



Absolutely Positively
Wellington City Council
Me Heke Ki Poneke

Wellington Regional Shared ICT Infrastructure Services

Implementation Business Case Update



Version 1.0

CEs Approval 2 October 2015

Glossary

The table below defines several of the terms and abbreviations commonly used in this document.

Term	Meaning
BAFO (Best and Final Offer)	Formal proposals, received from vendors on 22 May 2015, including updated pricing and other information since the RFP responses and December 2014 pricing refinement. BAFOs were the basis for price evaluation, supporting selection of the preferred supplier.
Participating Agency	One of the organisations participating in, and contracting for, the governance and services model of SIIP. The four Participating Agencies at this point are: <ul data-bbox="783 752 1082 898" style="list-style-type: none">• Wellington City Council• Porirua City Council• Upper Hutt City Council• Wellington Water
Service Recipient	One of the organisations that will receive services via the SIIP arrangements. The four Service Recipients at this point are: <ul data-bbox="783 1021 1082 1167" style="list-style-type: none">• Wellington City Council• Porirua City Council• Upper Hutt City Council• Wellington Water
SSO (Shared Services Organisation)	This will be a business unit within one of the Participating Agencies, responsible for managing the contract with the supplier on behalf of all Service Recipients.

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1. Executive Summary

1.1. Background and purpose

The Wellington Regional Shared ICT Infrastructure Services (SIIP) programme business case was approved by Chief Executives on 27 February 2015. The business case confirmed the shared services model and approved the next phase of the programme, including:

- Due diligence, Best and Final Offer (BAFO) and commercial negotiations
- Select the preferred supplier(s)
- Finalise the form, functions and operating model of the SSO
- Decision on implementation

The first three of these items have now been completed, and the purpose of this document is to support the decision on implementation with updated information.

1.2. Work completed and changes since February business case

The February business case provided expectations relating to the costs, benefits, and delivery approach of the programme. Since the February business case, the programme has:

Activity / deliverable	Comments
Completed due diligence on the vendors	Dimension Data was identified as preferred supplier unanimously by Council CIOs.
Facilitated vendor due diligence on the Service Recipients	This was used by vendors to prepare their BAFOs. In some areas, significant demand volume increases from previous assumptions were identified by vendors.
Completed initial commercial negotiations	This has provided over-arching agreement on the contractual framework, as well as improved pricing (price certainty and lower unit pricing), which vendors took into account in their BAFOs.
Received and analysed BAFOs	Vendor BAFOs received on 22 May 2015 formed the basis for final evaluation and recommendation from the team as to preferred supplier.
Selected the preferred supplier	Dimension Data was selected as preferred supplier by Chief Executives on 26 June 2015.
Finalised the form, functions and operating model of the SSO	This was approved by Chief Executives on 26 June 2015, and the basis is for a slightly lower cost SSO than was estimated in the February business case.
Completed final commercial negotiations	The team negotiated cost reductions in several areas with Dimension Data in order to improve the value and affordability of the shared service.
Recalculated costs following the withdrawal of	GWRC's withdrawal required all costs to be revisited.

Activity / deliverable	Comments
GWRC	The programme team worked with Dimension Data to produce new cost figures for the remaining customer organisations.
Revised programme planning, including for transition	This is being presented separately but has been used to update programme costs and benefits.

1.3. Business and scope changes

The February business case analysis was based on the four councils as service recipients. There have been two significant changes to this model:

1. **Addition of Wellington Water into the SIIP:** Wellington Water was established in 2014, including transfers of some staff from councils. The analysis in this document includes Wellington Water as a separate entity (both from a demand volume and “status quo” perspective), and vendors included Wellington Water in their due diligence activities.
2. **Greater Wellington Regional Council (GWRC) exclusion:** GWRC made a decision on Monday 14th September 2015 to exclude itself from the SIIP. Dimension Data has recalculated the costs associated with the SIIP for the remaining participating agencies.

