

**AGENDA ITEM: 9    *Supplementary***

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Meeting	Budget and Performance Overview Scrutiny Committee
Date	6 December 2011
<b>Subject</b>	<b>Development and Regulatory Services Project : Business Case Update and Shortlist for Dialogue 2</b>
Report of	Scrutiny Office
Summary	Annex 1 provides the Committee with the Cabinet Resources Committee report outlining the Development and Regulatory Services project business case update and recommended shortlist for dialogue 2. Annex 2 provides the business case update Annex 3 is exempt and provides the evaluation and shortlisting report.

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Officer Contributors	Andrew Charlwood, Overview and Scrutiny Manager
Status (public or exempt)	Public (with separate exempt report)
Wards affected	All
Enclosures	Annex 1: CRC Cover Report Annex 2: Development and Regulatory Services Business Case Update Annex 3: Evaluation and shortlisting report (exempt)
For decision by	Budget and Performance Overview Scrutiny Committee

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Contact for further information:

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## 1. RECOMMENDATION

- 1.1 **That the Budget and Performance Overview and Scrutiny Committee make comments and recommendations to the Cabinet Resources Committee on the Development and Regulatory Services project business case update and shortlist recommendations, as set out in Annexes 1, 2 and 3 (exempt) to this report.**

## 2. RELEVANT PREVIOUS DECISIONS

- 2.1 Cabinet, 6 May 2008 (Decision item 5) approved the establishment of the Future Shape of the Organisation<sup>1</sup>.
- 2.2 Cabinet, 3 December 2008 (Decision item 5) approved the programme structure for the next phase of the Future Shape programme and that a detailed assessment of the overall model for public service commissioning, design and delivery should be undertaken.
- 2.3 Cabinet, 6 July 2009 (Decision item 5) approved that three principles would be adopted as the strategic basis for making future decisions:
- a new relationship with citizens;
  - a one public sector approach; and
  - a relentless drive for efficiency

It also approved a phased approach to delivering the Future Shape Programme and immediate consolidation of activity in the areas explored by the property, support and transact groups.

- 2.4 Cabinet, 21 October 2009 (Decision item 8) approved plans to implement the Future Shape programme.
- 2.5 Cabinet, 20 October 2010 (Decision item 9) – Noted the impact of the Emergency Budget, the consultation on formula grant, and the revised medium-term financial strategy; and that consultation responses in setting budget headlines would be reported to a special meeting on 13 December 2010, following the local government finance settlement.
- 2.6 Cabinet, 29 November 2010 (Decision item 7) – authorised the Commercial Director to commence the procurement process to identify a provider for the delivery of the Development and Regulatory Services project.
- 2.7 Cabinet, 10 January 2011 (Decision item 8) – following the referral back by the Business Management Overview and Scrutiny Committee on 16 December 2010, Cabinet reaffirmed the decision to commence the procurement process (as stated in 2.6 above).

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<sup>1</sup> The Future Shape programme has been renamed One Barnet Programme. The relevant previous decisions shown refer to meetings held before this change.

- 2.8 Cabinet Resources Committee, 28 March 2011 (Decision item 5) – approved the Development and Regulatory Services business case and the start of the competitive dialogue process.

### **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1 The Overview and Scrutiny Committees, Panels and Task and Finish Groups must ensure that the work of Scrutiny is reflective of the Council's priorities.
- 3.2 The three priority outcomes set out in the draft 2011-13 Corporate Plan are: –
- Better services with less money
  - Sharing opportunities, sharing responsibilities
  - A successful London suburb
- 3.3 The One Barnet programme has three overarching aims: –
- A new relationship with citizens
  - A one public sector approach
  - A relentless drive for efficiency

### **4. RISK MANAGEMENT ISSUES**

- 4.1 The One Barnet programme recognises that Barnet residents deserve and expect high quality, efficient public services. The council accepts that it is not best placed to deliver all services on its own and that some will be delivered more effectively and efficiently and with greater quality by working with other boroughs, public sector partners, or the private or third sector.
- 4.2 To enable the Council's Overview and Scrutiny function to provide a critical friend challenge to the executive, it is essential that the Committee have the opportunity to provide a robust, proportionate and timely challenge to the One Barnet workstreams as they progress through the council's decision-making framework. Failure to facilitate pre-decision scrutiny in this way might result in reputational damage to the council.
- 4.3 Risk management considerations as they relate the Development and Regulatory project are set out in the Business Case Update.

### **5. EQUALITIES AND DIVERSITY ISSUES**

- 5.1 In addition to the Terms of Reference of the Committee, and in so far as relating to matters within its remit, the role of the Panel is to perform the Overview and Scrutiny role in relation to:
- The Council's leadership role in relation to diversity and inclusiveness; and

- The fulfilment of the Council's duties as employer including recruitment and retention, personnel, pensions and payroll services, staff development, equalities and health and safety.

5.2 Equalities and diversities considerations as they relate the Development and Regulatory Services project are set out in the attached report at Annex 1.

## **6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability))**

6.1 As set out in the attached report at Annex 1.

## **7. LEGAL ISSUES**

7.1 As set out in the attached report at Annex 1.

## **8. CONSTITUTIONAL POWERS**

8.1 The scope of the Overview & Scrutiny Committees is contained within Part 2, Article 6 of the Council's Constitution.

8.2 The Terms of Reference of the Overview & Scrutiny Committees is set out in the Overview and Scrutiny Procedure Rules (Part 4 of the Constitution). The Budget and Performance Overview and Scrutiny Committee has within its terms of reference the following responsibilities:

To perform the overview and scrutiny role in relation to the One Barnet transformation programme, particularly performance and financial issues.

To receive and consider options appraisals, business cases and closure reports for One Barnet projects.

To monitor the implementation of One Barnet projects throughout the programme lifecycle.

To engage with partner organisations, other relevant public sector bodies, private sector organisations, trade unions, local residents or any other appropriate witnesses when fulfilling the overview and scrutiny role in relation to the One Barnet programme.

8.3 Constitutional powers as they relate the Passenger Transport delivery recommendations are set out in the attached report at Annex 1.

## **9 BACKGROUND INFORMATION**

9.1 The Committee are requested to make comments, representations and recommendations to the Cabinet Resources Committee on the Development and Regulatory Services project, as set out in the attached Annexes.

## **10. LIST OF BACKGROUND PAPERS**

10.1 None.

**Legal: MM**

**Finance: MC**



## Annex One

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Meeting	Cabinet Resources Committee
Date	14 December 2011
<b>Subject</b>	<b>Development and Regulatory Services Project : Business Case Update and Shortlist for Dialogue 2</b>
Report of	The Leader of the Council
Summary	This report asks CRC to approve the shortlist for the Development and Regulatory Services' second stage of competitive dialogue and note the updated business case.

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Officer Contributors	Pam Wharfe, Interim Director, Environment, Planning and Regeneration Andrew Travers, Deputy Chief Executive Craig Cooper, Director, Commercial Services Martin Cowie, Assistant Director, Planning Linda Spiers, Project Manager, Commercial Services
Status (public or exempt)	Public (with separate exempt report)
Wards affected	All
Enclosures	
For decision by	Cabinet Resources Committee
Function of	Executive
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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Contact for further information: Martin Cowie, Assistant Director Planning, 020 8359 4514

## **1. RECOMMENDATIONS**

- 1.1 That Cabinet Resources Committee approves the recommended Development and Regulatory Services (DRS) shortlist of two bidders for stage 2 of the competitive dialogue process.**
- 1.2 The recommended shortlist is: Capita Symonds Ltd and the EC Harris / FM Conway consortium. They achieved the highest two scores from the evaluation of the outline solutions provided at the end of the first stage of competitive dialogue.**
- 1.3 That Cabinet Resources Committee notes the updated Development and Regulatory Services business case<sup>1</sup>.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 Cabinet, 6 May 2008 (Decision item 5) approved the establishment of the Future Shape of the Organisation<sup>2</sup>.
- 2.2 Cabinet, 3 December 2008 (Decision item 5) approved the programme structure for the next phase of the Future Shape programme and that a detailed assessment of the overall model for public service commissioning, design and delivery should be undertaken.
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<sup>1</sup> At the full business case following the second stage of dialogue, the financial case will confirm the implications of indexation, discounted cashflows and profiling considerations. It will also consider sensitivity analysis, opportunity costs and other detailed accounting implications that arise at this point as appropriate.

<sup>2</sup> The Future Shape programme has been renamed One Barnet Programme. The relevant previous decisions shown refer to meetings held before this change.



- 2.6 Cabinet, 29 November 2010 (Decision item 7) – authorised the Commercial Director to commence the procurement process to identify a provider for the delivery of the Development and Regulatory Services project.
- 2.7 Cabinet, 10 January 2011 (Decision item 8) – following the referral back by the Business Management Overview and Scrutiny Committee on 16 December 2010, Cabinet reaffirmed the decision to commence the procurement process (as stated in 2.6 above).
- 2.8 Cabinet Resources Committee, 28 March 2011 (Decision item 5) – approved the Development and Regulatory Services business case and the start of the competitive dialogue process.

### **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

3.1 Barnet Council's corporate priorities are:

- Better services with less money
- Sharing opportunities, sharing responsibilities
- A successful London suburb

3.1.1 *Better services with less money:* The DRS project will appoint a provider who will deliver the services within available budgets to more than their current levels. The provider will focus on customer service and will redesign the services to increase their efficiency.

3.1.2 *Sharing opportunities, sharing responsibilities:* The provider will, through the competitive dialogue process, commit to new and innovative ways to engage and involve the community in co-delivering some services.

3.1.3 *A successful London suburb:* The provider will work with the council to protect, enhance and, where needed, develop the built environment.

3.2 The One Barnet Programme is the council's change programme. Its overarching aim is "to ensure that citizens get the services they need to lead successful lives, and to ensure that Barnet is a successful place"<sup>3</sup>. It has three key principles:

- A new relationship with citizens;
- A one public sector approach; and
- A relentless drive for efficiency.

3.3 The services in scope help Barnet to be a better place to live and work. They encompass its sensitive development and maintenance, including the regeneration of its poorer areas and its overall successful economic development. The regulatory services in scope help to make the borough a safe and healthy place to live and work.

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<sup>3</sup> One Barnet Framework Document, presented to Cabinet 29 November 2010

3.4 The project reflects the driver of needing to “find new ways of tackling challenging problems” Unless a radically new way of delivering these key services is found it is likely that they will continue to be cut year on year.

3.5 The services in scope are:

**Strategic Services:**

- Regeneration
- Strategic Planning and Housing Strategy
- Highways Transport and Regeneration
- Highways Strategy

**Operational Services:**

- Building Control and Structures
- Planning Development Management
- Land Charges
- Highways Network Management
- Highways Traffic and Development

**Public Health, Consumer and Regulatory Services**

- Environmental Health
- Trading Standards & Licensing
- Cemetery & Crematorium

3.6 The thirteenth service, Registration and Nationality, was removed from the cluster after a review of current legislation by Trowers and Hamlins LLP confirmed that the majority of the functions of the service could not be delegated. A review of the remaining functions determined that it was not commercially viable to outsource them.

3.7 In addition to its place within Barnet’s corporate priorities, the project also intends to build upon the following Central Government policy opportunities on behalf of the Borough, as described in paragraphs 3.9-3.12 below:

- Coalition Government plans to incentivise councils to manage and deliver growth
- Local Enterprise Partnerships
- Greater control over council budgets including the ending of grant ring-fencing (except schools) and providing a ‘new homes bonus’ for additional homes created in the borough.

