

# Isle of Wight Council

Outline Business Case for assessing the  
potential of a Strategic Services  
Partnership to deliver improvements in the  
efficiency and effectiveness of the Council

10<sup>th</sup> April 2006

Executive Summary

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## ***EXECUTIVE SUMMARY***

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### **1.1 INTRODUCTION**

The Isle of Wight Council has a clear commitment to improving the service that its customers receive and to make efficiency savings in the running of the Council that can be used for the benefit of its citizens. It has a clear ambition to become a truly customer centric organisation.

One of the key objectives within its ambitious change management programme “Aim High” is “To be a high performing, cost effective Council”. In developing its plans for the future, the Council has primarily been concerned with how best to organise to transform the delivery of improvements in service and efficiency savings, whilst delivering other key manifesto commitments to be a Council of low taxation and to improve service standards whilst being amongst the most frugal unitary councils in the country.

The Council has recognised the need to transform the way in which it operates in order to deliver the change agenda and as part of its manifesto for change has determined to explore and evaluate the potential of a Strategic Partnership to deliver improvements in the efficiency, effectiveness and economy of the operations of the Council.

The Council therefore commissioned PA Consulting to work with the Council and its partners to carry out an evaluation of the potential of a Strategic Partnership to deliver improvements in the efficiency, effectiveness and economy of the operations of the Council.

PA Consulting have been working with the Council since November 2005 using a phased approach with checkpoints at the end of each phase to enable the Council to retain full control over the decision to proceed to the next stage of the project or not.

The first phase of the project was the Feasibility Stage during November and December 2005 in which the main thrust of the PA approach was to work with the Council to clearly identify the strategic fit of the Council’s aspirations for strategic partnership with the key objectives of the Council.

A feasibility report was produced in December 2005, which delivered the following key outcomes:

- A holistic Target Operating Model (TOM) for the Council that reflects the current level of strategic planning for the Council and its aspirations for the way forward. The TOM is described in Section 2.2 of the report.
- Confirmed scope of services for a potential strategic partnership and its strategic fit with the objectives of the Council. The scope is set out in detail in Section 3 of the report

Following the formal decision by the Cabinet on 17<sup>th</sup> January 2006 to accept the findings of the Feasibility report, PA Consulting have been working with the Council and its partners on the second phase of the project, to produce the Outline Business Case (OBC), which tests the Target Operating Model and the potential scope of services in terms of the best service delivery model to determine whether there is an underlying business case for the Council to proceed with a potential strategic partnership or other service delivery option.

### 1.1.1 Outcomes for the outline business case phase

At the end of this phase we have achieved the following outcomes:

- An agreed set of evaluation criteria, which have been used to assess the preferred service delivery option. These are detailed in Section 6 of the report.
- An economic model for the Council's transformation programme, which sets out the costs and the benefits of moving to the Target Operating Model, including an assessment of the risks and sensitivities to the scope. This is described in Section 4 of the report.
- A set of three potential service delivery options agreed with the Council – Strategic Services Partnership, Strategic Transformation Partnership and In House. These are described in Section 5 of the report.
- An option appraisal of the service delivery models based on a qualitative and quantitative assessment of the key differentiators and global assumptions. This is detailed in Section 6 of the report.
- A recommendation for the best service delivery model, an indicative timetable, and a wider set of enabling recommendations to ensure that the Council is in a state of readiness to act on the recommendation. This is detailed in Section 7 of the report.

## 1.2 THE CASE FOR CHANGE

The Isle of Wight Council has a commitment to being a Council of low taxation and to improve service standards whilst being amongst the most frugal unitary councils in the country. It has an ambitious overall strategic aim to have an "All island" approach, which will give consistent and high quality customer access to the Council and its partner's services. The wider efficiency agenda demands that best value for the Councils' citizens is obtained in the delivery of services. It also wishes to enhance its reputation both amongst the Island communities and within the local government community as a whole.

