Wellington Regional Shared ICT Infrastructure Services

Regional Detailed Business Case

Version 1.3 approved 27 February 2015

3 March 2015

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1. Executive Summary

Scope

This Detailed Business Case (DBC) considers the preferred options for investment in shared regional Information and Communication Technology (ICT) infrastructure across four councils, being Greater Wellington Regional Council (GWRC), Upper Hutt City Council (UHCC), Porirua City Council (PCC), and Wellington City Council (WCC), ("the Councils"). Wellington Water Limited (Wellington Water), a Council Controlled Organisation (CCO), joined in this DBC part way through the process and hence is included in only certain parts of the analysis.

This document sets out the business case for joint investment at a combined regional level across the five participating entities. It does not lay out the business case for investment at an individual entity level. The reasons for this are twofold:

- Market engagement to date has been based on requests for proposals at an aggregated demand level via a single "shared services" client organisation across a range of services. This approach has supported the efficient short-listing of two potential service provider options. The next stage of engagement will provide a much more detailed picture of commercial terms, including pricing, under a variety of demand scenarios over time and also an understanding of the investment at an individual entity level; and
- To the extent that there are cost savings to be made at an aggregate level, these savings may not flow through equally to the participating entities based solely on application of the agreed rates cards. Furthermore, elements of the cost of services will be fixed rather than linked to usage and the basis for allocating these fixed costs will need to be agreed. Finally there are some one-off transition costs that will need to be funded. Discussions as between the entities on the basis of cost allocation and sharing of relative benefits have not progressed beyond a very preliminary level at this stage.

Case for Change

The case for change can be summarised in the following problem statements:

- A lack of standardisation across the Councils, as well as (in some cases) relatively small organisational scale, limits purchasing efficiencies and in turn increases complexity and the risk of failure.
- An increasing reliance on technology to deliver core services, in turn intensifies pressures for ICT infrastructure to be available 24/7 and resilient to any external events which might disrupt service delivery – including natural events like earthquakes and fires, but also cyber-attacks.
- Rapid developments in technology capability and connectivity are raising expectations by customers to deliver a wider breadth of services across more platforms. This is placing increasing demands on ICT infrastructure.
- The high level of effort required to maintain outdated systems reduces internal agility to respond to customer needs on a timely basis. This includes internal as well as external customers.

Objectives and Approach

Drawing on the problems identified in the case for change, the following objectives have been developed to guide which solution should be preferred:

- Deliver efficient and cost effective ICT Infrastructure Services
- Increase the reliability and performance of infrastructure services
- Provide the business with a resilient ICT infrastructure service
- Increase agility and flexibility to respond to and deliver customer requirements
- Retain and improve the existing user experience and customer satisfaction levels

This Regional Detailed Business Case utilises a modified DBC approach as defined by Treasury's *Better Business Cases Guidance*. The expectation is that the business case will be submitted to the Councils' Chief Executives' Forum. The Treasury's *Better Business Cases Guidance* remains applicable and forms the basis for the scope of the analysis in this document. The Treasury's DBC is structured around five cases:

Strategic Case: Confirm the strategic context for the investment and make a robust case for change – i.e. for a single regional strategic partner to deliver ICT infrastructure services.

Economic Case: Develop a preferred way forward based on a detailed assessment of the short listed options which covers:

- Economic assessment of the short-listed options
- Identification of intangible benefits and costs
- Description of key risks and areas of uncertainty
- Conclusions regarding the preferred option

Commercial Case: Describes the potential commercial deal: the procurement strategy, service requirements, risk allocation, payment mechanisms, and contractual and other issues

Financial Case: Describes the affordability and funding proposals for the preferred option

Management Case: Outlines the current project management arrangements including to manage project benefits and risks.

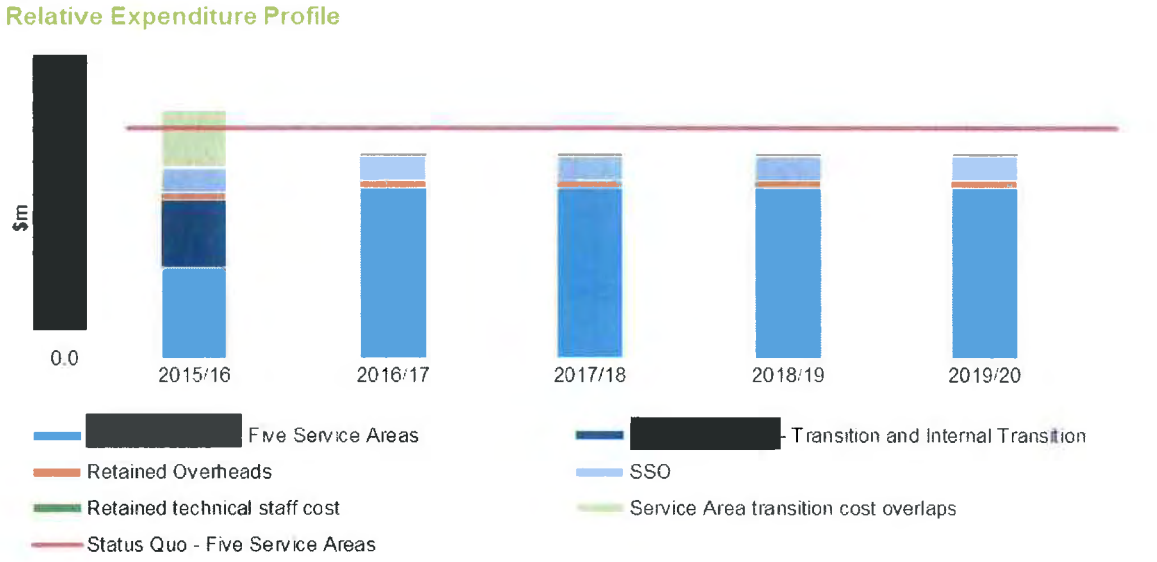
To inform this DBC the Councils approached the market in July 2014 with a Request for Proposal (RFP) released to a range of potential service providers ("the Service Providers") for the supply of standardised ICT infrastructure shared services ("the Shared Services option"). The RFP process has been used to inform the development and costing of the Shared Services option. Detailed analysis was undertaken to compare this option against a "Status Quo" comparator on both monetary and non-monetary basis.

Analysis of Options

The analysis confirms at a regional level that the Shared Services will be able to provide the participating Councils with increased and consistent ICT infrastructure scope and service level at a lower cost on an on-going basis.

The graph below shows the relative expenditure profile at a regional level as between a Status Quo comparator (capex and opex, including allocation of ICT infrastructure related overheads) and Shared Services Option [redacted] which uses the pricing submitted by the bidder with a lower cost profile across the five service towers - noting that this pricing is subject to change through detailed due diligence and commercial negotiation in future stages.

Figure 1: Relative Expenditure Profile

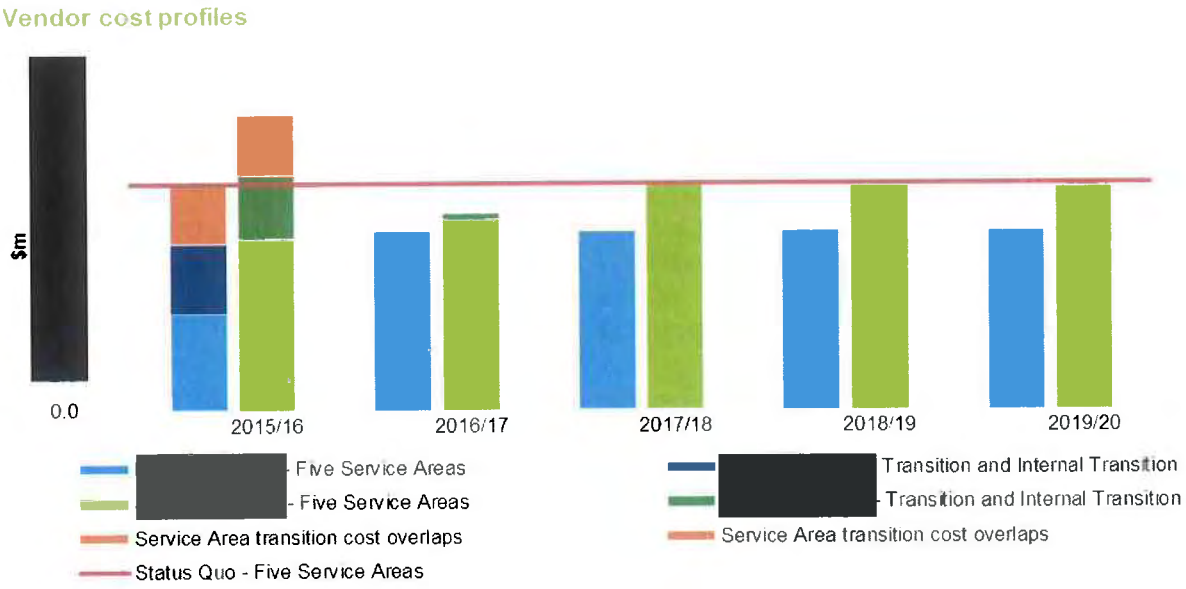


What this shows is that in a "stable" year, post the transition period, the Councils and Wellington Water can expect to save around $1.5 million per annum at an aggregate level. While there is an initial cost of investment to deliver the project, this one-off upfront investment is fully repaid within the first full year of stable operation (post transition period).

The chart below shows the contract pricing profiles for both shared service provider options over five years, as identified in this phase of the project through the RFP process, in comparison with Status Quo spend on five service areas. This chart excludes Council overhead costs. The Status Quo comparator spend profile is based on a stable aggregate usage profile which was agreed as between the Councils for the purpose of the DBC analysis. Note that a single year profile only was agreed due to the degree of uncertainty in assessing how aggregated demand might change over time.

This graph shows the difference in pricing between the two Service Provider proposals at this stage. The next stage of due diligence and commercial negotiation will focus on (amongst other things) improving the commercial terms offered by both parties. At this stage it looks more likely that the [redacted] will offer more favourable terms.

Figure 2: Vendor cost profiles



It is important to note that the Status Quo has been calculated to provide a comparator to the proposals received from the Service Providers. It has been necessary to make assumptions about future expected demand for services across the participating entities. Each of the entities are at different stages in their investment cycle across their ICT infrastructure needs and if the shared service model did not proceed each would necessarily make future decisions which would impact on demand profiles. In addition, even if the shared service model does proceed, each entity will be making decisions at the Applications layer which may also impact on demand for infrastructure services.

As noted above, the decision about how costs and benefits will be split and funded amongst participating Councils will be made separately to this business case. The decision sought from Councils and Wellington Water through this DBC is to enter the next phase of due diligence and commercial negotiation with both of the Service Providers with the objective of entering into detailed negotiations with a preferred Service Provider. The next phase of work has a forecast cost of $0.5 million.

Qualitative Benefits

In addition to financial gains, the Shared Services option delivers significantly more qualitative benefits to the Councils and Wellington Water, their staff, customers and rate payers relative to the Status Quo option. Qualitative benefits include:

- Increased resilience of Council / CCO services so that business disruptions are minimised
- More efficient IT procurement through a single point of contact to a single vendor
- Increased reliability and availability of services delivered to the community where these are supported by ICT infrastructure, e.g. water services
- Increased responsiveness to changing business needs for technology enabled services which supports economic growth and cost effectiveness
- Improved security and protection against cyber-attacks
- Enhanced inter-operability as between the Councils and including Wellington Water.

In addition, service levels and performance KPIs will be "locked in" to contracts with Service Providers, underpinning a greater degree of confidence in performance which over the longer term should lead to increased customer satisfaction with services delivered. Currently across the five entities there is significant variability as to certainty over service levels.

Overall the main benefit for the Councils is the improved resilience and increased interoperability gained between participating organisations that a shared network, communications and server/storage system provides. A common ICT infrastructure platform provides the necessary support for other shared services initiatives as Councils look to harmonise business applications and create a more consistent customer service experience across the Wellington region.

Commercial Procurement Approach

The procurement strategy employed to date has enabled the short-listing of two potential groups of Service Providers (effectively two Shared Service options). Evaluation of these two options has demonstrated the one of the options has proposed a significantly lower cost, while the non-price evaluation across the two options is more evenly spread. Retaining both options through the next phase of due diligence, through to receipt of Best and Final Offer ("BAFO") from each bidder is nonetheless recommended to retain both competitive tension and the option of selecting "best in breed" across each service tower.

Risks

Key risks at this stage in the project are:

- Commercial negotiations fail to prove up the expected benefits in terms of both cost savings and performance enhancements.
- The shared services organisation ("SSO") operating model is not sufficiently well developed in time to support effective commercial negotiations.
- Individual participating organisations back away from commitment to the shared service approach, undermining the collective benefits.
- Expected benefits are not realised over the long term.
- The project is adversely impacted by project or procurement activities (eg WCC's Project Odyssey) and this delays implementation
- A participating organisation pursues major ICT infrastructure investment cutting across the programme's scope.
- The transition to the Shared Service model is not well managed, including communications, business change and engagement with existing suppliers.

It should be noted that while related projects have the potential to impact on advancement of the ICT Infrastructure procurement, the most likely consequence is the need to adapt the nature of the commercial relationships between the Councils/entities – potentially by changing the mandate and operating model of the SSO.

The programme will follow good risk management practice and maintains and regularly reviews a comprehensive risk register.

Project Governance

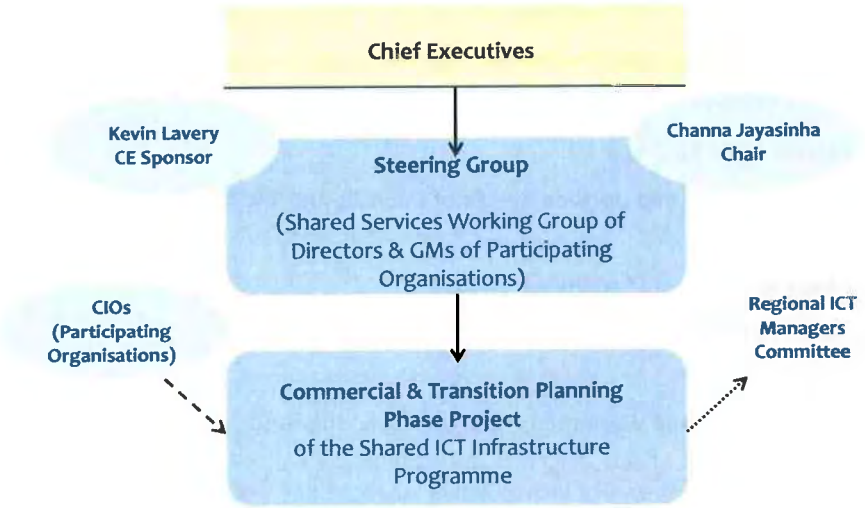
Working Group

The Working Group provides the key governance role between meetings of the Chief Executives. The key roles and people for the project are:

Role	Who
CE Sponsor	Kevin Lavery
Steering Group	Channa Jayasinha (Chair), Ian Johnston (UHCC), Roy Baker (PCC), Leigh-Anne Buxton (GW), Nicola Brown (WCC), Chris Mathews (Wellington Water)
Business Owner	Channa Jayasinha
Programme Manager	Peter Bloor

Project Structure

The project structure is illustrated in the diagram below:



From a project governance perspective it is proposed that:

- The existing Working Group be retained but that its role be elevated to a Steering Group which will take and review progress reports and provide direction to the project team and the SSO Establishment Manager.
- The structure and role of the SSO be agreed between the parties, based on the following principles:
  - Optimising efficiency of vendor management through, as far as possible, a single point of vendor interface.
  - A focus on the customer with the objective of meeting performance expectations.
  - Allocating risk to the party best able to manage it – as between the vendors, the customers and the SSO.
  - Minimising costs by providing capability in the SSO only where it genuinely adds value and by avoiding duplication of effort wherever possible.
  - Enabling addition of participants and value-add services.

- Effective liaison back into the Councils and Wellington Water so that they are kept informed as to progress on commercial discussions and can respond appropriately to emerging issues as they arise.

- Establishment of the SSO be progressed urgently so that it can support the next phase of activity – in particular so that a SSO Establishment Manager be appointed to guide commercial decisions.

Next Steps

During the next phase, the programme will focus on the key areas below. Appendix IX contains more detail.

- **Detailed due diligence and commercial discussions** with Service Providers – including in relation to pricing, scope and performance levels.
- The SSO operating model and functions, including interface with Council customers, commercial model and cost.
- Confirmation of scope of shared services in relation to specialist and legacy infrastructure.
- **Transition planning and service** provision detailed solutions to enable an efficient handover from existing vendors to new vendors.
- **Change management planning for the internal organisations and the SSO establishment.**
- **Review of costs and benefits at a regional level in DBC** supported with per-Council and Wellington Water costs analysis and assessment.
- Selection of preferred supplier (gate 3).
- Development of Implementation Case and decision by CEs of Councils and Wellington Water whether to proceed (gate 4).
- **Development of mechanisms to "on-board" additional entities.**

Decision

The Chief Executives of the four Councils and Wellington Water approved this business case on 27 February 2015 and agreed to enter the next phase of due diligence and commercial negotiation with both of the Service Providers with the objective of entering into detailed negotiations with a preferred Service Provider.

Next Decisions

The next decisions sought will be selection by the Working Group of a preferred Service Provider across each service tower, and commitment by Chief Executives to each entity to entering into final contract negotiations via the SSO.

2. Introduction

2.1. Purpose of the Project

This Detailed Business Case (DBC) considers the investment in shared regional Information and Communication Technology (ICT) infrastructure across four councils, based on maximising value for money with optimal commercial and governance arrangements. The participating councils are Greater Wellington Regional Council (GWRC), Upper Hutt City Council (UHCC), Porirua City Council (PCC), and Wellington City Council (WCC), or "Councils". Wellington Water Limited (Wellington Water), a Council Controlled Organisation (CCO), joined in this DBC part way through the process and hence is included in only certain parts of the analysis.

ICT is becoming an increasingly important platform to support delivery of the Councils' core functions. It is important that it operates as effectively and efficiently as possible with optimal value for money. In looking for innovative ways to improve the current state, six Councils in the Wellington region commissioned a feasibility study in October 2013 to investigate shared ICT services. The study was completed in December 2013 and identified two feasible options:

- Sharing ICT infrastructure, and
- Sharing of all ICT services to deliver some business processes together.

Subsequently, four Councils agreed to pursue a business case for the first option as the preferred option which would see the participating Councils sharing ICT infrastructure only[1].

On the basis of the five cases incorporated in the Treasury's *Better Business Cases Guidance* - strategic, economic, financial, commercial, and management, the purpose of this DBC is to:

- Confirm the need to invest and the case for change
- Identify the investment option that optimises value for money
- Report on the related procurement process and confirm post business case plan
- Plan the necessary funding and management arrangements for a successful shared service (including at a high level the form and functions of a Shared Services Organisation (SSO), and
- Inform a proposal to the Chief Executives to seek agreement to establish a shared services arrangement and complete the procurement process.

2.2. Scope

This Regional Detailed Business Case utilises a modified DBC approach as defined by Treasury's *Better Business Cases Guidance*. The expectation is that the business case will be submitted to the Councils' Chief Executives' Forum. The Treasury's *Better Business Cases Guidance* remains applicable and forms the basis for the scope of the analysis in this document.

[1] It is noted that some specialist and legacy areas will likely to be out of scope.

2.3. Approach

In July 2014 the Councils approached the market with an RFP for the supply of standardised ICT infrastructure services. The RFP process has been used to identify preferred Service Providers, their costs, solution, transition approach and ability to develop innovative ICT infrastructure services over time. The procurement strategy and service requirements are summarised in the Commercial Case.

The vendor responses to the RFP have been used to inform the development and costing of the Shared Services option. This is presented as a Shared Services cost range, from the lower cost potential supplier to the higher cost potential supplier. Detailed economic analysis was undertaken on this option and the Status Quo to confirm the recommended way forward (the Economic case). The Status Quo option is included to provide the baseline for determining the comparative marginal value for money added by progressing with either of the potential suppliers for the Shared Services option. Financial and Management cases were then prepared for the recommended Shared Services option only.

2.4. Decision Sought

The decision sought from Councils and Wellington Water through this DBC is to enter the next phase of due diligence and commercial negotiation with both of the Service Providers with the objective of entering into detailed negotiations with a preferred Service Provider.

3. Strategic Case

3.1. Strategic Context

To improve productivity, local government is finding more efficient ways to undertake functions and deliver services for ratepayers. This business case specifically focuses on the best approach for sharing ICT infrastructure across four councils in the Wellington Region, based on maximising value for money with optimal commercial and governance arrangements. The participating councils are Greater Wellington Regional Council (GWRC), Upper Hutt City Council (UHCC), Porirua City Council (PCC), and Wellington City Council (WCC), or "Councils". Wellington Water Limited (Wellington Water), a Council Controlled Organisation (CCO), joined in this DBC part way through the process and hence is included in only certain parts of the analysis.

ICT is becoming an increasingly important platform to support delivery of the Councils' core functions. It is therefore important that it operates as effectively and efficiently as possible and value for money maximised. For some Councils a lack of organisational scale limits efficient purchasing power, while for others a key problem limiting service improvements within available budgets is the need to work around bespoke systems and a dependence on key staff. A key risk is the inability across Councils to fully implement business continuity risk management strategies meaning there is vulnerability to severe and prolonged service outages.

At the same time advancements in technology mean that a gap is starting to open up between the capacity of existing ICT infrastructure to support modern service delivery and customer expectations. Some of the Councils continue to operate across a diverse non-standard range of legacy infrastructure assets, leaving insufficient headroom within budgets and resources to deliver much more than business as usual (BAU), restricting the ability to respond to emerging customer requirements. And as between the Councils there is still greater diversity making it difficult to offer customers integrated or consistent services across Councils in a cost effective manner.

In looking for innovative ways to deliver improved services while at the same time constraining projected future cost increases, the Councils commissioned a feasibility study in October 2013 to investigate shared ICT services. The study was completed in December 2013 and found two feasible options, namely shared ICT infrastructure across the region, and sharing of all ICT services[2] to deliver some business processes together. Subsequently, the Council agreed to pursue a business case for the preferred, narrower scope, option which would see the participating councils sharing ICT infrastructure.

This section of the business case sets out the need for change and the strategic case for an investment in shared ICT infrastructure across the Councils[3]. It outlines responses to the identified problems, and the parameters for changing the current ICT infrastructure service delivery that will help define the way forward.

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[2] This option would include common application platform and common business process, including potential outsourcing of some services, eg payroll.

[3] It is noted that some specialist and legacy areas will likely to be out of scope.

3.1.1. Overview of the Councils

Of the four Councils, three local Councils are responsible for the provision of diverse set of services for its community with some of the common services being licensing, the provision of facilities (eg. swimming pools, libraries), rubbish collection, rates calculation and collection, dog registration and cemetery management. GWRC is different from the three local authorities and provides environmental functions, flood protection, bulk water, regional parks, biosecurity and public transport for the Wellington region. Some of the common services provided by all four Councils are consent management and civil defence. Supporting these frontline services is a set of back-office functions such as human resources, payroll, finance, records management and ICT.

Some of the key outcomes shared as objectives by the Councils include: contributing towards a strong innovative and competitive local economy; developing a stronger sense of place; getting better connected (communications and transport); and enhancing the quality of lifestyle.

As at June 2014 the Councils collectively employ a combined 2,029 full-time equivalent staff (FTEs). They have a combined annual operating expenditure of $759 million[4] and own and manage various assets including buildings, parks, leisure assets, transport, storm and waste water, Additionally, GWRC also owns railway and bulk water supply assets.

The ICT teams at the Councils employ a combined 136.5 FTEs, and have a combined annual expenditure on ICT of $38.5 million[5]. The Councils have a relatively higher level of alignment at the core infrastructure layer compared to business applications.

3.1.2. Alignment to existing strategies

In considering the preferred way forward for the Councils, it is necessary that due consideration is given to wider national, regional, sector and organisational strategies and initiatives.

Given the commonality of desired outcomes, the Councils share a growing awareness of the benefits of collaboration. Standardising the experience for customers enables greater responsiveness to emerging community objectives. Furthermore, enhanced collaboration across ICT infrastructure will support increased collaboration in the broader sphere in the future.

The Councils share similar strategic drivers for ICT services, which can be summarised as providing value for money services that are quality, resilient and integrated; making life easier for both the Councils' customers (e.g. improve channel access and self-service); and employees (e.g. increasingly supporting workforce mobility).

3.1.3. Market maturity

The use of shared services is becoming increasingly common in both the public and private sector. The investment proposal aligns to a number of other central government shared service initiatives that are underway. For example, in the Bay of Plenty region a shared service for ICT services has recently been established and central government has gone to market with a range of whole of government contract arrangements.

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[4] Year ending 30 June 2014

[5] Year ending 30 June 2013, Opex and Capex, as per Request for Quote - ICT Shared Service Feasibility Study, July 2013

Examples of successful local government shared services in the Wellington region include the regional GIS mapping[6], Wellington Region Emergency Management Office (WREMO) for civil defence, and Wellington Water for water management. Other health sector shared service organisations include the Health Alliance and Central Region's Technical Advisory Services (TAS).

The number and calibre of providers capable of delivering ICT shared services in New Zealand has reached a level of maturity that the market is now sustainable and offers good levels of competition. Working with and leveraging the skills, knowledge and resources of private sector partners will create further benefits for the Councils and rate payers.

3.2. Investment Objectives, Existing Arrangements and Business Needs

3.2.1. Investment Objectives

A series of workshops were held with key stakeholders to identify the investment objectives and gain better understanding of the scope of the problem and needs for the Councils' ICT infrastructure service delivery. The resulting Investment Logic Map (ILM) is shown in Appendix I.

The following objectives have been developed to guide which solution should be preferred:

- Deliver efficient and cost effective ICT Infrastructure Services
- Increase the reliability and performance of infrastructure services
- Provide the business with a resilient ICT infrastructure service
- Increase agility and flexibility to respond to and deliver customer requirements
- Retain and improve the existing user experience and customer satisfaction levels

3.2.2. Existing Arrangements and Business Needs

Deliver efficient and cost effective ICT Infrastructure Services

Existing Arrangements: Problems

Within all of the Councils, as fiscal constraints continue to be considerable, there is pressure to improve value for money across the business in general and ICT related specifically, even if this requires investment in the short term. Currently the scale and size of the individual Councils means that by themselves purchasing power is not optimised. This also limits the affordability of some services such as adequate disaster recovery solutions.

Additionally, some Councils have a complex set of non-standard platforms, while others have made progress towards greater integration within individual Councils, but there is limited standardisation between Councils. Consequently the Councils have to collectively manage a large number of vendors reducing the cost effectiveness and efficiency of service delivery.

[6] Syndicated software provision and support.

Business Needs

Organisational scale is needed to increase purchasing efficiencies and improve value for money. Services that currently cannot be offered by some Councils due to scale (e.g. Upper Hutt has no architects due to small scale) would be more attainable.

Infrastructure standardisation and consolidation are needed to provide a more efficient and cost effective service delivery. For example, server standardisation and consolidation would reduce capital expenditure due to optimised server/storage utilisation and collectively reduce the number of resources needed to manage service demands across the Councils. Consolidating the number of vendors or outsourcing the management of them would also increase efficiency.

Increase the reliability and performance of infrastructure services

Problems

The network, servers and databases are operationally complex. The current level of services is not universally reliable as finding the cause of problems can be difficult, amplifying the resolution time from system failure to normal service restoration. In addition, due to the lack of IT specialists in the market, and small organisational scale of some Councils, there is a challenge in retaining and recruiting experienced and skilled IT staff.

Business Needs

The Councils will benefit from a standardised and consolidated ICT infrastructure locally and regionally. More efficient infrastructure will free up capacity which can then be spent on new business initiatives. Simplified ICT infrastructure will also be less prone to prolonged failure.

Performance could be further improved if the Councils had more access to new technologies and institutionalisation of best practice processes. This in turns attracts IT talents and under a shared services arrangement, fewer specialists would be required collectively.

Provide the business with a resilient ICT infrastructure service

Problems

There is an increasing reliance on technology to deliver core services, which in turn intensifies pressure for technology to be resilient and available 24/7. In the current state, effort has been spent on business continuity and disaster recovery, however individual Councils are at different implementation phases and for some, the system is insufficiently ready due to affordability. Combined with a reliance on key staff in some Councils, this means there is vulnerability to severe outages. Additionally, the complexity of systems means that identifying the cause of problems is costly and restoration to normal service is slow.

