

# Best Value Review of ICT

## Hypothesis 1 Report

### Summary sheet

#### Hypothesis

To test whether total outsourcing of our ICT function, selective outsourcing of various elements / processes, or total insourcing of ICT provides the best way forward for HCC in terms of efficiency / effectiveness / meeting the needs of services and delivering the corporate agenda.

#### Summary of recommendations

- ❑ To pursue outsourcing of ICT services within service areas identified within this report using a “best of breed” approach rather than employing a total outsourcing model.
- ❑ To target identified improvements over current arrangements when re-tendering those services and look to move towards output based service contracts.
- ❑ To establish a single help desk for ICT services that addresses the failings identified by this best value review which is either located in-house or with a separate contractor to other ICT contracts dependent on further analysis of costs / benefits of each option. (See linked hypothesis on support issues.)

#### Service Benefits

Establishment of contracts that better meet the needs of current HCC services and staff. To address the contract failings identified from best value review benchmark exercise.

#### Estimated future costs / efficiencies

This is dependent of future negotiations with contractors. Benchmarking has shown that we are not currently paying over the odds for our services but that there are areas such as client management where we could better utilise resource.

25-50% could theoretically be realised from project based work through including this in up-front negotiations (currently running at circa £570k).

Possible efficiencies from amalgamating and reducing total number of staff involved in help desk operations. Currently around 10FTEs across ITNet and services. This number could be reduced by professional, centralised help desk services.

<b>Current costs</b>	Please see attached appendix 1.
<b>Risks</b>	<ul style="list-style-type: none"> <li>❑ Contract failure – failure of third party to deliver service.</li> <li>❑ Inflexible approach by contractors to fast moving area.</li> <li>❑ Fail to get mix of contractors that are signed up to best of breed approach.</li> <li>❑ Underestimate contract management task – fail to get best people on this.</li> </ul>
<b>Volumes</b>	See attached figure 1.
<b>Ease of Implementation</b>	These changes require a major project to re tender services and deliver improved contracts and client management practices. This should be undertaken by a team that includes representatives from legal, contract and ICT services as well as business representatives to quality assure the programme.
<b>Further information / work required</b>	See above under ease of implementation. In order to tender contracts from April 2001 team needs to commence work upon completion / acceptance of Best Value report. Unlikely to be achieved prior to June 2001.

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# Report

## Summary of Hypothesis

The purpose of this hypothesis is to test whether total outsourcing of our ICT function, selective outsourcing of various elements / processes, or total insourcing of ICT provides the best way forward for HCC in terms of efficiency / effectiveness / meeting the needs of services and delivering the corporate agenda.

## Approach Taken

The approach taken to test this hypothesis was as follows: -

- Outline current costs / extent of outsourcing at HCC.
- Understand what the market place is doing – where are other organisations using outsourcing, what are the issues encountered? Are there any areas that organisations are avoiding when outsourcing and why? What are the range of outsourcing delivery mechanisms open to any organisation?
- Examine the total outsourcing option. What are the benefits / costs / risks associated with such a move? Who else is doing it? How developed is the marketplace?
- Examine various scenarios based on selective outsourcing of elements of our ICT service / selective use of the range of delivery mechanisms. What are the benefits / costs / risks associated with each? What does the marketplace have to offer?
- Total insourcing. Again, what are the benefits / costs / risks associated with insourcing operations that are currently externalised? What advantages / disadvantages would such an approach would present?

In order to address each of the areas outlined above the following sources were used: -

- 1) Experience of HCC staff and statistics gathered in relation to current experience / contracts.
- 2) Hedra Best Value Review report July 2000.
- 3) Interviews with provider companies – Hyder, Capita, ITNet. (We also sought an audience with EDS but to date have been unsuccessful in setting up that exchange.)
- 4) Interviews with other authorities – Kent, Surrey, Warwickshire, Newcastle.
- 5) Various articles / books covering this field (e.g. Outsourcing Information Technology, Systems and Services – Robert Klepper, Wendell O Jones - 1998) references to source material are included in the text.