### 1.2.1 External drivers for change

Central government initiatives are demanding an improved service for citizens especially around the e-agenda. Across local government it is clear that customer expectations are rising in terms of the experience they demand when dealing with Council services. Customers expect to be able to access services at their own convenience rather than that of the service provider. Evidence across local authorities shows that customers now expect faster and easier access (allowing them to call rather than make a personal visit); extended access; and better service (the ability to complete transactions over the telephone: to make payments or have complaints resolved immediately). Customers are increasingly unsympathetic to explanations of why an organisation may not be able to match the service standards of the best private sector organisations. Standard customer complaints about local authority services are;

- It is unclear what services are provided by the Council, which Directorate provides them and where is best to access them and there is little co-ordination between

services. Customers don't know where or to whom to direct their enquiry or complaint and this results in either no reply or the need for several attempts.

- Standards vary across the Council and it is often difficult to access a member of staff who has the authority or current information to solve queries on first contact. Additionally, there is little confidence on the customer's part that their issue will be resolved at all if they are not still in contact.

Within the Council's Aim High plan it is recognised that though there are areas of the Council that are performing well eg the Council is in the upper quartile of unitary authorities for collection of Council Tax and NNDR as well as for dealing with new housing benefit and council tax benefit claims, this is not the picture across the board eg the percentage of planning applications determined within the target time is 67% which is average for the unitary group (Source Audit Commission 2004/5 performance data)

This is supported by the recent annual CPA assessment for the year ending December 2005 which noted that the Council has "made improvements over the past year but has not achieved consistently good results overall". The CPA assessment states that the Council is improving adequately in terms of direction of travel and demonstrates a 2 star overall performance. This combination of performance and direction of travel is the case for around 20% of assessed single tier local authorities. The Council will be fully assessed using the new style corporate assessment in Spring 2006.

#### 1.2.2 Internal drivers for change

The Council has determined to focus its resources on 5 objectives of which the most relevant to this project is Objective 5 "To be a high performing, cost effective Council". Amongst the key benefits that it seeks to realise from this project are;

- Improvement in Customer Services performance
- Improve the efficiency of its Support Services eg HR and ICT

The Council has already taken steps to address its Customer Services aspirations by setting up a call centre. Current performance data indicates that the call centre is dealing with only 20% of the 1.3 million calls coming into the Council annually and of these is, able to resolve 45% at the first point of contact. The remaining 55% are referred to the back office service delivery team for resolution. The Council's aspiration is to deal with 80% of calls at the first point of contact and this will require a substantial programme of business process engineering, building on that already carried out, to deliver.

Current information shows that the rate of abandoned calls in the call centre is over 8% compared with an "industry standard" in local government of 2-3%. In common with many local authorities the Council does not have information on what prompted the decision to abort the call but experience from both the public and private sector indicate that customers are unwilling to "hang on" the line for more than 1.30 mins before terminating the call.

Essentially improvements in customer service performance are concerned with improving the satisfaction of customers when dealing with the Council, regardless of the outcome of their request. Information on customer satisfaction with the way in which they are dealt with by the call centre has been collected since September 2005 and is currently around 65% which is on a par with other local authorities at this stage who have chosen to develop their own call centre without external help.

The internal support services have been transferred from the individual service teams and directorates to the in scope department. The overall aim is to create a centrally managed shared services team which will initially support council core services and eventually possibly partner services.

