



ICT Shared Service Feasibility Study

Final Report

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EXECUTIVE SUMMARY

Executive Summary

ICT Shared Services are feasible, with realistic options to deliver benefits.

The local councils of the Wellington region are looking for innovative ways to deliver improved services at reduced costs. They are particularly interested to know whether a greater level of Information and Communication Technology (ICT) sharing is feasible and, if it is, what form that sharing could take and what benefits may be achieved.

This report has focused on three areas that could potentially be delivered by a shared service:

1. IT Infrastructure
2. Business Applications
3. Back-Office Business Processing

A review of the current state of the councils and shared service market reveals that:

- Councils spread their limited IT resources across a wide array of technology and IT services.
- Different applications are being used across the region although fundamentally they support the same business processes.
- IT investment needs are similar such as upgrades to similar systems (e.g. FMIS or EDRMS) or deployment of new capabilities (e.g. mobile functionality or online services).
- Current efforts to use shared IT services are too small scale and loosely coordinated to deliver significant benefits.

- The local market is moving rapidly towards shared approaches to IT, partly due to the central government's strategic direction.

These factors mean that **shared services could benefit Wellington region's councils.**

There are a range of options for what a shared service could do and how it could be operated. As we evaluated the options we found that:

- Piecemeal sharing is unlikely to deliver worthwhile benefits
- Without strong governance, and a single point of accountability in particular, shared services are unlikely to be sustainable
- The scope of any shared service needs to have clear boundaries with limited mixing of responsibilities

We found **two feasible options for the shared service:**

Option 1: Shared IT Infrastructure

Option 2: Shared IT and Back-Office Processing

These options have substantial potential benefits and are realistic in the local market. Each option is discussed below.

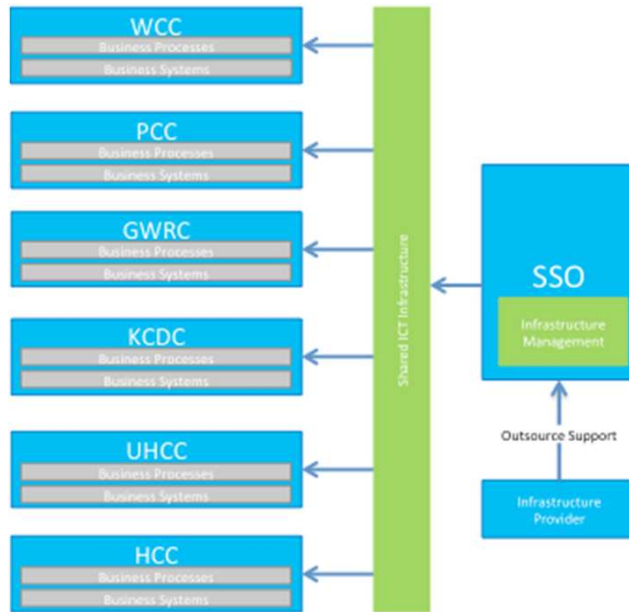
Executive Summary

Two quite distinct options have been identified as showing the most promise.

Option 1: Shared IT Infrastructure

This option would see the councils establish a shared services organisation (SSO) to manage and operate their combined IT infrastructure (servers, networks, desktops including standard desktop applications). The individual councils would then use this shared infrastructure to run their various business applications and business processes.

Given the commoditised nature of IT infrastructure management, the SSO would likely outsource all service delivery, retaining capability to manage service strategy and performance.



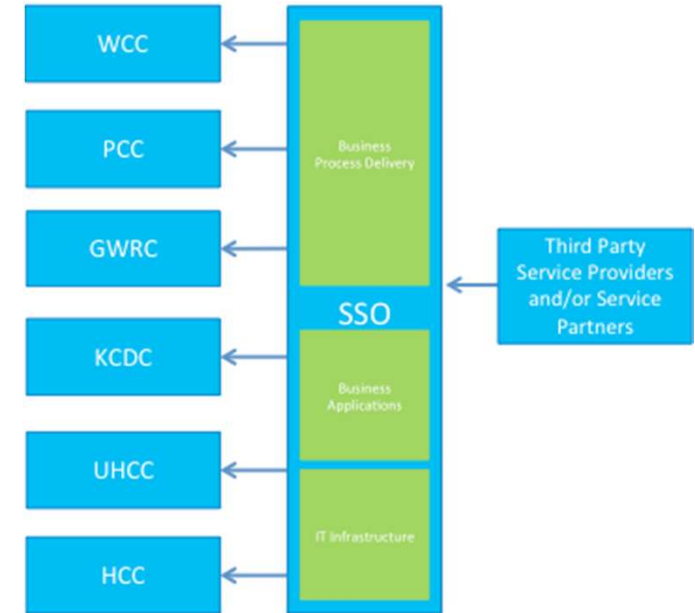
Option 2: Shared IT and Back-Office Processing

This option would involve moving all IT services and selected back-office business processes to a SSO. As IT services and technology become standardised over time, all councils would be using the same business applications, a single integrated network, and common infrastructure.

The shared business processes would also be standardised and delivered by consolidated teams. The SSO would manage these processes on behalf of the councils.

To deliver a range of services, the SSO may choose to use its own teams, work with a third party to provide the services, or a combination of both.

The SSO could establish a partnership arrangement with a major services provider.



Executive Summary

These options have significantly different risk and reward profiles.

	Option 1: Shared IT Infrastructure	Option 2: Shared IT and Back-Office Processing
Pros	<ul style="list-style-type: none"> • There will be some relatively modest cost savings for the region. • Provides the region's councils with a higher level of technology service e.g. improved disaster recovery. • Reduces ongoing capital investment in IT • Enables greater collaboration (such as information flows between councils), but does not deliver this. 	<p><i>In addition to Option 1 pros:</i></p> <ul style="list-style-type: none"> • Will deliver substantial and on-going financial benefits for the region's councils collectively. • Provides the councils and their customers with greater ability for consistent service innovation such as more online services, greater access through mobile services and regional solutions e.g. paying fines at any council office. • Provides a significant platform to enable further sharing outside the scope of this study. • Ground-up redesign of systems, processes and roles allows for greater efficiency and customer service. • Provides staff with stronger professional career paths in their functions. • Provides a genuine opportunity to partner with a major global player to deliver long run benefits to both councils and the region. • Is the most logical basis for a shared approach should amalgamation happen.
Cons	<ul style="list-style-type: none"> • Financial benefits relatively small initially with more substantial benefits enabled (but not delivered). • Results in dual IT organisations and the associated overhead i.e. the councils and the SSO will have IT teams. 	<ul style="list-style-type: none"> • Implementation cost, timeframe and risk will be significant, but manageable if planned well. • Standardised business processes will reduce each council's ability to independently focus investment. • There will be significant and ongoing disruption to council operations impacting staff and potentially customers.
Savings	\$2m - \$5m annual across the region from year 3	\$11.6m – \$21.2m annual across the region from year 6
Cost to Implement	\$2M - \$5M (over 12 – 18 months)	\$45m – \$75m (over 3 - 5 years)

Executive Summary

Further planning will need to consider a range of aspects.

The key difference is that the additional scope in option 2 produces significantly greater benefits, including benefits to staff and customers (who would be only indirectly affected by Option 1), but requires a significantly more complex transition with associated delivery risk. Option 1 is limited, whereas Option 2 opens up substantial opportunities in business functions outside the scope of this study.

The following aspects would need to be considered when planning the implementation:

- The most appropriate legal structure for a SSO
- The degree of structure and role change at the formation of the SSO
- Opportunities for staff
- Councils' current and planned investments in technology and process improvement
- Initial funding
- Future extension
- Risk and reward sharing with the private sector
- Sequencing of services

INTRODUCTION

Introduction

In October 2013 six councils from the Wellington region formed a working group to assess the feasibility of establishing a shared service for the provision of ICT services to those councils. The six councils were: Greater Wellington Regional Council (GWRC), Upper Hutt City Council (UHCC), Hutt City Council (HCC), Kapiti Coast District Council (KCDC), Porirua City Council (PCC), and Wellington City Council (WCC). Together these councils serve over 450,000 residents, employ 2600 staff and have annual expenditure of approximately \$900m.

Each of these councils is responsible for the provision of diverse set of services for its community. Common services include consent management, licensing, the provision of facilities (eg. swimming pools, libraries), garbage collection, civil defence management, rates calculation and collection, dog registration and cemetery management. In addition to these, GWRC also provides environmental services such as flood protection, water management, biosecurity and public transport. Supporting these frontline services are a set of back-office functions such as human resources, payroll, finance, records management and IT.

Like most public sector organisations, the councils are under increasing pressure to deliver more and better services but at a cheaper cost. They also have major projects they need to fund including the upgrade of Wellington Airport, on-going public transport improvements and maintenance of their building and roading assets.

To deliver improved services and fund significant projects at an acceptable cost, the councils know they need to find new and innovative ways of working.

In line with this approach, the councils have used shared services to help access/deliver services in a way that is more cost effective. There are examples of successful shared services that have been used across the region including the Wellington Region Emergency Management Office (WREMO) for civil defence and Capacity for water management.

