

## Alternative Business Models Review Programme

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### The City of Edinburgh Council

27 October 2011

#### 1 Purpose of report

- 1.1 The purpose of this report is to update the Council on the Alternative Business Models review, present the final business case for the Environment workstream and to make recommendations to Council on the way forward.

#### 2 Summary

- 2.1 Detailed dialogue has been completed for the Environment workstream of the review programme. The evaluation process has now been completed and it is recommended that **Enterprise** is selected as preferred bidder for the workstream.
- 2.2 A full business case has been prepared, comparing the preferred bidder's solution to the existing services, supplemented by the Council's own internal improvement plans. This analysis concludes that a compelling business case exists to adopt a partnership model with the preferred bidder.
- 2.3 The proposed partnership is anticipated to deliver significant service improvements, bring investment to the service and exceed the efficiency objectives set out at the start of the programme. These benefits are underpinned by contractual commitments.

#### 3 Background

- 3.1 The Council instructed the Chief Executive, as part of the budget motion on 12 February 2009, to initiate an assessment of new models of business, service delivery and partnership across a range of services. Further reports were considered by the Policy & Strategy Committee on 9 June, 4 August and 29 September that year and objectives were established for the review as set out below:

- to deliver proposals for significant cash-releasing efficiency savings in the context of the overall long-term financial plans of the Council;
  - to secure realistic and achievable plans for service improvement across the services prioritised for review;
  - to identify mechanisms for investment in process improvement, staff development and technology platforms to deliver the outcomes above; and,
  - to develop a framework, programme and partnership model by which further services can be subject to review in the future.
- 3.2 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.
- 3.3 On 24 June 2010, the Chief Executive reported on the procurement prequalification stage and Council agreed a shortlist of five organisations to participate in an initial phase of dialogue for each procurement.
- 3.4 Following completion of this initial phase, the Outline Business Case for each workstream was presented to Council on 16 December 2010. The business case compared bidders proposals with a public sector comparator (PSC) based on the existing service baseline supplemented by the Council's own internal plans for improvement.
- 3.5 The Chief Executive confirmed to Council that the outline solutions developed through the competitive dialogue process offered potential for development into compelling business cases. Council agreed to a further phase of dialogue with shortlisted bidders to be completed before final proposals were presented.
- 3.6 A further update was presented to Council on 2 June 2011 focusing on the Corporate & Transactional Services workstream. Competitive dialogue continues for this workstream and a final report recommending the way forward is anticipated to be presented to Council on 22 December.
- 3.7 Detailed dialogue has also been completed for the Integrated Facilities Management workstream and bidder proposals have been evaluated. Work is on-going to develop the full business case, including an option appraisal that compares the preferred bidder's solution to the Council's internal improvement plans. The outcome of this work will be reported to Council in November 2011.

## 4 Main Report

### Procurement Process

- 4.1 The detailed dialogue phase of the programme has focused on refining bidders' solutions presented to Council in December 2010 and preparing a draft contract to establish a strategic partnership. Dialogue was completed for the Environment workstream in August 2011.
- 4.2 Since this date, the proposals presented by bidders have been subject to a detailed evaluation process. Solutions were assessed against evaluation criteria approved by the Policy & Strategy Committee on 31<sup>st</sup> August 2010. This followed the same process used by officers earlier in the procurement. The objective of this evaluation process was to identify a preferred bidder with which the Council could conclude a contract and establish a partnership. It is recommended that **Enterprise** is selected as the preferred bidder for the Environment workstream. A summary of the scoring from the Evaluation Panels is presented as Appendix 1 of this report. The recommendations from officers are based on clear scoring differentials.
- 4.3 As previously reported to Council, business probity reviews to consider the financial standing, trading position and review of professional conduct of bidders have been undertaken at each stage of the procurement. This review has been completed by officers and the review concludes there are no grounds for excluding the preferred bidder. Given financial certainty can never be absolute the Council will secure a Parent Company Guarantee and Performance Bond as part of any partnership agreement. In addition contractual mechanisms such as step in rights exist to address any material change in circumstance, including transfer of ownership.
- 4.4 A summary of the key commitments, contract terms and scope of the proposed partnership with Enterprise is attached as Appendix 2 of this report.

