Response to Trade Union's Interim Critique of the DRS Business Case for CDG 1 March 2011

Introduction and Summary

The unions set out their main issue with the DRS business case – which is that it does not meet their expectations. They wish us to follow the HM Treasury Green Book and associated guidance on business cases and do not believe that we are using a standard project management methodology, e.g. Prince 2.

The One Barnet programme office is using the London Borough of Barnet project management methodology, which is based upon Prince 2.

It has not followed the HM Treasury Green book on business cases, but the methodology agreed by the One Barnet programme office, the project sponsor and the implementation partner.

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 o**ur 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."*
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> 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.

This question has five sub questions contained within it, as follows:

<u>The document lacks detail on the Council's strategy and priorities for the services</u>

The Council's priorities and strategy for the future direction of the services is discussed in "Strategic Fit" (pp 6-8) and in "Non-financial benefits" (pp 14-16). The services are to be delivered in a way that fulfils corporate policy – in particular the One Barnet programme's overarching objective of creating a citizen centric council, where residents get the services they need to lead successful lives, and to ensure that Barnet is a successful place. They must also be delivered in line with the One Barnet key principles of: a new relationship with citizens, a one public sector approach and a relentless drive for efficiency. This must be done within available budgets.

The services must also be delivered in accordance with the Local Development Framework (p10) and other relevant and current strategic requirements.

The unions' opinion of what a business plan (case) should contain

By "business plan", we believe the unions' mean "business case".

The business case has been written in accordance with the London Borough of Barnet's project methodology. It has been reviewed and approved by the One Barnet Programme Manager who provides a project assurance function to the DRS Project Board. It has been cleared for CRC by officers and by the Housing, Planning and Regeneration Cabinet Member, Cllr Richard Cornelius.

The unions' belief that the Council is commencing procurement without having a clear idea of what it wants

The Council wishes to continue to deliver services that fulfil the objectives and principles outlined in point 1 above.

The detail of *how* this will be done will be worked out through the Competitive Dialogue process, which is used for complex procurements when an authority "are not objectively able to define the technical means of satisfying their needs or objectives" and / or "are not able to objectively specify the financial or legal make up of the project". Essentially we are not currently able to specify how we want to achieve our goals, although we know where we want to get to.

For example, the business case states that the project seeks to utilise "commercial experience to maximise income streams" (p16). Currently, the Council has very little commercial experience or expertise that it can draw on in order to achieve this. It is therefore currently unable to state at this time exactly what these new or developed income streams will look like.

Lack of clarity around the possibility of service reductions

The paragraph quoted by the unions from page 6 of the business case originally stated that unless we find a different method of delivery, it is inevitable given the financial challenges that the Council faces, that services will be reduced in terms of both staff numbers and the services they can offer to the residents. Following this feedback from the TUs and from Cllr Cornelius, who believes that staff numbers are likely to be reduced whatever method of service delivery is chosen, the reference to a decrease in staff numbers if no change of delivery method is found has been removed.

The unions' belief that a reduction in service provision in a strategic partnership will inevitably result in a decrease in income to the Council.

It is true that for certain services such as Environmental Health or Trading Standards, the level of income they can generate is linked to the number of staff they employ. In fact, for both Environmental Health and Trading Standards, we believe that a partner may see a clear "invest to grow" opportunity.

Overall, however, we do not believe that there is a direct link in all cases between the number of functions a service carries out and/or the number of people it employs and the income it can generate.

We would additionally point out that by aiming to reduce the costs of the services and increase their income, the project aims to improve the profitability of services rather than simply to increase how much income they bring in.

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

As stated in the business case, the project will follow the agreed One Barnet governance structure (pg 36) as reported to Cabinet on 29 November 2010.

The "Strategic Fit" section of the business case outlines how the services fit within the future shape of the Council.

3. Lack of an **Operational Plan: How is the service go**ing 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 b**usiness plan.**

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

This is beyond the scope of the project and is therefore not included in the business plan and is the responsibility of the directors and assistant directors of the Chief Executive's Service, E&O and PHR.

Dependencies between "business as usual" and special projects within the departments will be managed in the usual way. For example data gathered for LEAN and for the project will be exchanged, in order to avoid duplication.

As part of the data gathering exercise for the business case, the project has examined interdependencies between teams and with other council departments and has also considered the possible and likely connections between DRS and NSO/CSO.

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).

The financial model used in the DRS business case has been approved by both the Head of Finance and the Section 151 Officer. Cabinet members have also reviewed it. The team has received no feedback to suggest that either senior officers or members agree with the unions on this point.

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.

The business case shows possible returns loaded into years 2-4 of a contract in order to show how savings could be aligned with the Council's medium term financial strategy.

As stated on page 19, the potential for improvement figures were based upon a mixture of benchmarking information, feedback from the services and the commercial judgement of the implementation partner. This was done because benchmarking information for these services is not extensive (possibly because they are either new or nearly new to market) and service leads thought that some of what was available was flawed. Benchmarking information alone was only used where it was believed to be reliable.

As stated on page 21, the improvement figures were then used to profile the potential benefits realisation.