- By April 2012, the Government plans to consider the most appropriate framework for incentives for local authorities to support growth, including allowing local authorities to reinvest the benefits of growth.
  - The proposal that local government retains a higher proportion of the business rates that it collects.
  - The local government resource review. Its objective is to give local councils more control of their resources and move to a position where they are less dependent on grants from central government.
- 3.8 Barnet is the largest regeneration borough in London outside of the Thames Gateway. The services and teams that support this work include: Highways, Transport and Regeneration, Strategic Planning, Housing Strategy and Regeneration, all of which are in scope. Unlike many other boroughs hosting major regeneration projects, we operate in a successful local economy. We expect to deliver approximately 22,000 new homes over the next 10 years.
- 3.9 We currently collect £103m in business rates on approximately 8,000 properties. Our regeneration projects will substantially increase the number of properties and rates we collect, with the Brent Cross Cricklewood development alone providing 456,611m<sup>2</sup> of retail and office space. The DRS project will seek to ensure that the Council and partners can maximise the benefit of the new arrangements for Barnet's business and resident communities.
- 3.10 By working with a private sector provider and leveraging their commercial expertise, DRS will ensure that the financial, economic and social benefits of major regeneration projects are maximised, captured and returned to the Council. These benefits will in turn support the growth and development of the Borough. DRS therefore fits well with the measures outlined in the Localism Act, above.
- 3.11 The Government's Open Public Services White Paper in relation to "giving communities a greater say over their local planning system" and "giving mutuals, co-operatives, charities and social enterprises greater involvement in the running of public services" are particularly pertinent to the project. The Council will be able to draw upon the provider's ability to invest in and provide user-friendly and effective consultation and engagement for a wide range of stakeholders.
- 3.12 The white paper also outlines the Coalition Government's plans to open up new areas of public services to commissioning, and to take further those that are currently restricted. It particularly intends to consult local authorities and the public in the areas of planning, trading standards and environmental services. If this is successfully concluded it is likely that an appointed private sector provider will be able to take advantage of greatly increased business opportunities for these services and under any agreed gain share mechanism the council will also benefit.

## 4. RISK MANAGEMENT ISSUES

### 4.1 There follows a list of the key open dialogue risks on the DRS project, together with their agreed mitigations:

**Risk:** A poorly designed or structured dialogue process leads to the project failing to hit its objectives due to one or more of the following: a lack of a clear strategic direction, inappropriate performance monitoring arrangements, retention of an unacceptable level of risk by the council, weak or inappropriate specifications or failure to keep pace with legislative changes.

**Current Mitigation:** the dialogue process has clear award criteria. It has an experienced legal team, commercial lead and procurement personnel. The high level plan for dialogue 2 was approved by Council Directors' Group on 8 November 2011. Detailed planning is underway and will be signed off by the DRS Project Board and Trowers and Hamblins LLP.

**Risk:** Changes imposed by central government, such as future government savings targets or funding reductions, or changes to legislation adversely affect the project's ability to deliver its benefits.

**Current Mitigation:** The contract will include mechanisms for addressing and appropriate sharing of risk in relation to changes in the law. The council's finance department monitors savings targets and funding reductions and reports these to Cabinet as part of its work on budgets. Changes are notified to the project and assessed for their impact.

**Risk:** In this challenging climate, bidders are not aligned with the Council's aims, or do not respond as anticipated to the bundles of services under consideration.

**Current Mitigation:** The ISOS submissions do not demonstrate any significant deviations from the council's aims or negative reactions to the services in scope.

**Risk:** LBB appoints a bidder who is financially insecure, or doesn't meet our stated financial assurance minimums for the award of contracts.

**Current Mitigation:** All bidders will be subject to financial monitoring throughout the project. The council will run credit checks on, and will ask for financial statements from any bidder at any time during the process.

**Risk:** If LBB brings 3 bidders into the second stage of dialogue, there is a high level of risk that, due to the cost of the process and only having a 33.3% chance of winning, a high-quality bidder will withdraw from the process, leaving a weaker bidder in play against a much stronger one. This will reduce the DRS project's ability to meet the OGC requirement for "sufficient competition" in the dialogue process. The requirements state that a process must have more than one credible bidder.

**Mitigation:** The DRS project board will recommend to CRC that the council shortlists to 2 bidders in the second dialogue.

**Risk:** If LBB brings 2 bidders into the second stage of dialogue, there is a risk that if one bidder withdraws from the process the council will be left with only one bidder (or the possibility of lack of competition in the process).

**Mitigation:** LBB can endeavour to seek agreement from bidders that in the event that we down select to 2 bidders the third bidder is held as a “reserve” who is then invited to re-commence participation in the competitive dialogue should one of the selected bidders withdraw. OGC guidance stated that if a bidder withdraws “the Contracting Authority should consider the strength and quality of the remaining bidder and consider the extent to which the competition up to that stage has been able to demonstrate value for money”. If LBB can show this, OGC regulations would allow us to continue the process with the remaining bidder as long as we ensured sufficient competition in the supply chain.

- 4.2 These risks will continue to be assessed and managed in accordance with the council’s project management methodology.
- 4.3 The governance arrangements and management of risks specifically relating to procurement activity will be determined during the pre-dialogue preparatory work.
- 4.4 The DRS Project Board and the One Barnet Programme Board will continue to provide appropriate escalation routes.

## **5. EQUALITIES AND DIVERSITY ISSUES**

- 5.1 The Council continues to be committed to equalities and compliance of the public sector equality duty as set out in the Equality Act 2010. The Council has adopted a model that recognises that people are often disabled by their environment and other people’s attitudes.
- 5.2 Both of the shortlisted companies have demonstrated an understanding of the Equality Act 2010, however it is not possible to publicly disclose any details about the bidders’ submissions due to the rules governing procurement and commercial confidentiality.
- 5.3 The Council accepts that DRS project will have a significant impact both upon staff and other stakeholders. As a result an equality analysis will be undertaken at preferred bidder stage. The results of this analysis will be presented to members at a future date.
- 5.4 Equalities will form a contract schedule for the DRS procurement, and will be explored in detail during the second dialogue phase.

5.5 The Council is clear that no bidder will be able to form a partnership with the council unless it understand the non-delegable nature of the public sector equality duty and is able to support the Council in meeting this public duty.

## 5.6 Staff Equalities Impact Assessment

5.6.1 The staff equalities impact assessment carried out at the start of the DRS project was reviewed against the bidders' submissions. No significant issues were found.

## 6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 Cabinet on 14 February 2011 and Council on 1 March 2011 considered a package of measures to balance the Council's budget for the period 2011/12 – 2013/14. Cabinet on 3 November 2011 received an update on the figures for this period and as well as new proposals for 2014/15. Over the period 2011/12 to 2014/15, to meet the government's reduction in support and to fund unavoidable pressures, the Council needs to identify and deliver savings totalling £72.5m. This represents an unprecedented challenge and requires the Council to consider all available options for change

6.2 The appointed provider will be required to provide safe and appropriate premises for the staff in scope.

6.3 The Council's draft budget proposals assume full year savings arising from this procurement of £2.785m by 2014/15. The updated business case attached to this report projects a saving of £2.536m by 2014/15, increasing to over £3m by 2015/16. The phasing of benefits will be discussed with bidders in the next stage of dialogue to ensure that the MTFS target can be met in the timescales required.

6.4 The two shortlisted bidders' submissions of guaranteed and reviewed aspirational financial benefits are broadly in line with the projected financial benefit of £26,462,787 over a 10 year period, with one submission marginally over and the other marginally under. Figures provided in the total aspirational financial sections of the submissions will be developed and finalised in the next stage of dialogue and it is expected that as discussions continue, a higher proportion of these will be converted into guaranteed financial benefits. The council is therefore confident that the MTFS's requirements will be met by the project through the dialogue process.

6.5 The total cost of the project to date is £438,400. The project is running to budget. Of the total project costs, the cost of external resources for the competitive dialogue procurement process is currently estimated at:

Legal Advice	£0.6m
Implementation Partner	£0.7m
Other	£0.1m
<b>Total</b>	<b>£1.4m</b>

- 6.6 The cost of internal resources is currently estimated at £0.3m. Total project costs are therefore estimated at £1.7m, giving a net financial benefit to the council of £24.8m over 10 years.
- 6.7 The project will be funded from the council's transformation reserve.
- 6.8 The appointed provider will be required to provide relevant IT systems for the staff in scope. The One Barnet programme office is overseeing related workstreams to ensure system compatibility with the commissioning council (client side) and the NSCSO provider.
- 6.9 The council will continue to meet all of its statutory and contractual obligations in regard to change and its impact upon our staff. This means that all internal re-structures will be managed in compliance with the council's Managing Organisational Change Procedure. Where the change results in a TUPE transfer the council will meet all of its statutory obligations provided by the Transfer of Undertakings (Protection of Employment) Regulations 2006 and Best Value Authorities Staff Transfers (Pensions) Direction 2007. In addition, the council will meet all of its commitments as set out in the full and final proposal that Chief Executive, Nick Walkley, presented to UNISON and GMB at the end of August 2011. This package of measures provides substantial enhancements over and above the protection provided by TUPE.
- 6.10 Trade Unions have been provided with a copy of the business case update. They have not submitted a critique.

## **7. LEGAL ISSUES**

- 7.1 Procurement processes will comply with the European procurement rules and the Treaty obligations of transparency, equality of treatment and non discrimination.
- 7.2 In the event that services are to be externalised, the Council will comply with its legal obligations under the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") with respect to the transfer of staff. Where they apply, the Regulations impose information and consultation obligations upon the Council and the incoming contractor and operate to transfer the contracts of employment, of staff employed immediately before a transfer, to the new contractor at the point of transfer of the services.
- 7.3 The following legal issues have been investigated as part of the preparation for the procurement and during the procurement process by the One Barnet legal partner, Trowers and Hamblins LLP:

<b>Issue</b>	<b>Status</b>
<p>Delegation of functions of the Local Authority.</p> <p>A 'function' is a term of art in Local Government legislation. It essentially means a decision that involves an element of exercising discretion or acting in a quasi-judicial capacity – e.g. it involves making a judgement. Functions, or the power or right to take certain decisions, may be delegated from a local authority to its staff, a committee or to third parties, depending upon the relevant legislation.</p>	<p>Which functions of the Local Authority can and cannot be delegated to a third party under current legislation. This work has been completed. It is currently estimated that approximately 19% of staff in scope for DRS will need to be retained to carry out non-delegable functions. It is expected that the cost of these functions will be borne by the provider.</p> <p>Exploring options for changing current legislation. After a review of the options, the council has decided not to attempt to change current legislation.</p>
<p>Delegation of functions of the Registrars</p>	<p>The Registration and Nationality service was removed from the cluster after a review of the legislation confirmed that the majority of its functions could not be delegated. A commercial review determined that it was not viable to try to outsource those functions that could be delegated.</p> <p>The impact of this change to the scope is reported in the revised business case.</p>
<p>Options for the employment of staff whose roles primary functions cannot be delegated to a provider.</p>	<p>The first stage of this work has been completed. A paper outlining the council's position has been shared with bidders.</p>

7.4 The following legal issues are still ongoing and will be explored further in the second part of the competitive dialogue.

<b>Issue</b>	<b>Status</b>
<p>Terms and conditions of contract</p>	<p>The bidders have responded to heads of terms. In the second dialogue they will respond to more detailed terms and conditions which will address the council's policy requirements.</p>



Future changes in legislation / national standards	The second dialogue will address mechanisms to ensure the contract is 'future proofed' as far as possible.
Enforcement – what constitutes sufficient evidence	This continues to be reviewed on a service by service basis.
Prevention of conflicts of interest	Contractual requirements on the provider with regard to maintenance of appropriate safeguards such as ethical walls and confidentiality agreements. Changes to the council's constitution, scheme of delegation and the creation of protocols will be required in order to satisfactorily prevent and rebut any allegations of bias, or perceived bias, within the outsourced services. These form part of the outputs for the second dialogue.
Existing contracts (including the Regeneration Principal Development Agreements or PDAs) managed by the provider.	The assignment, novation and confidentiality clauses of all the significant contracts within the DRS cluster will be reviewed by the council's internal legal team in order to determine to what extent the contracts can be managed by the provider.

## **8. CONSTITUTIONAL POWERS**

- 8.1 The Council's constitution, in Part 3, Responsibility for Functions, paragraph 3.6 states the terms of reference of the Cabinet Resources Committee including "approval of schemes not in performance management plans but not outside the Council's budget or policy framework".