Business Needs

The Councils require economies of scale to improve the resilience of current ICT infrastructure services. This will ensure the full implementation of Disaster Recovery solution for all Councils, and critical services such as premises for IT staff relocation being made available in all scenario events.

The reliance on key staff can be minimised by reducing levels of customisation as well as providing a primary method of remote access and multiple secondary methods in case the primary method fails.

Providing one point of contact for problems/ outages will also increase the level of service and restoration to normal.

Increase agility and flexibility to respond to and deliver customer requirements

Problems

External customers' expectations of the public sector service delivery are being influenced by new technologies and by the changing private sector service delivery standards. Consumers are becoming increasingly mobile, expecting anytime, anywhere access to services. As a consequence, there is pressure on some Councils to provide more online and self-service choices for customers as well as providing 24/7 access to services.

New communication channels are also becoming important, with customers increasingly desiring interaction via multiple channels, not just voice and email. This is increasing the expectations of how the customers are able to connect with the Councils.

The expectations of internal ICT customers is also increasing, with staff demanding more mobile technology, and remote capability to increase the flexibility and effectiveness of how they work.

Currently some Councils have insufficient agility and flexibility to respond to customer needs on a timely basis due to having either small IT teams or high level of effort required to maintain legacy systems. The limited capacity restricts them from proactively responding to these demands and therefore the uptake and roll out of technology is slow. As a result, the gap between the ICT service offering and the requirements of ICT customers is widening.

Business Needs

The Councils need more flexibility to engage with the business and respond to and deliver customer requirements. The operational involvement by internal staff could be reduced by standardising and consolidating the ICT infrastructure and reducing the number of vendors to manage.

Reduced ongoing capital investment in ICT would provide more fund availability to put towards strategic investments. Divesting of the Council's existing ICT infrastructure (servers and network equipment) to a shared service entity would enable this.

The agility to roll out new technology can also be enhanced by increasing organisational scale, thereby increasing affordability and also by using the skills and knowledge of an outsourced facilitator enabling faster and more informed decision making.

In addition to the Councils working together to increase their agility and flexibility in ICT, this strategy is in line with making a broader approach possible in the future such as sharing applications.

Retain and improve the existing user experience and customer satisfaction levels

Problems

Currently ICT customers are generally content with the day-to-day service received, acknowledging the limitation of the existing system. However expectations of both internal and external customers for a wider breadth of services across more platforms for minimal cost are rising due to increased public and business engagement with technology. The ICT teams are tasked with supporting the full technology stack

from infrastructure and networks through to desktops and applications leaving little capacity and budget for 'discretionary' skills. This limits the Councils' ability to keep up with customer needs on a timely basis.

Business Needs

Improving the maturity of the Service Desk and Service Level Management should provide a seamless experience for users and ensure incidents and requests are resolved promptly. Outsourcing is expected to provide access to more mature Service Integration functions and provide better access to service improvement innovation and tools. If ICT infrastructure was standardised and consolidated, less resource would be required to maintain BAU, providing capacity to focus on discretionary/strategic initiatives to meet customer needs.

3.3. Potential Business Scope and Key Service Requirements

The current state of the ICT infrastructure does not meet the investment objectives agreed for the project. The ILM was used to help define the key service requirements that will be used to provide quantifiable evidence that the previously stated investment objectives are met and the shared ICT infrastructure project is an overall success. The key service requirements were identified as follows, including an outline of the degree or scale of change that would qualify each key service requirement, and hence this provides some indication of the required scope of the proposal to invest in the ICT infrastructure to achieve the investment objectives:

Operational effectiveness

Increased standardisation and consolidation of ICT infrastructure and support functions would result in more efficiency gains and potential cost savings. Freed up capacity can then be used to improve the business and invest in new technology to lift overall operational effectiveness.

Enabling our customers

In addition to providing a flexible model allowing each Council to buy into and exit agreements based on evolving needs, however limited capacity restricts them from responding to demands effectively, the full scope provide more agility, enabling a faster response to emerging needs through combining the Council and SSO resources. This enables the most coherent approach with strategic investments becoming more affordable from more collaboration:

- Through the SSO, Councils collaborate and design a coherent roadmap based on the shared environment
- Freed up capacity is invested in new technology
- Councils independently decide where to invest, and retain authority over infrastructure decisions for specialist and legacy infrastructure, moving these to use shared ICT infrastructure services as the opportunities arise
- Outside the scope of the shared ICT infrastructure services, eg business applications, Councils collaborate and may use joint investment mechanism to invest in new systems and they may share resources as necessary to respond to emerging needs.

Reducing risk

Greater standardisation of the ICT infrastructure will reduce risk of failure due to decreased system complexity and full provision of disaster recovery, supported by a common operating environment and shared network, allowing relocation to other Council sites.

In general, larger scale of change would bring about more relative merits across the service requirements. Appendix 10 outlines potential reduced scope for these.

3.4. Main Benefits

Improving the Councils' ICT infrastructure service delivery though meeting the investment objectives set out above will generate potential benefits directly to the Councils and to their internal and external customers such as improved value for money due to more services at a better quality and potential overall cost savings, increased resilience with lower risk of failure service provision, and more responsiveness to meet changing business and customer needs. Wider benefits also accrue to the public through the regional improved value of rate payers' money and to the ICT market through fewer contracts and more streamlined procurement processes.

Key benefits have been identified by the stakeholders through a facilitated workshop on 2 July 2014. Benefits that can be expressed in monetary terms are outlined in Table 1 below. The extent to which each benefit will be realised will depend on the scope of the proposal (minimum, intermediate, and maximum) that is adopted. Refer to the Economic Case for a more detailed discussion of these benefits.

Table 1: Analysis of potential benefits that can be expressed in monetary terms

Main Benefits	Who Benefits?	Direct/ Indirect	Description
Operational cost saving	Councils	Direct	Regional operational cost saving can be expected from the increased purchasing power through scale, less complex and rationalised infrastructure requiring less effort to maintain, and more efficient vendor and procurement management processes. Improved value for money benefits rate payers indirectly with more services with the same value. Less predominant is some indirect benefits to the suppliers with increased value over the end-to-end supply chain.
	Rate payers	Indirect	
Capital expenditure saving	Councils	Direct	Through the divestment of assets to the Service Providers the Councils' direct capital spend on ICT infrastructure services is expected to significantly decrease. Service Providers will factor in the price of any future capital investment required to deliver the infrastructure services to the Councils including any saving gained from maximising infrastructure utilisation through consolidation and standardisation across the Councils. Improved value for money benefits rate payers indirectly.
	Rate payers	Indirect	

Some benefits that cannot be reliably quantified in monetary values are described below. These benefits may be direct or indirect, tangible or intangible, and may accrue directly to the Councils, their customers and the ICT market more broadly.

Table 2: Analysis of potential benefits that cannot be reliably expressed in monetary terms

Main Benefits	Who Benefits?	Direct/ Indirect	Tangible/ Intangible	Description
Increased resilience of Council service provision	Councils and external customers	Direct	Tangible	The increased purchasing efficiencies will allow the full implementation of business continuity and disaster recovery solution for all Councils, and critical services such as premises for IT staff relocation in the event of emergency. Simpler ICT infrastructure through standardisation will be less prone to failure for some Councils. Providing one point of contact for problems/ outages will also increase the level of service and restoration to normal.
Increased customer satisfaction with services delivered	Councils' reputation, staff in work environment, and external customers	Indirect	Tangible	The Service Providers are more mature in delivering service management and are measured on meeting defined Service Level Agreements (SLAs) which will be better than existing levels. This will improve the experience for and productivity of business users due to faster resolution of incidents. Due to increased scale, a higher level of support can be provided to business services which have longer business hours such as libraries and recreation centres. Freed up Councils' capacity can be used to respond to changing customer needs, improving the quality and broadening the range of services delivered leading to increased customer satisfaction.
Increased responsiveness to changing business needs for technology enabled services	Councils and external customers	Indirect	Tangible	Freed up Councils' capacity can be used to respond to changing customer needs and pick up new business initiatives such as self-service, remote access and mobility. The lead time for innovation and new technology will decrease as the Councils will have direct access to out-source providers for strategic advice and fast implementation. It is expected to see a number of initiatives implemented across infrastructure services that deliver cost or performance improvement.
Increased quality of infrastructure dependent services	Councils' reputation and staff in work environment	Direct	Tangible	With increased purchasing efficiencies it is expected that the Councils will be able to afford modern services (eg. networks, equipment replaced more frequently) and increase project spend to lift service levels. Such improved value for money benefits rate payers indirectly. Integrated services across Councils as a result of shared services arrangement will enable a relatively smooth transition to amalgamation should that happen in the future.
	Ratepayers and other external customers	Indirect		

Main Benefits	Who Benefits?	Direct/ Indirect	Tangible/ Intangible	Description
Increased staff skills	Councils ICT employees	Indirect	Intangible	ICT staff will have the opportunities to broaden skills through non-BAU projects in response to changing customer and business needs.
More effective procurement process	Councils' management team	Direct	Tangible	The Councils will benefit from a combined time saving having very few contracts and suppliers to manage from having a large number of suppliers for some Councils currently. The SSO will take on the contract management role on behalf of the participating Councils which increase further the cost and time efficiency.
	Suppliers	Direct	Intangible	Reduces the effort of suppliers on contract and client relationship management from multiple small contracts and differing services between the Councils. Existing sub-contracting arrangements can be used by smaller suppliers rather than effort to maintain direct contracts with the Councils.

3.5. Main Risks

The project faces a variety of threats and risks that may either improve or undermine the achievement of benefits. The risks that might create, enhance, prevent, degrade, accelerate or delay the achievement of the investment objectives have been identified and classified as Low, Moderate, Higher or Critical based on the likelihood of happening and the magnitude of potential consequences. The result of risk assessment was documented in the risk register. A summary of High risk items with mitigation plans are presented in section 3.4 of the Economic Case. Refer to Appendix II which has been taken from the project risk log for the full risk register.

3.6. Conclusion

As ICT is becoming increasingly important to the Councils' core functions, it is important that it operates as effectively and efficiently as possible. The benefits described above are tangible and significant. The current state is risk prone and not responsive to the growing business and customer needs. For some Councils this is the result of the lack of organisational scale, and for some others it is due to the need to work around complex and legacy systems and dependence on key staff. Combined with rising expectations of customers for more flexible and wider breath of services across more platforms, it is necessary for the Councils to investigate ways to improve the current Councils' ICT service delivery to maximise value for money. In the current state, the lack of organisation scale of the Councils means that addressing some of these problems individually is not possible due to limited budgets.

4. Economic Case

The purpose of the Economic Case is to describe the short-listed options and undertake a detailed analysis of the costs, benefits and risks of each option. The intention is to demonstrate the relative value of money provided by the Shared Services options compared against the Status Quo in delivering the required services. This analysis includes:

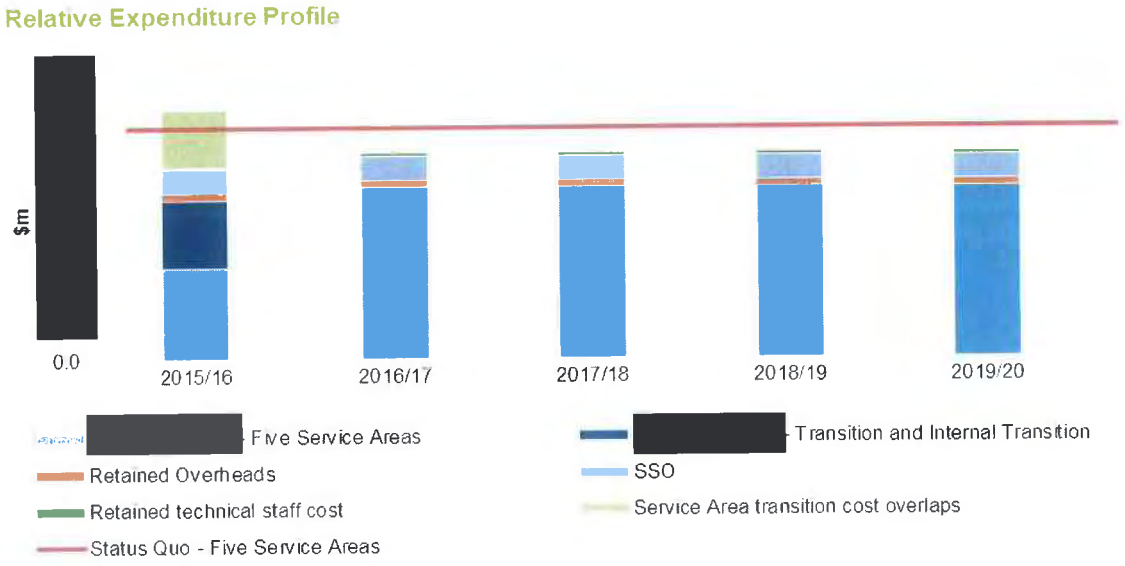
- Quantitative cost-benefit analysis of the short-listed options.
- Assessment of any qualitative benefits and costs, and
- Assessment of risk and uncertainty at this stage in the project.

In summary, the lower cost Shared Services option will generate $24.18 million in savings over the evaluation period. This more than offsets the $8.3 million net increase in total overhead costs and the $3.19 million initial net investment, leading to a $12.69 million marginal benefit over the evaluation period. This represents a $7.98 million saving when considered in PV terms.

Under the lower cost Shared Service option, total overheads including the SSO are $8.30 million greater than the Status Quo. If the Shared Services total overheads including SSO are not any higher than the current overheads under the Status Quo, the potential saving would increase from $12.69 million to $20.98 million. In PV terms the saving under this scenario is $13.55 million.

The graph below shows the relative expenditure profile at a regional level as between a Status Quo comparator (capex and opex, including allocation of ICT infrastructure related overheads) and Shared Services Option [redacted] which uses the pricing submitted by the bidder with a lower cost profile across the five service towers - noting that this pricing is subject to change through detailed due diligence and commercial negotiation in future stages.

Figure 3: Relative Expenditure Profile



What this shows is that in a "stable" year, post the transition period, the Councils and Wellington Water can expect to save around $1.5 million per annum at an aggregate level (including marginal overheads and SSO running costs). While there is an initial cost of investment to deliver the project, this one-off upfront investment is fully repaid within the first full year of stable operation (post transition period).

4.1. Short-Listed Options

4.1.1. Overview

The participating Councils considered in this business case are:

- Greater Wellington Regional Council (GWRC)
- Upper Hutt City Council (UHCC)
- Porirua City Council (PCC)
- Wellington City Council (WCC)

Wellington Water Limited (Wellington Water), a CCO owned by four Councils providing waters network management services, decided to participate in the business case part way through the process after the detailed costing exercise. Therefore, the inclusion of Wellington Water in is discussed separately in section 3.2.3.

The ICT infrastructure services scope being considered in this business case covers a number of critical areas below. Certain types of specialist and residual legacy infrastructure services were taken out of scope prior to market testing. The description below is not exclusive – it is possible in the next phase of detailed discussions with Service Providers that additional services could be added in, or conversely that the scope could be narrowed to exclude some additional specialist services. In broad terms, however, the following are expected to remain in scope:

- **Service** Integration – ensuring a seamless service is delivered to the end users through rigorous coordination and automation of processes across the service provider(s) including Service/Help Desk Level 1 support, Asset and Configuration Management, Incident management, Change and Deployment Management
- ICT Infrastructure Management – server and database provision and management, Disaster Recovery (DR) provision and management
- Desktop Services – provision and management of laptop/desktop and peripheral devices and the Standard Desktop Environment and Remote Access Services
- Network Services – including provision and management of Wide Area and Local Area Networks and support of existing Fixed Voice Telephony, including management of integration of Specialist Devices onto the network e.g. Telemetry
- Mobile Services – provision and management of mobile devices and networks as well as voice radio devices and networks

4.1.2. Option 1: Status Quo Comparator

The Status Quo option provides a baseline for estimating the comparative marginal value for money added by the alternative options. This option assumes that the Councils will continue their ICT infrastructure operation separately as per existing arrangements. Currently all five service areas outlined above are being delivered by the Councils through a combination of out-sourcing and in-house capabilities. Each Council employs a different strategy.

4.1.3. Option 2: Outsourced via a Shared Services Arrangement (two alternative Service Providers under consideration)

Option 2 will see the Councils enter a regional shared ICT infrastructure services arrangement with the services in scope being outsourced, including the Service Integrator role. It is envisaged that a Shared Services Organisation (SSO) will manage the contracts on a day to day basis on behalf of the participating Councils. The service delivery model of the ICT infrastructure services is discussed in the Commercial Case.

4.2. Economic Assessment of the Short-Listed Options

4.2.1. Assumptions

For the purposes of the cost benefit analysis the following assumptions have been made. Please refer to Appendix III for the detailed assumptions.

Assessment period

The start date for evaluation purposes is 1 July 2014. The 10-year evaluation period for the project is from 1 July 2014 to 30 June 2024 (modelling period). Costs and benefits are assessed over this duration to cover an initial five-year contract with the Service Provider, with an implicit assumption that this will be renewed to continue out to ten years.

Discount and inflation assumptions

The Public Sector Real Discount Rate specified by the Treasury for projects of this type is 8% per annum. All costs and benefits are expressed in today's dollar (Real) terms. The present value is calculated as at 1 January 2015.

Estimated costs

Consideration of the residual Net Book Value of existing assets is found in the Financial Case.

The Status Quo assumes that the participating Councils will continue their ICT infrastructure operation separately as per existing arrangements and act as their own service integrator on behalf of their own Councils. Any service integration across Councils is assumed to be on a case by case "ad hoc" basis. The Status Quo costs are developed by normalising 2013/14 actual operating expenses (eg. salaries and current contracts) for any unusual costs, estimating replacement (renewal) cost of existing assets, and taking into account planned future investment without Shared Services. The latter includes, for example, WCC replacing its current PBX system and PCC implementing a Disaster Recovery solution. Besides the cost of providing five service areas, modelling has taken into account overheads costs including strategy and management functions.

After the Business Case and before the contract starts, the Councils and Service Providers will enter commercial negotiation and due diligence. Programme costs incurred by the Councils during this period include internal (eg. programme manager, co-ordinator, business analyst) as well as external resources (eg. procurement, legal and commercial support). This may change the service pricing used in this DBC.

Under the Shared Services option, the Councils will go through a process of standardisation and consolidation of ICT infrastructure during transition to the Service Providers and subsequently during on-going delivery of service.

The contract costs under Shared Services option are based on the Service Providers' pricing responses. This includes the cost of transition and cost of providing the five service areas once transition is completed. The transition period varies for specific components within each service areas and across service areas but all begins from the start of the contract. On-going cost for the Councils will be largely related to the operation of the SSO, and internal retained overhead costs. Service Providers will be making whatever capital investment is required while there will be asset divestment from the Councils to Service Providers where appropriate.

In order to support the transition, the Councils will incur transition costs over and above those incurred by vendors which will include project management and support, business change management, as well as decommissioning current assets.

To ensure a smooth transition of services, Councils' existing contracts will end, be terminated, or novated as the Service Providers start to take over the service provision. The current contract costs under transition have been conservatively estimated for this analysis. Detailed costing implications will be determined as part of the next phase of due diligence, should this business case be approved.

The establishment of the SSO will take place before the contract start. For the purpose of modelling, it has been assumed that the SSO will take the form of a CCO, and be established over a six month period. Functional and structural options for the SSO are discussed in the Management Case.

Under the Shared Services option, some of current overheads and strategy and management functions can be saved as certain roles currently being undertaken in house will be provided by the SSO. Please refer to Appendix IV for detailed discussion of the comparison of overheads and SSO costs between two options. Further work is required to determine the exact operating model of the SSO, including commercial arrangements with the Councils.

Ideally the cost of operating a new SSO should be funded from cost savings across the Councils where the SSO is assuming the role (at least in part) of existing Council staff. It may be that this will take time to work through since SSO roles will be quite infrastructure specialised while existing IT staff often perform roles with a wider job description. Currently, it is conservatively estimated that the Shared Services option could incur more management overhead cost including SSO than the Status Quo – in other words that the cost of the SSO is not recovered through savings in equivalent roles across the Councils. A sensitivity test showing the same overheads cost between two options was undertaken and presented in section 3.2.4. This area will be further refined in the next phase as the operating model for the SSO is further developed.

Taxation

All dollar figures are expressed in GST exclusive terms.

4.2.2. Estimating monetary benefits

Table below presents the Whole of Life Costs (WOLC) for two options for the 10 year modelling period. The Shared Services Range represents the cost range across the two short-listed Service Providers. Hence the lower end of the range is the lower price bid. Note that these remain subject to further discussion and negotiation during the next phases.

Note that the two short-listed Service Providers have proposed different transition periods and this drives certain internal costs during the transition period.

The commentary below describes the comparison between the Shared Services approach and the Status Quo using the cheaper price as the starting point for evaluating the Shared Services option.

Further work in the next phase will refine pricing. The project team are confident that further improvements can be made to the commercial terms to improve the economic and financial case for entering into a Shared Services contract.

Whole of Life Costs and Benefits

Table 3: Whole of Life Costs by Option

$million (Real)	Shared Services Range	Status Quo
Pre-contract		
Programme cost	0.54	N/A
SSO establishment	0.38	N/A
Transition period		
Asset sale income	[redacted]	N/A
Vendor cost for transition	[redacted]	N/A
Non-vendor cost for transition	[redacted]	N/A
Total net investment	**3.19 - 4.30**	**N/A**
Provision of five service areas		
Service Integration	[redacted]	8.98
ICT Infrastructure Management	[redacted]	28.91
Desktop Services	[redacted]	35.75
Network Services	[redacted]	35.80
Mobile Services	[redacted]	12.03
Contract cost	[redacted]	**121.47**
Existing contracts for Service Areas during transition	[redacted]	Included above
Retained technical staff costs	[redacted]	Included above
Total cost of five service areas provision	**97.29 - 122.14**	**121.47**
Council ICT management overheads (ICT infrastructure related only)	4.15	9.36
SSO running costs	13.51	Nil
Total cost of ICT infrastructure services	**114.94 - 139.80**	**130.82**
Total cost over the evaluation period	**118.14 - 144.10**	**130.82**
Net Saving / Cost over the evaluation period	**12.68 – (13.92)**	

The five service areas cost $121.47 million to be provided under the Status Quo model compared against $97.29 million under the Shared Services, a saving of $24.18 million. However, while there are some savings of overheads and strategy and management functions under the Shared Services model, under current assumptions they are partially offset by estimated SSO running costs of $13.51 million. The net increase in total overhead cost is approximately $8.3 million over 10 years. Without taking into account the net initial investment, the potential total savings over 10 year period remains around $15.88 million. With the initial investment of $3.19 the potential total savings is $12.68 million.

Present Value Costs and Benefits

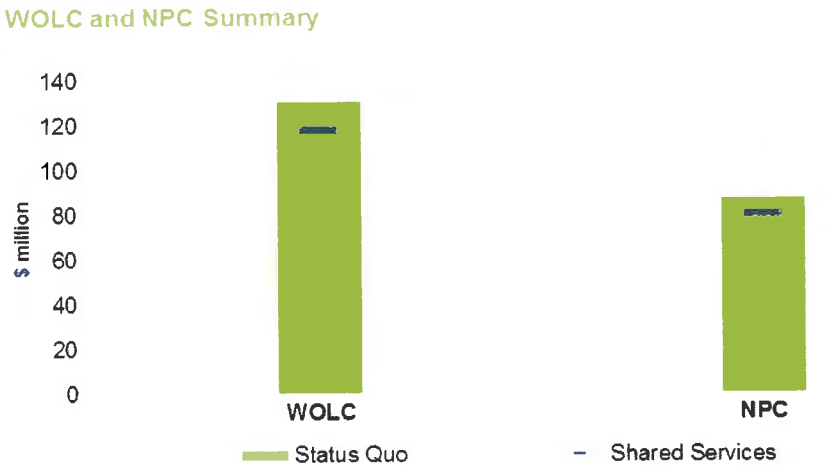
The table below sets out the equivalent present value (PV) costs and benefits under both options. The PV provides a useful basis for comparing the options as it expresses all dollar amounts that are expected in the future in terms of their current (today's) value discounted at Treasury's prescribed standard discount rate.

Table 4: Present Value of the Detailed Benefits and Costs by option

$million	Shared Services Range	Status Quo
Pre-contract		
PV of Programme cost	0.53	N/A
PV of SSO establishment	0.38	N/A
Transition period		
PV of Asset sale income	[redacted]	N/A
PV of Vendor cost for transition	[redacted]	N/A
PV of Non-vendor cost for transition	[redacted]	N/A
Total net investment	**3.01 - 3.95**	**N/A**
BAU period		
Service Integration	[redacted]	6.02
ICT Infrastructure Management	[redacted]	19.40
Desktop Services	[redacted]	23.99
Network Services	[redacted]	24.02
Mobile Services	[redacted]	8.07
PV of Contract cost	[redacted]	**81.50**
PV of Service Area transition cost overlaps	[redacted]	Included above
PV of Retained technical staff costs	[redacted]	Included above
PV of Total cost of five service areas provision	**64.95 - 82.14**	**81.50**
PV of Retained overheads	2.78	6.28
PV of SSO running costs	9.06	Nil
PV of Total cost of ICT infrastructure services	**76.79 - 93.98**	**87.78**
PV of Total cost over the evaluation period	**79.80 - 97.93**	**87.78**
Net Saving / Cost over the evaluation period	**7.98 – (10.15)**	

Without taking into account the net initial investment, the NPC over the 10 year period is $76.79 million, a $10.99 million saving compared to the Status Quo. The saving reduces to $7.98 million when the net initial investment is taken into account, increasing the NPC to $79.80 million. The figure below shows the Status Quo total costs relative to the Shared Services.

Figure 4: WOLC and NPC summary by option



The table below summarises the marginal cost and benefits proposed under the Shared Services option. Considering the Shared Services option in PV terms, a $3.01 million net initial investment will generate a $16.56 million saving for providing the five service areas and a $3.50 million saving in overheads and SSO costs. These benefits are almost halved after considering the $9.06 million of SSO running costs, resulting in a $10.99 million marginal benefit under the Shared Services option compared against the Status Quo. After the initial net investment is considered, the marginal benefit reduces by a further $3.01 million leading to an overall marginal benefit of $7.98 million under the Shared Services option.

Table 5: Summary of Marginal Cost and Benefits proposed under the Shared Services option

$million	WOLC	PV
Total net investment	3.19	3.01
Marginal cost of five service areas provision of Status Quo	(24.18)	(16.56)
savings in overheads and SSO costs	(5.21)	(3.50)
SSO running costs	13.51	9.06
Marginal cost of ICT infrastructure services of Status Quo	(15.88)	(10.99)
Total net marginal (saving)	(12.69)	(7.98)

It is important to understand the relative scope and service levels these options will provide the Councils. Currently five service areas are being provided to the Councils through both out-sourcing and in-house capabilities. The split between two methods varies across Councils such as UHCC outsources most of the services while PCC relies heavily on the internal provision. Moving to a shared service model will see the Councils outsourcing all of the above five service areas under standardised contract(s) and pricing. This will require the Service Providers to standardise and consolidate the existing infrastructure across the Councils.

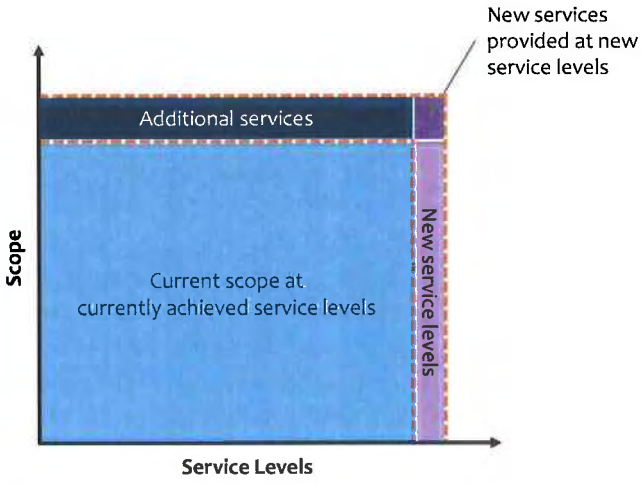
It also means that the Councils will experience a change in service levels from the different starting points to the same proposed service levels specified in the RFP. There will be an uplift in service levels as current levels at the Councils are below the proposed with limited tracking and reporting of what they actually are. The same applies for the scope of the services. The service requirements specified in the RFP are more than the current infrastructure services being delivered at the Councils.

An additional benefit is that these service levels will be described in contract and hence locked in rather than notional expectations as is the case in some areas.

Enhanced Scope of Services

The figure below illustrates how the Councils will receive a wider scope of services at an overall higher service levels through the outsourcing arrangement. The additional scope and service levels can differ by service areas.

