a programme of work to 'virtualise' its key servers.

FUTURE OF THE SERVICE

The independent review of ICT Shared Services in May 2011 recommended that improvements were required to governance arrangements, the ICT infrastructure, service delivery and the future ICT strategy.. A key recommendation was that if improvements in the Shared Service were not seen within twenty four months, the Councils should consider the options with regard to future provision.

In July 2011, the Joint Management Committee agreed to proceed immediately with investigations into alternative models of service delivery. An options appraisal study and outline business case has been commissioned from Actica Consulting. The intention is to go live with the new service, in whichever format is finally agreed, from October 2012.

The consultants advised that the following options were open to the Councils:

- do nothing and continue with existing ICT Shared Service
- public sector partnership, such as a third authority who would take the lead,
- multi-sourcing model, a combination of one or more of the following:
 - i. one or more services managed\hosted externally (e.g. server maintenance)
 - ii. some service areas outsourced fully (e.g. infrastructure and service desk)
 - iii. some work retained to maintain a pool of business and local knowledge (e.g. applications analysis, project management, business analysis and web development)
- full private sector outsourcing of the whole service with only a client contract management function in house
- full private sector outsourcing by joining the framework agreement already in place between Hertfordshire County Council (HCC) and SERCO.

The Councils are currently exploring the options of joining the framework agreement with HCC or outsourcing completely. This was agreed as the way forward by the Shared Services Joint Committee in November 2011. The recommended option based on Actica Consulting advice is joining the HCC framework as *'it (offers) value for money...together with the likelihood that it will meet all of the Councils' ICT requirements'*.

Actica Consulting's initial predictions suggest this option would cost £1,150,000 p.a. with £63,000 in transition costs. (It should be noted that Actica Consulting state that the likely costs associated with implementing the recommendations above are to an accuracy of +/- 50% based on the current information available). Although the current staff costs are high in comparison to proposed outsourcing models, it should be noted that they cover a significant proportion of project and support costs that would still need to be procured from a third party supplier.

The Councils have now drawn up the draft requirements specification to further explore this option. The final specification will be taken to the Shared Services Joint Committee on 5 March 2012. The following significant targets are in place:

- End June \ Early July - Advertise Invitation to Tender (if required, dependent on decision at Joint Committee)
- End July - Review tenders and award contract
- August onwards - Transition to new provider with service fully operational from October 2012

RISK MANAGEMENT

We acknowledge that many key risks relating to the options appraisal and the introduction of a new way of working have been identified by Actica Consulting and the Councils are continuing to use Actica Consulting to draw up the requirements specification. We reinforce the guidance provided by Actica Consulting, in particular, that full consideration should continue to be given to the following:

- 1 A financial business case is needed to support any change in ICT sourcing strategy, and a high level appraisal of the likely cost savings has been prepared. Additional due diligence with the preferred supplier and some external market testing will be needed to confirm the financial case. The due diligence should accurately reflect the needs of the Councils and the service the third party is to provide. This should be documented in detail and should include:
 - Transition timescales and costs
 - Business as usual costs and SLAs
 - TUPE arrangements
 - Council ICT staff roles and responsibilities
 - Project roles and responsibilities
 - Project costs
 - Reporting arrangements
 - ICT hardware ownership

The business case produced should be challenged robustly by the Councils and market tested with other potential suppliers, based on the detailed specification. The preferred supplier's service catalogue should be reviewed and confirmed at this stage to understand if it can fully meet the Councils' needs.
- 2 The Councils should confirm that their procurement and legal departments are happy that they can pursue a single supplier tender or if a full OJEU tender process will need to be followed. The Councils may need specialist procurement advice to ensure that the requirements specification is sufficiently detailed. This would also apply to drawing up any tender documentation.
- 3 The Councils should also consider whether they will consider a preferred supplier if it intends to sub-contract its services
- 4 The Councils should use a pre-defined scoring mechanism to assess the suitability of suppliers to meet the Councils' needs
- 5 The Councils should consider the financial and legal implications of transition to a third party, such issues relating to TUPE transfer of staff. However, we accept that this may not be possible to consider until after the preferred option has been selected.

In addition, we also bring to the attention of the Audit Committee the following areas that we believe need to be actively managed, should the Councils decide to use a third party to manage its ICT service:

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| 6 | The Councils should ensure that specialist advice on drawing up IT contracts is sought before the contract (s) is signed to assess their needs and responsibilities, including the right to audit. |
| 7 | Consideration should also be given to the length of the contract(s) and the inclusion of penalties, in addition to the Councils' exit strategy |
| 8 | The contract(s) should clearly stipulate how the proposed benefits will be measured and realised and how would this will be detailed via contractual terms |
| 9 | The contract(s) should also outline the type of governance arrangements needed for contract review and monitoring purposes |
| 10 | The contract should clearly stipulate the information security requirements as mandated by external regulatory bodies. |

TIMETABLE AND PERSONNEL INVOLVED

We propose to carry out the regular updates between spring and the autumn 2012 and will report to the respective Audit Committee meetings for both Three Rivers DC and Watford BC.

The work has been performed by Negat Sultan, a Senior Manager within our Technology Risk Services team and has been overseen by Paul Dossett, Partner.

Grant Thornton UK LLP
February 2012