Three scope items are worth noting:

- Since February, the programme confirmed the decision to exclude radio network services from the initial scope.
- Dimension Data services will exclude print services because it is uneconomic for Service Recipients to exit or novate their legacy contracts.
- A cost smoothing mechanism has been identified by Dimension Data to ensure affordability of the participating agencies in Years 1 and 2; effectively deferring costs to year 3 and 5 at a rate of 9%.

1.4. Impacts on business case

Case for change

The “strategic case” and “case for change” provided in the February business case remain valid. Since that time, Service Recipients have been planning IT service delivery on the assumption that SIIP will be implemented, and this has included deferring some capital expenditures and filling vacancies only where absolutely required, often with contractor staff. If anything, this means the case for change now is even more compelling, because Service Recipients would need to reinvest significantly to provide the required levels of capability and services.

The withdrawal of GWRC does somewhat weaken the overall case for change, because GWRC’s infrastructure would be significantly improved by the shared service and as a regional organisation they form a key part of many regional initiatives. However, this is partly mitigated by the addition of Wellington Water, and the rationale presented in the February business case remains valid for the four participating agencies.

Qualitative benefits

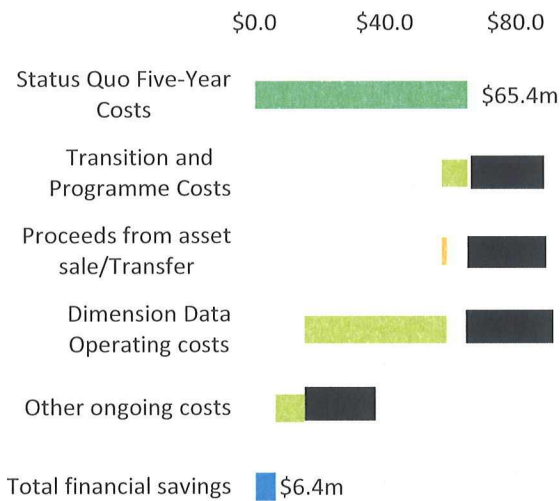
The qualitative benefits described in the February business case remain valid.

Financial benefits and costs

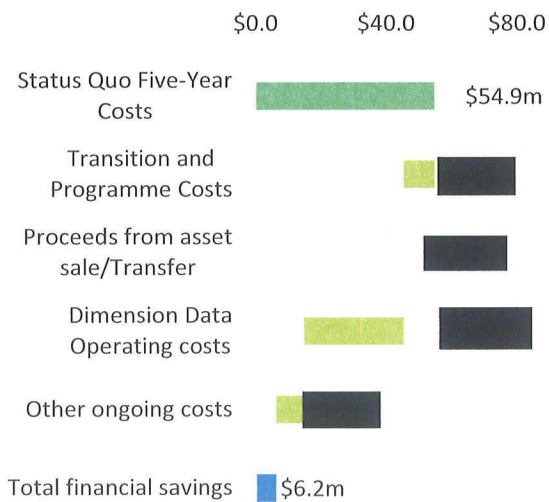
The chart below summarises the main financial changes since the February business case:

Figure 1: Major financial changes since the February business case

February Business Case – costs and benefits



September Business Case – costs and benefits (base case)



The major changes are summarised in the table below.

Category	Comments
Status quo five-year costs	These have decreased significantly due to the exclusion of GWRC, and increased for the inclusion of Wellington Water. The net impact is around \$10.5 million over five years.
Transition and programme costs	These have increased primarily due to a longer transition period, which was estimated at only six months in February. It includes the status quo costs Service Recipients will continue to bear until transition is completed.
Proceeds from asset sale/Transfer	In February, there was an assumption that Service Recipient assets transferred to the provider would have \$1.5 million of value to the provider. This is no longer the case.
Dimension Data Operating costs	These have decreased significantly, with the primary reasons being: <ul style="list-style-type: none"> • Exclusion of GWRC decreasing service requirements, despite the inclusion of Wellington Water • Exclusion of print services because current contracts are unable to be exited / novated economically by Service Recipients – the ongoing print contract costs are now in other ongoing costs below
Other ongoing costs	This category now includes the legacy print contracts that Service Recipients will need to retain (around \$725 k per year).