### Full Business Case

- 4.5 In the report to Council of 17 December 2009 the Chief Executive emphasised that proposals brought forward through the competitive dialogue process would be compared at key project gateways to a public sector comparator. The public sector comparator would be based on the existing service baseline, supplemented by the Council's own internal improvement plans. The Chief Executive advised that if, through this process there was not a strong business case for adopting an alternative delivery model, then a recommendation would be made to Council to stop the procurement process.
- 4.6 A full business case has been prepared for the Environment workstream undertaking this comparison. A summary of the business case is attached as Appendix 3 for reference. A copy of the detailed

business case and supporting background papers were made available to elected members through a data room in advance of the Council meeting.

4.7 The full business case for the Environment workstream concludes that there is a compelling business case for the establishment of a Strategic Partnership with the preferred bidder, based on:

- significant commitments to improved service outcomes building on the success of the neighbourhood delivery model including enhanced cleanliness of the city, increased recycling rates and better maintenance of grounds and parks;
- substantial financial savings contributing to the Council’s long-term financial plan underpinned by contractual commitments and exceeding those anticipated in the internal improvement plan;
- a partnership model and a pipeline of future development opportunities to continue to develop the services and to deliver further efficiency savings;
- the flexibility to manage change which is embedded in the Partnership Agreement, including an Annual Service Planning process.

**Gateway Review**

4.9 Throughout the review programme the Council has used the Office for Government Commerce (OGC) Gateway Review process to provide independent assurance. The first review of the programme was undertaken in July 2010 and subsequent reviews completed in November 2010 and April 2011.

4.10 Further reviews of both the programme as a whole and the Environment workstream have been completed in the last month. The latest confidence assessment ratings are highlighted below:

	<b>Confidence Assessment Rating</b>
Programme (as a whole)	Amber
Environment	Amber/Green

4.11 It is usual practice for Gateway Reviews to be considered commercially confidential during a procurement process. The Programme Director has offered briefings to all Political Groups regarding these Gateway Reviews in advance of the Council meeting and a briefing has been provided to the Trades Unions. As with previous Gateway Reviews an

action plan has been developed to address the findings. The Programme Board are confident that plans are in place to address any outstanding actions.

## **Stakeholder Engagement**

- 4.12 Regular meetings have taken place with the Trades Unions throughout the process. The Trades Unions participated within the evaluation process for Integrated Facilities Management but withdrew from evaluation of the Environment workstream.
- 4.13 A focus has been placed on manager and staff engagement and a range of communication approaches have been adopted including face-to-face briefings, cascade briefing, use of the intranet and information has been sent to staff members' home addresses.
- 4.14 Consultation has taken place with head-teachers and a programme of awareness and communication is taking place with local communities. An extensive programme of communication, information provision and awareness raising is planned to take place following the Council decision. This plan is underpinned by focus group research undertaken by Ipsos MORI.
- 4.15 Consultation sessions have taken place with EVOC, Edinburgh Equalities Network, Scottish Government, Improvement Service for Scotland, Lothian & Borders Police, Lothian & Borders Fire and Rescue along with neighbouring authorities.

## **5 Plans for the Next Phase**

- 5.1 An outline plan for the next phase of the Environment workstream has been developed based on the recommendations of officers set out within this report. A summary of this plan is attached as Appendix 4 of this report. It is anticipated that the contract would be concluded with the preferred bidder by the end of November with arrangements being established and operational between January and the end of February 2012.
- 5.2 Further reports on the review programme focusing on the Integrated Facilities Management and Corporate and Transactional Services work streams are scheduled for the Council on 24 November and 22 December respectively.

## **6 Financial Implications**

- 6.1 Details of the financial implications of the proposals are included within the business case. The proposals exceed the financial objectives set out at the start of the programme and are anticipated to make a

significant contribution to bridging the funding gap within the Council's long-term financial plan.

