Division(s): N/A

CABINET – 21 DECEMBER 2010

ICT OVERSPEND 2009/10

Reports by Dr G Jones, Chair of Audit Working Group
Update report from Acting Head of ICT Services

Background:

1.   At their meeting on 17th November, Audit Committee considered a report by Dr. Geoff Jones, Chairman, Audit Working Group (AWG), on the 2009/10 ICT overspend.

2.   Audit committee decided to refer the report to the Cabinet together with an update by the Acting Head of ICT of how the matters raised in the report have been addressed.

3.   The Audit Committee decision is attached as Annex 1.

4.   The full report from Dr Jones is attached as Annexx 2.

5.   The update report from Acting Head of ICT is attached as Annexx 3

RECOMMENDATION

6.   **The Cabinet is RECOMMENDED to consider the conclusions of the report from Dr Jones and the actions described in the update report from the Acting Head of ICT Services.**

GRAHAM SHAW
Acting Head of ICT Services

Background papers: Nil

Contact Officer: Graham Shaw Tel: 01865 816593

December, 2010

ANNEX 1

Extract from **AUDIT COMMITTEE DECISIONS WEDNESDAY, 17 NOVEMBER 2010**

10. ICT Overspend 2009/10 Report by Dr. Geoff Jones, Chairman, Audit Working Group (AWG), on behalf of the AWG (**AU10**). ***The Committee is RECOMMENDED to note the report, in particular:*** *(a)* ***the conclusion that measures taken to mitigate the ICT overspend in late 2008/9 probably contributed to a delay in taking effective cost-containment measures in 2009/10;*** *(b)* ***that there was over-commitment coupled with a lack of flexibility to respond to adverse events in early 2009;*** *(c)* ***that pressures on the core ICT budget continue, but that significant efficiencies have been achieved and more will arise from recent and forthcoming staff restructuring;*** *(d)* ***that project work, whether strategic or departmental, should not be undertaken by ICT without clear financial agreements with the relevant sponsoring agent (e.g. Directorate or Project Board);*** *(e)* ***that there remain significant external risks to the ICT budget in respect of SAP, Microsoft and IBM applications;***	In noting the report, the Committee **RESOLVED**: (**a**) **that a copy of the report AU10 be sent to all councillors;** (**b**) **to refer the report to the Cabinet together with an update by the Acting Head of ICT of how the matters raised in the report have been addressed; and** (c) at the suggestion of Councillor Melinda Tilley, Chairman of the Strategy & Partnerships Scrutiny Committee, that the report be considered by that Committee on 18 November 2010 as part of item 8 'Corporate ICT Strategy', prior to Cabinet consideration of this matter on 21 December 2010. (d) to thank Dr Jones for his work and the report.

(f)	*that ICT management are aware of current risks and have in place a new Corporate ICT Strategy and action plan to mitigate them.*	

ANNEX 2

OXFORDSHIRE COUNTY COUNCIL
www.oxfordshire.gov.uk

AUDIT COMMITTEE 17 November 2010

AUDIT WORKING GROUP: ICT OVERSPEND 2009/10

Report by Dr. Geoff Jones, Chairman AWG, on behalf of the Audit Working Group.

Summary

The Audit Working Group (AWG) on 21st April 2010 was asked by the Audit Committee to investigate an overspend in the County's ICT function in 2009/10 which necessitated a supplementary estimate of £2.250m being provided. We were also asked for assurance that processes were in place to control the budget in 2010/11.

Our work has involved examining the public documents of the County in relation to ICT over a number of years (mainly Cabinet papers), together with considering internal submissions made to us by the ICT management team both in person and in writing, and information from some other officers who had a close connection with certain aspects of ICT operations in 2009/10. An interim report was made to the Audit Committee on 30 June 2010 and a full draft report was considered by the AWG on 8 September. The draft was sent to officers for comment immediately after the meeting. The present document presents the conclusions from the investigation, taking account of the current position.

The conclusions are that although the performance of the ICT function was largely delivering what the various stakeholders in the Authority wanted and to an improved level of efficiency, a large residual amount of financial and operational discretion and risk remained within ICT. This capability was ultimately unable to cope with the service demands and budgetary requirements of 2009/10 within the service ethos that had been established. Many of the financial pressures were in place before 2009/10, although not always effectively acted upon. We believe that warning messages given to the budgetary authorities were not always heeded and that the cost structure of the service which had previously provided cover had meanwhile become less flexible and less able to respond quickly to changing service and budgetary demands. Adverse spending developments were largely a function of demand but, beyond a certain point, available remedial measures to control costs were not flexible enough to meet budgetary needs.

We believe that the experience of 2009/10 together with measures to tighten stakeholder control, reduce costs and improve scrutiny and accountability of ICT work will minimise the risks of a recurrence in 2010/11 even though there are a

number of upward budgetary pressures and there is little flexibility available to ICT managers if major projects and agreed service standards are to be maintained. As at 30 September 2010, the evidence is that the ICT budget is on course for a nil variance at the year-end.

Our work

1. On 21 April 2010, the Audit Committee asked the Audit Working Group to investigate the ICT budget overspend in 2009/10 with a view to seeking an assurance that processes to control the budget were in place for 2010/11 and to report to the Committee in June 2010.

2. The AWG has sought written information from the officers involved, and held a special meeting on 14 June 2010 at which Councillors and senior officers from ICT were present. The minutes of that meeting have been circulated to those present and to all Audit Committee members, and are available to all Councillors. We also received two specially-written reports from ICT, one relating to the overspend and one relating to ICT efficiency, which are also available. The Group also received information and views from some officers outside ICT, together with information on in-year financial monitoring and on an ICT Action Plan that, together with other measures, has been put in place to control costs for 2010/11. Our aim in this report is to bring together and examine in more detail the information available. Our method of working has been more like that of a Parliamentary Select Committee than an in-depth consultancy exercise, but with a level of examination that would do justice to either.

3. An interim Report was made to the Audit Committee on 30 June 2010 (http://mycouncil.oxfordshire.gov.uk/Published/C00000117/M00000752/AI0000290$ AUJUN3010R08.docA.ps.pdf), pp.11-14.

The ICT function at OCC

4. Members will have no difficulty in appreciating in principle the vital role that ICT has played in Oxfordshire and elsewhere in the development of public services over recent years. Many believe that ICT holds the key to a fundamental transformation in how public services - from local authorities in particular- will be delivered in the future. By its actions, the Authority has recognised that substantial investment has been and will remain necessary to achieve these aspirations. On the other hand, the Authority has been keenly aware of constraining budgetary pressures internally, from the electorate and from central government that have made efficiency and budgetary discipline key improvement criteria in all services.

5. As a relatively recent and rapidly developing service, ICT in Oxfordshire has been through a number of different organisational permutations. From mainframe beginnings in the 1980's, when payroll and creditors were its main focus, core ICT functions were outsourced to Capita during the 1990's until 2001. In-house services were developed mainly by Departments until the advent of major initiatives such as SAP and OCN in the early 2000's. Only since 2003 has there been a strong co-ordinating function that has overseen the expansion of various e-functions, including the e-delivery of public-facing services as well as providing an internal IT

infrastructure capable of supporting a wide range of applications and uses, together with the organisation-wide application of industry standards.