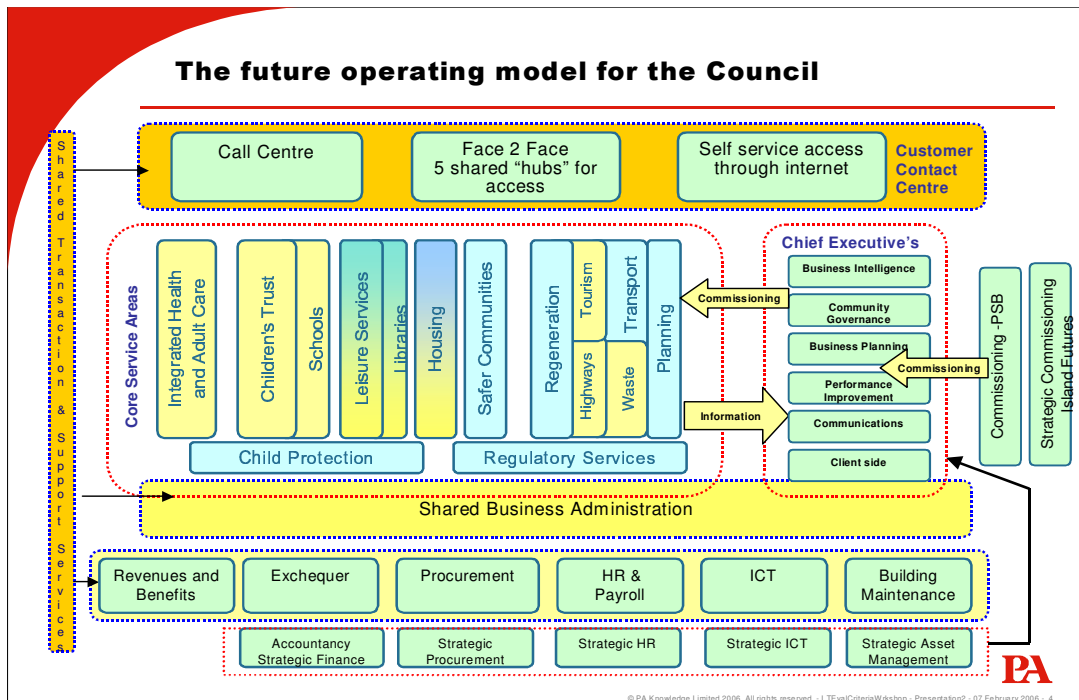
The contribution of the internal support services to realising Object 5 in Aim High is articulated in the emerging service plan for the department which states that the “primary purpose of the department is to prepare the in-scope services for a strategic partnership arrangement whilst delivering an increasingly efficient and effective range of quality services”.

The department is currently identifying a range of internal performance targets for each of the support services as well as benchmarking as part of the service planning process. For example a key “industry” benchmark for HR is the ratio of HR staff to Council (non teaching) staff and current staffing information indicates that the Isle of Wight ratio is 1:65. This compares to best in class public sector organisations which have a ratio of 1:100. This indicates that there is room for improvement but that the Isle of Wight is within the acceptable range of performance for the public sector.

### 1.3 TARGET OPERATING MODEL

The future Target Operating Model (TOM) has been agreed with the Council to illustrate how the new organisation may be structured as an efficient and cost effective organisation that delivers high quality services to the island community with a clear customer centric focus.

The Target Operating Model is shown below and is described in more detail in Section 2.2



## 1.4 THE SCOPE FOR CHANGE

In assessing the scope for change the report looks specifically at the three “in scope” blocks of the Target Operating Model. These are;

- Customer Services
- Business Administration
- Support Services

Each of the blocks has been examined to determine the current position in terms of performance, aspirations and available benchmarking data and also the potential benefits that would be realised from the transformation to the Target Operating Model. This process is described in detail in Section 3 of this report.

Although it is likely that changes within these blocks will impact on the efficiency and effectiveness of service delivery in both the core service teams and the corporate centre, the PA Consulting brief has been to look in detail at the three “in scope” building blocks of the Target Operating Model only.

## 1.5 THE ECONOMIC CASE


Based on the transformation programme outlined in Section 3 the economic case identifies annual savings of 88 FTEs with an associated budget saving of £1, 797,368. This is shown in the table below;

**Economic case for change – Before & After Budget Overview**


| Current Situation       |                |             |             |             | Future Situation        |                |             |             |             |
|-------------------------|----------------|-------------|-------------|-------------|-------------------------|----------------|-------------|-------------|-------------|
| Category                | Budget '000'   | %           | FTEs        | %           | Category                | Budget '000'   | %           | FTEs        | %           |
| Customer Services       | £844           | 2%          | 45          | 2%          | Customer Services       | £2,130         | 4%          | 104         | 5%          |
| Business Administration | £5,951         | 12%         | 273         | 11%         | Business Administration | £3,606         | 7%          | 161         | 7%          |
| Service Delivery*       | £36,676        | 73%         | 1802        | 76%         | Service Delivery*       | £36,309        | 75%         | 1784        | 78%         |
| Support Services        | £3,720         | 7%          | 162         | 7%          | Support Services        | £3,348         | 7%          | 146         | 6%          |
| Strategic Services      | £2,958         | 6%          | 98          | 4%          | Strategic Services      | £2,958         | 6%          | 98          | 4%          |
| <b>Total</b>            | <b>£50,149</b> | <b>100%</b> | <b>2380</b> | <b>100%</b> | <b>Total</b>            | <b>£48,351</b> | <b>100%</b> | <b>2293</b> | <b>100%</b> |