The shared service governance structure will monitor actual costs on an ongoing basis and determine the appropriate allocation between organisations.

Change in Risk Profile

The withdrawal of GWRC has somewhat changed the risk profile of the SIIP, with financial benefits lower for each council and an increased share of implementation costs. This has increased the risk of affordability of the SIIP for the councils. This has been partially mitigated through a cost smoothing mechanism that is outlined in Section 4.

1.5. Information provided to support the decisions

In this document, we have provided:

- Updated financial costs and benefits of SIIP, including allocations for each Service Recipient, which demonstrates that the programme remains the lowest cost option
- Reconciled financial changes since the February business case
- An overview of the mechanisms used to ensure affordability for the service recipients
- A summary of the impact of the GWRC withdrawal

2. Financial costs and benefits

2.1. Summary

In this section, we have set out the costs of the programme, including all future state service delivery over a 5-year period from the current financial year (FY 2015/16). We have contrasted this with the “status quo” costs¹ established as part of the February business case.

The costs include updated allocations with the inclusion of Wellington Water, GWRC excluding itself from the SIIP, and a cost smoothing mechanism to ensure affordability in Years 1 and 2 (discussed in Section 3). There is also a contractual mechanism to adjust pricing and smoothing incrementally if the contract generates additional revenue for Dimension Data, replacing the scale lost from GWRC.

WCC senior leadership has identified several additional agencies that can be on-boarded, or which represent real opportunity. The “base case” includes an assumption that other agencies will be on-boarded (creating additional scale and revenue) as follows:

- \$500k additional revenue in year 1: equates to 3 or 4 CCOs (e.g. Grow Wellington and PWT joining WREDA from GWRC, Cable Car and Museums Trust or similar)
- \$1,000k additional revenue in year 2: e.g. a medium sized council of ~200 seats or two larger CCOs
- Additional \$1,000k revenue from year 3: e.g. a medium sized council of ~200 seats or two larger CCOs

The potential financial benefits that could be lost – i.e. if there are no new entities brought on, and no additional revenue – has also been calculated (refer table in section 2.3).

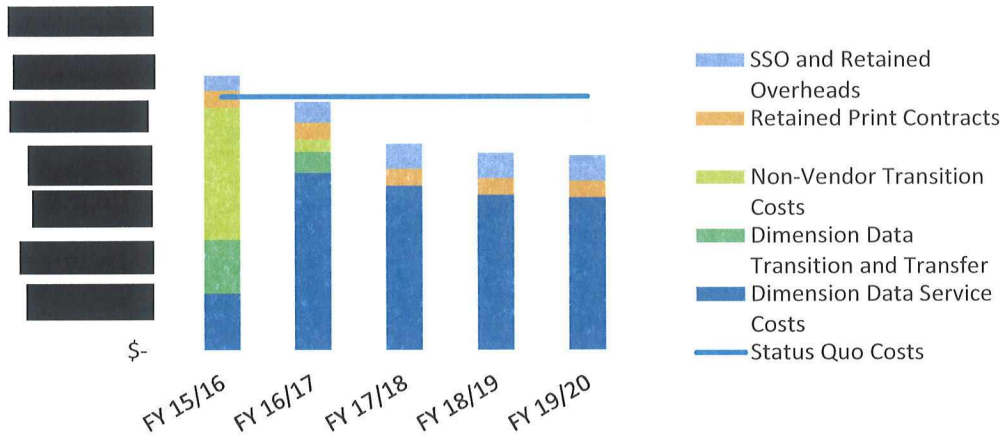
2.2. Expenditure Profile over the 5 years

The chart below shows that costs will be \$0.9 million greater than status quo costs in FY 2015/16, primarily due to transition costs, including overlapping expenditure while Dimension Data becomes established. Thereafter, financial savings become significant, and reach \$2.5 million (annual nominal dollars) by the end of FY 2019/20.

