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Review Name	Facilities Management (including Stores Service)	Date	20 September 2017
Author	Mike Smith	Version	0.19

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Executive Summary

CASE FOR CHANGE

The Council wishes to understand whether there is a sufficiently compelling case for change to merit the investment of time and resources into the formal options appraisal that will be required to fully assess and implement a new service delivery strategy for Facilities Management (FM), including Stores Services. The purpose of this Outline Case document is to provide a strategic review and decision-making aid for the Council.

Before progressing to detailed assessment and options appraisal (including market testing, via Full Business Case) and then to implementation (either internal optimisation or external provision) the Council must consider the strategic Outline Case (this document) to deliver up to £24m¹ savings over three years by future delivery of FM via a Total FM delivery model (either in partnership with external providers or through internal service redesign).

¹ Estimated cumulative total savings over three years, after the estimated investment costs required to deliver these benefits.

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Baseline and scope

- FM (including Stores Services) Services include: Soft FM (Cleaning, Catering, Janitorial, Building management, Facilities admin, Mail distribution, School crossing patrols); Hard FM (Building Services including building repairs and maintenance, Refurbishments, Hard FM management (non-housing), Stores); and FM Contracts (Specialist Works).
- The approximate annual revenue costs of these FM services to the Council are as follows:

Revenue ² Spend (£m)	HRA ³	General Fund	Total – i.e. incl. HRA spend
Total Hard FM, excluding Stores	22	5.2	27.2
Total Soft FM	-	15	15
Total Stores (excludes roads element of stores)	-	3.9	3.9
Total Addressable Hard, Soft & Stores	22	24.1	46.1

- The initial baseline data suggests addressable expenditure is approximately £46m, however this will be dependent on the final agreement of services considered within scope of this review:
 - A clear and early recommendation, therefore, is that the full assessment and options appraisal at the next (Full Business Case) stage must determine the extent of the relationship between the FM functions and the HRA.
 - The Scope must also be assessed and determined via the next (Full Business Case) stage to exclude or include the following “potential” services: Grounds Maintenance, Roads & Lighting, Reception/Helpdesk Services, Energy Management (though not the utilities costs themselves), Car Parks, Asset/Estate Management, FM contract (3Rs New School Project, NHS Healthcare Village, and Window Cleaning) management team, and Waste Strategy & Collection.

² As far as can be ascertained from the analysis completed at this stage, these figures exclude Capital, and represent Revenue spend only. Please see pages [19-20] of this document for further details.

³ Estimated HRA/General Fund spend figures, based on current available data.

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The drivers of cost and scale of the opportunity

- Based on the assessment of the services that are clearly in scope – and within the c.£46m envelope outlined above – the key base current drivers of opportunity and cost are :
 - Core Council requirements – the current scale of FM opportunity is limited to core services for the Council with minor service provision for other private/public sectors. The latter has increased and the services have an established infrastructure to develop further opportunities.
 - Labour costs - The majority of the Council (and HRA’s) FM and Stores spend is on labour costs – which can opens up opportunities for efficiency and effectiveness in staff resourcing and deployment, and the exploration of partnership delivery models.

The way forward

- Recent statistics produced by CIPFA have identified that approximately half of Councils in England and Wales have driven significant savings of between 10% - 30% by considering alternative ways to deliver FM services;
- Doing nothing is not an option for Aberdeen – a strategic change in service configuration or to its delivery model is required to enable the Council to make significant cost savings and operational improvements, as well as to potentially enable services to generate new revenues streams from external sources.
- “Total FM” as a solution has emerged as a preferred options at this stage (either delivered through an internally optimised service or in partnership with external providers) as the indicative benefits outlined below suggest:

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Investment and return

- From the high level options appraisals undertaken at this stage, anticipated levels of investment and savings from either a TFM or Joint Venture arrangement could be in the region of:

Estimated Revenue Impact (£m)	Year 1		Total over 3 years	
	TFM / Strategic Partnership		Joint Venture	
Investment costs	(0.5)	(0.5)	(0.7+)	(0.7+)
Savings	3.7 to 8.3	11.1 to 24.9	3.7 to 8.3	11.1 to 24.9
Net	3.2 to 7.8	10.6 to 24.4	3.0 to 7.6	10.4 to 24.2

Savings as a % of Baseline Spend	Year 1	Total over 3 years	Year 1	Total over 3 years
	6.9% to 16.9%	7.7% to 17.6%	6.5% to 16.5%	7.5% to 17.5%

- The benefits outlined above are the benchmark range based on industry knowledge applied to Aberdeen’s current baseline, and can be used as the target for both internal optimisation and externalisation.

Next steps

The Council must now decide whether it agrees that the Case for Change (as summarised above, and detailed in the remainder of this strategic Outline Case document) **merits pursuit of the following recommended next steps:**

- October/ November 2017: Proceed to Full Business Case stage, which will further develop this strategic Outline Case by assessing and market testing external / partnership provision against a “internal optimisation” and “do nothing” options. These assessments will include:
 - The Economic Case – Value for Money
 - The Financial Case – Affordability
 - The Commercial Case – Strategy for Delivery
 - The Management Case – Delivery Programme
- October/ November 2017: Provide resource, plus corporate and executive sponsorship, to establish the Full Business Case. The provision of sufficient resource is crucial to delivering the OBC due to the level of analysis and rigour that is required at this stage and the activities that need to take place.

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3. March 2018⁴ Review the Full Business Case, and decide whether the Council wishes to support a recommendation of a preferred option to implement the Final Business Case.

⁴ Actual date to be confirmed – will depend on (e.g.) availability of resource to support detailed analysis, market testing and development of business case.

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BACKGROUND AND CONTEXT

Aberdeen City Council is fundamentally reviewing how it delivers services and functions. This is captured in its Strategic Business plan 2017/18, 'Tier 2: Delivering Performance Improvement - Operational Change'. This involves exploring alternative delivery models for key functional areas, including Facilities Management and Stores.

The key spending objectives have been defined as:

- To significantly reduce the baseline cost of those services within scope ("economy")
- To enable greater revenue generation in respect of those services within scope through enabling certain services to be available to the external market ("economy")
- To consider replacing elements of the existing service ("re-procurement")
- Any change to delivery solution must not be detrimental to the quality of existing services ("effectiveness")

The improvement of "business as usual", as distinct from real transformational change, is not considered sufficient to meet the financial objectives of the Council. Hence this Outline Case is in support of assessing different delivery models and options for the provision of these services to the Council and related parties, such as schools, who currently receive such services from the Council.

CURRENT SITUATION

The Council's current portfolio of property includes:

- 22,000 houses
- 324 public buildings (e.g. schools, community education centres, parks)
- 350 commercial investment properties (e.g. offices, retail premises and buildings owned by the council)
- 10 locations for Stores (Stores are an enabling function within the Council to ensure the provision of goods and services at the point of need they are required for service delivery)

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The vast majority of the estate in scope relates to housing assets and therefore the majority of the FM service provision (and associated spend) is in connection with housing. The table below maps out FM service provision against building type.

	Housing	Public building – schools	Public building – other	Commercial investment property
Hard FM:				
Buildings Repairs and Maintenance (including maintenance relating to statutory obligations)	✓	✓ (statutory only)	✓	✓ (statutory only)
Refurbishments (minor projects)	✓			
Hard FM management (non-housing)		✓	✓	
Specialist Work (subcontracted work)	✓	✓	✓	✓
Stores	✓	✓	✓	✓
Soft FM:				
Cleaning	✓ (Voids and response cleaning)	✓	✓	
Catering		✓	✓ (ACC canteen and meeting room hospitality)	
Janitorial		✓		
Building Management (handyman, security, car parks)			✓	
Facilities Admin		✓	✓	
Distribution of mail		✓	✓	
Schools Crossing Patrols		✓		

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The detail of the existing arrangements for the delivery of the Hard and Soft FM services in scope are complex, but can broadly be described as being predominantly delivered in-house by approx. 1,380 staff (inclusive of management and supervision). However, discrete areas are outsourced (Hard FM: Specialist Works)

For the purposes of this outline case, addressable spend in 2016/17 was £46.1m of which £27.2m (59%) related to Hard FM, £15.0m (33%) related to Soft FM and £3.9m (8%) related to Stores. (Scope showing differences understood to be between Hard FM and Soft FM is outlined below) Corresponding revenue was £35.4m in 2016.17 and is primarily driven from internal recharges with over 50% coming from HRA. Further work is required to determine how savings are treated in relation to HRA.

