

Alternative Business Models Review Programme – Integrated Facilities Management

The City of Edinburgh Council

19 January 2012

1 Purpose of report

- 1.1 The purpose of this report is to update the Council, present the final business case and make recommendations on the way forward for the Integrated Facilities Management workstream of the Alternative Business Models (ABM) review programme.

2 Summary

- 2.1 Detailed dialogue has been completed for the Integrated Facilities Management workstream of the review programme. The evaluation process has been completed and it is recommended that **Mitie** is selected as preferred bidder for the workstream. Mitie propose to establish 'Vital Edinburgh', a wholly owned subsidiary company of Mitie Group PLC, to deliver the partnership.
- 2.2 A full business case has been prepared which considers whether the solution from Mitie provides Best Value to the Council. In particular the business case compares the preferred bidder's solution to the existing services, supplemented by the Council's own internal improvement plans – the public sector comparator. 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 meets 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 completion of a further phase of dialogue with shortlisted bidders before final proposals were presented.

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 Integrated Facilities Management workstream in August 2011.
- 4.2 Since this date, the bidders' proposals have been assessed against evaluation criteria approved by the Policy & Strategy Committee on 31st

August 2010. The objective of this evaluation process was to test the robustness of the solutions and identify a preferred bidder with which the Council could potentially conclude a contract and establish a partnership. It is recommended that Mitie is selected as the preferred bidder for the Integrated Facilities Management 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 A business probity review to consider the financial standing, trading position and professional conduct of bidders has been undertaken at each stage of the procurement. This 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 from Mitie Group PLC 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.

Full Business Case

- 4.4 In the report to Council of 17 December 2009, the Chief Executive emphasised that proposals brought forward through the competitive dialogue process would be considered in terms of their potential to secure Best Value for the Council. One of the tests would be to compare solutions 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 and make no award of contract.
- 4.5 A full business case has been prepared for the Integrated Facilities Management workstream undertaking this comparison. A summary of the business case is attached as Appendix 2.
- 4.6 In preparing the business case Ernst and Young were commissioned to consider the deliverability and associated risks and benefits of the internal improvement plan. This assessment also considered the reasonableness and completeness of the financial assumptions, and the existing capacity to deliver major organisational change and process redesign.
- 4.7 Ernst and Young concluded that there was a low confidence in the deliverability of the internal improvement plan. As a result further work was undertaken by the internal improvement team to adjust their plans and to mitigate a number of risks.

- 4.8 Ernst & Young completed a further review and concluded that the deliverability confidence level has increased, but it was still moderately low. Ernst and Young noted that whilst the internal plan is a fair comparator for the purposes of procurement, further planning would be required prior to commencing implementation. They also identified that the proposed scale and pace of change was still at the upper limits of their experience of similar internal transformation programmes. The Council is responsible for all delivery risks and any slippage in the internal plan will potentially result in new budget pressures.
- 4.9 Following detailed consideration of both external and internal proposals the full business case concludes that there is a compelling business case for the establishment of a Strategic Partnership with the preferred bidder, based on:
- significant commitments to enhanced services with clarity for users of services provided through a robust output specification as well as enhanced service outcomes in areas such of school catering, energy consumption and property maintenance;
 - the capacity in the partnership model to manage relationships and take forward wider transformation opportunities;
 - the delivery of substantial financial savings contributing to the Council's long-term financial plan with early delivery of significant headroom within the budget; and,
 - a partnership model and additional capacity for service development with a well developed pipeline of business cases, including property rationalisation, to deliver further efficiency savings and service improvements.
- 4.10 A copy of the business case, supporting background papers and the independent review by Ernst & Young has been made available to elected members through the ABM Data Room.

Gateway Review

- 4.11 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.
- 4.12 Further reviews of both the programme as a whole and the Integrated Facilities Management workstream have now been completed. The latest confidence assessment ratings are highlighted below:
- Programme (as a whole) - Amber

- Integrated Facilities Management - Amber

4.13 The Gateway Review reports have been made available to elected members and the trades unions through the ABM Data Room.