\*Excluding school & fire

Total Controllable Budget for SSP: £7,289,661



| Annual savings |       |     |       |
|----------------|-------|-----|-------|
| Budget         | %     | FTE | %     |
| £1,797,368     | 3.58% | 88  | 3.68% |



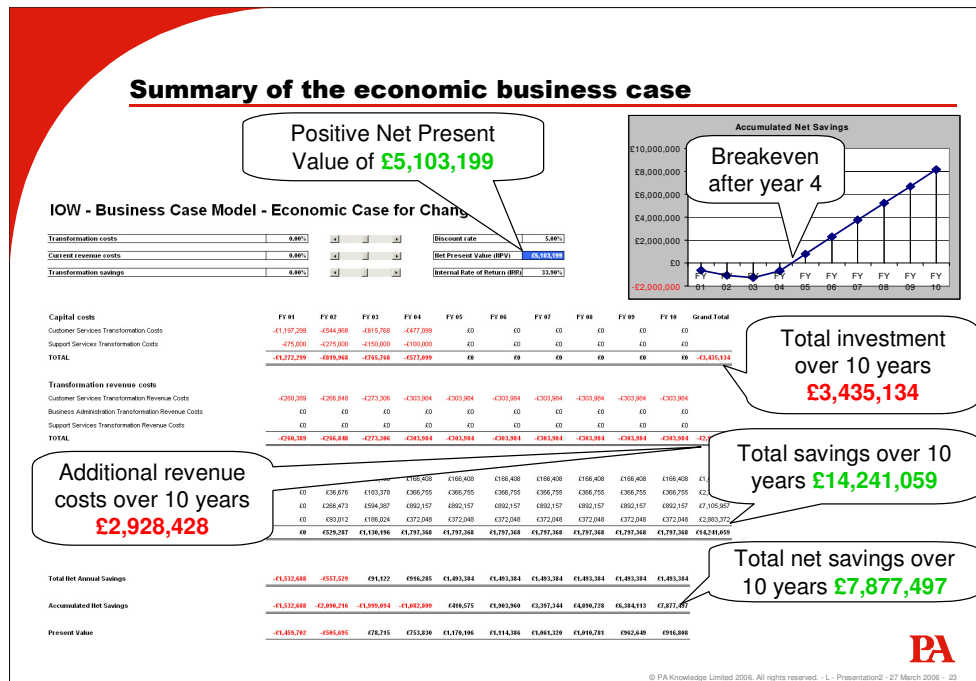
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The economic case for change shows that in order to realise the savings of £1,797,368 an investment of £3,435,134 is required. Around 58% of this investment is in business

process reengineering and business change to enable the step change in performance around the customer services transformation and streamlining of business administration. The initial investment would be recovered after the end of year 4 and the net present value (NPV) of the investment is £5,103,199. over ten years.

This is shown in the table below;



The Economic Business Case is described in more detail in section 4 of this report

## 1.6 SERVICE DELIVERY MODELS

The Service Delivery Models are the potential models for delivering the Target Operating Model for the Isle of Wight.

At the end of Feasibility Stage of the project we agreed with the Council to assess two specific service delivery models in the Outline Business Case. These are the In house model and the Strategic Services Partnership model.