A cost smoothing mechanism has been applied to ensure affordability of the participating agencies in Years 1 and 2. This mechanism is described in detail in Section 4.2.

¹ Note that we have not revised “status quo” cost assumptions since the February business case other than to identify costs of Wellington Water. The February “status quo” cost assumptions are conservative, e.g. have not been updated for vendor due diligence findings or inflation.

Figure 2: Comparative Expenditure Profile FY 2015/16 to FY 2019/20 (nominal dollars)



The chart above also indicates that the payback period is approximately 29 months from July 2015. In net present value² (NPV) terms, the comparison of status quo and SIIP is set out in the table below:

Activity / deliverable	NPV over five years
Status quo costs	\$45,532,849
SIIP costs	\$40,940,887
Financial benefit	\$4,591,963

This analysis shows that implementing SIIP is the lower cost option for the Service Recipients overall.

Even adjusting for a worst case scenario where no additional seats are added to the SIIP in the first 5 years, financial benefits would be around \$3.7 million over those five years.

2.3. Analysis by Service Recipient

The costs and benefits are not distributed evenly across Service Recipients. Status quo costs for four of the Service Recipients were established as part of the February business case, and we have since established status quo costs for Wellington Water.

The table below summarises how future state SIIP costs have been allocated for the purposes of showing the impact for each Service Recipient:

Cost	Allocation
Status quo five-year costs	Established based on financial information from each organisation
Transition costs	Allocated based on proportion of future state services fees (“Dimension Data services” below)

² Using a discount rate of 8%, consistent with the February business case and Treasury guidelines

Cost	Allocation
Current operating costs during transition	Established based on financial information from each organisation
Dimension Data services	Allocations provided by Dimension Data, based on estimated demand volumes by Service Recipient
Retained overheads	Established based on financial information from each organisation
SSO costs	Allocated based on proportion of Dimension Data services fees

The table below shows the cumulative (nominal dollars) costs and benefits for each Service Recipient over five years to FY 2019/20.

Spreadsheets detailing annual figures are available for each Service Recipient.

Costs and benefits over five years by Service Recipient

Total Costs for Five Years					
	WCC	PCC	UHCC	WW	Total
Status Quo Costs	\$39,728,720	\$8,307,497	\$3,539,833	\$3,291,451	\$54,867,502
One-off costs					
DD Transition Costs					
DD Transfer Costs					
Non-Vendor Transition Programme					
Staff Costs over Transition Period					
Contract Costs over Transition Period					
Redundancies					
Total One-off costs	\$7,292,229	\$907,426	\$642,768	\$634,911	\$9,477,334
Ongoing Costs					
DD Services Costs					
Retained Overheads					
Retained Print Contracts					
SSO Costs (incl Establishment)					
<i>Percent for allocations</i>	73.2%	14.8%	7.3%	4.8%	
Total Ongoing Costs	\$28,071,967	\$6,067,786	\$3,058,485	\$1,946,030	\$39,144,268
Total Future State Costs	\$35,364,196	\$6,975,212	\$3,701,253	\$2,580,941	\$48,621,602
Financial Benefit (Base Case)	\$4,364,524	\$1,332,284	-\$161,420	\$710,511	\$6,245,900
Potential benefit reduction (no growth)	-\$1,838,873	-\$371,756	-\$183,414	-\$119,496	-\$2,513,539
Financial Benefit (Worst Case)	\$2,525,651	\$960,528	-\$344,834	\$591,015	\$3,732,360