6. The main services provided by ICT today are:

- Application support and development
- Business Continuity and storage
- Business Liaison
- Corporate technical refresh
- Desktop provision and support
- Email and collaboration
- Hosting Applications
- ICT service desk
- Internet Access Services
- Local Area Networking, including printing
- Maintenance for operating system and business applications, infrastructure and a number of service contracts
- ICT Purchasing
- Project management
- Remote Working Service
- Security
- Software licensing
- VoiP – digital phones
- Wide Area Networking
- Web services.

7. Since April 2009, these services were also made available to Oxford City Council through an agency agreement under which full costs for an IT support service together with the supply and installation of replacement equipment are recovered; capital costs of £1,298k being recovered over 5 years at £260k per year from 2009/10 as a soft loan without a premium.[1]

8. Functionally, these services are provided through five organisational groupings (2010)[2]:
- Contracts and Projects
- Programme Office
- Operations
- Deployment
- Web services.

In addition, there are two specialist support functions: to the CIMU and to the Highways programme. All Directorates and the City have a liaison manager to work with Business Managers and the Contracts and Projects Manager. Following the restructuring begun in 2009, it is expected that by 31st December 2010 ICT will reach its target establishment of 132 FTE's compared to around 180 established posts

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[1] CADEC1509R02_v20.doc
[2] http://portal.oxfordshire.gov.uk/content/public/corporate_core/ict/documents/OrganisationalStructureJune2010.pdf

(162 FTE's employed) at 31st December 2008. This excludes individuals working as contractors, 19 of whom working on long-term development work were integrated into the workforce in 2009/10 on the advice of HR. Additionally, 20 staff from Oxford City Council were transferred into OCC on TUPE terms in 2009/10 to service the City contract.

9. A benchmark review by the Hedra consultancy in 2007 found that the main strengths of the OCC ICT function were:

- Lower cost per help-desk call
- Higher service hours
- Low cost per PC
- Higher staff productivity in all areas.

10. Improvement opportunities were identified as:

- Measure and report against the SLA
- Increase user ICT skills
- Measure and increase first time fix rate
- Enforce service measurement and monitoring
- Standardise hardware, software and support processes
- Improve asset management, including an application inventory
- Track hardware and software costs
- Create a voice strategy
- Create a business continuity plan.

11. At the time of the Hedra review, there were 176.7 FTEs in the ICT Department at OCC, 94 of which were included in the benchmarking exercise. A follow-up review in May 2010 found that the ICT workload subject to KPI's had increased considerably since 2007. Staffing had increased in line with workload, but by early 2010 was back again at a similar level of 93 FTE. Unit costs, which are part of the KPI's, have shown a consequential reduction, with cost per PC (a composite measure for all 6 technology areas in the study) having fallen by 26% with comparatively little fall in user satisfaction. As a result, OCC ICT productivity remains high. It is important to recognise that the benchmarking review did not cover areas such as Schools and project management, nor governance and financial monitoring. But the higher core workload - including the implementation of many of the improvements identified by the study - and lower costs means that pressure on and therefore risk to core service resources is now greater than in the past.

12. This is demonstrated by the ICT scorecard, where SLA time performance on high and medium priority incidents fell well below target in the second half of FY 2009-10, although still above 2008/9 performance levels. Another indication that core services are under pressure has been two internal audit reports issued in January 2010, on end-user developments and external data transfers, which found unacceptable levels of control in both these areas. Difficulties had also been
encountered in externally managed major projects such as SAP improvements (see below).

13. Further risks identified in the service risk register for 2009/10 were:

- Continuity and disaster recovery plans are uncompleted due to high supplier costs
- ICT priorities are not sufficiently engaged with OCC strategy
- low user competence places higher demands on ICT support
- data held across the authority cannot be effectively utilised
- the Oxford City contract may reduce service quality to OCC and City users
- building projects including BOP will require reconfiguration of some ICT services in those locations
- loss of security
- loss of ICT staff will reduce capacity and the technical skills available.

(Mitigation actions were in place for each of these risks).

Costs, Funding and Governance

14. In broad terms, the ICT budget has been approximately £20m per year, though it has varied between £18-23m over the last few years, and the level of income/recharge has been substantial. Typically, the budget has been:

- c.£10m for the core budget, used to fund the delivery of ICT (servers, pc's, web, in-house development etc)

- c.£3m to fund the Oxfordshire Community Network (OCN)

- £2.5m funding on areas such as SAP support centre and Schools' transition grant

- c.£3m (2008/9) Strategic ICT Development/Investment fund

- Capital funding of £1000k (2009/10) for capitalisable equipment and associated costs.

15. In addition, there have been earmarked reserves such as for the SAP Competency Centre, SAP in Schools etc which have been drawn on as required. Revenue recharges in 2009/10 including schools' support (but not SAP in Schools) were budgeted at £15.5m. The capital budget has consistently been around £1,000k in recognition that ICT spending has a distinctive and justifiable capital element, e.g. for computer hardware but also for other legitimately capitalisable items.

16. The composition of the ICT revenue budget in 2009/10 approved by Council on 10 February 2009 was as follows (excluding SAP for Schools £640k fully chargeable to schools):

ICT Budget 2009/10[3]

£'000

Personnel	6,030
Operations	3,211
Refresh	841
Development	203
Telephony	430
Schools Support Service net	19
Oxfordshire Community Network	2,840
SAP Competency Centre	2,505
CIMU	310
ICT Strategy Investment Fund	800
Total expenditure	17,189
Income and Recharges	-17,544
Net expenditure	-355

17. The current governance structure consists of an ICT Programme Board, which liaises with Business Managers and project sponsors, an ICT Officers' Working Group, which meets frequently and handles all levels of decisions and requests and an ICT Strategy Board (since September 2010, the Business Strategy Group) which meets approximately quarterly with CCMT and Cabinet members. A new Corporate ICT Strategy was agreed by Cabinet on 19 October 2010. Operational management is measured by the scorecard and the standards laid down in the SLA. Project priority is determined largely by service-led initiatives coupled with resource availability (budgetary and human). SLA performance standards are reported on the intranet, but project reporting depends on the governance of an individual project, for example, project boards, Directorate level Boards, programme sponsors or the ICT Programme Board.

Context to 2009/10 Budget

18. As it is a service to all parts of the Council, most of the costs of ICT in recent years have been recharged to Directorates (or Schools). As a control mechanism, therefore, it must be presumed that if a Directorate agreed to the recharge – even if it was above any agreed budget – the Directorate rather than ICT takes responsibility for the expenditure. Thus, a surplus on the ICT account may indicate that recharges have been more than actual expenditure, rather than that expenditure has been below budget. This principle would also include overspends on capital account which Directorates have agreed to accept. An SLA covering these arrangements has been in place since at least 2006 and is updated frequently. To comply with the Local Authority Accounting SORP, all residual ICT costs at the year-end are recharged in the final accounts, but this does not necessarily reflect in-year Directorate management agreement to bear or control those costs.