Figure 5: Current versus Proposed Scope and Service Levels



Service Integration

The Shared Service Integration capability will provide a single point of contact for all users across Councils and will target resolution of 75% of incidents at the first point of contact. This will be aided by developing clear ITIL (Information Technology Infrastructure Library) aligned processes between service integrator and specialist support providers, all of whom will be managed by the selected service provider. Overall this represents increases in service scope across all the major ICT support activities and should lift average service levels across the Councils. The Councils will additionally benefit from more proactive monitoring and improved reporting facilitated by the more mature tools used by Service Providers including access to Event Management dashboards that provide a clear picture of service level trends.

ICT Infrastructure Management

Shared service ICT Infrastructure Management will ensure that all the participating Councils have consistent levels of disaster recovery and information security in place. While some of the Councils already have high maturity ICT infrastructure in place, the wider region will benefit from all Councils having consistently high standards of server and facilities management in place.

Desktop

The most important shared advantages to the Councils from a managed desktop service will be in increased desktop virtualisation and improved remote access capability. These improvements on the current scope of desktop management will enable council employees to be more mobile within the office and out in the field. It will also provide improved fail-over capability in a disaster or outage scenario allowing Councils to recover faster and provide critical services when and where they are needed most.

Network

Consolidation of network services across the participating Councils means shared access to high availability networks and increased inter-operability between Councils. This inter-operability includes linked video conference facilities across the Councils and the ability to hot desk employees at any of the network access points (council offices). The network will also be updated and maintained to ensure modern network infrastructure provides a more resilient and compatible network to meet future requirements.

Mobile

Shared service offerings for Mobile represent a significant uplift in capability for all the Councils. Implementation of central mobile device management will enable improved secure access to data from mobile devices as well as providing a remote management capability enabling the Councils to push notifications and updates out to all registered devices – very useful in a disaster scenario. This will likely include enabling employees to "Bring Your Own Device". Additionally the Councils will benefit from combined group calling plans across and between Councils.

In addition to the enhanced scope, the Councils will also benefit from a combined time saving, having very few contracts and suppliers to manage from having a large number of suppliers for some Councils currently. Under the status quo, WCC has 60 ICT infrastructure contracts including multiple contracts with a single service provider of which all cannot be effectively managed. A smaller number of contracts will allow more rigorous account and contract management. If set up, the SSO will take on the contract management role on behalf of the participating Councils which can further the cost and time efficiency. This will enable the Councils to move from working together to solve specific problems to meeting opportunity and determining a regional response. The financial modelling assumes the SSO will be managing such contracts on behalf of the participating organisations. These benefits have been quantified by a reduction in the contract management portion of current overheads under the Shared Services, notwithstanding the net increase in overheads overall.

In summary, the Shared Services option on the PV analysis is more expensive at the higher cost Service Provider but cheaper at the lower cost Service Provider. In addition to delivering more services at improved and consistent service levels, as a result of the shared services arrangement, the participating Councils will also be on a common ICT infrastructure platform which enables a range of regional benefits. These potential benefits are discussed further in section 3.3.

The table below outlines the number of years required to cover the initial net investment (including marginal overheads and SSO running costs). The lower cost Shared Services option has a marginal benefit (as outlined in Table 6) of $15.88 million over the 10 year period. While there is an initial cost of investment to deliver the project, this one-off upfront investment is fully repaid within the first full year of stable operation (post transition period).

Table 6: Payback period of the Shared Services option

$ million	Lower end	Higher end
Net investment	3.19	4.30
Five service areas provision savings compared to Status Quo	15.88	(8.98)
Payback period	**1.29 years**	**>10 years**

4.2.3. Inclusion of Wellington Water

Wellington Water Ltd was formed in September 2014 from:

- Capacity Infrastructure Services Limited (Capacity) – 65 people
- The Bulk Water Supply Group from Greater Wellington Regional Council – 59 people
- The 3 waters asset management planning team from Wellington City Council – 17 people
- A small 3 waters team from Porirua City Council – 2 people

Wellington Water is a CCO and shared service organisation that provides three waters network management services to its shareholders: GWRC, UHCC, WCC, PCC, and Hutt City Council (HCC).

The decision of Wellington Water to participate in this business case was made after the RFP closed and RFP responses had been received. Vendors had responded with pricing for the consumption level of four Councils. These responses were then used to form our cost estimates for the shared services option.

Most of Wellington Water is made up of elements of Councils that were part of Shared ICT Infrastructure Programme (SIIP) and so most of its infrastructure has been captured in the RFP and is covered in the RFP responses and it was already included in the Status Quo baseline. As a result, only Capacity's ICT Infrastructure services requirements need to be considered and represent limited additional scale to the existing options.

The project has reviewed Capacity's general ICT infrastructure and the newly formed Wellington Water systems environments and confirmed that there is no significant change to the base SIIP RFP requirements. Similarly the general corporate ICT infrastructure for Capacity supported 65 people, which is less than 3% of the aggregate demand across the four participating councils. This is small and well within the margin of error for the cost estimates available at the regional business case stage. Moreover, the more substantial infrastructure elements and associated costs for networks and resilience to support 3 waters telemetry and control systems, which are now part of Wellington Water, have either been included in the RFP, vendor responses, evaluation and pricing and so in the DBC, or been excluded until the next phase of the project, eg HA WAN, from both Status Quo and Shared Services options. Capacity's current IT infrastructure services Opex and capex are circa $0.7m per annum for 65 FTEs compared to $13m-$14m per annum across the four participating Councils with 2000+ FTEs.

The regional business case therefore remains valid. In the next phase the programme would undertake due diligence, including the ex-Capacity components of Wellington Water, enabling it to provide per-Council costs and costs for Wellington Water, as well as refined regional aggregate costs, at the next gate.

4.2.4. Sensitivity Analysis

This section summarises the analysis of the sensitivity of the Shared Services option's WOLC and NPC to changes in several inputs and assumptions to test the robustness of this option.

Vendor pricing

The Shared Services cost range was formed based on the pricings provided by two teams of Services Providers and their assumptions on transition duration. Two teams provided two different mixes of fixed and variable pricings, being 18% and 82% versus 37% and 63%. The transition length also differs, being 6 months for all five service areas, versus 6 to 18 months across five service areas. Table below reports WOLC and NPC range of the Shared Services option.

Table 7: Sensitivity Analysis - Vendor Pricing

$million	Service provider [redacted]	Service provider [redacted]
Fixed and Variable pricing %	18% and 82%	37% and 63%
Transition length	6 months	6-18 months
WOLC	**118.14**	**144.10**
Net Present Cost ($2015)	**79.80**	**97.93**

Overheads

A sensitivity analysis was undertaken for a scenario where the Shared Service option total overheads including SSO are not any higher than the current overheads under the Status Quo. This reduces the total cost over the evaluation period from $118.14 million to $109.84 increasing the potential saving from $12.69 million to $20.98 million. In PV terms the saving under this scenario is $13.55 million.

Table 8: Sensitivity Analysis - Overheads

$million	Service [redacted]	Sensitivity	Status Quo
Increased in overall overheads	8.30	-	N/A
WOLC	118.14	109.84	130.82
Regional cost/ (saving)	(12.69)	(20.98)	N/A
Net Present Cost ($2015)	79.80	74.23	87.78
PV of Regional cost/ (saving)	(7.98)	(13.55)	N/A

Discount Rate

The table below summarises the impact of different discount rates on the project's NPC. NPC decreases by 4.3% with a discount rate of 9% and increases by 4.6% with a discount rate of 7%.

Table 9: Sensitivity Analysis – Real Discount Rate

$ million (Real)	Service [redacted]	Sensitivity	Sensitivity
WACC	8%	7%	9%
Net Present Cost ($2015)	79.80	83.46	76.39

4.3. Non-monetary Benefits and Costs

In addition to the quantitative costs and benefits described above, the shared services option deliver significantly more qualitative benefits to the Councils and Wellington Water, their staff, customers and rate payers as well as the Service Providers relative to the Status Quo option.

These can be broken down into the following potential qualitative economic impacts that need to be considered when comparing and assessing the Shared Services option against the Status Quo:

- Increased resilience of Council service provision so that business disruption are minimised
- More efficient IT procurement through a single point of contact to a single vendor

- Increased reliability and availability of services delivered to the community where these are supported by ICT infrastructure, e.g. water services
- Increased responsiveness to changing business needs for technology enabled services which supports economic growth and cost effectiveness
- Improved security and protection against cyber-attacks
- Enhanced inter-operability as between the Councils and including Wellington Water.

In addition, service levels and performance KPIs will be "locked in" to contracts with Service Providers, underpinning a greater degree of confidence in performance which over the longer term should lead to increased customer satisfaction with the services delivered. Currently across the five entities there is significant variability as to certainty over service levels.

Overall the main benefit for the Councils is the reduced risk to the Councils through improved resilience and increased interoperability / efficiency gained between participating organisations that a shared network, communications and server/storage system provides. A common ICT infrastructure platform provides the necessary support for other shared services initiatives as Councils look to harmonise business applications and create a more consistent customer service experience across the Wellington region. Although these outcomes are largely qualitative in nature, there are instances where it may be possible to quantify or measure the value (whether a benefit or a cost) arising from them. This can prove challenging where data is limited or where the direct benefit or cost is not easily measurable. In addition, there are often multiple factors influencing the outcomes. Data is unavailable at this time to quantify the potential benefit of the impacts listed above.

4.3.1. Increased resilience of Council service provision

One of the investment objectives of the project is to provide the participating Councils and Wellington Water with a resilient ICT infrastructure service so that the possibility and impact of any business disruption are minimised. The Shared Services option meet this objective through IT infrastructure risk reduction and improved risk management. These options also contribute to the increased resilience of Council service provision through enabling business continuity.

The risk of business disruption will be reduced due to Councils' staff being able to work out of any Council's office. The connected network across Councils, more robust remote access for staff and virtual desktop environment enables Councils' staff to work out of any Council office location or from home. The Virtual Desktop means all data will be stored offsite and regularly backed up to reduce the risk of loss of files. The additional flexibility also provides contingency for the Councils and Wellington Water to share office space in a Business Continuity scenario. In 2013 after the July earthquake approximately 150 GWRC staff was able to work from WCC offices as the two Councils have an existing shared network arrangement. Due to high costs, only basic Business Continuity arrangements are in place for PCC and UHCC based on facilities within or close to their own buildings. Wellington Water's business continuity options will also be enhanced by providing the capability for their staff to operate from four of their client's offices should the need arise. The Shared Services option provide a low cost alternative to securing additional office space in new locations or 3rd party providers and the ability to stand up new locations on the same network will also be enhanced.

Accessibility and affordability of technology resilience is improved as a result of leveraging the scale and standard service offerings of Service Providers. The range of clients that the Service Providers support means that standard back up processes, equipment and fail over mechanisms are in place and regularly tested delivering a higher level of service. The Shared Services option provides the required economies of scale to ensure the full implementation of disaster recovery solution for all Councils. The Shared Services

option will provide PCC, UHCC and WCC increased access and capability for disaster recovery infrastructure and remote user access at a more affordable price point.

The Shared Services option leverages Service Providers' diversity to mitigate risk, with potential improvements for restoration time of local events. The Service Providers have significant breadth of expertise, skills, locations and tools to draw upon to assist the Councils mitigate risk. All respondents have significant employee numbers and skills across New Zealand and for some in Australia and further afield. In the event of a significant local event (e.g. building on fire), this resource would be used by Service Providers to stand up their critical infrastructure and so help ensure restoration to normal service levels is swift as possible.

Through working in partnership with Service Providers the Shared Services option can increase resiliency of community network access overall. GWRC have invested in significant network infrastructure recently such as the dark fiber network along the rail-lines and in conjunction with Wellington Water a high availability wide area network delivered through a radio network. Working with telecommunication experts within the Service Providers, these investments can be leveraged to deliver an increased resilient network for the entire regional community.

4.3.2. More effective procurement process

Economies of scale from aggregate procurement will increase value for both the Councils and suppliers. The effort of Service Providers on contract and client relationship management will reduce from multiple small contracts and differing services between the Councils. Existing sub-contracting arrangements can be used by smaller suppliers rather than effort to maintain direct contracts with the Councils. Any resulting cost savings to the suppliers generated through aggregated scale can be assumed to have been passed on to Councils in the proposed pricing. Aggregate procurement allows dynamic sharing of licences for desktop software across the Councils, enabling licences to be more efficiently used and be available to the smaller Councils as required. GWRC, PCC, WCC and Wellington Water have recently worked together to centrally procure mobile services with considerable savings and increased capacity. The shared services agreement in place between the Councils will enable similar initiatives moving forward.

4.3.3. Increased reliability and availability of services delivered to the community

Standardisation of equipment, tools and processes will provide more modern, simple server, database and desktop equipment less prone to failure. Through transition, ICT infrastructure will be standardised across the Councils and Wellington Water with more modern equipment retained and shared services transitioned to service provider's equipment. Moving to Platform as a Service cloud infrastructure will ensure that core servers and databases across the Councils are of market standard with improved monitoring, maintenance and replacement processes. Virtualisation of desktop services will mean that approximately 60% of users can move to lower cost, commodity equipment which will be cheaper and easier to maintain. Moving to an OPEX, consumption based model as in place at UHCC will help maintain desktop, servers and databases to a higher standard moving forward.

Decreased IT business disruption due to reduced resource dependencies currently experienced in smaller Councils. Currently the smaller Councils have a small IT team which places high dependency on resource being available in order to run effectively. At PCC, with only two team members on the service desk, illness and scheduled leave can have a big impact on service desk operations.

More rigorous service integration management with longer availability (24x7 for critical Council functions) will help boost productivity of end users. Service Providers will provide the Councils' end users with a higher level of service from more mature delivery of ITIL processes, increased self-service capability

for raising requests, receiving information and receiving updates on open requests and incidents. A clear central point of responsibility/ownership to manage and coordinate incident and event response ensures that all IT suppliers are held to account for meeting agreed SLAs and ensuring a fast resolution of incidents and requests. A 24x7 service desk with SLAs equivalent to standard business hours (rather than best efforts) ensures that incidents that impact infrastructure critical for community services (e.g. water treatment) are restored quickly. Although there will be some changes to adjust to for end users as Service Desk frontline will not be on Councils' sites, it is expected that the level of customer service will increase. The availability of a larger pool of staff over a wider period of time with reduced wait times will allow the team to scale up and down according to contact volumes so increasing efficiency.

4.3.4. Increased responsiveness to changing business needs for technology enabled services which enable growth and cost effectiveness

Good ICT infrastructure is a platform for growth and a key enabler of business process change. As the operating model evolves to place greater reliance on ICT such as using new applications, mobile working, this will increase demands placed on the platforms that support these processes and ways of working. The enterprise mobile management solution being delivered as part of Mobile services will provide better support, back-up and security of data and be a key enabler to moving to future working practices. Existing network infrastructure and expertise of the Service Providers can be used to resolve current challenges of connecting remote Council locations e.g. Zealandia. A common network, servers, databases and desktop will enable the Councils to develop common processes through the use of the same tools e.g. building inspection, automated invoice processing.

Increased competitiveness for IT skill capability in the market due to the increasing strength of IT organisations in Wellington and strong demand due to increased IT outsourcing. The demand for skilled labour in IT is set to increase and available labour still does not meet demand. This has increased expected salary demands and competition for labour with strong experience and skills. IT organisations can offer better career prospects especially given current trends in government efficiencies. Some of the Councils are experiencing this problem currently and have had vacancies open for significant periods to find sufficiently skilled individuals at the salary band that is being offered. Through outsourcing business as usual / maintenance capabilities, this provides retained staff with more project based work to add value to the business. The diversity of IT skills within the Service Providers will provide the right mix of skills quicker, hence more flexible and responsive to any technology change or project requirement. For example, UHCC will be able to access Enterprise Architecture capability that they currently cannot afford.

Leverage the strategic partnership to get visibility and accessibility to new, proven technology and processes. Service Providers must deliver a three year roadmap outlining continuous process improvements initiatives as part of the requirements of strategic advisory services. This will enable conversations between relevant stakeholders and the providers to understand the impacts and benefits of new technology and processes for end users and the Councils stakeholders. This will reduce the lead time for innovation and new technology and the risk of implementation based on the expertise of the Service Providers for implementation. This can be leveraged to inform the infrastructure design and technology used for the new capital projects as part of the long term plan. The contracts could be extended to include these new initiatives and so reduce the total size of capital investment by individual Councils. This is hypothetical and wasn't quantified in the economic assessment earlier.

Increased interoperability / operating efficiency between participating organisations. Shared services have demonstrated the ability to support a learning environment by sharing ideas and promoting good

practice across the Councils involved. A collaborative learning environment across Councils allows best practice to be shared and innovation to develop within the business services which may otherwise take longer to emerge[7]. UHCC will also gain access to messaging and collaboration tools which is not currently part of their portfolio. With a common, shared telephony and network platform across Councils it is also feasible to establish a consolidated contact centre or help balance employment travel across the region. A common ICT infrastructure will also enable Wellington Water to improve data sharing with their client Councils through increased connectivity and technology platform commonality. This can be leveraged for efficiency gain during business as usual, and will provide significant benefit to knowledge sharing during any major business continuity event that is likely to disrupt three waters services to the community.

4.3.5. Increased customer satisfaction with services delivered

Rigorous SLA management and customer feedback mechanisms will increase overall performance and effectiveness of the service desk and so increase customer satisfaction. The SLAs proposed are at a higher level than current service and the Service Providers are held accountable for monitoring and escalating when SLAs will be breached. More mature, embedded ITIL processes are in place in the service provider operations as well as automation and monitoring tools to mitigate issues before they occur in order that the service can be pro-active rather than reactive. The market standard self-service capability will be available for users to review the status of their requests or incidents, and receive notifications and so mitigate calls to the service desk. Self-service capability is expected as standard from the younger workforce and a key part to attract future talent.

Regular feedback surveys across stakeholders to monitor sentiment and inform the continuous improvement roadmap. As part of the contract, regular surveys of end users, business stakeholders and other suppliers is required to monitor expectations and issues with service and provide input to the continuous improvement programme that the service provider must deliver.

[7] Shared Services for Local Government, published June 2011 by Local Government New Zealand

The table below summarises the Shared Services benefits to each participating Councils/ organisations. The scoring uses a scale of 1 to 3 of increasing benefit. Note that the scores below were assigned by each Council individually and are inherently subjective. They have not been subject to a normalisation or calibration process to check consistency of scoring across the entities.

Table 10: Shared Services benefit scorings

		GWRC	PCC	UHCC	WCC	WW	Regional Average Score
Increased resilience of Council service provision	The risk of business disruption will be reduced due to Councils' staff being able to work out of any Councils' office	1	2	2	2	2	**1.8**
	Accessibility and affordability of technology resilience is improved as a result of leveraging the scale and standard service offerings of Service Providers.	1	3	3	3	1	**2.2**
	The Shared Services option leverage Service Providers' diversity to mitigate risk, with potential improvements in restoration time.	3	2	2	3	1	**2.2**
	Working in partnership with Service Providers, to increase resiliency of community network access overall	1	3	3	3	3	**2.6**
Increased efficiency of services delivered to the community	Standardisation of equipment, tools and processes will provide more modern, simple server, database and desktop equipment less prone to failure	1	1	1	3	1	**1.4**
	Decreased IT business disruption due to reduced resource dependencies currently experienced in smaller Councils.	1	3	3	2	1	**2.0**
	More rigorous service integration management with longer availability (24x7 for critical Council functions) will help boost productivity of end users	3	3	3	3	2	**2.8**
Increased responsiveness to changing business needs for technology enabled services	Good ICT infrastructure is a platform for growth and a key enabler of business process change	1	2	2	2	1	**1.6**
	Increased competitiveness for IT skill capability in the market due to the increasing strength of IT organisations in Wellington and strong demand due to increased IT outsourcing.	2	2	2	3	1	**2.0**
	Leverage the strategic partnership to get visibility and accessibility to new, proven technology and processes	1	2	2	2	2	**1.8**
	Increased interoperability / efficiency between participating organisations.	2	2	2	2	3	**2.2**

		GWRC	PCC	UHCC	WCC	WW	Regional Average Score
Increased customer satisfaction with services delivered	Rigorous SLA management and customer feedback mechanisms will increase overall efficiency and effectiveness of the service desk and so increase customer satisfaction	2	2	2	2	2	**2.0**
	Regular feedback surveys across stakeholders to monitor sentiment and inform the continuous improvement roadmap	3	1	1	2	3	**2.0**
Increased efficiency of IT procurement	Economies of scale from aggregate procurement will increase value for both the Councils and suppliers	3	3	2	3	2	**2.6**

4.4. Risk and Uncertainty

4.4.1. Risk identification and measurement

A detailed discussion of the risks is below. Key risks at this stage in the project are seen as:

- Commercial negotiations fail to prove up the expected benefits in terms of both cost savings and performance enhancements.
- The shared services organisation ("SSO") operating model is not sufficiently well developed in time to support effective commercial negotiations.
- Individual participating organisations back away from commitment to the shared service approach, undermining the collective benefits.
- Expected benefits are not realised over the long term.
- The project is adversely impacted by project or procurement activities (eg WCC's Project Odyssey) and this delays implementation
- A participating organisation pursues major ICT infrastructure investment cutting across the programme's scope.
- The transition to the Shared Service model is not well managed, including communications, business change and engagement with existing suppliers.

It should be noted that while related projects have the potential to impact on advancement of the ICT Infrastructure procurement, the most likely consequence is the need to adapt the nature of the commercial relationships between the Councils/entities – potentially by changing the mandate and operating model of the SSO.

Three risk assessment categories have been identified:

- Procurement risks – buying the wrong thing or buying in the wrong way
- Project delivery risks – what is bought isn't what gets delivered
- On-going operational risks – what is delivered affects the councils in an unexpected way

The negative consequences associated with any of the risks outlined below may prevent or delay the realisation of benefits and the corresponding achievement of investment objectives. Best efforts have been made to identify the main risks and propose effective mitigation strategies; however it is possible that there are additional risks that we are not aware of at this time. Effective change management is crucial to implementing the mitigations outlined below in a cohesive way. The Management Case further details the change management efforts.

Procurement risks

Critical and High procurement risks are summarised below. Please see Appendix II for the full risk register.

Table 11: Main procurement risks

Risk	Response	Risk Rating
There is a risk that one or more of the councils withdraw from the shared service arrangements or reject the commercial terms after selection, undermining the commercial	This risk will be mitigated by reconfirming participation and commitment prior to negotiation.	**Critical**

Risk	Response	Risk Rating
negotiating leverage for SIIP as a result.		
There is a risk that the service provider selected by the SIIP is not also selected as an AoG provider, meaning the Councils may not be able to leverage benefits from the AoG negotiations. The Department of Internal Affairs (DIA) is concurrently pursuing AoG procurement initiatives including in-scope areas such as telecommunications services.	The response to this risk is to monitor the progress of AoG procurement initiatives through regular updates from the Ministry of Business Innovation and Employment (MBIE) and DIA – all three shared ICT infrastructure services potential suppliers are current AoG suppliers.	**High**
There is a political/reputational risk that the shared services project will be highlighted in the media and could be portrayed in a negative way. An example would be if the media portrayed the Councils in the region subverting the democratic process of the super-city referendum by stealth or out-sourcing local jobs. This could result in SIIP being stopped mid-flight due to public pressure and could also unduly influence public opinion on the referendum.	This will be mitigated by the dedicated communications manager executing the communications plan in place.	**High**
There is a risk that actual volumes/assets/ arrangements eventuate to be significantly different than articulated in RFP or in engagement discussions resulting in service and/or cost changes.	This risk should be mitigated through robust due diligence prior to final selection, and drafting of flexible commercial arrangements and governance (including internal stakeholder management) of contracts during their term.	**High**
If the procurement process is rushed or extended, then the outcomes may be unsatisfactory.	This risk will be mitigated by proactive planning for and scheduling of activities, with open and timely communication with shortlisted respondents. Timeframes allow for iterative approval processes and unforeseen and unavoidable delays.	**High**
Exit strategies / framework are not adequately considered in construction of contracts, leaving Councils / SSO exposed at end of contract.	Disengagement framework to be included in contract with a disengagement plan to be established and maintained within a defined period i.e. 1 year of contract commencement.	**High**

Project delivery risks

Critical and High project delivery risks are summarised below. Please see Appendix II for the full risk register.

Table 12: Main project delivery risks, including transition risks

Risk	Response	Risk Rating
If communication regarding business process change within ICT is not timely and effective, then levels of commitment and support to the change, acceptance of and advocacy for the change will be low - and programme	This is being mitigated by a dedicated communications manager executing the communications plan. Business change management resources are also allocated to execute the change plans.	**Critical**

Risk	Response	Risk Rating
success will be reduced.		
If internal council resources required by the programme are not made available at the allocation level required, then knowledge transfer to the service provider will be constrained resulting in potential quality and/or time impacts.	This will be mitigated by adequate project planning, gaining the programme sponsor agreement - in principle - that internal resources are to be made available.	**High**
Existing suppliers may become disengaged and let service delivery standards dip following announcement of shortlisted Service Providers due their contracts being discontinued. A lack of transition management and IP protection clauses within existing contracts could also negatively affect transition to the selected service provider.	This will be mitigated by clear communication with existing suppliers regarding the impact of the RFP selection decisions on the services they deliver and the existing contract in place. There will also be increased monitoring of impacted contracts by ICT Management.	**High**
If internal resources allocated to the programme at significant allocation levels by the programme are not backfilled, then their BAU efforts (and in turn, support for the programme) will be adversely affected.	Close stakeholder engagement, undertake resource allocation impact to BAU analysis, organise backfill if required	**High**
Existing contracts with suppliers of ICT services not in scope of the RFP may need to be amended or additional operational agreements may need to be agreed due to the introduction of a formal Service Integrator and Service Levels which could result in increases in prices for retained services or loss of existing suppliers.	Clear communication with retained suppliers regarding the impact of the RFP selection decisions for the services they deliver and the contract in place and the timelines for any contract review and re-negotiation.	**High**
If there is no decision made on the Business case what effect will this have on the programme re: Resources, timeframe and what level of impact.	Review existing timeline and resources at regular stages and update and inform where necessary.	**High**
If accurate benefit forecasting is not available, decisions may be made under false assumptions.	Qualify financial and non-financial benefits. Total accurate financial model and detailed understanding of vendor proposals. Business casing at stage gates (particularly at end procurement stage, pre-execution) will ensure clear benefit statement to enable go/no-go decision making.	**High**

On-going operational risks

High on-going operational risks are summarised below. Please see Appendix II for the full risk register.

Table 13: Main on-going operational risks

Risk	Response	Risk Rating
There is a risk that consolidation of the councils onto a single shared infrastructure environment increases the exposure of all	This should be more than mitigated by the higher security standards, monitoring and increased redundancy and resilience of the	**High**

Risk	Response	Risk Rating
the councils in the region to a single cyber security attack incident or major outage event.	Service Providers' offering.	
If current state contract information is inaccurate, the programme budget and any negotiations the Council undertakes with the preferred supplier may be undermined by unresolved termination issues with incumbent contracts.	This will be mitigated by reviewing all possibly affected contracts to establish their termination terms, for example time periods to allow for, notice periods and potential cost to terminate early (Ratification of contract list expiry dates).	**High**
If solution provider(s) fail, or a solution consortium breaks, then quality and/or longevity of solution support and upgrade will be compromised.	This will be mitigated by due diligence checks regarding the financial position of respondents. The provider relationship also needs to be managed on an ongoing basis through strong relationship management, governance and performance management and monitoring.	**High**
Benefits proposed are not realised.	A framework for monitoring benefits to be included in contract and/or contract management plan.	**High**
Possible establishment of any new CCO's or other entities or the event of these coming back in-house.	Review stakeholder plan and existing channels and establish any impact, relationship and communication plan with them.	**High**
When a decision is made - what impact on the programme would any negative feedback from non-selected suppliers/ vendors or sub-contractors have.	Reduce impact by ensuring a robust evaluation procedure to back decision as well as offering feedback sessions to discuss actions, outcomes and how the decision was made.	**High**
A noticeable change fatigue becomes present due to the number of existing and predicted changes ahead within the programme (IE: Staff fatigue, Market fatigue, Supplier fatigue etc)	Keep clear communication paths open. Ensure support is made readily available for staff. Monitor volume of documentation and work being both undertaken and of that sent out.	**High**
If the programme set up of the SSO or individual shared services or the transition of individual councils are not demonstrably effective to satisfaction of governing body then benefits may be significantly delayed or compromised, costs may escalate and support for shared services may be lost.	Reduce probability by setting good business processes in place to monitor and regularly evaluate at stage gate meetings. Keep clear communication paths open and run regular benefits reviews.	**High**

4.4.2. Dis-benefits and Issues

There are also a number of consequences identified that are the negative result of organisational changes associated with getting the benefits of the shared services model. These are presented as part of the balanced picture associated with making this investment.