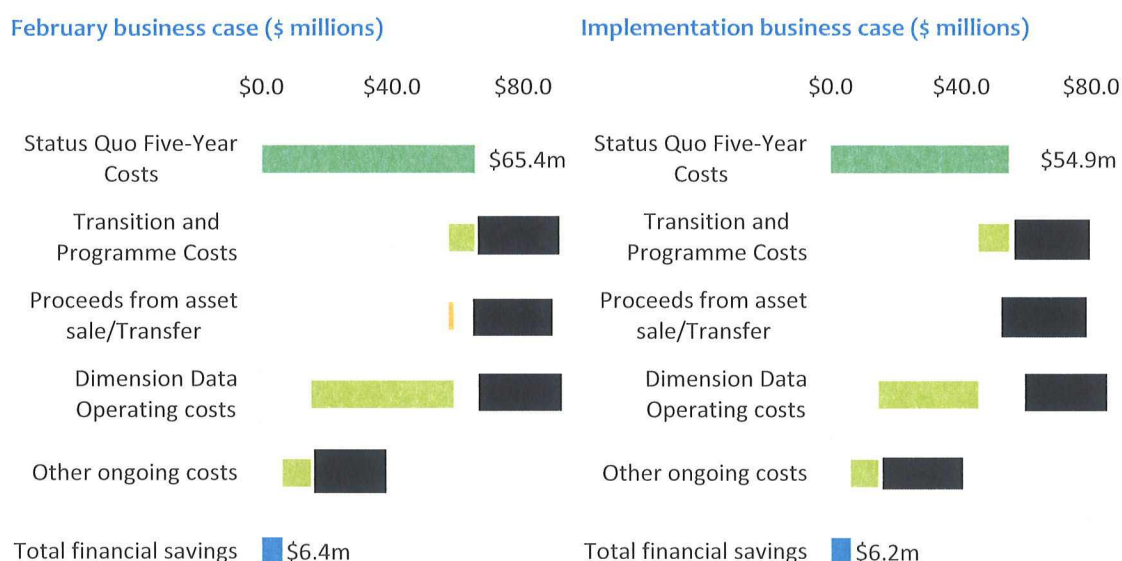
The 5 year benefit to each of the participating agencies is identified above. These numbers include the cost smoothing mechanism and discounts rates for the base case and a worst case scenario where no additional agencies join the SSO.

3. Comparison to February business case

3.1. Summary

Overall, financial benefits have decreased since the February business case. The major factors that have contributed to this are summarised in the chart below.

Figure 3: Major financial changes since the February business case (nominal dollars over five years)



Cost	Change	Reason for change
Status quo five-year costs	- \$10.5 million	Main driver has been inclusion of Wellington Water and GWRC excluding itself from the SIIP.
Transition and Programme Costs	+ \$1.5 million	Higher vendor transition costs, following Dimension Data's due diligence on Service Recipients, and slightly higher non-vendor transition costs. Primarily due to longer transition period (February assumed 6 months).
Proceeds from asset sale / transfer	- \$1.5 million	No asset sale has been proposed as this would incur a higher lease cost across the contract period.
Dimension Data services costs	- \$13.1 million	Overall this is lower with GWRC excluding itself from the SIIP, which is partially offset by the inclusion of Wellington Water. Lower costs arising from initial commercial negotiations,

Cost	Change	Reason for change
		despite demand volume increases found through vendor due diligence. However, print services have also been excluded since February as exiting or novating legacy contracts is not economic. The offsetting cost increase is in other ongoing costs below.
Other ongoing costs	- \$0.3 million	While SSO costs have reduced substantially, this category now includes retaining the legacy print contracts (\$3.6 million over five years).
Financial Benefits	- \$0.2 million	Reduced benefits overall, primarily due to GWRC excluding itself and retained fixed costs spread over remaining four Service Recipients.