## **9 BACKGROUND INFORMATION**

### **9.1 Outline Solution Evaluation and the Shortlisting for Dialogue 2**

- 9.2 The Development and Regulatory Services (DRS) project is running a procurement to find a provider with whom the council plans to agree a 10 year contract to deliver the services in scope. We have obtained outline solutions following the first stage of the Competitive Dialogue procurement process.
- 9.3 In total four outline solutions were received. Six organisations had commenced dialogue 1 – Serco withdrew from the procurement after the first week and WS Atkins withdrew just prior to outline solution submission.

- 9.4 The following organisations submitted outline solutions for evaluation:
- Jacobs
  - EnterpriseMouchel (an existing joint venture)
  - EC Harris and FM Conway (a consortium)
  - Capita Symonds
- 9.5 The objective of this stage is twofold: a) to assess whether the outline solutions we have obtained are likely to meet our requirements following further dialogue and therefore whether the procurement should proceed to the next stage and b) if we do proceed which bidders we should take forward to the next stage.
- 9.6 The submissions give us confidence that we will be able to contract with a provider who can realise the benefits listed in the Business Case Update document that accompanies this report, and that we will be able to agree a contract that is not overly restrictive or punitive.
- 9.7 Details of the scores obtained by individual bidders, and the strengths and weaknesses of their bids are described in the exempt Outline Solutions Evaluation and Shortlist Recommendation report to Cabinet. These cannot be made public for reasons of commercial confidentiality.
- 9.8 The evaluation was carried out by a team of specialists made up from the services in scope, Finance, HR, and Procurement as well as the Impower Commercial Lead and Trowers and Hamblins LLP. Team members' input was mapped to the pre-agreed award sub-criteria. More than one person scored each sub-criterion. Individuals carried out their own scoring and where there was any ambiguity or lack of clarity in the outline solutions the evaluators raised clarification questions with the bidding organisations, who provided written responses. Individuals then completed their own scoring and met with fellow evaluators to reach consensus on the final scores.
- 9.9 Once an initial set of scores were obtained a 'challenge session' was held where members of the DRS Project Board reviewed the scores obtained and questioned why specific scores had been awarded to ensure the robustness of the process.
- 9.10 Under procurement rules we are only able to evaluate the outline solutions based on pre-published award criteria. These are set out below - there are 16 sub-criteria grouped under three main headings, and weighted. In the evaluation all criteria were evaluated on a 6 point scale, and these raw scores between 1 and 6 were weighted as shown below to produce weighted scores.

Criteria No	People and Place 43%	Overall Percentage Score
P&P:A	Capturing financial, economic and social benefits of major regeneration projects and return to Borough	8.0
P&P:B	High and measured customer satisfaction	7.5
P&P:C	Compliant, high quality service delivery	5.7
P&P:D	Services joined up with other public, private and third sector organisations	4.6
P&P:E	Continuous and innovative improvement in service delivery	4.6
P&P:F	Effective consultation and engagement	4.6
P&P:G	Effective HR practices and professional development	4.6
P&P:H	Maximise opportunities from central government for the benefit of the Borough	3.4
Criteria No	Flexibility and Risk 14%	Overall Percentage Score
F&R:I	Flexibility in the contract	5.6
F&R:J	Align with council's strategic objectives, now and over time	5.6
F&R:K	Ability to transfer risk	2.8
Criteria No	Financial and Commercial 43%	Overall Percentage Score
F&C:L	Guaranteed financial benefit	12.7
F&C:M	Maximise the commerciality of the services	12.7
F&C:N	Payment profile, including pace	7.8
F&C:P	Price performance mechanism	6.8
F&C:Q	Guaranteed investment	2.9

9.11 For the non financial scores the definitions of the 1 to 6 scoring scale are as below. For the financial scores the highest benefit scored a 6, the lowest benefit scored a 1, and all other scores were on a evenly spaced scale between 1 and 6.

Score Awarded	Definition of Allocation
1	An unacceptable response: the bid fails to address each of the Council requirements; all proposals are unjustified / unsupported; the level of risk adopted is unacceptable; it would be difficult to resolve the issues; failure to demonstrate approach to partnering, technical delivery and financial aspects.
2	A poor, below expectations response: there is a lack of content / explanation in addressing each of the Council requirements; some proposals are unjustified / unsupported or lack significant content / explanation; a significant proportion of proposals are unacceptable from a risk perspective; it may be difficult to resolve the issues in future dialogue; a degree of failure to demonstrate approach to partnering, technical delivery and financial aspects.

3	A satisfactory but below expectations response: Council requirements are addressed but proposals lack significant content / explanation; some proposals are unacceptable from a risk perspective; it may be difficult to resolve the issues in future dialogue; some proposals lack an acceptable approach to partnering, technical delivery and financial aspects.
4	A satisfactory response that meets expectations: Council requirements are addressed; proposals have a reasonable level of content / justification and explanation; a small proportion of proposals are unacceptable from a risk perspective; issues are capable of resolution in future dialogue; a small proportion of the proposal lacks an acceptable approach to partnering, technical delivery and financial aspects.
5	A good, above expectations response: Council requirements are addressed; proposals have a good level of content / justification and explanation; proposals should be acceptable from a risk perspective with limited further dialogue; issues are easily capable of resolution in future dialogue; a good / sound approach to partnering, technical delivery and financial aspects.
6	A very good response: Council requirements are addressed and the bidder's proposals include sound, innovative suggestions; proposals are detailed in content / justification and explanation; proposals are acceptable from a risk perspective; issues are capable of resolution in future dialogue; a very good / sound approach to partnering, technical delivery and financial aspects.

## 9.12 The Business Case Update

9.13 The shortlisted bidders' proposals indicate that the business case's objectives are likely to be met.

9.14 In order to determine the financial case for the project, the current costs of the services were established by initially using the 2010/11 budget data for both income and expenditure. These have been revised at this stage in order to take the following into account:

- A standard 8% assumption for secondary recharges was added to the gross expenditure figures
- The cost and FTE associated with NSCSO (New Support and Customer Services Organisation) functions proved to be zero and has been set as such for the revised financial baseline
- Efficiencies / budget savings planned for 2011/12 were also deducted from the revised gross expenditure figure above.
- 2.5% of service costs were deducted from the indicative revised gross expenditure figure in order to account for the commissioning council (client side). This has been revised from the previous figure of 7.5% as it is expected that the balance required to undertake regulatory functions will be met by the provider.

- Figures for the Registration and Nationality service have been removed.
- As bidders were instructed not to include accommodation costs in their submissions, £500,000 was removed from the baseline costs of the services in order to allow a fair comparison. The £500,000 was based upon a market rate of £20 per square foot. The standard of 100 square feet of space allocated for each employee gives a total of £464,000 which has been rounded up to £500,000.
- The bidders were given a rate of 17.7% for employer contributions towards staff pensions, a figure that assumes no deficits. However, the council's superannuation rate is 24.8% as it has existing deficits to clear. In order to ensure a fair comparison, the employee cost within the services was reduced by £453,000.
- Approximately £3m of Highways contracts were removed as these were deemed to be out of scope. An associated efficiency of £1.5m was also removed from scope.

9.15 Against this revised baseline, applying the same rationale for improvement from the original business case calculates that the potential financial benefits over a 10 year period for the cluster would be as follows:

<b>Overview of improvement potential and financial benefits - service by service</b>				
	<b>Total cost reduction</b>		<b>Over Ten Years</b>	
			<b>Total income increase</b>	<b>Total financial benefit</b>
Planning (Development Management)	£	3,253,836	£ 1,756,195	£ 5,010,030
Land Charges	£	143,337	£ 1,253,799	£ 1,397,136
Building Control & Structures	£	1,819,423	£ 2,039,520	£ 3,858,943
Planning Strategy	£	1,325,092	£ 178,209	£ 1,503,301
Environmental Health	£	2,822,937	£ 618,686	£ 3,441,622
Trading Standards & Licensing	£	253,154	£ 124,667	£ 377,821
Cemeteries & Crematoria	£	779,857	£ 1,493,575	£ 2,273,433
Registrations	£	-	£ -	£ -
Highways Strategy	£	518,486	£ 78,748	£ 597,234
Highways Network Management	£	2,758,966	£ 1,547,960	£ 4,306,926
Highways Traffic Dev	£	1,585,111	£ 504,282	£ 2,089,393
Highways Transport & Regeneration	£	69,712	£ 88	£ 69,799
Regeneration	£	1,363,356	£ 173,792	£ 1,537,148
<b>Total</b>	<b>£</b>	<b>16,693,267</b>	<b>£ 9,769,520</b>	<b>£ 26,462,787</b>

9.16 A summary of the phasing of the financial benefits in line with the rationale from the original business case is as follows:

Current cost of all services in cluster																												
<b>2010/11</b>			<b>2011/12</b>																									
Gross expenditure	£	13,400,351	Revised gross expenditure prior to transfer										£	14,101,249														
Adjusted secondary recharges	£	967,680																										
Income	£	10,354,246																										
Income as % expenditure		77%																										
Net expenditure	£	4,013,785	Revised net expenditure prior to transfer										£	3,747,003														
Ten year overview of financial benefits																												
	Year -1	Year 0	Contract starts										Total															
	2010/11	2011/12	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	(cumulative)															
			2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22																
Cost reduction	£	-	£	-	£	1,051,213	£	1,808,087	£	1,850,135	£	1,892,184	£	1,934,232	£	1,976,281	£	2,018,330	£	2,060,378	£	2,102,427	£	16,693,267				
Income increase	£	-	£	-	£	330,946	£	728,081	£	1,164,929	£	1,191,405	£	1,217,880	£	1,244,356	£	1,270,832	£	1,297,307	£	1,323,783	£	9,769,520				
Total financial benefit			£	-	£	1,382,159	£	2,536,168	£	3,015,065	£	3,083,589	£	3,152,113	£	3,220,637	£	3,289,161	£	3,357,686	£	3,426,210	£	26,462,787				
Revised expenditure			£	14,101,249	£	13,050,036	£	12,293,162	£	12,251,114	£	12,209,065	£	12,167,017	£	12,124,968	£	12,082,919	£	12,040,871	£	11,998,822						
Cost of change	£	319,493	£	949,218	£	475,308																		£	1,744,019			
Net financial benefit																									£	24,718,768		
Summary statements																												
The revised gross expenditure at point of transfer is calculated as					£	14,101,249																				<i>This excludes an estimated cost of the retained client function</i>	£	266,782
If the DRS cluster reaches the target potential for improvement within 10 years, the service will operate at the cost of:					£	11,998,822																				The net financial benefit will be	£	24,718,768
If the DRS cluster reaches the target potential for improvement +10% within 10 years, the service will operate at the cost of:					£	10,798,940																				The net financial benefit will be	£	27,190,645
If the DRS cluster reaches the target potential for improvement - 10% within 10 years, the service will operate at the cost of:					£	13,198,705																				The net financial benefit will be	£	22,246,891

9.17 Bids received included both guaranteed and non-guaranteed financial benefits. Guaranteed benefits are those that are contractually underwritten. Non-guaranteed benefits relate mainly to opportunities to increase income or expand the services where bidders have not yet been able to develop proposals far enough to be able to guarantee these benefits. The two shortlisted bidders' submissions of guaranteed and reviewed aspirational financial benefits are broadly in line with the projected financial benefit of £26,462,787, with one submission marginally over and the other marginally under. Figures provided in the total aspirational financial sections of the submissions will be developed and finalised in the next stage of dialogue and it is expected that as discussions continue, a higher proportion of these will be converted into guaranteed financial benefits.

9.18 Their submissions exceed the council's minimum threshold of a cost reduction of 10% and an income increase of 5%.

9.19 The profiling of these benefits will form part of the discussions in the next phase of dialogue.

## 9.20 Next Steps

9.21 Members are asked to approve the shortlist for dialogue 2 and the business case update in order that the DRS project can proceed to the next stage of the competitive dialogue in January 2012.