The current delivery model has various strengths but also a number of issues and inadequacies. The Council has been engaged in conducting service reviews to investigate, although this is on-going and further analysis is needed to build a more informed picture on the performance of the current delivery model and to create a baseline position.

Over the last few years, FM services have undergone a number of more strategic service reviews too where the Council has explored the ways to change the delivery FM and FM related services but recommended outcomes do not always appear to have been implemented.

SCOPE OF SERVICES

FM services confirmed as being within scope comprise:

- Soft FM (Cleaning, Catering, Janitorial, Building management, Facilities admin, Mail distribution, School crossing patrols)
- Hard FM (Building Services including building repairs and maintenance, Refurbishments, Hard FM management (non-housing), Stores)
- FM Contracts (Specialist Works)

However, as mentioned earlier, whilst to maximise opportunities for potential savings, the Council may take a much wider view on the definition of services within scope in the development of this business case to include other related services, at this stage it considers the following services to be excluded from that process -

Energy/Utilities, Waste Recycling, Capital Construction, Architectural, Engineering and Construction Support and Consultancy Services.

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EXPLORING THE WAY FORWARD

A long list of 12 potential delivery models was developed and an analysis of benefits, opportunities, costs and risks carried out on each to help inform the creation of a short list. The result is summarised below:

	Service Delivery Model	Include on the short list?
1	In-house	No
2	Current Delivery/Enhanced Status Quo	Yes
3	Arm's Length Trading Company/WOC/Mutual	Yes
4	Single Source and In-house mix	No
5	Single Source Outsourcing	No
6	Shared Services Group	No
7	Managing Agent	No
8	Bundled FM	Yes
9	Managing Contractor	No
10	TFM/Strategic Partnership	Yes
11	Joint Venture	Yes
12	Total Property Outsource	No

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The five recommended short listed options have then been assessed further by evaluating each of the Council’s spending objectives and Critical Success Factors. The table below captures the findings from the evaluation exercise:

- “Meets” is denoted by a tick
- “May meet” is denoted by a question mark
- “Does not meet” is denoted by a cross

	2	3	8	10	11
	Current delivery/Enhanced Status Quo	Arm’s Length Trading Company/WOC/Mutual	Bundled FM	TFM/Strategic partnership	Joint Venture

Critical success factors

Business need: operational efficiencies	?	✓	✓	✓	✓
Business need: greater commerciality	?	?	?	✓	✓
Strategic fit	✓	?	✓	✓	✓
Availability/ Customer satisfaction	✓	✓	✓	✓	✓
Ease of implementation	✓	✓	✓	✓	?
Accountability and governance	✓	✓	?	?	✓
Resources and investment	?	?	?	?	?
Risk management	?	?	?	?	?

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SHORT-LISTED OPTIONS

It is therefore recommended that the five options short listed be presented for further consideration at the next, more detailed, full business case stage.

The table below sets out an initial high level assessment of potential savings from adopting each option, together with a current estimate of any anticipated costs. These will need testing as part of the next stage and can only be indicative at this stage:

- Anticipated costs of implementation: include high level estimates to cover typical costs including advisory and legal fees
- Anticipated savings: the percentage ranges used in this analysis are marginally lower than typical benchmark ranges in order to reflect:
 - The level of services already outsourced (Specialist Works within Hard FM and Mail within Soft FM); arguably there is lower further savings on areas already outsourced
 - Views on the varying levels of material costs as a proportion of total costs; the higher the proportion of materials, the less opportunity for savings whereas the higher proportion of costs such as labour, the greater the scope for potential savings.
 - Labour cost savings could potentially be significant, driven by changing ways of working, increasing the productivity of staff and from deploying staff resources in a more intelligent way.
 - Changing ways of working typically includes more robust management of absence, changes to working such as 5 in 7 day working.
 - Increasing staff productivity can be done from better monitoring and management of individual productivity/output, more training and from using technology to drive productivity gains e.g. cordless backpack vacuum cleaners and use of microfiber cloths and mops in cleaning.
 - Ways of deploying staff resources more intelligently include makes us of scheduling systems and trackers for managing engineering tasks.

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The net effect of productivity gains is to require a smaller workforce which can then be achieved through a mixture of redundancy, redeployment and natural wastage.

Table showing initial high level assessment of potential savings from adopting each option

	2 Current delivery/Enhanced Status Quo	3 Arm's Length Trading Company/WO C/Mutual	8 Bundled FM	10 TFM/Strategic partnership	11 Joint Venture
Anticipated costs of implementation	£150k	£350k	£500k + (due to multiple contracts)	£500k	£700k +
Anticipated gross savings p.a. *	1%-3% Estimated as £0.5m - £1.4m	2%-4% Estimated as £0.9m - £1.8m	4%-10%. Estimated as £1.8m - £4.6m	8%-18%. Estimated as £3.7m - £8.3m	8%-18%. Estimated as £3.7m - £8.3m

- *Note: the savings above are for each option on a standalone basis and are not incremental savings on top of baseline option 2 savings*
- *Furthermore, if services in scope change, then this will also impact the level of potential savings, and similarly as the definition broadens to take in services not previously outsourced, there should be scope for greater savings*
- **The estimate of savings percentages are based on PwC's experience of similar transformations and are applied to the current baseline of £46.1m excluding indexation. We have taken a prudent approach, factoring in labour/materials composition of costs, existence of sub contracts, etc. Following soft market testing, the top ranges of savings estimates may increase.*

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For Option 11 Joint Venture, there is opportunity to generate trading income. This has been prudently excluded from the analysis given evidence from other UK local authorities of historic performance and the challenges associated with achieving trading income projections. However, it could be considered as an upside as part of the next, more detailed, business case. Typical benchmarks suggest a share of profit generated from revenue [i.e. for every £5m of traded revenue we anticipate a margin of 6% (£300k), with the Council receiving 50% of this (£150k)].

Looking towards the upper end of the ranges for potential cost savings, this indicates that depending on the chosen delivery option, it could be possible to achieve savings in the region of £8.3m before any incremental revenue is taken into account.

NEXT STEPS

As part of the next, more detailed, full business case, key steps will include:

1. Confirming stakeholder group and ensure engagement with
2. Producing full strategic analysis
3. Establishing baseline data
4. Confirm scope of services
5. Market Analysis including engagement with potential Suppliers and Partners (this can take a number of forms from informal market soundings through to more formal processes)
6. Undertaking financial analysis and identifying and assessing potential income opportunities
7. Full Financial Modelling and Analysis:
8. Developing recommended Options
9. Develop Commercial, Financial and Management Cases
10. Implement short term service improvement solutions since there will be a lead time to complete further, more detailed, business cases – and any resulting procurement processes

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11. Develop timetable (initial indicative timeline suggests 18-24 months to implementation provided baseline data is available)

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Making the Case for Change

STRATEGIC CONTEXT

Aberdeen City Council’s Strategic Business Plan (2017/18) sets out the overarching strategic context and direction of travel for the Council in an environment of economic, demographic and technological change taking place in the wider economy.

Demand for public services is changing as well as increasing, and the Council is facing increasing financial pressures and changing customer demand. As reflected in the 2017/18 budget, the Council faces a budget shortfall of £125m over the next five years and therefore needs to achieve more with fewer resources.

Hence Aberdeen City Council is fundamentally reviewing how it delivers services and functions – this is captured in Tier 2 of its strategy, ‘Tier 2: Delivering Performance Improvement - Operational Change’. This involves exploring alternative delivery models for key functional areas, including Fleet services and transport, Facilities Management and Stores. In addition, Aberdeen City Council is pursuing its Operational Excellence and Enterprising Council agenda, which is seeking to deliver savings and service improvement opportunities through transformational change across a number of work streams. The work streams include: Service Reviews (including this piece of work), Third Party Spend, HR, Business Support, and Digital Transformation.

This Outline Case is, therefore, in support of the above and considers Facilities Management (FM) and Stores. The purpose of this document is to assess different delivery models and options for the provision of these services to the Council and related parties, such as schools, who currently receive such services from the Council.

