Better Business Cases™

Practitioner Seminar Activity Workbook

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Inspiring Projects

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Welcome

Welcome to Inspiring Projects' *Better Business Cases Practitioner* Course. This is one element of our suite of project management training courses, designed to assist both individuals and organisations.

Better Business Cases is a systematic and objective approach to all stages of the business case development process in the public sector.

The Better Business Cases guidance is based on The Five Case Model, the UK government's best practice approach to planning spending proposals and enabling effective business decisions. This provides a step by step guide to developing a business case, by:

- Establishing a clear justification for intervention - a case for change;
- Setting clear objectives - what you want to achieve from the investment;
- Considering a wide range of potential solutions - ensuring an optimal balance of benefits, cost and risk;
- Putting the arrangements in place to successfully deliver the proposal.

For the past eight years, our instructors have been successfully training participants to understand and use APMG and AXELOS guidance as well as pass the related examinations.

Inspiring Projects is a division of Aspire Australasia Pty Ltd, a privately owned provider of project management and project related services and training. The company provides consultancy services to clients including consulting firms, large corporates, SMEs, Universities, multinationals, and State and Federal Government Departments and agencies. We have provided our services across Australasia and Africa.

The strategic objective of the company is in the provision of consultancy and management support to organisations undertaking initiatives to change themselves or their environment or introduce standard project, programme and portfolio management methods. This support includes professional portfolio, programme and project management services, training, certification, consultancy and associated delivery support services to assist clients to develop their expertise in the efficient organisation and profitable delivery of programmes and projects. Our consultants have developed management systems built around AXELOS guidance, and we have provided Executive Briefings, coaching, mentoring and interim staffing support to ensure our clients maximise the benefits from their investment in our services.

We are pleased to be able to assist in your training and hope that you find the course beneficial and interesting.

Geoff Rankins

Lead Trainer

Inspiring Projects

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1. Review of Better Business Cases

1.1. Slides

1.2. Strategic Outline Case

A fully worked example of a Strategic Outline Case is presented in Appendix A on page 75.

This document will be used in many of the activities in the Practitioner Seminar. This SOC should also be a useful reference for you in its own right.

For now, review the structure of the document, and review how the content may change as the business case proceeds through the OBC and FBC phases.

2. Business Case Development Process

2.1. Slides

Sessions

- Review of Better Business Cases
- Business Case Development Process
- Preparing the SOC
- Preparing the OBC
- Preparing Economic Appraisals
- Preparing the FBC

Investment Objectives

- Economy – *reducing cost*
- Efficiency – *improving throughput & unit cost*
- Effectiveness – *improving quality outcomes*
- Re-procurement
- Statutory Compliance

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Group Exercise 1

Setting SMART Investment Objectives

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MISS Project

- SLACK Review identifies $2 billion of potential savings.
- Ministry of Infrastructure, Service & Supplies set up to enable shared services, economies of scale and savings across some 10 departments
- Be imaginative!
- What would constitute reasonable targets?

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Feedback

Feedback from each group on the exercise and their SMART objectives for the MISS programme

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Benefits & Risks

Benefit criteria

- Cash Releasing
- Non cash releasing
- Quantifiable
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Business risks

Service Risks

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- Build
- Funding
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External Environment

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Feedback

Feedback from each group on the exercise and their high level benefits and risks for the MISS programme

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Critical Success Factors

- Strategic fit
- Business Needs
- Benefits Optimisation
- Supply-side capacity and capability
- Potential Affordability
- Potential Achievability

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Options Framework

- Scope (coverage: who, what, where etc)
- Service Solution - (how: technical)
- Service Delivery - (who: provider)
- Implementation - (when: phasing & time)
- Funding (how: $)

Preferred Way Forward

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Recommended Short-list

- Status Quo/ Do nothing/ Do minimum
- Reference Project/ Outline Public Sector Comparator (PSC)
- PSC - Less Ambitious (content, time)
- PSC - More Ambitious (content, time)

Optimising VFM!

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Identifying the critical success factors (CSFs) and the long and short lists

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2.2. Activity 1 – SMART Objectives

Learning Objective

Check your understanding of SMART objectives.

Task

Read the Brief for this Activity, which consists of the Strategic Case section of the Strategic Outline Case document on page 75.

Group Activity

Within your designated groups, please consider what the investment objectives for the Portfolio of Services and Supplies (POSS) Project might be, in support of the Ministry of Infrastructure, Services and Supplies (MISS) Change Programme, Phase 1.

Remember investment objectives should be:

- SMART – specific, measurable, accurate, relevant and time constrained;
- Clearly linked to what the Organisation is seeking to achieve in terms of the desired spend; and
- Limited in number to the key outcomes.

Be innovative in terms of your anticipated metrics.

Your Response

Objective Type	Investment Objective
Economy	
Efficiency	
Effectiveness	
Replacement	

Check your answers with those on page 52.

2.3. Activity 2 – Benefits and Risks

Learning Objective

To increase participants' awareness of the importance of identifying and categorizing benefits and risks in a structured manner; and of considering any constraints or dependencies associated with the scheme.

Task

Read the Brief for this Activity, which consists of the Case for Change section of the Strategic Outline Case document.

Brief

Part B: The Case for Change

Investment Objectives

The investment objectives for Portfolio of Services and Supplies (POSS) project are as follows:

- Investment Objective 1 (Economy) - to put in place arrangements for reducing the cost of services by between 15 to 25%, through enabling economies of scale, by year 4.
- Investment Objective 2 (Efficiency) – to improve the throughput and provision of services and supplies by between 15 to 25%, through the deployment and use of better processes, by year 3.
- Investment Objective 3 (Effectiveness) – to improve the quality of services and supplies, in accordance with relevant standards, by year 2.
- Investment Objective 4 (Replacement) – to replace existing arrangements for the provision of services and supplies, as and when current arrangements require to be procured and/or can novated.

Existing Arrangements

Central Government departments have been defined by the CEO's meeting to be departments A, B, C, D, E, F, G, H, J and K. These range in both size and function. A resume of each department is included at Annex 3.

The existing arrangements for the provision of services, supplies and supporting infrastructure across Central Government departments are as follows:

<u>Utilities</u>

Each department currently procures its own utilities in the market place at various unit costs from different suppliers. Some pay on a usage basis at current price, whilst others have longer term contracts in place at agreed prices for future supply.

These utilities cover electricity, gas, oil and water rates. In some instance, more than one service is procured from a single supplier and, in others, on a one to one basis. Where Government departments share a single building the utility bill is either apportioned on an occupation basis or metered separately.

The annual cost to departments for their utilities is approximately $6,325,000.

<u>Building Services</u>

In the majority of cases, these are provided on a departmental, rather than building specific basis. The continuum of building services ranges from general maintenance; security; porterage; window cleaning; office cleaning; lifts and escalator maintenance; to maintenance of the fabric of the building. It also, in some instances, includes arrangements for office moves and organizational changes (major and minor).

In some cases, services are provided in-house; but in the majority of cases they have either been outsourced or are provided under fixed priced maintenance contracts with some small allowance for change.

The annual cost to departments for their building services is approximately $60,500,000.

Telecoms and IM&T

In the majority of cases, telecoms support is provided by the Government's telephone service run by the Office of Government Commerce (Buying Solutions). This service includes the network, the cost of desktop devices (telephones) and call charges. In a couple of cases, however, departments have elected to either procure telephone communication services as part of their IM&T service solutions; or to purchase direct from a national supplier.

The annual cost to departments for their telecommunication services and call charges is approximately $14,000,000.

Information management and technology services are provided across a wide spectrum of delivery arrangements. These range from long term Public Private Partnership (PPP) and Private Finance Initiative (PFI) deals; to other outsourced arrangements, with varying degrees of the deployment of services (software development, maintenance etc.) being undertaken in-house. In some cases the supporting infrastructure is owned by the Government department, in others it forms an integral part of the service and is accounted for on the balance sheet of the provider.

The annual cost to departments for their information management and technical services is approximately $30,000,000.

Office Supplies

Office supplies include stationery, printing, postage and (now) the occasional photocopier. The majority of these services and supplies are procured on a departmental specific basis from multiple suppliers in the market place, with the occasional framework for stationery and other office suppliers in place.

The annual cost to departments for their office supplies is approximately $6,175,000.

Travel

All departments have outsourced their travel and hotel arrangements to Booking Agencies. There are three major Booking Agencies in the market place, all of whom have some exposure in Government and are contracted for under three to five year contracts which have accrued significant operational savings through discounts in recent years.

The annual cost to departments for their travel and hotel arrangements is approximately $6,100,000.

Catering

In the past, catering services across Government departments were mainly provided by the Capital Catering Service (CCS) an in house service which has since been disbanded in order to meet Government manpower targets.

The majority of departments' catering arrangements – which cover canteens, refreshments and teas and coffees for meetings, etc. – are now provided on a departmental and building specific basis by multiple small and medium sized enterprises (SME's). The quality of these arrangements is monitored and managed through Service Level Agreements (SLAs) which have reduced costs, improved efficiency and quality, with no reported deaths or instances of food poisoning.

The annual cost to departments for their catering arrangements is approximately $ 2,950,000 – a significant amount of which is attributable to "teas and biscuits" throughout the working day.

Vehicles

Ministerial vehicles and those in place for senior officials (CEO's) are provided by the Government Car Service (GCS), which leases the vehicles and employs drivers direct in most cases for security reasons. The fleet was replaced in 2011.

Unlike its counterparts in the private sector, Government departments have very few arrangements in place for the provision of leased cars to staff, preferring to rely on relatively mean mileage allowances for the use of private vehicles in the execution of public duties.

The annual cost to departments for vehicles is approximately $1,975,000.

Others

No remaining services and supplies of any significant value have been identified thus far. As and when they are, they will be assigned to any one of the above categories or included under separate headings, as appropriate.

Business Needs

These broadly relate to the following business drivers and imperatives as follows:

Cost reductions

On departmental specific basis, there is evidence to suggest that the Government is not "paying over the odds" for services and supplies. However, the prices and unit costs vary significantly, with too many losers.

There is thus a pressing need for the public sector to make greater use of its economies of scale and "procurement clout" in the market place to solicit further significant cost reductions through more collaborative cross Government procurements.

This was previously, as noted, recognized by the Slack Review. The MISS project's preliminary investigations suggest that the savings could be higher and in the order of 15% to 25% based on the price variances for the amounts currently spent on water, gas and electricity.

Efficiency gains

Again, on an individual basis, there is some evidence to suggest that Government departments have made significant efficiency gains in recent years. However, this is not true of all parties, many of whom need to match the track record of the best in terms of their procurement processes and timescales.

There is thus a pressing need for Government departments to make better use of "just in time", electronic purchases (e-government), using the latest technology and credit arrangements from pre-competed deals in order to streamline processes and shorten timescales.

In addition, there are numerous instances where as many as four separate departments share a building with multiple departmental contracts in place for similar services. The MISS project's preliminary investigations suggest that potential savings could be in the order of 15% to 25% of existing spend.

Quality improvement

The services and products procured by Government departments are generally "fit for purpose" and "conform to requirements", and are thus of the required quality in terms of their functionality and use. However, in many instances they are not eco-friendly and do not conform to the latest environmental guidelines.

There is thus the need to improve quality by ensuring that all services and goods are "sustainable" in terms of the environment, and for Government to be a market leader, exemplar, and "centre of best practice" in this regard.

Replacement

There are some 200 individual contracts in place across Government for the supply of goods and services. Some of these are large, whilst others are of relatively low value.

There is thus the need to aggregate contracts across departmental boundaries, as and when these contracts come up for renewal, in order to reduce procurement costs, improve efficiencies and ensure quality gains. A Working Party chaired by Mr Winner from the State Services Commission (SCS) is currently in place to ascertain the potential mergers and reductions.

Group Activity

Within your designated groups, please consider:

- What the main benefits associated with the Portfolio of Services and Supplies (POSS) Project might be in relation to each of the suggested investment objectives by key stakeholder group, taking into account any potential dis-benefits.
- What the main risk areas associated with the Portfolio of Services and Supplies (POSS) Project might be taking into account the key phases of the project.
- What you consider the key constraints (if any) associated with the project might be.
- What you consider the key dependencies (if any) associated with the project might be

Remember there are no right or wrong answers.

Your Response

Benefits

Risk Areas

Constraints

Dependencies

Check your answers with those on page 52.

2.4. Activity 3 – CSFs, and Long and Short Lists

Learning Objective

To increase participants' awareness of the importance of option appraisal using the Options Framework for the identification and examination of options.

Task

Read the Brief for this Activity, which consists of an extract from the Strategic Outline Case document.

Brief

Potential Scope

The potential scope for this project may be assessed upon a continuum of need, ranging from:

- The number of Government departments to be included in the initial scheme – Department A, B, C, D, E,F, G, H, J, and K refer;
- The number of services which could include any of the following: utilities; building services; telecoms and IM&T; office supplies; travel; catering; and vehicles.

A potential wide range of realistic choices has been further considered and appraised within the long list of the Economic Case.

Main Outcomes and Benefits

The anticipated outcomes and benefits to be derived from this project are as follows:

Investment Objectives	Key Benefit by Stakeholder Group
Investment Objective 1 – Reducing procurement cost	<u>Departments</u> Price reductions and operational savings Procurement savings Closer working relationships <u>Service providers and suppliers</u> Larger contracts and procurements Lower procurement costs Better organized market place <u>Public</u> Opportunity savings – in terms of other services Improved use of taxpayers' monies
Investment Objective 2 – Improving efficiency	<u>Departments</u> Procurement time savings More responsive suppliers and services Reduced processes and costs <u>Service providers and suppliers</u> Streamlined procurements <u>Public</u> More responsive public services
Investment Objective 3 – Improving quality	<u>Departments</u> Full compliance with environmental policies and guidelines <u>Service providers and suppliers</u> Increased "value" services <u>Public</u> Improved environment
Investment Objective 4 – Replacement of existing contracts	<u>Departments</u> Fewer contracts <u>Service providers and suppliers</u> Larger accounts <u>Public</u> Increased transparency (e.g. FFI)

A potential dis-benefit is that small and medium sized enterprises (SME) are likely to find it more difficult and competitive to retain and gain Government contracts for the procurement of services and supplies.

Main Risks

The main business and service risks associated with the potential scope for this project are shown below, together with their countermeasures.

Main Risk	Countermeasures
Design	
Development - supplier - specification - timescale - change management - project management	
Implementation risks - supplier - timescale - specification & data transfer - cost risks - change management - project management - training & user	
Operational risks - supplier - availability - performance - operating cost - change management	
Termination risks	

Constraints

The main constraints are:

- the associated project resources – both budget and availability of personnel with the required competencies and capabilities; and
- the agreed timescales for implementation and service improvement.

Dependencies

The main dependencies are:

- the willingness of departments to work closely and collaboratively together over time, which will require a cultural shift;
- the continued support of Cabinet Ministers and senior officials; and
- the responsiveness of the supply side to what is proposed.

Group Activity

Within your designated groups, please consider:

- What the Critical Success Factors (CSFs) for the assessment of the options for the MISS Project should be in your view
- What the wide range of possible options ("the Long list") might be, together with your initial assessment of them on the basis of what you know about the MISS Project so far, and your own experiences.
- What the narrow range of possible options ("the Short list") might be, on the basis of the results of the "Long list".

Please use the Options Framework for this purpose, if you can, and remember there are no right or wrong answers.

Your Response

Critical Success Factors

Options Framework

Service Category	Realistic range of "main" possible Options			
1. Scope – potential number of departments to be included				
Assessment				

Service Category	Realistic range of “main” possible Options			
2. Solution – potential range of services				
Assessment				
3. Delivery – potential service providers				
Assessment				
4. Implementation				
Assessment				
5. Funding				
Assessment				

Long List of Options

Short List of Options

Check your answers with those on page 55.

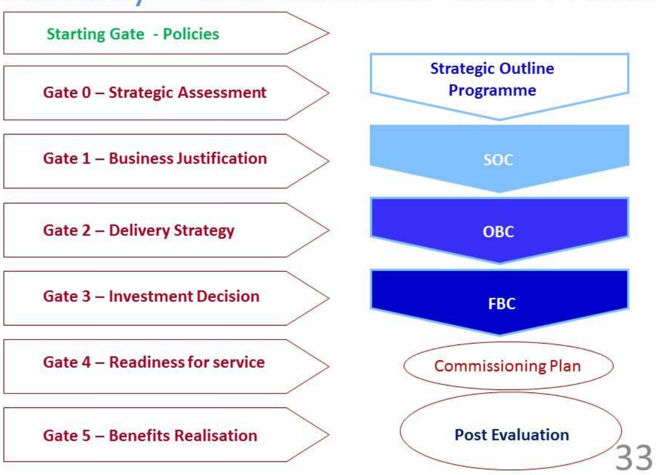
3. Preparing the SOC

3.1. Slides

Sessions

- Review of Better Business Cases
- Business Case Development Process
- Preparing the SOC
- Preparing the OBC
- Preparing Economic Appraisals
- Preparing the FBC

Gateway™ and Business Case Process



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Group Exercise 4

Programme and Project Management; OGC Gateways and the use of workshops

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8 Common Causes of Project Failure (1)

- Lack of clear link to the organisation’s key strategic priorities
- Lack of clear senior management ownership and leadership
- Lack of effective engagement with stakeholders
- Lack of skills and proven approach to project and risk management

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8 Common Causes of Project Failure (2)

- Project not broken down into manageable steps
- Evaluation of proposals linked to short term affordability rather than longer term value for money
- Lack of understanding of and contact with suppliers
- Lack of effective integration between the client, supplier and supply chain

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Group Exercise 5

Mitigating the common causes of project failure through the application of the business case development process.