In recent years the councils have tried sharing a limited set of ICT services. Mostly, this has been done in a rather ad hoc fashion as opportunities have arisen. The results have been mixed with an equal measure of success and attempts that did not meet their objectives. However, the successes and inherent nature of ICT has given the councils confidence that bigger benefits may be available in this area.

As a result, the six councils would like to understand if a greater level of ICT sharing is feasible and, what form that sharing could take and what benefits may be achieved.

Purpose

The purpose of this study is to assess the feasibility of the Wellington region's councils establishing a shared service for the provision of ICT services. To assess "feasibility" we have considered two primary questions:

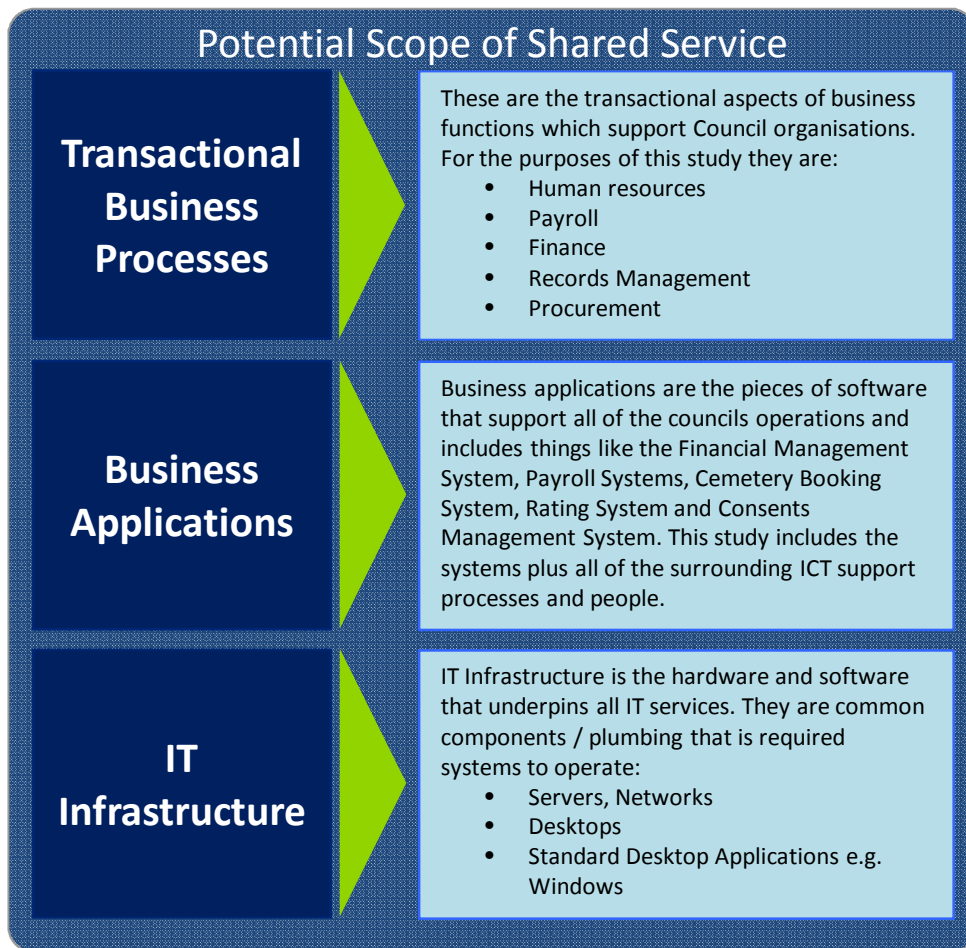
- Is there likely to be sufficient benefits to justify the investment?
- Are there realistic models which can be sustained by the councils and the local market?

We have carried out the following as part of this study:

- a) describing the current state of the councils and shared service market place,
- b) developing and describing options for the provision of IT shared services to the councils,
- c) identifying the most feasible option(s) based on a set of evaluation criteria,
- d) providing an estimate of the costs, benefits and risks of establishing the most feasible shared service.

The purpose of this study is **not** to provide a business case for the establishment of a shared service nor to approve a shared service model for implementation. This would be the logical next step. The study is intended to inform Chief Executives in their consideration of next steps. The analysis and conclusions in this study are not dependent on the wider issue of amalgamation of the councils. However if amalgamation were to proceed, all council functions would effectively move to a 'shared' model.

Scope of the Feasibility Study



The initial scope of this feasibility study was ICT services which covered the provision and maintenance of software and hardware to support council operations plus the management involved with that work. For simplicity these services are grouped into *IT Infrastructure* and *Business Applications* as shown in the diagram to the left. A more complete definition of these two groups is contained in Appendix One. Some councils currently include records management and or similar information management activities in their ICT teams. These services are **not** in the scope of this study.

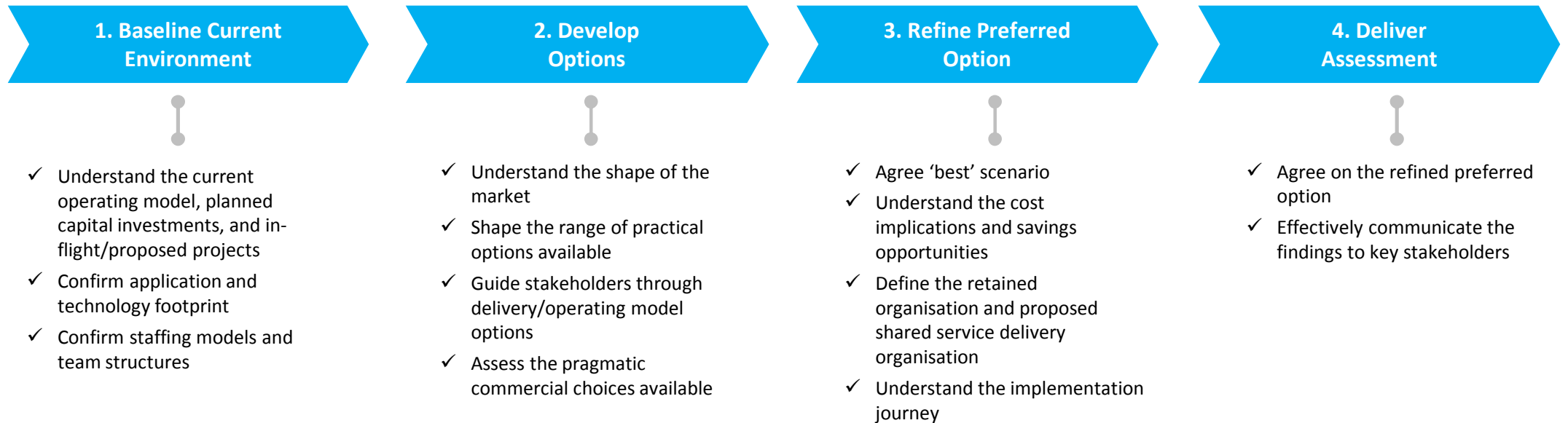
Some back-office *Transactional Business Processes* (as described to the left) are included because of the tight relationship between those processes and the business applications that support them.

The study considered:

- the impact on existing council operations such as business processes, people, and services;
- how the delivery of shared servicea would be managed and governed; and
- the nature of the shared service provider market.

The study has not included other business functions (e.g. contact centres) and the broader council organisations (e.g. Council Controlled Organisations) which could potentially benefit from a shared service.

Approach

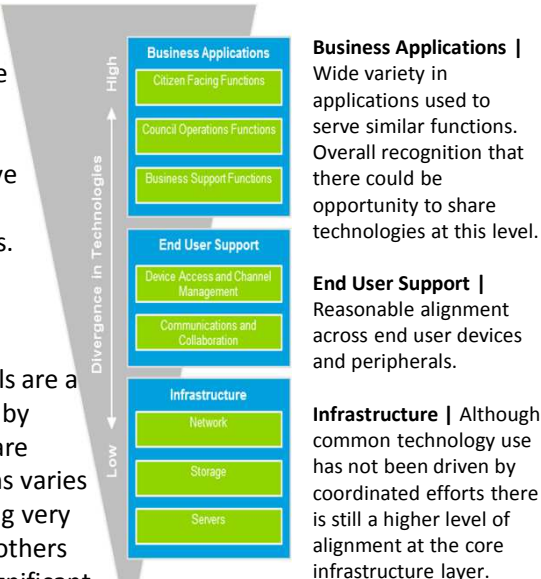


CURRENT STATE ASSESSMENT

Current State Overview

We have looked at the nature of the councils and their approach to ICT demand and supply. We have also examined their reasons for looking at shared services and the broader shared services market to understand the context within which any new shared service would operate.