6.2 Headlines from the Environment business case are set out below:

- Core price reduction of 19% against the budget baseline with total savings of £71.6m targeted over 7 years of which £51.4m are contractually underpinned
- Proposals providing £32m of additional revenue savings over and above those already agreed as part of the 2011/12 revenue budget process, details are set out in Appendix 3
- Investment of £39.6m in the Council's vehicle fleet, new technology, depot improvements, new recycling containers and managing the introduction of the new service

6.3 The Council approved a budget of £1.81m from the Spend-to-Save and Change Management funds in December 2010 to complete the detailed dialogue phase of the review programme. As at 27 October 2011 expenditure of £2.19m has been incurred. This variance can be attributed primarily to the extension of dialogue and additional due diligence activities.

6.4 It is anticipated that further expenditure of £225k will be required to complete the Integrated Facilities Management and Corporate and Transactional Services workstreams. In addition resources to take forward the mobilisation phase of the Environment Partnership of £183k are anticipated to be incurred.

6.5 It is recommended that Council approves a further draw down of £788k from the spend-to-save fund to complete the review. The fund has a current balance of £1.483m at 31<sup>st</sup> March. It is anticipated that this will be repaid from the savings delivered either through partnership arrangements or the internal improvement plan.

## **7 Equalities Impact**

7.1 A full Equalities Impact Assessment of the proposals for the Environment workstream has been completed and it confirms that there is sufficient confidence that the preferred bidder will meet the Public Sector Equality Duty. This assessment followed the Council's agreed procedure and was shared with the Edinburgh Equalities Network and Trade Unions.

- 7.2 The full Equalities Impact Assessment has been provided to all elected members for consideration prior to the Council meeting.
- 7.3 Equalities Impact Assessments are being completed for the Integrated Facilities Management and Corporate and Transactional Services and the findings will be reported in the relevant Council reports, scheduled for November and December 2011.

## **8 Environmental Impact**

- 8.1 Formal screening of the Alternative Business Models programme has taken place. Officers have determined that that the review is not a 'qualifying programme' as defined by the provisions of the Environmental Assessment (Scotland) Act 2005.
- 8.2 Relevant bodies, Scottish Government, Scottish Natural Heritage, Historic Scotland and Scottish Environment Protection Agency have been consulted and have confirmed to officers that there is no requirement to complete a full Environmental Impact Assessment.
- 8.3 The Council remains fully committed to delivering its environmental and sustainability obligations and will continue to consult with all relevant stakeholders.
- 8.4 The partnership agreement provides commitments to significant improvements in performance of the Council services in terms of carbon reduction and landfill diversion.

## **9 Recommendations**

- 9.1 It is recommended that the City of Edinburgh Council:
- (i) agrees to the appointment of Enterprise Managed Services Ltd as the preferred bidder for the Environment workstream;
  - (ii) delegates to the Directors of Services for Communities and Corporate Governance authority to enter into a partnership agreement based on the terms set out in Appendix 2;
  - (iii) agrees to the draw down of a further £788k from the Council's spend-to-save fund to complete the review programme; and,
  - (iv) notes that further reports will be made to future meetings of the Council on the Integrated Facilities Management and Corporate & Transactional Services workstreams.

**Sue Bruce**  
**Chief Executive**

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Appendices	1	Summary of Evaluation Process
	2	Summary of Preferred Bidder Proposals
	3	Summary of Full Business Case
	4	Outline Plan for Next Phase
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Wards affected	All	
Single Outcome Agreement		
Background Papers		

## Appendix 1

### Summary of Evaluation Process & Result

<b>Bidder</b>	<b>Service (Max 400)</b>	<b>Financial / Commercial (Max 400)</b>	<b>Transformation (Max 200)</b>	<b>Total Score (Max 1000)</b>	<b>Rank</b>
<b>Enterprise</b>	<b>279</b>	<b>290</b>	<b>148</b>	<b>717</b>	<b>1</b>
<b>Kier/Shanks</b>	<b>260</b>	<b>185</b>	<b>162</b>	<b>607</b>	<b>2</b>