The overall goal is to deliver the most profound level of change and meet the enterprising objectives of the Council. To achieve this, the future state of the services will need to meet the following objectives:

- Reduce Costs
- Exploit the skills of the existing resources
- Align with the Strategic Plan

The improvement of “business as usual”, as distinct from real transformational change, is not considered sufficient to meet the financial objectives of the Council – market analysis indicates that cost savings through service improvements are generally within the range of 1% to 5%, whereas the Council requires significant

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savings in excess of this. A review of case studies from successful projects elsewhere suggests that there may be alternative delivery models for the services in question which might deliver the level of change and savings envisaged.

In addition to the “Tier 2: Delivering Performance Improvement - Operational Change” element of ACC’s Strategic Plan 2017/18, any changes to the delivery model must also be consistent with a number of other policies and initiatives including:

- Local Outcome Improvement Plan 2016-26
- Land and Property Assets Service Improvement Plan 1/4/17-31/3/18
- Public Infrastructure and Environment Services Improvement Plan 1/4/17-31/3/18
- Communities and Housing Service Improvement Plan 1/4/17-31/3/20
- Education and Children’s Services Improvement Plan 2017/18
- Aberdeen City Health and Social Care Partnership Strategy 2016-2019

SPENDING OBJECTIVES, EXISTING ARRANGEMENTS AND BUSINESS NEEDS

A robust case for change requires a thorough understanding of what the organisation is seeking to achieve (the spending objectives), what is currently happening (existing arrangements) and the present problems and future service gaps (business needs).

Spending objectives

The key spending objectives have been defined as:

- To significantly reduce the baseline cost of those services within scope (“economy”)
- To enable greater revenue generation in respect of those services within scope through enabling certain services to be available to the external market (“economy”)
- To consider replacing elements of the existing service (“re-procurement”)
- Any change to delivery solution must not be detrimental to the quality of existing services (“effectiveness”)

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Existing Arrangements

This section sets out the existing arrangements for the provision of the Facilities Management services (including Stores) under consideration, in terms of the facilities in receipt of the services, the services in scope, the current delivery model and the existing position on spend.

a. Facilities in receipt of the services

The Council's current portfolio of property includes:

- 22,000 houses
- 324 public buildings (e.g. schools, community education centres, parks)
- 350 commercial investment properties (e.g. offices, retail premises and buildings owned by the council)
- 10 locations for Stores

The vast majority of the estate in scope relates to housing assets and therefore the majority of the FM service provision (and associated spend) is in connection with housing.

Of the public buildings, schools constitute around 18% of these (58 buildings), with community education centres being the next most common building type (47 buildings). Other common facility types include parks, playing fields, libraries, public conveniences, etc. Council headquarters and Stores would also be part of this category.

Stores are an enabling function within the Council to ensure the provision of goods and services at the point of need they are required for service delivery.

b. Services in scope

The Council provides a wide range of FM and FM related services to users across the above facilities. At this stage, the Council has identified which of these services should definitely be included in the scope of this work but in order to maximise the potential savings opportunity, it has also identified services which could potentially be included in the scope.

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The services that are definitely within in scope are set out below and are described using the Council’s terminology. We understand that some of this terminology should be changed to reflect more widely recognised market terminology at an appropriate point in the future). At this point, the services are categorised at a high level for simplicity and broadly divided into the categories of Hard and Soft FM. However, there are nuances to each service and the detail of this will be explored in this document.

Hard FM:

1. Buildings Repairs and Maintenance (including maintenance relating to statutory obligations)
2. Refurbishments (minor projects)
3. Hard FM management (non-housing related)
4. Specialist Work (subcontracted work, e.g. lift maintenance)
5. Stores (storing building materials, road and lighting materials, fleet spares, corporate records and aids for daily living (occupational therapy equipment)

Soft FM:

1. Cleaning
2. Catering
3. Janitorial
4. Building Management – this involves:
 - ‘Handyman’ type service for Council Headquarters buildings only
 - Security service (ID Badge production, access control system administration and CCTV system monitoring) for Council Headquarters buildings only
 - Provision of car parking attendants at 3 public car parks.
5. Facilities Admin – this includes provision of a single point of contact for Corporate Office building users to report issues and provide support to delivery all Soft FM services (includes phone operatives, performance management support, assigning FM calls, ensuring follow up and performance monitoring).
6. Distribution of mail
7. Schools Crossing Patrols

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The table below maps out FM service provision against building type, again at a high level for simplicity. At the next business case stage, a detailed matrix mapping out individual facilities against the specific service would be produced.

	Housing	Public building – schools	Public building – other	Commercial investment property
Hard FM:				
1. Buildings Repairs and Maintenance (including maintenance relating to statutory obligations)	✓	✓ (statutory only)	✓	✓ (statutory only)
2. Refurbishments (minor projects)	✓			
3. Hard FM management (non-housing)		✓	✓	
4. Specialist Work (subcontracted work)	✓	✓	✓	✓
5. Stores	✓	✓	✓	✓
Soft FM:				
1. Cleaning	✓ (Voids and response cleaning)	✓	✓	

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	Housing	Public building – schools	Public building – other	Commercial investment property
2. Catering		✓	✓ (Council canteen and meeting room hospitality)	
3. Janitorial		✓		
4. Building Management			✓	
5. Facilities Admin		✓	✓	
6. Distribution of mail		✓	✓	
7. Schools Crossing Patrols		✓		

c. Current delivery model of services in scope

The detail of the existing arrangements for the delivery of the hard and soft FM services in scope are complex, but can broadly be described as being predominantly delivered in-house by approx. 1,380 staff (inclusive of management and supervision).

Hard and soft FM services are delivered primarily out of the Land and Property Assets department which is part of the Council’s ‘Communities, Housing and Infrastructure’ Directorate (See Appendix A for organogram).

There is also some responsibility for FM held in one other directorate – ‘Public Infrastructure and Environment’. This handles grounds maintenance which is not in scope and also some elements of the minor works type services.

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Main features of Hard FM delivery model:

- Hard FM is delivered by the Building Services team (approximately 518 staff) and the Hard FM Management team (4 staff) which sit in the Land and Property Assets department.
- The Building Services team manage and physically carry out the hard FM work. The bulk of this team’s workload relates to housing assets but it also serves public buildings and commercial investment properties.
- The Hard FM Management team’s work relates to the management of non-housing work only.
- The Building Services team is set up as an internal contractor, with a trading account. Any work performed is recharged back to the relevant Council area – i.e. revenue is recovered via recharges to the respective property budget holder (Hard FM Management, Housing, and Schools).
- Housing related Hard FM is funded from housing capital and the HRA Budget (approximately £22m p.a.). This budget is ring-fenced through legislation. This work accounts for 70% of Building Services revenue.
- Non-housing related Hard FM is funded by a budget held by the Hard FM Management team (approximately £4m p.a.).
- Commercial properties Hard FM budget is held by Asset Management (approximately £500k p.a.). Any works carried out through the Hard FM Management team is charged directly to this budget.
- A number of specialist works are delivered via subcontractors, e.g. Gas Central Heating Maintenance, Rope Access and Electrical Maintenance, which are tendered with support of the Commercial & Procurement Services Team.
- In order to provide buffer stock, the Council has to invest capital and working capital to provide assets and staff resources to maintain a Stores operation.

Main features of Soft FM delivery model:

- Soft FM is managed and delivered by the Soft FM team (approximately 866 staff) in the Land and Property Assets department.
- Unlike Hard FM, Soft FM is set up as a ‘General Service’ meaning that it holds and delivers the budget for services required across the Council’s estate.

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Current spend

The table below sets out an estimation of 'spend in scope' based on actual 2016/17 expenditure. The categories reported as part of the Council's financial information do not necessarily directly reflect the categories of the FM services in scope. In the allotted time available it has not been possible to calculate an exact figure on spend. However based on the analysis below, baseline spend is estimated to be approximately £46.1m. Approximately 59% of this is Hard FM (£27.2m), 33% is Soft FM (£15.0m) and 8% is Stores (£3.9m).