Current State of the Councils' ICT environment

Nature of ICT requirements and needs	Nature of technology used by the councils
<p data-bbox="129 579 1052 675">The councils do a good job of delivering core ICT requirements but due to their wide scope of services relative to their individual size, they lack the capacity to do much more than delivering “BAU”.</p> <ul data-bbox="114 703 1064 1310" style="list-style-type: none"> • The councils of the Wellington region have relatively complex ICT needs because of the number and nature of the services they need to provide. For example they require: <ul style="list-style-type: none"> ○ extensive networks that enable the various council sites to be connected; ○ a number of business applications to support the various council services; ○ a high-level of integration between systems e.g. asset systems needing access to GIS data. • In most cases this level of complexity is disproportionate to the size of the council. For example, UHCC with 136 staff has a similar range of ICT service needs as WCC with 995 staff. • All of the councils face increasing demand for more and better services from staff and customers alike. For example: <ul style="list-style-type: none"> ○ greater integration of systems and improved out of hours support, ○ more services available online and an ability to complete more interactions at a single location, ○ the ability to access services and information via mobile devices. • Despite all of these challenges the councils are generally meeting the expectations of their staff and customers. 	<p data-bbox="1153 595 2045 659">Despite delivering substantially the same core group of services the councils have each chosen very different technology paths.</p> <ul data-bbox="1137 695 1646 1366" style="list-style-type: none"> • Despite the commonality of services, the technology employed by the councils is quite diverse. While there are some councils using the same applications, no two councils have chosen the same set of applications across their business. However, at the infrastructural level there is a high-degree of commonality. • The systems in use by the councils are a mixture of applications provided by national and international software vendors. The state of the systems varies across the region with some being very stable and fit for purpose whilst others require near-term & relatively significant investment to meet the changing needs of the councils. <div data-bbox="1534 703 2072 1284">  <p data-bbox="1839 738 2072 946">Business Applications Wide variety in applications used to serve similar functions. Overall recognition that there could be opportunity to share technologies at this level.</p> <p data-bbox="1839 975 2072 1074">End User Support Reasonable alignment across end user devices and peripherals.</p> <p data-bbox="1839 1106 2072 1284">Infrastructure Although common technology use has not been driven by coordinated efforts there is still a higher level of alignment at the core infrastructure layer.</p> </div>

Current State Overview

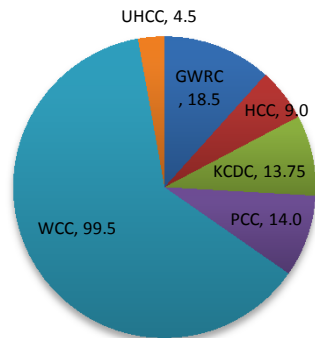
Current State of the Councils' ICT environment

Approach to delivering ICT services

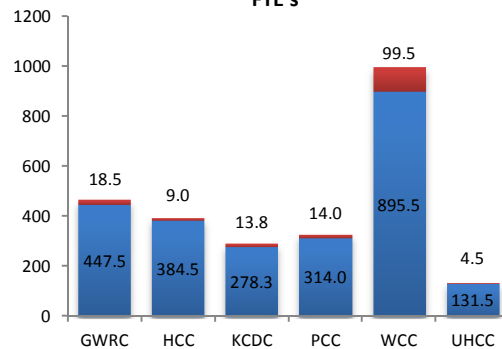
In general the councils have delivered most of their required ICT services using internal staff. Use of third party resources is limited.

- The councils have established ICT teams that provide the full range of ICT services. In general these ICT teams are made-up of council employees rather than external providers and in many cases these resources are multi-skilled and fulfilling more than one role.

Distribution of ICT Resources Amongst the Councils



Proportion of ICT FTE's to total council FTE's



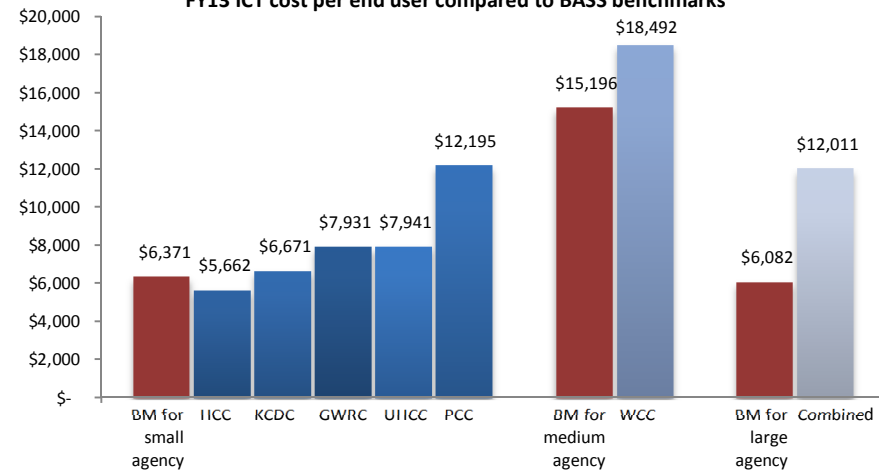
- To supplement their internal capability the councils collectively use a wide array of third party ICT providers. Contracting for these services has generally been individually by the councils but in some cases (e.g. GIS) they have clubbed together to have a stronger commercial position. The councils are also making good use of All-of-Government supply contracts where it makes sense.

ICT costs

Individual council ICT spend is higher than comparable central government agencies. Collectively their total ICT spend is significantly higher than a comparable large central government agency.

- The councils run relatively lean ICT operations and do a good job of extracting maximum benefit from their expenditure. However, because their level of ICT complexity does not reflect their size (i.e. they are complex but relatively small) they are generally more expensive than comparable small to medium government agencies.

FY13 ICT cost per end user compared to BASS benchmarks



- As a group the councils would be comparable to a large central government agency and their level of ICT would reflect this size, but because they operate individually they do not get any of the scale benefits that accrue for those large and complex central government agencies.

Current State Overview

Council objectives for shared services

Objective of shared services
<p>Councils generally share similar objectives for shared services</p>
<p>The councils identified a common set of objectives for using shared services. These were:</p> <ul style="list-style-type: none"> • Quality outcomes at competitive and transparent whole of business rates • Lower costs for commodity ICT services such as data centres • Access to new technologies and institutionalisation of best practice processes • A flexible model that allows councils to buy into and exit agreements based on evolving needs • Accommodate business priorities across councils • Manage vendors and licenses in a more coordinated approach and one that gives equal access of service to all councils • Free up resources to focus on discretionary/strategic initiatives • Access to top ICT talent • Address areas of business risk e.g. disaster recovery • Better IT support for other business objectives e.g. better customer service, better information available to staff and customers

Current State of the Shared Service environment

Use of shared services
<p>The market for shared services is now mature with good levels of sustainability and competition.</p>
<ul style="list-style-type: none"> • The use of shared services is becoming increasingly common in both the public and private sector. A number of central government shared service initiatives are under way and some local councils are also establishing shared services. For example in the Bay of Plenty region a shared service for ICT services has recently been established. • The Wellington regions councils have also been working to establish some shared services. • The number and calibre of providers capable of delivering IT shared services in New Zealand has reached a level of maturity that the market is now sustainable and offers good levels of competition. • There is potential for major overseas providers to invest in a shared service as an opportunity build a presence in New Zealand and then leverage that for a broader New Zealand or Australasia service offering.

Current State Implications

Based on our assessment of the current state environment there are a number of implications for the feasibility of an ICT shared service. These implications are described below.

Conclusion	Implication
<p>Councils have to spread their limited IT resources (people and funding) across a wide array of technology and IT services.</p> <p style="text-align: center;">↓</p>	<ul style="list-style-type: none"> - There is limited capacity to deliver significant business improvement initiatives - Trade-offs have introduced risks for the councils e.g. due to limited disaster recovery capability - Councils are highly dependent on a few key staff
<p>Over time, individual decisions have resulted in very different applications being used across the region, but fundamentally they support the same business processes.</p> <p style="text-align: center;">↓</p>	<ul style="list-style-type: none"> - There are no business process reasons why all of the councils could not use the same technology solutions.
<p>IT investment needs are very similar – they are generally upgrades to similar systems (e.g. FMIS or EDRMS) or deployment of new capabilities (e.g. mobile functionality or online services).</p> <p style="text-align: center;">↓</p>	<ul style="list-style-type: none"> - The Councils face on-going IT investment demands. Collaborating and working together on this investment would make sense.
<p>Current efforts to use shared IT services are too small scale and do not have management or governance buy-in to deliver significant benefits.</p> <p style="text-align: center;">↓</p>	<ul style="list-style-type: none"> - Any genuine shared service needs strong central governance and have the right structure and mandate to deliver significant change.
<p>The local market is moving rapidly towards shared approaches to IT, partly due to the central government’s strategic direction.</p> <p style="text-align: center;">↓</p>	<ul style="list-style-type: none"> - Implementing and managing shared services is now easier and less risky than in the past - There is local experience and expertise in consolidating IT services and business processes, including in New Zealand local government - New Zealand is becoming more attractive to larger international firms with new capabilities
<p>A shared service could benefit the region’s councils</p>	

FEASIBLE OPTIONS

Developing and Assessing Options

Based on the understanding of the current state of the councils and broader shared service environment we looked at potential options for delivering a shared service. The following factors were considered:

- What services should/could a shared service provide?
- How should the shared service be managed and governed?
- What benefits will be delivered, how long with they take to be achieved and what will it cost to achieve them?
- How capable and willing is the market of supporting the shared service i.e. is the mix of services attractive enough without being off-putting?
- How achievable would the stand-up of the shared service be?
- Once established, is it likely to be enduring?