## **Extent of IT outsourcing at HCC / associated costs**

There are two main ICT based contracts in use at HCC both currently with ITNet. These are as follows: -

1) *Facilities Management (FM)* – Covers running of mainframe service from Birmingham and several mini computers at an operational level. Management of the applications running on these boxes still largely resides with HCC. This contract currently costs circa £900k Per annum. With removal of applications from the mainframe over the next three years there should be no further use for this contract once it reaches the end of the current contract period in 2003.

2) *PC Desktop support contract* – Currently running at £1m per annum. This contract provides engineers to fix and advise on desktop computing issues / software. In addition to the £1m contracted for we also undertake around £570k worth of project based business with external suppliers that could possibly be provided at better rates if we negotiated it into any future contract up-front.

(For detailed breakdown of these contract costs please see Appendix 1.)

## **Potential Changes /Proposals**

In summary the changes proposed are as follows: -

- ❑ Tender of desktop support contract in spring / summer 2001. The specification of this tender to be targeted at addressing concerns raised by this review as detailed in Hedra findings and exclude help desk element.
- ❑ New contract to be based on definition of outputs and managed / monitored / rewarded accordingly.
- ❑ Help Desk to be tendered in separate contract to manage multiple supplier scenario and provide management information for those contracts. The successful contractor to act as “management contractor” to other contracts.
- ❑ Rationalisation of help desk and support areas to look to free up resource currently tied up in duplication of activity and client management of the existing contracts.
- ❑ HCC to move away from in-house development activity over next three years by project based introduction of new systems with partner suppliers – e.g. Children Schools and Families system. This model to also be adopted for other major projects such as financial systems replacement.
- ❑ Corresponding development of IS management role in departments (see separate hypothesis).

- Examine possibility of introducing partnership contract with independent advisor who does not have an interest in implementation / business of delivery contracts. Use such a contract to benchmark / advise on future direction and performance of delivery contractors. Need to agree approach / relationship with delivery contractors before appointing.

## **Service Benefits**

The service benefits realised from the above should be as follows: -

- Establishment of contracts that better meet the needs of the service managers and ultimately the service clients. Addressing failings of current contracts.
- Release of resource from current duplication and client management of the function to better concentrate HCC activity on exploitation of technology and investment in future service improvements.
- Improved flexibility of future arrangements and development of problem “ownership” role with help desk to ensure all client issues are managed to successful conclusion.

## **Current Costs**

Current costs of ITNet contracts are outlined in Appendix 1. Figure 1 also outlines where current costs fall across all functional areas whether in-house or externalised.

## **Estimated Future Efficiencies**

As outlined in the summary page this is dependent on future negotiations with contractors. Benchmarking has shown that we are not currently paying over the odds for ITnet services but that there are areas such as client management where we could better utilise resource. Any efficiencies realised here need to be balanced against potential additional costs to meet failings of current contracts and the need to develop IMS skills in departments (see sections below).

- 25-50% could theoretically be realised from project based work to address quality issues raised through including this in up-front negotiations (currently running at circa £570k). Rather than paying this on an as required basis at market rates.
- Possible efficiencies from amalgamating and reducing total number of staff involved in help desk operations. Currently around 10FTEs across ITNet and services. This number could be reduced by professional, centralised helpdesk services.

- ❑ Need to address levels of client management of contracts. By rationalising this area and managing centrally under infrastructure resource could be freed up at ICT management level.

## **Implementation Issues**

The project to implement new contracts would take significant resource in order to specify and negotiate through successfully. However, this level of resource would be required whatever approach is taken regarding the way forward. It is likely that an insourcing operation would be significantly more costly in terms of set-up costs given that it would require both successful negotiation of end of contract and hand over to / development of in-house team.

We have suggested that in order to specify and negotiate proposed contracts to successful conclusion we would need an implementation team approach as follows: -

- ❑ Contracts Officer 3-4 days input.
- ❑ Small team of senior officers to specify and negotiate the contract over say a three month period. Estimate around 25 days input each. Important to get best people assigned to this role.
- ❑ Evaluation team of around 5 persons over say 5 day period.

Any change of contract would take careful negotiation with current suppliers for hand over and continuity of service during implementation phase.