Dis-benefits

- A small number of customers accustomed to a personalised help desk service may experience a decrease in customer satisfaction due to the shift in service desk delivery model. Outsourcing the Service Desk has significant benefits however the Councils will have to adjust to a different delivery model. Personnel may no longer be onsite and so issues and requests will need to be formally logged and resolution is likely to be done via email or over the phone with service agents accessing Councils' staff machines remotely rather than attending a desk in person. This will require strong change management and expectation setting by the individual Councils particularly at PCC where senior management are accustomed to a personalised service.
- More mature change management processes will set tighter specifications and management requirements by councils' in-house and other service provider application teams. The Service Integrator will put in place more mature processes for the management of change moving forward. The application teams either in-house or other Service Providers will have to follow more rigorous testing procedures to ensure that changes to production are proven to be stable and will need to more closely specify requirements for new servers / databases. This will require strong change management and expectation setting by the individual Councils to communicate the benefits of the more mature processes moving forward, this is not a negative consequence but may be perceived by some as it requires a higher standard of delivery than staff are accustomed to.
- Existing contracts with suppliers of ICT services not in scope of the RFP may need to be amended or additional operational agreements agreed due to the introduction of a formal Service Integrator and new service levels which could result in increases in prices for retained services or loss of existing suppliers. This will be mitigated by clear communication with retained suppliers regarding the impact of the RFP selection decisions for the services they deliver and the contract in place and the timelines for any contract review and re-negotiation. These existing contractual arrangements may slightly reduce return on benefit. For example GWRC's existing contract with FX Networks for the provisioning of the dark fibre network along the railway may need to be continued either directly or through a sub-contracting relationship with the service provider.

Issues

- There is a minor issue with the identified benefit areas being targeted by multiple areas within the councils. This could result in the expected return on benefits of the Shared Services option being reduced. For example a shift toward cloud based application services with built in hosting and database functionality reduces the need for shared services. This is not expected to materially increase the server and database cost per volume and if development and release occur prior to transition, it is expected that transition costs would be also be reduced. Overall it is beneficial to the councils however the benefits are realised.

5. Commercial Case

This section outlines the commercial case in relation to the recommended options outlined in the strategic and economic cases, and covers:

- the procurement strategy
- procurement plan and timetables
- service requirements
- preferred options for supply models and mixes of service provider
- risk sharing arrangements
- payment mechanisms, and
- any other contractual or accounting issues.

In summary, it is proposed that the Councils establish a Shared Services Organisation (SSO) to enable the regional shared ICT infrastructure services, which will act as a single point of contact with selected service provider(s) on behalf of the Councils. Effectively the SSO will act as a single point of vendor contact for the Councils.

It is proposed that the sourcing model for the ICT infrastructure services will be either based on a single service provider providing all five Service Areas, or based on two Service Providers working together (albeit under separate contracts and each having responsibility for specific Service Areas) to provide all five Service Areas.

To reach these recommendations, the Councils approached the market in July 2014 with a Request for Proposals (RFP) for the supply of shared ICT infrastructure services. The RFP process has also informed the development and costing of the two service models outlined in this business case

5.1. The Procurement Strategy

The procurement strategy that has been applied has involved:

- Early engagement with potential respondents via an openly advertised Notice of Intention (NOI) on the Government Electronic Tendering System (GETS), followed by meetings with interested parties to inform finalisation of tender documents.
- Conducting a competitive tender process through an openly advertised RFP issued via GETS.
- In accordance with pre-agreed weighted evaluation criteria, evaluation of the service offerings and pricing proposed by respondents and presentations from initially short-listed respondents. At key points in the evaluation, decisions were made as to which proposals would continue to the next stage of the process and which proposals were declined.
- Using the information gathered and assessments made to determine the sourcing model that best meets the Councils' requirements and a final shortlist recommendation for respondents to proceed to due diligence and commercial negotiations.

Contracts will not be offered to any supplier until the relevant Chief Executives have considered this business case and approved the award of contract following due diligence and commercial negotiations.

The open competitive approach to market taken was used for the following reasons:

- The Government's Rules of Sourcing (Rules of Sourcing) require open tender (advertised through GETS) for opportunities over $100,000; the Programme has sought to comply with the Rules.
- An open tender process enabled wide publication of the opportunity, and provided the most transparent and competitive opportunity for the supplier market.
- An RFP was preferred over a Request for Information (RFI) given the higher level of commitment required from Service Providers to respond to a RFP, as it usually leads to more competitive responses with more detailed and accurate pricing estimates.
- While initially resource intensive for suppliers, the RFP approach is not as resource intensive as competitive dialogue, or as protracted as a two-stage tender i.e. Expression of Interest followed by a closed RFP.

The procurement has been undertaken in accordance with the Rules of Sourcing, and with the principles for Government procurement, being:

- Plan and manage for great results
- Be fair to all suppliers
- Get the right supplier
- Get the best deal for everyone, and
- Play by the rules.

The Ministry of Business, Innovation and Employment (as Procurement Functional Leader) and the Department of Internal Affairs (as Government Chief Information Officer) were briefed and have been kept informed throughout the RFP process.

External independent probity assurance has been conducted in real time throughout the RFP process by Audit New Zealand. No probity issues have been highlighted.

Further details regarding the Evaluation Approach and Plan can be found in the Wellington Regional SIIP RFP Evaluation Approach and Plan document[8].

5.2. Procurement Planning

The table below summarises the timetable of activities to date for the Councils approaching the market, evaluating bids and deciding on the preferred options.

Table 14: Procurement Activities and Timetable

Procurement Milestone	Complete?	Date
Pre-procurement		
Procurement Plan approved	Yes	15 July 2014

[8] Evaluation Approach and Plan, Trove: 3444994

Procurement Milestone	Complete?	Date
Advance notice published on GETS	Yes	21 May 2014
Pre-procurement vendor meetings	Yes	3 June to 10 June 2014
Tender documents approved	Yes	2 July 2014
Tender		
Tender advertised on GETS	Yes	4 July 2014
Supplier briefing/s	Yes	11 July 2014
Last date for supplier questions	Yes	8 August 2014
Last date for agency to answer questions	Yes	12 August 2014
Tender closing date	Yes	20 August 2014
Evaluation		
Panel confidentiality & conflict of interest declarations signed	Yes	30 June 2014
Initial Evaluation Complete	Yes	2 October 2014
Presentations from initial shortlisted Respondents	Yes	16 - 22 October 2014
Recommendation accepted / denied	Yes	30 October 2014
Post-evaluation		
Advise bidders of outcome	Yes	Early November 2014
Debrief unsuccessful suppliers	In process	February 2015
Approval of Detailed Business Case		February 2015
Due diligence & contract negotiation		March – May 2015
BAFO		April 2015
Final review of regional detailed business case costs and benefits and of per-Council / Wellington Water costs and benefits		June / July 2015
Implementation Case		July / August 2015
Contract Award Notice published on GETS		July / August 2015
Contract start date		August / September 2015

5.3. Service Requirements

The Councils' specific requirements for each Service Area were captured through workshops with ICT Managers from across the Councils and drawing on previous best practice RFP examples of government organisations procuring similar services. The requirements ultimately described in the RFP were reviewed by the ICT managers and enterprise architect Subject Matter Experts (SMEs) from the Councils, and endorsed by the Working Group prior to release of the RFP.

The scope of required Shared ICT Infrastructure Services articulated in the RFP[9] is:

The specific Service Areas advertised were:

- **Service Integration** – ensuring a seamless service is delivered to the end users through rigorous coordination and automation of processes across the Service Providers within the ICT Operating Model, including Service/Help Desk Level 1 support, Asset and Configuration Management, Incident management, Change and Deployment Management
- ICT Infrastructure Management – server and database provision and management, Disaster Recovery provision and management
- Desktop Services – provision and management of laptop/desktop and peripheral devices and the Standard Desktop Environment and Remote Access Services
- Network Services – including provision and management of Wide Area and Local Area Networks and support of existing Fixed Voice Telephony, including management of integration of Specialist Devices onto the network e.g. Telemetry
- Mobile **Services** - provision and management of mobile devices and networks as well as voice radio device and networks.

The RFP allowed for selection of either one or multiple Service Providers. Respondents decided which Service Areas they applied for, albeit with the caveat that they must provide a Service Area in full.

Service Areas would be awarded to different Service Providers (either individual Areas or combinations) and these Service Providers would be directly contracted by the SSO. One service provider would act as the Service Integration service provider responsible for ensuring end-to-end service management across all Service Providers of ICT Infrastructure Services and Council Business Applications.

[9] Wellington Regional Shared ICT Infrastructure Services RfP v1.1, Trove: 2724354

Irrespective of which or how many Service Areas they are selected to provide, each selected service provider must provide Strategic Advisor and Architecture Services and Common Services to the Councils (shown around the edge of circle above).

The Councils expect each selected service provider to contribute overall management services for the Services they deliver, such as contract and account management and reporting. They must also be compliant with and support information security policy and have sufficient business continuity arrangements in place.

Specialist and residual legacy infrastructure were specified as out of scope, as well as the development and delivery of Council Business Applications. The RFP also specified that individual councils could decide whether they would individually sign up to the business case or particular Service Areas without having to adopt the full Service offering.

It is anticipated that if entered into, the full term of the contract would be seven years comprising an initial five year term with a further right of renewal for an additional two year period. The right of renewal will be exercised at the option of the SSO and will be provided for in the final contract. The contract term would cover transition of the services and service delivery, as well as any licences required.

The detailed requirements for each Service Area can be found in the RFP.

5.4. Recommended Options

As a result of the RFP evaluation two service models have been identified that are considered optimal in terms of possible service delivery models and being able to meet the Council's objectives, being to:

- Deliver efficient and cost effective ICT Infrastructure Services
- Increase the reliability and performance of infrastructure services
- Provide the business with a resilient ICT infrastructure service
- Increase agility and flexibility to respond to and deliver customer requirements
- Retain and improve the existing user experience and customer satisfaction levels

The first model is based on a single service provider, Dimension Data, being selected to provide all Service Areas. As a result of the RFP evaluation, Dimension Data was ranked first in each of the Service Areas.

The second model is based on selection of two Service Providers, being Datacom for Service Integration, Infrastructure Management and Desktop Services and Spark Digital for Network Services and Mobile Services. The service provider recommended for each Service Area was the respondent ranked second as a result of the RFP evaluation was ranked second

Service Delivery Models

The service models are summarised as follows:

Table 15: Recommended Service Models

Proposed for Business Case	Service Integration	Infrastructure Management	Desktop Services	Network Services	Mobile Services
Service Model 1	Dimension Data	Dimension Data	Dimension Data	Dimension Data	Dimension Data
Service Model 2	Datacom	Datacom	Datacom	Spark Digital	Spark Digital

Both models are considered viable and represent a good fit for the Councils when assessed against the following criteria:

- Organisational fit and commitment to a strategic partnership
- Interoperability
- Service Area Capability and Delivery
- Ability to plan and execute transition
- Commitment to innovation and advising the Councils for their best interests, and
- Clear value for money.

Additionally both models provide an opportunity to exceed current service and performance levels, and to access additional improvement and enhancement opportunities into the future. The extent to which opportunities will be pursued, and the associated timeline, will be considered initially as part of diligence and contract negotiation and then throughout the term of any contract.

These two delivery models formed two sub-options within the Shared Service option considered in the Economic Case. The pricing responses from the two sets of Service Provider were used to inform the cost range of Shared Services option quantitative analysis.

Sub-option 1: Shared Services with single integrated vendor (Single Vendor)

Sub-option 1 will see the Councils enter a regional shared ICT infrastructure services arrangement with the services in scope being outsourced. A Shared Services Organisation (SSO) will be established to manage the contracts on a day to day basis on behalf of the participating Councils. The service delivery model of the ICT infrastructure services will be Single Vendor where all five service areas are delivered through Dimension Data.

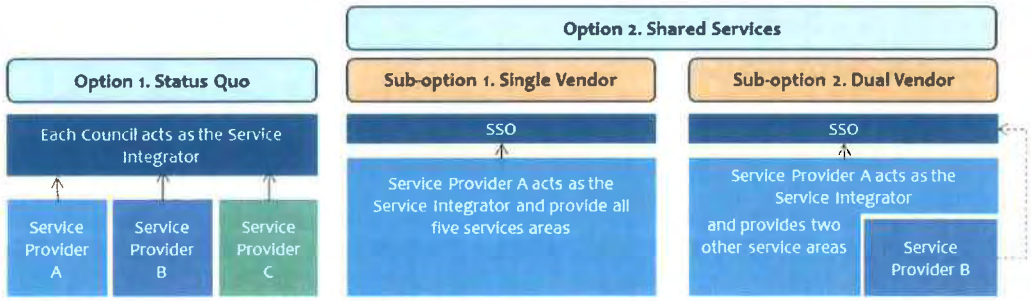
Sub-option 2: Shared Services with dual vendor, single integrator (Dual Vendor)

Service delivery model under the sub-option 2 is Dual Vendor. Five service areas are awarded to two Service Providers:

- Service Integration, ICT Infrastructure Management and Desktop service areas to Datacom. As the Service Integrator, Datacom is responsible for ensuring end to end service management across all Service Providers of ICT Infrastructure Services and Council Business Applications.
- Network and Mobile service areas to Spark Digital.

The diagram below summarises the characteristics of the service delivery model under each option, in comparison with the Status Quo.

Figure 6: Short-listed Options



5.5. Potential Risk

Key procurement risks have been identified, evaluated and recorded in the risk register (Appendix II). High or Critical procurement risks are summarised in table 12 under the Economic Case.

5.6. Potential Payment Mechanisms

The proposed pricing structure will seek to align to the following principles:

- **Ease of use** – The pricing structure and purchasing and payment processes will be kept as simple as possible while retaining transparency and enabling flexibility and change over time.
- Transparency – The pricing structure will include all chargeable amounts and any assumptions will be clearly stated in a way which enables the Councils to understand the basis for pricing and levers for pricing variations. This will include the costs associated with account and service delivery management
- Cost certainty – The pricing structure will provide cost certainty as far as possible to Councils. Each Council should expect to pay a proportion of fixed fee for common base services, and be charged additionally for services as they consume them on a unitised basis. Councils will not be required to meet minimum aggregate expenditure or service volumes
- Ability to influence – The pricing structure will be driven by factors that the Councils can manage and influence, not by factors that drive the Service Provider's underlying input cost
- Transition vs BAU - The pricing structure needs to accommodate the current transition activity but also have a model that is transferrable post-implementation into business as usual activity
- Ability to apply more widely - The pricing structure needs to be deployable initially within the participating Councils and able to be deployed more widely as and when required
- Minimise contact **points** - The number of interaction points between the Councils, the SSO and Service Providers will be fewer rather than greater, and accountabilities will be clearly defined
- **Consequences for poor performance** - The pricing structure will incorporate a service credit model such that the Service Providers are incentivised to meet or exceed service levels and performance targets
- **Sustainable** – the pricing structure will strike a balance between being sustainably profitable for Service Providers and representing value for money for participating Councils
- **Innovate and improve –** The pricing structure will incorporate and promote mechanisms for innovation and continuous improvement throughout the term of the contract.

Transition costs will be managed separately and be contracted under a specific service agreement or statement of work and accounted for separately, most likely based on a fixed price for this stage. This will be a key output of due diligence, transition planning and commercial contract negotiations. Service Providers will be expected to be accountable for delivering transition and bear some of the risk for project delivery.

Under this model payment for transition will be based on the service provider(s) successful completion of agreed milestones as detailed in the contract. This makes transition pricing more transparent as compared against the alternative pricing model where transition costs are incorporated into ongoing pricing.

The pricing structure will be predominantly based on a service catalogue and price book, with Common Services and Strategic Advisor & Architecture services reflected in a fixed monthly cost. Wherever possible

consumable services will be based on unitised pricing and invoiced monthly to the applicable Council (albeit likely channelled through the SSO) as services are consumed.

The SSO will pay the Service Providers for the services consumed on a monthly basis.

A formal change mechanism will be put in place to manage any required pricing adjustments through the term of the contract, as well as formal reviews that will occur periodically.

A performance management structure will be put in place based on a risk and reward model i.e. a service credit model to incentives Service Providers to meet or exceed service levels and performance targets.

5.7. Contractual and Other Issues

5.7.1. Type of contract

The selected Service Providers will be offered a contract for services agreement, structured as a Master Agreement with supplementary service agreements for each Service Area.

Under Service Model 1, these will combine to form a single contract set with Dimension Data; under Service Model 2 there would be separate Master Agreements with Datacom and Spark Digital with service agreements for the Service Areas they have been selected for.

The RFP proposed a contract term of five years with a two year extension. Discussion across the Programme including with respondents has highlighted the capital investment by the selected vendors(s) that will be required and the intention of the Councils to look for partners who will invest not only in infrastructure to maintain the initial services while meeting capacity demand increases but also to realise on-going consolidation and rationalisation gains and infrastructure investment driven innovation. A contract term of five years with a five year extension is being assessed as possibly a better fit.

A full range of performance indicators are proposed. These are summarised in Appendix 1. Further details can be found in Section 5.7 of the RFP document.

During due diligence and contract negotiations, objectives, key performance indicators and service levels will be defined in detail, including performance targets and quality measures, along with how these will be measured, in what frequency, by whom and to what audience. These will be included in a governance and reporting regime that the SSO will manage. Examples of reporting requirements will include:

- Monthly performance report
- Six monthly performance report
- Rolling Three Year Technology & Service Improvement Roadmap

The following mitigation measures have been put in place to ease the process of disengagement at the end of the contract term:

- Respondents have been requested to provide a standard, commercial service.
- Transportability has been stated as a principle for the Shared ICT Infrastructure Services.
- A key milestone of transition has been listed as completion of a disengagement plan by the Service Providers.
- Explicit requirements for disengagement and responsibilities have been outlined in the draft services contract.

5.7.2. Contract management

The responsibility for managing delivery under the contract as well as supplier relationship management will pass to the SSO, on the signing of the contract, in particular to the initial Director of the SSO who in turn would be supported by the Services Delivery Manager (assuming the proposed resourcing model is accepted). There will be active participation with designated contact points in each of the participating Councils but responsibility for contract management will rest with the SSO.

A contract management plan will be created that will assist the on-going management of the Service Providers and their contracts with the Councils. This effort will help ensure the Councils receive the benefits and the standards of service offered by the Service Providers through the selection process and agreed to during contract negotiations. It will also support the Councils to work with the Service Providers through the term of the contract in a commercially astute and efficient manner, to continue to get the best outcomes and best value from those Service Providers.

The Contract Management Plan will:

- Provide guidance to operating the contract in all its parts
- Discuss the current status and quality of the relationship between the Service Providers and the Councils, as well as objectives and targets in order for the contract to be successful and the management strategies that will drive how these will be achieved
- Identify key management and review activities that need to be completed
- Focus attention on the realisation of benefits to the Councils over the term of the contract.
- Provide context for key decisions and focus areas that arose through the procurement and contract negotiation phases.

The Contract Management Plan will be written for those who will rely on it and be managing the services so as to leave no confusion over decisions made during the procurement and contract negotiation phases or potential challenges ahead that have been identified. It will also identify particular areas where opportunities and changes, either necessary or desired, were raised.

It will be a document for internal circulation only (and circulated outside of the Contract Management team only as far as is absolutely necessary) as it will contain commercially sensitive information including an assessment of and strategy for the relationship with the Service Providers, and consideration of business risks associated with the contract.

The Contract Management plan will not be shared with the Service Providers at any time under any circumstances.

The SSO Director will be responsible for establishing and updating the Contract Management Plan on a regular basis such that the plan remains current i.e. as a living document. It is expected that updates will occur at least annually, including refresh of strategies, objectives and targets, likely as part of an annual review process.

6. Financial Case

The purpose of this section is to set out the detailed financial implications of the Shared Services option. This section presents the cashflows and is designed to assist in the analysis of funding and affordability. The key difference between the Financial case and Economic case in this Business Case is that the Financial Case includes consideration of Net Book Value write off, and only considers the Shared Services option.

A financial model has been developed to analyse the financial case for the Shared Services option. The purpose of the model is to:

- Calculate the total costs that might be incurred by the participating Councils based on the estimates of likely capital and operating costs[10];
- Estimate the level and timing of the funding required; and

The model has been constructed based on the following approach:

- The model starts from 1 July 2014 to 30 June 2025, covering one year before the contract and 10 year contract period starting from 1 July 2015.
- The calculations are GST exclusive.

Detailed assumptions, including the option's project timeline, are summarised in Appendix III. Note that figures shown in tables may not sum due to rounding.

6.1. Shared Services Option

Under the Shared Services option, it is proposed that:

- Upon the approval of this Business Case, the Councils and Wellington Water will go through due diligence and commercial negotiation with Service Providers to outsource the provision of five service areas.
- Before the contract starts, the Councils and WW will set up the SSO. For the modelling purposes, it has been assumed that the SSO will take the form of a CCO, and be established over a six month period.
- The contract will begin with the transition period where the Councils and WW will discontinue their existing contracts when the Service Providers take over the provision of various services within the first year.
- There will be divestment of some assets from Councils and WW to the Service Providers and the remaining will be written off.
- In addition to the contract cost the Councils will incur on-going overheads and SSO operating costs.

[10] Wellington Water is not included.

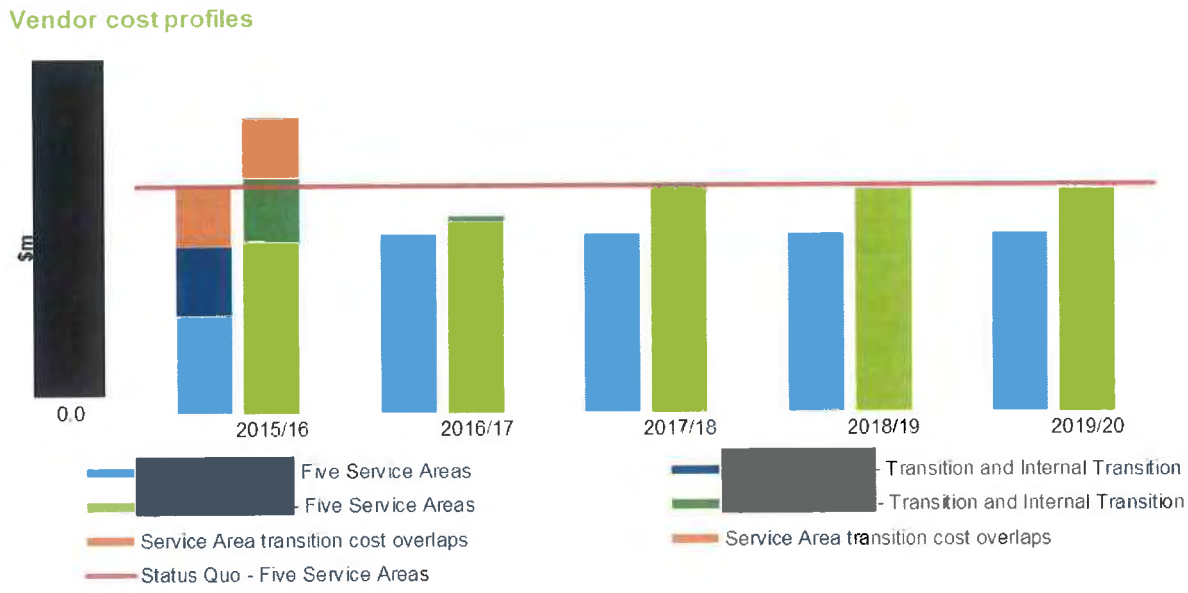
6.2. Service Provider's pricing profiles

Shortlisted Service Providers have provided pricing estimates for the two Service Models, single (Dimension Data) and dual vendors (Spark Digital and Datacom) as discussed under the Commercial Case. These were used to form the cost range in the Economic Case. The chart below shows the contract pricing profiles by Service Model over the five year contract term in comparison with Status Quo spend on five service areas. There are savings expected from both models.

The chart below shows the contract pricing profiles for both shared service provider options over five years, as identified in this phase of the project through the RFP process, in comparison with Status Quo spend on five service areas. This chart excludes Council overhead costs. The Status Quo comparator spend profile is based on a stable aggregate usage profile which was agreed as between the Councils for the purpose of the DBC analysis. Note that a single year profile only was agreed due to the degree of uncertainty in assessing how aggregated demand might change over time.

This graph shows the difference in pricing between the two Service Provider proposals at this stage. The next stage of due diligence and commercial negotiation will focus on (amongst other things) improving the commercial terms offered by both parties. At this stage it looks more likely that the [redacted] proposal will offer more favourable terms.

Figure 7: Pricing profiles by Service Model



It is important to note that the Status Quo has been calculated to provide a comparator to the proposals received from the Service Providers. It has been necessary to make assumptions about future expected demand for services across the participating entities. Each of the entities are at different stages in their investment cycle across their ICT infrastructure needs and if the shared service model did not proceed each would necessarily make future decisions which would impact on demand profiles. In addition, even if the shared service model does proceed, each entity will be making decisions at the Applications layer which may also impact on demand for infrastructure services.

For the purpose of the Financial Case, the following sections will report the financial impacts of the project using Dimension Data's pricings. Please refer to Appendix V for the outputs related to Spark Digital and Datacom.

6.3. Impact on the financial statements

Based on current estimates, the anticipated cashflows for the investment proposal over the modelled period under the Shared Services option are set out in the table below:

Table 16: Regional financial implications of Shared Services option

$millions	Year 0 2014/15	Year 1 2015/16	Year 2 2016/17	Year 3 2017/18	Year 4 2018/19	...	Year 9 2023/24	Year 10 2024/25	Total
Initial Investment									
Programme cost	[redacted]	-	-	-	-	...	-	-	[redacted]
Transition	-	[redacted]	-	-	-	...	-	-	[redacted]
SSO establishment	[redacted]	-	-	-	-	...	-	-	[redacted]
Asset sale income	-	[redacted]	-	-	-	...	-	-	[redacted]
Funding required for Initial Investment	**0.92**	**2.27**	-	-	-	...	-	-	**3.19**
On-going Operating Expenditure									
Vendor cost for five service areas	[redacted]								
Existing Service area contracts transition cost	[redacted]								
Retained technical staff costs	[redacted]								
Retained overheads	-	0.41	0.41	0.41	0.41	...	0.41	0.41	4.15
SSO running costs	-	1.35	1.35	1.35	1.35	...	1.35	1.35	13.51
Funding required for ICT infrastructure services	-	**10.31**	**11.63**	**11.63**	**11.63**	...	**11.63**	**11.63**	**114.94**
Total funding required	**0.92**	**12.59**	**11.63**	**11.63**	**11.63**	...	**11.63**	**11.63**	**118.14**
Status Quo	-	**13.08**	**13.08**	**13.08**	**13.08**	...	**13.08**	**13.08**	**130.82**
Difference	**0.92**	**(0.50)**	**(1.46)**	**(1.46)**	**(1.46)**	...	**(1.46)**	**(1.46)**	**(12.69)**

Through the Shared Service option, the participating Councils would receive a total of $13.6 million net saving over the 10 year period from 2015/16 to 2024/25. Before the contract starts and in the first year, the region would have to invest $3.19 million in programme cost, vendor and non-vendor transition, establishing the SSO, less any asset sale income. In addition, there has been a sunk cost of $1.03 million on the programme cost to date. On an on-going basis the Councils are expected to benefit from an annual saving of around $1.46 million. This saving is attributable to the lower cost of providing five service areas through outsourcing and economies of scale.

6.4. Overall Affordability

In summary, over the evaluation period, the Shared Services option is overall affordable with significant savings of $12.69 million, under the single vendor Shared Services model. However in 2014/15 and 2015/16 there is a total of $0.42 million net increase in regional ICT infrastructure spending required. The decision about how costs and benefits will be split and funded amongst participating Councils will be made separately to this business case. The decision sought from this Business Case is to enter due diligence and commercial negotiation with the Service Providers with a forecast cost of $0.5 million. If the SSO is to be established before the contract starts, another $0.4 million is estimated, totalling $0.9 million investment in 2014/15.