9.22 At the end of the second stage of the competitive dialogue process (dialogue 2) the dialogue team will submit a report to CRC on their recommendation for preferred bidder leading to contract award.

9.23 The evaluation leading to this recommendation will be carried out against the award criteria.

9.24 Costs of the project to date will be included in the report to CRC.

9.25 It was decided to carry out a due diligence exercise at the end of dialogue 1 in order to ensure that bidders had all of the information they needed to produce high-quality outline submissions. As a result of this, the timeline for the project has changed. Assuming that the Council decides to move forward to dialogue 2 with the proposed shortlist, the timeline for the project is likely to be as follows:

Jan-Mar 11	Apr-Jun 11	Jul-Sep 11	Oct-Dec 11	Jan-Mar 12	Apr-Jun 12	Jul-Sep 12	Oct-Dec 12	Jan-Mar 13
17 Mar Issue OJEU notice 28 Mar Business case approved by CRC	27 May PQQ shortlist agreed 6 June Issue ITPD/ISOS	31 Aug Dialogue 1 ends Sept-Dec. Evaluation and reporting process	Sept-Dec. Evaluation and reporting process Dec. CRC approves shortlist for Dialogue 2	16 Jan Dialogue 2 starts		July/Aug Dialogue 2 ends	Nov Preferred bidder approved by CRC	Mar Mobilisation ends. Project complete

<p>Dialogue 1 June –Oct 2011</p> <p>Assumes 6 bidders Includes 40 days for evaluation / challenge / moderation and approval</p>	<p>Dialogue 2 Jan – Nov 2012</p> <p>Assumes 2 bidders Meetings consist of Service, Commercial, Finance, HR, Due Diligence and Schedule sessions</p> <p>Includes site visits and staff/union briefings</p> <p>Includes evaluation and the democratic process leading to the appointment of a provider.</p>	<p>Mobilisation of the contract Nov 2012 – Mar 2013</p>
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Caveats re the detailed plan behind this high level timeline:

1. The LBB democratic process has not been overlaid as meeting dates for 2012/13 are not yet available
2. Resource smoothing has not been attempted
3. Resource availability (holidays etc) has not been taken into account
4. Not all programme / other project ie non-DRS dependencies have been identified.

**Therefore the timeline and resource load contained in the plan is subject to change.**

## 9.26 History of the Project

- 9.27 In 2009, the One Barnet Transact Group identified a cluster of services deemed to fall outside the core competencies of the Council, and wanted to investigate whether or not they could be provided more effectively, and for a lower cost, than the current model of service provision. This became known as the Development and Public Health project.
- 9.28 The ongoing national financial situation and the Coalition Government's proposed and actual cuts to local government budgets has accelerated the pace at which the One Barnet programme of work will be implemented. Accordingly, an options appraisal was carried out for these services in order to determine whether or not particular delivery models would generate greater efficiencies for the council at a lower cost.
- 9.29 The options appraisal report and addendum demonstrated the principle that significant savings and transformation opportunities can be made for the services in scope through the appointment of a private sector provider over 10 years.
- 9.30 A soft market testing exercise was carried out on the original cluster of services. A questionnaire was sent to ten leading organisations in fields related to the service cluster. Eight questionnaires were returned and six organisations were invited to participate in a soft market testing day, where they were asked a range of questions based upon the responses in their questionnaires, and during which they were given the opportunity to ask the Council questions about its intentions for the cluster. Market interest was high rather than extremely so.
- 9.31 Cabinet approved the start of the procurement process for the DRS project on 29 November 2010 and confirmed its decision on 10 January 2011.



- 9.32 On 29 November 2010, the Chief Executive wrote to all the chief executives of London boroughs, asking them if they were interested in joining the DRS procurement process. A briefing day was subsequently held on 12 January 2011 for 10 London councils, who indicated that they would like to find out more. These councils were asked to indicate their interest to us by 18 February 2011. Two councils indicated that they were interested in joining the procurement, but subsequently withdrew, due to time constraints.
- 9.33 The OJEU notice was published on 17 March 2011 and a market day was held on 5 April 2011.
- 9.34 Six PQQs were received from the following organisations:
- Jacobs Engineering Ltd
  - Capita Symonds Ltd
  - Enterprise Mouchel Ltd
  - Atkins Ltd
  - Serco Ltd
  - EC Harris / FM Conway (consortium)
- 9.35 Serco Ltd withdrew at the start of the process and Atkins Ltd withdrew at the end of the first stage of dialogue but before outline solutions were submitted.
- 9.36 Four outline submissions were therefore received from:
- Jacobs Engineering Ltd
  - Capita Symonds Ltd
  - Enterprise Mouchel Ltd
  - EC Harris / FM Conway (consortium)
- 9.37 These were evaluated off site at the Trowers and Hamlins offices by a team including service representatives, Procurement, HR and Finance staff, staff from Impower (the council's implementation partner) and Trowers and Hamlins (the council's legal partner). Trowers and Hamlins also carried out an overall legal review of the submissions.

## **10. LIST OF BACKGROUND PAPERS**

### 10.1

Legal: MM  
CFO: MC



## **Annex Two**

# **London Borough of Barnet**

## **Development & Regulatory Services Project**

### **Business Case Update**

November 2011

## Document Control

Document Owner	One Barnet Programme Office
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Document location	This document will be published on the Barnet Council website as part of the democratic process for CRC.

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## The Purpose of the Business Case

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The Development & Regulatory Services (DRS) Project is part of the One Barnet Programme, and seeks to determine whether the services in scope can be improved, and achieve necessary cost reductions, via the application of a private sector provider’s solution.

The original Business Case sought to articulate a robust baseline and scale of financial case across the services in scope. It also showed how the project aligns with One Barnet’s aim of a being a council that serves its citizens, as well as with the programme’s key principles of:

- A new relationship with citizens;
- A one public sector approach, and;
- A relentless drive for efficiency.

This update to the business case follows the end of the first stage of the competitive dialogue and the recommendation of a shortlist of two bidders to take forward into the next stage of the process.

In the full business case, following the second stage of dialogue, the financial case will confirm the implications of indexation, discounted cashflows and profiling considerations. It will also consider sensitivity analysis, opportunity costs and other detailed accounting implications that arise at this point as appropriate.

# Executive Summary

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## **The services in-scope**

The grouping of services covering regeneration, development and environmental regulation provides the borough with the opportunity to create a truly place shaping and enhancing service.

It will provide potential partners with the opportunity to work with high performing services in an emerging market.

The scope of the DRS Project is as follows:

### **Strategic:**

- Regeneration
- Strategic Planning and Housing Strategy
- Highways Transport and Regeneration
- Highways Strategy

### **Operational:**

- Building Control and Structures
- Planning Development Management
- Land Charges
- Highways Network Management
- Highways Traffic and Development

### **Public Health, Consumer and Regulatory:**

- Environmental Health
- Trading Standards & Licensing
- Cemetery & Crematorium

The Registration and Nationality service was removed from the cluster before the OJEU notice was published. Our legal advisors, Trowers and Hamlins LLP carried out a thorough review of service functions and concluded that under current legislation, the service could not be outsourced.

As a result of the high degree of regulation associated with some of the services, there are some functions that lawfully cannot be performed by a third party under current legislation. Our legal advisors, Trowers and Hamlins LLP, have reviewed the services' functions thoroughly, and have provided advice on how roles that contain a substantial number of non-delegable functions can be managed under the new arrangement with the provider. Within the outline submissions received, the cost of carrying out those non-delegable regulatory functions is borne by the provider.

As a result of this advice we have allocated 2.5% for the cost of the services retained in the commissioning council (the client side). It is expected that the balance required to undertake regulatory functions will be met by the provider.

## **The size and scale of the services in scope**

Based on figures for the 2010/11 budget, the twelve services are delivered at a gross expenditure of £14.1m<sup>1</sup>, and generate income of £10.3m (73% of expenditure). There are 232 staff associated with the functions deemed in-scope for DRS.

This scale of environmental and regulatory functions equates to a sizeable business, and presents a significant opportunity for end-to-end service re-design and associated benefits realisation.

## **Financial benefits**

Actual figures submitted by the bidders are commercially confidential and cannot be published as part of this business case. They are discussed in the exempt evaluation report to be sent to Cabinet Resources Committee on 14 December 2011, along with this business case.

Bidders were asked to submit guaranteed and aspirational financial benefits for DRS.

Three of the four outline solutions received from dialogue 1 bidders met the council's minimum financial standards of 10% cost reduction and 5% income increase.

The aspirational financial benefits were reviewed by the finance evaluators and service personnel and a confidence rating, based on the objective factors of the service evaluators' knowledge of their services, the market, and the level of detail provided by the bidders was applied. This is known as the "reviewed aspirational financial benefit" as opposed to the total aspirational financial benefit.

The two shortlisted bidders' submissions of guaranteed and reviewed aspirational financial benefits are broadly in line with the projected financial benefit of £26,462,787, with one submission marginally over and the other marginally under.

Whilst guaranteed financial benefits will be carried forward to the next stage, figures provided in the total aspirational financial sections of the submissions will be developed and finalised and it is expected that as discussions continue, a higher proportion of these will be converted into guaranteed financial benefits. This means that the overall financial benefits realised by the DRS projects are likely to be higher than current figures indicate.

## **Approach to delivery**

At this stage, the business case has found that a Strategic Partnership still represents the most beneficial option for the council, particularly in terms of the pace and complexity of implementation. This option will provide the freedom to trade

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<sup>1</sup> It should be noted that this refers to revenue and not capital.

services and generate further income, secure the expertise to deliver service transformation, provide investment and high levels of commercial capability.

However, the possibility of establishing a Joint Venture (JV) with a private sector provider should not be completely discounted if it proves to be the most advantageous to the council during the procurement process, particularly with regard to profit sharing increased income from the services, many of which generate revenue from third parties. Whilst the associated with a JV model are judged at this stage to be higher than for a Strategic Partnership, the potential for a compelling bidder proposal should be left open to explore.

## Strategic fit

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### One Barnet: The Overarching Aim

The overarching aim of the One Barnet programme, as set out in the *One Barnet Framework* document approved at Cabinet on 29 November 2010 is to create a customer focused council. Citizens are “to get the services they need to lead successful lives, and to ensure that Barnet is a successful place.”<sup>2</sup>

The project seeks to support this overarching aim in a very challenging financial environment. Barnet is facing a funding gap of £35.6m<sup>3</sup> over the next three years. The project will find and work with a private sector provider in order to reduce the impact of these cuts to its grants on the services within this scope. The partnership will involve significant investment by the provider into the services, an increase in their income generation and a decrease in their costs.

As an activity the project therefore fits with the original One Barnet driver of needing to “find new ways of tackling challenging problems” Unless a radically new way of delivering these key services is found it is likely that they will continue to be cut year on year.

Together, the services in scope help Barnet to be a better place to live and work. They encompass its sensitive development and maintenance, including the regeneration of its poorer areas and its overall successful economic development. The regulatory services in scope help to make the borough a safe and healthy place.

The Cemetery and Crematorium was originally included in the cluster because of its regulated nature. It has remained within the cluster partly due to this ‘fit’ and in order to preserve the coherence of the council’s wider strategic vision of its future as a commissioning organisation. It is clear that a strategic partnership will be better able to invest in and develop the service to meet the needs of Barnet’s diverse communities. Due to the need to invest in other services, the Cemetery and Crematorium is unlikely to be an investment priority for the council.

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<sup>2</sup> One Barnet Framework, Report to Cabinet 29 November 2010, pg 6

<sup>3</sup> This figure was included in the budget report to Cabinet, 3 November 2011



The project seeks to build upon the financial and non-financial efficiencies achieved by the services to date.

## **A New Direction for Local Authorities**

The Coalition Government plans to incentivise councils to manage and deliver growth, and on 13th December 2010 the Secretary of State for Communities and Local Government set out the Localism Bill in a statement to the House of Commons. The Localism Bill received Royal Assent on 15 November 2011.