## **Potential Risks**

- ❑ Contract failure – failure of third party to deliver service as intended. Penalties might be realised but delivery of contract is target rather than recovery of losses.
- ❑ Inflexible approach by contractors to fast moving area. Inability to find appropriate mechanisms to drive contractor interest/investment in this area.
- ❑ Fail to get mix of contractors that are signed up to best of breed approach. Appointed contractors do not work well together.
- ❑ Underestimate contract management task – fail to get best people in this role / negotiation of contract
- ❑ Failure to realise efficiencies. Make changes but fail to reassign resources appropriately. Need to assign accountability to this role
- ❑ Stability of supplier companies. Supplier direction changing in fast moving market.

## **Volume Information Used**

See appendix 1 and figure 1 for both costs and staff numbers involved

## **Extra skills / training required**

- Development of IS role in departments. Refocusing of current resources / skills.
- Help Desk expertise in introducing separate contract or managing in-house if appropriate contract cannot be established.

## **IT Development/Investment**

- Main investment will be in officer time to negotiate and implement new contracts. Based on the above estimates this would cost approximately £25k – see appendix B for breakdown of assumptions / calculation.
- Although potential efficiencies have been identified within this hypothesis there is also the need to look to improve services to address failings of current arrangements. Potential additional cost of such arrangements will not be known until we commence detailed negotiation with suppliers.

## **Further Information / Work Required**

- Establishment of project team and implementation as outlined above.
- Further investigation of possible contract improvements / methods of delivery in the telecommunications arena. Should be aiming to realise efficiencies in this field as delivery mechanisms / services become cheaper over the next 5 years. Should also be planning to meet increasing demands of network traffic as more services are provided by electronic means.
- Further analysis of areas not addressed in detail in this report. We of necessity concentrated work on those services identified as issues for us by the benchmarking exercise and on contract areas that are about to expire.

## **Recommendations**

These can be summarised as follows: -

- Do not favour total outsourcing model based on assessment of current market and Hertfordshire's stage of development in relation to others who are adopting this model. High risk, low flexibility option. If HCC should choose to investigate further then this needs to be undertaken on a wider basis than just ICT in order to realise full benefits and as such is outside the scope of this review.
- Reject insourcing of activity in areas that are best delivered by ICT suppliers. HCC would struggle to develop /recruit the appropriate skills

and we could risk taking our eye off the strategic ball.

- Move forward with best of breed approach to outsourcing / insourcing based on the potential changes / proposals section above. See also figure 2 in the attached report for discussion on each functional area and it's relationship to future contracts.

## The marketplace

An analysis of what other organisations are doing provides us with an indication of the areas in which outsourcing is more developed and of where it is perceived to offer less risk / greatest benefits. One of the latest studies (Mary C. Lacity & Leslie P. Willcocks – Inside Information Technology Outsourcing: A State-of-the-Art Report Templeton Research - January 2000.) indicates that: -

“The least commonly outsourced IT activities involve IT management and applications. Only 5% of respondents outsource IT Strategy, 10% outsource procurement, and 28% outsource systems architecture. These activities are often considered strategic in nature... In general infrastructure operations are the most commonly outsourced activities, including disaster recovery (68%), client/servers and personal computer operations (67%), mainframe operations (61%), networks (57%), and midrange computing (54%).”

The same study also examined what the marketplace is doing in relation to single / multiple suppliers. It can be argued that although a single supplier approach removes some of the benefits of competition / use of best of breed solutions this is a price worth paying given the issues that arise regarding demarcation and effective management of a multiple supplier environment. However, in practice 82% of respondents in the study do use multiple supplier contracts.

The tendency towards multiple supplier relationships and retention of key functions in-house is expressed by PA Consulting in “IT Outsourcing Getting The Balance Right: - PA Consulting -([www.firmbuilder.com/function/it](http://www.firmbuilder.com/function/it) – as of August 2000)”. They note: -

“Wholesale outsourcing of IT is being abandoned and many organisations are now taking a much smarter approach to their outsourcing. Companies are realising that it makes sense to retain in-house responsibility for those IT capabilities that are critical to their businesses as opposed to delegating such core competencies to a third party...”