19. Prior to 2008/9, ICT had consistently recorded surpluses on its revenue account. In 2003/4, the gross ICT budget of £13.5m had a surplus at the year-end, and £721k was carried forward[4].   The 2004/5 budget was increased by £2m for the SAP

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[3] CC_FEB1009R20.xls adjusted for internal recharges

Revitalisation Project, but excluding this and after recharges, the base budget still had a surplus of £975k[5]. By 2005/6, the net surplus was £134k, and in 2006/7, it was £757k[6], although some of this was late delivery of servers for the new Data Centre[7]. By this time, SAP revitalisation had been moved to the new Shared Services budget[8], which was, however, still part of Corporate Core. In 2007/8, a £1,434k surplus on ICT was carried forward[9]. This consisted of a reduction in the payments to Serco for SAP support and maintenance, and slippage of project expenditure, including SAP revitalisation[10]. In summary, up to and including 2007/8, the ICT budget envisaged in practice that all ICT costs (and sometimes more) would be recharged.

20. In 2008/9, the gross budget was around £19.5m, but with recharges of c £16m - which left a residual ICT budget of £3,405k[11]. This included the creation of an investment fund of £3m which could be used over two years. The fund was set up before the supporting project budgets were fully identified, but it was envisaged that expenditure against this fund in 2008/9 would be within the range of £2.1m and £3.0m[12]; (in the event, it was £2.2m – see below). The residual budget of £3,405k plus carry forward of 1,434k was supplemented by about £600k, so that by January 2009, the residual budget left with ICT was £5,406k[13]. Required efficiency savings of £234k were met from the savings on the Serco contract, and further pressures of £209k on OCN were transferred to schools, leaving only £84k to be met from reduced operating costs[14]. Hence, the budget remaining the direct responsibility of ICT suddenly became substantial but with only a modest explicit requirement to produce savings. No doubt, a more ambitious longer-term efficiency target was well understood by ICT management. In the autumn of 2008, they reported that the long-term prediction of a budget deficit was becoming a reality.

21. The monitoring report for February 2009 reported an overspend based on figures at December 2008 of £1,813k, but because of profiling, the outturn was still expected to be a surplus of £800k[15] . But instead, the March 2009 MMR based on January 2009 figures gave a forecast of an overspend (deficit) of £650k[16]. It is worth quoting the reasons given for this in full:

> "There have been significant pressures on the ICT budget this year due to the high level of project activity and development work being carried out. Following a review of spend to date and commitments to the end of the year indicate (sic) that spend is forecast to exceed budget by approximately £0.650m. This has arisen in the main through increased use of the refresh programme and work on the OCN and LAN, which will reduce the need for

[4] CA180505-05-an1.xls. (Cabinet/Executive papers not available on-line prior to this)
[5] CA220605-06-an1.xls
[6] CA200607-05-an1-7.xls
[7] CA200607-05.doc
[8] CA_JAN1607R39.xls
[9] CA_MAR1709R35.xls
[10] CA240608-06.doc
[11] CA_FEB1709R05.xls
[12] CA211008-05.doc
[13] CA_JAN2009R09.xls
[14] CC120208-08-an3.xls
[15] CA_FEB1709RO5.xls
[16] CA170309-05.doc

expenditure in the following year. Further work is continuing to improve the accuracy of the forecast and to identify areas where spend can be delayed or savings made this year to balance the position. Any remaining overspend will be carried forward and managed by the service next year through the reduced requirement for the refresh programme" [17].

22. The MMR presented to Cabinet in April 2009 (based on February 2009 figures) explained how this potential overspend had been dealt with:

"The service is now forecasting an underspend of - £0.100m, a change of - £0.750m. Temporary virements totalling -£0.378m from underspends in other service areas in Corporate Core were requested last month. The remainder of the variation reflects detailed work which has been undertaken since last month to produce a more accurate forecast and measures taken to reduce or postpone expenditure. The SAP for Schools project was allocated ££0.268m of the capital element of the Performance Reward Grant by the Change Board. As this project will not have spend of a capital nature it is proposed that subject to Change Board agreement this funding is used to capitalise hardware and software costs incurred by ICT. A corresponding contribution will be made by ICT to SAP for Schools reserve to provide revenue funds for future years of the project. The final position for ICT may vary as it is dependent on the actual value of work completed at year-end and the value of work capitalised against core budget and the investment fund." [18]

23. The outturn variance was reported as zero, after the actions reported above and a transfer to reserves of the unspent part of the £3m investment (£807k) together with a transfer to a new SAP Competency Centre reserve of £298k [19] (despite the budget transfers in Corporate Core). All this action and reporting was carried out at the same time as the setting and discussion of the 2009/10 budget early in 2009.

24. To summarise the events prior to 2009/10:

- After several years of surpluses, and despite savings arising from renegotiating the Serco contract for SAP and transfer of some budget to property services and to schools, by December 2008 there was strong evidence that some operational programmes such as OCN, LAN and Refresh were exceeding their budgets. Temporary financial measures were taken to remove the overspend at the year-end, but it now appears that long-term operational demand trends and a higher level of complex work than previously produced unfinanced ongoing annual spending pressures of around £400-£500k.

- The budget papers for 2009/10 drew attention to ICT spending pressures totalling £583k which were to be met "in part by cost-reduction measures including staff reviews, software distribution, software re-licensing, server consolidation and desktop virtualisation". However, "(t)here would also be a requirement for directorates to transfer additional resources for systems

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[17] As n13 above, p6
[18] CA210409-05.doc
[19] Cabinet 23 June 2009 CA7 pp12-13

engineering and applications support etc)"[20]. The latter transfer did not take place directly; however, Directorates did meet some additional costs – without a transfer of budgets - in 2009/10 (see below).

2009/10 Budget

25.   Prior to the measures taken to resolve the pressures of the 2008/9 outturn, budget preparation for 2009/10 was underway. The then Head of ICT stated that "in March 2009 the supplemental funding [referring to the ICT development fund] of £2m was removed from the FY2009/10 ICT budget".   This appears to have been a misunderstanding on his part, as the ICT investment fund of £3m in 2008/9 was always intended to run for two years. Spend against this fund had been £2.2m in 2008/9 and the remaining £807k was placed in reserves for commitments in 2009/10.[21] The £2m budget that was later agreed for 2010/11 against the Development Fund was only in respect of the ESS/MSS and CRM projects. It is not clear in what way even the 'removal' of this funding – and the evidence is that this did not happen - should impact on budgetary pressures in 2009/10. But additional funding of £800k was, after all, provided.

26. The agreed budget for ICT for 2009/10 is given in para 16 above. The Budget Statement says, in respect of Corporate Core:

> "we have provided a further £3.5m one-off funding to enable projects to be developed which will aid customer access and improve our processes and another £0.4m in the base budget from 2011/12 to meet the consequent ongoing needs."[22]

The further funding in 2009/10 consisted of ICT Investment Fund of £800k and additional funding of £700k to complete the roll-out of SAP to primary schools. Of the latter, £0.64m went to ICT. The remaining £2m was placed in the IT development fund for 2010/11 specifically for ESS/MSS and CRM. It was never available to meet projects originating in 2008/9.The £400k, from 2011/12, will be the base budget for the development fund thereafter.

27. So, excluding the development fund and the contribution to the SAP Competency Centre, the 2009/10 budget was very similar in cash terms to 2008/9.
But the outturn was very much worse than the 'real' £400-500k overspend of 2008/9, requiring the supplementary budget of £2.25m.

2009/10 outturn

28. The final budget for 2009/10 - after adjustments to that approved by Council for recharges from shared services and other recharges of £2.5m, an additional charge to operations of £254k and to CIMU of £10k - resulted in a total expenditure of £17.189m and recharges/income of £17.544m. SAP for Schools (640k) has been excluded as it is fully charged to Schools.