The new Localism Act has introduced a new general power of competence which will allow councils to “do anything individuals may generally do subject to express limitations, prohibitions and restrictions”. This may help give councils the ability to innovate, drive down costs and deliver more effective services.

It also seeks to empower councils and businesses to come together to form Local Enterprise Partnerships as part of the Government’s strategy of giving local areas the opportunity to take control of their future economic development.

The Open Public Services white paper outlines the Coalition Government’s plans to open up new areas of public services to commissioning, and to take further those that are currently restricted. It particularly intends to consult local authorities and the public in the areas of planning, trading standards and environmental services. If this is successfully concluded it is likely that an appointed private sector provider will be able to take advantage of greatly increased business opportunities for these services and under any agreed gainshare mechanism the council will also benefit.

Councils have also been given greater control over their budgets including the ending of grant ring-fencing (except schools) and providing a ‘new homes bonus’ for additional homes created in the borough.

By April 2012, the Government plans to consider the most appropriate framework for local incentives for local authorities to support growth, including allowing local authorities to reinvest some of the benefits of growth back into local communities.

In addition, a review of business rates was set up with the intention that in future, local government will be able to keep more of what it collects. Ultimately, councils that invest in and support their local economies will be able to better to use the finances themselves.

It was also announced that the local government resource review would start early in 2011. Its objective is to give local councils more control of their resources and move to a position where they are less dependent on grants from central government.

Barnet is the largest regeneration borough in London outside of the Thames Gateway. The services and teams that support this work include: Highways, Transport and Regeneration, Strategic Planning, Housing Strategy and Regeneration, all of which are in scope. Unlike many other boroughs hosting major regeneration projects, we operate in a successful local economy. We expect to deliver approximately 22,000 new homes over the next 10 years.

We currently collect £103m in business rates on approximately 8,000 properties. Our regeneration projects will substantially increase the number of properties and rates we collect, with the Brent Cross Cricklewood development alone providing 456,611m<sup>2</sup> of retail and office space. DRS will seek to ensure that the Council and partners can maximise the benefit of the new arrangements for Barnet's business and resident communities.

By working with a private sector provider and leveraging their commercial expertise, DRS will ensure that the financial, economic and social benefits of major regeneration projects are maximised, captured and returned to the Council. These benefits will in turn support the growth and development of the Borough. DRS therefore fits well with the measures outlined in the Localism Act, above.

The Government has also launched the Big Society initiatives as expressed in the Open Public Services White Paper in relation to "giving communities a greater say over their local planning system" and "giving mutuals, co-operatives, charities and social enterprises greater involvement in the running of public services" are particularly pertinent to the project. The Council will be able to draw upon its provider's ability to invest in and provide user-friendly and effective consultation and engagement for a wide range of stakeholders.

## Scope

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The scope of the project is limited to the council services listed below. It should be noted that, following Competitive Dialogue, the final scope may exclude some of these for practical, commercial or legal reasons, subject to public procurement constraints.

The OJEU notice sets the limit of the cluster of services; particular services may (subject to this not constituting a major change in scope), be removed from the list but not added to it.

### **Strategic Services:**

- Regeneration
- Strategic Planning and Housing Strategy
- Highways Transport and Regeneration
- Highways Strategy

### **Operational Services:**

- Building Control and Structures
- Planning Development Management
- Land Charges
- Highways Network Management
- Highways Traffic and Development

## Public Health, Consumer and Regulatory Services

- Environmental Health
- Trading Standards & Licensing
- Cemetery & Crematorium

All services within the scope of the project are currently delivered in house, and current expenditure and employee numbers are summarised below.

Table 1 shows revised employee numbers for the services following the 2011/12 round of budget reductions. It also shows revised figures for gross expenditure and income as a result of changes to the baseline for the services discussed in the Financial Case section of this document. The figures, however, include accommodation and pension costs, which are stripped out for the purposes of comparison with bidder submissions later in this report.

<b>Service</b>	<b>Employees, Nov 2011</b>	<b>Gross 10/11 Expenditure</b>	<b>Total Income 2010/11</b>
Building Control & Structures (incl. Street Naming & Numbering)	16	£1,527,643	£1,842,385
Planning (Development Management)	49	£2,049,015	£1,586,445
Land Charges	4	£180,525	£1,132,610
Environmental Health	56	£2,370,224	£558,885
Cemeteries & Crematorium	11	£654,791	£1,349,210
Trading Standards & Licensing	4	£318,834	£337,850
Highways Strategy	- <sup>4</sup>	£435,338	£53,352
Highways Network Management	32	£2,316,512	£2,097,507
Highways Traffic & Development	22	£1,330,908	£683,309
Highways Transport & Regeneration	1	£87,798	£238
Strategic Planning & Housing Strategy	14	£1,112,589	£241,475
Regeneration	23	£1,717,072	£470,980
<b>Totals</b>	<b>232</b>	<b>£14,101,249</b>	<b>£10,354,246</b>

Table 1

<sup>4</sup> Employee figure for Highways Traffic and Development includes Highways Strategy staff

# Benefits Case

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## Introduction

The benefits sought by DRS align with the council's strategic One Barnet objectives. In addition, they must also meet the strategic objectives within the Local Development Framework core strategy documentation and align with its 'three strands' approach:

- Strand 1: Absolute protection of the Green Belt, Metropolitan Open Land and other valued open space from inappropriate development.
- Strand 2: Enhancement and protection of Barnet's suburbs, town centres and historic areas.
- Strand 3: Consolidated growth in areas in need of renewal and investment.

## The benefits of change

The table below shows how the project expects to realise its main benefits within the One Barnet programme. How the benefits will be measured will be subject to the agreements reached within the second dialogue process.

One Barnet	Benefit	Plan to realise	How benefit may be measured through the contract
Overarching aim: Citizens get the services they need for successful lives. Barnet is a successful place.	Protection, enhancement and where needed development of the built environment.	Dialogue discussions with bidders, including but not limited to: <ul style="list-style-type: none"> <li>• community engagement, including community involvement in service</li> </ul>	KPIs Payment mechanisms Provider business cases

One Barnet	Benefit	Plan to realise	How benefit may be measured through the contract
		<p>delivery</p> <ul style="list-style-type: none"> <li>• member input</li> <li>• cheaper, more effective solutions or ways of working with the built environment</li> <li>• customer focused service streamlining and integration</li> <li>• ‘selling services’ to other organisations in order to fund work in Barnet</li> <li>• central government opportunities / Localism</li> </ul>	<p>Resident satisfaction surveys</p> <p>Customer satisfaction surveys</p> <p>Increased business rates collected</p> <p>Increased income returned to the council</p> <p>More local people and businesses involved in service delivery.</p>
<p>Overarching aim: Citizens get the services they need for successful lives. Barnet is a successful place.</p>	<p>Capture and maximise the financial, economic and social benefits of large developments and ensure that these are returned to the council in order to further support the Borough, whilst keeping Barnet a green and pleasant place.</p>	<p>Dialogue discussions with bidders on the large regeneration schemes, including but not limited to:</p> <ul style="list-style-type: none"> <li>• How we can best maximise the wealth that can be generated for the borough</li> <li>• How we can best maximise employment opportunities for local people</li> <li>• How to help the greatest number</li> </ul>	<p>KPIs</p> <p>Payment mechanisms</p> <p>Provider business cases</p> <p>Number of businesses attracted to Barnet</p> <p>Number of jobs created filled by local people</p> <p>Levels of community</p>

One Barnet	Benefit	Plan to realise	How benefit may be measured through the contract
		<p>of people to become ‘work ready’</p> <ul style="list-style-type: none"> <li>• How to give or maintain a sense of ‘ownership’ of the schemes by local people</li> <li>• Engagement strategy with residents</li> </ul>	<p>engagement and involvement in the schemes</p>
<p>Key priority: a new relationship with citizens</p>	<p>Well run, customer- and resident-friendly services that improve satisfaction across the cluster.</p>	<p>Dialogue discussions with bidders including but not limited to:</p> <ul style="list-style-type: none"> <li>• “Market research”, engagement with customer and resident needs and wants.</li> <li>• Link with the commissioning council</li> <li>• Link with the NSCSO provider</li> <li>• Service redesign and business process re-engineering that will exploit the natural links between the teams and outside bodies</li> <li>• Investment in practical and relevant technologies for the services</li> <li>• “Channel shift” to 21<sup>st</sup> century</li> </ul>	<p>Payment mechanism</p> <p>KPIs – against current service performance (as a minimum)</p> <p>KPIs</p> <p>Arrangements with NSCSO provider</p> <p>Arrangements with the commissioning council</p> <p>Staff satisfaction levels</p> <p>Customer satisfaction surveys</p> <p>Resident satisfaction surveys</p>

One Barnet	Benefit	Plan to realise	How benefit may be measured through the contract
		ways of doing business as appropriate, e.g. mobile phone apps, web access for residents and other customers	
Key priority: a new relationship with citizens	Develop new and innovative ways to engage and involve the community in co-delivering some services. Build and innovate on the council's successful record of community consultation and engagement.	<p>Dialogue discussions with bidders including but not limited to:</p> <ul style="list-style-type: none"> <li>• “Market research” and engagement with customer and resident needs and wants</li> <li>• How to encourage local people to get involved with the services</li> <li>• Traditional and 21<sup>st</sup> century methods that allow residents to interact with the services</li> <li>• Developing bidders’ understanding the Big Society and related initiatives and Barnet’s aspirations around these</li> <li>• How to support members with their community engagement and casework roles</li> </ul>	<p>KPIs</p> <p>Payment mechanisms</p> <p>Resident surveys</p> <p>Volunteer numbers</p> <p>Volume of helpful resident contacts (e.g. reporting suspected trading standards abuses)</p> <p>Arrangements with NSCSO</p> <p>Provider business cases</p> <p>Relationship with commissioning council</p>
Key priority: A one public	Close and effective working links with other public	Dialogue discussions with bidders	KPIs

One Barnet	Benefit	Plan to realise	How benefit may be measured through the contract
sector approach	sector bodies.	including but not limited to: <ul style="list-style-type: none"> <li>• Efficient working with the Police, the Health Service and Social Services amongst others</li> <li>• Developing bidders' understanding of the Big Society and related initiatives and Barnet's aspirations around these</li> <li>• Link with the commissioning council</li> </ul>	Localism and public health agenda measures Partner (e.g. the Police) satisfaction surveys Ongoing proposals around new ways of working with other bodies Arrangements with NSCSO Arrangements with the commissioning council
Key priority: A relentless drive for efficiency	The services are delivered to a minimum of 10% cost reduction and 5% income increase.  The services meet the requirements of the Medium Term Financial Plan.	Through dialogue, bidders' financial proposals meet or exceed the Medium-Term Financial Plan for the services.  Overall, the services are delivered at a minimum of 10% cost reduction and 5% income increase or an equivalent blended rate.	Payment mechanisms Risk allocation
Key priority: A relentless drive for efficiency	Services have a greater ability to trade and generate income, reducing their overall cost.	Dialogue discussions with bidders including but not limited to: <ul style="list-style-type: none"> <li>• Investment in and credible plans for allowing services to increase their income-generating work to</li> </ul>	KPIs Payment mechanisms Investment in business process re-engineering, people



One Barnet	Benefit	Plan to realise	How benefit may be measured through the contract
		<p>businesses, organisations and residents within Barnet</p> <ul style="list-style-type: none"> <li>Investment in and realistic plans for services trading with businesses and organisations outside Barnet.</li> </ul>	<p>and technology</p> <p>Increased income to the council</p>
<p>Key priority: A relentless drive for efficiency</p>	<p>Services are redesigned to work efficiently together, making them better value for money whilst increasing customer satisfaction levels.</p>	<p>Dialogue discussions with bidders including but not limited to:</p> <ul style="list-style-type: none"> <li>Redesigning the services so that current performance levels are exceeded</li> <li>Staff well being and job satisfaction is raised</li> <li>“Market research” and engagement with customer and resident needs and wants.</li> </ul>	<p>KPIs</p> <p>Payment mechanisms</p> <p>Customer and resident satisfaction surveys</p> <p>Arrangements with NSCSO</p> <p>Relationship with commissioning council</p> <p>Staff satisfaction surveys</p> <p>Guaranteed investment levels and plans for business process re-engineering, people and technology</p>

## Benefits for Staff

The initial business case looked for opportunities for staff from a bigger organisation that would enhance their personal and professional development. At this stage of the process it is clear that bidders are planning to invest in staff and services.

