

Alternative Business Models Review Programme – Corporate and Transactional Services

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 full business case and make recommendations on the way forward for the Corporate and Transactional Services workstream of the Alternative Business Models (ABM) review programme.

2 Summary

- 2.1 Detailed dialogue has been completed for the Corporate and Transactional Services workstream and the evaluation process has identified Capita as the strongest bidder.
- 2.2 A full business case has been prepared which considers whether the solution from Capita provides Best Value to the Council. This analysis concludes that there is not a compelling business case to adopt a partnership model and therefore the Council should terminate the procurement without a contract award.
- 2.3 It is recommended that Council agrees that the Director of Corporate Governance should develop the vision set out within the public sector comparator and immediately implement a programme of improvement of the services included within the Corporate & Transactional Services workstream. Further reports will be made to the appropriate committees as this improvement programme progresses.

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 procurement 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 the initial dialogue phase, the outline business case for each workstream was presented to Council on 16 December 2010 and the Council approved a further phase of dialogue.
- 3.5 In June 2011 Council confirmed that the outline solutions developed through the competitive dialogue process offered potential for development into a compelling business case. As a result Council agreed to a final phase of dialogue to allow detailed proposals to be developed and evaluated. These proposals are presented in this report.

4 Main Report

Procurement Process

- 4.1 Competitive dialogue for the Corporate & Transactional Services workstream closed on 4 November 2011.
- 4.2 Since this date, the bidders' proposals have been assessed against the 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 bidder with which the Council could potentially conclude a contract and establish a partnership.

- 4.3 The evaluation process identified that Capita was the strongest bidder for the Corporate and Transactional Services workstream. A summary of the evaluation scoring is presented as Appendix 1 of this report.
- 4.4 A business probity review has been undertaken at each stage of the procurement. This considered the financial standing, trading position and professional conduct of bidders. The most recent review concludes that there is no reason to require Capita to be excluded as a bidder for the Corporate and Transactional Services workstream.

Full Business Case

- 4.5 In the report to Council of 17 December 2009, the Chief Executive emphasised that proposals developed through the competitive dialogue process would be considered in terms of their potential to secure Best Value for the Council.
- 4.6 A full business case has been prepared for the Corporate and Transactional Services workstream undertaking this comparison. A summary of the business case is attached as Appendix 2.
- 4.7 Following detailed appraisal of the proposals from Capita, the full business case concludes that there is not a compelling business case for the establishment of a strategic partnership. This recommendation is based on the following factors:
- Savings in the core operational services are not compelling without procurement savings in the early years of a partnership being used to underwrite Capita's proposals.
 - A framework for the delivery and sharing of procurement savings is proposed which has potential to expose the Council to significant risks and potential unforeseen consequences, both financially and operationally.
 - The proposed contract from Capita would not be considered viable to the Council without material amendment.
- 4.8 A copy of the full business case, supporting background papers and the independent review has been made available to elected members in the ABM Data Room.

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 were completed in November 2010 and April 2011. The latest review was completed in December 2011.

- 4.10 The latest confidence assessment ratings are:
- Programme (as a whole) - Amber
 - Corporate & Transactional Services - Amber/Red
- 4.11 The latest review has also highlighted the risks identified at 4.7 associated with Capita's procurement savings proposals. The Gateway Review emphasises the importance of a robust risk assessment of both the internal and external proposals. This has been completed as part of the options appraisal within the full business case.
- 4.12 The Gateway Review reports have been made available to elected members and the trades unions through the ABM Data Room.

Stakeholder Engagement

- 4.13 Staff engagement has taken place throughout the process using a range of channels, including face-to-face and cascade briefings, use of the Council intranet and information sent to home addresses. Regular meetings have taken place with the trades unions, who also participated in the bid evaluation process.
- 4.14 An extensive consultation programme was undertaken with service managers across the Council to develop the service specifications. This information helped shape both bidders proposals and the public sector comparator.
- 4.15 Consultation has also taken place with EVOG, Edinburgh Equalities Network, Scottish Government, Improvement Service for Scotland, Lothian & Borders Police, Lothian & Borders Fire and Rescue Service along with neighbouring authorities. Consultation with the use of a survey questionnaire has also been undertaken with local interest groups.
- 4.16 Capita also consulted with approximately 1000 Edinburgh city residents as part of the development of their proposals.