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3.2. Activity 4 – Gateway Reviews and Workshops

Learning Objective

To increase participants' awareness of the importance of: programme and project management; stakeholder engagement and the use of workshops during the preparation of the business case; and the OGC Gateway Process.

Group Activity

Within your designated groups, please consider:

- Explain how the OGC Gateway and Health check process maps onto the stages of business case development.
- What workshops, if any, would you recommend during the business case development process of the Strategic Outline Case (SOC) and Outline Business Case (OBC)? Who would you invite? And what would the key outputs be?

Your Response

Use of Gateways Reviews

Gate	Where used
Starting Gate	
0 – Strategic Assessment	
1 - Business Justification	
2 – Delivery Strategy	
3 – Investment Decision	
4 – Readiness for Service	
5 – Benefits Realisation	

Workshops for the development of the Business Case

Workshop	Objectives	Key participants	Outputs
Workshop 1: Determining the Case for Change and Options for Service Delivery (SOC Stage)			

Workshop	Objectives	Key participants	Outputs
Workshop 2: Assessing the Options (SOC/OBC stage)			
Workshop 3: Developing the Reference Project/ Outline PSC (OBC stage)			
Workshop 4: Developing the Deal (OBC stage)			
Workshop 5: Successful Delivery (OBC stage)			

Check your answers with those on page 58.

3.3. Activity 5 – Risk Mitigation

Learning Objective

To increase participants' awareness of how the common causes of project failure can be mitigated and managed through the application of the business case development process.

Task

Within your designated groups, please consider, for each of the most common causes of project failure (as reported by the Cabinet Office in relation to major public sector schemes), the key questions that you think need to be answered at each stage in the development of the business case (SOC, OBC and FBC).

Your Response

Common cause of project failure	Stage	Questions to be answered in full at each stage and revisited thereafter
Lack of clear links between the project and the organisation's key strategic priorities, including agreed measures of success	SOC	
	OBC	
	FBC	
Lack of clear senior management and ministerial ownership and leadership	SOC	
	OBC	
	FBC	

Common cause of project failure	Stage	Questions to be answered in full at each stage and revisited thereafter
Lack of effective engagement with stakeholders	SOC	
	OBC	
	FBC	
Lack of skills and proven approach to project management and risk management	SOC	
	OBC	
	FBC	
Too little attention to breaking development and implementation into manageable steps	OBC	
	FBC	

Common cause of project failure	Stage	Questions to be answered in full at each stage and revisited thereafter
Evaluation of proposals driven by initial price rather than long-term value for money (especially securing delivery of business benefits)	OBC	
Lack of understanding of, and contact with the supply industry at senior levels in the organisation	OBC	
	FBC	
Lack of effective project team integration between clients, the supplier team and the supply chain	OBC	
	FBC	

Check your answers with those on page 60.

4. Preparing the OBC

4.1. Slides

Sessions

- Review of Better Business Cases
- Business Case Development Process
- Preparing the SOC
- Preparing the OBC
- Preparing Economic Appraisals
- Preparing the FBC

Benefits Criteria

Class	Relative Value	Relative Timescale	Benefits Criteria
Strategic (wider social and business related)	High	Long-term (2-7 years)	Qualitative Indirect/direct Non-cash releasing
Operational (organisational and management related)	Medium	Medium-term (1-2 years)	Qualitative and quantitative Direct Cash-releasing Non-cash releasing
Job (task related)	Low	Short-term (now)	Quantitative Direct Cash-releasing Non-cash releasing

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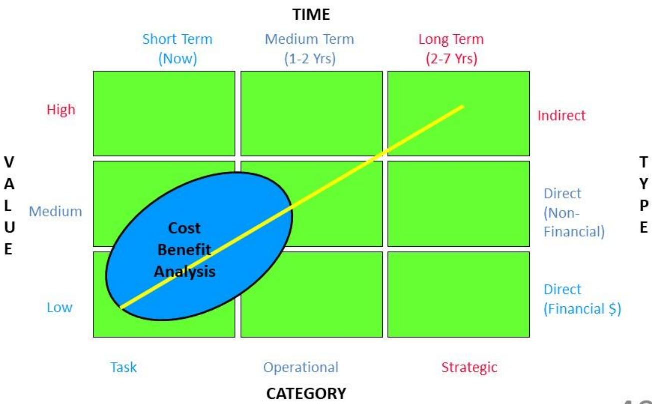
Scope of CBA



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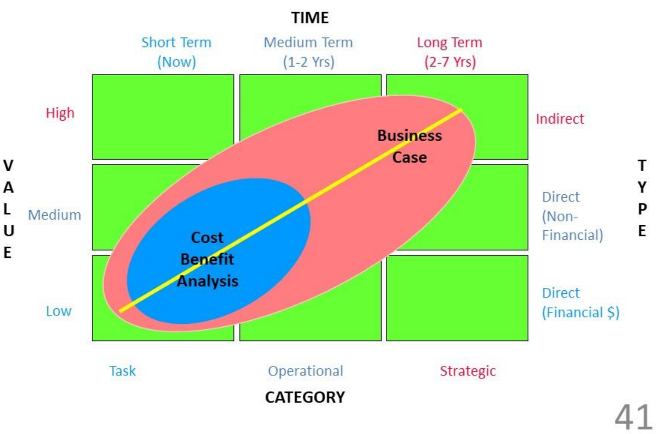
Scope of Business Case



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Group Exercise 6

Identifying and assigning the benefit criteria

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Feedback

Feedback from each group on the benefits criteria

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Group Exercise 7

Undertaking multi-criteria analysis

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MCA – Weighting & Scoring

- Exclude quantitative benefits – financial & economic
- Group quantifiable (non-financial) & qualitative against spending objective and/or **main benefit**
- Select an expert & representative team – you!
- Give a weight to spending objective or **main benefit (0 to 100)**
- Give a score (0 to 10) to each option on how well it delivers the benefit
- Multiply the weights and scores
- Rank the options (1st to last)

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Feedback

Feedback from each group on multi-criteria analysis

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4.2.Activity 6 – Benefit Criteria

Learning Objective

To improve participants' knowledge of the importance of identifying the benefit criteria associated with any scheme.

Task

Within your designated groups, please consider:

- What the benefits criteria are in relation to the main benefits identified by key stakeholder group;
- Whether on further reflection there are any other benefits that should be accounted for in the view of your group;
- Whether there is a danger of "double counting" some of the benefits identified, and, if so, give examples;
- What benefits it would be prudent to exclude in the Economic Appraisals in support of the short listed options, both from the standpoint of Cost Benefit Analysis (CBA) for the quantitative benefits and Multi Criteria Analysis (MCA) for the qualitative benefits.

Be prepared to report the findings of your group to other members of the course.

Your Response

Question 1

Investment Objective	Key Benefit by Stakeholder Group	Benefit Criteria
Investment Objective 1 – Reducing procurement cost	<u>Departments</u> Price reductions and operational savings Procurement savings Closer working relationships <u>Service providers and suppliers</u> Larger contracts and procurements Lower procurement costs Market place more organized <u>Public</u> Opportunity cost savings – in terms of other services Taxpayers' monies spent more effectively	
Investment Objective 2 – Improving efficiency	<u>Departments</u> Procurement time savings More responsive suppliers and services Reduced processes and costs <u>Service providers and suppliers</u> Streamlined procurements <u>Public</u> More responsive public services	

Investment Objective	Key Benefit by Stakeholder Group	Benefit Criteria
Investment Objective 3 – Improving quality	<u>Departments</u> Full compliance with environmental policies and guidelines <u>Service providers and suppliers</u> More “value” services <u>Public</u> Environmental enhancements	
Investment Objective 4 – Replacement of existing contracts	<u>Departments</u> Fewer contracts <u>Service providers and suppliers</u> Larger accounts <u>Public</u> Greater transparency	

Question 2

Question 3

Question 4

Check your answers with those on page 63.

4.3. Activity 7 – Multi-Criteria Analysis

Learning Objective

To improve participants' knowledge of multi criteria analysis (MCA) with regard to the ranking and scoring of qualitative benefits.

Task

Within your designated groups, please consider:

- Who should attend the benefits workshop?
- What qualitative benefits should be included?
- How the benefits should be ranked and the weightings and scores assigned, together with your reasoning?

Be prepared to report the findings of your group to other members of the training course.

Brief

Weighting and scoring of benefits

Weighting and scoring provides a technique for comparing and ranking options in terms of their associated non-financial benefits. It should be undertaken as follows:

- exclude all financial benefits, whether cash-releasing or non-cash releasing
- group the quantifiable (non-financial) and qualitative benefits
- give a weight (0 to 100) to each of the spending objectives and/or benefit criteria
- give a score (1 to 10) to each option for how well it delivers the benefits associated with each spending objective or benefit criterion
- multiply the weights and scores to provide a total weighted score for each option
- rank the options in terms of benefit delivery and identify the preferred option on the basis of the highest score.

Recording the results

The process and the reasoning behind the scores and weightings must be documented clearly to demonstrate that a robust analysis has been carried out. Again, it is important to recognise that the assigned weights and the scores given to options are value judgments. In order to assign weights and scores, negotiation and compromise needs to take place. It is the number of people involved in the process and their expertise that lends credibility to these value judgments. It is, therefore, worth spending some time choosing a representative 'benefits team' which should include stakeholders, customers (users), and business and technical representatives. The people involved should be named as part of the recording process.

Case study

The benefit criteria (attributes), weights and scores for the OBC in support of an NHS accommodation scheme are shown below. It uses a score out of 10 according to how well each of the options match-up to the benefit criteria. These scores are then multiplied by the pre-agreed weightings to give a total score for each option.

Options:		Do Nothing		Option B		Option C	
Benefit Criteria	Weight	Score	Weight x score	Score	Weight x score	Score	Weight x score
Quality of clinical care	30	0	0	0	0	7	210
Patient accessibility	15	0	0	1	15	4	60
Flexibility of accommodation	20	0	0	4	80	6	120
Quality of hotel services	20	0	0	5	100	4	80
Disruption to services	15	0	0	0	0	3	45
Total	100		0		195		515

Your Response

Question 1 - Who should attend the benefits workshop?

Question 2 - What qualitative benefits should be included?

Question 3 - How should the benefits be ranked and the weightings and scores assigned, together with your reasoning?

Qualitative Benefit	Weight (%)	Option 1 Status Quo		Option 2 Outsource		Option 3 Strategic Partner		Option 4 PSC: In-house	
		Score	Weighted Score	Score	Weighted Score	Score	Weighted Score	Score	Weighted Score
Total	100								
Ranking									

Reasoning:

Check your answers with those on page 65.

5. Preparing Economic Appraisals

5.1. Slides

Sessions

- Review of Better Business Cases
- Business Case Development Process
- Preparing the SOC
- Preparing the OBC
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- Preparing the FBC

Economic v Financial appraisal

Economic

Focus:

- Value for Money

Coverage:

- "Organisation", ecology

Standards:

- HM Treasury Green Book

Financial

Focus:

- Affordability

Coverage:

- Business Unit

Standards:

- Standing Orders & Financial Regulations

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Economic v Financial appraisal

Economic

Includes:

- *Real Prices*
- *Opportunity Costs*
- *Attributable Costs*
- *Quantifiable Benefits & Risks*
- *Environmental Costs*

Financial

Includes:

- *Current Prices*
- *Transfer Payments e.g. GST/VAT*
- *Inflation*
- *Cash Releasing Benefits*
- *Depreciation*

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Group Exercise 8

Preparing and interpreting the economic appraisals

50

Feedback

Feedback from each group on economic appraisal

51

5.2. Activity 8 – Economic Appraisals

Learning Objective

To improve participants' knowledge of the standards to which economic appraisals should be prepared in support of the Outline and Full Business Cases.

Task

1. The Economic Appraisals that have been prepared by the MISS Project in conjunction with the Outline Business Case (OBC) and A Reviewer's memorandum to the Project Manager, Miss IM Possible.
2. Within your designated groups, please consider your responses to the issues raised by the Project Manager, Miss IM Possible, in her memorandum to A Reviewer.

Memorandum

FROM: MISS IM POSSIBLE

TO: MR A REVIEWER

MISS DBC AND ECONOMIC APPRAISALS

Thank you for your recent memorandum. The Cabinet will be pleased to learn that we have made significant progress in the past few weeks and amended the scope of the project, as suggested. However, this has given rise to a number of issues on which we would welcome your early advice and guidance. These issues are as follows:

1. The Economic Appraisals

Our preliminary findings are as follows:

Evaluation	Option 1- Status Quo	Option 2- Outsource	Option 3- Strategic Partner	Option 4- PSC: In-house
Whole of Life Costs - undiscounted	498,500,130	443,291,130	479,812,930	455,028,530
Whole of Life Costs – discounted 6%	-387,947,792	-392,062,576	-431,174,019	-356,287,868
NPV Ranking	3rd	2nd	4th	1st
Qualitative Benefits Score	370	575	695	540
Ranking	4th	2nd	1st	3rd

As advised, we have included office services in the short list, in addition to utilities and building services (as recommended within the SOC) and excluded Information Management and Technology (IM&T), as suggested by the Treasury.,

Preliminary findings are, however, that whilst the further outsourcing of services is the least expensive option in undiscounted terms, the option with the lowest discounted cost is the Public Sector Comparator (PSC), which suggests, on the grounds of best public value, we should be extending the in-house management of these services, rather than pursuing "outsourcing" further in order to reduce staff numbers in accordance with Ministerial targets.

2. MISS Feasibility and Full Studies

In parallel, with the preparation of the business case, we have undertaken a feasibility study in support of the Strategic Outline Case (SOC) and a full study in support of the Outline Business Case (OBC).

The Chief Accountant has advised that these costs should be included within the business case in order to provide a more accurate cost of the scheme to the Treasury. These costs do not, however, materially affect the findings of the business case and exclude project costs incurred to date.

3. Distributional Impact

The Chief Economist has suggested that the distributional impact of this scheme should be appraised, given that the anticipated outcomes will be of greater economic and social benefit to the most disadvantaged groups within society.

4. Tax receipts

The Chief Statistician has pointed out that whilst bringing the management of more services in house may appear to provide the greatest public value moving forward, this option ignores the tax receipts that will be payable to the Exchequer by service providers appointed in support of strategic partnering and outsourcing arrangements.

5. Staff Costs

These have been calculated on the basis of the average salary costs within departments, currently estimated to be $50,000. The Chief Accountant has suggested, however, that these costs should be based on actual costs rather than an estimate of the average cost in order to improve the accuracy and robustness of the business case.

6. Differential Rates of Inflation

In accordance with Treasury Guidance, we have not accounted for inflation within the Economic Appraisals. The Chief Economist and Chief Statistician, however, have pointed out that inflation index for the building sector is forecast to be much higher than the retail price index (RPI) or the consumer price index (CPI) for the nation in the 10 years ahead.

7. Depreciation

The value of the assets underpinning the procured services (plant and machinery etc) will depreciate significantly over the 10 year appraisal and expected contract period. This cost has not been accounted for within the Economic Appraisals supporting the outsourcing and strategic partnering options.

8. Optimism Bias and Discount Rate

This has been applied to Option 2 (Outsourcing), Option 3 (Strategic Partnership) and Option 4 (the PSC). A discount rate of 6% has been used.

9. Attributable Costs

Whilst we recognise that the economic appraisals should be prepared from the standpoint of the Nation, it should be noted that these do not currently include the additional costs that will fall to potential service providers (as a result of the need to expand their capacity), or the additional jobs that will be created within the economy.

10.Staff and Energy Savings

The assumptions underlying the staff and energy savings in support of the Economic Appraisals have been agreed by the Programme Board and confirmed as being realistic and achievable by Departmental Leads.

The target for energy savings (5%) has been factored into all the options; and under option 2 (Outsourcing) and option 3 (Strategic Partnership), the anticipated staff savings will significantly contribute to the Cabinet's recently announced reduction (25%) in departmental complements. In respect of options 2 and 3, the expectation is that:

- 50% of existing staff transfer to the service provider(s)
- 20% of staff will be reallocated to fill vacancies within Departments and elsewhere within the Public Sector
- 10% will be lost through natural wastage, and
- 10% will accept the early retirement/redundancy package currently being offered.

The costs of staff transferring to the appointed service provider(s) are reflected in the potential service charges, as indicated by market soundings and confirmed by the Full Study. The salary costs of staff transferred (20%) to other duties by departments has continued to be reflected in departmental salaries, alongside the other costs identified above.

MISS IM POSSIBLE

Project Manager

Your Response

Check your answers with those on page 66.

6. Preparing the FBC

6.1. Slides

Sessions

- Review of Better Business Cases
- Business Case Development Process
- Preparing the SOC
- Preparing the OBC
- Preparing Economic Appraisals
- Preparing the FBC

Group Exercise 9

Identifying and apportioning risks, and completing the risk register

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Feedback

Feedback from each group on risk apportionment

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6.2. Activity 9 – Apportioning Risk

Learning Objective

To improve participants' knowledge and skills in respect of:

- Identifying, apportioning and tying down the service risks in support of the Commercial Case; and,
- Constructing the high level risk register for the ongoing management and successful delivery of the scheme.