	2016/17 Actual Expenditure
Hard FM	
D01202 - Response - Building Services	£10,395,508
D01203 - Voids - Building Services	£5,248,984
D01208 - Housing - Gas & Adaptations	£4,933,715
D01206 - M&A - Building Services	£4,299,667
D01204 - Internal Work - Non Housing	£2,563,596
D01205 - Housing Capital - Other	£1,994,689
D01209 - H&S - Building Services	£134,248
Subtotal	£29,570,407
<i>- Less elements of utilities and rates included in the above</i>	<i>(£76,970)</i>
<i>- Less Building Services element of Stores included above but being shown separately below</i>	<i>(£3,870,000)</i>
<i>- Plus subcontracts relating to non-housing work not included in Buildings Services</i>	<i>£1,600,000</i>
Total Hard FM, excluding Stores	£27,223,437

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Soft FM	
Catering	£6,346,848
Cleaning	£5,040,500
Janitorial Services	£2,362,819
FM Admin (incl. Building Management & Distribution services)	£1,155,042
School Crossing Patrollers	£119,301
Total Soft FM	£15,024,510
Total Stores (excludes roads element of stores)	£3,870,000
Total Addressable Hard, Soft & Stores	£46,117,947

Note that several adjustments and assumptions have been made in order to arrive at this estimate. These are as follows:

1. All subcontracts are included (Hard FM: Specialist Works).
2. Stores has been treated as follows: The Building Services element of £3.8m is already included in the Hard FM figure of £29m – this has been shown on a separate line for clarity. The Road element of the Stores cost has been excluded – this is circa £500k of spend of which £400k relates to the purchasing of stock for roads which is out of scope. This leaves staff and premises costs of £100k which is considered relatively immaterial at this stage and is therefore excluded here but will be considered in more detail as part of the next stage.
3. The figures reflect revenue and some capital spend, however major capital projects are excluded. (Note the line item ‘Housing Capital – Other’: As high value or complex capital works are out of scope of this

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work, it is assumed that this relates to 'minor works' types of jobs which would be in scope. One recommendation of this outline case is that the definition of capital works be further defined in terms of value of spend and complexity.)

FM services generate revenue, the majority of which comes from internal charging. The total revenue for FM Services in 2016/17 is £35.4m. It is assumed that traded revenue from 3rd parties is low and largely consists of revenue from events and sales of school meals:

	2016/17 Revenue (internal recharges and third party income)	%	Notes
Hard FM	£30,601,283	87%	The majority of this revenue is internal recharges on the housing maintenance work.
Soft FM	£4,760,039	13%	The majority of this revenue appears to relate to sales to schools (i.e. revenue from schools catering).
Total	£35,361,321		

More than 50% of this revenue comes from HRA (£18.8m in 2016/17); a question therefore arises as to whether the financial impact of any future cost savings in this area is captured within FM budgets or effectively it just means that less is recharged from the HRA as revenue to FM.

Business needs

The current delivery model has various strengths but also a number of issues and inadequacies. The Council has been engaged in conducting service reviews to investigate, although this is on-going and further analysis is therefore needed to build a more informed picture on the performance of the current delivery model.

The table below summarises what has been documented to date this (see Appendix B for more detail on performance):

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Strengths		Issues	Comments/ areas for improvement
Soft FM:			
Cleaning	<ul style="list-style-type: none"> Performance appears to be good. Based in APSE Performance Network, ACC performed within the top quartile, 4th of 15 within the group (productivity) High levels of customer satisfaction (based on Staff response for Public Buildings and Schools) Generating external revenue opportunities 	<ul style="list-style-type: none"> No SLAs in place to measure performance Staff constraints (lack of staff) Example of unsuccessful tendering due to lack of commercial skills Some internal opportunities are being offered to the external market 	<ul style="list-style-type: none"> Opportunity to improve cost efficiency. Introduce SLAs to better measure performance. Opportunity to generate further revenue streams from external focus
Catering (schools)	<ul style="list-style-type: none"> Food served is of good quality ('Food for Life Served Here' Silver Award) Medium to high levels of customer satisfaction Performance appears to be good as 	<ul style="list-style-type: none"> No SLAs in place to measure performance. Performance below average on uptake of free meals No outside revenue opportunities 	<ul style="list-style-type: none"> Introduce SLAs to better measure performance Opportunity for external revenue generation

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	Strengths	Issues	Comments/ areas for improvement
	evidenced by APSE Performance Network data; ACC generally perform above family group benchmarks across KPIs in productivity and cost performance.	identified	
Other soft FM	<ul style="list-style-type: none"> Service efficiencies have been implemented on 'As IS' as far as possible (Service Managers confirming they are delivering as lean as can be to provide the current level of service) 	<ul style="list-style-type: none"> No SLAs in place to measure performance (Janitorial SLA under development). 	<ul style="list-style-type: none"> Mail: Opportunity to reduce cost by replacing the mail with Hybrid Mail (reduction of mail transport).

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Hard FM:			
Housing	<ul style="list-style-type: none"> • Good levels of tenant satisfaction in terms of repairs and maintenance service and standard of home when moving in (relative to peers). • Exceeded or met four of the five key metrics for repairs and maintenance 	<ul style="list-style-type: none"> • Council's performance on voids relative to peers leading to loss of rental income of at least £1m pa. • Performance hard to measure in many areas due to lack of comparator data. • General perception that service is expensive (Building Services has increased its rates by 8-11% this year - 17/18) • Complicated internal structure • Lack of clarity of service definitions • Council departments are tendering externally for perceived VFM 	<ul style="list-style-type: none"> • Introduce Plot Packs • Shared online work schedules • Just in time Delivery • On time in full supply • Pre-planned using route planner • SMS notification to operative • Link to mobile pre-inspection & ordering tools

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Non-housing	<ul style="list-style-type: none"> Performance hard to measure in many areas due to lack of comparator data General perception that service is expensive Building Services have increased their rates by 8-11% 17-18) and there is greater VFM externally Complicated internal structure Lack of clarity of service definitions <ul style="list-style-type: none"> Delivering more of the Capital Works of the Council through Building Services instead of using external contractors. Increased income from delivering repair and maintenance services along with consultancy and asset management services in the open market (including to 23,000 former council houses). Securing funding opportunities through asset management of the Council Housing assets
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			<ul style="list-style-type: none"> Increasing contracts for services with other public sector bodies in the North East of Scotland.
Stores	<ul style="list-style-type: none"> Historically has helped ACC address supply chain issues by having materials readily available. 	<ul style="list-style-type: none"> Sub-optimal premises leading to operational inefficiencies (i.e. in terms of layout). Price paid for stockable items Amount of staff resources required for stores Each individual store operates individually; there is little in the way of shared systems or best practice 	<ul style="list-style-type: none"> Potential savings for the trading accounts to be made on the purchasing of goods. Need for a common IT system.

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POTENTIAL SCOPE OF SERVICES

FM services confirmed as being within scope comprise:

- Soft FM (Cleaning, Catering, Janitorial, Building management, Facilities admin, Mail distribution, School crossing patrols)
- Hard FM (Building Services including building repairs and maintenance, Refurbishments, Hard FM management (non-housing), Stores)
- FM Contracts (Specialist Works)

Other services which may be considered within scope in Full Business Case include :

- Grounds Maintenance
- Roads & Lighting
- Reception/Helpdesk Services
- Energy Management
- Car Parks
- Asset/Estate Management
- FM contract (3Rs New School Project, NHS Healthcare Village, and Window Cleaning) management team
- Waste Strategy & Collection

Specific services excluded from scope are:

- Energy/utilities projects (ESCO/EFW) are not included although building energy management and targets may be considered as part of the scope.
- Waste Recycling - because the service is heavily regulated, specialist and currently contracted to 2024 to GDF Suez.
- Capital Construction - this large scale work is generally contracted out or supported by PPP Project.

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- A number of other areas including Architectural, Engineering and Construction Support and Consultancy Services.

With regard to the above two sets of services, the Council is keen that any redesign of the current service delivery model will have the flexibility to handle the incorporation of these services in future, should the current situation surrounding these services change.

Benefits, risks, constraints and dependencies

Benefits

Benefits of this exercise to assess the most appropriate delivery model include:

- An opportunity to test or benchmark the existing delivery model against the market; the status quo may indeed be the best option with some elements enhanced to reflect best practice from the private sector. This should also give the Council comfort as to whether the current services are offering value for money.
- Opportunities to explore how innovation and commercial thinking can assist in delivering cost efficiencies and potential new revenue streams, which in turn should relieve pressure on the net operating deficit
- A long term strategic approach
- Better or full integration across services (again leading to efficiencies but also protecting and improving customer satisfaction)
- Depending on the chosen delivery solution, lower burden on council management function

A more detailed list of benefits is contained in Appendix E which considers each of the long listed options for possible alternative delivery models.