### Delivery Mechanisms

There is no one simple model for delivery of outsourced solutions. The following list describes a range of options available to us within the marketplace. In any proposals as to how best to manage our IT portfolio we should consider which of the solutions below best meets the needs of any particular area/service: -

- ❑ Facilities management – (operational management of hardware/software usually associated with mainframe contracts).
- ❑ Managed Service (ICT solution delivered as part of an overall service delivery package – e.g. ITNet Payroll).
- ❑ Contracts targeted at specific ICT areas (e.g. Desktop).
- ❑ Consulting.
- ❑ Application Service Provision (applications paid for on rental basis).

- ❑ Third party development contracts.
- ❑ Use of IT specialist contractors.
- ❑ Software Packages.

## Total Outsourcing

As one might expect from the statistics outlined in the previous section the “Total Outsourcing” model to a single contractor of all functions is less favoured (in terms of numbers of contracts) at present than the multiple supplier / split function approach. During our initial data gathering exercise we did explore this approach with one Local Authority that has taken the Total Outsourcing approach – Lincolnshire County Council. In order to explore this option further we subsequently met with their outsourcing partner Hyder. Capita were also keen to explore this option with us in our conversation with them.

The advantages of the Total outsourcing model derived from the above contacts are as follows: -

- ❑ Economies of scale / ability to re-engineer processes across the whole business.
- ❑ Given the above possibilities of realising 15-20% efficiencies across the range of services outsourced (requires range of services over and above IT to be put out. 20% quoted by Hydra in relation to Lincolnshire type contract, 15% mentioned by Capita).
- ❑ For those who enter into the arrangement early for their region the possibility of setting up regional centre for delivery of such services to protect staff / create future employment.
- ❑ Realisation of up-front investment by incoming organisation given the longer term income for them from such a contract.

Set against these benefits the following risks / dis-benefits were identified.

- ❑ All eggs in one basket. Wholly reliant upon the performance of a single contractor. If they fail to perform then the authority fails across a wide range of services.
- ❑ Contracts are established for 10 years or more. Ties into single company for that time. Reduces flexibility. Can potentially leave the authority without the critical mass of competent staff to pick up pieces following termination or failure of the contract. Investment tends to be concentrated in early years – could lead to difficulty if demands rise /direction changes in subsequent years.
- ❑ Potential for the company to whom the contract was awarded to change focus / be taken over during the contract period. As these contracts are often reliant on high degree of trust and compatible culture between the organisations involved this has the potential to seriously affect the quality of the delivered services. Note recent change of ownership of Hyder.
- ❑ Inability to focus particular areas at “best of breed providers”. May be lack of synergy between various aspects of the contract – e.g. Catering and IT.
- ❑ This is a very new market. By the end of this year there will be only 10 or so such contracts in the country. They are to that extent untested and given the range of services involved thus carry high risk until it becomes clear that they can deliver the benefits promised.

In addition to the issues highlighted above the following should be taken into account from the Hertfordshire perspective: -

- Hertfordshire has already outsourced in a number of the areas that are typical of such total outsourcing arrangements. I.E. Finance, IT, Property. To bring all of these contracts together under one supplier at the same time would not be a simple task given the terms of the current contracts. Furthermore it is likely that a number of efficiencies (in terms of business process re-engineering) have already been realised within the existing contracts thus leaving it difficult to find the 15-20% efficiencies referred to above. These savings can be further exemplified by contract management.
- Hertfordshire is not the first authority in this region to pursue this type of contract. Lincolnshire is not too far away, but Norfolk have established a contract with Capita for around 1 year now and Bedfordshire are about to award a similar contract. We would thus find it hard to establish a regional centre and our people / personnel could be at risk if we were to pursue such a route.
- The Lincolnshire contract appears to have been awarded with the particular focus of:-
  - 1) Cost reductions / efficiencies.
  - 2) Investment in back office systems (e.g. Finance and HR, Property).

Although Hertfordshire would also like to realise the above they are not the only drivers behind our thinking on ICT. HCC as an organisation has started to realise the potential of ICT to drive forward service quality improvements, meet the Modernising Government agenda, and enable a much more client focussed approach to our service delivery. Herts Connect is one example of such thinking / development. A partner organisation/contract that has a focus solely on the drivers outlined above could stifle such innovation and direction.