Stakeholder Engagement

4.14 Regular meetings have taken place with the trades unions throughout the process. The trades unions also participated in the Integrated Facilities Management evaluation.

4.15 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.

4.16 For the Integrated Facilities Management project, an extensive programme of consultation and engagement with Building Managers was undertaken to develop the service specifications and standards. This has helped both the internal improvement team and bidders shape their proposals.

4.17 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.

4.18 The Programme has also engaged with Secondary, Primary and Nursery Head Teachers to consider the potential service improvements and efficiency benefits offered by the preferred bidder and the internal improvement plan. Consultation meetings have also been held with Community Learning and Development Managers, representatives from Child and Family Centres and Parent Councils and the Consultative Committee with Parents.

4.19 A series of public drop in events have also been held in local libraries across Edinburgh. These sessions answered questions from members of the public on the ABM programme and the Integrated Facilities Management project.

5 Plans for the Next Phase

5.1 An outline plan for the next phase of the project has been developed based on the recommendations of officers set out within this report. A summary of this plan is attached as Appendix 3 of this report. It is anticipated that the contract would be concluded with the preferred bidder by February 2012 with arrangements being established and operational by Spring 2012.

6 Best Value & Financial Implications

- 6.1 The Council has a statutory duty to consider how it will secure Best Value as defined in the Local Government Act 2003. This requires the Council to maintain an appropriate balance between cost and quality and balance the need to meet equal opportunity requirements and contribute towards sustainable development.
- 6.2 The following tables compares the headlines between the two options

	Mitie	Internal Plan
Output Specification	Guaranteed Service Levels with penalties if not delivered	Target to achieve service levels
School Meals	32% improvement in uptake underpinned financially.	Target to increase uptake.
Reactive/Planned Maintenance	By end of year 1 migrate to 90% planned maintenance.	Greater planned maintenance & insourced maintenance delivery targeted.
Relationship Management	Dedicated relationship management team.	Operational managers also undertake relationship manager role.
Total Savings Over 7 years	£51.5m underpinned by contractual commitments Early year savings, £1.1m in 11-12 / £4.6m in 12-13.	£38m targeted and dependent on efficiency initiatives. Savings commence in 13/14
Additional Savings	Outline business cases offer potential of additional £63m savings (inc Workstyle proposals that offer £21m more than current Council plan)	Additional savings of £25m above those agreed in 11/12 over the next 7 years – funding gap in the first two years
Impact on Council's 11/12 Budget	Additional £39m of savings above those agreed in 11/12 over the next 7 years.	Enabler for delivery of Council approved workstyle /property savings of £22m. Further insourcing opportunities.

Sustainability	Contractual commitment - net increase of 200 jobs to the City, 25% energy savings across estate, 70% waste recycling in buildings and supplier development programme Plus specific employability commitments e.g. 50 apprenticeships, training.	General carbon reduction aspirations and 7% energy reduction target plus employability targets e.g. 9 apprenticeships and graduate placements
Equalities	Contractual commitments reflecting statutory requirements and council policies.	General commitment to work within Council policy framework

6.3 The proposals meet 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.

6.4 The recommended proposal from Mitie will deliver:

- £51.5m of savings over seven years. This will provide an additional £13.5m of savings when compared to the internal improvement plan savings of £38m;
- an additional £39m of revenue savings above those already agreed as part of the 2011/12 revenue budget process;
- investment of £6m in new technology, upgrading kitchens and dining areas in schools and in management of the change;
- a pipeline of business cases for the Council to consider to further develop the service and support property rationalisation which have the potential to release a further £63.3m of efficiency savings;
- greater certainty and confidence in the delivery of financial savings as they are contractually underpinned.

6.4 It is anticipated that £242k will be required to progress the mobilisation phase of the Integrated Facilities Management Partnership and it is recommended that this is funded from the spend-to-save fund.