7. Management Case

7.1. Project Management Planning

7.1.1. Programme management arrangements

The proposed investment project is a component of the regional Chief Executive's' shared services programme, aimed at addressing the need to find innovative ways to deliver improved services at reduced cost. The programme was initiated in August 2013 and comprises:

Shared Service	Lead Council
ICT / back-office partnership	WCC
Economic development	WCC
Spatial planning	GWRC
Water services	HCC and GWRC

To date shared water services have been established through Wellington Water (a joint CCTO) and the councils have agreed to set up shared economic development services through the creation of the Wellington Regional Economic Development Agency (a joint CCO), which has a Board and is in the process of appointing a chief executive.

A favourable feasibility study for shared ICT services was completed in December 2013[11], which identified two options: (1) shared ICT infrastructure and (2) shared ICT including business systems and processes. Chief Executives agreed to pursue option 1, and the project to deliver the business case phase of regional shared ICT infrastructure services was defined[12] and agreed on 24 March 2014. GWRC, PCC, UHCC and WCC agreed to participate in the business case phase – Wellington Water joined after it was formed in September.

The shared ICT infrastructure programme was established in April 2014, hosted by WCC as the lead council and managed under the project management guidelines of WCC's Business Information and Technology business unit.

7.1.2. Project management arrangements

In the event that this detailed business case receives approval for the next phase, a project will be established to deliver the required services for the Commercial and Transition Planning phase. The project will be managed under the project management guidelines of WCC's Business Information and Technology business unit, a tailored PRINCE2 methodology.

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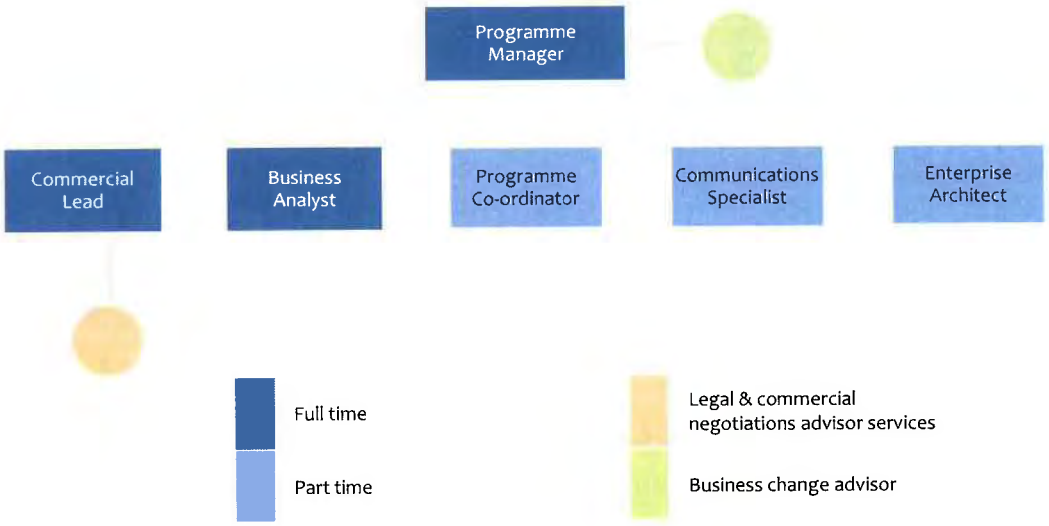
[11] *ICT Shared Service Feasibility Study*, Deloitte, 13 December 2013. Trove: 1389078

[12] See *Regional Shared ICT Infrastructure Services, Business Case Paper*, Deloitte, 21 February 2014. Trove: 1040770

This phase would deliver:

Commercial & Transition Planning Phase - Elements	Target Completion Date
Due diligence with vendors shortlisted in this business case	April 2015
Commercial negotiations with the vendors	April-May 2015
Vendor selection – Steering Group	Conclusion of negotiations
Detailed transition planning with selected vendor	June-July 2015
Shared services organisation establishment	End July 2015
Implementation case & plan approval – Chief Executives (CEs)	July 2015

During this phase the programme would be structured as a core team supported by external services:



7.1.3. Proposed governance arrangements

The Commercial and Transition Planning Phase project is led by the Shared ICT Infrastructure Programme Manager who reports to the SIIP Steering Group (the Shared Services Working Group) and is sponsored by Kevin Lavery on behalf of the CEs of the participating Councils and CCOs.

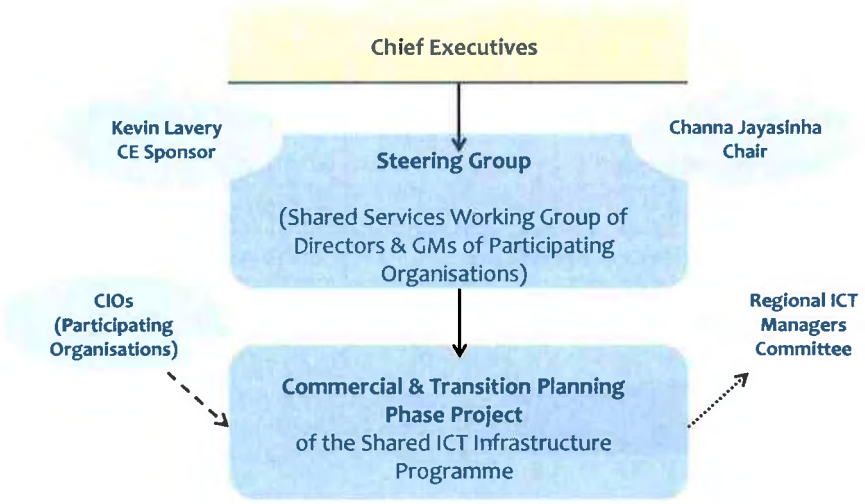
Working Group

The Working Group provides the key governance role between meetings of the Chief Executives. The key roles and people for the project are:

Role	Who
CE Sponsor	Kevin Lavery
Steering Group	Channa Jayasinha (Chair), Ian Johnston (UHCC), Roy Baker (PCC), Leigh-Anne Buxton (GWRC), Nicola Brown (WCC), Chris Mathews (Wellington Water)
Business Owner	Channa Jayasinha
Programme Manager	Peter Bloor

Project Structure

The project structure is illustrated in the diagram below:



As part of project governance it is proposed that:

- The existing Working Group is retained but its role is elevated to a Steering Group which will take and review progress reports and provide direction to the project team and the SSO Establishment Manager.
- The structure and role of the SSO is agreed between the parties, based on the following principles:
  - Optimising efficiency of vendor management through, as far as possible, a single point of vendor interface.
  - A focus on the customer with the objective of meeting performance expectations.
  - Allocating risk to the party best able to manage it – as between the vendors, the customers and the SSO.
  - Minimising costs by providing capability in the SSO only where it genuinely adds value and by avoiding duplication of effort wherever possible.
  - Enabling addition of participants and value-add services.
  - Effective liaison back into the Councils and Wellington Water so that they are kept informed as to progress on commercial discussions and can respond appropriately to emerging issues as they arise.
- Establishment of the SSO is progressed urgently so that it can support the next phase of activity – in particular so that a SSO Establishment Manager is appointed to guide commercial decisions.

The project is expected to be structured in four workstreams: (1) due diligence, (2) commercial negotiations, (3) transition planning, and (4) SSO establishment. Commercial negotiations will be led by the project's Commercial Lead. The negotiations will be supported by legal advice (commercial drafting and local government law, from Simpson Grierson) and commercial negotiations advice (Deloitte). All workstreams will report through the programme to the Steering Group. The workstreams will be resourced from the Shared ICT Infrastructure Programme team, which will also engage external services as required.

7.1.4. Project roles and responsibilities

These are as follows:

Role	Responsibilities and Accountabilities
CEs	Ultimately responsible for the project Agree strategic direction and goals and manage communications with councillors, mayors and chairs of councils Approve commercial contracts in absence of shared services organisation or establishment board with sufficient powers Approve implementation plan
Sponsor	Responsible for the project between meeting of CEs Oversee commercial negotiations Monitor and control the progress of the project at a strategic level Provide strategic support and direction and act as the conduit for feedback to the CEs of the participating councils and other executive stakeholders Approve project start by approving the project charter Authorise variations in project scope and budget
Business Owner	Ensure project is focused on achieving its objectives and delivering products that will achieve the forecast benefits Ensure project gives value for money – balancing demands of business, user and supplier **Responsibilities:** Establish priorities for the project, success measures and ensure availability of resources (personnel and fiscal) Monitor and control the progress of the project at a strategic and operational level Provide support by facilitating project integration into business operations and a conduit for feedback to the project's stakeholders Review the project's progress on a regular basis, advise of changes to the wider programme of work and provide active support for project activities Ensure resolution of escalated issues and provide approval of decisions as required in a timely manner Final review and acceptance of specified deliverables and products Communicate recommendations and follow-on actions to stakeholders Review variations in project scope, plan, or timeframe Ensure project has effective communications Direct commercial negotiations and vendor engagement and relationships
Steering Group	Ensure that the appropriate project controls, in terms of managing the project's scope, schedule, resources, issues, risks and budget, are in place and regularly reported on Ensure that the appropriate level of project management practices are followed Ensure project is focused on achieving its objectives and delivering products that will achieve the forecast benefits **Responsibilities:** Provide strategic and political direction and advice to the Business Owner and Programme Manager Monitor project progress against schedule Review the project's risks and provide input into risk mitigation Assist to resolve escalated issues Ensure that the required resources are provided by the business

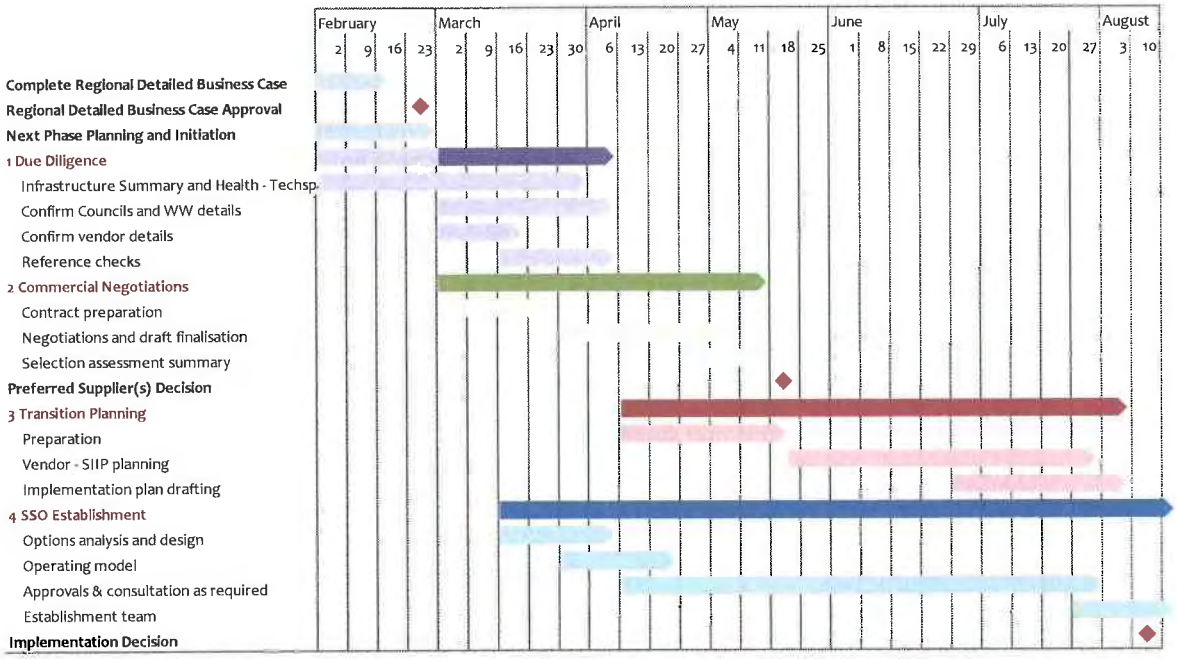
Role	Responsibilities and Accountabilities
	Review key project plans to ensure these meet the expected level of quality Ensure that the project produces products that will deliver the desired outcomes
Programme Manager	Manage and monitor the project activity through detailed plans and schedules Report to the Project Steering Committee, Sponsor and Project Owner at regular intervals Manage stakeholder expectations through formal specification and agreement of goals, objectives, scope, outputs, resources required, budget, schedule, project structure, roles and responsibilities Manage third party relationships and deliverables or products Ensure project carries out effective communications as required Manage commercial negotiations and vendor engagement and relationships Act as advocate for project
Commercial Lead	Lead commercial negotiations Deliver successful commercial contracts that meet requirements of shared services organisation and CEs Maintain effective commercial relationships with vendors and participating councils and CCOs Provide commercial advice and assist with effective, timely due diligence, and thorough and timely transition planning Plan detailed tasks within their responsibility Identifying issues and risks Act as advocate for the project's commercials and vendor relationships Support other team members to achieve all of the specified deliverables or products
Advisors and Specialists	Undertake assigned project specialist or advisory activities within specified timeframe including, but not limited to: executing effective, timely due diligence, successful commercial negotiations, and thorough and timely transition planning Plan detailed tasks within their responsibility Identifying issues and risks Act as advocates for the project Support other team members to achieve all of the specified deliverables or products
CIOs of participating councils and CCOs	Represent the business interests and identify and confirm the business requirements Provide timely and effective advice and support for due diligence, commercial negotiations and transition planning, including developing and maintaining required documentation Support the planning and preparation for establishment of the shared ICT services and the new and changing existing commercial relationships Support the analysis, planning and preparation for the business changes necessary to their ICT teams and functions Be an advocate of the project within their teams and council/CCO and keep their teams abreast of the relevant project matters and progress Provide council / CCO feedback and advice to Programme

Where capability does not exist in-house, some roles may be filled by external contractors or consultants. This could include nationally contracted companies as well as other specialists for advice and planning on specialist services. Early planning should signal how and when external contractors are likely to be used and factor in any additional project costs. Specifically the programme expects to engage external support

for commercial legal services, commercial negotiations advice services, communications specialist services and possibly service management design services.

7.1.5. Project plan and milestones

The project plan will be structured to deliver four roughly overlapping and inter-dependent workstreams. They are represented below:



The project will continue to follow the Treasury Better Business Case framework and aims to deliver successful due diligence, commercial negotiations, SSO operating model decision, establishment and transition planning, culminating in a complete and detailed Implementation Case, including detailed costs, for approval by CEs to initiate the next phase - implementation of the shared ICT services and transition from the current infrastructure provision arrangements.

The Working Group has asked that this timetable is re-visited and the project attempt to bring the next phase to conclusion by 30 June 2015. Work has started on this in anticipation of phase approval: - CIOs are working on a proposed approach to due diligence on supplier delivery and relationships with current customers for the in-scope the service areas. A commercial advisor has been engaged (from Deloitte) who is preparing the initial negotiations plan. Simpson Grierson has been engaged as the commercial lawyers for the programme. Finally, suppliers have undertaken to book the resources they require, plan how they will most efficiently complete their due diligence on current infrastructure, and discuss transition planning requirements and timeframes with their transition managers.

The draft project plan timetable is:

Commercial & Transition Planning Phase - Elements	Target Completion Date
Due diligence completed	April 2015
Commercial negotiations completed	April-May 2015
Vendor down select – Steering Group	Late May 2015
Commercial contract signed	June / July 2015

Commercial & Transition Planning Phase - Elements	Target Completion Date
Detailed transition plan available and agreed	June-July 2015
Shared services organisation establishment	End July 2015
Implementation plan approved by CEs	July / August 2015

7.1.6. Commercial Procurement Approach

The procurement strategy employed to date has enabled the short-listing of two potential groups of Service Providers (effectively two Shared Service options). Evaluation of these two options has demonstrated the one of the options has proposed a significantly lower cost, while the non-price evaluation across the two options is more evenly spread. Retaining both options through the next phase of due diligence, through to receipt of Best and Final Offer ("BAFO") from each bidder is nonetheless recommended to retain both competitive tension and the option of selecting "best in breed" across each service tower.

Draft negotiating principles have been approved by the Working Group:

- Base load of commodity services provision – single rate-card across Council entities
- Specialised services, special terms and conditions and carve-outs by exception and not to undermine overall value-for-money to all Council entities
- Transparency across and between Councils – no separate deals or negotiations
- Predictable pricing structure for Councils – no surprises in out-years
- No requirement for capital investment by Councils
- Minimise duplication of payment for services during transition from current arrangements and providers
- Pricing, terms and conditions no worse than All of Government contracts.
- Encourage innovation by SSO and vendors – e.g. by leveraging in third party revenues
- Optimise value for money with respect to the contract term – where a longer contract term may enhance overall value
- Single contract under a MSA between vendor(s) and SSO
- Slim SSO
- Minimise level of asset write-off in Councils
- Benefit allocation as between Councils – not a matter for vendors to manage.

7.2. Change Management Planning

A business change high-level assessment has been completed[13] and provides an estimate of the extent and risk of business change across not only the ICT areas that may be directly affected but also the wider council and CCO staff and teams that will be impacted overtly by the service desk, desktop, telephony and

[13] SIIP - Business Change High-level Assessment, Nicola Brown and Leigh-Anne Buxton, September 2014. Trove: 5684832 and Appendix 4

mobile services changes. The assessment provides clear recommendations for good change management including an assessment against the change management recommendations from the Office of the Auditor General's Report on the Set up of CASS (the Central Agencies Shared Services)[14].

The initial assessment will be reviewed in March 2015 to develop a revised impact assessment and outline plan. This will be subsequently reviewed and revised as part of the transition planning workstream and a final pre-implementation business change management plan will be part of the implementation plan approved by CEs. The draft programme budget for this phase includes funds identified for a business change specialist to lead these two reviews and to complete the pre-implementation plan.

Detailed transition planning will be completed in the next phase of work and included in the implementation plan supporting approval of the Implementation Case. It will highlight all the required business change elements which clearly will include people (which existing work referenced above has focused on) but also technology artefacts, contract novation, business process change, governance change (to the extent the SSO discussion does not already canvass), and possibly work on aligning relevant policy between Councils. There are also likely to be dependencies on other projects across the Councils to be managed during implementation. At this stage we can highlight the potential personnel implications.

7.2.1. Personnel implications

The implementation of shared ICT infrastructure services means that the work currently being performed by a number of staff within the various Councils would be outsourced to an external service provider or providers. This process evokes Part 6A of the Employment Relations Act 2000 which requires each Council to act in accordance with the employee protection provisions contained in their applicable employment agreements.

It is anticipated that there will be different staffing requirements for the SSO compared to the status quo. When the SSO structure is decided, it will be important to finalise staffing requirements, consider the need to retain or transfer key staff, and to consider whether Councils have the necessary skills and experience within their existing teams to fulfil these particular positions or whether additional skills need to be brought in.

The outsourcing of the shared ICT infrastructure services will have varying impacts upon staff in the four Councils and Wellington Water. In some Councils this work only forms part of individual's roles and initial business change assessment indicates that these roles may be absorbed by certain Councils.

Affected employment agreements across the Councils will likely have specific provisions which govern the transfer of staff and/or redundancies. Each Council will also have their own change management protocols which govern their change management processes. It is proposed that in order to manage the change process efficiently and effectively, participating Councils adopt a consistent process which meets the most onerous contractual requirements from any of the Councils, in particular, GWRC and WCC. The most recent example of Councils working together on a change management process was the formation of WREMO in July 2012. It is proposed that a similar process is used.

[14] Seeting Up Central Agencies Shared Services – Report of the Auditor General, June 2014. Trove: 5687002

7.2.2. Functions change and SSO form

Underlying the potential personnel impacts is a possible re-distribution of ICT functions between Councils' ICT teams and any shared services organisation that is established to deliver the shared ICT services to the Councils and Wellington Water.

An analysis of this re-distribution has been completed by the Chief Information Officers (CIOs) of the participating Councils to provide a working model and an understanding of the possible future operating model for the Councils' ICT functions. This is attached as Appendix 7. During the RFP presentation phase vendors were asked to specify the functions that they would expect from a shared services organisation to support efficient and effective shared service delivery. All identified the same requirements as the CIOs had.

The functions re-distribution appears unaffected by whether a business unit within one of the participating Councils or a council controlled organisation is used to establish the shared services organisation. The re-distribution model will be developed in detail as part of transition planning and will have to be re-considered during the due diligence and commercial negotiation stages of the next phase as the programme assesses the options for the form of an SSO in more detail. An agreed operating model for the SSO and the Councils'/Wellington Water's ICT teams will be developed.

The initial assessment of the options for the form of an SSO is attached as Appendix 8, which broadly shows a range of benefits, strengths and issues with establishing a CCO or a business unit. It suggests that either could be used to deliver shared ICT services whereas the client committee option is better regarded as a form of joint procurement with independent service provision and consumption.

7.3. Benefits Management Planning

The benefit management plan will form part of the Implementation Case approved by CEs. This section will be updated once the Economic Case is finalised as a tabular summary of the benefits expected from the implementation phase and subsequent BAU operation of the shared ICT services. The Commercial and Transition Planning Phase will not itself deliver programme benefits.

7.3.1. Benefit register

Prior to the contract being signed it is proposed that a benefit register be created to enable tracking of benefit realisation. The table below provides a template for this register. The programme has recently engaged consultants to establish a baseline of current performance across all of the Councils.

Table 17: Benefit register

Benefit ID	Benefit Title	KPI	Target Value	Date	Achievement Level	Date	Achievement Level	Date	Achievement Level	Date

7.4. Risk Management Planning

The programme is following the WCC risk management framework. WCC's Risk and Assurance Manager reviews the programme's risk management. A formal risk register is maintained and reviewed at every significant milestone and at the commencement of each of the sub-phases in the workstreams. Review is by CIOs and the Steering Group. In addition, specialists and subject matter experts, including WCC's Business Continuity Planning (BCP) Manager, the programme's enterprise architect and its legal advisors contribute to risk identification and risk management.

Risk management is undertaken by the programme as the systematic process of planning for, identifying analysing, responding to, and monitoring risks. It involves processes, tools, and techniques that will help maximise the probability and results of positive events and minimise the probability and consequences of adverse events as indicated and appropriate within the context of risk to the overall objectives of cost, time, scope and quality.

A key success factor for risk management in the programme is a culture that:

- supports the honest and open recognition of risks even if they indicate problems
- encourages talking about and assessing risks realistically with no penalty for people who do so openly within the risk management process
- promotes discussion in an atmosphere where there are no risks that are out-of-bounds and no enforcement of hierarchy in meetings where risk identification and assessment is discussed
- focusses on identifying and understanding, then appropriately treating or accepting, all risk

The programme manager is responsible for monitoring and managing all aspects of the risk management, following the adopted risk management framework, and identifying appropriate expertise to lead risk management and review the programme's risk management, including:

- developing the risk register and risk management plan
- continual monitoring to identify any new or changed risks
- implementing the planned mitigation strategies
- continual monitoring of the effectiveness of the risk management plan
- regular reporting on the status of risks to the sponsor and the steering committee

Programme stakeholders, its Steering Group, stakeholder groups, external consultants, and, importantly, the business owner should provide input into the risk management plan, especially of potential risks and risk mitigation actions. They may also be allocated responsibility for some risk mitigation actions. Each risk will have one owner with appropriate expertise and availability responsible for the risk's on-going assessment and treatment.

7.4.1. Risk register

The register lists all the identified risks and the results of their analysis and evaluation. Information on the status of the risk is also included. The risk register is intended to be continuously updated and reviewed throughout the course of a project. It records the date last reviewed against each risk.

The current risk register is attached as an appendix.

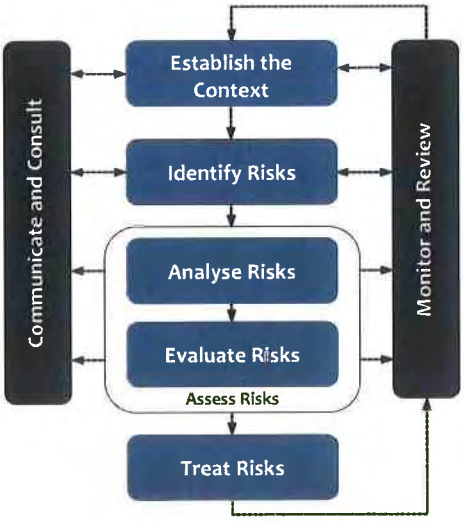
It will be the Programme Manager's responsibility to maintain the risk register, and all project participants will be responsible for identifying and communicating these to the Risk Manager. As part of this risk identification and analysis workshops examining risk exposure and appetite will be introduced early on in the process. The risk register will be reviewed regularly and a status report provided to the project team. The identification and quantification of risks involves:

- Identifying all material risks to the project
- Evaluating the consequences of each risk
- Estimating the probability of each risk eventuating
- Assessing the resulting significance of each risk
- Developing mitigation strategies for each risk to either reduce, eliminate or avoid that risk.

The diagram below summarises the illustrative risk management process that would be adopted.

Risk Identification Process

Figure 8: Illustrative risk management process



The programme, following the WCC risk management framework which is based on good practice, categorises risks by the likelihood and the consequences of their occurrence using the risk matrix set out below.

Figure 9: Risk Matrix

Risk Likelihood		Consequences				
	Likelihood	Insignificant	Minor	Moderate	Major	Extreme
The event can be expected to occur (80% or higher)	**Almost certain**	Moderate	High	Critical	Critical	Critical
The event will probably occur (60% to 80% chance)	**Likely**	Moderate	High	High	Critical	Critical
The event might occur at	**Possible**	Low	Moderate	High	High	Critical

some time (30% to 60% chance)						
The event could occur (5% to 30% chance)	**Unlikely**	Low	Moderate	Moderate	High	High
The event may occur in exceptional circumstances (less than 5%)	**Rare**	Low	Low	Low	Moderate	Moderate

7.4.2. Key Risks

Key risks at this stage in the project are:

- Commercial negotiations fail to prove up the expected benefits in terms of both cost savings and performance enhancements.
- The shared services organisation ("SSO") operating model is not sufficiently well developed in time to support effective commercial negotiations.
- Individual participating organisations back away from commitment to the shared service approach, undermining the collective benefits.
- Expected benefits are not realised over the long term.
- The project is adversely impacted by project or procurement activities (eg WCC's Project Odyssey) and this delays implementation
- A participating organisation pursues major ICT infrastructure investment cutting across the programme's scope.
- The transition to the Shared Service model is not well managed, including communications, business change and engagement with existing suppliers.

It should be noted that while related projects have the potential to impact on advancement of the shared ICT Infrastructure services procurement, the most likely consequence is the need to adapt the nature of the commercial relationships between the Councils/entities – potentially by changing the mandate and operating model of the SSO.

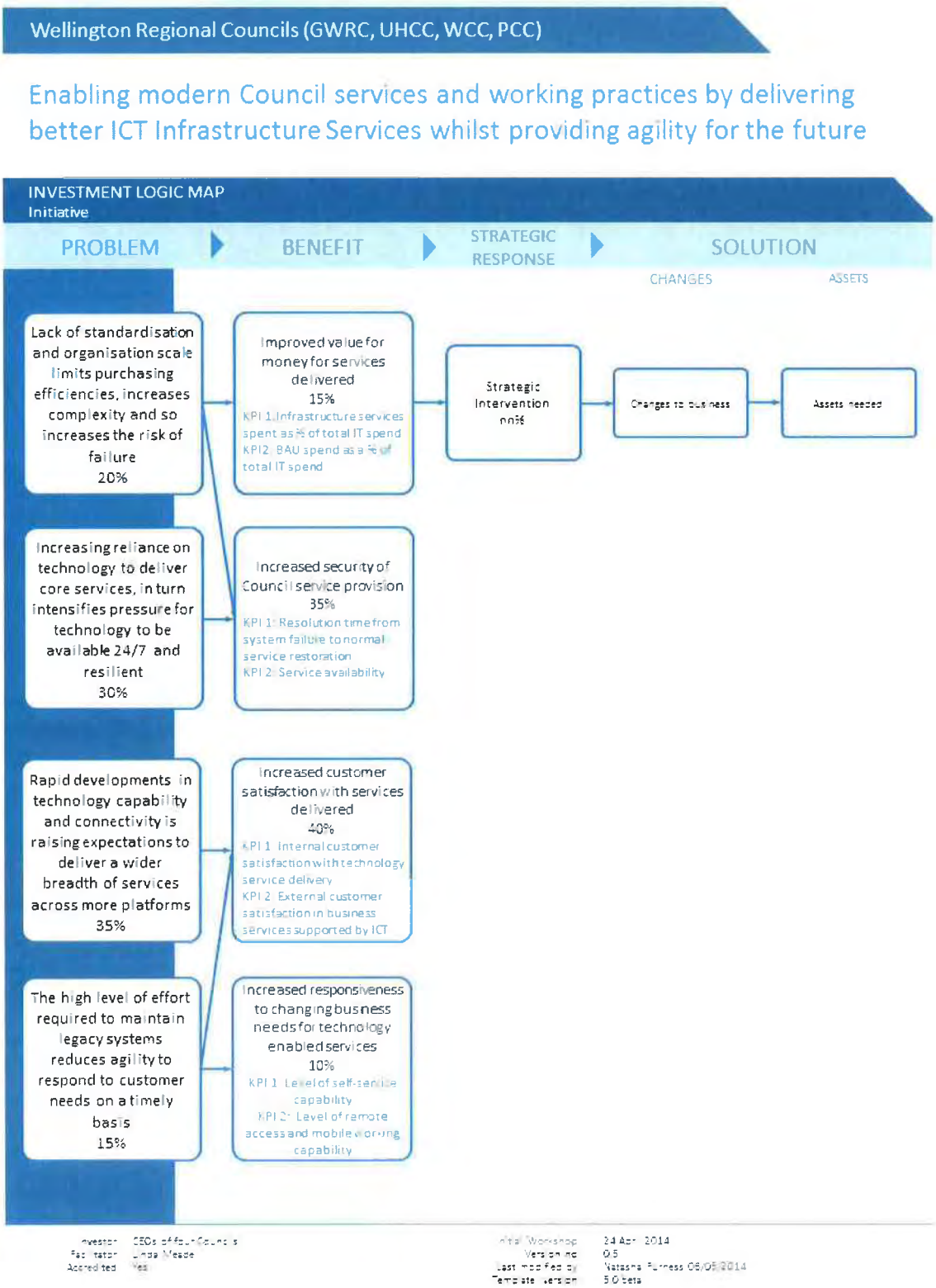
7.5. Post Project Evaluation Planning

A full post implementation review will be included in the implementation plan that is delivered by this phase. As part of developing that plan the programme will complete a phase review in June 2015 and lessons learnt will be incorporated into the implementation plan and the programme management plan for the next phase. Project evaluation reviews are planned at the end of each workstream in the current phase.