- Hertfordshire has taken a range of approaches towards outsourcing already. As well as the range of the contracts across services noted above we have also adopted many of the various mechanisms – e.g. Managed Service in Payroll, Pensions, - consulting – managed package implementations etc.

Taking into account the overall balance of benefits / risks outlined above it is suggested that a total outsourced model would be inappropriate for Hertfordshire ICT at this time. Such a model should not be completely ruled out for the future but only if the model can be shown to work with suppliers that are now entering into the market to an extent that such success outweighs the other potential risks / dis-benefits. Both Hyder and Capita were of the view that services other than ICT should be considered as an overall part of such a deal in order to realise the full potential of such an approach and this will need to be considered in any future examination of this approach and as such is outside the scope of this review. We recommend that any further investigation should be considered by the “procurement board” established

under best value review of contract management and procurement.

## Selective Outsourcing

As noted above, it is more common for companies to enter into contracts with multiple suppliers than with a single provider. Such an approach is favoured because it enables: -

- The organisation to maintain influence / decision making over business critical areas and direction.
- Buy in to areas in which specialist skills might be missing in the organisation or where areas such as recruitment/retention of appropriate skills are an issue.

This raises the question of what areas might be appropriate for an organisation to retain in-house and which areas might be better performed by an outsourcing arrangement? Some pointers as to what organisations are currently thinking around the right level of portfolio mix can be taken from the analysis of what is happening in the market place – as discussed earlier (e.g. not many organisations are outsourcing their ICT strategy). However, drivers differ between organisations and we have therefore sought to analyse the best fit for Hertfordshire County Council based on the range of ICT activities undertaken. We have also taken note of the views expressed by the companies whom we interviewed.

The approach that we have adopted to help determine where outsourcing solutions might be appropriate is to take a measured look at the relationship between the business and IT. This has been outlined in the matrix in figure (1) where each competency is described, grouped in terms of functions and its strategic importance to HCC business is logged. Any particular issues concerning maintenance of that particular activity in-house is also noted within the matrix. Where possible we have indicated available costs for the function along with the numbers of staff associated with each activity as assigned through the Hedra analysis.

Our headline conclusions are detailed below grouped into functional areas. They reflect the views of the authors as to the relative strategic importance of each of the areas discussed and the particular issues with each of the elements of the service. They also reflect the general views of our wider reading on the subject / experience of others. As such the recommendations workshop may wish to discuss / reprioritise based on the consensus of opinion across representatives of services: -

**Figure 2**

<b>Functional Area</b>	<b>Outsourcing?</b>	<b>Comments</b>
Strategy	No	Should consult and use appropriate skills of providers but should always retain in-house as means of determining direction, meeting the agenda before us.
Business Analysis / information planning	No	Requires detailed knowledge of services/business. Needs to be core skill developed over next 3 years. See related hypothesis on IMS.
Development / implementation / maintenance	Yes	HCC should move away from in-house development / maintenance teams. Over the next 3 years projects such as CSF systems should establish this model and hence enable the refocusing of HCC staff on IS business analysis skills. Contracts should be awarded progressively on a project basis supported by business case.
Telecomms / Voice	Yes	HCC networks / voice is already largely an outsourced function client managed within the infrastructure team.
Desktop support	Yes	To be tendered in Spring 2001. Should be awarded on an outputs basis excluding help desk element. New contract should look to reward innovation and seek to address failings of current contract identified by this best value review. See Desktop services below. Client management of this function should be reduced by internal reorganisation and rationalisation of responsibilities.
Hardware Maintenance	Yes	Recently tendered - awarded to Selection Services.
Desktop projects	Yes	Should be tendered as part of desktop support in order to guarantee resources and to provide efficiencies over current arrangements.
Help Desk	If possible	Should be separated from the desktop contract and tendered separately or brought in-house if this cannot be achieved.
Training	Yes	Already largely outsourced. Rationalise providers for economies of scale. See related hypotheses.
Purchasing	Probably not	Outsourcing not opposed for strategic reasons but HCC still able to add value here and work closely with other authorities /