We were able to identify a number of potential options for a shared service. These included setting up centres of excellence within each council to provide services to the other councils and establishing a single IT team that would support each council's existing technology and systems.

However as we examined those potential options and compared them against each other a number of factors became clear:

- Piecemeal sharing is unlikely to deliver worthwhile benefits
- Without strong governance, and a single point of accountability in particular, shared services are unlikely to be sustainable
- The scope of any shared service needs to have clear boundaries with limited mixing of responsibilities

- Implementing a shared solution across six councils will be challenging (if all six confirm participation) emphasising the importance of strong governance, solid commitments, and clarity of scope.

Consequently the more broad list of options was narrowed to two options for further analysis:

1. **Share IT infrastructure across the region**
- or
2. **Share all of the region's IT services and deliver some business processes together**

An overview of the options analysis is contained in Appendix Two.

It became apparent through the analysis and discussions with stakeholders that for both of these options the only practical option to run the shared service was as a part of standalone organisation that each council had an interest in but no one council had direct control over.

We did consider other approaches (e.g. centres of excellence within individual councils or a single council delivering the services) but these were considered as infeasible because of the scope of services and risk of disenfranchisement i.e. feeling that the shared service is really for the providing councils' benefit and not the benefit of all.

The remainder of this section explains these two feasible options in more detail.

Feasible Options for an IT Shared Service

	Option 1: Shared IT Infrastructure	Option 2: Shared IT and Back-Office Processing
Description	<p>This option would see the councils establish a shared services organisation (SSO) to manage and operate their combined IT infrastructure (servers, networks, desktops including standard desktop applications). The individual councils would then use this shared infrastructure to run their various business applications and business processes.</p> <p>Given the commoditised nature of IT infrastructure management, the SSO would likely outsource all service delivery, retaining capability to manage service strategy and performance.</p>	<p>This option would involve moving all IT services and selected back-office business processes to a SSO. As IT services and technology become standardised over time, all councils would be using the same business applications, a single integrated network, and common infrastructure.</p> <p>The shared business processes would also be standardised and delivered by consolidated teams. The SSO would manage these processes on behalf of the councils.</p> <p>To deliver a range of services, the SSO may chose to use its own teams, work with a third party to provide the services, or a combination of both.</p> <p>The SSO could establish a partnership arrangement with a major services provider.</p>
Pros	<ul style="list-style-type: none"> • There will be some relatively modest cost savings for the region. • Provides the region's councils with a higher level of technology service e.g. improved disaster recovery. • Reduces ongoing capital investment in IT • Enables greater collaboration (such as information flows between councils), but does not deliver this. 	<p><i>In addition to Option 1 pros:</i></p> <ul style="list-style-type: none"> • Will deliver substantial and on-going financial benefits for the region's councils collectively. • Provides the councils and their customers with greater ability for consistent service innovation such as more online services, greater access through mobile services and regional solutions e.g. paying fines at any council office. • Provides a significant platform to enable further sharing outside the scope of this study. • Ground-up redesign of systems, processes and roles allows for greater efficiency and customer service. • Provides staff with stronger professional career paths in their functions. • Provides a genuine opportunity to partner with a major global player to deliver long run benefits to both councils and the region. • Is the most logical basis for a shared approach should amalgamation happen.

Feasible Options for an IT Shared Service

	Option 1: Shared IT Infrastructure	Option 2: Shared IT and Back-Office Processing
Cons	<ul style="list-style-type: none"> Financial benefits relatively small initially with more substantial benefits enabled but not realised. Results in dual IT organisations and the associated overhead i.e. the councils and the SSO will have IT teams. 	<ul style="list-style-type: none"> Implementation cost, timeframe and risk will be significant, but manageable if planned well. Standardised business processes will reduce each council's ability to independently focus investment. There will be significant and ongoing disruption to council operations impacting staff and potentially customers.
Savings	\$2m - \$5m annual across the region from year 3	\$11.6m – \$21.2m annual across the region from year 6
Cost to Implement	\$2M - \$5M (over 12 – 18 months)	\$45m – \$75m (over 3 - 5 years)

Option 1: Shared IT Infrastructure – Option Definition

This option would see the councils establish a shared service to manage and operate their combined IT infrastructure (servers, networks, desktops (incl. standard desktop applications)). The individual councils would then use this shared infrastructure to run their various business applications.

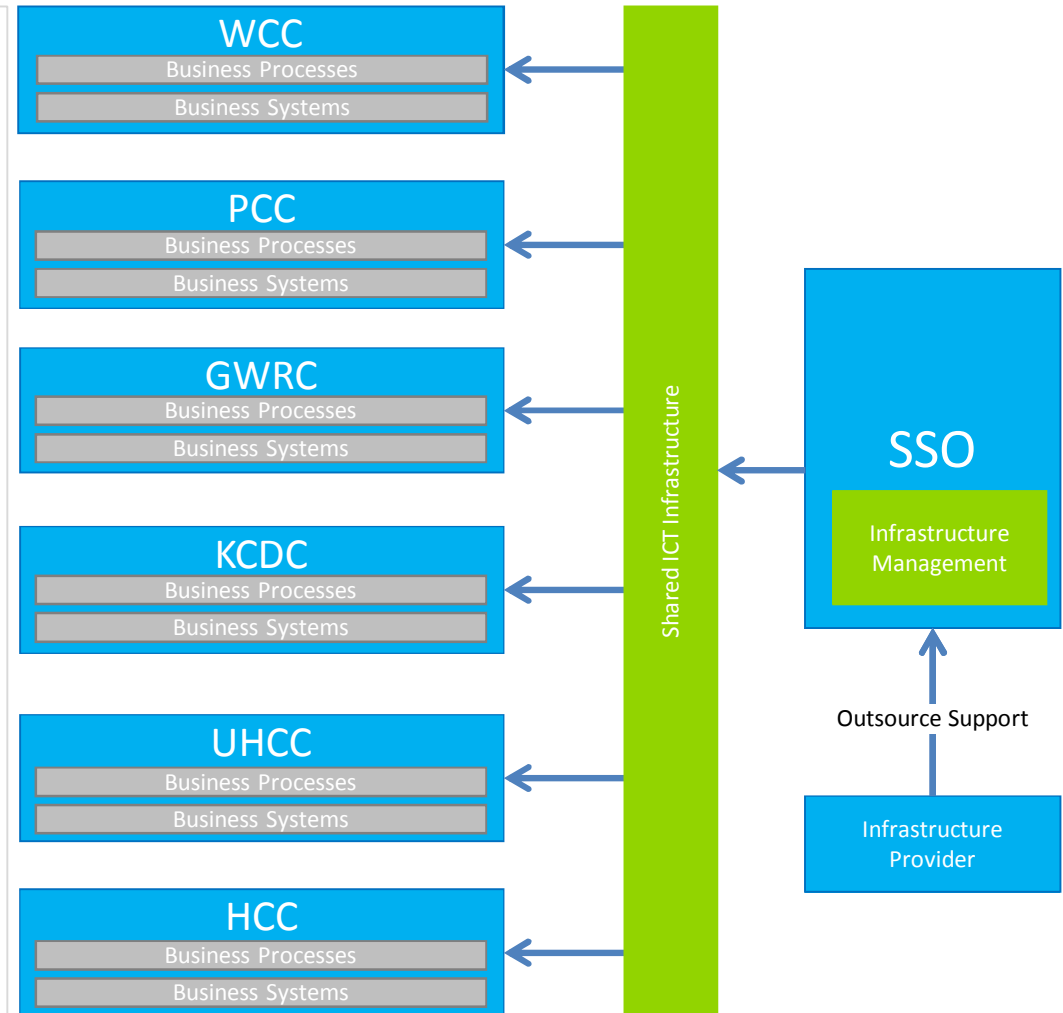
The shared service would provide the following services to the councils:

- a) operation of regional network that links all council locations together;
- b) a data centre housing the regions servers;
- c) management and operation of the councils' servers;
- d) management of a common desktop environment across all councils;
- e) single service desk that takes all user requests for support and addresses them or routes them to teams within the shared service or back in the councils.

Responsibility for running the shared service would be vested in a newly created organisation – the Shared Service Organisation (SSO). Ownership of the infrastructure assets would be transferred to the SSO and it would take overall responsibility for operating this infrastructure on behalf of the councils.