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[20] CC_FEB1009R16.xls
[21] CA_230609-07 para 44
[22] CC100209-08.doc, para 39

29. The outturn is given below. The changes made by the supplementary estimate give a slightly better idea of where overspending actually occurred because the cost centre 'Personnel' attracts some costs that are more accurately assigned to other costs centres.

ICT revenue outturn 2009/10

Cost Centres	Approved Budget [23] £'000	Actual £'000	Variance £'000	Change to approved budget by supplementary estimate £'000
Personnel	6,030	7,492	+1,462	+983
Operations	3,211	2,906	-305	-2
Refresh	841	994	+153	0
Development (net)	203	-6	-209	0
Telephony	430	543	+113	0
Schools Support Service (net)	19	16	-3	0
Oxfordshire Community Network	2,840	2,224	-616	-599
SAP Competency Centre	2,505	2,310	-195	-3
CIMU	310	323	+13	+23
ICT Strategy Investment Fund	800	898	+98	0
Project supplement	0	865	+865	+865
Total expenditure	17,189	18,565	+1,376	+1,267
Income and Recharges	-17,544	-16,972	-572	-1,111
Net expenditure	-355	+1,593	+1,948	+2,378

(At the end of year an additional adverse variance of some £29k - after the supplementary estimate of £2.250m - was financed from within Corporate Core and not carried forward into 2010/11[24]).

30. A different perspective is given by the analysis of all expenditure by subjective category, as follows (note that 'plan' includes the supplementary estimate of £2.25m; 'expenditure' includes capital and revenue spending and income on the City contract, SAP for Schools and Schools' 'Harnessing Technology' programme, and capital expenditure charged to Directorates. Excluded is approved capital expenditure on

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[23] See note 3 and para 26

[24] CA_JUN2210R15.xls

licenses for SAP and associated applications of £1.9m, but the borrowing to finance this (£188k) is included):

ICT outturn 2009/10 Subjective Analysis

Cost Element	Plan £'000	Actual £'000	Variance £'000
Employee expenses	8,240	9,788	+1,548
Premises	43	144	+101
Transport	55	34	-21
Supplies and services	9,711	15,206	+5,495
Agency and contracted services	1,868	1,526	-342
Support services excl. y/e apportionment	731	784	+53
Capital met from revenue	-1,000	1,097	+2,097
OCC expenditure	19,648	28,579	+8,931
Financed by:			
Earmarked reserves	0	- 1,969	-1,969
Contributions from other l.a's	0	-867	-867
Income from schools	-868	-1,569	-701
Misc. and Other receipts	-599	-59	+ 540
Recharges to other Directorates	-14,833	-14,833	0
Recharges within Directorate	-1,115	-1,115	0
Other recharges	-30	-988	-958
Charge to capital projects	0	- 4,946	-4,946
Total income	17,445	26,346	-8,901
Net expenditure[25]	2,204*	2,233	+29

*reanalysis has £1k rounding error

[25] Per CA_JUN2210 (CA6) para 65.

31. Major variances include:

- Direct employees   +£1,552k
- Electricity +£71k
- Consultants' fees +£1,278k
- ICT contractors +£2,168k
- ICT hardware +£1,313k
- Telephony +£94k (including equipment -£350k; ISDN+£244k)
- Additional revenue recharges to Directorates +£958k
- Additional capital charges to Directorates +£1,097k.

32. ICT gave the following explanation for the overspend, spread over 3 key periods:

Period 1: years prior to FY2009/10 Star Chamber (budget discussions)

- Many years' pressure on the core operational budget
- Adverse effects of scale as a result of changes to project budgets.

Period 2: first quarter FY2009/10

Funding difficulties for 5 key projects:

- SAP upgrade (+£800k)
- SAP O&M project (+400k)
      (both under external project management)
- Government Connect (+£400k)
- Foxcombe Court upgrade (+£200k)
- BOP and OCN consequences (+£400k).

In addition, management focus and technical resources were diluted by the City contract and the implementation of schools' Learning Platform.

Period 3: second quarter FY2009/10

- Inability to reduce costs sufficiently in 2009/10 by stopping non-essential work and reducing headcount by 50.

Reasons for Overspend

33. From the evidence available to us, we can agree that there was evidence in 2008/9 of significant unfinanced pressure of about 5% on the core operational budget. However, despite repeated warnings and clear activity increases, this had only materialised at the end of 2008/9. It was possible to deal with the pressure by transfer from other Corporate Core Budgets, and to increase at least the development budget by £800k in 2009/10 and provide £400k in 2011/12. This near-overspend did not materialise in an obvious way and hence did not seem to be perceived to be a serious problem. (The monitoring reports are summarised below).The potential on-going problem in the core budget that ICT had continually warned of was not recognised as an immediate financial issue. But by October 2009,

a forecast overspend of £400k on IT maintenance and other related expenditure was reported[26] that did not reduce by the year-end. At the same time, Directorates did not come forward with the higher level of contribution that was envisaged, and the 'can-do' attitude of ICT management, whilst undoubtedly appreciated by its clients, nevertheless led it into carrying out work for which full funding had not been agreed. In the end, unplanned recharges on both capital and revenue account were necessary, but still not to the level of the original budget and not enough to cover the overspending.

34. The five projects cited by ICT as contributing to the overspend were said to have produced an overspend against the agreed budget for these projects of over £2m. It is noteworthy that each of these projects were high-priority strategic projects which for various reasons could not be deferred.

35. The main part of the SAP upgrade work had already been replanned to complete in August 2009 rather than in March/April. The initial work had had an adverse effect on other work such as Business Warehousing and the Portal. The O&M project had discovered defective workflow administrations and a substantially weaker data structure than expected. There was a significant risk to the Council if either of these projects did not proceed, and any delay would have increased costs still further. The decision to continue with both projects was taken without knowing the level of the final cost, but the importance of the projects meant that they would have proceeded anyway. The only other decision was how to finance them, and carrying forward the overspend would have seriously prejudiced SAP work in 2010/11. Both projects were under external project management and required specialist resources that were not available in-house. However, the Serco contribution was at a much higher cost than they (Serco) had estimated and it became necessary for an OCC staff project manager to take over the role. A discount was negotiated.

36. From an ICT point of view, the BOP was also an imperative that could not be deferred. In fact, by the time that the ICT input was required, the projects were often already running behind time and over budget. This was particularly the case in respect of larger offices such as County Hall, which had already needed an increase of £675k to the budget for building works[27]. ICT simply had no option but to deliver their input and kit to the agreed County-wide standard. It transpired, however, that the ICT cost model was not as suitable for large-scale projects as for smaller ones, and required a much higher level of ICT staff input than originally envisaged. The BOP Board subsequently refused to reimburse the extra ICT costs.

37. BOP standards were also required in the emergency upgrade of Foxcombe Court to refresh facilities for frontline staff. It was considered that failure to carry out the work would cause a significant risk to front line SCS services

38. Government Connect was a mandatory obligation on the Council to carry out in 2009/10 for which no funding was provided and project specifications and management by the DWP and outcome were unsatisfactory, as was the supervision

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[26] CADEC1509R02_v20.doc
[27] CA211008-CA15

by SocITM Consulting. The project was found to be heavily under-resourced, but was nevertheless completed by August 2009.