Risks

There are also a number of risks associated with review of alternative delivery models, including:

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- If the status quo is not financially sustainable, this can lead to staff feeling unsettled which in turn could impact on the efficiency and effectiveness of the current service
- Potential issues around TUPE arrangements, Trade Union representatives and general staff issues
- Lack of appetite from service areas to drive changes required
- Inadequate data resulting in poor estimation of potential savings
- The complexity of the solution and the time it takes to put in place
- Depending on the chosen delivery solution, the reputation and experience of the selected supplier or partner

Constraints

For the purposes of an outline case, constraints are externally imposed. These include:

- Political risk – however there is no general election planned until 2022 (which coincides with the next scheduled Aberdeen City Council elections) and no Scottish Assembly election due until 2021. More locally focussed politics will need to be managed by the Council [Executive/Leadership] team. Overall political acceptability of the proposed solution will be critical.
- General state of the economy (both at regional, national and UK levels) – this remains an unknown as the UK moves along the “Brexit” process
- Market risk – is there sufficient appetite from the market and are there players who have track history and experience to deliver services successfully? In 2017, the UK FM market was estimated by MBD to be £127bn. Within this, approximately £10bn relates to large outsourced contracts (>£5m pa) and most of these contracts will come to market on average every 5 years. This is relevant to ACC given the potential scale of outsourcing contracts. Key trends facing the sector and an overview of the key players are set out in Appendix C.

Dependencies

Management has identified a number of dependencies which could influence the success of this exercise; these include:

- Parallel Review Projects - Asset Strategy, Fleet, SCAPE etc.

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- Availability of Performance Data
- Baselining of Services
- Market Analysis (at the next, more detailed, stage)
- Basis for Cost Impact and Revenue Generation (at the next, more detailed, stage)
- IT infrastructure
- Service Engagement
- Senior Management Support

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Exploring the Way Forward

Having determined the strategic context and established a case for change, this section looks at the main options available for delivering the services with a view to formulating a preferred way forward for the subsequent approval by [management/stakeholders]. This in turn will lead to the development of the next, more detailed, business case – and ultimately a Full Business Case (FBC).

Previous service reviews - background

Over the last few years, FM services have undergone a number of service reviews where the Council has explored the ways to change the delivery FM and FM related services, for example:

- the proposal to transfer the Regeneration and Housing Investment Service into a Limited Liability Partnership (LLP) in 2012, PACE Project Review of Cleaning Services, Schools Catering and other Soft FM Services, as well as the service efficiency reviews and restructuring;
- In 2012/13 the Soft FM delivery was divided into quadrants, each with their own FM sub-service (Catering, Cleaning, Janitorial etc.) delivery teams. This model has been restructured, and now has FM Service Managers responsible for these services, city wide; and
- In 2012 an alternative delivery model was proposed for Building Services to operate as an LLP. At this time, the Hard FM Management team was spun out to retain the Client/Landlord role and is currently functioning in this way. However, due to insufficient financial information being available on the proposed wider LLP model, the Procurement and Commercial Team was unable to determine the viability of that model. An internal SLA and Statutory Compliance Document was produced at the time, defining the agreement between Hard FM Management (Landlord) and Building Services (Contractor). However, to date, this has not been implemented.

Developing critical success factors

The first step is to set out the critical success factors (CSF). By definition, these are attributes essential to the successful delivery of FM services, against which the possible options are assessed.

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The CSF for this project are set out in the table below:

Assessment Criteria	Description
Business need: operational efficiencies	Option meets agreed spending objective of reducing annual operating costs
Business need: greater commerciality	Option meets agreed spending objective of potential to generate new income streams
Strategic fit	Option also provides holistic fit and synergy with other strategies, programmes and projects especially “Tier 2: Deliver performance improvement – Operational Change” within Strategic Plan 2017/18
Availability of service/Customer satisfaction	Option ensures availability of goods and services at point of need when required. Customer satisfaction is improved or at least maintained.
Ease of implementation	Option can be delivered given Council’s ability to adapt and respond to required level of change (ie there is political will for change). Option also matches level of available skills within Council which are required for successful delivery. Option also appeals to potential service providers ie there is a market for delivery
Accountability and governance	The option provides the Council with a degree of transparency, flexibility and comfort over the ongoing delivery of the services and the Council’s interest in the services. This enables the Council to demonstrate Value for Money
Resources and investment	The option provides for the effective utilisation of resources and investment to allow for the successful delivery of the services in sustainable manner. This includes staff and managerial resources working together to realise the governing organisation’s goals and objectives.

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Risk management	The option provides opportunity to manage the relevant risks associated with service delivery.
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Creating a long list of options and analysis

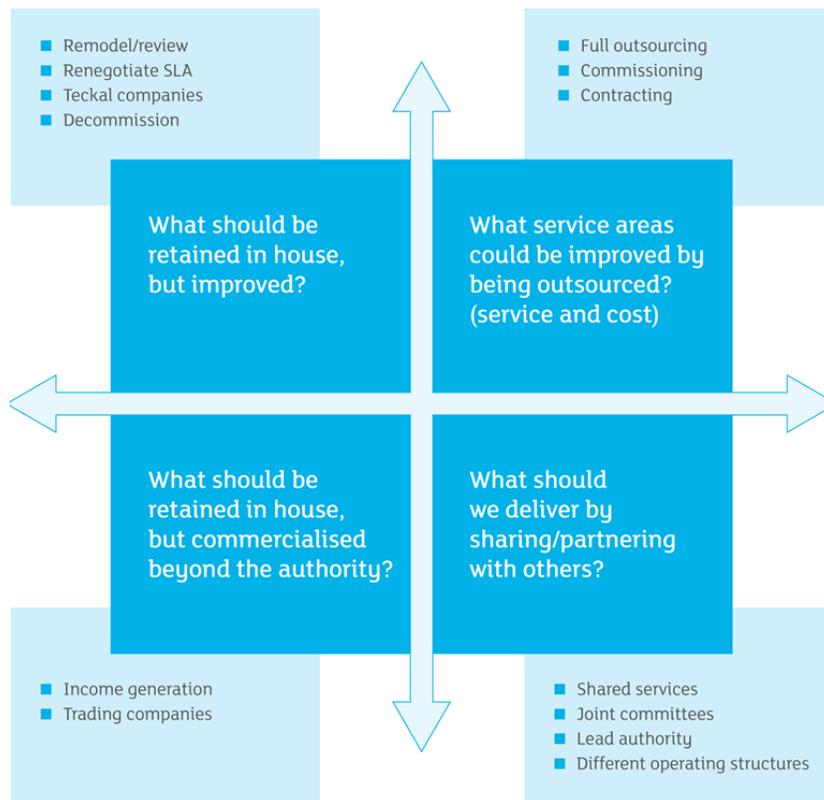
A review of Alternative Delivery Models (ADM) specific to FM Services has taken place. This includes case studies from other Authorities, trade body research and recommendations. Authorities are inconsistent in the delivery models and selection of services to be put forward to ADM. One model may not fit all and the decision to delivery services through a different model must be carefully appraised.

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It is important to challenge how services should be reformed and the following questions have therefore been



considered in the diagram below:

As a result, a long list of options has been drawn up; a brief description is included below with further details set out in Appendix D.

	Service Delivery Model	Brief Description
1	In-house	All services delivered in-house (including those not currently delivered in-house)

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	Service Delivery Model	Brief Description
2	Current Delivery/Enhanced Status Quo	Current model – mainly in-house but with certain elements outsourced (e.g. Specialist Works). Could involve some enhancements. Could also involve setting up a new company although certain activities would still be restricted (eg trading income generation)
3	Arm’s Length Trading Company/WOC/Mutual	Council sets up ‘arm’s length’ trading company to deliver all services and transfers all staff to the company. Effectively a Teckal company so levels of trading are restricted. Sub options for delivery include a Wholly Owned Company (WOC) or a Mutual company whereby employees are involved in the running of the company
4	Single Source and In-house mix	Management and delivery of some services retained in-house with other services outsourced to different suppliers.
5	Single Source Outsourcing	Management retained in-house with delivery of all services outsourced to different service specific providers
6	Shared Services Group	Management and services transferred to a special purpose vehicle (SPV) alongside another public sector body which does likewise.
7	Managing Agent	Management outsourced to specialist company which undertakes single source outsourcing of services but which the Council then contracts direct.