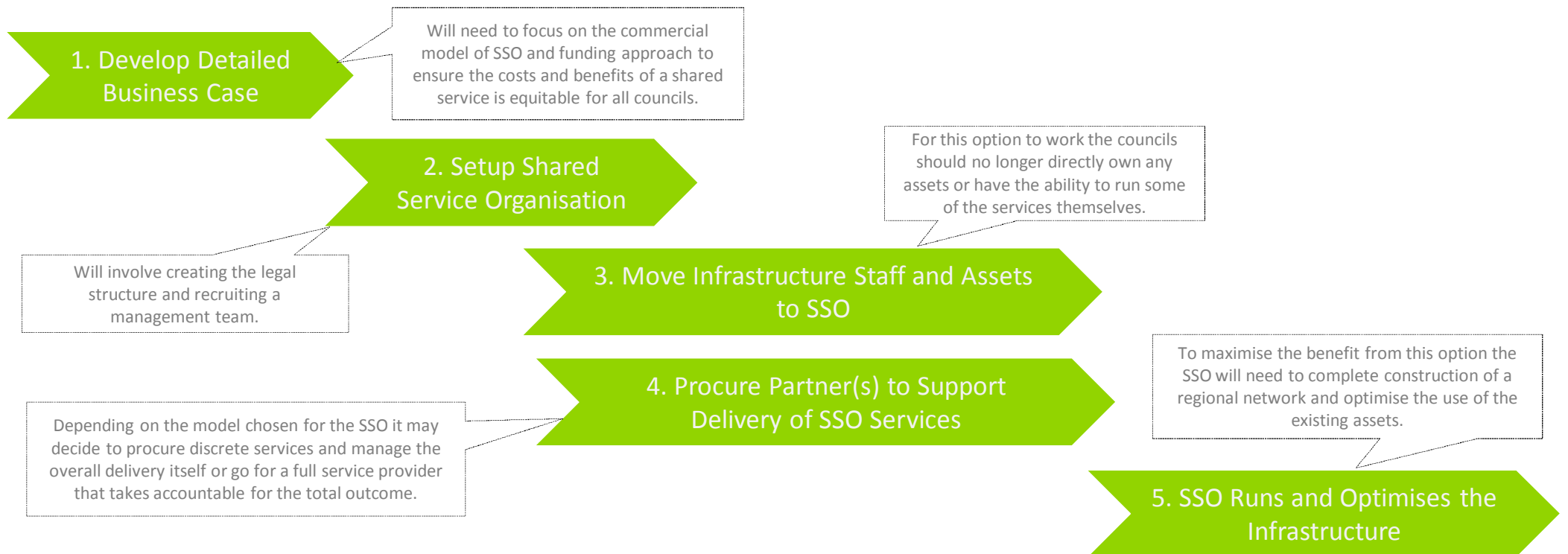
This includes deciding on the technology itself, how and when the infrastructure is replaced and whether or not to use a third party provider to support it. The SSO may choose to outsource support for some of these activities.

The IT teams left in the councils would have no infrastructure resources in them and instead would focus solely on application support.



Option 1: Shared IT Infrastructure – Implementation

Implementing this option is relatively straightforward as it is a basically just infrastructure outsourcing which is a very common model used extensively in both public sector and private sector. The major exercise, and potential challenge, will be agreeing a legal structure for the shared service organisation that meets the needs of all of the councils. Ideally the SSO will be a separate legal entity that is able to contract for services with third parties and employ people directly. We believe this model is more appropriate than having one of the councils provide the services to the other councils as it deals with governance and management challenges more effectively. Below is a high-level roadmap for implementing this option with a more detailed version provided in the appendix.



Option 1: Shared IT Infrastructure - Assessment



NON-FINANCIAL BENEFITS

- The SSO should be able to deliver increased levels of service e.g. greater levels of reliability, better afterhours support and greater performance to all of the councils. This should ultimately result in improved business services for staff and customers.
- The SSO should be able to implement a more complete and reliable disaster recovery and resiliency solution. For example by the councils sharing a common desktop and network it will be possible to relocate to another councils sites should that be required. The SSO should also deliver a more resilient data centre.
- A shared network and common desktop will make it easier for councils to share information and business applications should they chose to.
- Should free up capacity and/or funding to allow for more service enhancements / improved products.



FINANCIAL BENEFITS

We have calculated a potential financial benefit for this option by comparing the scope of this option to two projects we have recently been involved in that have very similar scopes. Based on those two case studies we would estimate a cash benefit of:

\$2m - \$5m annually across the combined councils

This estimated benefit is for the region i.e. total saving for all of the councils. The exact apportionment of this benefit across the councils has not yet been determined but is unlikely to be uniform. To ensure the success of the shared service the councils will need to determin an approach to sharing the benefits that is beneficial to all councils.

The identified benefit is likely to come from savings in 4 key areas:

1. *Staff Reductions*
 - There should a reduction in the number of operational and management staff required across the region by consolidating parts of the ICT teams.
2. *Improved Server Utilisation Resulting in less Infrastructure*
 - By utilising the unused capacity across the region's entire pool of servers the total number of servers required should reduce.
3. *Licensing for standard software*
 - A single buyer should realise savings in common software such as operating systems, productivity tools (e.g. Windows Office, Adobe Acrobat, etc)
4. *Better Commercial Terms*
 - As a large buyer the SSO should be able to get better deals on infrastructure assets such as printers and desktops.

For more information on this benefit calculation place see Appendix Three.

Option 1: Shared IT Infrastructure - Assessment



DIS-BENEFITS

- Under this model there would be dual ICT organisations (i.e. infrastructure in the SSO and all other ICT functions in each of the councils). These organisations would share some overlapping functions such as architecture, procurement and vendor management, which would require coordination.
- This option enables the achievement of a number of other benefits but does not drive their realisation. For example a single network would make the use of common applications much easier, however the SSO would not be able to make this happen by itself, without further changes to structure, governance and resourcing.
- This option would provide a platform for expanded shared services in future. However choosing this option may be perceived as a decision not to pursue broader sharing, making it difficult to progress in future.



RISKS

- A lower overall cost should deliver savings to all Councils involved. However, this will require a benefits sharing model with some cross-subsidisation. This may be difficult to sustain equitably.
- Poor commercial management during procurement or in operation could see benefits eroded by poor provider performance.

Option 1: Shared IT Infrastructure - Assessment



HIGH-LEVEL COSTS

We have calculated the potential cost of implementing this option by comparing the scope of this option to two projects we have recently been involved in that have very similar scopes. Based on these two case studies a likely range is:

\$2m – \$5m over 18 months

This would include the cost to establish the SSO, run procurement and transition infrastructure to providers. It would also include any staff related costs e.g. redundancy. The actual cost will depend on specifics such as the nature of employment contracts.

The costs do include the financial cost of any asset transfer e.g. write-offs of previous investment.

For more information on this benefit calculation please see Appendix Three.

SUPPORT FOR SHARED SERVICE OBJECTIVES

The table below shows how well this option aligns to the councils shared service objectives.

Lower costs for commodity ICT services such as data centres	Aligned
Address areas of business risk e.g. disaster recovery	Aligned
Quality outcomes at competitive and transparent whole of business rates	Aligned
Access to top ICT talent	Aligned
A flexible model that allows councils to buy into and exit agreements based on evolving needs	Aligned
Free up resources to focus on discretionary/strategic initiatives	Partially Aligned
Accommodate business priorities across councils	Partially Aligned
Manage vendors and licenses in a more coordinated approach and one that gives equal access of service to all councils	Partially Aligned
Access to new technologies and institutionalisation of best practice processes	Not Aligned
Better IT support for other business objectives e.g. better customer service, better information available to staff and customers	Not Aligned