39. In summary, it is clear that with the possible exception of Foxcombe Court, it would have been difficult to stop any of these projects, although an overall review and reconsideration by Project Boards/CCMT on the advice of ICT may have been more prudent. In each case, steps were taken to mitigate cost overruns. Some of the cost overruns were due to reliance on outside project management and expertise, others were the result of bad cost estimating and an under-estimate of the residual risk left with ICT, for example as often being the last service to be provided in building projects and hence adversely affected by prior delays.

40. Other factors included the extra management time needed to oversee the City contract and the Schools' Learning Platform, extra costs on electricity for the new Data Centre and higher telephony charges and demand for the OCN (apparently at the expense of new equipment). But a further issue is the degree to which the ICT operation had become in effect a fixed-cost staff-intensive service with less flexibility than in the past; and whether other less-high profile activities than these strategic projects should have been curtailed sooner than was attempted.

Accountability and Management Action in 2009/10

41. We have already drawn attention above to the overspend on the core budget that occurred at the end of 2008/9 but which was resolved by temporary virements within Corporate Core and the deferring of work into 2009/10. This happened after the budget for 2009/10 was set, and the outturn report for 2008/9 approved by Council in June 2009 reported a nil variance on ICT. But the pressures that had arisen in 2008/9 had not gone away, and the £3m development fund that was set up in 2008/9 had only £800k left in it for 2009/10, with a number of complex projects in progress.

42. The practice of funding projects over two years is understandable in an era of budgetary uncertainty but it increases the risk of abortive spending and reduces flexibility, especially in year 2. It also makes financial monitoring less transparent, although in this case the spend in year 1 fell within the expected range. The budget in year 2 was supplemented by £800k but the outturn was still £100k overspent. Apart from various parts of the SAP programme (some of which were deferred for the SAP upgrade as mentioned above), projects that underspent were telephony convergence (-£148k), corporate form development (-114k), Disaster recovery-OSP (-£153k) and Directory consolidation, single sign-on (-£246k).

43. Apart from the development fund, the issues with the core budget and the emerging funding problems with the 5 strategic projects discussed above were first reported in the MMR for August 2009 and first quantified in September 2009. The August report drew attention to the problems with SAP, BOP and Government Connect, and pressures on OCN. But it anticipated that "The service currently expects to keep within budget by means of effective project management together with measures to ensure that the costs throughout the budget are kept under tight control. These include staff reductions, reducing the use of contract staff and restructuring areas of service delivery". This was reported as a projected nil variance

to Cabinet in October 2009[28]. Work on non-essential projects was stopped, as was the ICT role as prime sponsor of major projects. But these steps were taken too late to affect the budgetary outcome significantly.

44. By the September MMR, it was reported that "the service will report a significant overspend this year". Further work to refine the forecast was needed, but an overspend of £1.75m was estimated. "A formal action plan is being produced, setting out the measures that are being taken to reduce costs. This will include reducing the establishment, reviewing current and planned projects and maximising income from recharging. The level of saving achieved this year [i.e. 2009/10] will depend on how quickly the action plan can be implemented. Progress will be reported monthly. Reductions in staff numbers could result in redundancy costs if staff cannot be redeployed. These costs are not yet included in the forecast. Any underspends reported by other services within Corporate Core will be used to help offset the ICT overspend." These conclusions were reported to Cabinet on 24 November 2009[29].

45. By October 2009, the forecast overspend had risen to £2.25m. This was reported to Cabinet on 15 December 2009[30]. The principle reasons were given as:

- Government Connect +£480k
- SAP Upgrade +£480k
- BOP +£250k
- Foxcombe Court rebuild +£240k
- OCN +£400k
- IT maintenance +£300k
- Other +£100k
- Total: +£2, 250k.

46. In November, the same projections were reported, but the following additional comments were made:

> "An action plan has been produced for reducing the overspend. The process of reducing staff numbers is already taking place but most of the savings achieved this year in the pay budget are likely to be offset by one-off redundancy costs. Other measures will be implemented to reduce or control costs but it is not expected that they will significantly reduce the size of this year's overspend".

In December, it was recommended that a supplementary estimate was better than carrying forward the overspend. In January, the forecast increased to £2,650k due to estimated redundancy costs of £385k and ongoing £254k pension costs. The Efficiencies Board agreed to fund the actual redundancy costs, which were £362k. The outturn report reported the same outturn as the forecast from October plus the redundancy costs and added the following in respect of the action plan for 2010/11:

> "This [the action plan] includes a restructure of the ICT budget, devolving budgets to managers, a further review of the establishment and changes to

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[28] Cabinet 20 October 2009, CA5
[29] Cabinet 24 November 2009 CA6 p15
[30] CADEC1509R02_V20.doc

service level agreements with directorates to ensure that all projects are fully funded.

47. Apart from the proposal to reduce staff count by 50 – which it was clear could not be completed in 2009/10 - the other items in the action plan were rather unconvincing. It stated that no new projects should commence without additional Directorate or corporate funding - indicating a funding deficit here of some £60k. The BT quarter 2 bill included fraudulent use of the OCC network and a refund from BT was being negotiated, but the chances of recovering the full (also) £60k seemed unlikely. Transfers from Directorates to cover the reduced telephone charges arising from the BOP was expected to recover another £30k. Finally, a contribution of £20k from Learning and Development to cover some training costs incurred by OCT was proposed. Apart from the staff reductions, the savings from which were not quantified, the total savings proposed were only £170k and not guaranteed. There was no sign of the expected underspend on the refresh programme (para 21 above). Instead, an overspend of £153k was recorded.

48. The conclusion from this survey of reporting is that the potential difficulties with expenditure against budget were reported as quickly as feasible. Warnings about budget pressures in 2008/9 and for the 2009/10 budget were given but no amendment was made. On the other hand, assurances were offered by ICT that the situation could be managed. The core budget is largely driven by the SLA and the needs of various current users. There is little scope to constrain spending in a situation of rising demand, even though significant efficiency improvements had been made.

49. Project budgets are driven more by project sponsors and strategic requirements, but where project management was led by Directorates, or for smaller projects managed by ICT on their behalf, there is little evidence that spending or development was overly constrained in early 2009. For example, development expenditure recharges were accepted by Directorates, and the Refresh budget, even allowing for BOP requirements, was fully committed and overspent at the year-end. The Development budget (not the same as the Development Fund), which is fully recharged to Directorates, was also fully committed but with some unfunded work. Deferring projects here – which was done during the second quarter of 2009/10 - also resulted in a loss of income.

50. Hardware costs were much higher than budgeted, and it was known that there would be increases in electricity and telephony costs due to the Data Centre and the renegotiation of the OCN contract for telephony. Development fund costs on SAP were exceeded but several other projects, including some on SAP, were curtailed as a result. Significantly, although much additional expenditure was charged to capital account, recharges to Directorates were more than £1m below expectations, indicating a failure to secure adequate funding agreements before work on non-strategic projects was carried out.

51. There is a sense that since in the past things had worked out through various means, they would continue to do so. The budget left with ICT after recharges had grown substantially in recent years, and the impression is given that ICT sought the

maximum discretion over their gross expenditure in order to meet the often unfunded commitments they entered into. An over-optimistic assessment of cost control was coupled with the 'can-do' service ethos, and led to over-confidence that cost reduction measures could be implemented faster than employment or external contractor contracts would allow.