5 Best Value & Financial Implications

- 5.1 The Council has a statutory duty to consider how it will secure Best Value as defined in the Local Government Act 2003. This includes a requirement upon the Council to maintain an appropriate balance between cost and quality and also to balance the need to meet equal opportunity requirements and contribute towards sustainable development.
- 5.2 The full business case concludes that there is not a compelling business case for the establishment of a strategic partnership with Capita. This recommendation is based on the following factors:

- Savings in the core operational services are not compelling without procurement savings in the early years of a partnership being used to underwrite Capita's proposals;
- A framework for the delivery and sharing of procurement savings is proposed which has potential to expose the Council to significant risks and potential unforeseen consequences, both financially and operationally; and,
- The proposed contract from Capita would not be considered viable to the Council without material amendment

5.3 In light of the recommendation to terminate the procurement with no award of contract, consideration requires to be given to the next steps to deliver the required improvements to Corporate & Transactional Services. In preparing the business case, KPMG were commissioned to assess the deliverability and associated risks and benefits of the internal improvement plan or public sector comparator. The review concluded that, whilst the public sector comparator provided a legitimate comparison for the purposes of the procurement process, that further work was required to develop the vision into a robust design and deliverable plan.

5.4 It is recommended that the Director of Corporate Governance should develop the vision set out within the public sector comparator and immediately implement a programme of improvement of the services included within the Corporate & Transactional Services workstream. It is proposed that further reports will be made to the appropriate committees as this improvement programme progresses.

6 Equalities Impact

6.1 A full Equalities Impact Assessment of the proposals for the Corporate and Transactional Services workstream has been completed. This assessment followed the Council's agreed procedure and was shared with the Edinburgh Equalities Network and trades unions.

6.2 The full Equalities Impact Assessment has been provided to all elected members, prior to the Council meeting and is published on the Council website.

7 Environmental Impact

7.1 Formal screening of the Alternative Business Models programme has taken place and officers have determined that that the review is not a 'qualifying programme' as defined by the provisions of the Environmental Assessment (Scotland) Act 2005.

7.2 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.

- 7.3 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.

8 Recommendations

8.1 It is recommended that the City of Edinburgh Council:

- (i) agrees to terminate the procurement without a contract award; and,
- (ii) agrees that the Director of Corporate Governance should develop the vision set out within the public sector comparator and immediately implement a programme of improvement of the services included within the Corporate & Transactional Services workstream. Further reports will be made to the appropriate committees as this improvement programme progresses.

Sue Bruce
Chief Executive

Appendices	1	Summary of Evaluation Process
	2	Summary of Full Business Case

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Wards affected All

Single Outcome Agreement National Outcomes 15 – our public services are high quality, improving, efficient and responsive to local people’s needs.

Background Papers

Summary of Evaluation Process & Result

Corporate & Transactional Services Partnership

Bidder	Service (Max 400)	Financial/ Commercial (Max 400)	Transformation (Max 200)	Total Score (Max 1000)	Rank
Capita	280	260	158	698	1
BT	285	235	164	684	2
(Variant Bid)	(285)	(198)	(98)	(581)	

BT submitted both a compliant bid and variant bid. This is consistent with the procurement process and both bids were evaluated.

	Capita	Public Sector Comparator
Model	Strategic partnership on a contractual basis with all services located within the city. The partnership would have an initial period of 10 years.	Services restructured and integrated under a single, delayed management structure.
Financial	<ul style="list-style-type: none"> Total core savings and Council tax income: £69.2m (of which £3.2m from Council tax gainshare) <ul style="list-style-type: none"> £54.5m of savings in addition to agreed 2011/12 revenue budget secured by £36.7m of procurement savings Total procurement savings: £101.1m (of which £71.2m contractually underpinned but subject to Council dependencies) Financial model set out in contract including gainshare mechanism. Smoothed pricing. Cumulative and annual saving over the 10 years of 30% on baseline budget subject to Council dependencies 	<ul style="list-style-type: none"> Total targeted core savings and Council tax income: £38.0m <ul style="list-style-type: none"> £26.5m of savings in addition to agreed 2011/12 revenue budget Total procurement savings: £82.3m Funding from borrowing and reserves with cash flow risks in delivery if there is slippage or benefits not realised Savings dependent on success of major transformational change programme Cumulative saving over the 10 years of 10.3% on the baseline
Investment	<ul style="list-style-type: none"> £10.0m investment in core services including transition and transformation resource, training and ICT Provision of specialist Procurement Resource as part of implementation New technology to enable the Procurement function 	<ul style="list-style-type: none"> £10.4m investment in programme including Programme, Project and Change resource, External consultancy support, training, ICT implementation/enhancements. Investment to be funded from reserves and borrowing Additional Procurement resource identified for transition
Service Commitments	<ul style="list-style-type: none"> Increase overall Council tax collection rate by 1% Commitment to meeting the requirements of the Output Specification Customer led service design based on a minimum of 15 research surveys and 25 focus groups Establishment of a Centre for Transformation and Sustainability with both Council and partner staff Dedicated transition team with experienced transition managers Commitment to regular performance reviews and annual service planning to ensure performance meets the required standards Provision for benchmarking to test for best value and value for money Governance process for issue escalation and resolution 	<ul style="list-style-type: none"> Increase overall Council Tax collection rate by 1% Proposals built on requirements of Output Specification Targeting delivery of Key Performance Indicators Consolidated Performance Management function to ensure clear lines of accountability between service providers and users. Performance management team will monitor service delivery volumes and compliance against SLAs and statutory requirements and prepare monthly performance report for key customers. Monthly meetings will be held with key customers to discuss performance and resolve issues Benchmarking will be undertaken