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	Service Delivery Model	Brief Description
8	Bundled FM	Senior and Middle management retained but junior management and service delivery staff are outsourced (generally to two service companies – hard and soft FM, although sometimes done by asset class, e.g. schools, housing etc.).
9	Managing Contractor	Senior and Middle management retained but junior management and service delivery staff are outsourced to a number of suppliers. One of which acts as lead supplier and delivers major part of services itself and ‘manages’ (sub-contracts) with a number of other suppliers.
10	Strategic Partnership	All management and service delivery staff outsourced to single supplier which undertakes most of services and only sub-contracts ‘specialist’ works. Council retains/establishes an ‘intelligent client’ to manage the contract.
11	Joint Venture	As for Strategic Partnership but where the Council forms a Special Purpose Vehicle (SPV) with the outsourced company to manage the contract either through a limited company or LLP. Alternatively, an unincorporated JV is possible whereby the Council and strategic partner collaborate in generating traded revenues
12	Total Property Outsource	Full outsource including transfer of assets – all staff transferred to third party which could be a JV.

In accordance with best practice, an analysis (benefits, opportunities, costs and risks) has been carried out on each of these options to help inform the creation of a short list. This exercise is set out in Appendix E and the outcome summarised below:

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	Service Delivery Model	Include on the short list?
1	In-house	No
2	Current Delivery/Enhanced Status Quo	Yes
3	Arm's Length Trading Company/WOC/Mutual	Yes
4	Single Source and In-house mix	No
5	Single Source Outsourcing	No
6	Shared Services Group	No
7	Managing Agent	No
8	Bundled FM	Yes
9	Managing Contractor	No
10	TFM/Strategic Partnership	Yes
11	Joint Venture	Yes
12	Total Property Outsource	No

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Evaluation against spending objectives and Critical Success Factors

These short listed options have then been assessed further by evaluating each the Council’s spending objectives and Critical Success Factors. The following table captures the findings from the evaluation exercise:

- “Meets” is denoted by a tick
- “May meet” is denoted by a question mark
- “Does not meet” is denoted by a cross

	2	3	8	10	11
	Current delivery/Enhanced Status Quo	Arm’s Length Trading Company/WOC/ Mutual	Bundled FM	TFM/ Strategic partnership	Joint Venture

Critical success factors

Business need: operational efficiencies	?	✓	✓	✓	✓
Business need: greater commerciality	?	?	?	✓	✓
Strategic fit	✓	?	✓	✓	✓
Availability/ Customer satisfaction	✓	✓	✓	✓	✓
Ease of implementation	✓	✓	✓	✓	?
Accountability and governance	✓	✓	?	?	✓
Resources and investment	?	?	?	?	?
Risk management	?	?	?	?	?

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Recommending a preferred way forward

This stage recommends a potential way forward, for the approval of management, based on the appraisal of the main options (long list) for the successful delivery of FM services. In practice, this is a “direction of travel” for delivering FM services, supported by a limited number of the more attractive options (ie the “short list”), for further evaluation in the next stage.

Short-listed options

The five options taken from the long list to the short list should be considered further at the next stage.

High level estimate of potential costs and savings

In parallel to this outline case, and in preparation for the next business case stage, there is an on-going exercise to collect, collate and analyse data on Aberdeen City Council’s existing FM service so that there is a robust baseline against which other options can be compared.

Research undertaken to date demonstrates that the Council may not be able to establish FM synergies in-house but with external support, this is possible. Synergies can be identified in Manpower, Procurement of Supplies for Services, and Supplier Capability to bundle and consolidate services. Indicative savings can be as much as 15-20%.

The table overleaf sets out an initial high level assessment of potential savings from adopting each option, together with a current estimate of any anticipated costs. These will need testing as part of the next, more detailed, business case. However, at this stage, these can only be indicative and are based on discussions with PwC reflecting their experience:

- Anticipated costs of implementation: include high level estimates to cover typical costs including advisory and legal fees
- Anticipated savings: the percentage ranges used in this analysis are marginally lower than typical benchmark ranges in order to reflect:

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- The level of services already outsourced (Specialist Works within Hard FM and Mail within Soft FM); arguably there is lower further savings on areas already outsourced.
- Views on the varying levels of material costs as a proportion of total costs; the higher the proportion of materials, the less opportunity for savings whereas the higher proportion of costs such as labour, the greater the scope for potential savings.
- Labour cost savings could be potentially significant, driven by changing ways of working, increasing the productivity of staff and from deploying staff resources in a more intelligent way.
 - Changing ways of working typically includes more robust management of absence, changes to working such as 5 in 7 day working.
 - Increasing staff productivity can be done from better monitoring and management of individual productivity/output, more training and from using technology to drive productivity gains e.g. cordless backpack vacuum cleaners and use of microfiber cloths and mops in cleaning.
 - Ways of deploying staff resources more intelligently include makes us of scheduling systems and trackers for managing engineering tasks.

The net effect of productivity gains is to require a smaller workforce which can then be achieved through a mixture of redundancy, redeployment and natural wastage.

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Table showing initial high level assessment of potential savings from adopting each option

	2 Current delivery/ Enhanced Status Quo	3 Arm's Length Trading Company/ WOC/ Mutual	8 Bundled FM	10 TFM/ Strategic partnership	11 Joint Venture
Comments	<ul style="list-style-type: none"> IT systems to drive efficiencies Staff T&C's Benchmark prices versus private sector Commercialise service Planned versus reactive 	<ul style="list-style-type: none"> Costs of establishing new vehicle Cost of governance and time to establish Share of overheads Skills and experience to achieve 	<ul style="list-style-type: none"> Bundle up services Benchmark cost against CCS framework 	<ul style="list-style-type: none"> Outsource to single provider Benchmark cost against CCS framework 	<ul style="list-style-type: none"> Costs of establishing new vehicle Cost of governance and time to establish Share of overheads Skills and experience to achieve JV approach facilitates best practice from private sector
Anticipated costs of implementation	£150k	£350k	£500k + (due to multiple contracts)	£500k	£700k +

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Anticipated gross savings p.a. * (on baseline of £46m, excl. indexation)	1%-3% Estimated as £0.5m - £1.4m	2%-4% Estimated as £0.9m - £1.8m	4%-10% Estimated as £1.8m - £4.6m	8%-18% Estimated as £3.7m - £8.3m	8%-18% Estimated as <i>Plus share of profit generated from revenue i.e. for every £5m of traded revenue, we anticipate margin of 6% (£300k). Council will receive 50% of this (£150k).</i>

- *Note: the savings above are for each option on a standalone basis and are not incremental savings on top of baseline option 2 savings*
- *Furthermore, if services in scope change, then this will also impact level of potential savings, so as the definition broadens to take in services not previously outsourced, there should be scope for greater savings*
- **The estimate of savings percentages are based on PwC's experience of similar transformations. PwC have taken a prudent approach, factoring in labour/materials composition of costs, existence of sub contracts, etc. Following soft market testing, the top ranges of savings estimates may increase.*

For Option 11 Joint Venture, there is opportunity to generate trading income. This has been prudently excluded from the analysis given evidence from other UK local authorities of historic performance and the challenges associated with achieving trading income projections. However, it could be considered as an upside as part of the next stage.

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Risks associated with options

There are a number of risks associated with each of these options as set out in Appendix E. However, since four of the five options involve outsourcing of varying degrees, there are some generic risks to consider further at the next stage including:

- Market appetite
- Implementation protracted due to internal or political issues
- Reduction in savings potential due to protracted implementation

Brief reference to Commercial, Financial and Management Cases

Each of the Commercial, Financial and Management Cases will be developed in more detail in the next, more detailed, business case. At this stage, we set out the key aspects that should be tested further as part of that work.

