

Alternative Business Models Programme

The City of Edinburgh Council

2 June 2011

1 Purpose of report

- 1.1 The purpose of this report is to update the Council on the Alternative Business Models (ABM) Review and to make recommendations regarding the next phase of the programme.

2 Background

- 2.1 On 17 December 2009, the Council instructed the Chief Executive to explore the potential to create three Strategic Partnerships or Joint Ventures for Corporate & Transactional Services, Integrated Facilities Management and Environmental Services through the Competitive Dialogue process.
- 2.2 On 24 June 2010 the Chief Executive reported on the procurement prequalification stage and Council agreed a shortlist of five organisations to participate in the initial phase of dialogue for each procurement. The report to the Policy & Strategy Committee on 31 August 2010 provided a further update, and included details of the first Gateway Review of the programme and the evaluation criteria for the procurement process.
- 2.3 The initial phase of competitive dialogue for the three projects commenced on 23 August 2010. The focus of this first stage of dialogue was to develop outline solutions with each bidder providing a broad but comparable measure of the potential scale of efficiency savings and performance improvement which could be achieved.
- 2.4 Outline solutions were received from 13 organisations on 25 October 2010 and these were assessed against the approved evaluation criteria. On 16 December 2010 the Council approved recommendations to shortlist the following bidders:

Corporate & Transactional Services (CaTS)

- Accenture
- BT
- Capita

Environmental Services

- Enterprise
- Kier / Shanks

Integrated Facilities Management

- Capita / Carillion
- Mitie / Atkins

- 2.5 Previous reports to Council emphasised that proposals brought forward would be compared at key programme gateways to a public sector comparator (PSC). The PSC is based on existing service baselines, supplemented by the Council's own internal improvement plans. The Chief Executive committed that at any time if there is no longer a strong and compelling business case for adopting an alternative delivery model then a recommendation would be made to Council to stop the competitive dialogue as a whole, or to remove certain services.
- 2.6 The report to Council in December 2010 confirmed that the bidders' outline proposals demonstrated potential for development into compelling business cases. As a result the short-listed bidders for Integrated Facilities Management and Environmental Services, as identified at 2.4, were invited to participate in a further period of dialogue, with the intention of developing draft contracts and a full business case.
- 2.7 The outline solutions developed through the Corporate and Transactional Services procurement showed potential to develop into a compelling business case but also carried significant risks. Solutions were difficult to compare directly with the PSC as they included complex gain/share proposals, were underpinned by assumptions that required to be thoroughly tested, and included a range of transformational service options which required further consideration. Council approved a further time-limited phase of dialogue to gain clarity on these proposals and assess the merit in pursuing dialogue with any or all of the bidders further. It was agreed that officers at an early stage would prepare a further update of the Outline Business Case for this procurement with robust recommendations as to the benefits of pursuing dialogue with any or all of the bidders further and to the scope of that dialogue.
- 2.8 This report provides Council with this update on the Corporate & Transactional Services procurement. The report also provides Council with an update on progress across other workstreams of the programme.

3 Programme Update

Corporate & Transactional Services

- 3.1 During the last few months further dialogue was held with the Corporate and Transactional Services bidders, to establish a greater understanding of their core proposals and the assumptions that underpin their solutions. This dialogue was successfully completed in March 2011 and bidders were subsequently invited to submit revised outline solutions.
- 3.2 Outline solutions were assessed against the approved evaluation criteria following the same process used by officers in making recommendations to Council in December. The objective of this evaluation exercise was to identify the two potential partners, who officers could recommend, to be invited to develop detailed and fully priced

solutions through a further phase of dialogue. It is recommended that the following two organisations are shortlisted:

- BT; and
- Capita

A summary of the scoring from the each of the Evaluation Panels is presented as Appendix 1 of this report. The recommendations from officers are based on clear scoring differentials.

- 3.3 As previously reported to Council, business probity reviews are being undertaken at key stages of the programme. These consider the financial standing and trading position of each organisation involved in the ABM programme and any acts of professional misconduct or prosecutions by a statutory authority. A further business probity review has now been completed for both shortlisted organisations and based on this review there are no grounds for excluding either bidder at this time.
- 3.4 The internal improvement team also submitted a revised public sector comparator in March 2011. This focuses on service integration and a range of service improvement and efficiency opportunities that could be implemented from 2011/12 onwards. This plan has been compared with the Bidders' outline proposals and the outline business case updated.
- 3.5 The Outline Business Case identifies that, at this stage, the objectives of the ABM Review Programme to identify potential for significant further efficiency savings will be met. The Council has a series of credible delivery options to consider but further due diligence, dialogue and planning will be required before recommendations could be made to Council.
- 3.6 Copies of the updated Outline Business Case have been provided to each Political Group on a strictly confidential basis due to the ongoing nature of the procurement process.