## Financial Case

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The approach taken to calculate current delivery costs and the financial benefits associated with DRS is outlined in this section.

For each service the project established the current service cost, assessed the potential for the service to improve, and articulated the financial case.

### Establishing the service cost

The understanding of current service costs is key to determining and gauging potential levels of improvement. The business case has used 2010/11 budget data for both income and expenditure as a baseline.

In order to facilitate the calculation of the costs of the services the following assumptions have been made:

- A standard 8% assumption<sup>5</sup> for secondary recharges was added to the gross expenditure figures
- The cost and FTE associated with NSCSO (New Support and Customer Services Organisation) functions proved to be zero and has been set as such for the revised financial baseline
- Efficiencies / budget savings planned for 2011/12 were also deducted from the revised gross expenditure figure above.
- 2.5% of service costs were deducted from the indicative revised gross expenditure figure in order to account for the commissioning council. Following work done on the commissioning council and the fact that provider is bearing the cost of the regulatory functions, this figure has changed from the previous rate of 7.5%.

The figures for the baseline have also been adjusted from the previous version of the business as follows:

- Figures for the Registration and Nationality service have been removed.
- As bidders were instructed not to include accommodation costs in their submissions, £500,000 was removed from the baseline costs of the services in order to allow a fair comparison. The £500,000 was based upon a market rate of £20 per square foot. The standard of 100 square feet of space allocated for

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<sup>5</sup> Determined by Corporate Finance

each employee gives a total of £464,000 which has been rounded up to £500,000.

- The bidders were given a rate of 17.7% for employer contributions towards staff pensions, a figure that assumes no deficits. However, the council's superannuation rate is 24.8% as it has existing deficits to clear. In order to ensure a fair comparison, the employee cost within the services was reduced by £453,000.
- Approximately £3m of Highways contracts were removed as these were deemed to be out of scope. An associated efficiency of £1.5m was also removed from scope.

These calculations provide revised expenditure and income for each service, and this has been used as a baseline against which further opportunities for cost reductions and improved income generation have been made. This is shown in Table 2 overleaf.

	<b>Adjusted Gross Expenditure</b> £	<b>Expenditure</b>		<b>Total</b> £	<b>Income</b>
		<b>8% secondary recharges</b> £	<b>2.5% retained client</b> £		<b>Total</b> £
Building Control	1,460,332.47	98,120	(30,809)	1,527,643	1,842,385
Planning	1,937,996.80	161,032	(50,014)	2,049,015	1,586,445
Land Charges	165,642.04	18,779	(3,896)	180,525	1,132,610
Environmental Health	2,257,578.35	163,903	(51,257)	2,370,224	558,885
Cemeteries & Crematorium	624,130.83	40,150	(9,489)	654,791	1,349,210
Trading Standards & Licensing	293,328.78	32,325	(6,820)	318,834	337,850
Highways Strategy	391,811.37	46,860	(3,334)	435,338	53,352
Highways Network Management	2,218,262.50	141,022	(42,772)	2,316,512	2,097,507
Highways Traffic & Development	1,258,686.71	91,327	(19,106)	1,330,908	683,309
Highways Transport & Regeneration	90,095.88	91	(2,389)	87,798	238
Strategic Planning & Housing Strategy	1,061,998.49	74,363	(23,773)	1,112,589	241,475
Regeneration	1,640,487.54	99,708	(23,123)	1,717,072	470,980
		967,679	(266,782)	14,101,249	10,354,246

**Table 2**

## Assessing the potential to improve

There is limited benchmarking data available upon which service performance can be judged and the potential for improvement identified, although some has been found in CIPFA and in National Indicators. Therefore, the project has used a mixture of benchmarking data (where available), feedback from the services and commercial judgement to identify their potential for improvement, as shown in the table below.

Service	Improvement rationale	Cost Reduction	Income Generation
Planning (Development Management)	The service has identified scope for significant efficiency savings & further income generation opportunities  Whilst acknowledging the potential impact of the Localism Act, income stream reflects the income from planned & assumed development & growth in the borough	20%	15%
Land Charges	The service has identified potential for operational efficiencies through a wider service review  The benchmarking data suggests a potential for higher levels of income	10%	15%
Building Control & Structures (including Street Naming & Numbering)	The service has identified potential to lower costs & generate more income through business expansion  Based on the benchmarking data & ideas from the service, a medium target for operational efficiency, and a high target for income generation have been selected – acknowledging the potentially conflicting relationship between the two	15%	15%
Strategic Planning & Housing Strategy	Income from major developments is reflected in the income for Planning (Development Management) & therefore, a lower target has been set for increased income for this service  Process and structural improvements identified by the service suggest potential for significant operational efficiencies e.g. by closer working and improved integration with Planning, Regeneration and Highways teams	15%	10%
Environmental Health	Increased freedom to trade would benefit elements of the service that are run as commercial operations, but a medium target has been selected for income, to take account of planned efficiencies & reductions in running costs	15%	15%
Trading Standards & Licensing	The service has been subject to multiple savings initiatives & consequently is very small compared to other local authorities – minimal targets have therefore been applied for both cost & income	10%	5%
Cemetery & Crematorium	The low to medium cost reduction target reflects the need for considerable investment in the service & its	15%	15%

Service	Improvement rationale	Cost Reduction	Income Generation
	<p>infrastructure</p> <p>The high target for income generation reflects the potential opportunities identified by the service &amp; their track record in delivering income whilst remaining competitive with other Crematoria.</p> <p>It should be noted that the cemetery is unusual in having such extensive unused capacity.</p>		
Highways Strategy	<p>Due to the small size of the team, a low to medium cost reduction target has been applied</p> <p>The income target is more ambitious, and this reflects the current reactive nature of service provision</p>	15%	20%
Highways Network Management	<p>The low to medium target for increased income reflects opportunities identified by the service, acknowledging that the benchmarking data suggests high performance for income generation</p> <p>The service has identified considerable scope for operational efficiencies / improvements – in view of these and the scale of the budget &amp; team, a medium target has been selected for cost reduction</p>	15%	10%
Highways Traffic & Development	<p>The service has identified considerable scope for operational efficiencies / improvements. In view of these and the scale of the budget &amp; team, a medium target has been selected for cost reduction</p> <p>Based on the current scale of income against expenditure, &amp; an assumption that opportunities for securing funding &amp; generating income remain in place, a medium level target for increasing income has been selected</p>	15%	10%
Highways Transport & Regeneration	<p>The service currently generates minimal / no income due to the nature of its functions</p> <p>Due to the scale of the service any operational efficiencies will be limited, therefore the minimal cost reduction target has been applied</p>	10%	5%
Regeneration	<p>The income generation potential reflects recharged project management costs, so a minimal increase has been assumed</p> <p>Operational efficiencies have been assumed in order to achieve the low target for cost reduction</p>	10%	5%

**Table 3**

## Profiling the potential to improve

Using the service improvement bands outlined above, improvement potential has been profiled over a 10-year period. Cost reductions have been profiled for all

services with the majority of benefits occurring in years 2 and 3 in order to reflect the savings ambitions in the Financial and Business Planning 2011/12-2013/14 report to Cabinet on 13 December 2010.

The current profiles provide an early yet realistic level of benefit realisation to support the council’s immediate financial challenges, and supplements this with year-on-year targets for improvement thereafter.

The 0% figure in year 1 reflects its status as a period of transition, opportunity assessment, and provider investment. It should be noted that whilst it may be possible to actually secure efficiencies in year 1, this is likely to increase costs further into the duration of the contract. It is not possible or desirable to estimate levels of investment needed prior to further engagement with bidders, as this will be highly solution specific. In any case, the business case should address benefit to the council in net terms wherever possible.

<b>Profiling Cost Reduction Potential</b>									
<b>Y1</b>	<b>Y2</b>	<b>Y3</b>	<b>Y4</b>	<b>Y5</b>	<b>Y6</b>	<b>Y7</b>	<b>Y8</b>	<b>Y9</b>	<b>Y10</b>
12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
0%	50%	36%	2%	2%	2%	2%	2%	2%	2%

**Table 4**

Income generation has been profiled for all services as follows, with the majority of benefits occurring in years 2, 3 and 4:

<b>Profiling Income Generation Potential</b>									
<b>Y1</b>	<b>Y2</b>	<b>Y3</b>	<b>Y4</b>	<b>Y5</b>	<b>Y6</b>	<b>Y7</b>	<b>Y8</b>	<b>Y9</b>	<b>Y10</b>
12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
0%	25%	30%	33%	2%	2%	2%	2%	2%	2%

**Table 5**

The profiling for income generation and cost reduction are key variables<sup>6</sup> within the financial model and will be revisited once the council is in possession of detailed bids.

<sup>6</sup> Existing profiles are as a result of early agreement with the DRS Project Board

## Applying the analysis to the cluster

The table below shows the revised gross expenditure, including figures described earlier in the business case for pensions and accommodation, for each of the services in scope. It applies the cost reduction and income increase potential described above and shows the effects of these increases when the required profiling is applied to it.

Development & Regulatory Services - overview of improvement potential and financial benefits											
Overview of improvement potential and financial benefits - service by service											
	Revised gross expenditure (baseline)	Cost reduction potential	Revised Income (baseline)	Income generation potential	Per annum (average)			Over Ten Years			
					Cost reduction	Income increase	Total financial benefit	Total cost reduction	Total income increase	Total financial benefit	
Planning (Development Management)	£ 2,049,015	20%	£ 1,586,445	15%	£ 325,384	£ 175,619	£ 501,003	£ 3,253,836	£ 1,756,195	£ 5,010,030	
Land Charges	£ 180,525	10%	£ 1,132,610	15%	£ 14,334	£ 125,380	£ 139,714	£ 143,337	£ 1,253,799	£ 1,397,136	
Building Control & Structures	£ 1,527,643	15%	£ 1,842,385	15%	£ 181,942	£ 203,952	£ 385,894	£ 1,819,423	£ 2,039,520	£ 3,858,943	
Planning Strategy	£ 1,112,588	15%	£ 241,475	10%	£ 132,509	£ 17,821	£ 150,330	£ 1,325,092	£ 178,209	£ 1,503,301	
Environmental Health	£ 2,370,224	15%	£ 558,885	15%	£ 282,294	£ 61,869	£ 344,162	£ 2,822,937	£ 618,686	£ 3,441,622	
Trading Standards & Licensing	£ 318,834	10%	£ 337,850	5%	£ 25,315	£ 12,467	£ 37,782	£ 253,154	£ 124,667	£ 377,821	
Cemeteries & Crematoria	£ 654,792	15%	£ 1,349,210	15%	£ 77,986	£ 149,358	£ 227,343	£ 779,857	£ 1,493,575	£ 2,273,433	
Registrations	£ -	15%	£ -	20%	£ -	£ -	£ -	£ -	£ -	£ -	
Highways Strategy	£ 435,337	15%	£ 53,352	20%	£ 51,849	£ 7,875	£ 59,723	£ 518,486	£ 78,748	£ 597,234	
Highways Network Management	£ 2,316,512	15%	£ 2,097,507	10%	£ 275,897	£ 154,796	£ 430,693	£ 2,758,966	£ 1,547,960	£ 4,306,926	
Highways Traffic Dev	£ 1,330,908	15%	£ 683,309	10%	£ 158,511	£ 50,428	£ 208,939	£ 1,585,111	£ 504,282	£ 2,089,393	
Highways Transport & Regeneration	£ 87,798	10%	£ 238	5%	£ 6,971	£ 9	£ 6,980	£ 69,712	£ 88	£ 69,799	
Regeneration	£ 1,717,073	10%	£ 470,980	5%	£ 136,336	£ 17,379	£ 153,715	£ 1,363,356	£ 173,792	£ 1,537,148	
<b>Total</b>	<b>£ 14,101,249</b>		<b>£ 10,354,246</b>		<b>£ 1,669,327</b>	<b>£ 976,952</b>	<b>£ 2,646,279</b>	<b>£ 16,693,267</b>	<b>£ 9,769,520</b>	<b>£ 26,462,787</b>	

Table 6



A summary of net financial benefits over the course of the contract is shown below.