### Summary of Preferred Bidder (Enterprise) Proposals

#### Business Model

- Contractual partnership for 7 years, with extension option up to further 5 years
- Financial model and service commitments underpinned by contract
- Gainshare mechanisms on surplus third party income & profits in excess of financial model

#### Investment

- Significant investment including Fleet, ICT, refuse and recycling containers, depots and welfare works, street cleansing equipment
- Investment profile funded from own resources and included in fixed monthly fee

#### Service Delivery

- Integrated services with upskilled workforce
- Redesigned refuse collection service – designated weekly collection
- Neighbourhood approach to service delivery
- Area Delivery Manager appointed for each Neighbourhood and customer involvement in planning and service delivery
- Introduce mobile working and handheld technology
- Dedicated Contact Centre available 24/7, 365 days a year
- Customer interaction with web/social media
- Depot rationalisation

#### Key Commitments

- Significantly improved service levels
- Introduce single container for co-mingled recycling service
- Increase Cleanliness rating (CIMS - 76 by March 2013 and 80 by 2018)
- Achieve pass rate of 84% Landscape Quality Standards by the end of the fifth year
- Increase recycling rate to 60%+ by 2018
- Maintain current Green Flag parks and assist Council in gaining at least 1 new Green Flag award for each Neighbourhood within the first 3 years
- 90% Customer Satisfaction in street cleansing by 2014
- 90% Customer satisfaction in refuse collection and recycling services by 2015
- Reduce Fleet CO2 emissions (22%) and carbon footprint of services (40%)
- 95% CEC Fleet availability
- 80% of customer call answered within 20 seconds
- Resolve all complaints within 5 business days
- Access to real time service information
- Dedicated transformational resource
- Guaranteed apprenticeships/work placement opportunities
- Range of positive equalities and sustainability outcomes

#### Further Developments

- 30 additional projects identified which could provide additional benefits e.g. service enhancements, improved sustainability and further cost reduction
- Further savings through extension proposal, with % year on year reduction in service fee for years 8-12

## Full Business Case Summary

### **Purpose of Full Business Case**

The purpose of the ABM Full Business Case for is to assess whether there is a compelling case for adopting an alternative delivery model for in-scope services.

### **The ABM Programme**

The objectives of ABM, established by the Council in June 2009, are:

- to deliver proposals for significant cash-releasing efficiency savings in the context of the overall medium-term financial plans of the Council;
- to secure realistic and achievable plans for service improvement across a group of service areas prioritised for review;
- to identify mechanisms for investment in process improvement, staff development and technology platforms to deliver the outcomes above; and
- to develop a framework, programme and partnership model by which further services can be added subject to review over following financial years.

### **ABM's and the Council's Strategic Objectives**

The Council has set out in its vision for 2015 "to be leading Europe's most successful and sustainable city region", while maintaining its key priorities of education, social care and economic development. The Council will need to deliver transformational service changes to achieve this. Additionally, there is a need to make substantial revenue savings. ABM was set up to achieve both of these objectives; its business drivers include:

- delivering financial stability to the Council;
- addressing the need to achieve substantial financial efficiencies on an ongoing basis;
- protecting priority services of education, social care and economic development from budget / service cuts;
- addressing increasing demand for Council services; and
- meeting customer expectations for readily accessible, quick and responsive public services.

### **Options Appraisal Summary**

The purpose of the Options Appraisal is to assess whether there is a compelling business case for adoption of the alternative business model proposed by the preferred bidder. The public sector comparator is used to ascertain whether the market is yielding sufficient value for money.

## **Environment Financial Summary**

The table below shows the total net savings and the total 7 year net present value of both Enterprise and the Public Sector Comparator.

<b>Option</b>	<b>Total net savings (£million)</b>	<b>Net Present Value at 3.5% (£ million)</b>
<b>Enterprise</b>	<b>£72m</b>	<b>£62m</b>
<b>Public Sector Comparator (ABM Internal)</b>	<b>£45m</b>	<b>£41m</b>

Of Enterprise's total net savings above, £51.4m are underpinned by contractual commitments with the remainder underpinned by targeted contractual commitments. Savings agreed by Council as part of the 2011/12 budget process would deliver £40m to the Council over the same 7 year period.