Task

Within your designated groups, please:

1. Review the business and service risks outlined below – clarifying what they mean in the context of shared services and adding to the list, as required.
2. Consider how the risks should be apportioned between the Department (MISS) and potential service provider(s)/ supplier(s) and tied down in the contractual commercial arrangements.

Your Response

Risk Ref	Risk Category	Risk Description	Prob	Impact	Risk Rating	Risk Allocation & Owner	Risk Budget	Main Risk Countermeasure	Risk Review
1	Business	A failure of the project may result in Reputational risk which may affect the Public Sector	L	H	M		n/a		Quarterly
2	Design	A poor choice of Supplier may result in an unacceptable result in the project which may affect the project deliverables.	L	H	M		n/a		Procurement phase
3	Design	Poor specification of services may result in inappropriate delivery of services which may affect clients and staff of the service.	L	H	M		n/k		Procurement Phase

Risk Ref	Risk Category	Risk Description	Prob	Impact	Risk Rating	Risk Allocation & Owner	Risk Budget	Main Risk Countermeasure	Risk Review
4	Design and Build	Longer than expected timescale may result in financial penalties which may affect the spending authority and the eventual overall delivery.	M	L	M				Monthly Project Board
4	Design and Build	Poor Change Management may result in issues arising from changes which may affect the eventual outcome of the project.	M	H	H		20k*		Monthly Project Board
5	Design and Build	Poor Project Management may result in delays or inappropriate activity which may affect the eventual outcome of the project.	L	H	M		30k*		Monthly Project Board
6	Design and Build	Higher than expected design and build costs of new systems and services may result in cost overruns which may affect the eventual benefits.	M	M	M		100k		Monthly Project Board
7	Design and Build	Untrained users of the new systems and services may result in inappropriate or incorrect use the service which may affect the overall efficacy of the service.	L	M	M		30k		Monthly Project Board
8	Design and Build	Poor transitional arrangements may result in old systems not being replaced effectively which may affect the users of the service.	M	H	H		n/a		Monthly Project Board
9	Operational	Poor working partnership with supplier may result in delays and other issues which may affect the overall delivery of the project.	M	H	H		n/a		Quarterly Service Meetings

Risk Ref	Risk Category	Risk Description	Prob	Impact	Risk Rating	Risk Allocation & Owner	Risk Budget	Main Risk Countermeasure	Risk Review
10	Operational	A change of ownership on supply side may result in a change of supplier which may affect the timeliness and costs of the project.	L	H	M		n/a		(6 months' notice)
11	Operational	Poor availability of service may result in dissatisfaction with the service and this may affect the users and produce adverse feedback to the Department.	M	H	H		n/a		Continuous monitoring/ monthly reports
12	Operational	Poor performance of service may result in dissatisfaction with the service and this may affect the users and produce adverse feedback to the Department.	M	H	H		n/a		Continuous monitoring/ monthly reports
13	Operational	Greater than expected volume/demand for required services may result in dissatisfaction with the service and this may affect the users and produce adverse feedback to the Department.	M	H	H		n/a		Continuous monitoring/ monthly reports
14	Operational	Higher than expected operating costs may result in an unprofitable contract which may affect the contractual agreement.	M	H	H		100k		Continuous monitoring/ monthly reports
15	Operational	Unexpected change in required services may result in additional costs which may affect the overall benefits.	M	H	H		n/a		Continuous monitoring/ monthly reports
16	Operational	Increased costs or late delivery may result in lower than anticipated benefits	M	H	M		n/a		Continuous monitoring/ monthly reports

Risk Ref	Risk Category	Risk Description	Prob	Impact	Risk Rating	Risk Allocation & Owner	Risk Budget	Main Risk Countermeasure	Risk Review
		which may affect the Department.							
17	Operational	Technology obsolescence in respect of underpinning service assets may result in a poorer than expected delivery which may affect the users and produce adverse feedback to the Department.	M	M	M		n/a		Continuous monitoring/ monthly reports
18	Operational	Poor control of the operational services may result in a poorer than expected delivery which may affect the users and produce adverse feedback to the Department.	M	M	H		n/a		Continuous monitoring/ monthly reports
19	Operational	Changes in relevant legislation may result in unanticipated changes to the system which may affect the overall costs and timeliness of the project.	L	H	M		n/a		Continuous monitoring/ monthly reports
20	Operational	A change in government policy may result in a lack of revenue funding which may affect the overall costs and timeliness of the project.	L	M	L		n/a		Continuous monitoring/ monthly reports
21	Termination	A major unanticipated issue may result in the requirement for early termination of the contract which may affect both private and public sector sides.	L	H	M		n/a		As required
22	Termination	Inappropriate contract award may result in Departmental lock-in to the	M	H	H		n/a		Annual Service Reviews

Risk Ref	Risk Category	Risk Description	Prob	Impact	Risk Rating	Risk Allocation & Owner	Risk Budget	Main Risk Countermeasure	Risk Review
		appointed supplier(s) which may affect the facility to improve benefits.							
23	Termination	Inappropriate contract negotiations may result in lower than expected residual value of assets which may affect the department's accounts.	M	M	M		n/a		n/a
24	Termination	Poor quality work on the business case may result in a poor business case for replacement of the services which may affect the delivery of the project in a timely and cost efficient manner.	L	H	M				n/a

Check your answers with those on page 70.

7. Suggested Answers to Activities

7.1. Activity 1 – SMART Objectives

All answers are for discussion but the expected answers would be as shown below.

Miss IM Possible's Working Group of key stakeholders (business, user and technical representatives) scoped the following investment objectives in conjunction with an Investment Logic Mapping (ILM) exercise.

- Investment Objective 1 (Economy) - to put in place arrangements for reducing the cost of services by between 15 to 25%, through enabling economies of scale, by year 4.
- Investment Objective 2 (Efficiency) – to improve the throughput and provision of services and supplies by between 15 to 25%, through the deployment and use of better processes, by year 3.
- Investment Objective 3 (Effectiveness) – to improve the quality of services and supplies, in accordance with relevant standards, by year 2.
- Investment Objective 4 (Replacement) – to replace existing arrangements for the provision of services and supplies, as and when they require to be re-procured and/or terminated early in order to create critical mass and economies of scale.

There is potentially a 5th Investment Objective (Conformance) which relates to the need to conform to health and safety standards, environmental standards, etc. The Working Group, however, considered that "compliance" was more of a critical success factor for the project on this occasion than an investment objective; because this was not an outcome that we were seeking to achieve per se.

7.2. Activity 2 – Benefits and Risks

All answers are for discussion but the expected answers would be as shown below.

Benefits

The anticipated outcomes and benefits to be derived from this project are as follows:

Investment Objectives	Key Benefit by Stakeholder Group
Investment Objective 1 – Reducing procurement cost	<u>Departments</u> Price reductions and operational savings Procurement savings Closer working relationships <u>Service providers and suppliers</u> Larger contracts and procurements Lower procurement costs Market place more organized <u>Public</u> Opportunity cost savings – in terms of other services Taxpayers' monies spent more effectively
Investment Objective 2 – Improving efficiency	<u>Departments</u> Procurement time savings More responsive suppliers and services Reduced processes and costs

Investment Objectives	Key Benefit by Stakeholder Group
	Enhanced Change Management Enhanced Management Information <u>Service providers and suppliers</u> Streamlined procurements <u>Public</u> More responsive public services
Investment Objective 3 – Improving quality	<u>Departments</u> More standardized services. Full compliance with environmental policies and guidelines <u>Service providers and suppliers</u> More “value” services <u>Public</u> Environmental enhancements
Investment Objective 4 – Replacement of existing contracts	<u>Departments</u> Fewer contracts <u>Service providers and suppliers</u> Larger accounts <u>Public</u> Greater transparency (e.g. FFI)

A potential dis-benefit is that small and medium sized enterprises (SME) are likely to find it more difficult and competitive to retain and gain Government contracts for the procurement of services and supplies.

Risk Areas

Risks fall into three main categories: business, service and external. Business related risks remain with the public sector and can never be transferred. Service related risks occur in the design, build and operational phases of a project and may be shared between the public and private sectors. External environmental risks relate to society and impact on the economy as a whole.

The generic types of risk that are likely to be encountered within these categories are broadly as follows:

Generic Risks	Description
Business Risk	The risk that the organization cannot meet its business imperatives.
Reputational risk	The risk that there will be an undermining of customer/media perception of the organization’s ability to fulfill its business requirements; e.g. adverse publicity concerning an operational problem.
Service Risks	The risk that the service is not fit for purpose.
Design risk	The risk that design cannot deliver the services to the required quality standards.
Planning risk	The risk that the implementation of a project fails to adhere to the terms of the planning permission or that detailed planning cannot be obtained; or, if obtained, can only be implemented at costs greater than in the original budget.

Generic Risks	Description
Build risk	The risk that the construction of physical assets is not completed on time, to budget and to specification.
Project intelligence risk	The risk that the quality of initial intelligence (e.g. preliminary site investigation) is likely to impact on the likelihood of unforeseen problems occurring.
Decant risk	The risk arising in accommodation projects relating to the need to decant staff/clients from one site to another.
Environmental risk	The risk that the nature of the project has a major impact on its adjacent area and there is a strong likelihood of objection from the general public.
Procurement risk	The risk that can arise from the contractual arrangements between two parties; e.g. the capabilities of the contractor and when a dispute occurs.
Operational risk	The risk that operating costs vary from budget ur that performance standards slip or that services cannot be provided.
Availability and performance risk	The risk that the quantum of service provided is less than that required under the contract.
Demand risk	The risk that the demand for a service does not match the levels planned, projected or assumed. As the demand for a service may be partially controllable by the public body concerned, the risk to the public sector may be less than perceived by the private sector.
Volume risk	The risk that actual usage of the service varies from the levels forecast.
Occupancy risk	The risk that a property will remain untenanted – a form of demand risk
Maintenance risk	The risk that the costs of keeping the assets in good condition vary from budget.
Technology risk	The risk that changes in technology result in services being provided using sub-optimal technical solutions.
Funding risk	The risk that the availability of funding leads to delays and reduced changes in scope as a result of reduced monies.
Residual value risk	The risk relating to the uncertainty of the values of physical assets at the end of the contract period.
External Environmental risks	The risks faced by society as a whole.
Economic risk	The risk that project outcomes are sensitive to economic influences; e.g. where actual inflation differs from assumed inflation rates.
Legislative risk	The risk that legislative change increases costs. This can be divided into secondary legislative risk (e.g. changes to corporate taxes) and primary legislative risk (e.g. specific changes which affect a particular project).
Policy risk	The risk of changes in policy direction leading to unforeseen change. Again, this can be general to all and specific.

Constraints

The main constraints are:

- the associated project resources – both budget and availability of personnel with the required competencies and capabilities; and
- the agreed timescales for implementation and service improvement.

Dependencies

The main dependencies are:

- the willingness of departments to work closely and collaboratively together over time, which will require a cultural shift;
- the continued support of Cabinet Ministers and senior officials; and
- the responsiveness of the supply side to what is proposed.

7.3. Activity 3 – CSFs, and Long and Short Lists

All answers are for discussion but the expected answers would be as shown below.

Critical Success Factors

These were agreed at a recent workshop between Government departments as follows:

CSF1: Business Needs - How well the option meets the operational requirements of departments, both in the short, medium and long terms.

CSF2: Strategic Fit - How well the option provides strategic alignment, holistic fit and synergy between departmental business strategies.

CSF3: Benefits Optimization - How well the option generates benefits and optimizes potential value for money (VFM) across Government departments.

CSF4 Potential Achievability – How well the option can be implemented successfully across Government departments, with due regard to the associated risks and uncertainties; particularly with regard to existing contract arrangements.

CSF5 Supply side capacity and capability – How well the option, in turn, meets the aspirations and resources of the private sector, in terms of its ability to be able to conclude a "win win" scenario.

CSF6 Potential Affordability – How well the option makes use of available monies and, in turn, mitigates the need for additional funds.

Options Framework

Service Category	Realistic range of "main" possible Options			
1. Scope – potential number of departments to be included.	1.1 Status Quo – existing arrangements	1.2 "Do Minimum" – 2 Departments	1.3 "Intermediate scope" - anything between 3 and 9 Departments	1.4 "Do Maximum" - All Departments (10)

Service Category	Realistic range of "main" possible Options			
Assessment	Carried Forward – VfM benchmark	Discounted – insufficient critical mass	Preferred Way Forward – 3 main spending Depts	Discounted - in short-term
2. Solution – potential range of services	2.1 "Do Minimum" – Utilities only	2.2 Utilities and building services	2.3 Utilities, building services, telecommuni-cations and IM&T	2.3 Utilities, building services, telecommunications, IM&T, travel, catering and vehicles
Assessment	Carried Forward - VfM benchmark	Preferred Way Forward - covers wide content	Carried Forward – but risky & expensive	Discounted – too ambitious
3. Delivery – potential service providers	3.1 In house	3.2 Outsource	3.3 Strategic Partnerships	
Assessment	Carried Forward	Carried Forward	Carried Forward	*Too early to tell. Leave to further Full Study*
4. Implementation	4.1 Big Bang	4.2 Phased		
Assessment	Discounted - impractical	Preferred Way Forward		*Phased is the only practical solution.*
5. Funding	5.1 Private Funding	5.2 Public Funding		
Assessment	Carried Forward	Carried Forward		*Test both in the marketplace for VfM*

The Long List: Inclusions and Exclusions

The long-list has appraised a wide range of possible options.

Options	Finding
1.0 Scope	
1.1 "Do Nothing"	Carried Forward
1.2 "Minimum Scope" – 2 departments	Discounted
1.3 "Intermediate Scope" – 3 departments	Preferred Way Forward
1.4 "Maximum Scope" – All departments	Discounted
2.0 Service Solutions	

Options	Finding
2.1 “Do Minimum” – Utilities	Carried Forward
2.2 Utilities and Building Services	Preferred Way Forward
2.3 Utilities, Building Services, Office Supplies, and Telecoms/IM&T	Carried Forward
2.4 Utilities, Building Services, Office Supplies, Telecoms/IM&T, Travel, Catering and Vehicles	Discounted
3.0 Service Delivery	
3.1 In-house	Carried Forward
3.2 Outsource	Carried Forward
3.3 Strategic partnership	Carried Forward
4.0 Implementation	
4.1 “Big Bang”	Discounted
4.2 “Phased”	Carried Forward
5.0 Funding	
5.1 Private Funding	Carried Forward
5.2 Public Funding	Carried Forward

Short-listed Options

On the basis of this analysis, the recommended short-list for further appraisal within the Full Business Case (FBC) is as follows:

Option 1 – the “do nothing” or “status quo” option.

Option 2 – the Preferred Way Forward based on the preferred choices within each of the above categories as follows:

Business Scope – Three departments (1.3).

Service Solution – Utilities and Building Services (2.2).

Service Delivery – Outsource. (3.2).

Implementation – Phased – 18 months (4.2).

Funding – Public with variant bids permitted during procurement. (5.1).

Option 3 – Preferred Way Forward – more ambitious option - based on the more ambitious possible options within each of the above categories as follows:

Business Scope – Three departments (1.3).

Service Solution – Utilities, Building Services, Office Supplies, Telecoms and IM&T (2.3).

Service Delivery – Strategic Partner (3.3).

Implementation – Phased (4.2).

Funding – Private (5.2).

Option 4 - the Reference Project or Outline Public Sector Comparator (PSC) – less ambitious option - based on the less ambitious options within each of the above categories as follows:

Business Scope – Three departments (1.3).

Service Solution – Utilities (2.1).

Service Delivery – In-house (3.1).

Implementation – Phased – 18 months (4.2).

Funding – Public (5.1).

7.4. Activity 4 – Gateway Reviews and Workshops

All answers are for discussion but the expected answers would be as shown below.

Use of Gateways Reviews

Gate	Where used
Starting Gate	For policies.
0 – Strategic Assessment	For programmes on a rolling basis.
1 - Business Justification	For projects, prior to approval of the SOC.
2 – Delivery Strategy	For projects, prior to the approval of the OBC.
3 – Investment Decision	For projects, prior to approval of the Implementation Plan and contract signature.
4 – Readiness for Service	Prior to the commencement of service as per Implementation Plan
5 – Benefits Realisation	As agreed within the Implementation Plan and supported within the Benefits Realisation Plan

Recommended Workshops for the development of the Business Case

Experience demonstrates that the business case is best developed over time through a number of workshops, involving key stakeholders, customers and users, at the critical phases of its development. This adds immeasurably to the robustness of the Case and, consequently, to the approval and successful delivery of the scheme.

The number of workshops required will depend upon the complexity of the Project; but in most instances will be required to close-off the following aspects:

1. Developing the Case for Change
2. Assessing the options
3. Developing the Reference Project/ Outline Public Sector Comparator
4. Developing the deal
5. Determining the delivery arrangements
6. Assessing the potential service providers and solutions

Workshop 6 is generally undertaken as part of the procurement process, in conjunction with the organization’s Procurement Group.