		providers to establish best possible prices (see Hedra confirmation). Attempted outsourcing of desktop PC purchasing in early 90s was a failure as supplier did not have the same interest in speed of delivery etc.
R&D	Retain some	Need to embed R&D in the above contracts but retain some R&D potential to address HCC specific challenges and keep in-house analysis function up to speed.
Standards/ awareness/ security	No	Should be retained to realise control over framework and secure environment in which we expect our contractors to operate.
New Technologies	Retain some	Development has already been addressed above where recommendation has been to outsource. It is suggested that the only exception might be in new technology areas where in-house work can provide HCC with a leading edge in terms of developing new methods of service delivery etc. e.g. Herts Connect – joint delivery with contractors.

- ICT strategy should remain the preserve of HCC. That is not to say providers cannot assist / provide valuable guidance around this particular area but strategic direction setting for a service that affects / impacts much of what we deliver as an authority is key to achieving the authority's agenda. Both Capita and ITNet were supportive of this position.
- Business analysis / skills to exploit emerging ICT should remain within HCC. i.e what we are commonly referring to as IMS throughout in other areas of this best value review. Again, Capita offered this up as an area that they thought should be the preserve of the authority. We support this as an in-house activity because it is the essential link between the service requirements and the ICT that is finally delivered to support them. As such it requires an intimate knowledge of the business / service and is therefore a prime candidate for the dividing line between client and provider. We have not yet come across proven alternative models in our discussions / experience that places this activity wholly with the provider organisation. This should be the future base for client management (currently the domain of IT managers).
- Project based desktop work. Currently this is theoretically capable of being undertaken by a range of different suppliers. In practice it is often only practically undertaken by the same company that provides ICT support because of the requirement to have knowledge of HCC standards / set up and to work in a way that is acceptable / supportable by the support team. This activity is therefore best met by the same outsourced supplier as the support contract and should therefore be contracted for at the same

time using an estimate of ongoing project work (in this case circa £570k per annum – see appendix 1). In so doing we should be able to negotiate down current costs. This could theoretically lead to efficiencies in the region of 25-50% on project based activity given the relative cost of project versus support based staff – this would offset the additional cost of service improvements.

- Development / implementation/maintenance. It is proposed that HCC look to move away from in-house delivery of such activities over the next 3 years by the introduction of project based, packaged systems solutions that are provided and implemented by external suppliers. The Children Schools and Families Adult Care Services system is already being delivered via this route and the Financial / HR systems replacement should follow the same model. This would permit the organisation to concentrate on service / business analysis rather than technical delivery. It would have the added advantage of supported upgrades being available as part of our licence agreements. Finally, by ensuring that such systems are developed on package basis to agreed standards we can look to eradicate issues of dual entry and systems incompatibility. Needs to go hand in hand with development of IS role in departments (separate hypothesis).
- Helpdesk. We are proposing that this be tendered as a separate contract and if that cannot be achieved that we should consider establishment of in-house solution.

Reasoning behind establishment of separate contract is as follows: -

- a) One of our key issues around management of problem resolution in the ICT arena is around question of “ownership”. New help desk arrangements should look to establish management contractor concept at help desk level with that contractor being responsible for chasing, closing down calls, ensuring client satisfaction.
- b) Help Desk provides key management information on contract delivery. It does not therefore seem good practice to imbed this in one of the supplier contracts. Need to have independent information on how contracts are performing.
- c) Users of help desk want single point of contact for multiple ICT issues. The operation therefore needs to be independent of all of the contracts to whom it then directs activity.
- d) We favour outsourcing because it would bring professional skills to an area that requires specialist knowledge / management. We could also benefit from efficiencies of scale both in terms of range of staff available to pool activity from and in overall costs of technology to provide the service. Outsourcing would also provide us with greater flexibility in realising efficiencies in this area.

- Telecommunications. We have not had time to fully evaluate the options available to us in the telecommunications arena. Further development of contracts in this area should be based on addressing concerns raised in the Vital Networks report and in meeting projected increased demand over the next 5 years. Efficiencies should be realised through exploration of alternative service delivery mechanisms and reducing costs of telecomms over that period. A programme to achieve this should be required to be delivered.
  