Integrated Facilities Management and Environmental Services

- 3.7 The Integrated Facilities Management and Environmental Services projects are now concluding detailed commercial dialogue and contract development. On the completion of dialogue bidders will be invited to submit draft contracts for evaluation.
- 3.8 When the outline business cases were considered in December 2010 it was reported that bidders solutions offered the potential for development into compelling full business cases. At this time good progress is being made with each of the bidders and there have been no material variations to the assumptions and factors that underpinned the outline business case in December 2010.
- 3.9 The full business case will compare the strength of the external solutions with refinements made to the plans for internal improvement (PSC) made since November 2010. Teams of staff have been refining the plans for internal improvement based on the Office for Government Commerce (OGC) Managing Successful Programmes methodology. This approach ensures that the plans for improvement are well grounded and effectively documented.

- 3.10 The ABM Programme anticipate that the final stage of dialogue, evaluation process and preparation of a full business case will be completed by the summer. It is currently planned that the full business case and recommendations for each workstream will be reported to Council on 24 August 2011.

Gateway Review

- 3.11 As part of the Council's commitment to strong governance and quality assurance, Office for Government Commerce (OGC) approved consultants, Novos, have been commissioned to undertake a series of Gateway Reviews during the lifecycle of the programme. The first review was undertaken in July 2010 and subsequent reviews completed in November 2010 and April 2011. In addition, specific reviews of each of the workstreams have also now been commissioned to ensure that all aspects of the programme are effectively scrutinised.
- 3.12 The November 2010 gateway review identified a confidence assessment rating for the programme of 'Amber/Green – successful delivery appears probable'. A series of recommended actions were identified and these have now been addressed by the Programme Team.
- 3.13 The latest assessment undertaken in April 2011 has again identified an Amber/Green rating for the programme. Again a series of recommended actions have been identified and the programme is currently addressing these issues.
- 3.14 The Programme Director has offered confidential briefings to all Political Groups regarding the Gateway Review in advance of Council and a briefing has been provided to the Trade Unions.

Stakeholder Engagement

- 3.15 Regular meetings with the Trades Unions have taken place since December covering a wide range of issues. The Trades Unions have met with the bidders and a number of facilitated site visits have taken place. The Trades Unions also participated as active members of the recent evaluation of the Corporate and Transactional Services procurement. Similar participation is anticipated in future evaluation processes in relation to the programme.
- 3.16 As the programme moves towards the end of the dialogue process it is essential that staff engagement activities continue to be given the highest priority. This will ensure that managers and staff are well prepared for any service change, irrespective of whether this is delivered internally or externally. A range of communications approaches are in place and being established, including face-to-face briefings, roadshows, drop-in sessions and cascade briefing material provided to managers through the Orb.
- 3.17 The ABM programme is committed to developing joint service opportunities, while also sharing its procurement experiences with other interested public bodies. Regular briefings are held with Lothian and Borders Police and Fire and Rescue Services on service specific solutions and engagements are on-going with a number of UK Councils on the ABM programme's activities to date.

4. Plans for Next Phase of the Programme

- 4.1 The Programme Team and external advisers have developed an outline plan for the next phase of the review programme. A summary of this plan is attached as Appendix 2 of this report. This outline plan will be tailored to reflect the specific characteristics and circumstances of each of the three procurements.
- 4.2 For the IFM and Environmental Services workstreams the next phase will focus on completing dialogue. Evaluation and preparation of the full business case with recommendations will then be reported to Council in August 2011. If the Council decides to progress a bidders solution there would then be a short period of contract refinement followed by contract signature and service mobilisation. For planning purposes it is anticipated that this work would be progressed during the final quarter of 2011.
- 4.3 The focus of the next phase of the review programme for the Corporate and Transactional Services workstream will be to :
- undertake an early strategic review of proposed operating models to ensure solutions are aligned to Council objectives and priorities;
 - develop detailed and fully costed solutions and draft contracts with each bidder for the adoption of an alternative service delivery model;
 - prepare a fully developed and costed plan and business case for internal improvement for consideration and option appraisal within the full business case; and,
 - undertake evaluation and preparation of a full business case with robust recommendations for the December meeting of Council

5. Financial Implications

- 5.1 On 16 December the Council approved a budget for the current stage of the programme. A table summarising expenditure to date against this budget is set out below:

Costs	<u>Estimate Dec to June 2011</u>	<u>Actual Spend Dec to June 2011</u>
External Advisors	504,680	542,329
Contingency/other costs	100,000	100,722
Internal Resources	911,000	343,324
Technical Project Support	100,000	34,416
Public Sector Comparator	200,000	192,000
Total to be funded	1,815,680	1,212,791

The significant under spend in internal resources results from costs of existing staff working on the programme being contained by departments in 2010/11. It is not currently anticipated that departments will be able to contain these costs in 2011/12. Increased external advisory costs relate to additional support provided to support each procurement.

- 5.2 A draft budget outlining the estimated expenditure for the next phase of the programme is provided below. For budget planning purposes this estimate assumes the IFM and Environment workstreams continue until a report to Council in August . The anticipation is that the Corporate & Transactional workstream will continue until the end of the year. If a decision is taken to stop any of the three procurements then the budget will require to be reviewed. A further update will be included in the August Council report providing detailed costs for mobilisation for the Environment and Integrated FM workstreams dependent on officer recommendations.