7.6. Next Steps

This detailed business case seeks formal approval from the CEs of the participating councils and Wellington Water to undertake the Commercial and Transition Planning Phase of the programme, working with the shortlisted vendors that make up the two service delivery models, to complete the commercial activities necessary for final vendor selection and engagement, to undertake transition planning and develop a sound implementation plan, and to establish the required shared services organisation.

Appendix I – Investment Logic Map



Appendix II – Risk Register

Risk Type	Description of Risk	Consequence	Likelihood	Risk rating	Mitigation
Procurement Risk	Councils who have said they would participate get 'cold feet' and elect to withdraw or reduce extent of participation	**Major**	**Likely**	**Critical**	Participation and commitment needs to be re-confirmed. Note the financial impact of one Council not participating needs to be quantified, as potentially has a negative impact on remaining Councils up to the total cost of core services. An escalation path to CE level is recommended
Procurement Risk	If the procurement process is rushed or extended, then the outcomes may be unsatisfactory.	**Moderate**	**Possible**	**High**	Proactive planning for and scheduling of activities, with open and timely communication with shortlisted respondents. Timeframes allow for iterative approval processes and unforeseen and unavoidable delays
Procurement Risk	If there is negative media focus (expenditure, out-sourcing, etc.), then reputational damage will occur to the Councils.	**Moderate**	**Likely**	**High**	Communications manager engaged and communications plan in place and will be executed. Market meetings to engage and validate the RFP focus.
Procurement Risk	Impact of overlapping All of Government procurement initiatives and/or changes to existing AoG contracts don't align to Council's requirements	**Moderate**	**Likely**	**High**	Monitoring of other initiatives and regular updates to MBIE and DIA
Procurement Risk	Unable to reach agreement on commercial terms or forced to make undesirable concessions	**Moderate**	**Possible**	**High**	Commercial terms need to be tabled as soon as possible. Negotiations need to be structured and planned

Risk Type	Description of Risk	Consequence	Likelihood	Risk rating	Mitigation
Procurement Risk	Actual volumes/assets/arrangements eventuate to be different than articulated in RFP or in engagement discussions resulting in service and/or cost change	**Moderate**	**Possible**	**High**	Robust diligence prior to final selection, robust drafting of commercial arrangements and governance (including internal stakeholder management) of contracts during their term
Procurement Risk	Exit strategies / framework are not adequately considered in construction of contracts, leaving Councils / SSO exposed at end of contract	**Moderate**	**Possible**	**High**	Disengagement framework to be included in contract with a disengagement plan to be established and maintained within a defined period i.e. 1 year of contract commencement
Procurement Risk	If suitable probity controls are not in place, then conflicts of interest and inappropriate contact and disclosure could occur.	**Moderate**	**Unlikely**	**Moderate**	Conflict of interest declarations have been signed by all key staff, procurement policies and templates applied at all times, external review has been and is being applied where required, good communication to all key staff to ensure consistent messaging about key RFP activities and decisions . Audit NZ are providing probity assurance
Procurement Risk	Structure / functions of SSO conflict with respondent's proposed approach	**Moderate**	**Unlikely**	**Moderate**	SSO structure to be confirmed and discussed with Service Providers
Project Delivery Risk	If communication regarding business process change within ICT is not timely and effective, then levels of commitment and support to the change, acceptance of and advocacy for the change will be low - and programme success will be reduced.	**Major**	**Likely**	**Critical**	Communications manager engaged and communications plan in place that will be executed. Business change management resource being hired, and change plans will be in place and executed.
Project Delivery Risk	If internal resources required by the programme are not made available at the allocation level required, then the unavailability of internal knowledge, experience, expertise will result in increased (one or more) cost, time, quality, risk.	**Major**	**Possible**	**High**	Adequate project planning: gain programme sponsor agreement (in principle) that internal resources are to be made available – at programme outset.

Risk Type	Description of Risk	Consequence	Likelihood	Risk rating	Mitigation
Project Delivery Risk	If internal resources allocated to the programme at significant allocation levels by the programme are not backfilled, then their BAU efforts (and in turn, support for the programme) will be adversely affected.	**Major**	**Possible**	**High**	Close stakeholder engagement, undertake resource allocation impact to BAU analysis, organise backfill if required
Project Delivery Risk	If accurate benefit forecasting is not available, decisions may be made under false assumptions.	**Major**	**Possible**	**High**	Qualify financial and non-financial benefits. Total accurate financial model and detailed understanding of vendor proposals. Business casing at stage gates (particularly at end procurement stage, pre-execution) will ensure clear benefit statement to enable go/no-go decision making.
Project Delivery Risk	Existing suppliers may deliver a lower performing service following announcement of shortlisted Service Providers or exit contracts quickly without transition due to awareness that their contract will not be continued and lack of transition and IP clauses within existing contracts which could result in impacts on business users and Council customers	**Major**	**Possible**	**High**	Clear communication with existing suppliers regarding the impact of the RFP selection decisions, on the services they deliver and the existing contract. Increased monitoring of impacted contracts by ICT Management.
Project Delivery Risk	Existing contracts with suppliers of ICT services not in scope of the RFP may need to be amended or additional operational agreements may need to be agreed due to the introduction of a formal Service Integrator and Service Levels which could result in increases in prices for retained services or loss of existing suppliers.	**Moderate**	**Possible**	**High**	Clear communication with retained suppliers regarding the impact of the RFP selection decisions for the services they deliver and the contract in place and the timelines for any contract review and re-negotiation.

Risk Type	Description of Risk	Consequence	Likelihood	Risk rating	Mitigation
Project Delivery Risk	If there is no decision made on the Business case what effect will this have on the programme resources, timeframe and what level of impact	**Major**	**Possible**	**High**	Review existing timeline and resources at regular stages and update and inform where necessary.
Project Delivery Risk	If confidentiality or commercial in confidence information is mismanaged, then breach/disclosure, commercial and/or reputational damage would occur.	**Moderate**	**Unlikely**	**Moderate**	Non-Disclosure Agreements are in place
Project Delivery Risk	Existing employees may resign or request redundancy due to change of their existing role as the result of establishing the Shared ICT Infrastructure Services which could result in loss of knowledge prior to transition so increasing risk for the Councils	**Moderate**	**Likely**	**Moderate**	Clear communication with staff regarding the impacts of the RFP and timeline for any potential changes to their role. Consultation with staff during commercial negotiation to receive feedback. Agree with ICT Managers how to manage personnel and support increased informal staff engagement during the process.
Project Delivery Risk	If the programme runs for a considerable duration, then interest, focus, support and engagement could wane.	**Moderate**	**Unlikely**	**Moderate**	Programme execution will be structured in manageable focussed outputs, sharper turnarounds, and early successes. Close and regular stakeholder engagement. Gain and maintain a strong team bond for the resources engaged for the duration of the programme.
On-going Operational Risk	There is a risk that the shared services contracts prove to be expensive to dissolve or move away from once they are established resulting in constraints to the flexibility of the IT strategic direction for all the councils.	**Moderate**	**Possible**	**Moderate**	This can be mitigated by taking due consideration of disengagement strategies during the negotiation phase. A disengagement plan will be established and maintained.

Risk Type	Description of Risk	Consequence	Likelihood	Risk rating	Mitigation
On-going Operational Risk	If solution provider(s) fail, or solution consortium breaks, then quality and/or longevity of solution support and upgrade will be compromised.	**Moderate**	**Possible**	**High**	Highest scoring respondents selected to proceed to diligence and negotiations, which will have a strong focus on performance based KPIs and SLAs, and on response to and resolution of incidents and issues. Needs to be managed on an ongoing basis through strong relationship management, governance and performance management and monitoring.
On-going Operational Risk	If current state contract information is inaccurate, the programme budget and any negotiations the Council undertakes with the preferred supplier may be undermined by unresolved termination issues with incumbent contracts.	**Moderate**	**Possible**	**High**	Confirm termination terms, notice periods and potential cost to terminate early. Continue to work on confirming accurate current state with reducing contingency as certainty increases anomalies should be expected.
On-going Operational Risk	If the programme set up of the SSO or individual shared services or the transition of individual councils are not demonstrably effective to satisfaction of governing body then benefits may be significantly delayed or compromised, costs may escalate and support for shared services may be lost.	**Major**	**Possible**	**High**	Reduce probability by setting good business processes in place to monitor and regularly evaluate at stage gate meetings. Keep clear communication paths open and run regular benefits reviews.
On-going Operational Risk	Possible establishment of any new CCO's or other entities or the event of these coming back in-house	**Major**	**Possible**	**High**	Review stakeholder plan and existing channels and establish any impact, relationship and communication plan with them.
On-going Operational Risk	When a decision is made - what impact on the programme would any negative feedback from non-selected suppliers/ vendors or sub-contractors have.	**Moderate**	**Possible**	**High**	Reduce impact by ensuring a robust evaluation procedure to back decision as well as offering feedback sessions to discuss actions, outcomes and how the decision was made.
On-going	A noticeable change fatigue becomes present	**Moderate**	**Possible**	**High**	Keep clear communication paths open.

Risk Type	Description of Risk	Consequence	Likelihood	Risk rating	Mitigation
Operational Risk	due to the number of existing and predicted changes ahead within the programme (IE: Staff fatigue, Market fatigue, Supplier fatigue etc)				Ensure support is made readily available for staff. Monitor volume of documentation and work being both undertaken and of that sent out.
On-going Operational Risk	Business continuity and disaster recovery plans are not adequately considered, leaving Councils / SSO exposed in terms of business sustainability	**Moderate**	**Possible**	**High**	BCP and DR framework to be included in contract with a plan to be established and maintained within a defined period i.e. 1 year of contract commencement.
On-going Operational Risk	Benefits proposed are not realised	**Moderate**	**Likely**	**High**	A framework for monitoring benefits to be included in contract and/or contract management plan.
On-going Operational Risk	Councils or vendors/suppliers may wish to pursue another option that is not contained within the RFP	**Moderate**	**Unlikely**	**Moderate**	This option should be covered off in the RFP.
On-going Operational Risk	There is a risk that the shared services contracts prove to be expensive to dissolve or move away from once they are established resulting in constraints to the flexibility of the IT strategic direction for all the councils.	**Moderate**	**Possible**	**Moderate**	This can be mitigated by taking due consideration of disengagement strategies during the negotiation phase. A disengagement plan will be established and maintained.

Appendix III – Financial Modelling Approach and Assumptions

The purpose of this appendix is to provide a more detailed explanation of the methodology and assumptions that support the calculations of the two options outlined in this business case.

Financial Modelling Approach

A financial model has been constructed based on the following approach:

General approach

- The base date is 1 January 2015
- The model starts from 1 July 2014 to 30 June 2025, covering one year before the contract and 10 year contract period starting from 1 July 2015.
- The calculations are GST exclusive and in real terms (2014's dollar).

Status Quo option

Opex are developed by normalising 2013/14 actuals to remove one-off items and add planned future Opex with a forward looking view. Opex includes the technical cost of providing five service areas (eg. helpdesk personnel, equipment maintenance contracts), overheads and strategy and management functions (eg. reporting and strategic planning roles)

Capex are developed based on the replacement cost of existing assets and annualised using a set of standard useful life.

Shared Services option

After the Business Case and before the contract starts, the Councils and Service Providers will enter commercial negotiation and due diligence over a six month period. Programme costs incurred by the Councils during this period include internal (eg. programme manager, co-ordinator, business analyst) as well as external resources (eg. procurement, legal and commercial support)

The contract costs under Shared Services option are based on the Service Providers' pricing response. Two sets of delivery model recommended in the Commercial Case informed this price range. This includes the cost of transition and cost of providing the five service areas once transition is completed. We understand that the Service Providers have included any cost during the pre-contract transition planning into their transition pricing.

Transition period varies for specific components within each service areas and across service areas but all begins from the start of the contract.

Early asset divestment from the Councils to Service Providers is estimated based on the Net Book Value (NBV) of assets that are less than 2 years old.

Non-vendor transition cost budgeted for Councils' expenditure on project management, project support, business change management, termination of existing contracts as well as decommissioning current assets during the transition period.

As Service Providers start to take over the service provision, Councils' existing contracts will end, be terminated, or novated to Service Providers. The current contract costs under transition have been indicatively estimated for this Business Case based on the high level transition plans provided by Service Providers.

The establishment of the SSO will take place before the contract start. For the purpose of modelling, it has been assumed that the SSO will take the form of a CCO, possibly the most expensive option to establish and operate, and be established over a six month period.

Under the Shared Services option, some of current overheads and strategy and management functions can be saved as certain roles currently being undertaken in house will be provided by the SSO.

Financial Assumptions

Discount rate

The Public Sector Real Discount Rate specified by the Treasury for projects of this type is 8% per annum[15].

Status Quo total cost

Opex + Capex	WCC	GWRC	PCC	UHCC	Total 1 year
Network services	$2,023,757	$952,135	$440,016	$163,767	$3,579,674
Desktop services	$2,213,903	$656,258	$459,565	$245,400	$3,575,125
Mobile services	$877,192	$192,737	$86,000	$47,000	$1,202,929
ICT infrastructure management	$1,639,934	$515,330	$542,296	$193,800	$2,891,360
Service integration	$588,420	$210,888	$78,215	$20,000	$897,523
Sub total	**$7,343,205**	**$2,527,347**	**$1,606,091**	**$669,967**	**$12,146,610**
Overheads	$602,539	$239,888	$55,408	$38,000	$935,834
Total	**$7,945,744**	**$2,767,235**	**$1,661,499**	**$707,967**	**$13,082,445**

Status Quo Opex

Opex	WCC	GWRC	PCC	UHCC	Total 1 year
Network services	$1,457,468	$759,541	$388,021	$163,000	$2,768,031
Desktop services	$1,069,125	$392,974	$276,815	$243,500	$1,982,414
Mobile services	$867,192	$190,715	$86,000	$47,000	$1,190,907
ICT infrastructure management	$737,065	$333,059	$212,696	$188,500	$1,471,319
Service integration	$542,286	$210,888	$78,215	$20,000	$851,389
Sub total	**$4,673,137**	**$1,887,177**	**$1,041,747**	**$662,000**	**$8,264,061**
Overheads	$602,539	$239,888	$55,408	$38,000	$935,834
Total	**$5,275,676**	**$2,127,064**	**$1,097,155**	**$700,000**	**$9,199,895**

[15] http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis/discountrates/discount-rates-jul08.pdf

Status Quo Capex

Capex	WCC	GWRC	PCC	UHCC	Total 1 year
Network services	$566,288	$192,593	$51,995	$767	$811,643
Desktop services	$1,144,777	$263,284	$182,750	$1,900	$1,592,711
Mobile services	$10,000	$2,022	$-	$-	$12,022
ICT infrastructure management	$902,869	$182,271	$329,600	$5,300	$1,420,040
Service integration	$46,134	$-	$-	$-	$46,134
Total	$2,670,068	$640,170	$564,345	$7,967	$3,882,550

Shared Services pre-contract costs

	$	Notes
Programme Costs	**$538,183**	*Commercial Negotiation and Due Diligence*
SSO establishment	**$360,883**	
Governance	$5,000	*One board meeting*
Establishment team/ Salary cost	$150,333	*4 part-timers:* - *Director $180,000 pa,* - *Service Delivery Manager $140,000 pa,* - *Enterprise Architecture $140,000 pa,* - *Business Delivery Manager $140,000 pa*
Corporate services support	$17,000	*$1000 per staff per month*
Entity creation & set up	$15,000	*$5000 per months for 3 months*
Property costs & overheads	$15,000	*$5000 per months for 3 months*
Branding	$40,000	*$20,000 per months for 2 months*
People capability (hiring cost)	$22,550	*6% of total salary*
Legal and commercial support	$96,000	*$400 per hour x 80 hours (2 week) per month over 3 months*
Total	**$899,066**	

Shared Services transition period

Service Area	Service Delivery Model 1	Service Delivery Model 2
Network services	6 months	9 months
Desktop services	6 months	18 months
Mobile services	6 months	6 months
ICT infrastructure management	6 months	18 months
Service integration	6 months	12 months

Shared Services vendor costs

	Service Delivery Model 1	Service Delivery Model 2
Transition cost		
Network services	[redacted]	[redacted]
Desktop services	[redacted]	[redacted]
Mobile services	[redacted]	[redacted]
ICT infrastructure management	[redacted]	[redacted]
Service integration	[redacted]	[redacted]
Total transition cost	[redacted]	[redacted]
Contract cost (5 years)		
Network services	[redacted]	[redacted]
Desktop services	[redacted]	[redacted]
Mobile services	[redacted]	[redacted]
ICT infrastructure management	[redacted]	[redacted]
Service integration	[redacted]	[redacted]
Total contract cost excluding transition	[redacted]	[redacted]

Reconciliation of vendor costs - Service Delivery Model 1 (Dimension Data)

	Vendor pricing as at 8 December 2014	Business Case figures	Adjustments	Notes
Transition cost				
Network services	[redacted]	[redacted]	0.50	No change
Desktop services	[redacted]	[redacted]	0.01	No change
Mobile services	[redacted]	[redacted]	-0.40	No change
ICT infrastructure management	[redacted]	[redacted]	0.45	No change
Service integration	[redacted]	[redacted]	-0.06	No change
Total transition cost	[redacted]	[redacted]		
Contract cost (5 years)				
Network services	[redacted]	[redacted]	1,100,593	Plus $1,146,931.54 - Remove additional discount after Year 1 Plus $598.44 - Change Staff number from 2,320 to 2,323 Less $46,936.8 - Change number of employees from 3,277 to 2,323
Desktop services	[redacted]	[redacted]	1,668,636	Plus $1,005,273.88 - Remove additional discount after Year 1 Plus $24,293.54 - Change inconsistent provision & support device volumes in Year 1 from 150 to 292 Plus $682,668.00 - Change device volume support from 145 to 292

	Vendor pricing as at 8 December 2014	Business Case figures	Adjustments	Notes
				Less $46,695.59 - Change print volumes from 955,999 to 1,057,513pm (B&W) and 495,185 to 460,797 (colour) Plus $3,096 - Change Staff number from 2,320 to 2,323
Mobile services	[redacted]	[redacted]	928,434	Plus $928,433.82 - Remove additional discount after Year 1
ICT infrastructure management	[redacted]	[redacted]	3,155,311	Plus $2,289,322.23 - Remove additional discount after Year 1 Plus $240,697.41 - Change VM volumes from 685 to 761 for server management Plus $682,743.72 - Change VM volumes from 685 to 761 for Infrastructure Computation Less $57,452.12 - Change VM volumes from 548 to 608, and storage from 202TB to 188.4TB, for Backup
Service integration	[redacted]	[redacted]	947,654	Plus $928,426.88 - Remove additional discount after Year 1 Plus $369.00 - Change Staff number from 2,320 to 2,323 Plus $18,858.36 - Change expected after hours calls from 110pm to 120pm
Total contract cost excluding transition	[redacted]	[redacted]	**1,502,240**	

Reconciliation of vendor costs - Service Delivery Model 2 (Spark Digital and Datacom)

	Vendor pricing as at 1-2 December 2014	Business Case figures	Adjustments	Notes
Transition cost				
Network services	[redacted]	[redacted]	-0.38	No change
Desktop services	[redacted]	[redacted]	-0.08	No change
Mobile services	[redacted]	[redacted]	-	No change
ICT infrastructure management	[redacted]	[redacted]	0.44	No change
Service integration	[redacted]	[redacted]	-	No change
Total transition cost	[redacted]	[redacted]		
Contract cost (5 years)				
Network services	[redacted]	[redacted]	-351,915	Less $1,933.00 - Change Staff number from 2,343 to 2,323 Less $594,805 - Remove duplication of Deskphone SIP bundle in Years 2 to 5 Plus $256,972 - Change Phone persona volumes of Mobile with DDI from 569 to 1,137

	Vendor pricing as at 1-2 December 2014	Business Case figures	Adjustments	Notes
				Less $12,150 - removed 3G/4G backup, that Spark added to 3 WTP sites for GWRC HA WAN
Desktop services	[redacted]	[redacted]	7,565	Plus $6,019.92 - Correct round-off for division between desktop categories Plus $1,544.00 - Correct e-mail volumes from 1,160 & 2,320 to 1,162 & 2,323
Mobile services	[redacted]	[redacted]	364,572	Plus $364,572 - Change number of radio devices from 400 to 480
ICT infrastructure management	[redacted]	[redacted]	-637,793	Less $699,634.79 - Remove double-up of pre-IaaS costs years 3 to 5 when IaaS in place Plus $61,841.53 - Change volumes of servers and SANs from 57 and 23 to 93 and 21 respectively
Service integration	[redacted]	[redacted]	313,880	Plus $1,386.59 - Change staff number from 2,320 to 2,323, and Licenses from 2,123 Year 1 and 2,552 thereafter to 2,176 and 2,323 thereafter Plus $312,492.55 - Change number of Service Desk tickets from 2,620 to 2,871
Total contract cost excluding transition	[redacted]	[redacted]	**-303,692**	

Non-vendor transition costs

	$	
Programme Costs	$49,483	Per transition month
Project management	$35,250	Per transition month
Transition support – Business Analyst	$8,333	Per transition month
Business change (including redundancy)	$780,885	Lump sum
Service Area specific (user training, contract termination, and decommissioning of assets)	$467,200	Lump sum
Total	**$1,341,152**	

Net Book Values

	$	Notes
Total NBV	**$4,685,309**	
WCC	$2,414,630	*As at October 2014*
GWRC	$1,045,163	*As at November 2014*
PCC	$1,225,516	*As at July 2014*
UHCC	$18,000	*As at December 2014*

	$	Notes
Revenue to Councils from asset sale	[redacted]	- *The vendors indicated that they will consider purchasing less than 24 months old assets from Councils.* - *NBV of less than 24 months old assets totalled $2,9 million, of which 80% is assumed to be saleable hardware while the remaining 20% being capitalised design, build, commission and project management costs.* - *For the less than 24 months saleable hardware, it is assumed that vendor will offer around 66% of current NBV.*
Network Services	[redacted]	
Desktop Services	[redacted]	
Mobile Services	[redacted]	
ICT Infrastructure Management	[redacted]	
Service Integration	[redacted]	

Service area transition costs overlaps

Service Area	Service Delivery Model 1	Service Delivery Model 2
Network Services	[redacted]	[redacted]
Desktop Services	[redacted]	[redacted]
Mobile Services	[redacted]	[redacted]
ICT Infrastructure Management	[redacted]	[redacted]
Service Integration	[redacted]	[redacted]
Total	[redacted]	[redacted]

SSO as a CCO running cost

	$ p.a.	
Governance	$20,000	*4 boards meeting a year x $5k*
Salary cost	$762,000	*Director 180k, Service Delivery Manager 140k, EA 140k, Business Delivery Manager 140k, Services Delivery Analyst 80k, Portfolio & project analyst 82k*
Corporate services support	$72,000	*$1 per staff per month*
Legal and commercial support	$192,000	*$400/hr x 40hrs (1 week)/ month*
Overheads	$304,800	*40c/ $1 salary*
Total	**$1,350,800**	

Current overheads

	WCC	GWRC	PCC	UHCC
Direct IT related costs				
Costs relating to IT infrastructure staff	62,460	64,824	24,250	3,500
Consumables relating to IT infrastructure activities	111,544			2,000
Indirect Management and Corporate overheads				
Allocation of CXO team time (CEO/CFO/CAO)	29,189	21,357	10,000	6,000
Corporate service support		74,039		1,500

	WCC	GWRC	PCC	UHCC
CIO direct costs including support on infrastructure				
CIO	45,000	79,668	21,158	25,000
Support	354,345			-
Total	602,539	239,888	55,408	38,000

Overheads saving under Shared Services

	WCC	GWRC	PCC	UHCC
Direct IT related costs				
Costs relating to IT infrastructure staff	18%	0%	12%	29%
Consumables relating to IT infrastructure activities	83%			100%
Indirect Management and Corporate overheads				
Allocation of CXO team time (CEO/CFO/CAO)	100%	0%	100%	100%
Corporate service support		0%		100%
CIO direct costs including support on infrastructure				
CIO	50%	50%	50%	50%
Support	79%			-
Total	18%	0%	12%	29%

Appendix IV – Overheads

Status Quo			Shared Services				
Personnel	**SSO equivalent functions**	**$ 525,171**	**Current SSO equivalent functions not saved**		**$ 158,955**	**SSO personnel**	**$ 762,000**
	WCC	$ 399,345	WCC	24% retained	$ 96,042		
	GWRC	$ 79,668	GWRC	50% retained	$ 39,834		
	PCC	$ 21,158	PCC	50% retained	$ 10,579		
	UHCC	$ 25,000	UHCC	50% retained	$ 12,500		
Others	**Allocated overheads**	**$ 410,663**	**Current allocated overheads not saved**		**$ 255,873**	**SSO overheads**	**$ 588,800**
	WCC	$ 203,193	WCC	34% retained	$ 69,903		
	GWRC	$ 160,220	GWRC	100% retained	$ 160,220		
	PCC	$ 34,250	PCC	62% retained	$ 21,250		
	UHCC	$ 13,000	UHCC	35% retained	$ 4,500		
Total	**$935,834**		**$1,765,628**				

- WCC can release approximately 3 FTEs and none from other Councils while the new SSO will house 6 FTEs
- GW indicated none of allocated overheads today can be saved