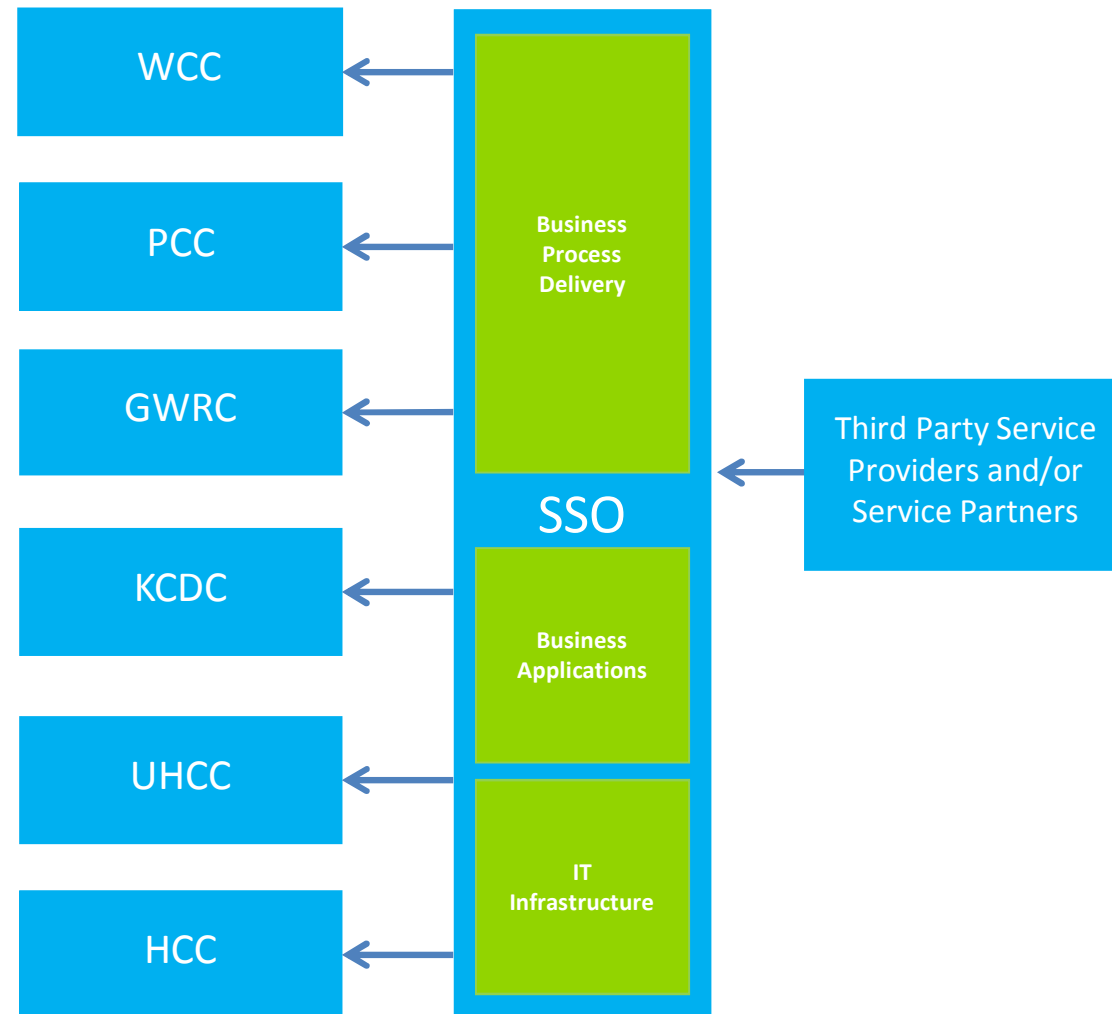
Option 2: Shared IT and Back-Office Processing – Option Definition

This option would involve moving all IT services to a SSO as well as selected back-office business processing. IT services and technology would be standardised across the region including most business applications, a single integrated network, and common infrastructure. Because the technology would be the same, most business processes would also be progressively standardised. To gain the maximum benefit from this standardisation the SSO would run those standard business processes on behalf of the councils.

The shared service would provide the following services to the councils:

- a) operation of regional network that links all council locations together;
- b) hosting, management and operation of the councils' servers;
- c) management of a common desktop environment across all councils;
- d) management and operation of a common set of business applications to be used by council staff to perform their functions; and,
- e) a centralised transactional finance and HR/Payroll team (being the first two business processes to be consider as they have the largest transactional component of the back-office functions. See Appendix One for more information).

Each council would no longer have their own IT team and their finance and payroll teams would be reduced. It would be feasible for the SSO to run other business processes beyond the scope of this study. For example call centres and procurement functions (and these may deliver much greater benefits). The SSO would engage external partners (with some form of shared investment) or providers (through more traditional outsourcing contracts) in order to deliver the services.



Option 2: Market Engagement

Like option 1 responsibility for running the shared service would be vested in a new organisation – the Shared Service Organisation (SSO). All IT assets and staff would be transferred into this organisation along with the transactional finance and HR/Payroll staff required to operate those business processes. The SSO is likely to contract out delivery of some or all of its services to third party providers. Because of the breadth of services it is likely that the SSO would use a combination of delivery models. For example:

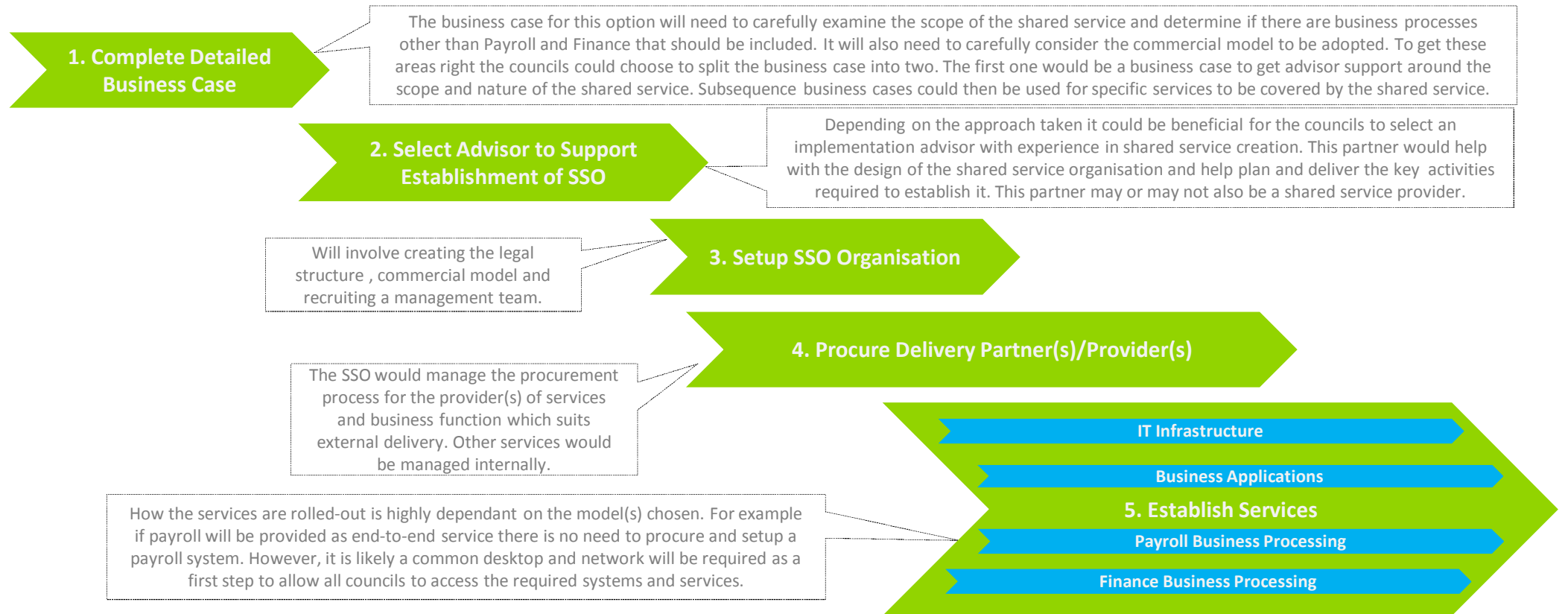
1. SSO has an internal team delivering the service using the technology selected and owned by the SSO (e.g. library management)
2. SSO has external resources delivering the services but using the technology selected and owned by the SSO (e.g. application processing)
3. SSO contracts a third party to deliver an end-to-end service, including the technology and people (e.g. payroll)

This model could be achieved with one or more traditional outsourcing arrangements. However the potential scale of this option, and the opportunity to expand it beyond the scope of this study would make it feasible and desirable to engage a true external partner. Our initial market sounding indicates some interest from global service partners. They would invest in the establishment of the services in return for on-going service fees and the opportunity to generate additional revenue by selling services to other customers who could be other councils or private sector organisations. This has the potential to deliver wider benefits to the region through additional employment and capability in the local market. Attracting one of these external partners will be heavily dependant on the term of the contract. Certainty for a significant period of time (7+ years) will be required to ensure real investment by a partner.

The ownership structure between the councils and a potential external partner would need to be worked through carefully. Some providers may want an equity stake in the SSO to safeguard their investment but others will probably prefer to be a pure service provider with a long term contract. This will allow them to decide how to utilise their capacity and capability for other opportunities without needing council approval. Keeping the model simple is also beneficial for the councils. The details of the commercial delivery model is an area that would require careful consideration in the business case phase, including some more structured market testing.

Option 2: Shared IT and Back-Office Processing – Implementation

The implementation plan for this option is complex and highly dependant on the shared service model and approach selected by the councils. If this option is implemented the scope of the shared service must be clearly understood. This feasibility study has limited its scope to IT services and some back-office processing areas. However, we believe substantial benefits will exist in other back-office areas such as records management. Some front-office services will also be suitable candidates e.g. call centres. This scope refinement should be completed as part of the business case process. Because of the scale of work the councils should consider using a business partner to support them in designing and implementing the shared service. This partner could ultimately run or provide services to the shared service organisation or this may be a separate party. The major activities to establish this option are shown below.



Option 2: Shared IT and Back-Office Processing - Assessment



NON-FINANCIAL BENEFITS

- A ground-up process redesign offering improved efficiency, effectiveness and customer experience. e.g. the ability to return books to any library, pay fines at any council office, etc. This will lead to a significantly improved customer experience.
- Provides a significant platform to enable further sharing that will unlock additional benefits outside the scope of this study.
- As a major procurer of software and/or services the SSO (and therefore the councils) will have greater influence over product development and vendor investment.
- The SSO or its providers can bring new jobs to the region if they use this opportunity as a beach-head to provide services to other organisations.
- Provides the councils and their customers with greater levels of service innovation such as more online services, greater access through mobile services and regional solutions e.g. paying fines at any council office or through a common portal.
- Potential to take a leadership role in providing services to other councils, strengthening the wider local government sector.
- Common technology and business processes will make overall coordination across the region easier (e.g. application upgrades).
- If amalgamation of some form occurs, this option makes it considerably easier to become a single organisation.