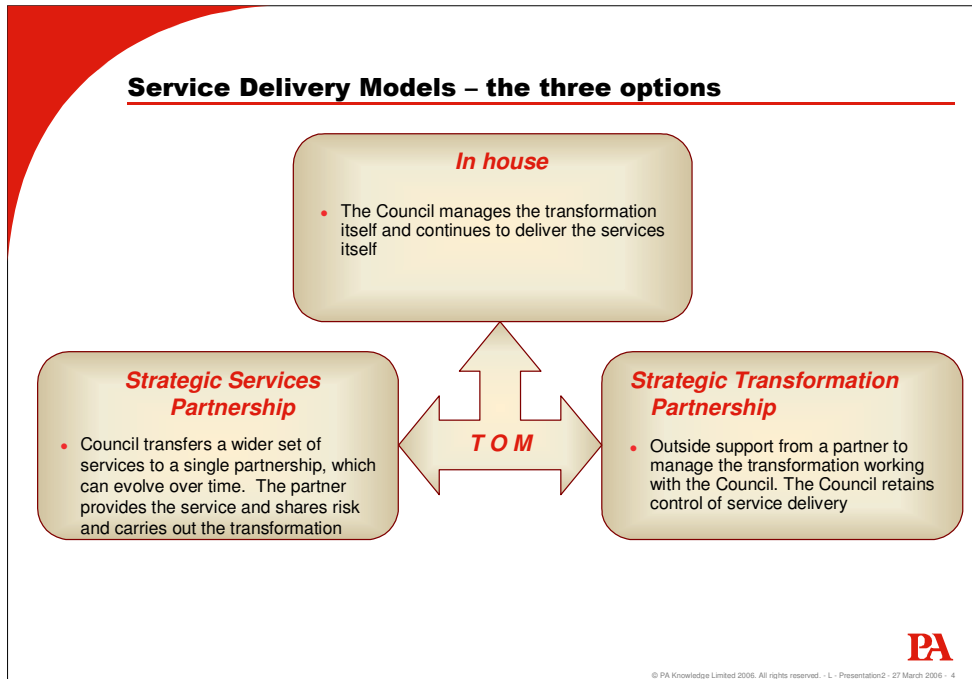
As a result of extensive consultation and information sessions across the Council and its partners it became clear that a third middle option which had the benefits of both In house and Strategic Services Partnership could also be considered as a viable service delivery model.

We discussed this issue at the Business case assumptions workshop with senior officers of the Council and agreed that the Outline Business Case would concentrate on three service delivery models.

- In house
- A Strategic Transformation Partnership

- An external Strategic Services Partnership

These are shown in the diagram below;



The models are described in detail in Section 5 of this report which also describes their potential impact on three sets of key stakeholders groups

- Customers
- Staff
- The Council

## 1.7 OPTION APPRAISAL

### 1.7.1 The Evaluation Criteria

A key outcome for this phase of the project has been to confirm with the Council an agreed set of evaluation criteria which articulates the main benefits sought from the project and against which we can evaluate the three different service delivery models.

The initial set of criteria were agreed by a joint Member and officer workshop held in December 2005 and the final list was agreed by Members in February 2006

The table below shows the criteria that were agreed by the Cabinet and have been used to evaluate the service delivery options.

### **The agreed Evaluation Criteria**

- Improved customer services
  - Deliver efficiencies – cash and productivity
  - Improve transaction and support services
  - Enhance ability to collaborate with partners
  - Ability to deliver the outcome
  - Improved service delivery
  - Improved reputation
  - Ability to provide underlying data for good business intelligence
- And in addition : Overall value for money as set out in an economic and financial case



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#### **1.7.2 Qualitative Score**

We held a joint Member/officer workshop on 7<sup>th</sup> April 2006 to evaluate the service delivery models using the evaluation criteria detailed above. The aim of the workshop was to assess the **qualitative** differences of the three Service Delivery Models by applying the Evaluation Criteria agreed by the Council taking a subjective view of the “attractiveness” of the three models

The task for the workshop was to score the Service Delivery Options against the evaluation criteria using a score range from 1 to 5 where 1 indicates that the model is most likely to deliver the criteria and 5 is least likely. The presentation used for the workshop is attached as Appendix 6 to this report.

The results of the workshop are shown in the table below where the higher the score the less likely the model is to deliver the benefits.

**Scoring the Service Delivery Options**

| Criteria                        | In House  | Strategic Transformation Partner | Strategic Services Partner |
|---------------------------------|-----------|----------------------------------|----------------------------|
| 1. Customer experience          | 4         | 3                                | 3                          |
| 2. Efficient support services   | 4         | 2                                | 2                          |
| 3. Service delivery Improvement | 4         | 2                                | 2                          |
| 4. Efficiencies and savings     | 4         | 2                                | 2                          |
| 5. Working with partners        | 4         | 2                                | 3                          |
| 6. Improved Reputation          | 4         | 2                                | 3                          |
| 7. Providing business data      | 3         | 3                                | 2                          |
| 8. Delivering the outcome       | 4         | 2                                | 2                          |
| <b>Total</b>                    | <b>31</b> | <b>18</b>                        | <b>19</b>                  |

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These are discussed in more detail in Section 6.2 of this report.