4. Ensuring affordability of the SIIP

4.1. Summary

With GWRC excluding itself from the SIIP, Dimension Data has identified an amount of \$912k in Years 1 and 2 (cumulative), which they cannot feasibly forgo. This additional \$912k in years 1 and 2 is considered by the participating agencies as unaffordable.

To ensure the affordability of the SIIP for the remaining service recipients in the first 2 years, Dimension Data has proposed a cost smoothing mechanism to remove a proportion of these costs from years 1 and 2 and allocate them across years 3 to 5.

4.2. Cost Smoothing Mechanism

A cost smoothing mechanism has been agreed with Dimension Data to ensure that the year 1 and 2 costs of the SIIP are affordable for the service recipients with GWRC excluding itself from the SIIP.

The Cost Smoothing Mechanism will remove a proportion of current costs that Dimension Data cannot afford to forgo, from year 1 and 2 and allocate these costs over Years 3, 4 and 5. The total costs that will be delayed from Years 1 and 2 total \$912k with an effective interest rate of 9%.

This will be achieved through a reduction in the discounts that are available in the contract. The amended discount rates have been provided on a worst case scenario view where no additional agencies have been added into the SIIP within the first two years.

Figure 4: Overview of cost smoothing mechanism (costs from 12 month periods commencing October 2015)



4.3. Benefits from additional participants in the SIIP

The SIIP costs and benefits have been calculated on a worst case scenario where no additional participants have been included in the SIIP. This worst case scenario has a \$561k per year shortfall in years 3 – 5 that Dimension Data cannot forgo.

Dimension Data will amend the schedules to include the \$561k uplift in years 3 to 5. However, if additional parties join the SIIP then the mechanism to reduce the \$561k will be through the addition of discounts. These discounts will be based on performance targets for new business, agreed in the contract.

5. Impact of GWRC withdrawal

5.1. Summary

GWRC has been a major partner in the SIIP since the initial feasibility study. On Monday 14th September, GWRC withdrew from the SIIP arrangement. At the point of its withdrawal, the benefit to GWRC totalled [REDACTED] over 5 years excluding any retained overheads.

The withdrawal of GWRC has reduced the overall benefit that will be achieved by each remaining organisation. Transition costs have reduced due to the GWRC withdrawal but each council is now required to absorb a greater share.

There are a number of ICT infrastructure services that are shared between the participating parties. We identified the services to gain insight into the full cost to run the status quo ICT. There is often no mechanism to recuperate the costs. It is expected that transition effort required to:

- Provide a mechanism for Wellington Water staff to access GWRC databases and systems
- Exit GWRC from services and infrastructure shared with Wellington City Council

5.2. GWRC Benefit

At the point of its withdrawal, the benefit to GWRC of the SIIP totalled [REDACTED] over 5 years excluding any retained overheads.

Figure 5: GWRC’s benefit over 5 years before withdrawal from the SIIP

	GWRC
Status Quo Five-Year Costs	\$ 13,924,107
<u>One-off costs:</u>	
Transition cost	[REDACTED]
Current operating cost during transition	[REDACTED]
Income from asset sale	[REDACTED]
Total one-off cost	\$ 2,557,179
<u>Ongoing costs</u>	
Dimension Data Services	[REDACTED]
Retained technical staff cost	[REDACTED]
Retained Print Contracts	[REDACTED]
SSO costs	\$ 973,554
Total ongoing costs	\$ 10,185,288
Total Future State Five-Year Costs	\$ 12,742,467
Total Five-Year Cost Saving (ex retained overheads)	\$ 1,181,640
Retained overheads	\$ 1,000,269
Total 5 year cost saving	\$ 181,371

5.3. Financial Impact of GWRC withdrawal from SIIP

We have identified the financial impact of the GWRC withdrawal from the SIIP with the majority of the impact being the magnitude of transition costs and the allocation of costs between the participating parties.