	Capita	Public Sector Comparator
Customer Services	<ul style="list-style-type: none"> • Full contractual commitment to meeting the requirements of the Output Specification • Commitment to meet and exceed the current performance indicators, performance is underpinned contractually and incentivised through the Price Performance Mechanism 	<ul style="list-style-type: none"> • Focus on increase of self service and improved web content to channel shift customer contact • New customer value focused service delivery and consistent customer contact model across all services • Consistent performance monitoring • Customer engagement approach
Workforce	<ul style="list-style-type: none"> • Significant workforce reductions, through voluntary early release, holding vacancies, redeployment, ending agency contracts and turnover. Redundancy may be required. • Recruitment of new staff to Edinburgh contract also anticipated over 10 year term • Commitment to redeployment and no compulsory redundancies in year 1 • Commitment to 500 new permanent jobs within Edinburgh 	<ul style="list-style-type: none"> • Significant workforce reductions, through voluntary early release, holding vacancies, redeployment, ending agency contracts and turnover. Redundancy may be required.
Equalities & Sustainability and Corporate/Social Benefits	<ul style="list-style-type: none"> • Explicit commitment to assess impact of Projects on compliance with Public Sector Equality Duty • Commitment to ensure contact arrangements take account of “minority group and diversity needs, through choice of channels” • Demonstrated need for accessible and responsive public services • Commitment to ensure timely and accurate payment of benefits as a means of tackling deprivation • Intention to undertake activities via a Social Enterprise to help address the digital divide in Edinburgh • Number of linkages and references to sustainable development • Commitment to achieving sustainable development objectives/legislation and Council policies • Commitment to establish Centre for Transformation and Sustainability (CFTS) • Commitments around social and economic sustainability for example, mentoring small businesses, establishing and supporting social enterprises and volunteering opportunities for staff • Sustainable procurement is highlighted and reference to ‘local supply chain champion’ 	<p>Equalities principles set out in proposal:</p> <ul style="list-style-type: none"> • joined-up, inclusive end to end services with straightforward and equitable means of accessing processes and information • standardised / automated processes • family-friendly policies, home working and flexible working • maintaining appropriate channels to recognise diversity of customer base • Liaison with corporate equalities team to manage the impact of future legislation and policy change • Development of equality impact assessment expertise • Acknowledgement of equality impact assessment as a key business tool <p>Sustainability:</p> <ul style="list-style-type: none"> • Council’s sustainability principles referenced in proposal • Aim to promote and embed best practice for sustainable procurement e.g. sustainability criteria as part of supplier evaluation process, assessment of suppliers carbon footprint etc • Compliance with the Climate Change Act and current Council policies on sustainability

	Capita	Public Sector Comparator
Future Developments/ Opportunities	<ul style="list-style-type: none"> • Further potential savings of up to £106.1m identified from Business Case developments which would be subject to future agreement by the Council. 	<p>Further efficiency and savings opportunities identified but not quantified include:</p> <ul style="list-style-type: none"> - Extending hub model into other areas of the Council to realise additional efficiencies and financial savings - Extending automation and self-service provision to increase channel shift and reduce costs - Provision of services to third party organisations as shared services or potentially via an Arms Length External Organisation (ALEO) joint venture vehicle
Risks	<ul style="list-style-type: none"> • Complex commercial mechanisms for calculation and delivery of savings expose the Council to significant risks that may have financial or operational impact • Robust management of the complex gainshare mechanism required to monitor the level of savings achieved and applicable Council share • Realisation of procurement savings has significant dependency on services in other areas of the Council which are not directly influenceable by either the Partner or the Intelligent Client Function • Procurement projects could be developed around capital investment programme budgets and this may lead to pressure on the revenue budget • Risks around ICT including third party licensing costs, agreements on arrangements with existing ICT partner and CRM integration which is limited to 4 minor back office systems • Culture change required to embed the changes but at Partner risk • External changes to implement Universal Credit represents major service change that will require early and effective management. 	<ul style="list-style-type: none"> • Ability to maintain service levels through transition while undertaking additional improvement activity • Programme plan has been created but further detailed planning will be required at project level. This may identify additional activities that will impact timescales or costs. • Some ICT investment costs in the proposal are based on high level proposals therefore costs could change following detailed scoping • Core savings are largely dependent on staff reductions. Delays in implementing change may impact savings • Current pressures exist regarding delivery of existing savings plans in the in-scope areas. Proposals will require delivery of additional savings with fewer resources. • External changes to implement Universal Credit represents major service change that will require early and effective management. • Potential shortage of internal resource, particularly for procurement change, with required skills and capacity to implement the change proposed and deliver the required culture change • Organisational model requires more detailed design