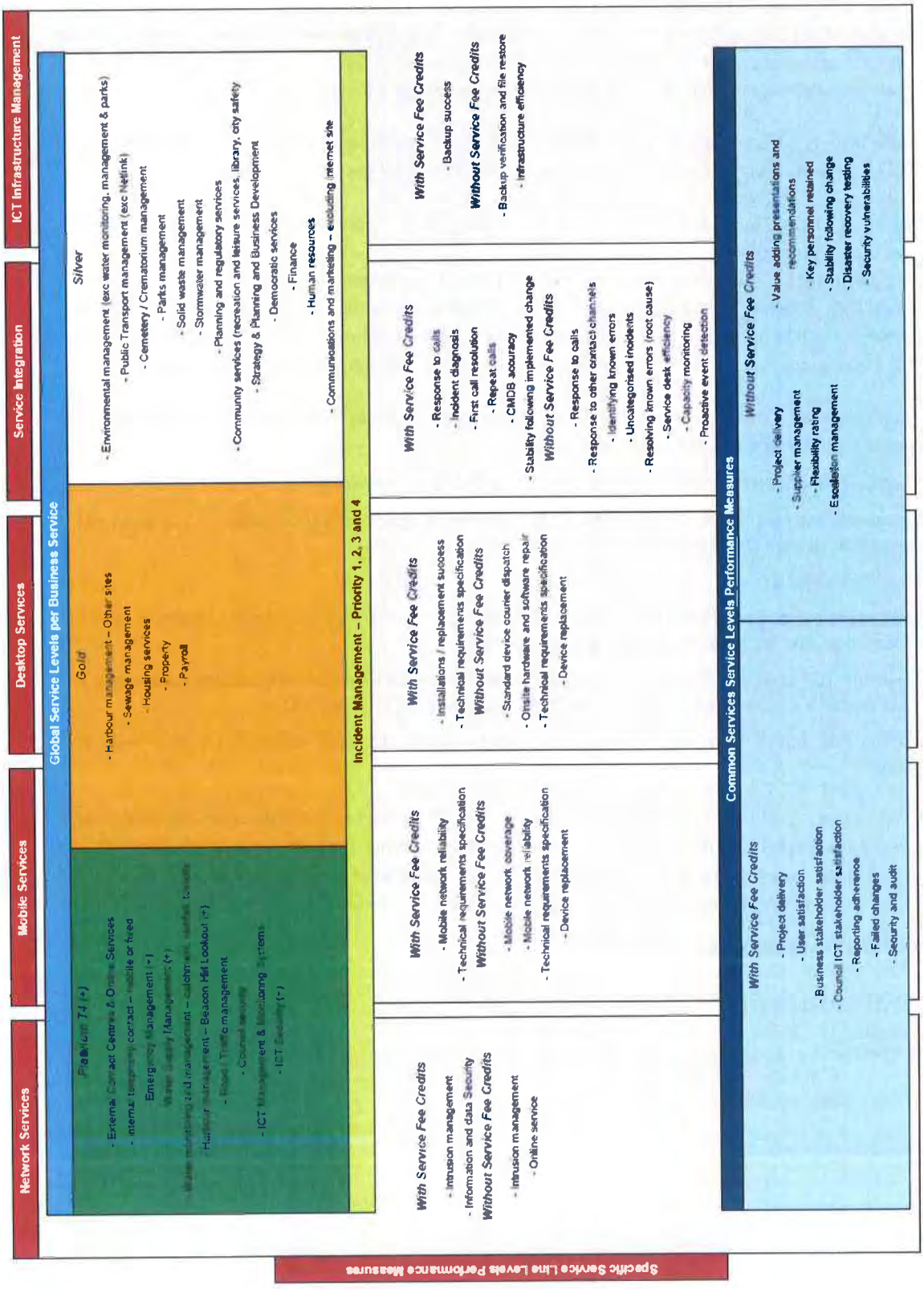
Appendix V – Financial Case Additional Information

Based on current estimates, the anticipated cashflows for the investment proposal over the modelled period under the Shared Services option [redacted] are set out in the table below:

Table 18: Regional financial implications of Shared Services option

$millions	Year 0 2014/15	Year 1 2015/16	Year 2 2016/17	Year 3 2017/18	Year 4 2018/19	...	Year 9 2023/24	Year 10 2024/25	Total
Initial Investment									
Programme cost	[redacted]	-	-	-	-	...	-	-	[redacted]
Transition	-	[redacted]	[redacted]	-	-	...	-	-	[redacted]
SSO establishment	[redacted]	-	-	-	-	...	-	-	[redacted]
Asset sale income	-	[redacted]	-	-	-	...	-	-	[redacted]
Funding required for Initial Investment	**0.92**	**2.14**	**1.24**	-	-	...	-	-	**4.30**
On-going Operating Expenditure									
Vendor cost for five service areas	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	...	[redacted]	[redacted]	[redacted]
Service area transition cost overlaps	[redacted]	[redacted]	0.96	-	-	...	-	-	[redacted]
Retained technical staff costs	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	...	[redacted]	[redacted]	[redacted]
Retained overheads	-	0.41	0.41	0.41	0.41	...	0.41	0.41	4.15
SSO running costs	-	1.35	1.35	1.35	1.35	...	1.35	1.35	13.51
Funding required for ICT infrastructure services	-	15.06	13.08	14.18	14.01	...	**13.91**	13.91	139.80
Total funding required	0.92	17.19	14.32	14.18	14.01	...	13.91	13.91	144.10
Status Quo	-	13.08	13.08	13.08	13.08	...	13.08	13.08	130.82
Difference	0.92	4.11	1.24	1.09	0.93	...	0.83	0.83	13.27

Appendix VI – Summary of Performance Indicators



Appendix VII – Council and SSO ICT Functions Distribution

On 14 March 2014, the Chief Executives agreed to proceed with the business case phase of the Wellington Regional Shared ICT Infrastructure Programme. This phase is expected to deliver the business case for shared ICT infrastructure services and to provide advice on the establishment, form and functions of the shared services organisation to deliver the shared ICT infrastructure services.

This memo reports back to CIOs on progress with defining the anticipated ICT functions that will sit with the SSO and SIIS and which are required to be retained by Council ICT groups.

CIOs met on 23 July and reviewed a presentation on the possible ICT functions across Councils and the SSO. Based on that presentation, on 4 August CIOs were asked to provide comments and feedback on which functions need to be retained or not, and reasons and considerations for retention or transfer. A subsequent CIOs' meeting on 13 August reviewed the consolidation of the comments and assessment from the review and CIOs agreed a distribution of functions across Councils and SSO/SIIS. This included agreement on the approach to architecture, security, risk, BCP and project and portfolio management.

Below is the report on the final distribution of functions across Councils and SSO/SIIS (note: requirements management is to be agreed). The report provides:

a) The agreed general nature and core role of the SSO and Service Providers

b) A representation of the distribution of shared ICT infrastructure services and shared ICT management services that sit with the SSO/SIIS

c) Tables summarising:

- The broad ICT functions that Councils will retain in order to manage and deliver business systems, business data, and legacy and specialist infrastructure
- The specific ICT functions that the SSO will undertake or the SIIS vendors will provide to manage and deliver shared ICT infrastructure services to the participating Councils and CCOs
- An initial estimate of how the SSO functions might translate to roles within it – 9 to 11 roles plus managers.

The report will be combined with advice on governance, shareholding, tax, funding, operating model, legal (eg terms and powers for master services agreements), financial (including asset divestment) and commercial goals, business change and alignment with the CEs' shared services principles, to provide the basis for advice to CEs on the establishment, form and functions of the SSO.

Report on SSO/SIIS Functions

General nature of the SSO and shared services

Jointly owned

The Councils jointly establish, govern and direct the SSO.

Individual consumption

Councils individually use the shared ICT infrastructure services provided by the SSO to run their business applications to support their business operations.

Same services to all

The same ICT infrastructure services are available to all the participating Councils and CCOs, to the same services levels at the same cost.

Standardised, commodity ICT infrastructure services

The SSO provides standardised, commodity ICT infrastructure services, which are current commercial offerings from vendors that can be made available without customisation.

Contract vendors – manage service delivery and improvement

The SSO contracts the Service Providers to deliver the shared ICT infrastructure services, and manages service delivery and leads service planning and service improvement.

Infrastructure services an Opex activity

The SSO will be Opex only in relation to shared ICT infrastructure services, with Service Providers making whatever capital investment is required – early asset divestment to Service Providers.

Core Role of SSO (via Service Provider)

The core role is to provide, operate and improve the shared ICT infrastructure services, through the Service Providers, as required by participating Councils to efficiently and effectively deliver their business services, by:

Core Function	SSO ● / Provider ●
a) Managing SSO vendors and contracts, governance, accountability, performance management	● ● ● ● ● ● ● ● ● ●
b) Managing service delivery and leading service planning and improvement	● ● ● ● ● ● ● ●
c) Understanding demand and requirements (and changes to these)	● ● ●
d) Managing change affecting ICT infrastructure services	● ●
e) Provide & manage infrastructure-based ICT security services and respond to security events for ICT infrastructure	●
f) Provide & manage resilience and recovery for business applications, business data and user access	●
g) Provide & manage the user environment, identity and support services	
h) Provide & manage the core ICT infrastructure services	
i) Operate the Councils and CCOs' business applications and databases, day to day as infrastructure workloads, to meet non-functional requirements	

Council Retained ICT Functions and SSO ICT Functions

Below is the report on the final distribution of functions across Councils and SSO/SIIS (note: requirements management is to be agreed).

Council Retained ICT Functions

Function	Description	Benefits of Retaining	Considerations of Retaining	Preferred delivery option	Role Alignment
ICT Strategy & Governance ●	• Determine the strategy for ICT as a whole according to business strategy & priorities • Governance over ICT decisions, funding priorities etc.	• Maintain close relationships with the business services • Reflect differences of the Councils specific needs	• Could lead to confusing requirements for SIIS to manage • Reduces opportunity for shared development of new services	• Retained in Councils • SSO governance group to encourage sharing & collaboration	Council ICT roles retained for • ICT governance & management • BCP, resilience and risk management • Architecture (solution, application, data and business) • Business system / application development, support and management • Data & information management • Web, digital, content and document management • Financial & commercial management • Specialist and legacy infrastructure services
Business Engagement ●	• Analysis of business processes & requirements gathering for new / existing ICT services • Management of invoicing & reporting to the business	• Maintain close relationships and knowledge of the business services • Greater ability to challenge / lobby key business stakeholders	• Some Councils could be disadvantaged due to lack of resource • Function may lack infrastructure knowledge required for SIIS	• Retained in Councils • Close working with Demand Aggregation function required	
Business Continuity Planning ●●	• Analysis of business services to determine suitable plans & RTOs & RPOs	• Maintain knowledge of business services & requirements • Not pure ICT function	• Some Councils could be disadvantaged due to lack of resource • May be difficult to align RTOs across Councils for SIIS due to differing priorities	• Retained in Councils (for their BCP requirements and BC provision other than for shared infrastructure • SSO requirements analysis with Councils to agree provisioning • Work with SSO to align SLAs & highlight inconsistencies across Councils	
Risk Management ●	• Analysis and management of Council policy and processes • Ensure adherence by all ICT services providers	• Fit for purpose risk management framework • Better understanding of risk profile • Access to capability for smaller Councils	• Ensure smaller Councils do not face undue additional costs due to any increased complexity	• Retained in Councils • Co-opt from Councils as required for smaller Councils / CCOs	

Key:	● = Council ICT function	● = SSO ICT function	● = SIIS function	Where a function has multiple indicators, the left most has primary responsibility (see "preferred delivery option" column for details

Function	Description	Benefits of Retaining	Considerations of Retaining	Preferred delivery option	Role Alignment
App Development, Delivery, Support	• Development and delivery of new and improvements to existing Council applications • Resolution of incidents & requests for Council Apps in partnership with Service Integration provider	• Differing applications used across Councils • Significant change impact for personnel and end users in sharing and standardising	• Potential benefits not realised of collaborating and pooling effort to develop Business Apps • App development should use shared infrastructure	• Retained in Councils • Sharing of initiative progress through SIIS forums • Continuation of common licences outside SIIS e.g. ESRI	
Business, Application, Data and Solution Architecture	• Advising the Councils on Business, Application, Data and Solution Architectures according to best practice, enterprise architecture and new requirements of the Councils	• Greater capability to utilise best practice from vendors • Ensure common, standardised services retained in the future	• Business Apps teams will need to liaise closely with SIIS to ensure retained alignment	• Retained in Councils • Infrastructure components of Solution Architecture responsibility of SIIS	

Commercial management for SIIS, legacy & specialist infrastructure & business apps	• Vendor management of:
	  ○ SSO and its provision of SIIS
	  ○ legacy & specialist infrastructure vendors
	  ○ business application vendors
	• Performance Management
		• Ensure that SSO and other vendors are delivering to expectations & hold accountable
		• Maintain existing relationships with Business Apps providers
			• Potential benefits not realised of pooling requirements for existing common Business Apps	• Retained in Councils
				• Individually managed in Councils
				• SSO governance to raise concerns	

Financial Management	• Collation of invoicing from SIIS and other ICT Services to budget and finance ICT Services	• Ensures specific business service requirements in each Council are met • Utilise existing financial understanding in each Council • Requires consolidation of Business app spend and resource with SIIS	• Potential benefits not realised of pooling resource managing financial • Some Councils may be disadvantaged due to lack of resource	• Retained by Council Finance / ICT Teams • SIIS must provide invoicing in common structure across Councils e.g. split by business service	

Shared ICT Infrastructure Functions

Function	Description	Benefits of Retaining	Considerations of Retaining	Preferred delivery option	Role Alignment
Customer Management (Councils/CCOs)	• Liaising with Councils to ensure services continue to meet expectations as needs change • Requirements aggregation - analysis of Council requirements / service needs to determine demand for SIIS across Councils • Business development - identify and develop new services or organisations to participate in SIIS	• Necessary part of contractual relationship with Councils • Reduces vendor management overhead for Councils • Increased likelihood of SIIS success due to clear requirements & ensures services deliver to the common good of the Councils • Greater capability to utilise best practice from vendors	• Councils have limited direct interaction with vendors • Reduced direct influence on sizing and contract management • Prioritisation of effort which may not directly align to an individual Councils thinking	• Responsibility of SSO • Reviewed regularly with governance / Council ICT management committee • Agreed within SSO strategy / roadmap • SSO works with SIIS Service Providers to roadmap and enable provision for new / evolving requirements	• Customer Delivery Manager • May require external BA support for requirements aggregation
●●	• Consolidating costs and managing invoicing of Councils	• As above	• As above	• As above	• Commercial & Finance Manager responsible
Service Delivery Management ●	• Managing day to day delivery of services to Councils • Escalations	• Necessary part of shared service delivery • Increases service levels and reduces costs to Councils	• Councils have limited direct interaction with vendors	• Responsibility of SSO	• Services Delivery Manager • Services Delivery Analyst
Service Performance Reporting ●	• Consolidation of performance reporting across SIIS	• Consolidate across vendors reducing effort within Councils	• Reports / metrics may change from existing reports	• Responsibility of SSO	• Services Performance Analyst

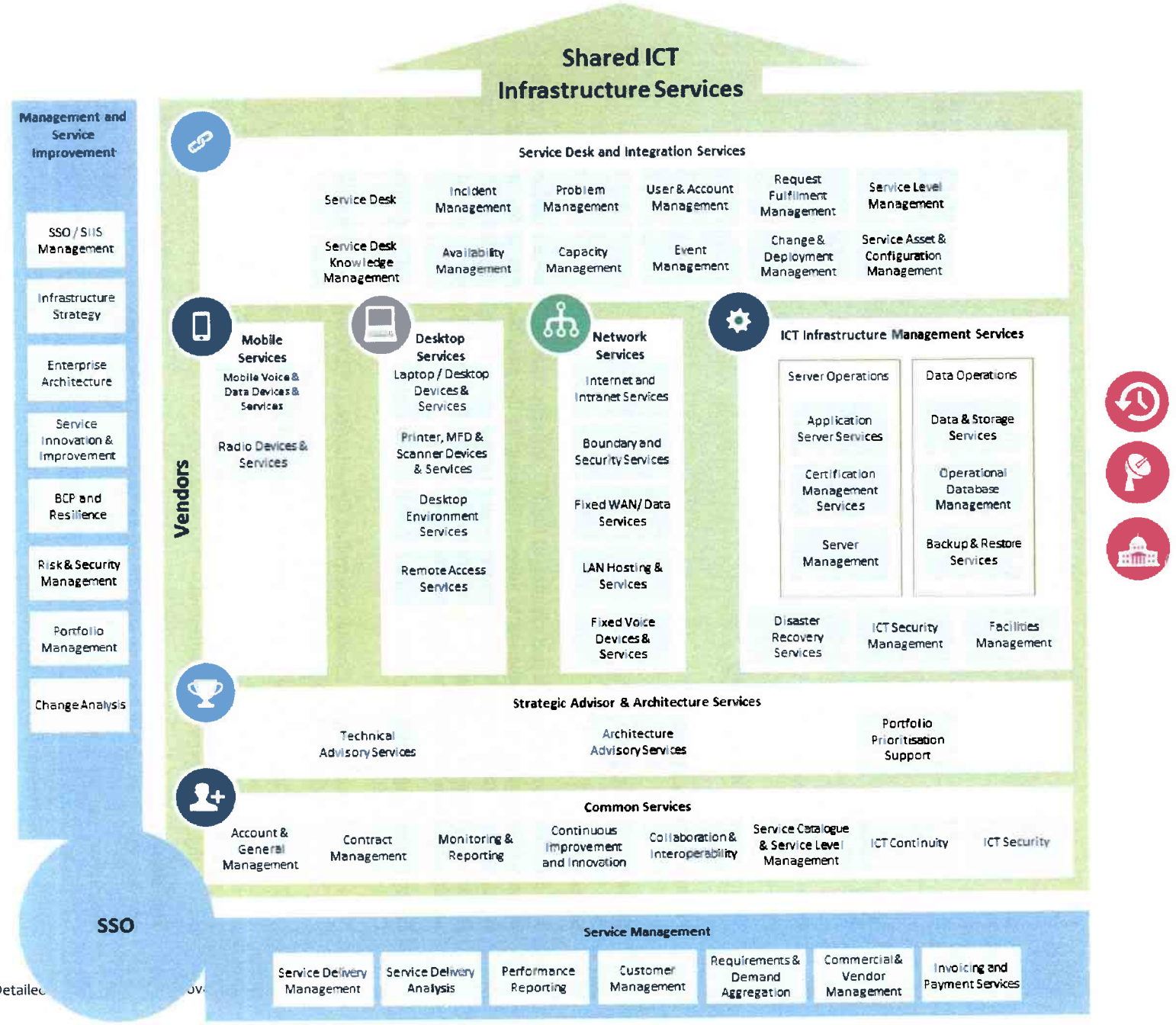
Function	Description	Benefits of Retaining	Considerations of Retaining	Preferred delivery option	Role Alignment
End to end Service Management (Service Integration)	• Incident, problem and MAC management – ensuring Service Levels are met across all ICT Services (including Council Apps) • ICT change management	• Ability to rationalise and receive a more mature Service Integration capability, so benefits realised • Visibility of all impacts across shared infrastructure services	• Business Apps & existing vendors will need to adjust to new operating processes and policies	• Responsibility of SIIS • Satisfaction of all stakeholders regularly monitored	• Nil
Network, Desktop, ICT Infrastructure, Mobile Support	• All onsite and offsite support for SIIS	• Ability to rationalise and receive a more mature capability as part of existing scope of services	• End users will receive more direct contact with the vendor • Vendor resources coming on site • Reduction in Service Desk resource	• Responsibility of SIIS • End user satisfaction regularly monitored to ensure quality of service • Clear SLAs	• Nil
Shared ICT Infrastructure Services (including assets)	• As scoped in RFP	• Improvement of service • Increased procurement power	• Common service will require common policies and standards	• Responsibility of SIIS	• Nil
SSO Business Continuity Planning & BC Provision / SIIS Resilience & Recoverability	• Analysis of SSO business services to determine suitable plans & RTOs & RPOs for its business systems • Analysis of customer BCP for resilience and recoverability requirements for SIIS • Resilience and recoverability provisioning for SIIS	• Maintain knowledge of business services & requirements • Not pure ICT function	• May be difficult to align RTOs across Councils for SIIS due to differing priorities	• Responsibility of SSO for its business systems and customer requirements for SIIS • SIIS requirements analysis with Councils to agree provisioning • Responsibility of SIIS to provision infrastructure recoverability and resilience	• Enterprise Architect

Function	Description	Benefits of Retaining	Considerations of Retaining	Preferred delivery option	Role Alignment
Commercial & Financial Management	• Managing vendors & contracts with SIIS providers • Ensuring performance management expectations are being met • Billing and managing payments	• Increased ability to pool resources to ensure performance from contracts • Ensure common service delivered across Councils – not differentiated by size • Reduces effort of reporting to business service stakeholders	• Councils have limited direct interaction with vendors • Reports / metrics provided may be different to current reports	• Responsibility of SSO • Regular reporting to governance group • Governance group to oversee and direct if necessary	• Commercial & Finance Manager responsible
Innovation & Continuous Service Improvement	• Introduction of new technologies • Service Improvement based on Council feedback	• Increased procurement power to enforce • More mature capability received	• Initially focus will be on improvements to reduce costs of delivery • May not benefit all Councils equally	• Responsibility of SSO / SIIS • Satisfaction of all stakeholders regularly monitored	• Customer Delivery Manager • Enterprise Architect
Infrastructure Strategy	• Based on demand aggregation, Council ICT strategy, requirements, ensure alignment of strategy for SIIS	• Increased likelihood of SIIS success due to clear requirements & ensures services deliver to the common good of the Councils	• Council ICT strategy may be constrained in some aspects	• Committee of key ICT leadership to govern • Responsibility of SSO • Voluntary services from Councils if focused effort needed	

Function	Description	Benefits of Retaining	Considerations of Retaining	Preferred delivery option	Role Alignment
Enterprise Architecture	• Advise the SSO and Councils on Enterprise Architecture according to best practice, strategies and environment • Hold current Enterprise Architecture • Lead EA review & development and maintain EA capability • Advising the SSO and Councils on Infrastructure Architecture according to best practice, enterprise architecture and new requirements of the Councils	• An enterprise approach aligned to industry standard processes & practices • Greater capability to utilise best practice from vendors • Ensure common, standardised services retained in the future • Savings generation and benefits optimisation	• Smaller Council's need assured access • Business apps teams will need to liaise closely with SIIS to ensure retained alignment	• Overall governance by Councils under ICT Strategy and Governance role • Councils and SSO joint EA decision making • Responsibility of SSO day to day and resource • Infrastructure design in solution architectures responsibility of SIIS • Align SIIS strategy / roadmap	• Enterprise Architect
ICT Security	• Analysis and management of policy & processes • Ensure adherence by all ICT services providers	• Fit for purpose security framework aligned to industry standards • Talent • Maintenance of standards • Access to capability for smaller Councils	• Ensure smaller Councils do not face undue additional costs due to any increased complexity	• Overall governance by Councils under ICT Strategy and Governance role • Councils and SSO joint ICT security decision making – align with EA • Responsibility of SIIS (day to day and resource)	• Enterprise Architect supported by ICT security specialist advice from service provider
Risk Management / Mitigation	• Analysis and management of policy and processes of SSO / SIIS • Ensure adherence by all ICT services providers to SSO • Council risk treatment on request within scope of SIIS	• Fit for purpose risk management framework • Better understanding of risk profile • Consistency when dealing with SIIS providers	• Ensure smaller Councils do not face undue additional costs due to any increased complexity	• Shared services risk management / mitigation responsibility of SIIS / SSO • Overall governance under Council risk management function	• Enterprise Architect • Risk oversight by CIOs working with specialist risk advice from a Council risk & assurance team

Function	Description	Benefits of Retaining	Considerations of Retaining	Preferred delivery option	Role Alignment
Portfolio & Project Analysis	• Management of portfolio across all Councils to coordinate delivery & support change management • Project management capability across all ICT Services • PMO services	• Availability of a pool of talent • Better prioritisation of WP • Access to capability for smaller Councils • Consistency when dealing with SIIS providers	• Smaller Council's need assured access	• Portfolio management responsibility of SSO • PM responsibility sits with Council / SSO which is driving change to be managed (so common infrastructure, infrastructure services and service management with SIIS)	• Portfolio & Project Analyst

Representation of SSO and SIIS



Appendix VIII – SSO Form Options Assessment

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Memo

Date: 28 October 2014

To: SIIP Steering Group

From: Linda Meade

Subject: Form of SSO

Summary

The four Wellington Councils participating in the ICT Infrastructure business case and market testing process have requested information to support thinking on the possible form of the mechanism by which any confirmed shared services contract will be managed on a day-to-day basis. Earlier memos looked at options for creating a "Shared Services Organisation" which would be mandated to carry out this role on behalf of all participating Councils.

Broadly speaking there are three options for the form and structure of the Shared Services Organisation (SSO):

1. Established as a new Council Controlled Organisation (CCO), with shareholdings held by contributing Councils, possibly in accordance with the agreed funding split; or
2. Created as a Business Unit within one of the contributing Councils; or
3. Operated as a Joint Procurement model where a Joint Committee is established to oversee the contract implementation and operation, and an embedded Client Function is located within the service provider organisation.

The subsequent sections of this Memo compare each option against Chief Executives' Shared Services Principles and by key attributes of a shared services organisation.

In summary the analysis shows that:

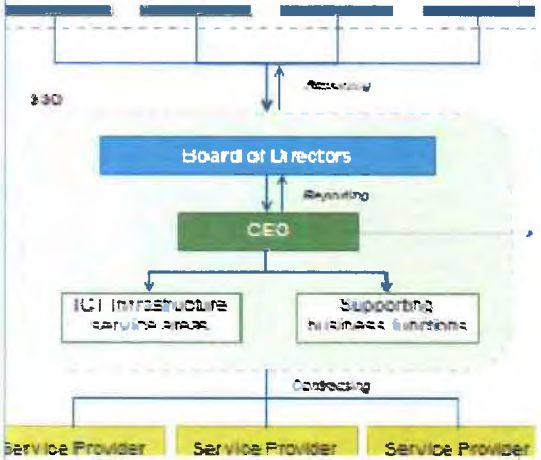
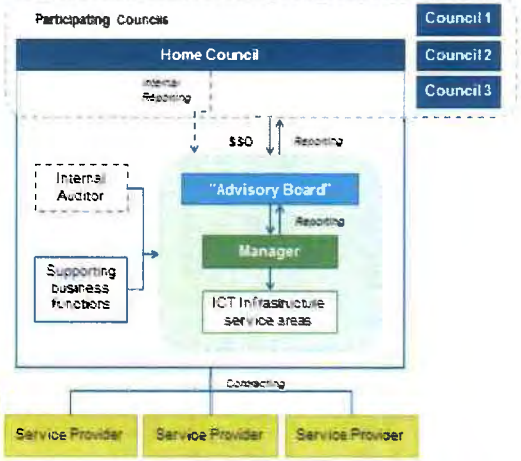
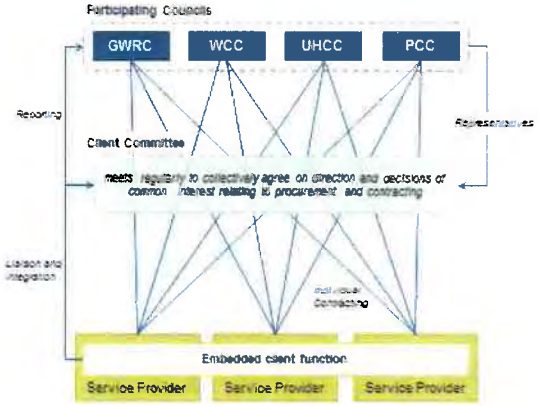
- The CCO and Business Unit options allow each Council to have one contract for all infrastructure services through the SSO. In contrast, under the Joint Procurement model there is more of a one-to-one contracting relationship between the services provider(s) and each Council. Over time this model could be expected to result in a divergence from the shared services principles – and hence the benefits- unless there is a strong commitment by all of the Councils to remain focused on this goal.