Current cost of all services in cluster																												
2010/11				2011/12																								
Gross expenditure	£	13,400,351		Revised gross expenditure prior to transfer	£	14,101,249																						
Adjusted secondary recharges	£	967,680																										
Income	£	10,354,246																										
Income as % expenditure		77%																										
Net expenditure	£	4,013,785		Revised net expenditure prior to transfer	£	3,747,003																						
Ten year overview of financial benefits																												
	Year -1	Year 0	Contract starts										Total															
	2010/11	2011/12	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	(cumulative)															
			2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22																
Cost reduction	£	-	£	-	£	1,051,213	£	1,808,087	£	1,850,135	£	1,892,184	£	1,934,232	£	1,976,281	£	2,018,330	£	2,060,378	£	2,102,427	£	16,693,267				
Income increase	£	-	£	-	£	330,946	£	728,081	£	1,164,929	£	1,191,405	£	1,217,880	£	1,244,356	£	1,270,832	£	1,297,307	£	1,323,783	£	9,769,520				
Total financial benefit			£	-	£	1,382,159	£	2,536,168	£	3,015,065	£	3,083,589	£	3,152,113	£	3,220,637	£	3,289,161	£	3,357,686	£	3,426,210	£	26,462,787				
Revised expenditure			£	14,101,249	£	13,050,036	£	12,293,162	£	12,251,114	£	12,209,065	£	12,167,017	£	12,124,968	£	12,082,919	£	12,040,871	£	11,998,822						
Cost of change	£	319,493	£	949,218	£	475,308																		£	1,744,019			
Net financial benefit																									£	24,718,768		
Summary statements																												
The revised gross expenditure at point of transfer is calculated as					£	14,101,249																				<i>This excludes an estimated cost of the retained client function</i>	£	266,782
If the DRS cluster reaches the target potential for improvement within 10 years, the service will operate at the cost of:					£	11,998,822																				The net financial benefit will be	£	24,718,768
If the DRS cluster reaches the target potential for improvement +10% within 10 years, the service will operate at the cost of:					£	10,798,940																				The net financial benefit will be	£	27,190,645
If the DRS cluster reaches the target potential for improvement - 10% within 10 years, the service will operate at the cost of:					£	13,198,705																				The net financial benefit will be	£	22,246,891

## **A summary of the analysis compared to the financial proposals received at the end of dialogue 1**

Whilst a number of the in-scope services are performing well, others are performing at around the average compared to peers, and all are limited in their ability and / or capacity to achieve the levels of transformation required (both in terms of cost reduction and income generation) without further investment. Many of the services would benefit from the introduction of private sector expertise, procedural efficiencies, enhanced IT, and general commercial capability.

The two shortlisted bidders' submissions of guaranteed and reviewed aspirational financial benefits are broadly in line with the projected financial benefit of £26,462,787, with one submission marginally over and the other marginally under. Figures provided in the total aspirational financial sections of the submissions will be developed and finalised in the next stage of dialogue and it is expected that as discussions continue, a higher proportion of these will be converted into guaranteed financial benefits.

Their submissions exceed the council's minimum threshold of a cost reduction of 10% and an income increase of 5%.

The profiling of these benefits will form part of the discussions in the next phase of dialogue.

## **Constraints, Dependencies and Risks**

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### **Constraints**

The main constraints at this stage of the project are outlined below. It should be noted that, in most instances, there are actions which can mitigate any risk of these factors having a negative impact on the success of the project.

#### **Cost**

The council is working under increasing pressure to reduce its budget. The project will therefore have to work within a constrained budget.

#### **Time**

The Medium Term Financial Strategy sets out the financial benefits which the council is seeking to make in the shorter term. This project contributes to those savings and will therefore need to work within the timescales required to deliver these financial benefits

Authority to proceed at any given stage rests with senior management and, as appropriate, Cabinet Members. The project will have to work within the officer decision making process, as well as the democratic process. This may constrain the ability to progress at the desired speed.

## Quality

The quality of the documentation produced, the competitive dialogue and, ultimately the success of the procurement process is limited to the quality of data available

## Scope

The project scope will be constrained to the services listed in the OJEU advert. There are currently limitations, as set out in legislation, on what can be included in the scope of what is given to the market to provide.

## Dependencies

An indicative breakdown of key internal dependencies is provided below:

### **Interface Agreement for with the New Support and Customer Services Organisation (NSCSO) Provider**

The NSCSO project seeks to provide a revised delivery model for customer service transactions that genuinely transforms the citizen experience, and puts them at the heart of service delivery. An interface agreement is being developed for the NSCSO and DRS providers and neither contract can be awarded before this is in place.

### **The Commissioning Council**

Whilst initial estimates of the cost and size of the commissioning council have been estimated in this business case, the data set will need to be updated as corporate thinking progresses. The relationship, as defined within the dialogue (including KPIs and payment and performance mechanisms) between the DRS provider and the commissioning council is dependent upon a robust design for the latter.

### **Cost and Liability Assessment**

A full assessment of costs, risks and liabilities will need to be undertaken in order to determine any additional HR or residual contract issues.

This list of dependencies will be revisited as part of future Business Case updates.

## Key Risks

There follows a list of the key open dialogue risks on the DRS project, together with a summary of their agreed mitigations:

**Risk:** A poorly designed or structured dialogue process leads to the project failing to hit its objectives due to one or more of the following: a lack of a clear strategic direction, inappropriate performance monitoring arrangements, retention of an unacceptable level of risk by the council, weak or inappropriate specifications or failure to keep pace with legislative changes.

**Current Mitigation:** the dialogue process has clear award criteria and an experienced external legal team, commercial lead and procurement personnel. The high level plan for dialogue 2 was approved by Council Directors' Group on 8 November 2011. Detailed planning is underway and will be signed off by the DRS Project Board and Trowers and Hamblins LLP.

**Risk:** Changes imposed by central government, such as future government savings targets or funding reductions, or changes to legislation adversely affect the project's ability to deliver its benefits.

**Current Mitigation:** The contract will include mechanisms for addressing and appropriate sharing of risk in relation to changes in the law. The council's finance department monitors savings targets and funding reductions and reports these to Cabinet as part of its work on budgets. Changes are notified to the project and assessed for their impact.

**Risk:** In this challenging climate, bidders are not aligned with the Council's aims, or do not respond as anticipated to the bundles of services under consideration.

**Current Mitigation:** The outline submissions do not demonstrate any significant deviations from the council's aims or negative reactions to the services in scope.

**Risk:** LBB appoints a bidder who is financially insecure, or doesn't meet our stated financial assurance minimums for the award of contracts.

**Current Mitigation:** All bidders will be subject to financial monitoring throughout the project. The council will run credit checks on, and ask for financial statements from any bidder at any time during the process.

**Risk:** If LBB brings 3 bidders into the second stage of dialogue, there is a high level of risk that, due to the cost of the process and only having a 33.3% chance of winning, a high-quality bidder will withdraw from the process, leaving a weaker bidder in play against a much stronger one. This will reduce the DRS project's ability to meet the OGC requirement for "sufficient competition" in the dialogue process. The requirements state that a process must have more than one credible bidder.

**Mitigation:** The DRS project board will recommend to CRC that the council shortlists to 2 bidders in the second dialogue.

**Risk:** If LBB brings 2 bidders into the second stage of dialogue, there is a risk that if one bidder withdraws from the process the council will be left with only one bidder (or the possibility of lack of competition in the process).

**Mitigation:** LBB can endeavour to seek agreement from bidders that in the event that we down select to 2 bidders the third bidder is held as a "reserve" who is then invited to re-commence participation in the competitive dialogue should one of the selected bidders withdraw. OGC regulations state that if a bidder withdraws "the Contracting Authority should consider the strength and quality of the remaining bidder and consider the extent to which the competition up to that stage has been able to demonstrate value for money". If LBB can show this, OGC regulations would allow us to continue the process with the remaining bidder as long as we ensured sufficient competition in the supply chain.

These risks will be assessed and managed in accordance with the council's project management methodology.

The DRS Project Board and the One Barnet Programme Board will continue to provide appropriate escalation routes.

## **Procurement and Commercial Approach**

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This section will be updated throughout the project.

### **Procurement Strategy**

There are risks associated with procuring and delivering services through an outsourced model. In order to mitigate them the council will use the knowledge and experience of its implementation partner to develop specifications that minimise these risks. It is also important that the contractual relationship between any potential provider(s) has review opportunities embedded within it, to ensure that with the passage of time, the relationship is still one that is effective for all parties. Whilst the council will clearly be entering into any long-term contractual relationship on the basis that it will run to the full term of the contract, it will need to ensure that an exit strategy is included within the contract documentation.

For indicative timescales associated with the DRS procurement activity, please see the section below.

### **Project Plan Summary**

As indicated in the Options Appraisal, for a procurement of this nature, the council will need to comply with European procurement rules. In order to give the council the best opportunity to shape the service solution capable of providing the most appropriate technical means and legal and financial make-up during the procurement, the competitive dialogue route remains the only logical procedure to use and can be justified under the procurement rules.

The following programme offers a realistic timetable:

## DRS Procurement Timeline

Jan-Mar 11	Apr-Jun 11	Jul-Sep 11	Oct-Dec 11	Jan-Mar 12	Apr-Jun 12	Jul-Sep 12	Oct-Dec 12	Jan-Mar 13
17 Mar Issue OJEU notice  28 Mar Business case approved by CRC	27 May PQQ shortlist agreed  6 June Issue ITPD/ISOS	31 Aug Dialogue 1 ends  Sept-Dec. Evaluation and reporting process	Sept-Dec. Evaluation and reporting process  Dec. CRC approves shortlist for Dialogue 2	16 Jan Dialogue 2 starts		July/Aug Dialogue 2 ends	Nov. Preferred bidder approved by CRC	Mar. Mobilisation ends.  Project complete

<p>Dialogue 1 June –Oct 2011</p> <p>Assumes 6 bidders Includes 40 days for evaluation / challenge / moderation and approval</p>	<p>Dialogue 2 Jan – Nov 2012</p> <p>Assumes 2 bidders Meetings consist of Service, Commercial, Finance, HR, Due Diligence and Schedule sessions</p> <p>Includes site visits and staff/union briefings</p> <p>Includes evaluation and the democratic process leading to the appointment of a provider.</p>	<p>Mobilisation of the contract Nov 2012 – Mar 2013</p>
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Caveats re the detailed plan behind this high level timeline:

1. The LBB democratic process has not been overlaid as meeting dates for 2012/13 are not yet available
2. Resource smoothing has not been attempted
3. Resource availability (holidays etc) has not been taken into account
4. Not all programme / other project ie non-DRS dependencies have been identified.

**Therefore the timeline and resource load contained in the plan is subject to change.**

## **Output Based Specifications**

These detailed documents summarise the individual service requirements in terms of outcomes and outputs. Their content includes:

- Service introduction
- Definitions / service terminology
- Scope (function list)
- Detailed service requirements (including service levels and KPIs)
- A list of office sites / service provision hubs

Initial key performance indicators will be added to the output specifications before the start of the second dialogue. These will be developed as the dialogue progresses.