Workshop	Objectives	Key participants	Outputs
Workshop 1: Determining the Case for Change and Options for Service Delivery (SOC Stage)	To define and agree business needs, potential scope and investment objectives To define and agree desired outcomes and service outputs To define and agree the CSFs and benefit criteria for assessing the options To identify the potential options for service delivery	Senior Responsible Owner Board Members Programme Director Project Manager External Stakeholders or Commissioners Customer and/or User representatives Technical Adviser Financial Adviser Facilitator	SMART Investment Objectives Business needs and potential scope CSFs and Benefit Criteria Long list of Options Fundamentals of the SOC
Workshop 2: Assessing the Options (SOC/OBC stage)	To sift the Long-list and generate the Short-list To identify and assess the potential costs, benefits and risks associated with the Short listed options	External Stakeholders or Commissioners Director of Finance Economic Adviser Customer and/or User representatives Project Manager Facilitator	Short-listed options with preliminary assessment Outline benefits realization plan Inputs for Economic Appraisal
Workshop 3: Developing the Reference Project/ Outline PSC (OBC stage)	To develop the PSC To address all relevant issues, including risks, affordability and implementation.	External Stakeholders or Commissioners Director of Finance Economic Adviser Customer and/or User representatives Project Manager Facilitator	Preliminary PSC with indicative costs Fundamentals of the economic and financial cases
Workshop 4: Developing the Deal (OBC stage)	To develop the service specification To develop the apportionment of risk and underpinning payment mechanisms To develop the proposed contract	External Stakeholders or Commissioners Director of Finance Economic Adviser Customer and/or User representatives Project Manager Facilitator	Preliminary Risk Allocation matrix (RAM) Potential Deal Fundamentals of the Commercial Case
Workshop 5: Successful Delivery (OBC stage)	To develop the Procurement Strategy To develop the Project Plan To develop supporting strategies (for change management and contract management etc)	External Stakeholders or Commissioners Director of Finance Economic Adviser Customer and/or User representatives Project Manager Facilitator	Procurement Strategy Management and delivery arrangements Post evaluation arrangements

7.5. Activity 5 – Risk Mitigation

All answers are for discussion but the expected answers would be as shown below.

Common cause of project failure	Stage	Questions to be answered in full at each stage and revisited thereafter
Lack of clear links between the project and the organisation's key strategic priorities, including agreed measures of success	SOC	• Do we know how the priority of this project compares and aligns with our other delivery and operational activities? • Have we defined the critical success factors (CSFs) for the project? • Have the CSFs been agreed with the key stakeholders? • Is the project founded on realistic timescales taking into account any statutory lead times, and showing critical dependencies such that any delays can be handled?
	OBC	• Are the lessons learnt from relevant projects being applied? • Has an analysis been undertaken of the effects of any slippage in time, cost, scope or quality? In the event of a problem/conflict at least one must be sacrificed.
	FBC	• Have the CSFs been agreed with the service provider(s)? • Do we have a clear project plan that covers the full period of the planned delivery and all business change required, and indicates the means of benefits realisation?
Lack of clear senior management and ministerial ownership and leadership	SOC	• Does the project management team have a clear view of the inter-dependencies between projects, the benefits, and the criteria against which success will be judged? • If the project traverses organisational boundaries are there clear governance arrangements to ensure sustainable alignment with the business objectives of all organisations involved? • Are all proposed commitments and announcements first checked for delivery implications? • Does the Senior Responsible Owner (SRO) have a suitable track record of delivery? Where necessary, is it being optimised through development and training?
	OBC	• Are decisions taken early on, decisively and adhered to, in order to facilitate successful delivery? • Does the project have the necessary approval to proceed from its nominated Minister either

Common cause of project failure	Stage	Questions to be answered in full at each stage and revisited thereafter
		directly or through delegated authority to a designated SRO?
	FBC	• Does the SRO have the ability, responsibility and authority to ensure that the business change and business benefits are delivered?
Lack of effective engagement with stakeholders	SOC	• Have we identified the right stakeholders? • Have we, as intelligent customers, identified the rationale for doing so (for example, the why, the what, the who, the where, the when and the how)? • Have we secured a common understanding and agreement of stakeholders' requirements? • Does the business case take account of the views of stakeholders, including customers/users?
	OBC	• Do we understand how we will manage stakeholders (for example, ensure buy-in, overcome resistance to change, allocate risk to the party best able to manage it)? • Has sufficient account been taken of the subsisting organisational culture?
	FBC	• Whilst ensuring that there is clear accountability, how can we resolve any conflicting priorities?
Lack of skills and proven approach to project management and risk management	SOC	• Is there a skilled and experienced project team with clearly defined roles and responsibilities? If not, is there access to expertise, which can benefit those fulfilling the requisite roles?
	OBC	• Are the major risks identified, weighted and treated by the SRO, the director, and project manager and/or the project team? • Has sufficient resource, financial and otherwise, been allocated to the project, including an allowance for risk? • Do we have adequate approaches for estimating, monitoring and controlling the total amount of expenditure on projects? • Are the governance arrangements robust enough to ensure that 'bad news' is not filtered out of progress reports to senior managers? • If external consultants are used, are they accountable and committed to help ensure the successful and timely delivery?
	FBC	• Do we have effective systems for measuring and tracking the realisation of benefits in the business case?

Common cause of project failure	Stage	Questions to be answered in full at each stage and revisited thereafter
Too little attention to breaking development and implementation into manageable steps	OBC	• Has the approach been tested to ensure that it is not 'big bang' (for example, IT enabled projects)? • Has sufficient time been built in to allow for planning applications in property and construction projects etc? • Have we done our best to keep delivery timescales short so that change during development is avoided? • Have enough review points been built in so that the project can be stopped if changing circumstances mean that the business benefits are no longer achievable or no longer represent value for money (VFM)?
	FBC	• Is there a business continuity plan in the event of the project delivering late or failing to deliver at all?
Evaluation of proposals driven by initial price rather than long-term value for money (especially securing delivery of business benefits)	OBC	• Is the evaluation based on whole-life VFM, taking account of capital, maintenance and service costs? • Do we have a proposed evaluation approach that allows us to balance financial factors against quality and security of delivery? • Does the evaluation approach take account of business criticality and affordability? • Is the evaluation approach business driven?
Lack of understanding of, and contact with the supply industry at senior levels in the organisation	OBC	• Have we tested that the supply industry understands our approach and agrees that it is achievable? • Have we checked that the project will attract sufficient competitive interest? • Are senior management sufficiently engaged with the industry to be able to assess supply side risks? • Do we have a clear strategy for engaging with the industry or are we making sourcing decisions on a piecemeal basis? • Are the processes in place to ensure that all parties have a clear understanding of their roles and responsibilities, and a shared understanding of desired outcomes, key terms and deadlines? • Do we understand the dynamics of the industry to determine whether our acquisition requirements can be met, given potentially competing pressures in other sectors of the economy?

Common cause of project failure	Stage	Questions to be answered in full at each stage and revisited thereafter
	FBC	• Have we asked suppliers to state any assumptions that they are making against their proposals?
Lack of effective project team integration between clients, the supplier team and the supply chain	OBC	• Has a market evaluation been undertaken to test market responsiveness to the requirements being sought? • Are the procurement routes that allow integration of the project team being used? • Is there early supplier involvement to help determine and validate what outputs and outcomes are being sought for the project?
	FBC	• Has a shared risk register been established? • Have arrangements for sharing efficiency gains throughout the supply team been established?

7.6. Activity 6 – Benefit Criteria

All answers are for discussion but the expected answers would be as shown below.

Question 1

Investment Objective	Key Benefit by Stakeholder Group	Benefit Criteria
Investment Objective 1 – Reducing procurement cost	<u>Departments</u>	
	Price reductions and operational savings	Cash Releasing (CRB)
	Procurement savings	Cash Releasing (CRB)
	Closer working relationships	Qualitative (Q)
	<u>Service providers and suppliers</u>	
	Larger contracts and procurements	CRB – Indirect
	Lower procurement costs	CRB – Indirect
	Market place more organized	Qualitative (Q)
	<u>Public</u>	
	Opportunity cost savings – in terms of other services	CRB – Indirect
	Taxpayers' monies spent more effectively	CRB - Indirect
Investment Objective 2 – Improving efficiency	<u>Departments</u>	
	Procurement time savings	Non CRB
	More responsive suppliers and services	Qualitative
	Reduced processes and costs	Non CRB
	Enhanced Change Management	**Qualitative**
	Enhanced Management Information	**Qualitative**
	<u>Service providers and suppliers</u>	
	Streamlined procurements	CRB – Indirect

Investment Objective	Key Benefit by Stakeholder Group	Benefit Criteria
	<u>Public</u> More responsive public services	 Qualitative - indirect
Investment Objective 3 – Improving quality	<u>Departments</u> **More standardized services.** Full compliance with environmental policies and guidelines <u>Service providers and suppliers</u> More “value” services <u>Public</u> Environmental enhancements	 **Qualitative** Qualitative Qualitative – indirect Qualitative - indirect
Investment Objective 4 – Replacement of existing contracts	<u>Departments</u> Fewer contracts <u>Service providers and suppliers</u> Larger accounts <u>Public</u> Greater transparency (e.g. FFI)	 CRB Non CRB – indirect Qualitative - indirect

Question 2

Three further benefits are included in the above table:

- Enhanced change management as a result of fewer and (hopefully) better contractual arrangements and processes;
- Enhanced management information as a result of common datasets across public sector procurements;
- More standardized services as a result of more cross cutting and collaborative procurements.

These additions are NOT exhaustive and reflect peoples’ subjective views.

Question 3

There seems to be enormous scope for the doubling counting of benefits. Some examples are shown below.

Investment Objective 1:

- Larger contracts and procurement and lower procurement costs on the part of service providers and suppliers.
- Opportunity cost savings and improved use of taxpayers’ monies on the part of the Public.

Investment Objective 2:

- Procurement time savings and reduced processes and costs on the part of Departments.

Investment Objective 3:

- Full Compliance with environmental standards from the viewpoint of Departments and an improved environment from the standpoint of the public.

Investment Objectives 1 and 4:

- Procurement savings (IO1) and Fewer Contracts (IO4) for Departments

Investment Objectives 1, 2, 3 and 4:

- Larger contracts and procurements (IO1), streamlined procurements (IO2), increased "value" services" (IO3) and larger accounts (IO4) on the part of service providers and suppliers.

Question 4

Examples of benefits that might be excluded from the appraisals:

- exclude the cash releasing benefits (CRB) that fell indirectly to service providers, suppliers and the public as a result of the scheme from the Economic Appraisals, given that there was no empirical evidence available for calculating the value of these benefits to the Nation and that, in their view, the costs associated with doing so would be disproportionate in terms of the scheme and effort required;
- exclude the qualitative benefits falling to the public from the multi criteria analysis (MCA) of the short listed options on this occasion.

7.7. Activity 7 – Multi-Criteria Analysis

All answers are for discussion but the expected answers would be as shown below.

Question 1

The Project Manager invited participants to attend in accordance with PRINCE2 principles. A range of users, business and technical staff were invited in consequence. These included:

- Directors of Finance and Procurement
- Directors of Planning and Estates
- Office managers
- The Business Case Author

Question 2

The Workshop identified the following qualitative benefits as a result of shared services:

1. Enhanced management information; because it was considered that a shared service would provide common data sets from which to extrapolate standardize information capable of more meaningful comparison.
2. Enhanced change management; because it was considered that fewer and more robust contractual arrangements would enable service change to be more effectively managed and enacted through agreed processes and benchmarks.
3. Closer working arrangements; because it was considered that fewer contracts and service providers would enable these arrangements to be forged over time.
4. Compliance with environmental standards; because there would be a commitment to deliver services in accordance with best practice.
5. More responsive suppliers; because as a result of more collaborative working arrangements, greater critical mass and economies of scale.
6. Marketplace more organised; because of fewer transactions and more longer term strategic arrangements.

Question 3

Qualitative Benefit	Weight (%)	Option 1 Status Quo		Option 2 Outsource		Option 3 Strategic Partner		Option 4 PSC: In-house	
		Score	Weighted Score	Score	Weighted Score	Score	Weighted Score	Score	Weighted Score
Improved management Information	30	5	150	7	210	8	240	6	180
Improved change management	25	3	75	5	125	7	175	4	100
Closer working relationship	20	2	40	5	100	7	140	4	80
Compliance with environmental policies	15	7	105	6	90	6	90	8	120
More responsive suppliers	5	0	0	5	25	5	25	7	35
Better organised marketplace	5	0	0	5	25	5	25	5	25
Total	100		370		575		695		540
Ranking		4		2		1		3	

Rationale:

1. Improved management information was considered to be the single most important benefit (30%) - twice as important as compliance with environmental policies (15%), nearly as important as improved change management (25%) and closer working relationships (20%).
2. Improved change management (25%) and closer working relationships (20%) were considered to account for half of the weights (100%) to be assigned.
3. Compliance with environmental policies (15%) was considered to be three times more important than either more responsive suppliers (5%) or a better organised market place (5%), which it was considered did not account for more than 10% of the weightings.

7.8. Activity 8 – Economic Appraisals

All answers are for discussion but the expected answers would be as shown below.

1. The Economic Appraisals

The key learning points are as follows:

- Transfer Payments. The economic appraisals for Options 1 (Outsourcing) and Option 3 (Strategic Partnering) currently incorrectly include the costs of early retirement and redundancy in the first year of the project.
  These are payments for which no goods or services are received in respect of the payments made and, as such, should be excluded from the Economic Appraisals (the final sentence of Miss IM Possible's memorandum refers to their inclusion).

  In relation to the Economic Appraisals, see the staff costs for Building Services in Year O for Departments A and C, which include 3 times the annual salary cost for people departing on early retirement and redundancies. This is reflected in summary costs. The exclusion of these payments reduces the overall costs of outsourcing in Year 0 from $8,110,000 to $2,710,000 (option 2 refers); and the overall costs of strategic partnering from $9,160.000 to $2,360,000 (option 3 refers).
- The discount rate (for measuring social time preference) should be 3.5% rather than 6.0% (the previously used discount rate that in effect means that risks are being double counted given the inclusion of optimism bias).
- For the record, the NPV results are now as follows with Option 2 – Outsourcing – ranked 1st rather than 2nd choice.

Evaluation	Option 1- Status Quo	Option 2- Outsource	Option 3- Strategic Partner	Option 4- PSC: In-house
WLC - undiscounted	504,500,000	446,951,000	482,412,800	459,828,400
WLC – discounted 6%	432,021,693	385,737,570	416,104,768	396,764,955
NPV Ranking	4th	1st	3rd	2nd
Qualitative Benefits Score	370	575	695	540
Ranking	4th	2nd	1st	3rd

- Also, it should not be presumed that the Cabinet favours an outsourcing or strategic partnering solution and that these solutions are required in order to meet the target manpower reductions. Cabinet has simply requested that these solutions be considered in conjunction with current policy and public value.

2. MISS Feasibility and Full Studies

The key learning points are as follows:

- All sunk costs should be excluded from the Economic Appraisals: this includes the cost of Feasibility and Full Studies, together with all the other expended project costs.
- This does not, however, preclude outlining what has been spent to date.

3. Distributional Impact

The key learning points are as follows:

- The distributional impact of any intervention should always be considered and the extent to which it is sensible to examine this issue determined as part of the preparation of the scoping document in support of business case.
- The approach to appraisal should be prudent, proportionate and insofar as it is practicable supported by empirical evidence. In this instance, it is debatable as to whether the scheme will be of direct benefit to members of the public. The distributional impact of the spend has therefore been disregarded.

4. Tax receipts

The key learning points are as follows:

- In theory, these receipts should be taken into account when appraising outsourcing and strategic partnering solutions, particularly in the context of PPP/PFI (Private Finance) arrangements.
- In practice, these receipts are inherently difficult to predict and pre-suppose – often erroneously – that large corporations pay their taxes in the jurisdiction in which they make their sales and profit. We know from recent press that they don’t always!
- Given the preliminary appraisal results, this would not appear to be a critical issue in terms of the ranking of the various options. This issue has therefore been disregarded.

5. Staff Costs

The key learning points are as follows:

- Using actual cost data is always best, if it exists and/or can be amassed easily at proportionate cost
- In the absence of this, it is quite acceptable to use robust estimates and/or published data of the average cost. It should be made clear, though, whether this is based on the median, arithmetic average or the mode. And all sources and assumptions should be clearly recorded within the business case.

6. Differential Rates of Inflation

The key learning points are as follows:

- In certain circumstances, differential inflation rates are reflected in the Economic Appraisal, if they differ widely from the national forecast of the general rate of inflation.
- In practice, these issues are contractually agreed within the charging mechanism for the Deal, noted within the Commercial Case and reflected in the Financial Appraisals; and service provider(s) will reflect this risk in their pricing.

7. Depreciation

The key learning points are as follows:

- Depreciation should not be considered within the Economic Appraisals and has correctly been excluded.
- If the assets are owned by the private sector, this cost will be reflected in the prices charged for the required services.

8. Optimism Bias

The key learning points are as follows:

- All options are inherently uncertain – some more than others. On this basis, some allowance for optimism bias should also have been applied to Option 1 – the Status Quo.

- At this stage in the development of the business case, the focus should be on identifying and quantifying the individual risks, rather than on applying optimism bias in respect of uncertainty (unmeasured risk).