It is not possible at this time to analyse the market and the scope or limitation of increasing income generation beyond the commercial judgement referred to above. This was in part based upon the findings of the soft market testing, as well as their knowledge of the outsourcing market and previous examples of this type of project.

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

The Council is clear as to the benefits it wishes to create as a result of all of the work undertaken as part of Future Shape / One Barnet since 2008, and these are reflected in the business case. We do not therefore believe that further assessments of benefits are necessary.

The business case outlines the benefits of the project in terms of the One Barnet framework and states that these must also meet the Council's strategic objectives overall, specifically the LDF.

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.

The risks section reflects the fact that this is a procurement project and highlights the possible major risks to the process.

It is not common project management practice to include an entire risk register in a business case.

Project risks will be managed via a project risk log which will feed programme and corporate risk logs as appropriate.

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.**

An initial equalities impact assessment for staff has been carried out and will be submitted to CRC with the business case.

An external equalities impact assessment for residents is being planned for the project with officers from PHR who are experienced in the process.

The business case outlines the financial and strategic case for procuring a private sector partner. It does not seek to plan the future of staff in scope as this will be decided as part of the competitive dialogue process.

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.

The legal advice provided is subject to legal professional privilege and is also commercially sensitive. As far as the project team is aware, it will not be made publically available.

Certain functions cannot be delegated to a third party under existing legislation. We will discuss with potential partners how the impact of this can best be mitigated in order to ensure that both best service levels and best price can be attained.

After an initial review of the services following receipt of this, 7.5% retained client cost was applied to the business case to take account of non delegatable functions. In the latest version of the business case it is noted that this figure could be higher than 7.5%.

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.

A decision has been made through the approval of the One Barnet Framework (Cabinet, 29 November 2010) for the programme to undertake projects which would support the delivery of the One Barnet aim, as well as the Medium Term Financial Strategy (MTFS). This included projects which would look at the option of alternative service delivery models via public sector partners.

There are other factors affecting this recommendation, such as the required pace of change and our commitments to deliver to the MTFS. We have put actions in place to manage associated risks, including the recommendation in the same document that the follow on business case must be approved by CRC before the start of any dialogue with the market, and therefore before any significant resource is spent on the procurement process..

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.

The project notes this comment; however we have followed the approach laid out in the latest version of the draft terms of engagement.

Union 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.

This information will not be provided as it is both commercially sensitive and subject to legal professional priviledge.

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

We have not carried out this exercise as this option was addressed in the options appraisal phase. It was agreed by Cabinet on 29 November 2010 and 10 January 2011 that retaining these services in house would act as a hamstring to commercialisation and income growth.

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.

Financial benchmarking data was largely taken from CIPFA. Non financial data came from National Indicators, the North London Strategic Alliance, the services themselves and the Value Adding report for Planning DM.

The unions' comments in regard to the 8% recharge are noted. However, benchmarking exercises are largely not standardised (Councils report on different things in benchmarking exercises) and so benchmarking can only be taken as a general indicator rather than an exact measure.

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

Secondary recharges (sometimes called non-real recharges) are the reapportionment to services of centralised support costs, e.g. HR, payroll, IS services.

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.

Estimated project costs are included in the cover report to CRC that will accompany the business case, as follows:

Legal Advice	£692,500
Implementation Partner	£650,000
Other	£18,720
Total	£1,361,220

Benefits realisation is included in the business case, as previously stated.

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).

The selected cost improvement percentage for Building Control was 15%. 15% of the revised gross expenditure is £235,896. The financial model has used the percentage profiling outlined earlier to apply this across the 10 year timeframe.

The cost reduction is therefore not cumulative but profiled across a time period.

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.

See answer on benchmarking data used above. The table referred to is only one example of benchmarking data and does not prove that building control is best in class – it is not – in terms of income and expenditure CIPFA metrics place Camden ahead of Barnet. Given that the inclusion of this table seems to be confusing, the project team will consider removing it from the business case.

The figure for the overall financial benefits is made up of the application of cost reduction and income generation estimates for the cluster of services overall. The project team believes that this figure is conservative, based upon benchmarking data, the experience of previously outsourced services and the implementation partner's market knowledge.

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.

For Building Control we are expecting a benefit of 15% cost reduction and 15% income generation, not 15% overall. This means that cost reduction and income increases should equate to an annual benefit of £511,808 after 10 years on this service alone.

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

Yes, this is the assumption that the graph makes.

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

SAP optimisation benefits are not relevant to the business case as they are beyond the scope of the project.

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 GreenbookToolkit Guide.

The unions' comments are noted but the One Barnet programme is not using the 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?

The financial model was approved by the Head of Finance and the Section 151 Officer.

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

The unions' comment is noted. However, the options appraisal carried out for the Cemetery and Crematorium looked at it as a stand alone service, rather than as part of a cluster.

The Cemetery and Crematorium requires substantial capital investment and is also a good generator of income. Including it in the DRS cluster will gain the Council the investment it needs, and will offset and help to fund those services whose capacity to generate income is lower.