## **Payment Mechanisms**

The development of these forms a key part of the competitive dialogue activity. The following elements have been considered in order to maximise the potential of the partnership:

- Fixed and variable price elements
- Clear links to the achievement of agreed performance indicators
- Gain-share for income growth

## **Risk Allocation and Transfer**

The ultimate aim is to secure significant risk transfer to the provider, and where this is not possible, have a clear understanding of ownership and management arrangements (subject to achieving value-for-money).

The outline submissions dealing with risk allocation and transfer award criteria were all deemed to be acceptable.

## **The Contract**

The OJEU notice states that the contract will be let for a period of 10 years, with the option to extend for a further 5.

The specifics of this section are subject to discussion and agreement during the Competitive Dialogue. However, taking into account the nature of the services, and the intention to aim for integrated services that deliver tangible cost reductions and increases in income, key considerations include the following:

- Ensure that the contract incorporates a risk / reward mechanism that aligns the provider's strategic interests with those of the council

- Ensure that the benefits are advantageous to each party and shared appropriately
- Establish strong partnership governance structure, with sufficiently senior management involvement
- Co-locate client and supplier management teams as soon as possible following contract award, and task this joint management team with transition planning

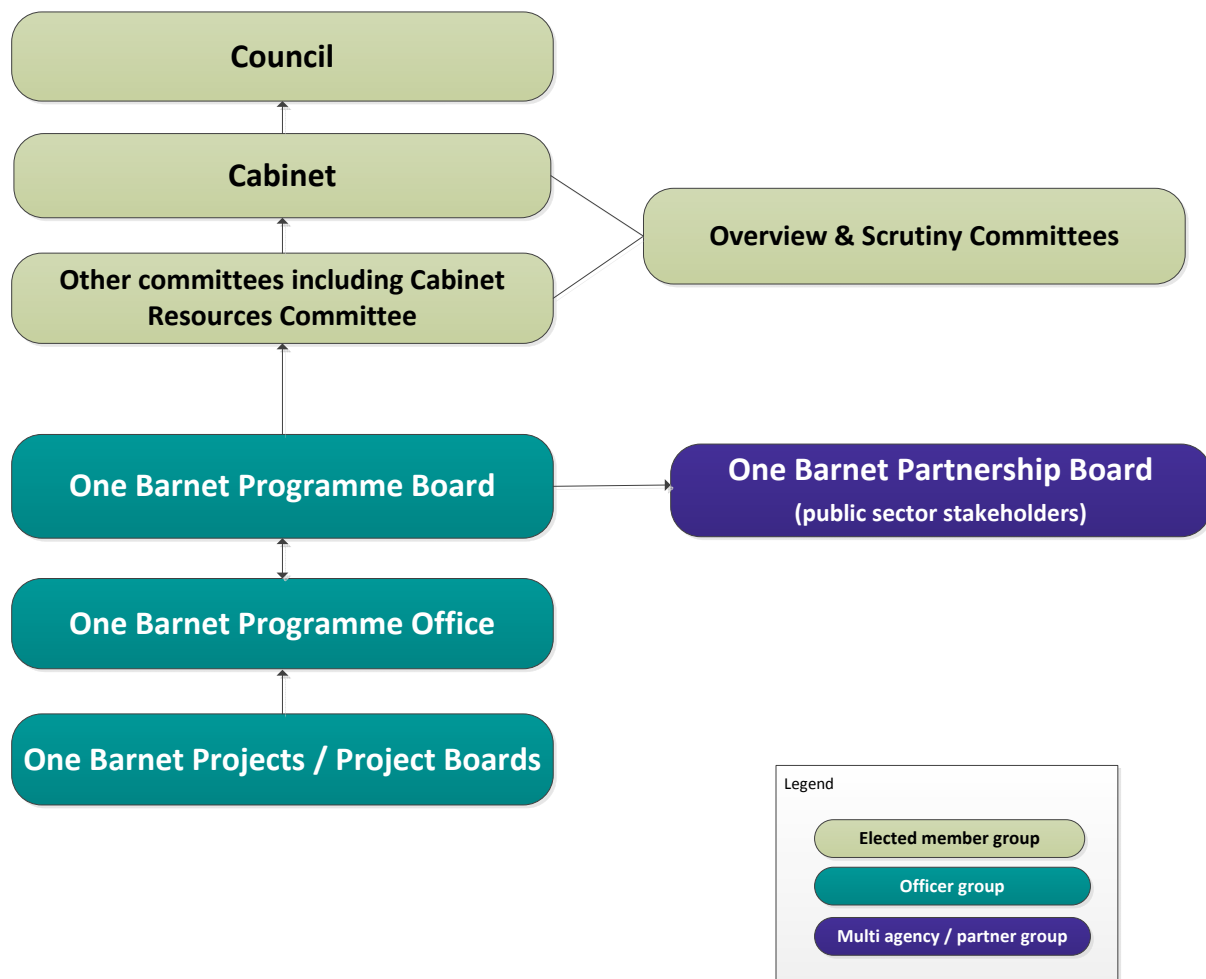
## Project Roles

Key personnel and their roles on the project are shown below:

<b>Role</b>	<b>Resource</b>
Project Sponsor (Project Board member)	Interim Director, Environment, Regulation and Planning
Service Lead (Project Board member)	AD Planning Development Management
Senior Supplier (Project Board member)	Director, Commercial Services
Programme Assurance (Project Board member)	AD Transformation
Procurement Assurance (Project Board member)	AD Commercial Assurance
Project Manager	Project Manager
Assistant Project Manager	Assistant Project Manager
Finance Lead (Project Board member)	Finance Lead
HR Business Partner (Project Board member)	HR Business Partner
Procurement Subject Matter Expert	Procurement Officer
Commercial Lead (Project Board member)	Commercial Lead
Communications & Engagement	Communications Officer

The agreed programme governance arrangements for One Barnet are reflected overleaf. This provides a streamlined structure for decision-making and issue escalation.





## Contract Management

The arrangements for contract management will not be exclusive to the DRS Project, and as such, need to be considered as part of wider One Barnet Programme activity. The council's intention to move to a strategic commissioning model dictates that strong performance management and governance of service deliverers and commissioners take place at different levels, but most importantly for DRS at the interface between the "decider" and "provider" roles. Performance management will need to focus on success in delivering outcomes, and move away from current approaches where many performance indicators measure outputs as proxies for outcomes.

Further consideration will need to be given to how continuity will be ensured between those involved in developing the contract and those who will subsequently be responsible for its management.

## Risk Management Strategy

Project risks will be managed in line with the council's Corporate Risk Management Strategy and Project Management Toolkit. However, during the competitive dialogue process for DRS, any procurement-specific risks will be managed as per the guidelines in development for the One Barnet Programme.

## Human Resources

It is clear that, regardless of the agreed final scope, a number of Council employees will transfer to an external strategic provider under these proposals. The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) apply to what are known as “relevant transfers” which may occur in a wide range of situations. The two broad categories are business transfers and service provisions changes, and the DRS Project falls into the latter category.

Indicative tasks and activities associated with TUPE arrangements have been provided by the One Barnet HR Business Partner as shown below. These will need to be revisited at appropriate points in time, in line with wider One Barnet requirements.

Component	Activities
HR Business Partner	<ul style="list-style-type: none"> <li>• Management support</li> <li>• Consultation with TU &amp; employees</li> <li>• Staff briefings</li> <li>• Project planning</li> <li>• Project meetings</li> <li>• Reporting &amp; subsequent analysis of data</li> <li>• Pensions road-shows</li> <li>• Provider liaison</li> <li>• Mobilisation plan</li> <li>• Analysis of Employee Liability Information to provide to new supplier</li> </ul>
HR Administration	<ul style="list-style-type: none"> <li>• Administrative support</li> <li>• Report extraction &amp; queries</li> <li>• Letter to employees -supplier award and pre-transfer</li> <li>• Confirmation of pensions &amp; payroll transfer</li> <li>• Interaction with payroll</li> <li>• Follow full leavers process</li> <li>• Data cleanse</li> <li>• Preparation of Employee Liability Information</li> </ul>
Payroll	<ul style="list-style-type: none"> <li>• Administration support</li> <li>• Report extraction</li> <li>• P45 initiation &amp; exchange with supplier</li> <li>• Provision of tax codes</li> <li>• Interaction with new supplier &amp; exchange of data</li> </ul>
Communication	<ul style="list-style-type: none"> <li>• Meeting with &amp; supporting line &amp; project managers</li> <li>• Drafting, copying, printing, &amp; distributing materials</li> <li>• Intranet changes</li> <li>• Advising on presentation content</li> </ul>
Management time	<ul style="list-style-type: none"> <li>• Consulting with employees, TU, groups &amp; 1:1,</li> <li>• Preparing for transfers (structures, timesheets &amp; role analysis)</li> <li>• Presentation writing for consultations,</li> <li>• Consultations with groups &amp; 1:1,</li> <li>• Supporting meetings with HR / PM's, (employee &amp; TU)</li> </ul>
Employee time	<ul style="list-style-type: none"> <li>• Consultations (group &amp; 1:1)</li> </ul>

	<ul style="list-style-type: none"> <li>• TU meetings</li> </ul>
Project Manager	<ul style="list-style-type: none"> <li>• Report, presentation and authorisation writing</li> </ul>
Legal	<ul style="list-style-type: none"> <li>• Advice on contract wording</li> <li>• Ad-hoc queries on specific issues</li> </ul>
Pension notification	<ul style="list-style-type: none"> <li>• Actuaries to quote &amp; complete estimations for all transferring employees on pensions including transfer information for new provider</li> </ul>
Internal Pensions support	<ul style="list-style-type: none"> <li>• Conversing with actuaries and external provider</li> <li>• Contributing to letters to employees</li> <li>• Partaking in pension road-shows during consultation period</li> </ul>
Authorisation & committee costs	<ul style="list-style-type: none"> <li>• Facilitation of DPR , GFC, CDG, Cabinet &amp; Scrutiny processes</li> </ul>
Employee support	<ul style="list-style-type: none"> <li>• Running TUPE Workshops for managers and staff</li> <li>• Hosting of “Change and Me” workshops</li> </ul>

TUPE is a complex area and appropriate legal advice has been sought. Where a business, or part of one, is being transferred, both parties (that is the transferor and the transferee) should seek such advice at the earliest possible stage. It is **not** possible to prevent TUPE applying, as the law prevents employers and employees from “contracting out of” the effects of TUPE. However, it is common practice for old and new employers to negotiate on how to divide any liabilities which arise by including indemnities in the agreement. The key to successful TUPE transfers lies in good planning, and this will include identifying key risks at an early stage and holding a genuine dialogue with employees.

Trade Union discussions have been, and will be, conducted in line with wider One Barnet programme activity and the Trade Union engagement strategy.

## Equalities

At this stage it is not possible to disclose any details about external equalities in bidders’ submissions due to the rules governing procurement and commercial confidentiality. Details about staff cannot be disclosed due to data protection legislation.

The council has a strong commitment to making equalities and diversity integral to everything it does. It has adopted a model that recognises that people are often disabled by their environment and other people’s attitudes.

It is recognised that such a significant transformation of the services within the scope of DRS is likely to have an impact upon staff and other stakeholders.

The council has reviewed the work previously carried out on internal and external equalities in order to see if there are any impacts at this stage.

### External Equalities Impact Assessment

It will be necessary to assess the equalities impact of any agreed solution on different groups of people within the Borough, as outlined in the 2010-13 Corporate Plan, and work will be undertaken towards this end.

As part of the council's commitment to promoting equalities, the DRS Project examined what equalities work the services in scope currently carry out at the start of the competitive dialogue process.

Following the completion of the outline submissions' evaluation it was established that none of the proposed changes to the services indicated any significant issues or risks at this stage, and bidders have, in particular, shown awareness of the equalities requirements around changing population in relation to regeneration.

Equalities will form a contract schedule for the DRS procurement, and as such will be explored in detail in the second dialogue.

No bidder will be able to form a partnership with the council unless it agrees to meet our Equalities requirements.

### **Staff Equalities Impact Assessment**

The staff equalities impact assessment carried out at the start of the DRS project was reviewed against the bidders' submissions. No significant issues were found.