52. Provision for contingencies was confined to major projects and the expectation was that the remainder of the £20m budget together with recharges could be used to meet unexpected surges in cost, even if external contractors were responsible for some of the key strategic work, and permanent employees - who had been increased by around 40 (around 20%) in the year- had strong employment protection rights So the monitoring and reporting, although timely, gave an over-optimistic account of what could actually be done, given that non-essential programmes were continuing, strategic projects were overspent, reliance had to be placed on outside expertise and demand for the core service and on its performance continued to grow.

53. In the end, the conclusion was reached that there was no alternative to a supplementary estimate. This was probably the right conclusion in terms of the Council's fairly strong financial situation and the severe future impact if nothing was done to address the funding situation. The timing, however, was unfortunate from a political point of view. On the other hand, Cabinet had been given several warnings that pressure was rising but only made extra resources available for development projects and not to the core service.

20010/11 prospects

54. The ICT revenue budget for 2010/11 is £21.992m with 100% recharge envisaged. Recent organisational changes have removed the post of Head of ICT and the whole service is now part of Shared Services. At the end of May, a nil variance was being forecast, although spend against profiled budget was £5,692k against £3,659k, showing an adverse variance of £2.033m. Income was also a little down, at £2.978m against budget of £3.665 (adverse variance of £687k). Overall a net overspend against budget of £2.720m is indicated. But the traffic light indicator is green and it is too early in the year to place too much reliance on the profiled budget given the incidence of project expenditure.

55. MMR for May 2010 reported as follows (overall nil variance):

"ICT is expected to reach its target establishment of 132 full time equivalents by November 2010. As at the end of May 2010 redundancy costs were £0.190m. These are in addition to the £0.362m costs already agreed to be funded from the Efficiencies Reserve in 2009/10. The Business Strategy Board will be asked to give approval for these additional costs to be met from Reserve. Hidden pension costs resulting from the redundancies will total £0.100m. If possible, ICT will meet the cost this year. Otherwise, it will be spread over 5 years.

An overspend against the SAP budget is expected due to pressures on staffing, licensing and the completion of the \organisational Management project. This pressure will be managed within the total ICT budget.

The contract with Oxford City Council is expected to break-even. In other areas, reduced activity may put pressure on income targets."[31]

56. The August MMR, reported to Cabinet on 19 October, reported:

" ICT

47. ICT is continuing to forecast a nil variance against budget. There are several significant potential pressures on the service including the phased implementation of Government Connect, changes to Microsoft licensing agreements and the cost of specialist SAP support. Costs are being tightly controlled through a reduction in the size of the establishment, a review of maintenance and licensing agreements and a moratorium on non essential hardware refresh. "[32]

57. We are aware of the following cost pressures in 2010/11:

- Trend increase in ICT core workload is likely to continue: staff reductions and skills shortages will make the core vulnerable to higher volatility with higher risks of overspending and to quality of service;

- Oxfordshire Community Network continuing growth and demands above budget and costs above inflation;

- Inflationary pressures on ICT procurement and utility costs

- Serco / SAP licences and other SAP pressures;

- SAP O&M work not finished;

- Proposed changes to Microsoft licensing – extra costs of up to £650k per annum;

- Continued dependence on IBM for legacy website and web applications, and therefore on staff with relevant expertise and future costs of migrating to new platforms;

- Government Connect changed standards and demands;

- Bandwidth increases for schools;

- Efficiency savings from the SAP contracts start to drop out at the same time as the efficiency target increases (savings target for 2010/11 is £350k);

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[31] CAJUL2010R290.doc p. 31
[32] CA19OCT10R170.doc

- Demand from Directorates – and hence ICT income- will fall as budget pressures impact;

- Inability to reduce staffing further without serious effects on service delivery;

- There are unknown contingencies that might arise e.g. disaster recovery, for which there is no financial contingency reserve within ICT.

58. We are also mindful of the following mitigating factors:

- BOP has finished;

- SAP O&M is capped by a fixed cost contract, even though there will be additional expenditure in the year;

- A renegotiated SLA has been agreed, giving clearer responsibilities and more devolution of budgets away from ICT - all ICT expenditure should be recharged and ICT work will not be undertaken on behalf of Directorates unless there is full budgetary agreement in advance;

- Directorates are more conscious of and more able to control projects and ICT services provided in their area. (They may also be more able to source their requirements externally);

- Pressure on OCN should be reduced as a result of the end of the BOP, but savings of over £0.3m will still be needed[33];

- Government Connect in OCC has not experienced some of the accreditation problems that were anticipated and OCC is now in a good position to complete the next phase without additional costs;

- Bandwidth extension in schools requires external funding so should not proceed without it;

- Small contract maintenance savings should relieve pressure on maintenance costs;

- Strategy and Partnerships Scrutiny Committee is keeping a close watching brief on ICT activity;

- ICT staffing establishment is stable, with the last of the agreed departures scheduled for 31st December 2010. The staffing complement is focussed on maintaining current service commitments only;

- There is a moratorium on non-essential refresh work;

- As restructuring takes place throughout the Council, the number of PCs and desktops requiring support will diminish.

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[33] CAJUN2210R90.doc p 113

59. Other active measures taken this year are:

- Budget devolution to a larger number of cost centres;

- Training for all cost centre managers;

- No projects with an ICT element to proceed without a clear funding agreement;

- Intensive and on-going budget monitoring and scrutiny of all commitments by the ICT management team;

- Additional management accountant support;

- Recruitment of a Finance apprentice to work in ICT supported by the Finance Business Partner.

60. A new Corporate ICT Strategy was agreed by Cabinet on 19 October 2010 that will be monitored quarterly by Cabinet.[34] The strategy has the following aims:

- To improve business efficiency and drive down service costs;

- To improve information management;

- To improve communications within the organisation and with stakeholders;

- To improve customer relationships.

To these ends, high level objectives and priorities have been developed that concentrate on:

- cost-effective deployment of resources;

- optimising the potential of the Council's ICT infrastructure

- reducing ICT infrastructure costs.

61. The financial results for September 2010 confirm that the measures are having the desired effect on budgetary performance and that prospects for a nil variance in 2009/10 are good.

Conclusions

62. The conclusion of this study is that throughout the review period ICT continued to provide high-quality ICT support that met the needs of users, and with continued efficiencies in core operations. Underlying cost pressures on the core service had finally materialised in 2008/9 and could not be contained within the ICT budget. Some key strategic projects were compromised by some poor external project management, expensive external contractors and bad estimating. ICT management had a very full agenda during this period and in practice had little choice but to

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[34] CAOCT1910R020/030.doc

complete these projects. Even a moratorium to consider the funding position would in our view have only resulted in even higher costs and risks to OCC services. In addition, routine costs such as utilities increased above the rate of inflation because of new requirements. Hardware procurement for projects and refresh was also much more costly than expected.