- New Technology. Although suggesting we retain some of these skills in-house we should also explore the option of engaging a partner consultancy that can advise us on an ongoing basis re benchmarks / performance of our contractors / future market trends etc.

## Insourcing

The discussions outlining best possible portfolio of outsourcing arrangements above have covered some of this area. However, we were keen to give equal weight to this study in a section of its own that outlines the benefits and potential dis-benefits of an insourced approach. In particular the work undertaken for us by the Hedra consultancy in the first phase of this Best Value Review did lay down some challenges in this area in terms of possible efficiencies that could be made by adopting an insourcing.

In brief the benefits outlined by Hedra of considering insourcing of ICT services were as follows: -

- “HCC has a higher cost per supported PC at £943 per annum. This is compared to £833 in the benchmark.” One of the reasons for this higher cost was put down to outsourcing of PC support to ITNet. Hedra acknowledges that costs of the ITNet contract are not high in relation to other typical contracts of this type.
- Hedra therefore suggested that we might consider insourcing of this support activity in order to bring costs in line with the benchmark figure.
- Hedra also outlined a number of areas where the ITNet contract was not meeting user expectations and therefore argued that the additional cost of the outsource contract was not providing us with any better service than we could address ourselves through cheaper in-house activity.

NB: Not all of the additional costs were down to ITNet. Hedra outlined that HCC appeared to have excessive client management of the contract through the devolved management of ICT infrastructure.

The risks / dis-benefits of pursuing insourcing of our IT services in the areas identified above are as follows: -

- Outsourcing is undertaken for a range of reasons other than cost savings. Unit costs of specific personnel / engineers etc may well be higher than a comparative insourced operation but this has to be weighed against other potential advantages of the outsourced model. A comprehensive list of reasons behind outsourcing are given in R Keppler W O Jones “Outsourcing Information Technology, Systems & Services pp 47-53” but the following points highlight just some of the reasons why HCC would benefit from continued outsourcing rather than opt for insourcing of IT operations.
- Flexibility of addressing variable project based activity may be lost through insourcing of activity. As can be seen from Appendix 1 HCC undertakes around £570k worth of project based activity with our current supplier in a typical year. It is proposed that such activity be built into future contracts to seek to reduce overall cost of the activity. An outsourced supplier should also bring the benefit of additional staff/skill to

address these areas at times of peak requirement. Insourced activity is limited to the numbers of staff employed at any one time and is difficult to supplement at times of additional need.

- Through our visits to other sites that have been shown to have better “insourced” benchmarks in the support / help desk arena we were able to gain a wider view of performance against service agendas etc. From this we formed the view that there is very often a trade off between energies put in to manage such activities in-house and achievements in other areas. For example, Warwickshire have a well run in-house help desk support arrangement but it could be argued that this is at the expense of achievement in other areas such as compatibility across departments, lack of annual technology refresh, little corporate ICT visioning / strategy, and little undertaken yet in terms of Herts Connect / Modernising Government type projects. Hertfordshire is recognised as being successful in moving this agenda forward and one would have to question if this would be the case if resource was tied up in managing detailed ICT support operations?

Interestingly both Warwickshire and Newcastle are currently looking at outsourcing as an option for the future.

- Some of the challenges of the Hedra findings themselves are best met through a continued outsourced arrangement. For example, in an area such as help desk / support where we ought to look to manage quality up and numbers of staff down an outsourced supplier could provide the flexibility to move staff onto other accounts to achieve our targets. In an insourced operation such rationalisation is not easy and could potentially result in redundancy for some staff together with the costs and management problems that this can bring.
- Another area that we need to address in taking forward ICT support at Hertfordshire is introduction of new technologies such as Windows 2000, and remote control / updating via appropriate software (in itself designed to reduce costs). Although we have not been entirely successful in realising the benefits that an outsourced company can bring in this area future contracts should be negotiated to ensure / guarantee access to the wider expertise that should come from an IT focused company.
- Recruitment of ICT staff in this part of the world is not easy. Although we have not had time to provide relevant statistics it is known that ITNet themselves have had difficulty in recruiting to the operation and that certain HCC posts have been hard to fill. In such a scenario an IT based company will always have an edge over a local authority in being able to recruit and retain staff given the wider opportunities and career paths they are able to offer them.