Year on year savings offered by Enterprise provide high early years savings of £5m p.a. rising to around £12m p.a. from year four of the contract. The Public Sector Comparator savings in years 1-3 of the contract are significantly lower than Enterprise's. In addition, contractual underpinning of the Enterprise savings provides a high degree of financial certainty for the Council and the intention to agree a smoothed cost profile is likely to further improve the early years benefits to the Council.

Enterprise has contractually committed to a price for the core Environment services that is 19% lower than the current service baseline over the 7 year period with a final year price that is 25% lower.

## Environment Option Appraisal Summary

	Public Sector Comparator	Enterprise
<b>Model</b>	<ul style="list-style-type: none"> <li>All Environmental Services delivered through Services for Communities Department</li> </ul>	<ul style="list-style-type: none"> <li>Contractual Partnership lasting for 7 years, with option of extension for up to a further 5 years</li> </ul>
<b>Investment</b>	<ul style="list-style-type: none"> <li>Investment in ICT, vehicles, Fuel site upgrades, VOSA test stations, training and marketing to drive benefit realisation</li> <li>Self financing from Year 2, but risk of overspend if not delivered on time and to plan</li> <li>Funding from capital, existing budgets, additional revenue funding and prudential borrowing</li> </ul>	<ul style="list-style-type: none"> <li>Investment in technology and innovation e.g. real time performance information, mobile working, fleet, street cleansing equipment, refuse and recycling containers, Depot and welfare works etc</li> <li>Investment profile funded from own resources, included in fixed monthly fee</li> </ul>
<b>Service Commitments</b>	<ul style="list-style-type: none"> <li>CIMS (Cleanliness Index Monitoring System) Score 72 2011/12 the 74 thereafter</li> <li>% of Features meeting Landscape Quality Standard 78% (year on year incremental increase for duration of internal improvement programme)</li> <li>% of waste Recycled– 51% by 2013/14</li> <li>% Parks Meeting the Edinburgh Standard (PQA) 81% by 2017/18 (incremental improvement targets available)</li> <li>Green Flag Parks – 32 by 2017/18 (incremental targets)</li> <li>Vehicle Repair Times achieving manufacturers standard times</li> <li>Vehicle Availability 85% for HGVs and 96% other fleet items</li> <li>Sickness Absence – 4% (or relevant Council target)</li> </ul>	<ul style="list-style-type: none"> <li>Enhanced delivery of Council Output Specification service levels</li> <li>CIMS(Cleanliness Index Monitoring System) score in each Neighbourhood of 76 by 31 March 2013 and 80 by December 2018</li> <li>Landscape Quality Standards pass rates of 70% in the first 12 months of the Term, a pass rate of 84% by the end of the fifth year of the Term</li> <li>Recycling rate of 60% by 2018</li> <li>Customer satisfaction in the Refuse Collection and Recycling Services to 90% by 2015</li> <li>Assist the Council in gaining at least 1 new Green Flag award for each Neighbourhood within the first 3 years and maintaining status of current Green Flag parks</li> <li>90% Customer Satisfaction in street cleansing by 2014</li> <li>Reduction of ABM Fleet tail pipe CO2 emissions of 22% from the baseline</li> <li>Reduce the carbon footprint of the Services by a total of 40% during the Term</li> <li>95% of the CEC Fleet to be available at all times</li> <li>80% of calls answered within 20 seconds with no more than a 5% abandonment rate</li> <li>Resolve all complaints within 5 business days</li> </ul>
<b>Customer Services</b>	<ul style="list-style-type: none"> <li>Focus on resolving customer problems at first point of contact and Customer Service assessed annually</li> <li>Range of ICT proposals including mobile working and handheld technology</li> </ul>	<ul style="list-style-type: none"> <li>Area Delivery Manager appointed for each Neighbourhood and customer involvement in planning and service delivery</li> <li>Neighbourhood approach to service delivery</li> <li>Customer interaction with web/social media, real time information</li> <li>Contact Centre available 24/7, 365 days a year</li> </ul>

