



Interim Critique DRS Business Case

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Summary

The DRS Business Case remains flawed despite some measure of clarification from the options appraisal stages of the process. In particular we note issues with:

- **Strategy & Priorities**
- **Governance arrangements**
- **Operational Plan**
- **Corporate Impact**
- **Financial/Economic modelling**
- **Income generation**
- **Benefits realisation**
- **Risk Assessment**
- **Equalities & staffing**
- **Legal Advice**

The Government Green Book is clear about the standards of analysis for projects and value for money. Moreover there is a template 'business cases: Five Case Model' which could have been used by the consultants to ensure a thorough and complete assessment was undertaken. It is apparent this has not taken place.

Our expectations of for Full Business Case

We would expect any project management process to leading to this full business case stage to follow a consistent a considered and standardised framework such as Prince 2 or more appropriately for a project of this scale and nature the HM treasury Green Book¹ and associated supplementary guidance such as on written on business cases using the Five Case Model².

The Five Cases Model sets out an overall project structure as follows:

- Phase 0 – Determining the Strategic context
- Phase 1 – Preparing the Strategic Outline Business case
- Phase 2 – preparing the Outline Business case
- Phase 3 Preparing the Full Business Case
- Phase 4 – Following the Full Business case Appraisal

The gateway between Phase 2 and 3, appropriate to this DRS Full Business Case stage, requires the following steps to have been completed prior to passing through this gateway:

Phase 2 Preparing the Outline Business Case

- Step 4 Determining potential value for money
- Step 5 Preparing for potential deal
- Step 6 Ascertaining affordability & funding requirements
- Step 7 Planning for successful delivery

Each of these steps has identified actions set out in the model and to our understanding most of these actions are either insufficient or entirely missing from this Business case.

¹ HM treasury Green Book Reference

² HM Treasury 'Green Book, Public Sector Business Cases using the Five Cases Model:a toolkit. Joe Flanagan, Paul Nicholls.

Interim Comments on the DRS Business Case

Key Points

1. Lack of **strategy and priorities**: the document is full of aspirations and aims but little content on how they want the services to be developed and what the priorities are. There appears to be no real strategy for the services except cost-cutting and income generation or very general statements such as 'end-to-end redesign'. Aspirations are welcome but they alone are not adequate. A Business Plan should at least identify the synergies and the scope for and type of service integration between the different services and functions. This is conspicuously absent. There is also a common theme emerging with the Council commencing procurement without having a clear idea of what it wants and relying on the private sector to produce the strategy. Competitive Dialogue or the other procurement models were never designed for this purpose. In the **Overarching Aims on p6** it states; "Unless a radically new way of delivering these key services is found it is likely that they will continue to face service reductions in terms of both staff numbers and the functions they can offer to **our community.**" **However on p5 and p24 it also says that; "These figures do not reflect potential service level reductions, but it should be noted that this will always be an option for any partnership with regards to non-statutory functions and evidence-based service demand."**

This indicates that whatever model is chosen will likely result in service reduction. A reduction in service provision in a strategic partnership would result in a decrease in income.

2. Little evidence of **Governance arrangements** and how these services fit within the future shape of the Council.

3. Lack of an **Operational Plan: How is the service going** to operate for the next 18 months, how, where and when are LEAN systems going to be applied and how are they going to be managed. This is important for the Council, staff, prospective bidders and thus the **business plan.**

3b. Corporate impact – there appears to be little analysis of the effect on other Council services.

4. Economic Modelling/ Financial Modelling:

The Draft DRS Business Case is unsound and fails to deliver almost all the minimum requirements for an economic model (as set out on p.g. 77 of the 5 Case Model for Business cases).

5. Superficial analysis of **Income Generation** – the source of the income generation figures and why are the income generation concentrated into three **years** after only one year of the contract? Income generation appears to have been 'calculated' from benchmarking information and the use of a crude income/expenditure ratio (p19-20). There is no analysis of the potential 'market' and the scope, limitations etc of

increasing income generation in these services. It is also not accounted for in the reference cases on p.g. 27.

6. **Benefits Realisation is far too vague (Appendix D and p11-13)** – yet more aspirational statements. This should be based on an economic, social, environmental and health impact assessment that will provide clear benefits from taking specific course of action.

7. Absence of a comprehensive **Risk Assessment**: Key risks p31 – there is no reference to the myriad of operational risks. The risks they have identified only refer to the procurement process. Further risk regarding consideration include p.g. 54 of 5 Case model.

8. **Equalities & staffing** - there is little or no analysis of Staffing – the repeated use of FTE rather than the actual number of people/jobs, nothing about capacity assessment, skill shortages, training, and recruitment. Exclude the list of functions from the Personnel section, which should be located elsewhere, and there is virtually no content. The business cases developed as a result of the 'Future Shape: Interim Report,' to Cabinet 6 July 2009 specifically looked at equalities and diversity issues to assure the Council that there will be no differential service outcomes for different communities. Delivery of any proposed new services or functions will also aim to increase satisfaction ratings amongst different groups of residents. **There is no evidence to demonstrate this has been addressed.**

9. **A number of services** have a caveat stating certain functions having to remain in the Council. When will this **Legal Advice** be available, what are those functions and how has this been reflected into the Business case? **Client functions and Monitoring, Evaluation and Review** need to be addressed.

10. **Procurement and Gateway Reviews** – The OJEU Notice must not be issued until the Business Plan has been approved by the Council and subjected to a Gateway Review.