In short, taking into account the overall balance of arguments for / against insourcing / outsourcing of activity it is felt that outsourcing provides us with opportunities to more readily address the range of ICT issues before us in the areas of desktop support

and helpdesk. Insourcing, although initially attractive from a unit cost perspective would be both difficult to achieve and may have a negative impact in terms of achieving strategic direction, and authority agenda. The levels of efficiencies that could be achieved by insourcing the operation, are no higher than should be realisable through better negotiated/managed contract.

There appears to be no reason why the weaknesses of our current set-up could not be addressed through improved outsourcing arrangements / contracts.

The decisions regarding insourcing / outsourcing of other should be judged on their relative merit – see discussions around fig2 above.

## Appendix 1

Outsourced Contracts excluding network		<i>Year 2000 / 01</i>
<b>Mainframe</b>		
<b>Disk Space</b>		123,711
Usage charges (VM/VSE environment)		119,270
Usage charges (MVS environment)		632,063
Other costs (printing, stationery, credits, DR etc)		29,282
<b>Total Itnet Mainframe costs</b>		<b>904,326</b>
Mini computers (Social services, Libraries , Magistrates)		39,002
Data Preparation		26,000
Network Support charges		50,000
<b>Total ITnet charges FM</b>		<b>1,019,328</b>
HCC Contract Support (Mainframe & Minis)		63,220
<b>Overall FM Contract Charge</b>		<b>1,082,548</b>
<b>HCC PC and Office Support contract</b>		
licences for Notes E-mail ,Ghost images,TVD,etc		8,000
CSCS- Contract Management		52,790
CSCS -Corporate ICT Purchasing group		52,000
<b>HCC Total</b>		<b>112,790</b>
<b>ITnet charges –PC &amp; Office Support contract</b>		
Desktop (engineers,help desk,management,etc)		1,036,513
Project Work -circa 7 bodies (estimated as typical)		570,000
Income from Comnet & rents & investment pot		-185,000
<b>Total ITnet</b>		<b>1,421,513</b>
<b>Hardware support (Selection Services)</b>		157,500
<b>Desktop and Projects Total</b>		<b>1,691,803</b>
<b>OVERALL COSTS</b>		<b>2,774,351</b>

<b>Appendix 2. Estimated Cost - negotiations</b>			
<b>Costings</b>			
<b>Contract Management Input</b>		<b>Total:</b>	<b>£6,000.00</b>
<b>Small Team (3 people for 25 days) – Consisting of say 2 people on Grade PM2 local point 05 and 1 person on Grade MS scp 55 with superannuation</b>			
	Hourly Rate	Daily Rate	Total for 25 days
PM2 local point 05 (inc. on costs) with superannuation	£26.50	£196.10	£4,902.50
PM2 local point 05 (inc. on costs) with superannuation	£26.50	£196.10	£4,902.50
M5 scp 55 (inc. on costs) with superannuation	£23.41	£173.23	£4,330.85
<b>Total for the team over 25 days:</b>			<b>£14,135.85</b>
<b>Evaluation Team (5 people for 5 days) – Consisting of 3 people on Grade M5 scp 55 and 2 people on Grade PM2 local point 05 with superannuation</b>			
	Hourly Rate	Daily Rate	Total for 5 days
M5 scp 55 (inc. on costs) with superannuation	£23.41	£173.23	£866.17
M5 scp 55 (inc. on costs) with superannuation	£23.41	£173.23	£866.17
M5 scp 55 (inc. on costs) with superannuation	£23.41	£173.23	£866.17
PM2 local point 05 (inc. on costs) with superannuation	£26.50	£196.10	£980.50
PM2 local point 05 (inc. on costs) with superannuation	£26.50	£196.10	£980.50
<b>Total for the team over 5 days:</b>			<b>£4,559.51</b>
<b>TOTAL COST:</b>			<b>£24,695.36</b>