FINANCIAL BENEFITS

We have calculated a potential financial benefit for this option by comparing the councils' current ICT, HR and Finance opex spend against equivalent sized central government organisations in the Benchmarking Administrative and Support Services (BASS) study.

By combining the spend of the councils and comparing it to the upper-quartile benchmark of a BASS defined large organisation (the type of organisation this option would be supporting) we would estimate a cash benefit of:

\$11.6m - \$21.2m annually across the combined councils

This estimated benefit is for the region i.e. total saving for all of the councils. The exact apportionment of this benefit across the councils has not yet been determined but is unlikely to be uniform. To ensure the success of the shared service the councils will need to determine an approach to sharing the benefits that is beneficial to all councils.

The identified benefit is likely to come from savings in 4 key areas:

1. *Staff reductions reflecting more robust and efficient business processes*
2. *External cost reduction (e.g. procurement)*
3. *Reduced IT costs*
4. *Increased process efficiency*

For more information on this benefit calculation please see Appendix Three.

Option 2: Shared IT and Back-Office Processing - Assessment



DIS-BENEFITS

- This option is complex to implement and will have significant change impact on staff and customers. This is will result in some business disruption.
- Implementation will occur over multiple years and result in ongoing and substantial business disruption.
- Upfront investment is significantly higher.
- Standardisation of systems and some business processes will require compromises by all councils.
- Governance will be more complex and demanding.



RISKS

- Inadequate commercial management could have significant cost or service implications due to the increased scope of provider involvement.
- Councils may lose key staff due to uncertainty resulting in reduced service delivery.
- Benefits may take longer to realise or not be realised in full. For example standardisation of systems and some business processes may be difficult to integrate with existing processes, practices and strategies in councils.
- Inadequate programme management during transition could result in significant unplanned costs or business impacts.
- Complexity is frequently under-estimated. Need to invest to ensure the right people are selected to programme manage implementation.
- Change fatigue or loss of political appetite may prevent full model being delivered.

Option 2: Shared IT and Back-Office Processing - Assessment

HIGH-LEVEL COSTS

The cost to implement this option is very difficult to calculate because of a number of unknowns e.g. how will the SSO deliver the services (internally or with partners), how much debate there will be across the participating councils. However, based on a comparison of similar initiatives a likely range is:

\$45m – \$75m over 5 years

This would include the cost to design the SSO and the processes it would support, procure any software and providers, transfer assets and staff to SSO and “go-live” with the new services.

Depending on the delivery model implemented, a commercial partner may be willing to fund a material proportion of this investment, in the expectation of a return over a period of 5-10 years.

The costs do include the financial cost of any asset transfer e.g. write-offs of previous investment.

For more information on this benefit calculation place see Appendix Three.

SUPPORT FOR SHARED SERVICE OBJECTIVES

The table below shows how well this option aligns to the councils shared service objectives.

Lower costs for commodity ICT services such as data centres	Aligned
Address areas of business risk e.g. disaster recovery	Aligned
Quality outcomes at competitive and transparent whole of business rates	Aligned
Access to top ICT talent	Aligned
A flexible model that allows councils to buy into and exit agreements based on evolving needs	Aligned
Free up resources to focus on discretionary/strategic initiatives	Aligned
Accommodate business priorities across councils	Partially Aligned
Manage vendors and licenses in a more coordinated approach and one that gives equal access of service to all councils	Aligned
Access to new technologies and institutionalisation of best practice processes	Aligned
Better IT support for other business objectives e.g. better customer service, better information available to staff and customers	Aligned

Considerations if Implementing a Shared Service

The following points would need to be considered when planning the implementation of shared services:

- **The most appropriate legal structure for a SSO.** While it could be a business unit of one council, it would be preferable to have some independence from all councils. A Council-Controlled Organisation may be suitable, though there are specific processes for establishment.
- **The degree of structure and role change at the formation of the SSO.** If functions move to the SSO there will be an impact on roles and organisation structures. This process could encompass the consolidation of teams, or it could involve a simpler 'co-location' of teams to be consolidated in future.
- **Opportunities for staff.** The transition will result in some redundancies, but there would be opportunities for staff in new roles either in the SSO or with providers. Clear communication (including consultation) and a constructive process will be important.
- **Initial funding.** As the benefits will accrue over time, funding will be required to cover the initial investment. The investment burden can be limited by the effective use of external providers and sequencing the transition to deliver early savings, however some new funding will very likely be required.
- **Sharing of Benefits.** It is unlikely that the direct cost savings will be equally distributed amongst the councils with potential for some councils to face increased costs on a straight-line comparison. However, because the region will have an overall cost reduction the way funding/benefit sharing is done should ensure all councils realise a financial benefit.
- **Future extension.** There are likely to be significant benefits in applying the shared service model more broadly than the scope of this study. Any shared service should be designed to allow it to be extended in future. In particular, Option 1 could be designed to allow specific business functions to be migrated to a different external provider in future.
- **Risk and reward sharing with the private sector.** External partners and providers will probably want to use their investment in service delivery to expand their client base (in particular for option 2). Councils will need to determine how much they want to be involved in this process, which brings risk and potential reward. This will affect the structure of any partnership, for example whether or not there is an external equity stake in the SSO.
- **Sequencing of services.** There will be many paths to implementing shared services across multiple business functions. The initial steps should deliver some early savings, avoid upcoming capital expenditure and address current problems.

CONCLUSION

Conclusion

- The current state of the councils and shared services market means a shared service for IT services is likely to deliver benefits (financial and non-financial) that comfortably justify the initial investment required.
- There are many potential options for how such a shared service would operate but the most feasible options identified are to:
 1. Share IT infrastructure across the region, or
 2. Share all of the region's IT services *and* deliver some business processes together
- The key difference is that the additional scope in option 2 produces significantly greater benefits but requires a significantly more expensive, complex and risky transition. This in turn means significantly more tough decisions will need to be made by all major stakeholders including the councillors.
- Option 2 would deliver a large proportion of the work required to amalgamate the council organisations, if that was considered in the future.
- If option 2 is considered further, there are likely to be substantial benefits in business functions outside the scope of this study.

Next Steps

Each council should consider its level of commitment to further participation. Participating councils should then:

1. Develop a detailed Business Case based on an agreed scope, including engagement with the market. A review of current annual plans may also be required.
2. Complete a joint review of business process needs to help frame-up the services that would need to be provided should option 2 be selected for further investigation. The work Wellington City Council has completed in preparation for their major systems replacement (Project Odyssey) could be a good starting point.
3. Review planned IT and back-office changes and stop those initiatives that would be made redundant under a shared service direction.
4. Develop and implement a communications strategy covering council staff, other councils, central government and the public.













APPENDICES

Appendix One: Scope

The initial scope of this feasibility study was ICT services which covered the provision and maintenance of software and hardware to support council operations plus the management involved with that work. For simplicity these services are grouped into *IT Infrastructure* and *Business Applications*. As the study progressed it was decided to include some back-office *Transactional Business Processes* because of the tight relationship between those processes and the business applications that support them. The tables below show the scope of each of these areas.

IT Infrastructure	Business Applications	Transaction Business Processes
<p>IT Infrastructure is the hardware and software that underpins all IT services.</p>	<p>Business applications are the pieces of software that support all of the councils operations</p>	<p>These are the transactional aspects of business functions which support Council organisations.</p>
<ul style="list-style-type: none"> • All IT assets including: <ul style="list-style-type: none"> • Infrastructure - Servers, Networks, Network Switches, Racks and Power Supplies • Data Centre – Building, Climate Control • Desktop – PCs, Laptops, Printers/MFDs/Scanners • Infrastructure Software – Operating Systems, Databases, Productivity (MS Office), Email, Active Directory, Desktop Accessories (e.g. Adobe, Collaboration tools) • Accompanying Services: <ul style="list-style-type: none"> • Strategy Management for infrastructure • Design and Architecture for infrastructure • Portfolio/Project/Programme Management for infrastructure • Sourcing and procuring for infrastructure • Service transition for infrastructure • Service operation for infrastructure • Service desk 	<ul style="list-style-type: none"> • All business systems including: <ul style="list-style-type: none"> • GIS • Libraries • Assets Management • EDRMS • Ratings • CRM • Consent Management • Financials • Cemetery • HR/Payroll • Reporting • Accompanying Services: <ul style="list-style-type: none"> • Strategy Management for business applications • Design and Architecture for business applications • Portfolio/Project/Programme Management for business applications • Sourcing and procuring for business applications • Service transition for business applications • Service operation for business applications • Quality assurance and testing 	<ul style="list-style-type: none"> • These parts of <i>Human resources</i> <ul style="list-style-type: none"> • employee setup • org. chart maintenance • These parts of <i>Payroll</i> <ul style="list-style-type: none"> • timesheet processing • leave processing • payroll run • contract setup and maintenance • These parts of <i>finance</i> <ul style="list-style-type: none"> • Accounts receivable and payable • Bank reconciliation • These parts of <i>Records Management</i> <ul style="list-style-type: none"> • record maintenance – setup, update, archive • record access – physical record filing and retrieval • These parts of <i>Procurement</i> <ul style="list-style-type: none"> • catalogue setup and management • contract setup and maintenance