63. It appears to us that the warnings that should have been heeded at the end of 2008/9 were in fact ignored in the 2009/10 budget, partly because ICT reported that, although pressures and overspend risk continued, it had controlled the situation. The Strategy Investment Fund was probably inadequate to fund the major projects, even allowing for the extra Serco and other unforeseen external costs and the extra funding of £800k. ICT were not the prime driver for these projects and in practice, except possibly for Foxcombe Court, could not defer them. There was bad estimating on the BOP, but the internal pressure to complete the work and the decision to only reimburse the original ICT estimate was outside ICT control. On the other hand, despite the warnings given to Star Chamber about the 2009/10 budget, ICT continued to embark on development and refresh projects until halfway through the year without fully agreeing the funding for them.

64. When adverse trends became apparent, they were reported quite quickly and appropriately, but there seems to have been an over-optimistic belief that cost trends could be contained with the year. In fact, ICT had become something of a supertanker - a fully committed service with a high proportion of effectively fixed cost coupled with a number of irresistible and expensive demands. In the end there was not enough flexibility to carry on business as usual. The decision to seek a supplementary budget was really the only feasible option and given the significance of the decision, it was done in a timely fashion.

65. In the current year, there are still a number of upward cost pressures. It is not certain what the full impact of the staff reductions will be on service levels. There are some major external threats in the form of licenses and reliance on external suppliers. On the other hand, the new SLA, the experience of funding shortfalls in 2009/10 and the fact that the budget is once again subject to full recharge and hence agreement with clients will certainly mean that ICT should become more risk averse, even if this means – as it does - that ICT services in OCC will not develop as quickly as they might otherwise have done. Indeed, the currently stated goal of ICT is to maintain existing services and remain within budget, meaning that for areas of historic concern - in particular, applications such as GIS and SAP - minimum change is the best that can be anticipated, and that most staff will have to make do with their existing kit and applications longer than anticipated.

66. So whilst there are many threats to the 2010/11 budget, we believe that, on a risk-adjusted basis, there is a high likelihood that costs in 2010/11 will be contained within budget. The marginal (rather than core) situation regarding income and recharges has a higher level of uncertainty; for example, where there are issues regarding ownership and sponsorship of development work, such as SAP in Schools. It may be that there remains a need for negotiation in some cases. But experience in 2009/10 suggests that if more adverse pressures develop towards the end of the year, there is not much that can be done in-year to bring costs back into line except by deferring major projects. There are simply not enough contingency

funds in the current budget and not enough flexibility available to ICT managers to reduce commitments quickly enough.

67. In the longer term, upward pressure on costs, continuing requirement for efficiency savings and demand for new development work coupled with reliance on external suppliers and reduced staff flexibility means that the challenges faced by the ICT budget in 2010/11 are unlikely to abate. There will therefore be a continuing need to keep ICT budget-setting and budgetary performance under review.

Recommendation:

The Committee is RECOMMENDED to note the report; in particular:

- **the conclusion that measures taken to mitigate the ICT overspend in late 2008/9 probably contributed to a delay in taking effective cost-containment measures in 2009/10;**

- **that there was over-commitment coupled with a lack of flexibility to respond to adverse events in early 2009;**

- **that pressures on the core ICT budget continue, but that significant efficiencies have been achieved and more will arise from recent and forthcoming staff restructuring;**

- **that project work, whether strategic or departmental, should not be undertaken by ICT without clear financial agreements with the relevant sponsoring agent (e.g. Directorate or Project Board);**

- **that there remain significant external risks to the ICT budget in respect of SAP, Microsoft and IBM applications;**

- **that ICT management are aware of current risks and have in place a new Corporate ICT Strategy and action plan to mitigate them.**

Acknowledgements

The Audit Working Group and myself as Chairman would like to thank all the officers who have helped with this review, especially the ICT team and others who gave evidence, and Tim Paul, Finance Business Partner.

Dr Geoff Jones

Chairman, Audit Working Group

8 November 2010.

Background papers: Nil.

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Glossary

AWG	Audit Working Group
BO	OCC Better Offices Programme
CIMU	OCC Corporate Information Management Unit
CRM	Customer Relationship Management
DWP	Department of Work and Pensions
ESS/MSS	Employee Self Service/Manager Self Service
GIS	Geographic Information System
ICT	Information and Communications Technology
KPI	Key Performance Indicators
LAN	Local Area Network
MMR	Monthly Monitoring Report
OCN	Oxfordshire Community Network
OSP	Oxfordshire Sports Partnership
SAP	*Systeme, Anwendungen und Produkte in der Datenverarbeitung* ("Systems, Applications and Products in Data Processing"), the Authority's main accounting and resource planning application
SLA	Service Level Agreement
SORP	Statement of Recommended Practice
TUPE	Transfer of Undertakings (Protection of Employment) Regulations
VoiP	Voice over internet Protocol
WAN	Wide Area Network

ICT Overspend 2009/10

Update Report for Cabinet 21st December 2010

Background:

At their meeting on 17th November, Audit Committee considered a report by Dr. Geoff Jones, Chairman, Audit Working Group (AWG), on the 2009/10 ICT overspend.

Audit committee decided to refer the report to the Cabinet together with an update by the Acting Head of ICT of how the matters raised in the report have been addressed. The Audit Committee decision is attached as Appendix 1.

This report describes the actions taken to address deficiencies in governance and to ensure more effective budget management.

Introduction

This year, ICT has operated with 2 goals:

- to operate within budget
- to maintain current services

The current 2010/11 gross budget overall for ICT is £19.5m and we are on target to spend within budget.

ICT will also meet its savings target of £0.347m for 2010/11.

ICT has savings targets for 2011/12 and beyond which are set out in Appendix 1.

As is clear from the Audit report, ICT does not now have the internal capacity or budget to fund or resource major change initiatives. To meet new demands, ICT can provide technical leadership and can resource externally where additional funding is made available.

Contents

This report sets out the steps within ICT and the wider Council in the last 9 months that mean that ICT should remain within budget for 2010/11 and in future years.

- A. Financial Management
- B. Establishment Reduction
- C. Governance
- D. Spending Pressures and actions taken to date
- E. Further actions in train for 2011/12 and beyond

A. Financial Management

1. Devolution

Budgets have now been devolved to 8 cost centre managers who have all received training in financial management and in the use of SAP. Cost centre management is now closely aligned to operational responsibility.

2. Financial Support

Additional support has been provided via the Finance Business Partner with a management accountant working regularly on site with cost centre managers to review expenditure and commitments. A Finance Apprentice has been recruited and is now working 4 days per week in ICT Services.

B. Establishment Reduction

ICT began a service restructure in December 2009 to reduce core ICT establishment from 182 FTE to 132 FTE. That programme will complete on 31st December 2011.

These post reductions were achieved through natural turnover and retirements but also included 23 redundancies.

The service restructure includes some re-organisation of the service as a whole and use of £75K of L&D funding to address potential skill gaps.

Existing skill gaps for SAP and GIS and IBM software in particular still remain. Seasonal pressure points (e.g. September) are being managed well because staff are working flexibly and are highly committed to the customer base.

C. Governance

1. Service Level Agreement (SLA) 2010/11

The updated SLA finalised with Business Managers on 6th May 2010, includes a new section defining a clear boundaries for financial responsibility. Operational work such as call resolutions or regular software maintenance upgrades is cost covered by ICT. Project or developmental work has to be paid for directly by the Service concerned.

To date, £289,000 has been recovered from Services for work they have commissioned.