7 Equalities Impact

7.1 A full Equalities Impact Assessment of the proposals has been completed and it confirms that sufficient confidence exists 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, prior to the Council meeting and is published on the Council Website.

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 to deliver positive outcomes.

9 Recommendations

- 9.1 It is recommended that the City of Edinburgh Council:
- (i) agrees to the appointment of Mitie as the preferred bidder for the Integrated Facilities Management workstream;
 - (ii) delegates to the Directors of Services for Communities and Corporate Governance authority to enter into a partnership agreement; and
 - (iii) agrees to draw down £242k from the Council's spend-to-save fund to met the mobilisation costs for Integrated Facilities Management.

Sue Bruce
Chief Executive

Appendices	1	Summary of Evaluation Process
	2	Summary of Full Business Case
	3	Outline Plan for Next Phase

Contact/tel/Email Andrew Unsworth, ABM Programme Director 0131 469 3965
andrew.unsworth@edinburgh.gov.uk

Wards affected All

Single Outcome
Agreement

Background
Papers

Summary of Evaluation Process & Result

Integrated Facilities Management Partnership

Bidder	Service (Max 400)	Financial/ Commercial (Max 400)	Transformation (Max 200)	Total Score (Max 1000)	Rank
Mitie	331	280	116	727	1
Capita/Carillion	276	280	140	696	2

	Mitie	Public Sector Comparator
Model	<ul style="list-style-type: none"> New company created, with HQ in Edinburgh Fully integrated service delivery 	<ul style="list-style-type: none"> Simplified management structure in place by 2012 - single integrated function for a number, but not all, services in scope.
Financial	<ul style="list-style-type: none"> Total net savings £51.5m (net present value £45m) Early year savings from 2012/3 High degree of financial certainty – monthly fee linked to output specification with penalties if not delivered. Essentially fixed price with small number of activities on a per use basis Gainshare proposals 	<ul style="list-style-type: none"> Total net savings £38m (net present value £32m) Significant funding gap in first two years Range of efficiency initiatives to reduce current spend
Investment	<ul style="list-style-type: none"> Investment of £6m in ICT, Management Resource, Estate and Asset Management activities, Design, Fleet and Catering Investment profile funded from own resources, included in fixed monthly fee 	<ul style="list-style-type: none"> Investment of £7.85m in ICT, Project Support, Catering, Change Management, Performance and Process analysis Self-financing from savings, Risk of budget overspend if efficiency initiatives do not deliver on time and to plan
Service Commitments	<p>Fully delivers output specification with some enhancements , commitments include</p> <ul style="list-style-type: none"> 32% improvement in the uptake of school meals (Dec 2013) Single point of contact for commissioning all services 24/7 helpdesk based in Edinburgh Dedicated elected members enquiry service Mobile working solution and multi skilled staff Guaranteed hours support for Centres etc Consistent staff for 90% of buildings Real time estate performance data/management information Dedicated points of contact with Partner management By the 1st anniversary migrate property maintenance to a regime of 90% planned versus 10% reactive Customer satisfaction target of 90% First fix programme – guaranteed reactive repair response times 85% of projects on time and budget 	<p>Range of targeted initiatives – no contractual guarantee</p> <ul style="list-style-type: none"> Increased school meal uptake and reduce meal subsidy - targeted refurbishment of school kitchens and dining areas, Insourcing of property maintenance services from 2012 Implement cluster model for Janitorial staff A single IFM helpdesk Delivery of a mobile working solution for field based operatives with mobile handsets to enable real time reporting and scheduling. ICT funding required Simplified management structure underpinned by performance management framework Move to Planned maintenance with Reactive Maintenance services provided by Council operatives (insourcing) Right first time maintenance programme Continued improvements in rental income
Customer Services	<ul style="list-style-type: none"> Enhanced customer relationship management model Area teams linked to Neighbourhoods/and building clusters Real time data for services and customers IT systems to automate scheduling and deliver efficiencies etc. <p>Single point of contact with 24/7 helpdesk</p>	<ul style="list-style-type: none"> Operational managers are also relationship managers ICT solution to provide realtime performance data Mobile working solution – ICT investment required Single Customer helpdesk supported by replacement of legacy systems with new platform.