	<b>Public Sector Comparator</b>	<b>Enterprise</b>
<b>Workforce</b>	<ul style="list-style-type: none"> <li>• Workforce reductions through VERA, end of temporary contracts and natural turnover. No redundancies anticipated.</li> <li>• A number of posts have already been released as a result of deleting vacant posts</li> </ul>	<ul style="list-style-type: none"> <li>• Workforce reductions, through range of measures including retirements, VERA, end of temporary contracts and potentially redundancy</li> <li>• Commitment to become an admitted body to Lothian Pension Fund</li> </ul>
<b>Equalities, Sustainability &amp; Corporate Social Responsibility</b>	<ul style="list-style-type: none"> <li>• Range of Equalities and Sustainability benefits</li> <li>• Comply with Council Policy and comply with Public Sector Equality Duties</li> <li>• Training plans are in place for staff with learning, literacy, numeracy and IT issues</li> <li>• Targets to increase recycling rates</li> <li>• No apprenticeships or work placement opportunities in proposals</li> </ul>	<ul style="list-style-type: none"> <li>• Range of Equalities and Sustainability benefits e.g. carbon reduction and creation and management of a community time bank where citizens can volunteer time to support a biodiversity project, community clean up or other local environmental event</li> <li>• 30 modern apprenticeships p.a. with guaranteed employment within the Preferred Bidder organisation on successful completion. 10 work placements each term for school age children, supporting third sector organisations and educational proposals</li> <li>• Implementing a transitional employment programme to provide demand led training to long term unemployed (24 placements p.a.)</li> </ul>
<b>Future Developments/ Opportunities</b>	<ul style="list-style-type: none"> <li>• Opportunity for review of Grounds Maintenance service in Year 3 of programme.</li> <li>• Organisational review will be initiated in the early stages of PSC implementation to explore option of Transport Manager having responsibility for all stores and workshops across the Environment Division</li> </ul>	<ul style="list-style-type: none"> <li>• 30 additional projects identified which could provide additional benefits e.g. service enhancements, improved sustainability and further cost reduction</li> <li>• Further savings through extension proposal, with % year on year reduction in service fee for years 8-12</li> <li>• Dedicated transformation resource identified</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>• Parallel change activities require to be carefully managed</li> <li>• Service standards may drop during transition</li> <li>• Dependent on smaller team having capacity to develop and specify future improvements etc</li> <li>• All delivery risk sits with Council</li> <li>• Costs for ICT and Depot projects require to be further scoped</li> <li>• Limited financial certainty as savings not contractually underpinned</li> <li>• Investment based on self financing model – high dependency on early benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Some targets and timelines are ambitious but at Bidder risk</li> <li>• Delivery of change to be carefully managed</li> <li>• The risks identified have been reviewed as part of the evaluation and business case development process. This review determined that all identified risks can either be addressed through the contract refinement process with the preferred bidder or be actively managed and developed in partnership development post contract.</li> </ul>

Mobilisation Plan

	Oct				Nov				Dec				Jan				Feb	
	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	
	17	24	31	7	14	21	28	5	12	19	26	2	9	16	23	30	6	13
Council papers issued																		
Staff TUPE letter issued																		
Council meeting																		
Announce Preferred Bidder																		
Second TUPE Letter issued confirming Council decision																		
Alcatel Period																		
Feedback to Bidders																		
Fine tune Contract with Preferred Bidder																		
Gather and novate 3rd Party Agreements																		
Sign Contract																		
Go Live Date TBA																		
Staff engagement events e.g. 1 to1s																		
Facilitate TU consultation with PB																		
Establish Client Function																		
Transition Steering Group																		
Confirm data required for migration																		
Data gathered, cleansed, validated and transferred																		
Implement & install interfaces																		
Define & agree business continuity plan																		
Define & agree risk & quality management plan																		
Define & agree ongoing reporting requirements																		