Costs	<u>Next Stage CaTS until Dec 2012</u>	<u>IFM and Environment until August 2011</u>
External Advisors	80,000	48,922
Contingency/other costs	50,000	50,000
Internal Resources	147,010	170,000
Public Sector Comparator	30,000	-
Total to be funded	307.010	268,922

- 5.3 The costs of the programme outlined above are funded through the Council's Spend to Save and Change Management Funds. The Council approved in December the release of a maximum of £1.81m to complete this phase of the programme. It is now anticipated that given the underspend on the current phase the next phase can also be contained within this approved budget.
- 5.4 It is intended to replenish the Fund with savings from the implementation of solutions from either the competitive dialogue process or the internal improvement plan. The Council's revenue budget has already assumed some savings contained within internal improvement plans but it is anticipated that further savings will be applied to the revenue budget once they are fully quantified. Further consideration will be given to an appropriate repayment profile to the Spend to Save Fund once final savings projections are understood.

6. Environmental Impact

- 6.1 The Council's Sustainable Development team has been actively involved. They have provided support and advice in the development of the draft contract, attended dialogue sessions with Bidders and engaged with the development of internal improvement plans. The Council's Sustainable Development Manager also participated in the recent Corporate and Transactional Services evaluation process, assessing both bidder solutions and the internal improvement plan.
- 6.2 A formal Strategic Environmental Assessment, as required by the Environmental Assessment (Scotland) Act 2005 Act, may require to be undertaken for certain improvement plans. This assessment is a formal public consultation and consequently requires a degree of certainty with regard to plans for future service delivery. It is therefore envisaged that should this be required the process will formally commence following the identification by Council in August of a preferred bidder but prior to award of a contract, or once it has determined to pursue an internal improvement plan.

7. Equalities Impact

- 7.1 The Council is cognisant of its legal duties to advance equality, tackle unlawful discrimination, harassment and prejudice, as described in the Equality Act 2010. The full range of ABM activities have been subject to equalities relevance scoring and where appropriate full equalities impact assessments (EQIA) have been completed.
- 7.2 The Equalities Team has provided support and advice on the Council's equalities scheme and drafting of contracts, attended relevant dialogue sessions with bidders and engaged with the development of internal improvement plans. The Team also participated in the recent Corporate and Transactional Services evaluation process, assessing both bidder solutions and the internal improvement plan.

8. Recommendations

- 8.1 It is recommended that the Council:
- (i) notes the progress to date of the Alternative Business Models programme and the completion of the current phase of Corporate and Transactional Services Dialogue.
 - (ii) agrees to the plans for the next stage of the Corporate & Transactional Services workstream of the review programme as set out in paragraph 4.3 of this report;
 - (iii) notes the updated independent Gateway Review of the programme;
 - (iv) notes the plans for the next phase of the review programme and the intention that further reports will be presented to Council; and,
 - (v) notes expenditure to date on the programme and current projections of expenditure to complete the next phase of the review which can be contained within the budget approved by Council in December.

Sue Bruce
Chief Executive

Appendices	Appendix 1 – Corporate and Transactional Services Selection Panels
	Appendix 2 - Plan for Next Phase

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Wards affected All

Single Outcome Agreement

Background Papers Finance & Resources Committee Report – 1 June 2010
Council Report - 16 December 2010

Summary of Selection Panel Results

Corporate & Transactional Services

Bidder	Service (Max 400)	Financial / Commercial (Max 400)	Transformation (Max 200)	Total Score (Max 1000)	Rank
A	290	240	170	700	1
B	300	235	160	695	2
C	285	209	120	614	3

Appendix 2: Plan for Next Phase

	June	July	August	September	October	November	December
Corporate & Transactional Services							
Preparation/ Due Diligence	█						
Commence Dialogue - Commercial/Fin and Contract Development		█	█	█	█		
Commence Dialogue - Service Specification and schedules		█	█	█	█		
Issue Invitation to submit final tenders						█	
Evaluate & select Preferred Bidder							█
Comparison with PSC							█
Council report - preparation and report							█
Environmental Services							
Commence Dialogue - Commercial/Fin and Contract Development	█						
Commence Dialogue - Service Specification and schedules	█						
Issue Invitation to submit final tenders		█					
Evaluate & select Preferred Bidder		█					
Comparison with PSC			█				
Council report - Preferred Bidder and Final Business Case Sign Off			█				
Finalise Contract -as appropriate				█			
Contract Signature					█		
Staff Consultation - transfer of staff (tbc)					█		
Mobilisation (tbc)					█	█	█
Integrated Facilities Management							
Commence Dialogue - Commercial/Fin and Contract Development	█						
Commence Dialogue - Service Specification and schedules	█						
Issue invitation to submit final tenders	█						
Evaluate & select Preferred Bidder		█					
Comparison with PSC			█				
Council report - Preferred Bidder and Final Business Case Sign Off			█				
Finalise Contract -as appropriate				█			
Contract Signature					█		
Staff Consultation - transfer of staff (tbc)					█		
Mobilisation (tbc)					█	█	█