Figure 6: Total 5 year cost saving of the participating agencies with the withdrawal of GWRC

Total Costs for Five Years					
	WCC	PCC	UHCC	WW	Total
Status Quo Costs	\$39,728,720	\$8,307,497	\$3,539,833	\$3,291,451	\$54,867,502
One-off costs					
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Ongoing Costs					
DD Services Costs					
<i>Percent for allocations</i>	73.2%	14.8%	7.3%	4.8%	
Retained Overheads					
Retained Print Contracts					
SSO Costs (incl Establishment)					
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Financial Benefit (Worst Case)	\$2,525,651	\$960,528	-\$344,834	\$591,015	\$3,732,360

Overview of cost impacts due to the GWRC withdrawal from the SIIP

There has been an increase in the mobile Spark wholesale costs, ITSM licensing, and SIIP commercial phase extension. This is offset by a reduction in transfer costs, transition costs, programme management costs and SSO costs. 5 FTE will be removed from the Dimension Data service desk and 1 FTE has been removed from the SSO. Wellington City Council has also delayed the desktop transition to year 3 to ensure affordability in Years 1 and 2.

While overall there has been a reduction in costs, the participating agencies will receive a larger share of these costs than proposed in the February business case.

Figure 7: Change in costs with the withdrawal of GWRC

	5-Year Total	2015/16	2016/17	2017/18	2018/19	2019/20
<i>Increases</i>						
Mobile Spark wholesale cost	\$	\$	\$	\$	\$	\$
ITSM licences	\$	\$	\$	\$	\$	\$
SIIP commercial phase extended	\$ 55,000	\$ 55,000	\$ -	\$ -	\$ -	\$ -
<i>Decreases</i>						
Transfer	\$ (162,926)	\$ (162,926)	\$ -	\$ -	\$ -	\$ -
Transition	\$ (377,398)	\$ (268,446)	\$ (108,952)	\$ -	\$ -	\$ -
WCC desktop transition delayed to year 3	\$ -	\$ (238,868)	\$ (96,948)	\$ 335,816	\$ -	\$ -
Service Area Transition Costs	\$ (26,400)	\$ (23,400)	\$ (3,000)	\$ -	\$ -	\$ -
Service Area Transition Costs - Redundancy	\$ (191,000)	\$ 74,882	\$ (265,882)	\$ -	\$ -	\$ -
General Programme Management Costs	\$ (35,000)	\$ (25,000)	\$ (10,000)	\$ -	\$ -	\$ -
SSO establishment and operating costs	\$ (569,400)	\$ (113,400)	\$ (114,000)	\$ (114,000)	\$ (114,000)	\$ (114,000)
Total	\$ (804,805)	\$ (663,519)	\$ (482,862)	\$ 337,736	\$ 1,920	\$ 1,920

5.4. GWRC services offered to Wellington Water

Approximately 60 FTE were transferred from GWRC (Bulk Water staff) to Wellington Water. These staff require the use of GWRC services and infrastructure.

The service and infrastructure costs incurred to provide the service required to Wellington Water is estimated at \$240k per year. There is no current mechanism for GWRC to recuperate these costs from Wellington Water. With GWRC excluding itself from the SIIP it is expected the GWRC will no longer be required to provide support to Wellington Water and will receive a benefit of \$240k per year from the establishment of the SIIP.

Wellington Water will continue to require access to GWRC databases and software post transition to the SIIP. It is intended that Wellington Water will separate, in full, from GWRC but some transition effort will be required to provide access to GWRC systems, in a similar way that Wellington Water staff currently access other Councils' systems.