9. Attributable Costs

The key learning points are as follows:

- The capital costs that potential service providers incur in order to expand their capacity will be reflected in their prices.
- The additional jobs created in the private sector replace those lost in the public sector. There is therefore no additional economic activity that should be accounted for within the Economic Appraisals. In economics, this is referred to as displacement.

10. Staff and Energy Savings

The key learning points are as follows:

- All the costs and benefits have been correctly accounted for in the Economic Appraisals with the notable exception of the early retirement and redundancy costs referred to in item 1 above.
- The energy savings (55) are cash releasing and have been reflected in the revised costs rather than treated as “benefits” in relation to the status quo.
- Whilst the cost of staff retained (20%) and reallocated to fill vacancies elsewhere within the departments continues to be reflected within the Economic Appraisals, it is important to note that these costs have also been treated as a non cash releasing benefit (Non CRB) in order to reflect the opportunity cost – alternative value of their time.

7.9. Activity 9 – Apportioning Risk

All answers are for discussion but the expected answers would be as shown below.

Risk Ref	Risk Category	Risk Description	Prob	Impact	Risk Rating	Risk Allocation & Owner	Risk Budget	Main Risk Countermeasure	Risk Review
1	Business	A failure of the project may result in Reputational risk which may affect the Public Sector	L	H	M	Department: SRO - CEO	n/a	Use of best practice for service delivery Independent assurance Regular monitoring and review Contingency plan	Quarterly
2	Design	A poor choice of Supplier may result in an unacceptable result in the project which may affect the project deliverables.	L	H	M	Department: Procurement Team	n/a	Use of best practice for procurement Proven track record – reference sites Procurement Professionals	Procurement phase
3	Design	Poor specification of services may result in inappropriate delivery of services which may affect clients and staff of the service.	L	H	M	Shared Suppliers: Contract Manager Department: Ms Impossible	n/k	Use of best practice Technical assurance Gateway Review 4	Procurement Phase
4	Design and Build	Longer than expected timescale may result in financial penalties which may affect the spending authority and the eventual overall delivery.	M	L	M	Shared: as above		Use of best practice Technical assurance Gateway Review 4 (Go Live) Parallel Running of old and new systems Commercials – penalty payments for delays, bonus payments for early delivery where agreed.	Monthly Project Board
5	Design and Build	Poor Change Management may result in issues arising from changes which may affect the eventual outcome of the project.	M	H	H	Shared: as above	20k*	Use of best practice and benchmarks Technical assurance Specialist Consultancy support*	Monthly Project Board
6	Design and Build	Poor Project Management may result in delays or inappropriate activity which may affect the eventual outcome of the project.	L	H	M	Shared: as above	30k*	Qualified trained PRINCE2 Practitioners* Use of best practice Internal Audit Robust and detailed project plan	Monthly Project Board

Risk Ref	Risk Category	Risk Description	Prob	Impact	Risk Rating	Risk Allocation & Owner	Risk Budget	Main Risk Countermeasure	Risk Review
7	Design and Build	Higher than expected design and build costs of new systems and services may result in cost overruns which may affect the eventual benefits.	M	M	M	Shared: Contract Manager Department: DOF	100k	Departmental Contingency* (for dept obligations) Commercials: no payment to suppliers until successful delivery of the required services. Suppliers to meet higher than expected costs.	Monthly Project Board
8	Design and Build	Untrained users of the new systems and services may result in inappropriate or incorrect use the service which may affect the overall efficacy of the service.	L	M	M	Shared Suppliers: Contract Manager Department: Ms Impossible	30k	Commercials: suppliers to train the departmental users (numbers and personnel to be agreed), fixed price. Department to make arrangements for any additions* Qualified trainers and approved training materials	Monthly Project Board
9	Design and Build	Poor transitional arrangements may result in old systems not being replaced effectively which may affect the users of the service.	M	H	H	Shared: as above	n/a	Agreed plans Technical assurance Gateway Review 4 (Go Live)	Monthly Project Board
10	Operational	Poor working partnership with supplier may result in delays and other issues which may affect the overall delivery of the project.	M	H	H	Department: SRO Supplier: CEO	n/a	Quarterly meetings between SRO and CEO Monthly meeting between relevant Directors and Contract Managers – both sides Commercials: detailed service level agreements for monitoring performance.	Quarterly Service Meetings
11	Operational	A change of ownership on supply side may result in a change of supplier which may affect the timeliness and costs of the project.	L	H	M	Department: SRO Supplier: CEO	n/a	Commercials: break clause in the contract; requirement for early notification; contractual obligation to same (or improved) T&C's	(6 months' notice)
12	Operational	Poor availability of service may result in dissatisfaction with the service and this may affect the users and produce adverse feedback to the Department.	M	H	H	Supplier	n/a	Commercials: link to payment stream with penalties for poor availability and credits for better than expected availability where there is a demonstrable business benefit.	Continuous monitoring/ monthly reports

Risk Ref	Risk Category	Risk Description	Prob	Impact	Risk Rating	Risk Allocation & Owner	Risk Budget	Main Risk Countermeasure	Risk Review
13	Operational	Poor performance of service may result in dissatisfaction with the service and this may affect the users and produce adverse feedback to the Department.	M	H	H	Supplier	n/a	Commercials: link to payment stream with penalties for poor performance and credits for better than expected performance where there is a demonstrable business benefit.	Continuous monitoring/ monthly reports
14	Operational	Greater than expected volume/demand for required services may result in dissatisfaction with the service and this may affect the users and produce adverse feedback to the Department.	M	H	H	Shared: Contract Managers	n/a	Commercials: price this risk within the contract tariffs, with reduced prices for increased usage of the services	Continuous monitoring/ monthly reports
15	Operational	Higher than expected operating costs may result in an unprofitable contract which may affect the contractual agreement.	M	H	H	Shared: Contract Managers	100k	Contingency Reserve Commercials: transparent costing, with parties to bear their own risk, subject to agreed process for further negotiation (if required).	Continuous monitoring/ monthly reports
16	Operational	Unexpected change in required services may result in additional costs which may affect the overall benefits.	M	H	H	Department: Contract Manager	n/a	Commercials: agreed process and benchmark for unexpected change, with known possible changes to be priced at the outset.	Continuous monitoring/ monthly reports
17	Operational	Increased costs or late delivery may result in lower than anticipated benefits which may affect the Department.	M	H	M	Shared Contract Managers SRO/CEO.	n/a	Commercials: benefit realisation to be linked to payment stream (where possible), with bonuses for higher than expected delivery performance and penalties for poor delivery. Post implementation reviews Gate 5 (Benefit Realisation)	Continuous monitoring/ monthly reports
18	Operational	Technology obsolescence in respect of underpinning service assets may result in a poorer than expected delivery which may affect the users and produce adverse feedback to the Department.	M	M	M	Supplier	n/a	Commercials: link to the performance and availability of the service (thus incentivising suppliers to continuously invest in the required infrastructure).	Continuous monitoring/ monthly reports

Risk Ref	Risk Category	Risk Description	Prob	Impact	Risk Rating	Risk Allocation & Owner	Risk Budget	Main Risk Countermeasure	Risk Review
19	Operational	Poor control of the operational services may result in a poorer than expected delivery which may affect the users and produce adverse feedback to the Department.	M	M	H	Shared	n/a	Agreed quality management system Use of recognised quality standard (ISO 9001)	Continuous monitoring/ monthly reports
20	Operational	Changes in relevant legislation may result in unanticipated changes to the system which may affect the overall costs and timeliness of the project.	L	H	M	Shared	n/a	Suppliers to accept risks in relation to primary legislation. Commercials: remainder to be handled in accordance with unexpected change (see risk 16).	Continuous monitoring/ monthly reports
21	Operational	A change in government policy may result in a lack of revenue funding which may affect the overall costs and timeliness of the project.	L	M	L	Department: SRO	n/a	Further efficiency savings Development of alternative revenue streams (if possible and permissible) Bids for additional funds	Continuous monitoring/ monthly reports
22	Termination	A major unanticipated issue may result in the requirement for early termination of the contract which may affect both private and public sector sides.	L	H	M	Shared	n/a	Commercials: agreed framework, process and prices for early termination (on both sides)	As required
23	Termination	Inappropriate contract award may result in Departmental lock-in to the appointed supplier(s) which may affect the facility to improve benefits.	M	H	H	Department: SRO	n/a	Commercials: use of non-proprietary and standard products. Retention of intelligent customer focus	Annual Service Reviews
24	Termination	Inappropriate contract negotiations may result in lower than expected residual value of assets which may affect the department's accounts.	M	M	M	Supplier	n/a	n/a	n/a
25	Termination	Poor quality work on the business case may result in	L	H	M	Department		Use of the BBC method!	n/a

Risk Ref	Risk Category	Risk Description	Prob	Impact	Risk Rating	Risk Allocation & Owner	Risk Budget	Main Risk Countermeasure	Risk Review
		a poor business case for replacement of the services which may affect the delivery of the project in a timely and cost efficient manner.							

8. Appendix 1 - Sample Strategic Outline Case

Over the following pages are displayed the structure and content of the SOC of the project that has been the basis of most of the activities in this Practitioner seminar. This SOC should also be a useful reference for you in its own right.

Ministry for Infrastructure, Services & Supplies (MISS)

Strategic Outline Case (SOC) for the Portfolio of Services & Supplies (POSS) Project

Purpose of this document

The Government has set up the Ministry for Infrastructure, Services and Supplies (MISS) to streamline service provision and enable shared services, with resultant economies of scale and savings, across a wide range of departments.

The purpose of this Strategic Outline Case is to demonstrate strategic fit, to substantiate the case for change and to identify the preferred way forward in terms of the potential scope and coverage for the deployment of the new Ministry's services.

Following the agreement of senior officials, the next step will be to ascertain the associated costs and benefits in further detail and to outline the commercial, financial and management arrangements for successful delivery through the preparation of the Outline Business Case.

Structure and Content of the Document

This Strategic Outline Case (SOC) has been prepared using the agreed standard and format for Business Cases in Government Departments. This is the Five Case Model, which comprises of the following key components:

The Strategic Case, which sets out the Strategic Context and the Case for Change for the scheme.

The Economic Case, which demonstrates that the recommended way forward offers best value for money in terms of its economic and social cost, benefits and risks.

The Commercial Case, which outlines the anticipated procurement and commercial arrangements for the resultant Deal.

The Financial Case, which confirms the funding, affordability and balance sheet treatment of the scheme.

The Management Case, which confirms that the scheme is achievable and can be delivered in accordance with recommended best practice.

THE STRATEGIC CASE

Introduction

This section of the SOC provides an overview of the Ministry for Infrastructure, Services and Supplies (MISS); the department's emerging business strategy and programme, and the case for change in the initial project and related procurements.

Part A: The Strategic Context

Organizational Overview

The Ministry for Infrastructure, Services and Supplies is based in Wellington.

Its political head is the Hon. Simon Hacker (son of the late Jim Hacker, previously Prime Minister of the United Kingdom of Great Britain and Northern Ireland), whose Chief Executive Officer (CEO) is Humphrey Appleby.

The Department employs 113 Public Servants and makes use of external consultants. Attached at Annex 1 is a resume of the Department's mission, roles and responsibilities; together with the latest version of the organization chart.

MISS Business Strategy

The origins of the Department's business strategy are grounded within the Slack Review released in late 2010, which outlines how a $2 billion package of savings could be achieved across the Government and wider public sector.

Some changes have taken place across Government in support of the Slack Review; however, these have met with very limited success, as outlined by Parliamentary Bodies in recent review reports.

The Department's agreed business strategy is attached at Annex 2. This document outlines the existing arrangements across Government departments. In addition, it maps out the Department's vision for public sector procurement in the years ahead, together with the enabling programmes for change and their supporting projects. In other words, it addresses: "where we are now", "where we want to get to", and "how we will get there".

The status quo is characterized by a myriad of arrangements for the procurement of services and supplies across public sector organizations, which are described in further detail in the section dealing with existing arrangements.

Our vision and mission, in terms of where we want to be longer term, is to: reduce the costs of existing supplies and services, to improve the overall efficiency of the public sector procurement process; and to enhance the quality of resultant outcomes.

The business strategy is to enable this through more collaborative working across Government by making better use of our "procurement clout" en masse through the use of economies of scale, where appropriate, and more intelligent knowledge of the market place.

Implementation Strategy

The Ministry is charged with providing best practice to the entire public sector, which includes Local Authorities and the Health. However, its modus operandi in terms of the provision of potential services and supplies is limited to Central Government departments.

The intended implementation of the strategy is to phase in the centralized provision of services and supplies in accordance with the operational needs of departments and any other Bodies involved on a value for money (VfM) basis.

Commensurate with strategic alignment, operational needs and resultant value for money, this will be achieved through the Chief Strategist, Mr An Other's, Change Programme made up of four key phases and four constituent projects over a ten year time horizon:

- Phase 1 of the Change Programme will focus on a number of Central Government departments in the short term (Project 1);
- Phase 2 on their "arms length" bodies (if applicable) in the medium term (Project 2); and,
- Phase 3 on any remaining Government bodies in the longer term (Project 3), as agreed recently at a meeting of the Chief Executive Officers (CEOs).

Phase 4 has only been outlined at this stage and will focus on the potential for rolling out contracted services and supplies to the wider public sector, as permitted by existing legislation and developments over time in the machinery of Government.

This Strategic Outline Case (SOC) relates to Project 1 within the overall Programme. Its purpose is to ascertain the Department's portfolio of services and products to Government departments in the short, medium and long terms.

Other Organizational Strategies

These include the Department's internal strategies for human resources, estate management, information services, finance and continuous improvement.

The human resources strategy recognizes that the Department needs to update and improve its procurement skills and competencies base, in order to provide a leading edge and world class service. In large measure, it will do this through the adoption of the "Certificate of Procurement" as a core standard for staff development; secondments with private sector partners; and personal development plans linked to departmental aims and objectives.

The estates management strategy does not envisage the Department moving from its current premises in the short to medium term; however, in the longer term there is a need to address dispersal arrangements in line with existing Government policy.

The information services strategy for IS/IT makes clear that the Department requires to make a major investment in its supporting systems and, in particular, to address e-commerce/e-procurement solutions.

The financial strategy is predicated on no net additional cost falling to the public sector and, consequently, the recovery of costs for the provision of services and supplies provided by the Ministry.

Finally, the Department's strategy for continuous improvement is based on the LONGER Report, which recommends that people should work harder.

Part B: The Case for Change

Investment Objectives

The investment objectives for Portfolio of Services and Supplies (POSS) project are as follows:

- Investment Objective 1 (Economy) - to put in place arrangements for reducing the cost of services by between 15 to 25%, through enabling economies of scale, by year 4.
- Investment Objective 2 (Efficiency) – to improve the throughput and provision of services and supplies by between 15 to 25%, through the deployment and use of better processes, by year 3.
- Investment Objective 3 (Effectiveness) – to improve the quality of services and supplies, in accordance with relevant standards, by year 2.

- Investment Objective 4 (Replacement) – to replace existing arrangements for the provision of services and supplies, as and when current arrangements require to be procured and/or novated.

Existing Arrangements

Central Government departments have been defined by the CEO's meeting to be departments A, B, C, D, E, F, G, H, J and K. These range in both size and function. A resume of each department is included at Annex 3.

The existing arrangements for the provision of services, supplies and supporting infrastructure across Central Government departments are as follows:

Utilities

Each department currently procures its own utilities in the market place at various unit costs from different suppliers. Some pay on a usage basis at current price, whilst others have longer term contracts in place at agreed prices for future supply.

These utilities cover electricity, gas, oil and water rates. In some instance, more than one service is procured from a single supplier and, in others, on a one to one basis. Where Government departments share a single building the utility bill is either apportioned on an occupation basis or metered separately.

The annual cost to departments for their utilities is approximately $6,325,000.

Building Services

In the majority of cases, these are provided on a departmental, rather than building specific basis. The continuum of building services ranges from general maintenance; security; porterage; window cleaning; office cleaning; lifts and escalator maintenance; to maintenance of the fabric of the building. It also, in some instances, includes arrangements for office moves and organizational changes (major and minor).

In some cases, services are provided in-house; but in the majority of cases they have either been outsourced or are provided under fixed priced maintenance contracts with some small allowance for change.

The annual cost to departments for their building services is approximately $60,500,000.

Telecoms and IM&T

In some cases, telecommunications support is provided through the Government's own telephone service, which includes the network, the cost of desktop devices (telephones) and call charges. In other cases, departments have elected to either procure telephone communication services as part of their IM&T service solutions; or to purchase direct from a national supplier.

The annual cost to departments for their telecommunication services and call charges is approximately $14,000,000.

Information management and technology services are provided across a wide spectrum of delivery arrangements. These range from long term Public Private Partnership (PPP), Private Finance Initiative (PFI) deals; to other outsourced arrangements, with varying degrees of the deployment of services (software development, maintenance etc.) being undertaken in-house. In some cases the supporting infrastructure is owned by the Government department, in others it forms an integral part of the service and is accounted for on the balance sheet of the provider.

The annual cost to departments for their information management and technical services is approximately $30,000,000.

Office Supplies

Office supplies include stationery, printing, postage and (now) the occasional photocopier. The majority of these services and supplies are procured on a departmental specific basis from multiple suppliers in the market place, with the occasional framework for stationery and other office suppliers in place.

The annual cost to departments for their office supplies is approximately $6,175,000.