## 1.8 VALUE FOR MONEY APPRAISAL

### 1.8.1 Comparison of the three Service Delivery Models

The comparison of the three options is underpinned by considerations of the overall timeline for each option, the requirement for procurement and expectations of benefit realisation.

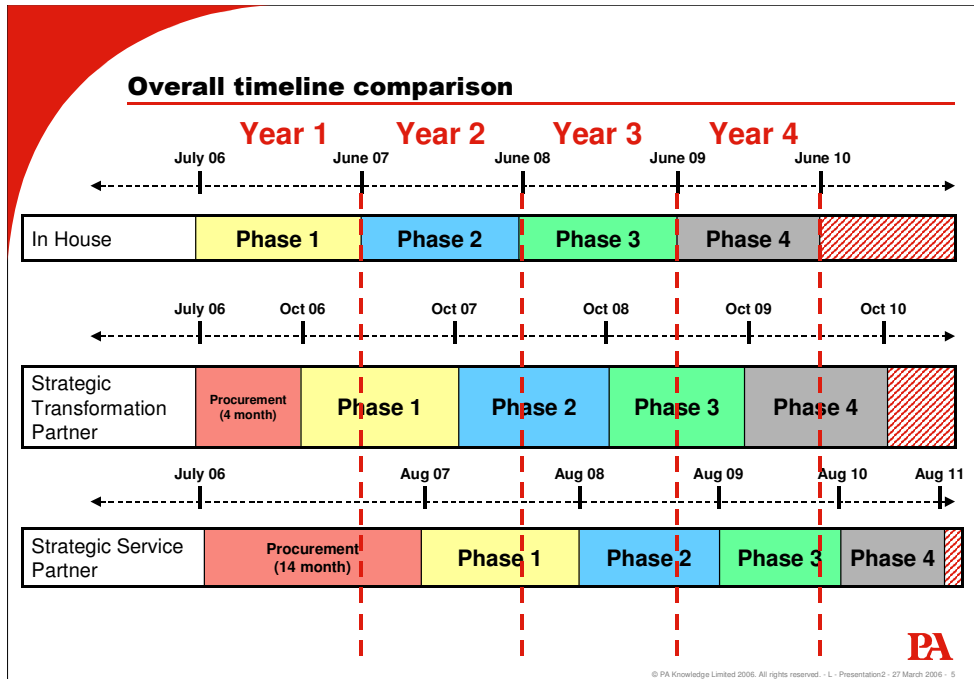
- **Underlying timeline** – this is shown in the table below and is based on taking a phased approach to the programme of change that is described in detail in Section 3

This shows that with the In House option the programme would begin immediately because there is no procurement process to go through although this option would take up to three years before it reached the third phase where change is most demonstrable of the programme.

The Strategic Services Partnership option would take the longest to begin the change programme because of the procurement timetable but once this has been completed could be expected to have reached the third phase by the end of the second year

The Strategic Transformation Partnership option will also be delayed in starting the change programme due to the procurement timetable but this will be substantially shorter than for the Strategic Services Partnership option and will enable the

programme. Once this has been completed could be expected to have reached the third phase by the end of the second year



The overall comparison is shown in the table below;

### Service Delivery Models – Comparison Table

| 10 year Summary           | In House     | Strategic Transformation Partner (STP) | Strategic Service Partner (SSP) |
|---------------------------|--------------|--|---------------------------------|
| Investment                | -£3,352,129  | -£3,399,561                            | -£3,435,134                     |
| Procurement Costs         | -            | -£500,000                              | -£1,300,000                     |
| Additional Future Revenue | -£2,457,556  | -£2,831,965                            | -£2,624,445                     |
| Profit & Risk             | -            | -                                      | -£8,747,593                     |
| Total Savings             | £4,257,068   | £9,844,464                             | £10,510,354                     |
| Total Net Savings         | -£1,552,617  | £3,112,938                             | -£5,596,818                     |
| NPV                       | -£1,740,161* | £1,546,059                             | -£3,785,663                     |
| Breakeven                 | >10 years    | After year 6                           | >10 years                       |

The In House model delivers a positive NPV and breaks even after year 8, when it achieves 78% of the benefits, as opposed to the 50% modelled

The SSP model delivers a positive NPV when the benefit realised are at 150% of the model, or half as much again.