	Mitie	Public Sector Comparator
Customer Services	<ul style="list-style-type: none"> Enhanced customer relationship management model Area teams linked to Neighbourhoods/and building clusters Real time data for services and customers IT systems to automate scheduling and deliver efficiencies etc. Single point of contact with 24/7 helpdesk based in Edinburgh 	<ul style="list-style-type: none"> ICT solution to provide realtime performance data Mobile working solution – ICT investment required Single Customer helpdesk supported by replacement of legacy systems with new platform.
Workforce	<ul style="list-style-type: none"> Initial Workforce reductions, through redeployments within Mitie, retirements, VERA, end of temporary contracts and redundancy Commitment to be an admitted body to Lothian Pension Fund Dedicated training/mentoring programme and internships 	<ul style="list-style-type: none"> Workforce reductions, through turnover and VERA (if unsuccessful then potential redundancies) Recruitment of operational staff for insourcing
Equalities & Sustainability and Corporate/Social Benefits	<ul style="list-style-type: none"> Guaranteed net increase of 200 jobs to city Equalities and Sustainability benefits e.g. reduce carbon emissions by 33%, carbon neutral services by Year 4, reduce energy and water consumption by 25% by Year 4, obtaining Carbon Trust Standards certification in 6 buildings Programme for healthy living in schools 50 Apprenticeships a year and other employment, skills and training opportunities e.g. long term unemployed, young, hard to reach employment groups 3 Volunteering projects pa to support community initiatives Supplier development programme for local businesses 	<ul style="list-style-type: none"> Equalities and Sustainability e.g. energy efficiency proposals to deliver 7% savings from good housekeeping and spend to save investment; Proposal to work with other services and partners to facilitate positive destination opportunities for school leavers, Looked after children and protected groups 9 apprenticeships, graduate work placements
Future Developments/ Opportunities	<ul style="list-style-type: none"> Pipeline of business cases developed - significant financial and service improvements identified (£63m, £20m excluding workstyle) Dedicated transformation resource and expertise included as part of proposal Workstyle proposal delivers £43m which is £21m benefits beyond Council business case 	<ul style="list-style-type: none"> Dependent on a smaller team having capacity to develop and specify once new operating model in place Commitment to support Workstyle/Property Rationalisation transformation although may place strain on resources Enabler for Council workstyle business case Insourcing opportunities e.g. enhanced role for SSOs (£5m savings)

Risks	<ul style="list-style-type: none"> • Some delivery timescales are ambitious but at partners risk • Large scale of change, but Bidder has significant experience • Condition surveys may result in reprioritisation of work • Strong Council Intelligent Client Function required • Changes between draft TUPE list and transferring staff • Compensation if the contract terminated and partner not at fault • Contract subject to annual indexation • Prices subject to volume tolerances • Some Council dependencies for realisation of targeted benefits 	<ul style="list-style-type: none"> • All delivery risk sits with Council – ambitious proposals • Timescales ambitious, delays impact on projected savings • Further scoping required around costs e.g. ICT • ICT systems dependency for some savings • Limited financial certainty, savings not contractually underpinned • Self financing investment model –dependency on early benefits • Insourcing proposals potentially overoptimistic in early years • Further work to detail how output specifications delivered • Potential for service levels to drop during transition period • Smaller team required to develop/specify future improvements
--------------	--	--

Mitie Mobilisation Plan

	Jan		Feb					Mar					Apr				May			
	2	9	16	23	6	13	20	27	5	12	19	26	2	9	16	23	30	7	14	21
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																			█	
Staff Engagement Events e.g. 1 to 1s	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
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			█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█