

<b>Committee(s)</b>	<b>Dated:</b>
IT Sub Committee	30 September 2016
<b>Subject:</b> IT Finance Update	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Report author:</b> Simon Woods IT Director, IT Division	

### **Summary**

The legacy of a highly complex operating model, not having the right roles and skills in the IT Division, insufficient due-diligence at the start of the managed service, and the adoption of the Police into the contract have all significantly impacted the running costs that are now considerably higher than anticipated.

The situation has been further exacerbated by the failure to routinely consider the revenue implications of the decisions that impact the IT Division. Examples of this include Oracle and the provision of network circuits that connect our locations.

To prevent driving a priority focus on cost reduction that would further increase the level of risk being carried by the Division, a budget reset is proposed that enables the team to re-focus on driving value, managing down the level of risk, and focus on the transformation activities that will lead to a lower cost paradigm in the medium term.

### **Recommendation(s)**

Members are asked to:

- Support the principle of re-baselining the IT Division Budget, ahead of firming up on a proposal to be presented to Summit Group, Finance Committee and RA Sub-Committee.

## **Main Report**

### **Background**

1. The IT Division is projecting a significant overspend against the budget that was set for 2016/17.
2. Many factors have led to this position with key elements being savings not being realised, additional costs from network connections and licencing, increased storage costs, compliance activities, and additional costs for resources.
3. Although the contract with Agilisys has been independently verified as one of the best of its type in a recent review, the IT Division did not restructure itself in terms of roles and skills to ensure that the full value of the contract could be extracted.
4. The complex operating model between the Corporation and Agilisys has put upward pressure on budgets that have been further exacerbated by City Police joining the agreement. No additional resource was added to the Corporation to allow for the increased complexity and level of risk.
5. It is also clear that the due diligence during the build up to the start of the contract did not pick-up on the full impact of the low level of investment that had occurred for a number of years. This has meant that spending with Agilisys has needed to be at a higher level than anticipated to remediate the legacy infrastructure.
6. Although the future paradigm for IT Services linked to an approach of buy-not-build will provide an opportunity for significant reductions in spending in the medium and longer term, the legacy state of IT systems and services is not sustainable within the current budget.

### **Current Position - Corporation**

7. A significant factor driving the current projected overspend against the budget are the costs associated with the managed services contract we have with Agilisys. The total spend with Agilisys is currently expected to be around £958K more than budget. A large part of this figure is made up of storage charges and server capacity due to greater than expected consumption of the infrastructure platform provided. Work has been progressing to reduce the costs of over-capacity in the provision for both the Corporation and the Police. This work will potentially reduce costs but this is a relatively small part of the overall spend. Other factors include spending to remediate failing legacy infrastructure, the revenue costs associated with Oracle (where no revenue budget was allocated to IT Division to cover these costs) and additional works and services from Agilisys such as our SharePoint service and the placement of additional roles where the City has been unable to recruit.
8. Another significant element of the projected overspend is the costs of connectivity between our sites due to a lack of planning for the on-going revenue costs of the new circuits that have been provisioned. We estimate an overspend in the order

of £150K against this issue.

9. Licencing costs have also increased rapidly against original estimates and this has led to a projected overspend of £66K.
10. Compliance activities such as the need to uplift our server estate to a later version of the operating system it uses have created an additional spend (not budgeted) of around £50K.
11. The total from items above comes to approximately £1.2M but this does not account for any changes to staffing where we currently have a number of key vacancies, no money for ad-hoc emergency expenditure to remediate legacy infrastructure, and we have no ability to test or pilot changes and concepts that could improve the IT experience for users.

### **City Police**

12. The financial model for controlling IT spend in City Police has not enabled the IT Division to have the level of control and scrutiny required to manage it effectively.
13. One issue with the City Police budget is that it has a profile of spend that front-loads a significant amount of money for items such as our use of national services, at the start of the financial year. This is making projections for the final year-end outturn difficult but efforts to understand the position by the Division puts the current estimate for the projected overspend at approximately £800K.
14. The £800K figure includes a commitment made in the previous financial year that IT costs in the Police could be lowered by £0.5M. This was part of the overall savings City Police were asked to make by the Corporation.
15. Nearly all of the rest of the projected overspend comes from the increased use of data centre servers and storage linked to the migration to the Agilisys IaaS platform.

### **Additional budget**

16. To enable the Division to lower the current levels of risk and to improve the experience for users whilst we progress with the Transformational Programmes, the IT Division will require additional funding and a focus on driving out value from all of the contracts and partnerships in place.
17. The additional roles required to enable the sharper focus on contract management and the provision of a higher quality service provision to users and Members will add £680K to this figure. This is broken down as follows:
  - £300K for the short term recruitment of a number of roles that we will ultimately seek to replace with lower cost permanent staff. (Est. £400K for the whole year 2017/18 and 2018/19)

- £300K for the reactive spend budget to allow the IT Division to act with pace when issues relating to legacy infrastructure occur, or when we require short term emergency resource. (Est. £500K for the whole year 2017/18 and 2018/19)
- £50K for the revenue costs associated with compliance and security works. This links to current proposals to improve our security profile at the Corporation. (Est. £120K for subsequent years)
- £30K for Members projects that will allow for the rapid changes and additional equipment required at the end of the financial year due to the election. (Est. £30K for the whole year 2017/18 and 2018/19)

18. This does not take account of any additional works that require a revenue uplift. Any new systems or services that are implemented will need to consider the full revenue implications to the IT Division and then an appropriate allocation made. This is likely to be a particular problem with City Police where we are aware of changes that could require a significant uplift in the revenue allocation.

19. The IT Division will be completing a zero based budgeting process for the next full financial year so that we can set the budget from a full analysis of funding need rather than from assuming a similar spending profile to previous years.

## **Conclusion**

20. The legacy of not having the right roles and skills in the IT Division to drive-out best value from the managed services contract combined with limited due-diligence at the start, a highly complex operating model, and the adoption of the Police into the contract have all significantly impacted the running costs that are considerably higher than expected.

21. The situation has been further exacerbated by the failure to routinely consider the revenue implications of the decisions that impact the IT Division. Examples of this include Oracle and the provision of circuits that connect our locations.

22. To prevent driving a priority focus on cost reduction that would further increase the level of risk being carried by the Division, a budget reset is proposed that enables the team to re-focus on driving value, managing down the level of risk, and focus on the transformation activities that will lead to a lower cost paradigm in the medium term.

## Appendices

- None

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