For the **Commercial Case**, the following will need to be considered in more detail:

- Who the likely service providers might be (including incumbents) and which FM services they typically deliver; it would be beneficial for the main suppliers of FM Services to determine how they would approach the bundling of services, against the value in doing so
- The likely attractiveness of this opportunity to potential service providers; there may be merit in assessing appetite through a soft market testing exercise since this would provide information on range of services available, experience, financial expectations, attitudes to procurement processes, speed of delivery etc.
- Allowing the in-house team the opportunity to propose how it can innovate and improve its own services

Some market research has been undertaken. Edinburgh Council had significant interest from suppliers to a Hard FM TFM approach, with majority highlighting a longer contract duration and partnership approach as the key to allowing innovation and strategic vision. Edinburgh further conducted consultation with their incumbent suppliers, gaining lessons learnt and feedback on their existing contracts. They discussed the impact on their current contractors business should they be bidding for a changed service delivery model. The resultant key themes highlighted the existing model was not profitable for contractors, plus they were not using the

	<h2>Outline Business Case</h2>	Review Stage Define
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Review Name	Facilities Management (including Stores Service)	Date	20 September 2017
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contracted pricing structure as it was too difficult to understand and very admin intensive. The new model would require TUPE of staff if unsuccessful or a change to delivery model. Despite progressing with the Hard FM TFM outsourcing arrangements, no deal was finalised. However, we understand there is a currently a Hard FM Single Supplier sourcing process currently underway.

It is likely the feedback from our current supplier base would be similar, however engagement should take place to reflect current market conditions and any nuances between the Edinburgh situation and Aberdeen's.

In terms of **the Financial Case**, the current financial position of services within scope is set out below:

In £m	Revenue (internal recharges and third party income)	Expenditure
Soft FM	4.8	(18.9)
Hard FM	30.6	(27.2)
	35.4	(46.1)

This current performance is against a backdrop of a wider ACC initiative to reduce costs significantly (or generate additional income to close the gap). There remains pressure therefore on both capital and revenue.

However, looking towards the upper end of the ranges for potential cost savings, this indicates that depending on the chosen delivery option, it could be possible to achieve savings in the region of £8.3m and before any incremental revenue is taken into account.

The **Management Case** includes:

- Setting out who is involved in the project, both inside and outside of ACC, including users, commissioners and other key stakeholders. At the moment this group has yet to be fully defined but we anticipate it will include:
 - ACC's Cabinet Members

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- ACC's Executive team and Senior Management Team, in particular the Chief Executive and relevant department heads such as Commercial and Procurement Services, Finance, Education, Social Care and Communities, Housing and Infrastructure
- Trade Union representatives
- Council tenants
- School Head teachers
- Achievability of the project, taking into account ACC's readiness and resources
- How the project is to be managed
- Other key managerial considerations

All of these will be considered in more detail as part of the next business case.

Indicative timetable

A full timetable will need to be developed in due course but indicative timings are set out below suggesting an 18-24 month period:

- Collation of baseline data: 1-2 months
- Preparation of more detailed business case, and soft market testing: 4 months assuming baseline data is available
- Council approvals: 1 month
- Preparation of FBC: 3 months
- Council approvals: 1 month
- Procurement process: 9-12 months
- Implementation

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Next Steps

As part of the next – more detailed – business case, critical steps will include:

1. Confirming stakeholder group and engaging with this group
2. Producing full strategic analysis, taking account of strategy of key sectors which FM services are delivered to - i.e. housing, education, etc. - to ensure that any FM delivery model change is aligned to the needs of these sectors where necessary.
3. Establishing baseline data:
 - Continue with Service Reviews and obtain further information on current service delivery model. Also consider Services delivered by Public Infrastructure and Environment directorate
 - Determine scope of possibility – having reviewed services, decide if any other services should be incorporated in scope? Which should be retained in house?
 - Align FM service descriptions with terminology that reflects terms used in the market, e.g. definition of capital works (as distinct from Minor Works) and gain clarity on exactly what is being provided by whom.
 - Model baseline spend ensuring only services and associated costs in scope are included; this will provide the benchmark against which to measure any savings
4. Confirm scope of services: some services have already been included within scope but there are a number that remain possibilities and which could potentially achieve greater levels of savings
5. Market Analysis including engagement with potential Suppliers and Partners ((this can take a number of forms from informal market soundings through to more formal processes)
6. Undertaking financial analysis and identifying and assessing potential income opportunities
7. Full Financial Modelling and Analysis:
 - Develop and refine baseline cost model in line with analysis above – include projection over relevant time period and factors such as indexation.

	<h2>Outline Business Case</h2>	Review Stage Define
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- Refine savings analysis based on above, i.e. adjust for impact of subcontracts where less savings are possible, adjust for differences in savings on labour and materials, etc.
- Confirm where savings can and cannot be recognised for the purpose of this work, e.g. can any savings to the HRA be counted in overall savings target?

8. Developing recommended Options

- Confirm initial ADM Options Appraisal with Heads of Services and Service Managers. This was requested by the LAPA HoS. This exercise has been completed to some extent with some Service Managers.
- Eliminate delivery models that do not align with ACC's strategic objectives. Progress definition and feasibility of approach to identify what best fits the shortlisted models.
- Ensure solution fits in with dependent change projects, i.e SCAPE

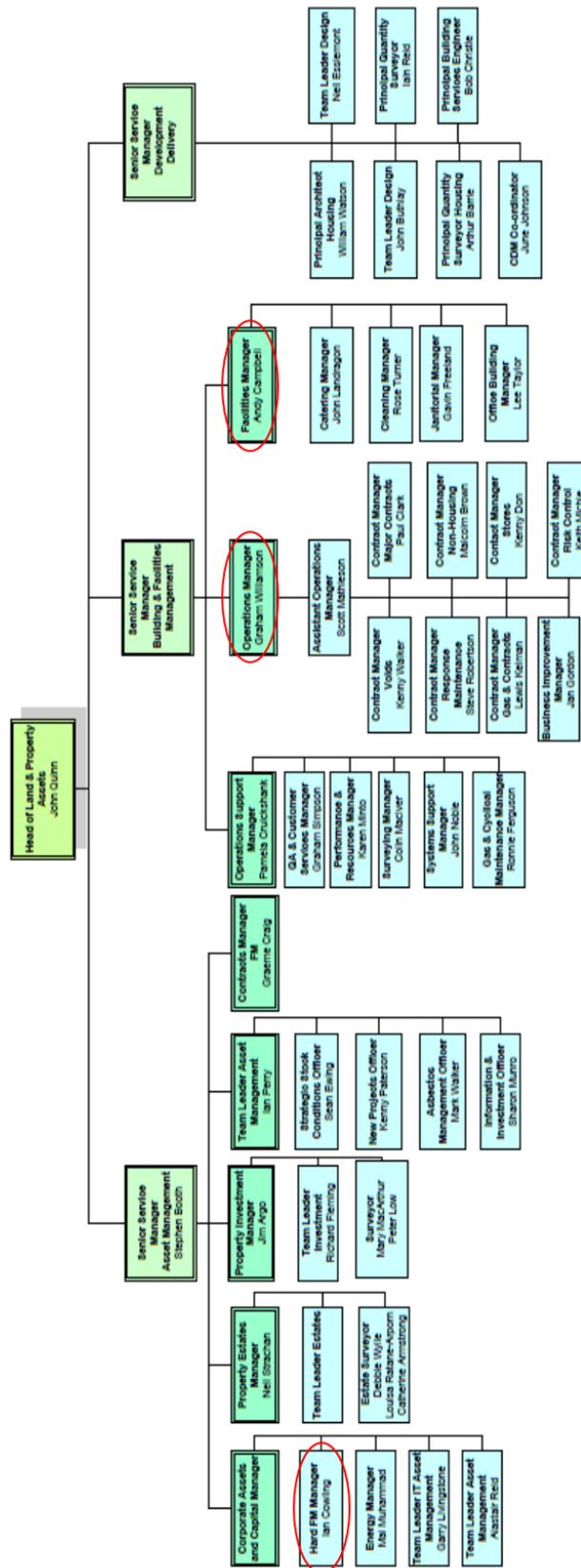
9. Develop Commercial, Financial and Management Cases

10. Implement short term service improvement solutions since there will be a lead time to complete detailed business cases and any resulting procurement processes

11. Develop timetable (initial indicative timeline suggests 18-24 months to implementation provided baseline data is available).