The key differences between the three service delivery options from the overall comparison are;

- The investment costs which reflect the differences between the overall size of the contact centre for each of the option

- The Procurement costs for both the Strategic Transformation Partnership and the Strategic Services Partnership options
- For the Strategic Services Partnership option there is a line for Profit and Risk which reflects the fact that they would be required to provide the services transferred to them for a period of ten years. The Strategic Transformation Partnership option does not have this element as services will not be transferred to them.
- The difference in the level of benefits (savings) which each of the options are expected to deliver. In the main this reflects the belief that the In House option is less likely to deliver the scale of benefits required.

## 1.9 CONCLUSIONS FROM THE QUALITATIVE AND QUANTITATIVE OPTION APPRAISAL

### 1.9.1 In House option

- The In House option is less likely to deliver the transformation programme and realise the savings required reflecting a belief that as it does not have the skills and capacity required to do so.
- This lower expectation of benefits means that the project does not deliver a positive NPV over ten years
- The In House option will not deliver the step change in customer services and therefore is unlikely to deliver the qualitative benefits represented by the Evaluation Criteria

### 1.9.2 Strategic Services Partnership

- The Strategic Services Partnership option will deliver the transformation programme and drive cultural change throughout the organisation and will realise savings in the services that are transferred to it. This was one of the key purposes of engaging a Strategic Services Partner.
- However the added costs of procuring the Partner and the additional charges they would need to make for profit and risk mean that the projected savings be unlikely to outweigh the extra benefits and again this option would deliver a negative NPV. Savings realised would have to be up to 50% higher to hope to create a positive NPV. This is an ambitious level of savings and efficiencies for either the Partner or the Council to realise and would need closer scrutiny if it were to be relied upon.
- The Partnership will deliver the step change in customer services and therefore deliver the qualitative benefits represented by the Evaluation Criteria

### 1.9.3 Strategic Transformation Partner

- The Strategic Transformation Partner will deliver the transformation programme and drive cultural change throughout the organisation and will realise savings.
- The option delivers savings and a positive NPV after year 6 largely as it delivers most of the benefits of transformation without the benefit of being retained by the Council.

- The Partner will be working with existing Council staff and this will generate the skills base and the capacity within the Council that will allow it to carry on delivering the transformation programme once the partnership has ended.
- The Partner will deliver the step change in customer services and therefore deliver the qualitative benefits represented by the Evaluation Criteria

#### 1.10 OVERALL CONCLUSION

PA Consulting were commissioned to work with the Council and its partners to evaluate the potential of a Strategic Partnership to deliver improvements in the efficiency, effectiveness and economy in the operation of the Council.

Our work on the Outline Business Case has determined that whilst a Strategic Partnership would deliver the qualitative benefits expressed in the Evaluation Criteria, and would deliver a transformed Council as represented by the Target Operating Model the business case model indicates that the level of savings required in order to break even are ambitious and unlikely to be realised.

Our conclusion is that the Strategic Transformation Partner is the option that should be explored more closely as the best option to deliver the types of change that the Council is looking to do.

#### 1.11 RECOMMENDATIONS FOR THE NEXT STEPS

That the Council develop plans for next steps based on seeking external support for the change in the form of a Strategic Transformation Partner.

We identified a number of risks and issues associated with change of this scale, and we recommend that the Council develop a clear view of the impact of possible mitigatory action on these before moving to engage a Strategic Transformation Partner. The risks and issues we identified are;

- A general feeling across the Council of “initiative overload” which impacts on the capacity to resource and respond to this key transformation project
- Uncertainty about the impact of the potential outsourcing of Leisure and Tourism and the Highways PFI on the future shape of the Council and therefore the scope of this project
- Potential tension between this project and the integration of Adult Social Care and Health and therefore uncertainty about how the Target Operating Model for the future Council will be impacted

As part of the next steps a brief is drawn up for engaging a Strategic Transformation Partner.

A full business case is developed that will allow the Council to allocate the funds required for the Strategic Transformation Partner.

That the internal team that will need to work alongside the Strategic Transformation Partner is planned. We recommend a team of up to ten people which will include;

*6. Option Appraisal of the Three Service Delivery Options*

- An Assistant Chief Executive leading for the Council
- A programme manager
- A representative from the Procurement Team (specifically for the procurement phase)
- A representative of the HR team
- A representative of the ICT team
- Representatives from the Service Areas