Appendix Two: Options Analysis

Option	Description	Strategic Alignment	Achievability	Sustainability	Financial Benefits*
Option 1: Shared IT Infrastructure	The councils would establish a shared service to manage and operate their IT infrastructure (servers, networks, desktops (incl. standard desktop applications)). Individual councils would operate their various business applications on top of this shared infrastructure.				\$2m to \$5m
Option 2: Shared IT Team Supporting Existing Systems	This option would involve the councils establishing a shared service organisation that would deliver all of the councils' IT services centrally. This would include common IT infrastructure (like option 1) as well as all of the councils existing business applications. Standardisation of business applications is not required under this option.				\$2.5m to \$4.5m
Option 3: Shared IT Team Supporting a Common Platform	Option 3 involves the councils establishing a shared service organisation that would provide and support a common set of business applications to the councils for them to use i.e. the business applications across the region would be standardised and supported centrally.				\$10m to \$15m
Option 4: Shared IT and Back-Office Processing Teams	This option would see a shared service organisation providing the councils' IT needs as well as delivering back-office transactional services such as HR, Payroll and Finance.				\$11.6m to \$21.2m

Based on the analysis above and discussion with the business reference group it was decided that options 2 and 3 would not be carried forward. The main reasons for this were:

- Option 2: Without standardising the business applications there was little additional benefit over option 1 and in fact this model may become unsustainable as councils look to move their business applications in different directions.
- Option 3: While this option offered good benefits without standardising the common the business processes the model would likely unravel as councils wanted to have the common platform modified to suit their own needs. It also left a substantial amount of potential benefit on the table.

Appendix Three: Financial Analysis - Benefits

We calculated the benefit for option 1 by comparing the scope of this option to two projects we have recently been involved in that have very similar scopes. We have calculated a potential financial benefit for option 2 by comparing the councils' current ICT, HR and Finance opex spend against equivalent sized central government organisations in the Benchmarking Administrative and Support Services (BASS) study.

ICT Benchmark Comparison for Option 2	GWRC	HCC	KCDC	PCC	UHCC	WCC	Combined
Total FTEs	466	393	292	328	136	995	2610
ICT Opex FY13	\$3,696,029	\$2,225,000	\$1,948,000	\$4,000,000	\$1,080,000	\$18,400,000	\$31,349,029
ICT Cost Per FTE	\$7,931	\$5,662	\$6,671	\$12,195	\$7,941	\$18,492	\$12,653
ICT Cost Per FTE Benchmark	\$6,371	\$6,371	\$6,371	\$6,371	\$6,371	\$15,196	\$6,082
Benchmark Spend	\$3,096,306	\$2,503,803	\$1,860,332	\$2,089,688	\$866,456	\$15,120,020	\$15,874,020
Potential Saving	\$727,143	\$(278,803)	\$87,668	\$1,910,312	\$213,544	3,279,980	\$15,475,009

To calculate a potential benefit we have used a benchmark comparison. The FY13 cost of ICT opex per organisation FTE for each council is compared to the BASS 2012 upper quartile benchmark. Based on FTE numbers WCC is compared to the medium sized agency cohort with a benchmark of \$15,196 per FTE. The other councils are compared to the small agency cohort with a benchmark of \$6,371 per FTE.

The table to the right shows the potential savings for each individual council if their cost per FTE is lowered to the BASS benchmark. The ICT cost per FTE for HCC is lower than the benchmark, this will result in the other councils sharing some of the cost savings with HCC, reducing the overall benefit. The total individual savings for the councils is \$5.9 million.

If the councils had a shared service providing all of their ICT services (IT Infrastructure and Business Applications) they can be compared to a large agency cohort with a benchmark of \$6,082 per FTE. The total savings possible here is much higher if the combined councils total ICT cost per user decreases from \$12,011 per FTE to \$6,082 per FTE. The potential savings is \$15.5 million.

The use of the benchmark provides an indication of the potential benefit but not specifically where and how it will be achieved. It is outside the scope of this study to determine that level of detail but it is likely the savings would be derived from:

- **Reduce Third Party Spend:** The councils collectively spend \$21.5m dollars annually on third party support through companies such as Datacom and Rivera. By joining their ICT operations together they can eliminate duplicate spend and also have greater buying spend. A 20% saving in this area could achieve a \$4.3m saving.
- **Reduce Staff Numbers:** There should be a reduction in the number of operational and management staff required across the region by consolidating the ICT teams. This would primarily come through eliminating duplication.
- **Rationalising software and hardware costs:** By joining operations the councils should be able to utilise the unused capacity across the region's entire pool of servers and the total number of servers required should reduce and therefore the cost of operating them. A single buyer should also realise savings in common software such as operating systems, productivity tools (e.g. Windows Office, Adobe Acrobat, etc)

Appendix Three: Financial Analysis - Benefits

Back-Office Processing Benchmark for Option 2

To calculate a potential benefit we have used a benchmark comparison. We have used the HR benchmark as a starting point as it has the best benchmark data. The number of council FTE's is compared to the number of HR FTE's. The total HR FTE's across councils is 45.7 and the number of council employees per HR FTE for the combined council's is: $2610 / 45.7 = 57.1$.

This is compared to the 2012 BASS benchmark NZ full cohort upper quartile of 86.6 council employees per HR FTE. To get to 86.6, overall the combined councils would need to reduce HR staff by 34.04% to 30.1 FTE's. If we assume each HR employee represents a total cost of \$100K pa, the total cost of HR is \$4.57 million. The reduction of 15.6 HR FTE's results in an approximate cost saving of \$1.556 million pa.

If we then assume that both payroll and finance can both make the same reductions in staff (34.04% reduction in FTE's for NZ Full cohort upper quartile result) further cost savings are achieved. This results in a total cost saving of \$6.263 million across HR, Finance and Payroll (see table to the right).

	Combined FTE's	FTE's after 34.04% reduction	Cost saving (\$100K per FTE)
HR	45.7	30.1	\$1,556,143
Finance	123.1	81.2	\$4,192,733
Payroll	15.1	10.0	\$514,174
Total	183.9	121.3	\$6,263,051

Appendix Three: Financial Analysis - Benefits

Option 1

- For option 1 we compared the scope to two previous projects we have been involved in.
- This two projects had an average benefit of \$2,500,000.
- We then applied a range of +/- 50% giving us a potential benefit of **\$1,750,000 to \$5,250,000**

Option 2

By combining the benchmark savings for the ICT and back-office processing areas we identify a potential benefit for option 2 as shown below.

	Potential Saving	
	Lower Estimate	Upper Estimate
ICT Savings as Per Benchmark	\$5,900,000	\$15,500,000
Back-Office Business Process Savings as Per the Benchmark	\$6,300,000	\$6,300,000
Total Potential Saving	\$12,200,000	\$21,800,000
Total Potential Savings Post Discount	\$11,600,000	\$21,200,000

Due to the inclusion of some non-ICT costs e.g. (Information Services) in the council cost figures we have discounted the ICT savings by \$600,000.

Appendix Three: Financial Analysis - Costs

Calculation of costs has been done by comparing the two options to recent projects we have been involved in that are roughly comparable. For option 1 this is a fairly simple comparison as the scopes are very similar. For option two this is less straightforward as there is no directly comparable project that covers the same scope. This is reflected in the large range of costs.

Option 1	
	Cost
Business Case and Procurement Support	\$500,000
Transition/Implementation Costs – Councils	\$1,750,000
Transition/Implementation Costs – Vendors	\$1,312,500
TOTAL	\$3,562,500
Range	
+ 50%	\$5,343,750
- 50%	\$1,781,250

Description
Business Case and Procurement Support includes the costs to create the business case and prepare go-to-market materials.
Transition/Implementation Costs – Councils includes the cost of legal and financial support for setting up the SSO and transferring assets, redundancy costs and the cost of council employees supporting the transition e.g. staff seconded to project teams.
Transition/Implementation Costs – Vendors includes the cost of software, hardware and project teams to design and setup the common platform and business process teams. Includes the training and change management of this work.
Key Assumptions:
- Council staff are only 50% funded by the programme of work.
- The network build is funded by any provider
- Costs do not include any productivity losses

Option 2	
	Cost
Business Case and Procurement Support	\$2,500,000
Transition/Implementation Costs – Councils	\$12,400,000
Transition/Implementation Costs – Vendors	\$35,312,500
TOTAL	\$50,212,500
Range	
+ 50%	\$75,318,750
- 10%	\$45,191,250

Deloitte.