Travel

All departments have outsourced their travel and hotel arrangements to Booking Agencies. There are three major Booking Agencies in the market place, all of whom have some exposure to Government and are contracted for under three to five year contracts which have accrued significant operational savings through discounts in recent years.

The annual cost to departments for their travel and hotel arrangements is approximately $6,100,000.

Catering

In the past, catering services across Government departments were mainly provided by the Capital Catering Service (CCS), an in house service which has since been disbanded in order to meet Government manpower targets.

The majority of departments' catering arrangements – which cover canteens, refreshments and teas and coffees for meetings, etc. – are now provided on a departmental and building specific basis by multiple small and medium sized enterprises (SME's). The quality of these arrangements is monitored and managed through Service Level Agreements (SLAs) which have reduced costs, improved efficiency and quality, with no reported deaths or instances of food poisoning.

The annual cost to departments for their catering arrangements is approximately $2,950,000 – a significant amount of which is attributable to "teas and biscuits" throughout the working day.

Vehicles

Ministerial vehicles and those in place for senior officials (CEO's) are provided by the Government Car Service (GCS), which leases the vehicles and employs drivers direct in most cases for security reasons. The fleet was replaced in 2011.

Unlike its counterparts in the private sector, Government departments have very few arrangements in place for the provision of leased cars to staff, preferring to rely on relatively mean mileage allowances for the use of private vehicles in the execution of public duties.

The annual cost to departments for vehicles is approximately $1,975,000.

Others

No remaining services and supplies of any significant value have been identified thus far. As and when they are, they will be assigned to any one of the above categories or included under separate headings, as appropriate.

Business Needs

These broadly relate to the following business drivers and imperatives as follows:

Cost reductions

On departmental specific basis, there is evidence to suggest that the Government is not "paying over the odds" for services and supplies. However, the prices and unit costs vary significantly, with too many losers.

There is thus a pressing need for the public sector to make greater use of its economies of scale and "procurement clout" in the market place to solicit further significant cost reductions through more collaborative cross Government procurements.

This was previously, as noted, recognized by the Slack Review. The MISS project's preliminary investigations suggest that the savings could be higher and in the order of 15% to 25% based on the price variances for the amounts currently spent on water, gas and electricity.

Efficiency gains

Again, on an individual basis, there is some evidence to suggest that Government departments have made significant efficiency gains in recent years. However, this is not true of all parties, many of whom need to match the track record of the best in terms of their procurement processes and timescales.

There is thus a pressing need for Government departments to make better use of "just in time", electronic purchases (e-government), using the latest technology and credit arrangements from pre-competed deals in order to streamline processes and shorten timescales.

In addition, there are numerous instances where as many as four separate departments share a building with multiple departmental contracts in place for similar services. The MISS project's preliminary investigations suggest that potential savings could be in the order of 15% to 25% of existing spend.

Quality improvement

The services and products procured by Government departments are generally "fit for purpose" and "conform to requirements", and are thus of the required quality in terms of their functionality and use. However, in many instances they are not eco-friendly and do not conform to the latest environmental guidelines.

There is thus the need to improve quality by ensuring that all services and goods are "sustainable" in terms of the environment, and for Government to be a market leader, exemplar, and "centre of best practice" in this regard.

Replacement

There are some 200 individual contracts in place across Government for the supply of goods and services. Some of these are large, whilst others are of relatively low value.

There is thus the need to aggregate contracts across departmental boundaries, as and when these contracts come up for renewal, in order to reduce procurement costs, improve efficiencies and ensure quality gains. A Working Party chaired by Mr Winner from the State Services Commission (SCS) is currently in place to ascertain the potential mergers and reductions.

Potential Scope

This may be assessed upon a continuum of need, ranging from:

- The number of Government departments to be included in the initial scheme – Departments A, B, C, D, E, F, G, H, J and K refer.
- The number of services which could include any of the following: utilities; building services; telecoms and IM&T; office supplies; travel; catering; and vehicles.

A potential wide range of realistic choices has been further considered and appraised within the long list of the Economic Case.

Main Outcomes and Benefits

The anticipated outcomes and benefits to be derived from this project are as follows:

Investment Objectives	Key Benefit by Stakeholder Group
Investment Objective 1 – Reducing procurement cost	<u>Departments</u> Price reductions and operational savings Procurement savings Closer working relationships <u>Service providers and suppliers</u> Larger contracts and procurements Lower procurement costs Better organized market place <u>Public</u> Opportunity savings – in terms of other services Improved use of taxpayers' monies
Investment Objective 2 – Improving efficiency	<u>Departments</u> Procurement time savings More responsive suppliers and services Reduced processes and costs <u>Service providers and suppliers</u> Streamlined procurements <u>Public</u> More responsive public services
Investment Objective 3 – Improving quality	<u>Departments</u> Full compliance with environmental policies and guidelines <u>Service providers and suppliers</u> Increased "value" services <u>Public</u> Improved environment
Investment Objective 4 – Replacement of existing contracts	<u>Departments</u> Fewer contracts <u>Service providers and suppliers</u> Larger accounts <u>Public</u> Increased transparency (e.g. FFI)

A potential dis-benefit is that small and medium sized enterprises (SME) are likely to find it more difficult and competitive to retain and gain Government contracts for the procurement of services and supplies.

Main Risks

The main risks associated with the potential scope for this project are shown below, together with their countermeasures.

Main Risk	**Countermeasures**
Design and development risks - supplier - specification - timescale - change management - project management	
Build and Implementation risks - supplier - timescale - specification & data transfer - cost risks - change management - project management - training & user - transition	
Operational risks - supplier - availability - performance & volumes - operating costs - change management - benefits realisation - variability of revenue - Technology & obsolescence - Control - Legislation - Funding	
Termination risks	

Constraints

The main constraints are:

- the associated project resources – both budget and availability of personnel with the required competencies and capabilities; and
- the agreed timescales for implementation and service improvement.

Dependencies

The main dependencies are:

- the willingness of departments to work closely and collaboratively together over time, which will require a cultural shift;
- the continued support of Cabinet Ministers and senior officials; and
- the responsiveness of the supply side to what is proposed.

THE ECONOMIC CASE

Introduction

In accordance with the requirements of Treasury's recommended Best Practice, this section of the SOC documents the wide range of realistic options that have been considered in response to the potential scope identified within the Strategic Case.

Critical Success Factors (CSFs)

These were agreed at a recent workshop between Government departments as follows:

- CSF1: Business Needs - How well the option meets the operational requirements of departments, both in the short, medium and long terms.
- CSF2: Strategic Fit - How well the option provides strategic alignment, holistic fit and synergy between departmental business strategies.
- CSF3: Benefits Optimization - How well the option generates benefits and optimizes potential value for money (vfm) across Government departments.
- CSF4: Potential Achievability – How well the option can be implemented across Government departments, with due regard to the associated risks and uncertainties and existing contract arrangements.
- CSF5: Supply side capacity and capability – How well the option can be delivered by the Private Sector in relation to the services and underpinning assets required.
- CSF6: Potential Affordability – How well the option meets the "affordability envelope" for the scheme.

The Long-Listed Options

The long list of options was generated by Miss IM Possible's Workshop in accordance with the best practice. The evaluation was undertaken in accordance with how well each option met the investment objectives and critical success factors (CSFs) agreed earlier for the scheme.

The list of departmental attendees is attached to the SOC. Unfortunately, however, most of the people invited were unable to attend, because the agreed date for the workshop, 6 February, coincided with Remembrance Day. The SRO, Humphrey Appleby did, however, send his best wishes for a successful outcome; as did the Departmental Executives on the Project Board, their Deputies and their Deputies' Deputies for the Day.

Using the Options Framework, the Workshop generated options for the following key categories of choice:

Scoping Options – the main choices for departmental coverage ("what" in terms of potential players – "whose is in, whose is out"). There is a range of ten key departments which could be included.

Solution Options – the main choices for the service solution ("what" in terms of the required outcomes). There is a potential range of seven key service categories which could be included.

Service Delivery Options – the main choices for delivery ("who" in terms of service provision). These range from in-house provision to outsourcing and privatization.

Implementation Options – the main choices for the delivery timescale ("when" in terms of service provision).

Funding options – the main choices for the financing of the scheme.

Scoping Options

Introduction

This range of options considers the number of departments that might potentially be involved in the initial phase of the programme (project 1), commensurate with the need to: optimize vfm; maintain strategic alignment and meet business needs and operational requirements.

On the basis of their respective spend, the Working Group considered that departments' expenditure could be potentially ranked as follows:

- Large spending departments: over $20 million per annum;
- Medium spending departments: between $10 and $20 million per annum
- Small spending departments: up to $10 million per annum.

On this basis, Departments A, B and C were considered to be Large Spending Departments; Departments D, E, F and G, as medium spending departments; and Departments H, J and K, as small spending Departments.

The identified scoping options were:

- Option 1.1 - "do nothing" - maintaining the status quo.
- Option 1.2 – the "minimum" scope: two departments included within the initial phase.
- Option 1.3 – the "intermediate" scope: between three and nine departments included within the initial phase.
- Option 1.4 – "maximum" scope: all ten departments included within the initial phase.

Option 1.1: "Do Nothing"

Description

This option describes a continuance of the status quo (see "existing arrangements) with departments procuring individually for the required services and supplies.

Advantages and Disadvantages

There are no advantages to maintaining the status quo, other than the avoidance of any changes and risks associated with service improvement.

The main disadvantages are, however, potentially considerable and relate chiefly to the missed opportunities for further service improvements and efficiency gains; and the opportunity cost of release funds for use elsewhere within the public service.

Conclusion

This option does not meet any of the MISS project's investment objectives and, thus, does not in the view of the Working Group represent a viable and sustainable way forward. It has thus been discounted as a realistic way forward for the future deployment of services but retained as the benchmark for value for money, in accordance with Treasury best practice.

Option 1.2 "Do Minimum" scope

Description

In this instance, the "do minimum" would be for two departments – most probably the two largest - to form a partnership in order to achieve the project's initial investment objectives in the short term. This arrangement could be regarded as a pilot scheme of sorts.

Advantages and Disadvantages

The main advantage of proceeding with the scheme on the basis of two key departments is that it would enable a "quick win", through effecting some service improvement whilst managing the attendant service risks; and provide the platform on which other departments could join, as and when they were ready dependent upon the outcome of the initial pilot scheme.

The main disadvantages are: the lack of impetus and relatively low level of service improvement and benefits this option would provide, together with the low level of interest this change would probably attract in the market place and across Government departments.

Conclusion

This option meets some of the investment objectives and critical success factors set for the MISS project. However, it does not significantly contribute to optimising potential service improvements and efficiency gains and has thus been discounted by the Working Group as providing sufficient scope and critical mass for the early adoption of the MISS Project.

Option 1.3 "Intermediate" scope for improvement

Description

The Working Party recognises that the "intermediate" range of options could potentially include from three to nine departments. On the basis of its preliminary findings of departmental spend, the Working Party decided that this option should presently constitute the three largest spending departments, in order to provide the required critical mass and potential economies of scale, whilst managing the organisational and operating risks associated with incorporating medium and small spending departments within the initial scope of the project.

Advantages and Disadvantages

The main advantage of this option is that the three largest spending departments (A, B and C) would, in the view of the Working Group, provide the necessary critical mass and turnover of spend to realise credible service improvements and significant efficiency gains, whilst maintaining the momentum of the scheme, managing the risks and engaging the interest of the general public, the media, and the supply side in accordance with Ministerial wishes.

The main disadvantage of this option is that it limits the scheme initially to the three largest spending departments rather than to an alternative number of departments, which could be configured for the initial scope of the scheme in order to amass the critical mass regarded as being vital to the early success of the scheme.

Conclusion

The Working Group considered that this option met the investment objectives and the critical success factors for the MISS Project at this stage in its development, whilst managing the associated business and service risks. This consideration was guided by the Pareto 20:80 Principle. Accordingly, it has been agreed that an intermediate scope predicated upon on the three Largest Spending Departments (A, B and C), which currently account for 70% of the overall spend, should be carried forward into the short list for further examination. This option also represents the Working Party's preferred way forward at this stage.

Option 1.4 – "Maximum" scope

Description

This option is based on the maximum number of departments (ten) that could be included in the initial scope for the project at phase 1.

Advantages and Disadvantages

The main advantage of this option is that all Government departments would be included in the initial phase of the project and the desired reforms completed within an earlier time horizon, with the maximum potential delivery of service benefits.

The main disadvantage of this option is the considerable risk that this approach represents given the diverse organisational, operational and contractual arrangements currently in place.

Conclusion

Whilst the Working Group considered that this option met the investment objectives of the MISS Project in full, it considered that any potential service benefits would be more than offset by the significantly greater business and service risks that this approach would entail, particularly in relation to the achievability of the scheme.

On this basis, the Working Group has concluded that this option should be discounted as an achievable way forward in practice; particularly given a phased implementation is currently recommended by the State Services Commission as being best practice in relation to the majority of schemes.

Overall Conclusion: Scoping Options

The recommended option at this stage is to pursue Option 1.3 (3 departments); to discount Options 1.2 (2 departments) and 1.4 (10 departments); and to carry forward Option 1.1 (Do Nothing) as the benchmark for value for money.

The Table below summarizes the assessment of each option against the investment objectives and critical success factors for the project.

Reference to:	Option 1.1	Option 1.2	Option 1.3	Option 1.4
Description of option:	"Do Nothing" - Status Quo	Minimum: 2 Depts	Intermediate: 3 Depts	Maximum: 10 Depts
Investment Objectives				
1. Economy	Poor	Adequate	Good	Excellent
2. Efficiency	Poor	Adequate	Good	Excellent
3. Quality	Poor	Adequate	Good	Excellent
4. Replacement	Poor	Adequate	Good	Excellent
Critical Success Factors				
Business Need	Poor	Adequate	Good	Excellent
Strategic Fit	Poor	Adequate	Good	Excellent
Benefits Optimisation	Poor	Adequate	Excellent	Good
Potential Achievability	N/A	Excellent	Excellent	Poor
Supply-Side Capacity & Capability	N/A	Excellent	Excellent	Poor
Potential Affordability	N/A	Adequate	Excellent	Adequate
Summary	C/F	Discounted	Preferred	Discounted

Service Solutions Options

Introduction

This range of options considers the potential range of service streams which could be incorporated within the preferred scope, currently consisting of the three main spending departments (see option 1.3 above).

The Working Group considered that the potential range of services could be assessed on a continuum, ranging from the "do minimum" (utilities) to all eight of the service streams identified within the potential scope for the scheme (see: strategic case). These were as follows:

The identified service solution options were:

- Option 2.1 – "do minimum" – Utilities
- Option 2.2 – Intermediate 1 - Utilities and Building Services
- Option 2.3 – Intermediate 2 - Utilities, Building Services, Office Supplies and Telecommunications/IM&T
- Option 2.4 – "Maximum" - Utilities, Building Services, Office Supplies, Telecommunications/IM&T, Travel, Catering and Vehicles

Option 2.1 – "do minimum" – Utilities

Description

The Working Group considered that the minimum range of services that could be included in this category were the utilities – electricity, gas and water.

Advantages and Disadvantages

Departments have already gone some way towards seeking to rationalizing the numbers of suppliers, to standardizing costs and making better use of economies of scale. The main advantage of this option is, therefore, that it builds on an existing momentum and direction of travel, and is eminently achievable.

The main disadvantage is that this range of services only accounts for some $6 million per annum (less than 5% of the total departmental expenditure).

Conclusion

This option addresses all of the investment objectives set for the project and meets most of the critical success factors (CSF's). However, reducing the number of service providers and the standardizing unit costs for these services would only constitute limited progress in terms of the initial programme and make a marginal impact on overall spend.

This option remains a tenable way forward and has therefore been carried forward as the "do minimum" and benchmark for value for money for the scheme.

Option 2.2 – Intermediate 1 - Utilities and Building Services

Description

This option consists of utilities (the minimum scope for the scheme), in addition to building services which covers a plethora of services ranging from: minor refurbishments; general maintenance; security; porterage; window cleaning; office cleaning; lifts and escalator maintenance, to repairs to the fabric of buildings. In also includes arrangements for office moves, which can range from major to minor changes.

Advantages and Disadvantages

The main advantage of this option is that it includes the largest single item of departmental spend (building services), which in addition to utilities accounts for over 50% of all departmental expenditure; or 36% when restricted to the three major spending departments. It also limits the number of potential stakeholders - typically office services communities within Government departments - to a manageable, knowledgeable and established brigade of people.

The main disadvantage is that it could be regarded as being the safe option in terms of the way forward and insufficiently ambitious in terms of the scheme.

Conclusion

The Working Group considered that this option met the investment objectives and critical success factors set for the project and would provide sufficient service mass for the scheme, potentially leading to significant savings, moving forward.

On this basis, the Working Group recommends that this option should be carried forward for further appraisal in the short list of the Outline Business Case (OBC).

Option 2.3 – Intermediate 2 - Utilities, Building Services, Office Supplies and Telecommunications/IM&T

Description

In addition to utilities and building services (option 2.2), this range of services includes office supplies, telecoms and departmental information management and technology (IM&T).

Office supplies includes: stationery, printing, postage and the occasional photocopier. Telecommunications includes switchboards, switchboard operators, directories and all the services that enable desktop devices (telephones). IM&T includes: the wide ranging provision of information technology, including local area networks (LAN's) and wide area networks (WAN's); software development and aspects of database management.