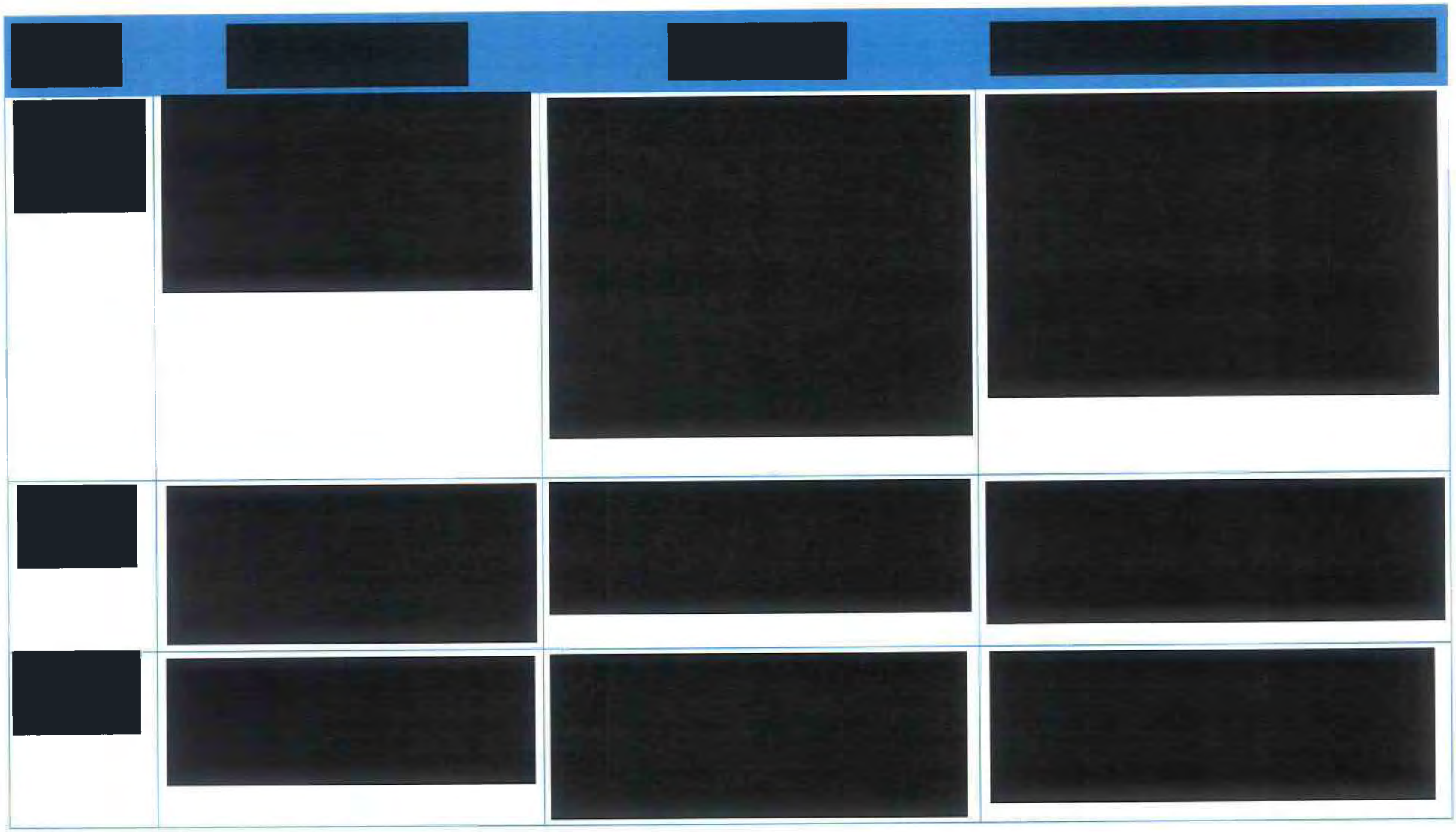
- As a formally constituted entity, the SSO as a CCO will have clearly defined functionalities and objectives stated in the Statement of Intent (SOI) – it has inbuilt longevity and sustainability.
- The CCO model allows for a larger scope of ICT shared services (eg. applications) if desired in the future and has the potential to be scaled up and commercialised.
- Establishment of a new CCO will require more consultation with the public – however it is anticipated that the consultation can be completed in parallel with commercial negotiations and transition planning.
- As a separate legal entity, the SSO as a CCO can be given the mandate to take on the commercial risks and provide the structural mechanism for benefits and costs sharing across participating Councils. The other options provide limited flexibility for such commercial arrangement.

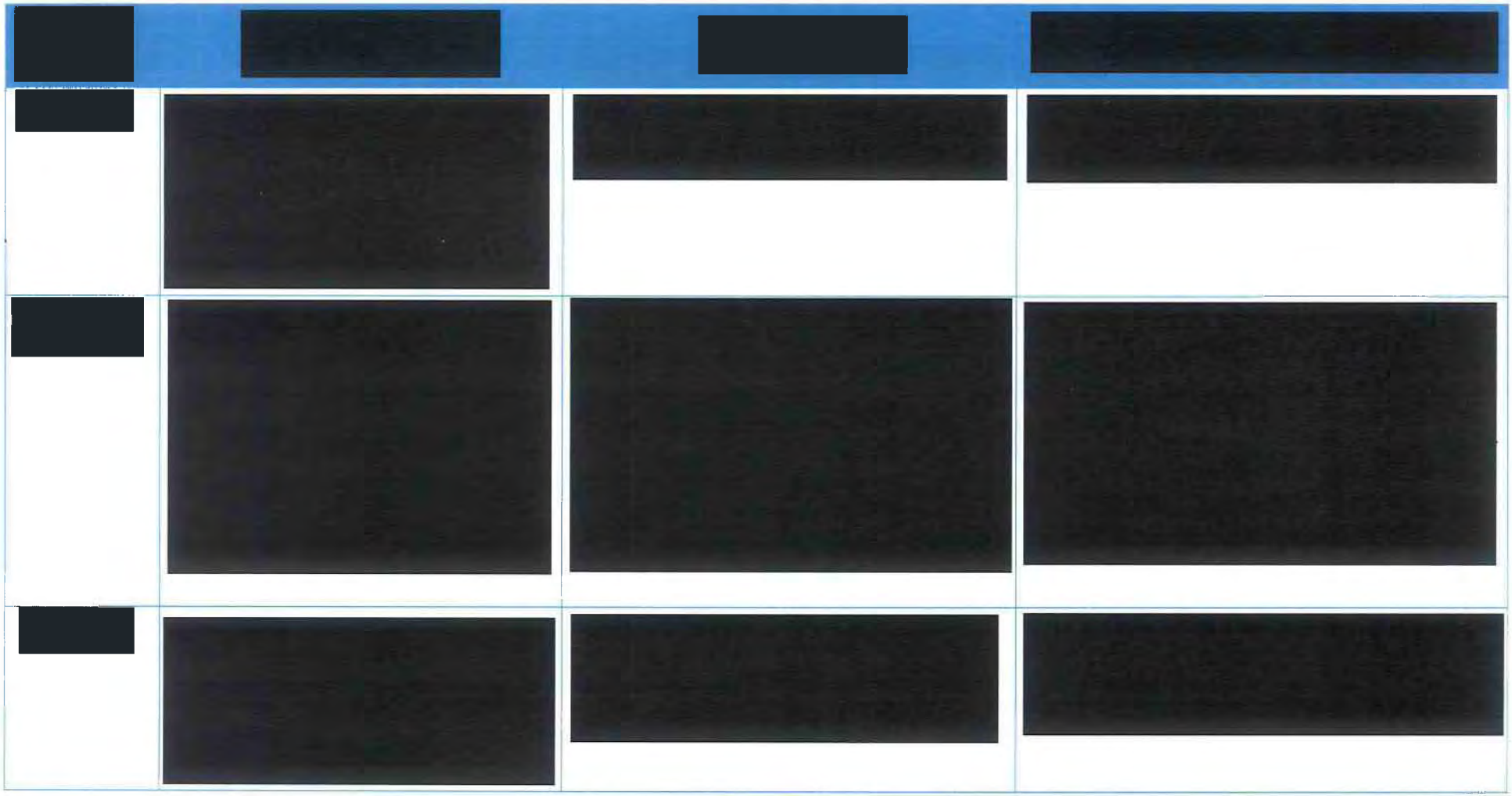
SSO Assumptions

- The objective of the SSO is to provide services to the Councils cost effectively and so where possible the direct cost of delivering the services will be charged to the Councils and any profit gained unintentionally will be reinvested each financial year to improve the service.
- All establishment Councils will participate in the governance of the SSO as well as purchasing services through it. This is to ensure the SSO represents the best interests of all participating Councils and to ensure the SSO does not work against the All of Government initiative.
- Whilst the Councils incur internal ICT costs for application development and delivery, the SSO will not directly charge the internal customers (other business units) within the Councils. The SSO will look to support the Councils in existing chargeback arrangements by providing a breakdown of services by Council and business unit where relevant e.g. desktop devices, service desk usage.

SSO structural options tested against Shared Services Principles

Shared Services Principles	COUNCIL CONTROLLED ORGANISATION (CCO)	BUSINESS UNIT	CLIENT COMMITTEE PLUS EMBEDDED CLIENT FUNCTION
			





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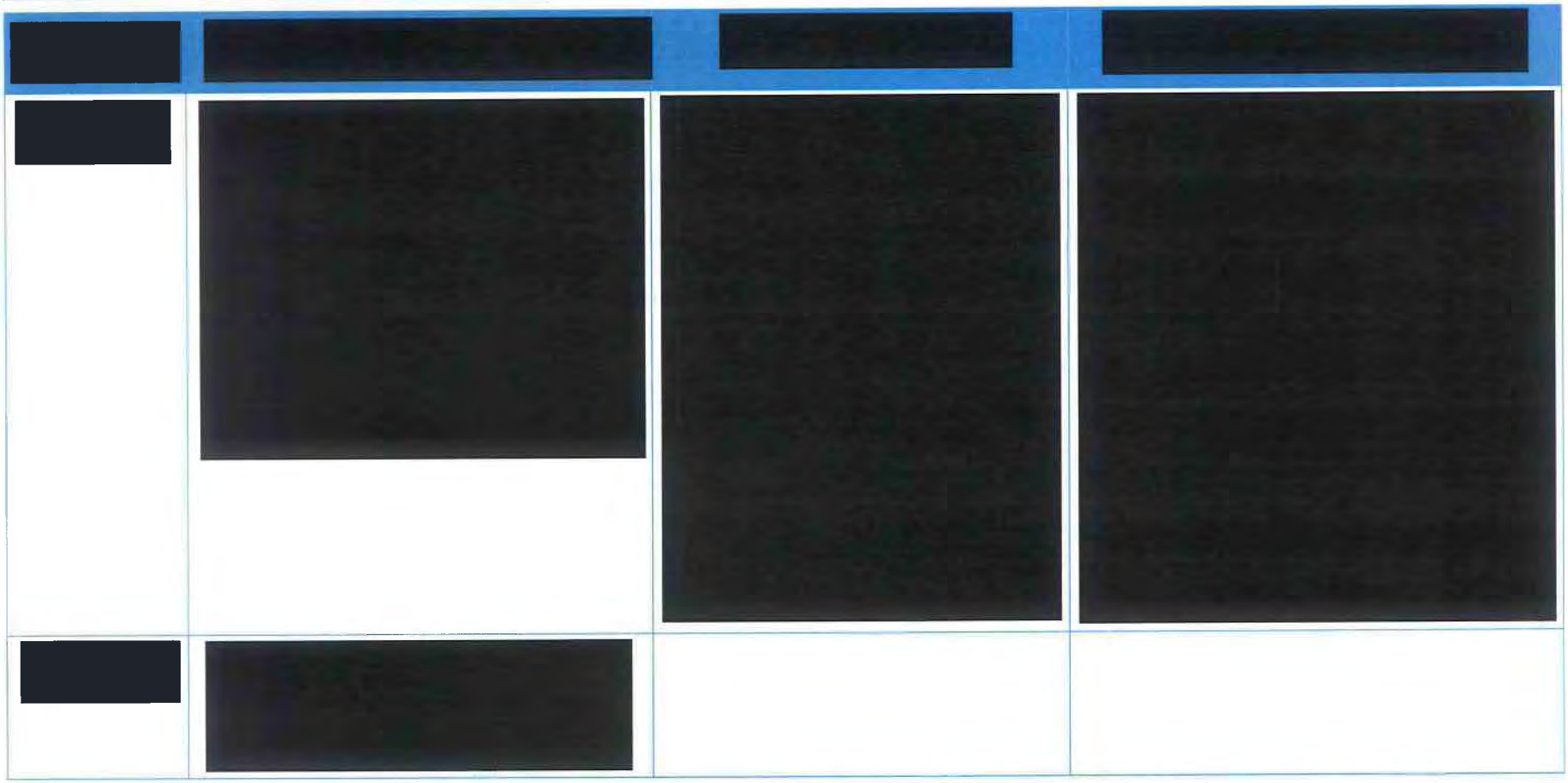

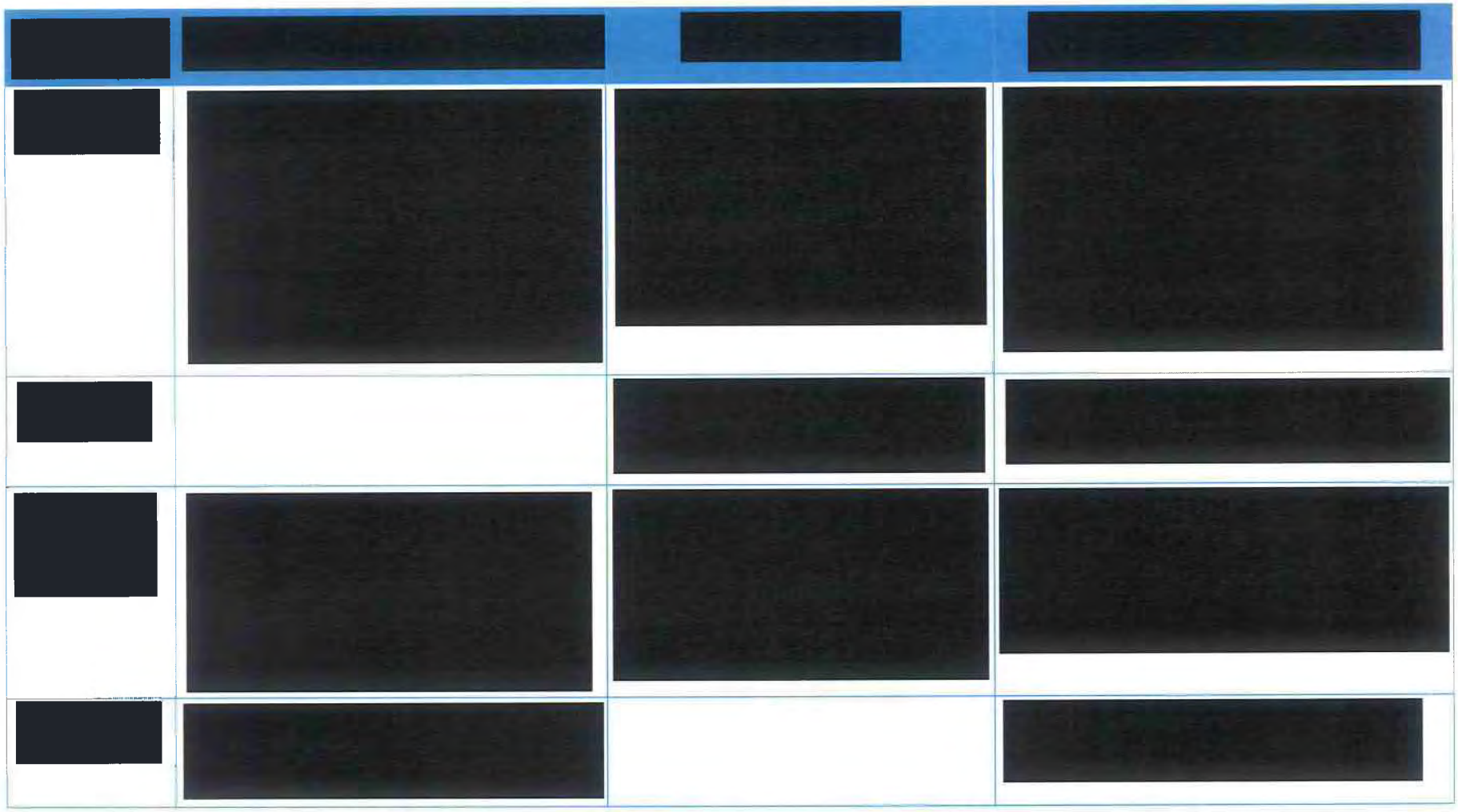

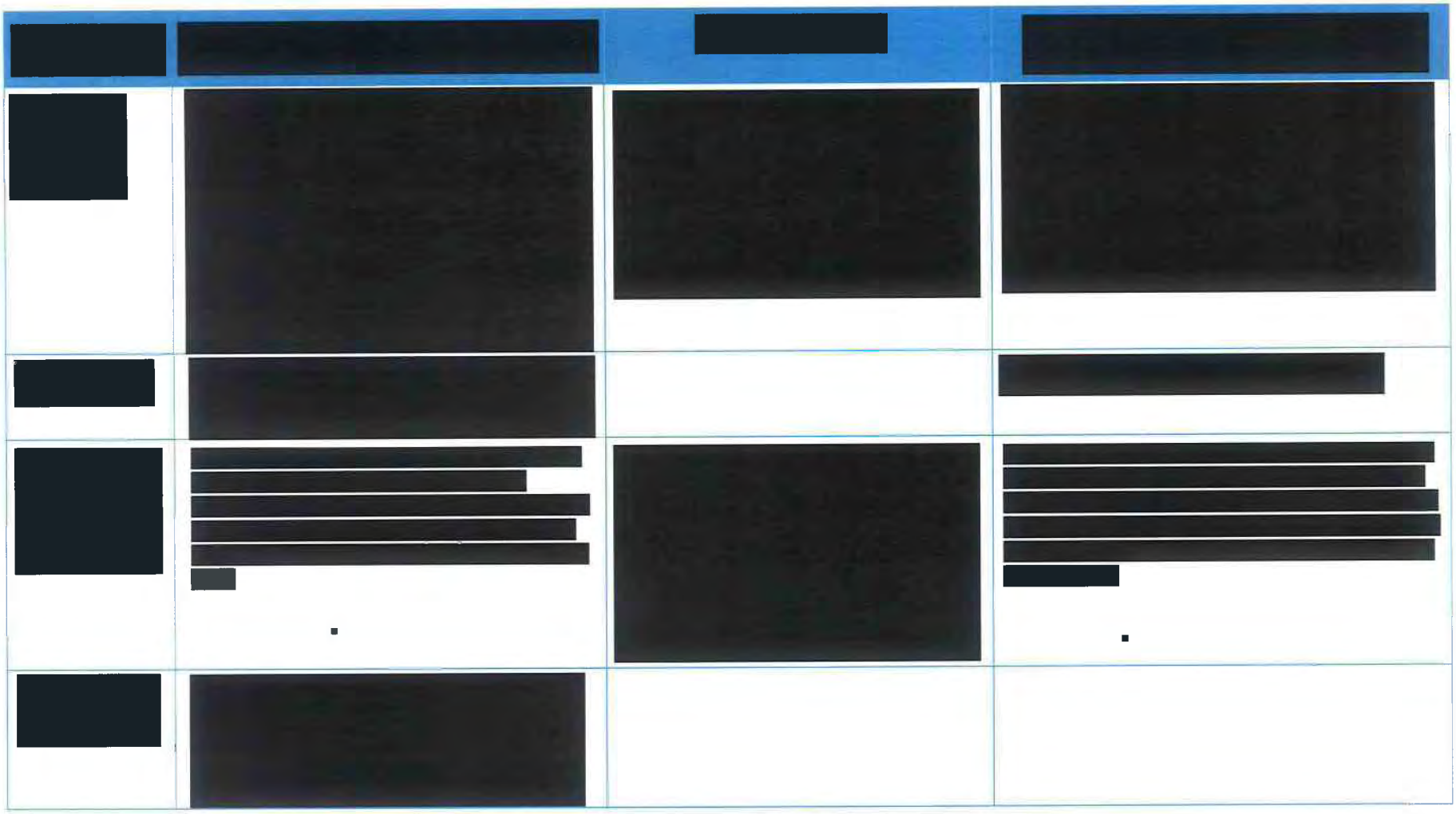

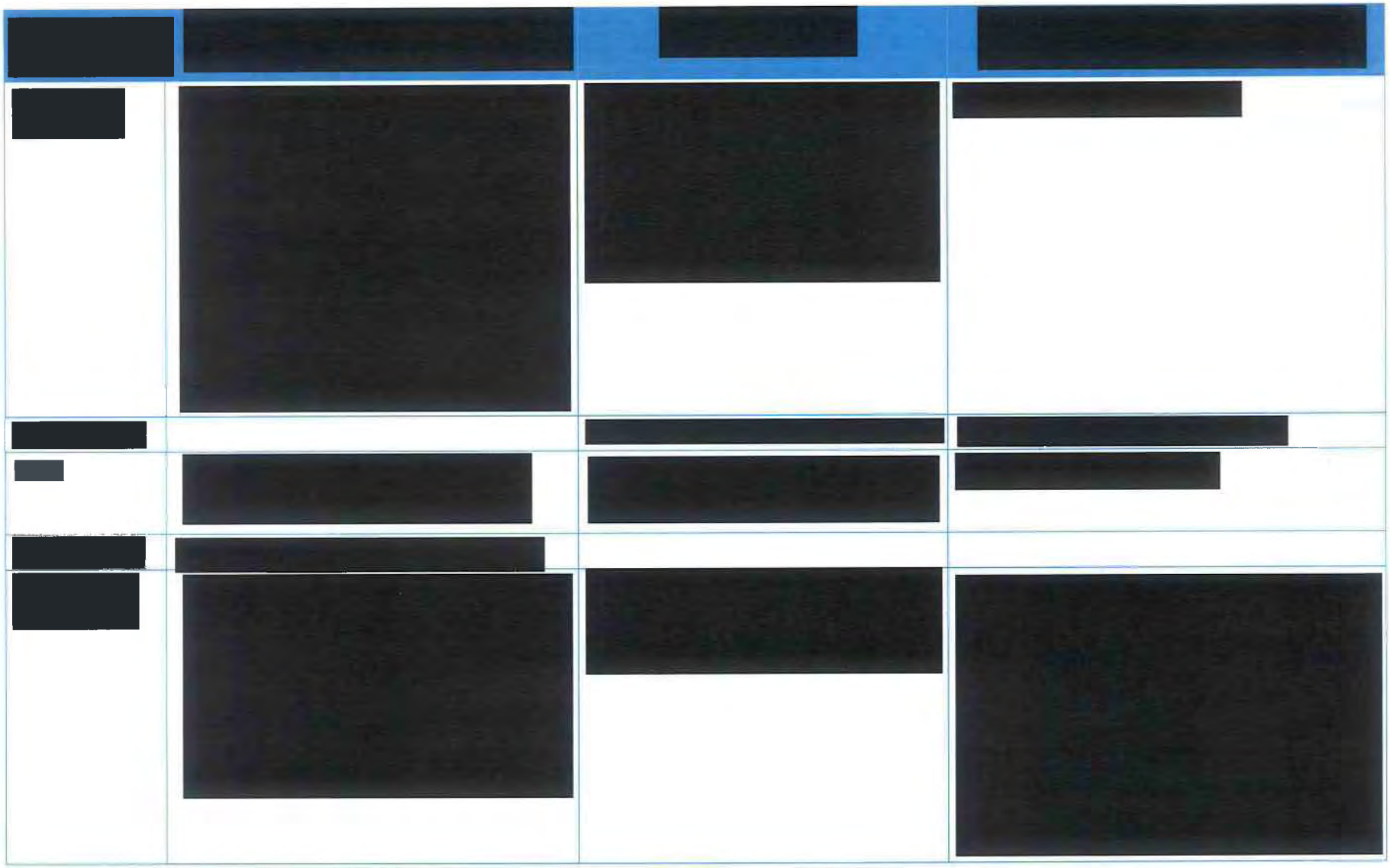

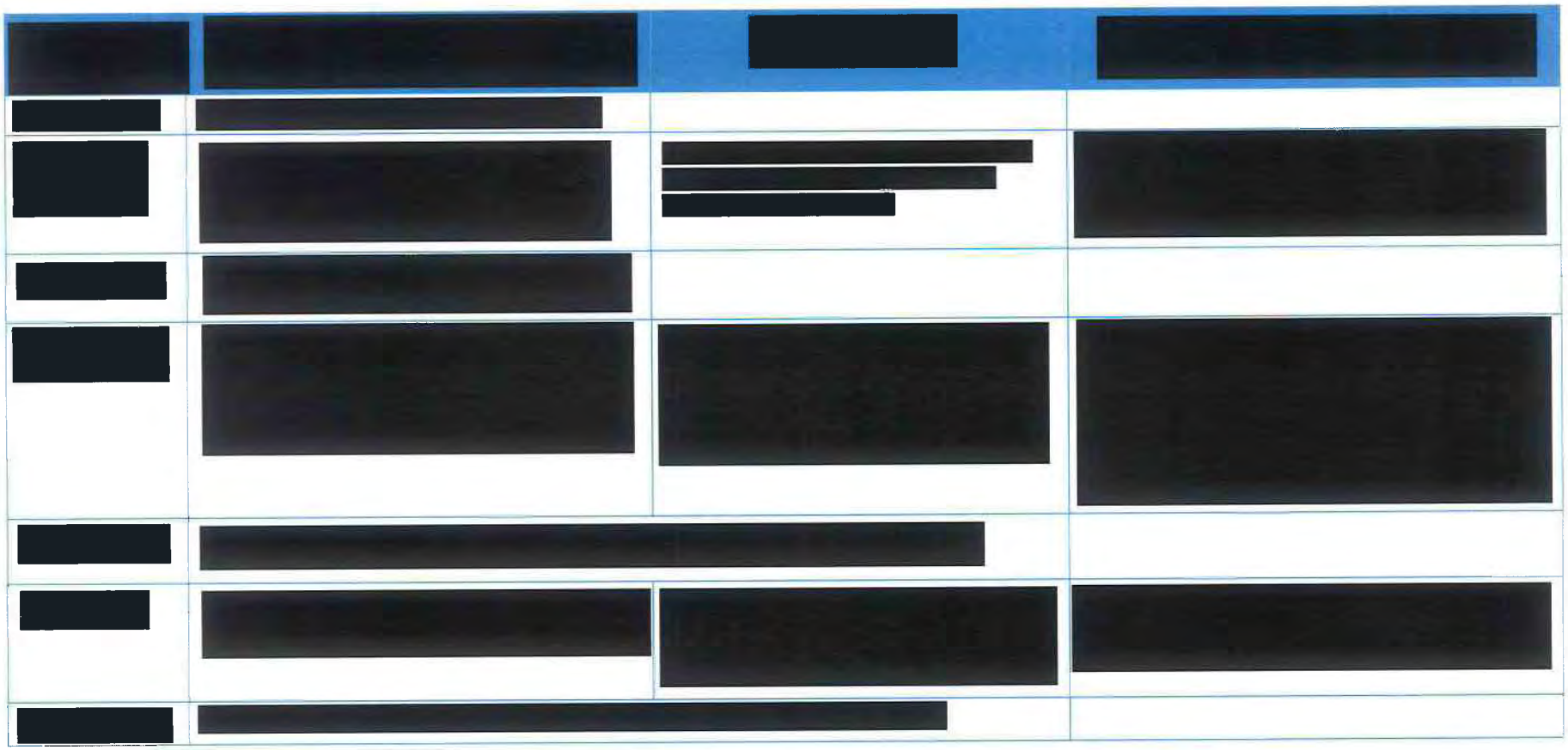

Appendix IX– Next Phase Activities

The follow items for further discussion have been identified for further discussion between the Councils and Wellington Water, and with the short-listed Service Providers in the next phases, in addition to the items listed in the Executive Summary:

- Boundary Management (in and out of scope items)
- Specific service levels and change management
- Change freeze during/ lead up to transition
- Ability to deliver effort for successful gate3
- Currency fluctuations impact
- SSO functions and operating model
- SSO resourcing and form
- Major projects over-view/impact assessment (including non – ICT projects)
- Business Change Management Plan – greater clarity and certainty progressively
- Revised and strengthened communications
- Staff and IP retention
- Media management
- Potential confusion with amalgamation, other shared services and WCC's Odyssey Programme
- Vendor landscape – what has changed in their strategy and service offerings since RFP
- Support for Councillors and Mayors/ Chair (service desk issue)
- Effective due diligence on the vendor

Further areas for discussion will be noted and logged in a Due Diligence register for the coming phases.

Appendix X– Potential business scope and key service requirements

Service Requirements	Scope Assessment		
	Minimum Scope	**Intermediate Scope**	**Maximum Scope**
Operational effectiveness	▪ SSO facilitates the use of a coordinated move to All of Government "AoG" services for which the contracts are managed individually by the Councils ▪ Management of the network and components not covered by AoG are shared, however current structures are retained as is ▪ Minimal standardisation, collaboration or sharing	▪ As per minimum scope plus: ▪ SSO formed to share and standardise all infrastructure and rationalise as appropriate ▪ Minimum support functions of that infrastructure from SSO e.g. Infrastructure Architecture ▪ ICT Strategy, Enterprise Architecture, Business Analysis, Project Management and Council application vendor management remains within the Councils	▪ As per intermediate scope plus consolidated strategy and architecture teams (i.e. moving towards a combined ICT team) ▪ Manage vendors and licenses in a more coordinated approach and one that gives equal access of service to all Councils ▪ Create single network ▪ Single operating environment and single standard infrastructure
Enabling our customers	▪ Councils independently decide where to invest, and retain authority over infrastructure decisions	▪ Councils collaborate and use joint investment mechanism to invest in new technologies ▪ Share resources as necessary to respond to emerging needs	▪ Through the SSO, Councils collaborate and design a coherent roadmap based on the shared environment ▪ Freed up capacity is invested in new technology
Reducing risk	▪ Share existing data recovery centres and standardise onto AoG services	▪ As per minimum scope but reducing complexity further by combining more elements of the management and infrastructure together	▪ Relocation to other Council site possible with combined network and standard operating environment