Figure 8: Estimated cost of services provided to Wellington Water by GWRC

Cost Tower	Total Cost Transfer (per year)	Cost Type	Description	Cost Breakdown (per year)
Network Services	93,647.18	Opex	0.6 FTE Network Management	68,092.71
			0.2 FTE Exchange Services	22,697.57
		Capex	Apportioned Network Upgrade costs (Apportioned by 65 FTE)	2,856.90
Desktop Services	49,273.71	Opex	Printing Costs (Direct Cost Transfer)	20,673.71
		Capex	Direct Transfer of 65 laptops and monitors based on replacement value.	28,600.00
Mobile Services	0	N/A	N/A	N/A
ICT Infrastructure Management	17,254.41	Opex	0.20 FTE Hardware Support	15,341.20
		Capex	Software Replacement costs Exchange and AD - (Apportioned by 65 FTE)	1,913.21
Service Integration	76,706.00	Opex	1.0 FTE Internal Service Desk Support	76,706.00
Total	236,881.30			236,881.30

5.5. Wellington City Council Services offered to GWRC

There are a number of common infrastructure elements and associated commercial agreements between Wellington City Council and GWRC. The services, infrastructure and commercial agreements currently shared are identified below. We have identified the impact and expect that transition effort will be required by GWRC to exit from these services.

Common Vendor provided Services

GWRC is the lead agency of a mobile agreement. Porirua City Council and Wellington Water along with Wellington City Council provide the bulk of the agreements' handsets, Data, and Connections. It is possible that GWRC would not be able to continue to get the flexibility or pricing of the SIIP agreement with its volumes alone.

Corporate Library Services

Wellington City Council's corporate librarian also provides librarian services to GWRC. This is currently made possible because of the shared network links.

This corporate library service is currently recouped from GWRC by Wellington City Council but transition effort will be required by GWRC to access this system once Wellington City Council transition to the SIIP.

Networks

GWRC and Wellington City Council share a 10Gbps "ring" network to Trentham Data Centre, essentially 2 paths owned and used by each respective council. GWRC and Wellington City Council use each other's network path for resilience. Once Wellington City Council moves to the SIIP, GWRC will be required to provide its own network link for redundancy.

Wellington City Council will need to implement alternative Wi-Fi controllers that are currently provided by GWRC.

Wellington Regional emergency Management Office (WREMO)

WREMO utilise a number of Wellington City Council provided services located at 2 Turnbull Street, Thorndon. This site is Wellington City Council owned and is the location for Wellingtons EOC; however Telephony and Network services to the site are also utilised by Wremo (GWRC employees).

These include;

- 20 x Emergency PSTN phone lines
- Desk phones
- Block of DDIs connected via Wellington City Council's soon to be retired PBX
- PRA connected via Wellington City Council owned 2921 Voice Router utilising SIP connection with World Exchange
- Wellington City Council Radio Network
- Backup Cisco CUCM Call manager/PBX
- Site Security provided by Red Wolf is utilising our Wellington City Council Networks
- Some WI-FI on site also provided by Wellington City Council

6. Conclusion and next steps

6.1. SIIP presents the best option for providing IT services

The analysis in this document validates that:

- SIIP implementation provides significant financial benefits overall even with the withdrawal of from the SIIP.
- SIIP implementation will deliver the qualitative benefits sought, as described in the February business case
- The proposed solution is affordable with the cost smoothing mechanism in years 1 and 2 and the addition of agencies in future years.

6.2. The programme will proceed with implementation

The following table outlines major programme activities and timeframes over the next 12 months.

Activity / deliverable	Timing	Governance
Finalise contractual arrangements with Dimension Data	22 October 2015	WCC Chief Executive to sign with Dimension Data
Finalise contractual arrangements with Participating Agencies and Service Recipients	21 October 2015	Chief Executives of all four Participating Agencies to sign
Commence transfer and transition to Dimension Data	October 2015	Planning approval and authority by Wellington City Council Chief Executive
Confirm SSO appointments	November 2015 to March 2016	SSO Governance
SSO commences operations	January 2017 (fully operational)	SSO Governance
Commence business change management, including detailed impacted staff engagement	October 2015	Programme to support each Service Recipient in its change process
Complete transition to Dimension Data	December 2016	SSO Governance