Main Advantages and Disadvantages

The main advantage of this option is that these services account for 87% of total spend in departments and 60% of total departmental spend in relation to the designated three departments. Consequently, it would make a major contribution towards maximizing the impact of the project in the short term, both in terms of what Ministers are seeking to achieve, the resultant publicity and potential savings.

The main disadvantage is that this scope could be deemed to be overly ambitious and high risk, given the existing issues surrounding information technology and, to a lesser extent, telecoms – which are highly complex and innovative business areas that might be difficult to tailor generically. Early indications are that some existing departmental contracts for telecoms and IM&T will be extremely costly to contractually suspend (novate) early.

Conclusion

The Working Group considered that this option met the investment objectives and critical success factors for the project and would help maximize the desired outcomes and benefits early on in the life of the Project. However, if unsuccessfully delivered, it was also recognised that this option could lead to severe business and service disruption. Nonetheless, it is recommended that this option should be carried forward for further consideration in the Outline Business Case (OBC), given it represents the direction of travel across Government departments in the medium term.

Option 2.4 – Do Maximum - Utilities, Building Services, Office Supplies, Telecommunications/IM&T, Travel, Catering and Vehicles

Description

This option represents the maximum range of services that could be included within the scope of the project. In addition to utilities, building services, office supplies and telecoms/IM&T, it includes arrangements for travel, catering and vehicles.

Advantages and Disadvantages

The main advantage of including all the potential services streams within the immediate scope for services is that in relation to the three main spending departments, this expenditure accounts for nearly 80% of all departmental spend and thus potentially significant cost savings in the early years.

The main disadvantages of this option mirror Option 2.3 above. More specifically, departments currently have well established arrangements in place for travel, catering and vehicles, which do not represent the highest priority for the Project and would be costly to terminate where currently outsourced under best value.

Conclusion

The Working Group considered that whilst this option clearly meets all of the investment objectives and critical success factors set for the project, it is overly ambitious and too high risk to attempt to implement the anticipated change across the full range of identified services. It has, therefore, been discounted as a realistic way forward in the short term; although all of these services will be required to be addressed longer term.

2.5.2 Overall Conclusion: Potential Service Solutions

On the basis of the above SWOT analysis, Option 2.1 has been carried forward as the "do minimum" and benchmark for value for money; Option 2.2 is considered the preferred way forward to be implemented within three key departments; Option 2.3 has been carried forward for further consideration in the medium term; and, Option 2.4 discounted as being too overly ambitious for phase 1 on the project.

The Table and narrative below summarizes the assessment of each option against the investment objectives and critical success factors.

Reference to:	Option 2.1	Option 2.2	Option 2.3	Option 2.4
Description of option:	"Do Minimum"	Intermediate Range 1	Intermediate Range 2	Maximum Service Solution Set
Investment Objectives				
1. Economy	Poor	Good	Excellent	Excellent
2. Efficiency	Poor	Good	Excellent	Excellent
3. Quality	Poor	Good	Excellent	Excellent
4. Replacement	Poor	Good	Excellent	Excellent
Critical Success Factors				
Business Need	Poor	Excellent	Good	Good
Strategic Fit	Poor	Good	Excellent	Excellent
Benefits Optimisation	Poor	Excellent	Good	Good

Potential Achievability	Excellent	Excellent	Excellent	Poor
Supply-Side Capacity & Capability	Excellent	Excellent	Excellent	Adequate
Potential Affordability	Excellent	Excellent	Poor	Poor
Summary	C/F	Preferred	C/F	Discounted

Service Delivery Options

Introduction

This range of options considers the available choices for service delivery in relation to the three main departments (scoping option 1.3) and required services (service solution option 2.2).

In accordance with the Minister's instructions, this SOC does not consider the potential for further privatisation of departmental services, given the Ball's Review (conducted by Ed Balls, Chief Economist to UK Treasury) concluded that it was neither possible not desirable to privatise Central Government.

The options that have been examined by the Working Group are as follows:

- Option 3.1 – In-house provision – a combination of what we currently do "in house", in addition to possibly bringing in house services currently out sourced on strategic, operational and best value grounds, including further opportunities for more collaborative working across Government departments.
- Option 3.2 – Outsource - a combination of what we currently "outsource", in addition to the further outsourcing of services currently provided in house on strategic, operational and best value grounds, including opportunities for more collaborative working across Government departments. These options include facilities management and restrict private sector involvement to the operational content of services.
- Option 3.3 – Strategic Partnership - further opportunities for more strategic partnering arrangements between the public and private sectors, where there is evidence that this has worked well in the past elsewhere. These options include Public Private Partnership (PPP) arrangements and enable the private sector to influence the future development of services at the business level.

Option 3.1 - In-house

Description

Many aspects of service delivery are retained in-house. For example, the commissioning and payment of utilities; minor aspects of building services; the purchase of office supplies; the deployment and use of telecoms; and, in some instances, aspects of travel, catering and the running of the Government car fleet.

From a high level perspective, this option considers whether we should continue to provide services in house; and, if so, whether there is potential for making greater use of economies of scale, through more collaborative working across departments. For example, by a single department providing leadership and hosting the required services in a multi departmental occupied buildings; or "office services" being provided through departmental communities of best practice (centres of excellence).

Advantages and Disadvantages

The main advantage with continuing to provide service delivery in-house is that it enables Government departments to retain an "intelligent customer function". This has proven to be of considerable benefit in recent years, especially where the cost of outsourcing contracts has risen significantly relative to in-house costs.

The main disadvantage of this option is that it is increasingly difficult to recruit and retain people with the required capabilities and professional competencies in an increasingly competitive market place. This is unlikely to always be the case; especially as the economy slows down.

Conclusion

The continued and expanded use of in-house staff to run existing and future services is viable, particularly with regard to building services and office supplies. However, the Working Group considers that the future use of in-house staff should be examined and appraised on a "case by case" basis; and that further consideration should be given to building cross-departmental Communities of Expertise, where more collaborative working is feasible on operational and economic and financial grounds.

This option has, therefore, been carried forward for closer examination in a Full Study to be commissioned in support of the Outline Business Case (OBC).

Option 3.2 Outsource

Description

In common with a recent trend across the public and private sectors, many of the activities associated with business operations, maintenance and the running of office services and accommodation have been "outsourced" over the years.

This option considers the potential for further outsourcing on value grounds; particularly in the context of departmental services which could be brought together in order to improve synergies and provide sufficient critical mass to be of attraction to the private sector.

Advantages and Disadvantages

The main advantage of outsourcing is that it has helped Government departments and their agencies to focus on their core business functions, and to pass associated service risks to the party best able to manage them. Continuing this trend and reducing the number of outsourced contracts in place could lead to improved value for money through reduced service charges as a consequence of increased economies of scale.

The main disadvantage is that outsourcing contracts have proved difficult and expensive to renegotiate, where major and minor changes to services are required during the contractual period. In addition, they have also resulted in some degree of "supplier lock-in" and a consequent lack of competition on retendering. Moreover, further arrangements for the brigading and bundling of existing and future arrangements for more collaborative working on an outsourced basis might entail significant operational and business disruption and result in additional cost where existing contracts require to be terminated early in order to provide economies of scale. Significant culture change would also be required on behalf of both the public and private sectors.

Conclusion

In the main, existing outsourcing arrangements relates to telecommunications and IM&T within Government departments. The Working Party considered more could be done to outsource the provision of utilities and building services through a single service provider for departments; particularly within single buildings or defined geographic locality.

This option has, therefore, been carried forward for closer examination in the Full Study to be commissioned in support of the Outline Business Case (OBC).

Option 3.3 Strategic Partnership

Description

In recent years, some Government departments considered progressing from outsourcing arrangements towards longer term, more holistic and flexible strategic partnering arrangements. In these instances, the strategic partner would typically take responsibility for providing all of the required services through a single "outsourcing" arrangement, rather than multiple contracts and move towards to becoming a business partner rather than service provider per se.

Advantages and Disadvantages

The main advantages are similar to the outsourcing option above. However, strategic partnering arrangements allow for improved working arrangements, based upon more aligned strategic business objectives over a longer period of time, leading to better operations and reduced costs through a single contract.

The main disadvantage is that strategic partnering arrangements, by definition, are more complex and take longer to put in place. There is also the added danger that outsourced arrangements, which are working well, will be severely disrupted.

Conclusion

The Working Group considered that this was a high risk strategy given no department has put in place a strategic partnership for all of its required services: utilities; building services; office supplies; telecoms and IM&T) under a single arrangement. It was also considered that this arrangement might be more pertinent to Human Resource (HR) and Financial Management functions rather than to office functions per se. These services are currently outside of the scope of the programme.

The Working Group acknowledged, however, the considerable advantages that might accrue to departments as a result of breaking down departmental barriers and making enhanced use of strategic partnerships for services across geographical areas and locations.

This option has, therefore, been carried forward for closer examination in the Full Study to be commissioned in support of the Outline Business Case (OBC).

Overall Conclusion: Service Delivery

The Table below summarizes the assessment of each option against the investment objectives and critical success factors.

The Working Group considered: first, that any recommendation regarding a more radical approach to service delivery should be subject to the Full Study in support of the OBC; second, that any current outsourcing arrangements which were working well should be retained for their contracted duration; and third, longer term, departments should adopt a more collegiate approach to the provision of services based on public value.

Reference to:	Option 3.1	Option 3.2	Option 3.3
Description of options:	Inhouse	Outsource	Strategic Partnership
Investment Objectives			
1. Economy	Adequate	Adequate	Good
2. Efficiency	Adequate	Adequate	Good
3. Quality	Adequate	Adequate	Good
4. Replacement	Adequate	Adequate	Good

Critical Success Factors			
Business Need	Adequate	Good	Good
Strategic Fit	Adequate	Adequate	Excellent
Benefits Optimisation	Poor	Good	Excellent
Potential Achievability	Excellent	Good	Poor
Supply-Side Capacity & Capability	Adequate	Good	Poor
Potential Affordability	Good	Poor	Adequate
Summary	C/F	C/F	C/F

Implementation Options

Introduction

This range of options considers the available choices for implementation in relation to the preferred scope, solution and method of service delivery.

At this stage of the analysis, the preferred way forward consists of three key departments for potential scope; utilities and building services for potential service solution in the short term, to be delivered either on existing in-house, further outsource or strategic partnering basis.

The implementation options agreed by the Options Workshop were as follows:

- Option 4.1 "Big Bang" – Implementation of the required services (utilities and building services), within the three departments, during a single phase encompassing six to twelve months, with any additional services (telecoms and IM&T, office supplies, etc.) to be delivered in subsequent phases.
- Option 4.2 "Phased" – Implementation of the required services (utilities and building services) on a modular basis across the three departments on a 'department by department' basis, over an 18 month period, beginning with utilities and ending with building services.

Option 4.1 "Big Bang"

Description

This option assumes that the reconfiguration of the required services - utilities and building services – could be implemented during a single phase, encompassing six to twelve months, within the three key departments, with any additional services (telecoms and IM&T, office supplies, etc.) being delivered in subsequent phases.

Advantages and Disadvantages

The findings of the earlier feasibility study concluded that utilities could be rationalised and co-ordinated quickly, with the minimum of disruption to existing operations. It also concluded, however, that the rationalisation of building services would be more fraught and complex.

On this basis, it should be possible to adopt a 'Big Bang' approach to the co-ordination of utilities. The main advantages would be the delivery of significant savings and an early "win" for the project. Correspondingly, the main disadvantage of including building services in this approach is that it would significantly increase the risks associated with the considerable amount of effort required to bottom out and redesign services within a relatively short timeframe.

Conclusion

This is that the “Big Bang” approach to the delivery of the required services should be limited to the reconfiguration and renegotiation of utilities across three key departments, in the first six to twelve months of the project. On this basis, it is recommended that this option should be discounted because it does not satisfy the preferred scope for the project.

Option 4.2 “Phased”

Description

This option adopts a modular (utilities then building services) and phased approach (department by department) over a 12 to 18 month period.

Advantages and Disadvantages

The main advantage is that this approach aligns with the direction of travel recommended within the recent feasibility study report, and consequently would assist to mitigate and minimise the associated project risks and any other potential disruptions to the day to day management of the Government departments involved.

The main disadvantage would be the denial of an early ‘win’ and the prolonged delivery of associated costs savings and operational benefits.

Conclusion

It is recommended that this option should be carried forward into the OBC short list, since the modular and phased approach recommended best practice for the successful delivery of major projects.

Overall Conclusion: Implementation

The Table below summarizes the assessment of each option against the investment objectives and critical success factors for the project in its initial stage and concludes that the “Phased” option should be carried forward into the short list of the OBC.

Reference to:	Option 4.1	Option 4.2
Description of options:	“Big Bang”	“Phased”
Investment Objectives		
1. Economy	Good	Adequate
2. Efficiency	Good	Good
3. Quality	Good	Good
4. Replacement	Good	Good
Critical Success Factors		
Business Need	Adequate	Good
Strategic Fit	Adequate	Good
Benefits Optimisation	Good	Good
Potential Achievability	Excellent	Good
Supply-Side Capacity & Capability	Excellent	Good
Potential Affordability	Excellent	Excellent
Summary	Discounted	C/F

Funding Options

Introduction

This range of options considers the choices for funding and financing in relation to the preferred scope, solution, method of service delivery and implementation.

These are as follows:

- Option 5.1: Private Finance – using private capital to meet the cost of any underpinning infrastructure and assets in support of operational services in lieu of revenue based service charges. This is referred to as “alternative funding”.
- Option 5.2: Public Funding – using public capital to meet the cost of any underpinning infrastructure and assets required in support of operational services.

Option 5.1 Private Funding

Description

Under this option, the required services might be provided on a PPP (PFI) basis from a single service provider or consortium made-up of potential service providers on the private sector side. The assets underpinning the provision of services would be an integral part of the service and indistinguishable within the resultant service charge. All elements of the service would be within the potential scope of the deal.

The risks associated with the provision of the required services would be placed with the party – either public or private – best placed to manage them. In all cases, the assets would remain on the balance sheet of the Government.

Advantages and Disadvantages

The main advantage of this option is that the public sector could potentially improve value for money through the transfer of service risk and the more collaborative procurement of the required services, particularly in the longer term.

The main disadvantage of this option is that it would involve a complex and lengthy re-procurement of existing services, which in itself would introduce significant project risks and require fundamental cultural change across Government departments. In addition, the Working Group considered that there was very little scope for the use of private finance in the short term given the limited scope of the scheme.

The Working Group has, however, paid close attention to the potential for private funding, given that many aspects of building services, principally office refurbishment and maintenance, could be taken forward using this funding method. Using the following criteria for assessing the eligibility of public sector investment schemes against private funding arrangements, the results were as show in the following table:

	High	Medium	Low
1. Output/Service-delivery driven	✓		
2. Substantial operating content within the project		✓	
3. Significant scope for additional/alternative uses of the asset			✓
4. Scope for innovation in design		✓	
5. Surplus assets intrinsic to transaction			✓
6. Long contract term available	✓		
7. Committed public sector management		✓	

8. Political sensitivities are manageable		✓	
9. Risks primarily commercial in nature		✓	
10. Substantial deal	✓		
11. Complete or standalone operations to allow maximum synergies		✓	
Note: *none of these conditions will themselves guarantee success but they point to a particular direction and allow for a more informed decision*			

Conclusion

The Working Group concluded that utilities could not be publicly funded. However, given that some major office refurbishment and major maintenance schemes could be funded on this basis, it was considered that this option should be carried forward for further examination; particularly given some future services, for example, vehicles, could potentially be funded on this basis; and that any contractual arrangements for Departments A, B and C in the short-term could be negotiated to include provision to other Government departments and other parts of the public sector.

Option 5.2 Public Funding

Description

This option assumes the continuation of the status quo, whereby the provision of utilities and the vast majority of building services, including refurbishments, are funded on a public basis. This includes outsourcing arrangements not taken under the auspices of the PPP (PFI).

Advantages and Disadvantages

The main advantage of continuing to publicly fund utilities and building services, and longer term other services, would be to potentially avoid locking Government into arrangements within which it might prove difficult to negotiate “unexpected” service change; particularly in relation to any diminutions in the required services.

The main disadvantages of this option are that public funding necessarily ties up scarce capital for any assets required to underpin the provision of services; does not necessarily place service risk with the party best placed to manage that risk.

Conclusion

The Working Group concluded that all services should be subject to market testing and that the decision on their funding arrangements should be decided strictly on the basis of public value in the first instance. On this basis, it has been agreed to test the efficacy of continued public funding against that of private finance within the Outline Business Case (OBC).

2.9 The Long Listed: Inclusions and Exclusions

The long-list has appraised a wide range of possible options.

Options	Finding
1.0 Scope	
1.1 “Do Nothing”	Carried Forward
1.2 “Minimum Scope” – 2 departments	Discounted
1.3 “Intermediate Scope” – 3 departments	Preferred Way Forward
1.4 “ Maximum Scope” – All departments	Discounted
2.0 Service Solutions	

2.1 “Do Minimum” – Utilities	Carried Forward
2.2 Utilities and Building Services	Preferred Way Forward
2.3 Utilities, Building Services, Office Supplies, and Telecoms/IM&T	Carried Forward
2.4 Utilities, Building Services, Office Supplies, Telecoms/IM&T, Travel, Catering and Vehicles	Discounted
3.0 Service Delivery	
3.1 In-house	Carried Forward
3.2 Outsource	Carried Forward
3.3 Strategic partnership	Carried Forward
4.0 Implementation	
4.1 “Big Bang”	Discounted
4.2 “Phased”	Carried Forward
5.0 Funding	
5.1 Private Funding	Carried Forward
5.2 Public Funding	Carried Forward

Short-listed Options

Overview

The “preferred” and “possible” options identified in Table above have been carried forward into the short-list for further appraisal and evaluation. All the options that were “discounted” as impracticable have been excluded at this stage.