11. **Consultation with trade unions** - The trade unions welcome the more open approach which has provided an opportunity to comment on the Business Case before it goes to CDG and CRC. However, having an embargoed copy for the branch secretary does not allow the trade unions to consult with the members who are affected by the appraisal. The timetable does not give the trade unions sufficient time to adequately assess the proposals. We again urge the Council to ensure that staff and trade unions are involved in the options appraisal and business planning processes, not simply having the opportunity to comment on the conclusions of the appraisal or plan.

Questions for DRS

1. Please provide details of what retained client function entails for each of the services together with the financial implications (full costing) to undertake this function for each service. Please also note that this should not be considered a direct deduction from the costs as both parties will be required to undertake contract management & performance functions.

2. How have you ensured all benchmarking data used accurately reflects that of the services being provided with the in-house solution?

2b. Can you provide evidence to demonstrate this? e.g. in particular in relation to Building Control and Structures on **page 41** you provide benchmarking data which clearly demonstrates Barnet is *'best in its class'* yet on **page 66** you show a gap between *'best in class'* and Barnet.

“Where is this data on *'the best in class'*?”

In addition you are comparing on **page 66** Barnet against the *'best in class'* by showing the difference between Barnet and the *'best in class'* by taking gross expenditure for Barnet plus the 8% secondary recharges without showing whether a similar adjustment has been applied to the *'best in class'*. By not applying the secondary recharge to the best in class you are not comparing like with like and therefore the expenditure difference is artificially overstated.

3. What is the **definition of secondary recharges** and what is included?

4. Can you provide copies of the value for money and affordability appraisals (sometimes referred to as economic appraisals in the HM Treasury guidelines, [Green Book](#)) undertaken for each of the service delivery options considered in the current bundle. In light of public scrutiny after the publication of the external auditors report of the One Barnet programme I would presume that external auditors and the Gateway review would also be looking to see evidence of this.

5. On **page 67** Profiled Financial Benefits table you are showing expenditure reduction in the year by applying the relevant annual improvement percentage to the revised expenditure as well as the cumulative reduction in expenditure (already achieved).

- How can you achieve cost saving on cost saving?
- Therefore is the expenditure reduction not being overstated?

For example in year 3 the saving of £84,923 is made up of £78,554 (5.4% of £1,454,695, Year 2 revised net expenditure) and £6,369 (5.4% of £117,948, Year 2 cumulative reduction in expenditure).

Overall the presentation lacks effective supporting evidence to enable the reader to place faith in the figures that are being produced e.g. on page 41 Building Control structures are showing Barnet outstrips in performance everyone in the benchmarking data. However on page 66 it states Barnet Building Control & Structures operates at a much reduced efficiency and the gap between Barnet and the 'best in class' is 65% and without any supporting evidence of where 'best in class' evidence came from.

- Where did this 'best in class' come from and why is it not presented in the report for effective scrutiny?

On page 19 we are informed that the cost reduction of 15% can be achieved and the income generation 15% improvement can be achieved. In the current recession where are being told that there is room for more income to generated for business expansion, especially when we have already been shown on page 41 when we are operating the most efficient in that benchmarking data. What is particularly confusing is that on page 99 the report acknowledges the potentially conflicting relationship between expenditure reduction and income generation.

- How can they justify 15% for both?
- In relation to all 'targets' costed, please can you clarify the justifications & also why they are not applicable to the reference case?

On **page 5** the report is stating that over a ten year period financial benefits could total **£28.4 m** yet there is no corresponding analysis of the most pessimistic and realistic outcome associated risks for these three different scenarios.

If real benefits equate to just 15% less than those projected the expenditure on these services will be the same as those expected at transfer. Any less than this will be a loss to the council.

The **Gross Expenditure** Analysis graph, p26, assumes that if the services remain in-house there will be **NO** efficiencies after 3 years.

How have SAP optimisation benefits for 2011/12 and 2012/13 been reflected in the Options appraisal process?

6. The terms of reference for the Development and Public Health Services Options Appraisal included undertaking a sensitivity analysis from Impower as part of the £67,000 cost (London Borough of Barnet, 2010c). A sensitivity analysis is important because it assesses the results of the options appraisal to changes in demand, performance, savings, and the level of risks and so on. For example, how are the overall conclusions affected by assuming a higher level of performance in different options, lower or higher savings, or a higher level of demand for services.

“Sensitivity analysis is fundamental to appraisal. It is used to test the vulnerability of options to unavoidable future uncertainties and to test the robustness of the ranking of the options. It involves testing the ranking of the options by changing some of the key assumptions. However, spurious accuracy should be avoided and it is essential to consider how the conclusions may alter,

given the likely range of values that key variables may take. Therefore, the need for sensitivity analysis should always be considered and dispensed with only in exceptional circumstances.” HM Treasury Greenbook Toolkit Guide.

7. Please can you confirm whether the **Economic modelling & financial modelling** for the project is in compliance with standards set out in the Governments Green Book & associated supplementary guidance? If not, please can you explain the reason why a true value for money exercise was deemed appropriate for this project?

8. **Cemetery & Crematorium:** The report make a major omission in relation to the comprehensive options appraisal for this service. The resources and officer time on this appraisal over a 16 month period makes this omission even more worrying especially in times when public services spend is quite rightly is under intense scrutiny.

The appraisal made a clear and unequivocal decision, based on detailed financial analysis of many options and soft market testing with private operators, that the in house solution was best value. This must be included

Reference

London Borough of Barnet (2011) Business Case for DRS, Version 1.0, February, London.

HM Treasury Green Book, Public Sector Business Cases using the Five Cases Model:a toolkit. Joe Flanagan, Paul Nicholls.