2. ICT Governance

A new ICT Strategy was agreed by Cabinet in October 2010 and this includes a detailed Action Plan that is now closely aligned to the Council's published Business Strategy. Progress reports are required quarterly to Business Strategy Group from January 2011 and the Head of ICT is now a member of the Business Strategy Programme Board which seeks to ensure coordinated action across the various strands of the business strategy. The result is to provide ICT with a very clear remit for current and future work.

A further requirement of the ICT Strategy is to establish an Officer Working Group to meet quarterly. This Group should be brought together in the New Year and will comprise 2 representatives from each of the Directorates, the Head of ICT and a senior analyst from the Policy Unit. Once established, this Group will have the remit to:

- Vet all complex high cost projects before ICT engage
- Determine new cross-cutting requirements that need to be reflected within ICT Strategy

3. ICT Project Governance

Project management and documentation has been tightened to reflect the requirements of the SLA and ICT Strategy. Project briefs are rejected if they do not appear to conform to the ICT Strategy. Projects cannot proceed unless there is an identified owner at senior management level within the commissioning service and unless costs have been defined and a funding source is in place. Projects are rejected by ICT if ownership and funding is not in place.

Overall, new project requirements have decreased and the majority are now clearly linked to maintenance and functionality upgrades for business applications. That aside, the most visible set of new project requirements are around Document Manager/Records Manager implementations. Sets of projects are being actively managed in CYP&F, E&E and the Chief Executives Office with funding and business process re-engineering (BPR) requirements agreed in advance.

D. Spending Pressures & Actions Taken

(1) Government Connect

This is a better picture than expected. Siemens have now completed their appraisal of OCC's compliance with schedule 3.2 and the new requirements for 4.1. We had anticipated challenges to the OCN configuration that would have necessitated changes. This has not happened and we received confirmation in October that the key outstanding demand is to implement 2 -factor authentication using physical tokens. We have already purchased these and will deploy them in January 2011 within existing budget.

(2) SAP.

We have had to absorb the one off cost of additional licensing (208K) in this financial year and have in place processes to fully control SAP License assets going forward. The lack of in-house expertise remains a concern and we have had to supplement that with some additional contract resource to cover deficits in security management and HR in particular whilst we update in-house skills. With the completion of the OM project there is no significant work planned going forward and the sole focus currently is to maintain SAP deployment in its present state. This represents a more stable cost base. The Serco contract is due to expire in 2012 and at that point we will be looking for a commercial or public sector partnership that can provide (a) greater depth to our SAP expertise and (b) ability to support exploitation of our SAP investment eg exploitation of ESS/MSS and Business Warehouse. Our view is that future SAP development projects need to be clearly positioned as "Invest to Save" opportunities with costs and benefits clearly outlined and agreed at the outset.

(3) Microsoft.

Like other authorities, we may need to follow Microsoft's new licensing model and costs that follow. However, some of those costs will be offset by software/functionality that we will no longer need. Moving to an Open Source desktop solution whilst attractive on the surface will bring major cost issues around security and application integration and end user training.

We currently use Window XP as the standard desktop operating system and MS Office Standard 2003. These have now got a limited shelf life as mainstream manufacturer support has already expired. We plan to manage transition in two phases (1) Windows 7 and (2) Office 2010. There will be no change in 2010/11.

 Phase 1 - the move to Windows 7 - will be prioritised for 2011/12 because it also includes some functionality that will allow us to cease other software serving the same purpose.

Phase 2 - the move to Office 2010 would ideally run in tandem but may not run until FY 2012/13 so that the cost and resource implications can be managed across 2 financial years.

(4) Business Applications Software/Hardware Maintenance

All annual maintenance contracts for software and hardware continue to be heavily scrutinised.

At present, the Council still has a major reliance on IBM software for the Website and Web applications and server and storage management. Although this software licensed for us to use as long as we want, it comes at a cost of at least £1.1Million in annual maintenance and service payments to IBM. Use of IBM software has also created a significant dependence on a few key ICT staff that

have the relevant expertise. This is not sustainable. In the last Quarter, we have taken steps to reduce IBM costs to less than 300K per annum.

In the future, this area of ICT interest will be closely linked to the CRM functional development and channel management strategy which are critical elements in the Council's Business Strategy. Inevitably, these developments will dictate their own set of technical requirements and costs and it is highly likely that these will accelerate moves away from IBM dependency. On the server & storage side, we have taken similar steps to bring in specialist local suppliers for support at lower cost and in preference to IBM. Virtualisation of the server estate should be completed by April 2011 and this will ,of course, be a significant step on the road for us to access full-scale Cloud computing options from 2013/14.

Other actions taken to date with suppliers have reduced annual running costs by a further £175K in 2010/11 with full-year savings of £275K from April 2011.

(5) Hardware Refresh.

We have placed a moratorium on all but essential Refresh requirements. In practice, this should mean that the current budgeted spend of £445K will come in at less than 100K. Our Desktop virtualisation programme will take place in 2011/12 and this will allow us to extend the useful life of most PCs and Laptops from 4 years to 6 years at least.

(6) Oxfordshire Community Network (OCN)

Developments in technology have provided new options to contain and even reduce the ongoing costs of the OCN. 40K from the investment fund in October 2010 has enabled ICT to achieve small changes in line deployment that have resulted to date in 48K per annum savings from April 2011. A range of similar changes are being explored.

Major changes for the OCN configuration and deployment are in planning for commitment in 2011 to meet Savings Targets in 2011/12 and beyond.

E. Further Actions in Train for 2011/12

(1) Virtualisation

ICT are close to completing current plans to virtualise most of the current server estate. This means that instead of one physical device per server, we can use one physical device to host many servers. This allows us to contain and manage down future management and maintenance costs.

In 2011/12 we aim to extend virtualisation to the desktop. This means that instead of running services physically on your laptop or PC you access services are hosted and managed centrally in the Council's Data-centre. In some ways this is a more contemporary version of thin client technology.

There are some major benefits. First, it allows us to prolong the life of existing PCs and Laptops – we estimate six years rather than the current two. Second, it makes management and support of users in the field much more cost effective. Third, it is a positive advantage for flexible/mobile working. As long as you can log on to the Council's network – directly or via the internet – you will get the same desktop experience wherever you are.

(2) Active Software/Hardware Management

We are currently deploying a new asset management tool which enables us to track the actual use of hardware (printers, PCs and Laptops) and software (MS Word, Excel, Business applications like Exor, SAP, ONE, SWIFT) through time.

So, through a 3 month period, we can establish, for example, if software currently available to user is being used frequently, sometimes or never.

In 2011/12, we will look to remove software that is not being used and to optimise the number of licenses in use as well as PCs and Laptops.

If staff numbers fall, we can reduce the amount of hardware deployed, and the asset tool will assist us to cut the amount of licened software still further.

Glossary

SAP – the Council's principal financial and HR system
ESS/MSS – Employee self-service and Manager self service
GIS - geographical data management
OCN – the Oxfordshire Community Network (the Council's private broadband network)
BPR – Business Process Re-Engineering
PC – Personal Computer
Thin client – the PC acts as a dumb terminal and all data processing is carried out in a central server location
Open Source – Software that is freely available and development is collaborative in the wider community
Cloud Computing – Internet-based computing, whereby shared infrastructure, software, and data can be provided to computers and other devices on demand

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