On the basis of this analysis, the recommended short-list for further appraisal within the Outline Business Case (OBC) is as follows:

- Option 1: the “do nothing” or “status quo”. This reflects the existing situation within Government departments and provides the benchmark for Value for Money (VfM).
- Option 2: the Preferred Way Forward. This is based on the totality of the preferred choices within each of the above categories and represents the preferred and recommended way forward. In technical jargon, it is often referred to as the Reference Project or Public Sector Comparator (PSC).
- Option 3 - the Preferred Way Forward – more ambitious option. This is based on the Preferred Way Forward and any more ambitious possibilities for the scheme within each of the above categories of choice
- Option 4 - the Preferred Way Forward – less ambitious option. This is based on the Preferred Way Forward and any less ambitious possibilities for the scheme within each of the above categories of choice

Option 1 – the “do nothing” or “status quo”.

The costs associated with the ten Government departments (A – K) for all the relevant services (ranging from utilities; building services, telecoms and IM&T; office services; travel; catering and vehicles) are shown at Annex 1.0. These costs have been gathered by the MISS Feasibility study under the leadership of Miss I M Possible. In total, it is estimated that the above departments spend in the order of $128 million per annum on these services.

The long list has concluded that phase one of the MISS project should be confined to the following components:

- Business Scope – Three Government departments, A B and C.
- Service Solution – Utilities, Building Services, Telecoms and IM&T and office supplies.

These services are currently delivered through a wide variety of sourcing mechanisms ranging from in-house to outsource to PPP/PFI arrangements. The MISS Feasibility Study estimates that we currently spend in the order of 81.5 million per annum on these services within the three departments – see Annex 1.1, which provides the baseline for this scheme and any future improvements.

Option 2 – the Preferred Way Forward

This option is based on the preferred choices within each of the above categories as follows:

- Business Scope – Three departments (1.3).
- Service Solution – Utilities and Building Services (2.2).
- Service Delivery – Outsource. (3.2).
- Implementation – Phased – 18 months (4.2).
- Funding – Public with variant bids permitted during procurement. (5.1).

The MISS Feasibility Study estimated that we are currently spending in the order of 46.2 million per annum on these services within departments A, B and C. Through the transfer of services from existing in-house service provision to multiple outsource arrangements, the Study concluded that it would be possible to save in excess of 5 million per annum (11.65% of current spend).

Most of these savings relate to the 260 plus staff currently engaged in supporting building services. It is not envisaged that these staff would be made redundant or retired early. The expectation is that they would be redeployed within the three departments, A, B and C, and made available, where necessary, to other Government departments.

This option is the preferred choice for investment at this stage. It entails some business and service risks, which has been accounted for within the allowance applied for optimism bias (20% from an upper limit of 41% to reflect the proportion of services already outsourced). It also entails setting up the MISS project, which will require in the order of ten staff at an estimated cost of 500,000 per annum.

Option 3 – Preferred Way Forward – more ambitious option

This option is based on the more ambitious possible options within each of the above categories as follows:

- Business Scope – Three departments (1.3).
- Service Solution – Utilities, Building Services, Office Supplies, Telecoms and IM&T (2.3).
- Service Delivery – Strategic Partner (3.3).
- Implementation – Phased (4.2).
- Funding – Private (5.2).

The MISS Feasibility Study estimated that we are currently spending in the order of 81.5 million per annum on these services within departments A, B and C. Through the transfer of services from existing in-house service provision and multiple outsource arrangements to a single contract with a strategic partner on a PPP (PFI) privately financed basis, the Study concluded that it would be possible to save in the order of 17 million per annum (20.8% of current spend).

Most of these savings relate to a reduction of 424 staff engaged in supporting these services across departments A, B and C, principally in building services and IM&T. Of this number it is envisaged that 200 staff would be transferred to the strategic partner, whilst the remaining 224 staff were redeployed within departments A, B and C, or elsewhere.

This option is, however, inherently high risk and uncertain. For this reason an allowance of 25% (from the upper limit of 41%) has been applied to the costs, resulting in an overall saving of 193,000 per annum, or 0.23% of existing costs. It also entails setting up the MISS project, which will require in the order of fourteen staff at an estimated cost of 700,000 per annum.

Option 4 - the Reference Project or Outline Public Sector Comparator (PSC) – less ambitious option

This option is based on the less ambitious options within each of the above categories as follows:

- Business Scope – Three departments (1.2).
- Service Solution – Utilities (2.1).
- Service Delivery – In-house (3.1).
- Implementation – Phased – 18 months (4.2).
- Funding – Public (5.1).

The MISS Feasibility Study estimated that we are currently spending in the order of 4.2 million per annum on utilities (gas, water, electricity and oil) within departments A, B and C. Through the transfer of services from existing departmental contracts for individual supplies to individual contracts for shared services, the Study concluded that it would be possible to save in excess of 655,000 per annum (15.5% of current spend).

This option entails very little service risk. There are, however, some uncertainties around future fuel costs and the discounts that may be attained in the market place. For this reason optimism bias has been applied at 5%. This option would not require a formal project but could be operationally delivered by the two members of staff who would host the shared service (for departments A, B and C) from department C.

THE COMMERCIAL CASE

Introduction

This section of the Strategic Outline Case (SOC) outlines the proposed Deal in respect of the preferred option outlined in the Economic Case.

This is for the provision of shared services for utilities and building services under a number of contracts for an anticipated 10 year period.

Required services

The core services required are as follows:

Utilities

This is for the provision of electricity, gas, oil and water as required by Departments A, B and C. Estimates of current expenditure are available from which potential service providers will be required to ascertain current, past and future volumes, in accordance with any departmental targets for future energy efficiency savings.

Building services

This is for the provision of building maintenance; window cleaning; landscaping; lifts and escalators and maintenance to the fabric of the buildings; in addition to security; porter and messenger services, as required by Departments A, B and C. Estimates of current expenditure are available from which potential service providers will be required to ascertain current, past and future usage.

Business Process Engineering (BPR)

In addition, the selected service providers will be required to continuously improve the operation and management of the above services through bi-annual BPR reviews and the day to day operation of a quality management system (QMS) in accordance with the international quality standard ISO 2001 for services.

Management and reporting arrangements.

In addition, the selected service providers will be required to provide monthly and quarterly reports on the agreed performance, financial and management arrangements.

Market testing.

In addition, the selected service providers will be required to undertake market testing and benchmarking exercises within the agreed timescales. Potential service providers will be required to suggest what these timescales should be, against their understanding of departmental needs.

Additional services.

In addition, the selected service providers will be accorded the opportunity to make variant bids with respect to additional added value services.

Proposed charging mechanisms

These will be set out in the OBC in greater detail and subject to negotiations with potential service providers during the procurement phase. In principle, Departments A, B and C intend to make payment to the service providers as follows:

Fixed price/costs

This element involves a fixed price for the delivery of agreed outputs within a fixed timetable, with appropriate remedies in place for delays and cost overruns.

It is envisaged that the unit cost for utilities will be at a common and significant discount to that in the market place by virtue of economies of scale.

Payment on the delivery of agreed outputs

These payments will be staggered against the delivery of key outputs within the overall implementation plan and, in the main, will apply to elements of building services, as agreed.

Performance and availability payments

This element will link a proportion of the payment stream to the availability and performance of the contracted service. The OBC will stipulate what we think the performance and availability levels for each service should be.

Transaction and volume payments

This element links a proportion of the payment mechanism to the number of transactions for business provided. With respect to building services, it will be incumbent upon potential service providers to suggest what these might be, on the basis of historical data and their own extrapolation of the empirical data provided.

Incentive payments

This element of the charging mechanism will link additional payment to good performance and additional benefit on the part of Departments A, B and C.

Cost of change

This element of the charging mechanism will seek to anticipate foreseeable change and to price it into the contract accordingly. If this is not possible then benchmarking arrangements will be agreed, together with change control arrangements.

Third party revenues

This element of the charging mechanism will provide service providers with the opportunity to develop and exploit alternative revenue streams and new business with other customers, where this is not to the detriment of Departments A, B and C.

Potential for risk transfer

This section provides an overview of how we consider the associated service risks might be apportioned between the Shared Services Unit (on behalf of Departments A, B and C) and potential service providers, in line with the principle that service risks should be transferred to the party best placed to manage them.

Risk Category	Potential allocation		
	Public	Private	Shared
1. Design Risk	✓		✓
2. Construction & Development Risk			✓
3. Transition & Implementation Risk			✓

4. Availability and Performance Risk			✓
5. Operating risk	✓		
6. Variability of Revenue Risks	✓		
7. Termination Risks	✓		
8. Technology & Obsolescence Risks			✓
9. Control Risks	✓		
10. Residual Value Risks	✓		
11. Financing Risks	✓		
12. Legislative Risks	✓		
13. Other Project Risks	✓		

Proposed Contract Lengths

The contract length for each of the agreed services is expected to be in the order of 10 years, with break clauses at Years 5 and 7. This issue will, however, be determined by service needs and value for money constraints. Consequently, variant bids will be considered from potential service providers where they meet these needs.

Proposed Key Contractual Clauses

The Shared Services Unit will use the recommended standard model Contracts and Agreements for outsourced and shared services available from State Services Commission.

Personnel Implications

It is not anticipated that staff will be transferred from the public sector to the private sector. However, it should be noted that if the PSC (more ambitious) option is pursued as an achievable option for further appraisal within the OBC, it is conceivable that up to 200 staff may be transferred to the service provider under a strategic partnering arrangement.

Procurement Strategy and Implementation Time-scales

The procurement will be undertaken in full compliance with World Trade Organisation WTO Rules and Regulations and the standing rules, regulations and instructions applying to Government departments.

It is intended to take delivery of the required and agreed services within 18 weeks of contract signature. The proposed implementation timescales will be set out in the OBC.

Accountancy Treatment

It is intended that the assets underpinning delivery of the agreed services will be placed on the balance sheet of the service provider.

THE FINANCIAL CASE

Introduction

The purpose of this section is to set out the indicative financial implication of the Preferred Option (as set out in the Economic Case section) and the Proposed Deal (as described in the commercial case).

Financial Impact

The anticipated payment stream for the MISS project over the intended life span of the project (10 years) is as follows:

(000's)	Year 0	Year 1	Year 2	Year 3	Year 4	C/F
Capital	0	0	0	0	0	
Current	33,600	33,600	33,600	33,600	33,600	
VAT (17.5%)	5,880	5,880	5,880	5,880	5,880	
Sub Total	39,480	39,480	39,480	39,480	39,480	
Funded by:						
Dept A	13,755	13,755	13,755	13,755	13,755	
Dept B	13,160	13,160	13,160	13,160	13,160	
Dept C	12,567	12,567	12,567	12,567	12,567	
Surplus/Deficit	2	2	2	2	2	
	Year 5	Year 6	Year 7	Year 8	Year 9	Total
Capital	0	0	0	0	0	0
Current	33,600	33,600	33,600	33,600	33,600	336,000
VAT (17.5%)	5,880	5,880	5,880	5,880	5,880	58,800
Sub Total	39,480	39,480	39,480	39,480	39,480	394,800
Funded by:						
Dept A	13,755	13,755	13,755	13,755	13,755	137,550
Dept B	13,160	13,160	13,160	13,160	13,160	131,600
Dept C	12,567	12,567	12,567	12,567	12,567	125,670
Surplus/Deficit	2	2	2	2	2	20

Note:

1. Excludes financial contingency.
2. Includes 530K departmental staff costs.
3. Remaining expenditure is outsourced contract spend.

Impact on the Balance Sheet

It is not anticipated that there will be any capital acquisition as a consequence of this scheme. The impact on the Balance Sheets of departments A, B and C will, therefore, be neutral.

Overall affordability

Broadly speaking, the scheme is self-financing, as may be seen from the summary of the financial appraisals above.

It is anticipated that the annual surplus of $2 million will be used to offset the Programme, Project and Procurement costs in the initial phases; and, thereafter, to contribute the financial contingency for the scheme.

As can be seen, no allowance has been made for financial contingency, which will be assessed as part of the OBC process, in parallel with the measurement and quantification of service risks.

The Directors of Finance (DOF) for Departments A, B and C have been involved in initial discussions with the MISS Project team. Miss IM Possible has the assurances of the DOFs that the scheme is fundable and affordable; however, they are not prepared to formally endorse this until the completion of the OBC stage.

THE MANAGEMENT CASE

Introduction

This section of the Strategic Outline Case (SOC) addresses the “achievability” of the Scheme. Its purpose, therefore, is to set out the actions that will be required to ensure the successful delivery of the MISS Programme, Phase I Project in accordance with best practice.

Programme Management Arrangements

The Scheme is an integral part of the MISS Programme, which comprises of a portfolio of projects for the delivery of shared services across Government departments in support of the delivery of the Ministry of Infrastructure, Services and Supplies’ business strategy for improved efficiency across Government departments.

These are set out in the attached Programme document, which was agreed on 1 April last year. The Programme is using an internationally recognised PPM standard for the delivery of strategic change programmes, Managing Successful Programmes (MSP).

The Senior Responsible Owner (SRO) for the Programme is Humphrey Appleby.

Project Management Arrangements

The importance of robust project management arrangements is recognised by the Ministry of Infrastructure, Services and Supplies and the Change Programme team. This will ensure that the new shared services model is implemented successfully and that there is effective control over a major change programme.

The complexity of the MISS Project is acknowledged and will be reflected in the project management arrangements. Strong partnerships with key stakeholders, including the engagement of users, will be fundamental to the project management arrangements. The project will be managed in accordance with the international standard Projects IN a Controlled Environment - PRINCE2 - methodology.

Outline Project Reporting Structure

A Project Steering Group is being established to oversee the implementation and successful delivery of Phase I of the MISS Programme. This will report to the existing MISS Programme Board – see enclosed programme documentation.

Following SOC approval, a Project Board will be established with supporting Departmental Service Improvement Groups.

The Project Board will oversee the entire Project to ensure the successful commissioning of the preferred solution. The Departmental Service Improvement Groups will be drawn from business, user and technical personnel and will be tasked with ensuring that service models are in place to secure the successful development of the shared services that underpin this Project.

Terms of reference will be developed for each of the above Groups once the SOC has been approved and will be consistent with best practice.

Outline Project Roles and Responsibilities

In line with best practice, it is recognised that there must be clarity on decision making authority and management arrangements.

The Investment Decision Maker is the Departmental Chief Executive Officers’ Forum, which meets for a beer on a weekly basis.

As noted above, the Senior Responsible Owner for this Programme is Humphrey Appleby who is in weekly contact with his Minister, the Hon Simon Hacker. Mr Hacker has undertaken to brief Cabinet colleagues and to keep them fully informed of progress on a quarterly basis.

The Project Director will be Mr A Swift, a high flying Public Servant from Treasury. The Project Director will act as the point of contact in all dealings with contractors, consultants and outside organisations involved in the delivery process.

The Project Board will comprise of the Directors of Finance and Performance for departments A, B and C who will be responsible for overseeing the change required within their respective departments, and for assessing and monitoring the revenue and capital charging implications of the proposed scheme.

The Project Manager is the redoubtable and indispensable Miss IM Possible who has extensive experience of programmes and projects going wrong and will recruit the Project Team from across the personnel already involved in service delivery in departments A, B and C.

Outline Project Plan

A Project Plan with estimates of the Project planning timescales and the anticipated procurement activities will be drawn up by the Project Team as a matter of priority, once the required personnel are in place. The starting point for the key activities will be taken from the date on which the SOC is approved.

Milestone Activity	Target Dates
Scoping Document	
Strategic Outline Case (SOC)	
Full Study	
Outline Business Case (OBC)	
Procurement Phase	
Implementation Plan	
Contract Signature	
Full Service	

Use of Special Advisors

Special Advisers have been used in a timely and cost-effective manner.

Specialist Area	Adviser
Financial	Provided in-house
Technical	SMART Alec and Son Ltd
Procurement and legal	“Cheap and Easy Ltd”
Business Assurance	Treasury and State Services Commission
Project assurance	State Services Commission

Gateway Reviews Arrangements

The impacts/risks associated with the MISS Project will be scored against the OGC Gateway Risk Potential Assessment (RPA) for projects, prior to commencement of the Gateway Reviews, which will take place as follows:

Gateway Review Stage	Target Dates
0 – Strategic Assessment	Already undertaken for the MISS Programme – thereafter annually.
1 – Business Justification	Prior to approval of the SOC.

Gateway Review Stage	Target Dates
2 – Delivery Strategy	Prior to approval of the OBC.
3 – Investment Decision	Prior to approval of the Implementation Plan and contract signature.
4 – Readiness for Service	Prior to the commencement of service as per Implementation Plan
5 – Benefits Realisation	As agreed within the Implementation Plan and Benefits Realisation Plan