Appendix A: Structure of Land and Property Assets, Soft and Hard FM teams

Land & Property Assets



Appendix B: Further detail on service performance

Service Overviews

Service reviews are ongoing for Soft FM and Hard FM Services. A brief overview of findings to date in respect of service levels, performance, customer value and financial streams is included within this Appendix, with a focus on:

- Soft FM: Catering (schools), Cleaning, and Other FM
- Hard FM: Building Services (Housing), Building Services (non-Housing) and Stores

Soft FM

Approximately 75% of the Soft FM budget relates to Catering (schools) and Cleaning. These services also have income streams (a mix of internal recharges and third party income) and performance comparators.

Catering (Schools)

Service Levels

- The catering service has maintained the 'Food for Life Served Here' Silver Award from Primary Schools and furthermore, successfully extended the award to Secondary Schools. The council has become the first Scottish local Authority to achieve this award level for the entire school estate.
- However, there are no SLAs in place.

Performance

- Based on the latest available APSE Performance Network data for 2016/17, Aberdeen City generally perform above the family group benchmarks across all key performance indicators. Family grouping draws on factors such as local policy, demography, size and type of operation to group similar authorities, so a like-for-like comparison can be achieved. The high results are true for both productivity and cost performance, including number of meals produced per hour, price/cost per meal, spend per pupil, unit cost ratios, and management/supervision ratios.
- One area that performs below average is the uptake of free meals. This has no financial impact to the service. Any budget received for free meals and not used is not reflected within the catering financial statement.

Customer Feedback

- Medium to High based on School Pupil & Parent Feedback collected.

Income Streams

- All income streams are internal from the supply of school catering. In 2016/17, this revenue (ie internal recharge) amounted to £2.7m compared to a £6.3m cost of provision. There is no outside revenue generation and no opportunities have been identified.
- The service proposed to increase the cost of school meals as part of the 2017/18 budget setting in line for the new school year. This was not approved by Council. Until this becomes

a delegated power of the Head of Service, a full committee paper would be required to gain authority to change the meal pricing.

Cleaning

Service Levels

- The specification for cleaning is based on the British Institute for Cleaning and input hours. This specification was implemented by the Cleaning Manager.
- There are no SLAs in place, with the exception of Bon Accord Care.

Performance

- During 2015/16, 365,000 M² were cleaned. The total cost per M² is £12.01. Comparing with the APSE Performance Network, Aberdeen City Council performed within the top quartile, 4th of 15 within the group. If the Council were to perform at the best of their group (£9.69 per M²), the total cost improvement would be approx. £800k.
- Similarly high performing is the Total M² area cleaned per FTE, at 1,763 M². The council is performing within the top quartile of their family group.

Customer Feedback

- High, based on Staff response for Public Buildings and Schools

Income Streams

- The service currently provide external cleaning services for Bon Accord Care, other Private Parties (Nestrans, Castle Hill, Aberdeen Foyer), HRA – Sheltered Housing and Voids and Police Scotland – Crime Scenes. The service further offer Training Services, e.g. Bacterial Outbreak training, offered to Aberdeenshire Council and external organisation. The work is currently being completed with the current resource pool, and due to staff constraints, they are turning down external work opportunities.
- The service have however recently tendered for the Langstane Housing Contract for routine and deep cleaning (optional) works, at an annual income of £109k to the service.

The Catering and Cleaning service performance and current income streams supports an opportunity to sell the service to the market. Analysis will be conducted to determine the potential of this opportunity utilising an alternative delivery vehicle. However, recently the Cleaning Team bid for the Internal High Rise Cleaning Contract for the Communities and Housing Team. The bid was unsuccessful, primarily due to the package quality, which suffered through a lack of Commercial experience within the team. As the internal team were competitive on price and output, the question should be considered why the service was offered to the outside market from the outset. Doing business with our self is an area that will be examined as part of this project.

Other Soft FM Services

The remaining services within Soft FM include Janitorial, Building Team and Facilities Admin which are very much people services. Significant efficiency drives have taken place over the last few years, with the Service Managers confirming they are delivering as lean as can be to provide the current level of service. Therefore, any change in staffing will directly affect the service levels that can be delivered.

There are no SLAs in place for Building Management and Janitorial services. However a Janitorial SLA has been developed and put forward for implementation at schools.

The Soft FM Service in entirety have been shortlisted for APSE’s Best Performing Service Team Award for Facilities Management 2017, an award which was won the previous year, 2016.

Replacing the mail system with Hybrid Mail has been identified as an opportunity to reduce the cost of services through reduction of mail transport.

Hard FM

Aberdeen City Council has a duty to ensure that all buildings under its control comply with the appropriate statutory, regulatory and corporate standards, for example, Health and Safety at Work etc Act 1974 (HSWA), Scottish Housing Quality Standard (SHQS), and Scottish Social Housing Charter April 2017.

Hard FM Services are predominantly delivered by the internal Building Services team and supporting Contractors. There is a distinctive split between ‘Housing’ and ‘Non-Housing’ work.

Building Services - Housing

Service Levels

- There is no overall SLA in place between the Housing Management Team and the ‘Contractor’, Building Services.
- However, there are formal agreements in place between the two parties to define response time of repairs (by severity), turnaround time of void properties, and minimal letting standards for re-lets.

Performance

There are three key areas which form the basis for measuring performance of Building Services (Housing):

- Repairs and maintenance
- Spend per property
- Voids

Repairs and maintenance

During the last financial year, the Building Services Housing team undertook repairs and maintenance for 18,719 emergencies and 44,477 non-emergencies.

Housing are required to record and publish data for Statutory Performance Indicators (SPI) by the Accounts Commission under the Local Government Act 1992 The Publication of Information (Standards of Performance) Direction 2014.

The key indicators and their results are as follows. The current target is the average value within Aberdeen City Councils family group.

Code	Description	Current Target	March 2017	March 2016
			Value	Value
HOUCHI11	The year to date average length of time taken to complete emergency repairs (hours)	4.89	3.2	5.19
HOUCHI12	The year to date average length of time taken to complete non-emergency repairs (days)	8.81	6.53	6.53
HOUCHI13	Percentage of reactive repairs carried out in the last year completed right first time	93.56%	92.39%	

Code	Description	Current Target	March 2017 Value	March 2016
				Value
HOUCHI14	Percentage of repairs appointments kept	92.57%	98.93%	81.45%
HOUCHI15	Percentage of properties that require a gas safety record which had a gas safety check and record completed by the anniversary date	100%	100%	100%

The results demonstrate that efficiency in completing emergency and non-emergency repairs is better than the family group average. However, a range of alternative indicators must be examined to ensure the comparison is consistent against the category of emergency. For example, Aberdeen City Council consider an emergency repair complete when the property is made safe within a self-established target time of 4 hours, against the recognised standard as 24. The complete repair work may not be undertaken during this job. A new, non-emergency repair job may be opened to complete the residual works, assigned with a new target delivery time, i.e.

- Urgent - 24 Hours
- High Category - 3 Days
- Non-Emergency - 5 Days
- Routine Repairs - 10 Days

The percentage of reactive repairs carried out right first time is marginally below the average. This may suggest that the stock was not available, the stock was available but not transported to site, or the trades required were absent.

Repairs appointments kept is considerably higher than average, and gas safety checks and records were complete on schedule for all required properties.

Although Aberdeen City Council do not submit performance data to APSE, a comparison with their indicators will be completed to determine comparative performance.

Spend per Property

On cost performance, based on 2015/16 data, Aberdeen City Council spend on Management and Maintenance was on average £1,955 per house. This compares to the lowest spend in Scotland by Midlothian Council at £1,601 and the highest spend by Edinburgh £2,793. However, this spend cannot be considered in isolation and must be looked at in conjunction with the reactive repair cost per house.

The average repairs and maintenance expenditure per house per year is £1,294 for the Council, ranking 6th by spend within the Scotland council grouping of 25. The average for the family group is £1,132 and the lowest spend is £753. Notably, both Edinburgh and Dundee are within the top 5 spenders. With a similar city profile in maintenance spend ranking and repairs spending ranking, there is no obvious link to determine that more spent on maintenance will reduce spend on repairs.

Supervision and Management costs are below average expenditure per house per year.

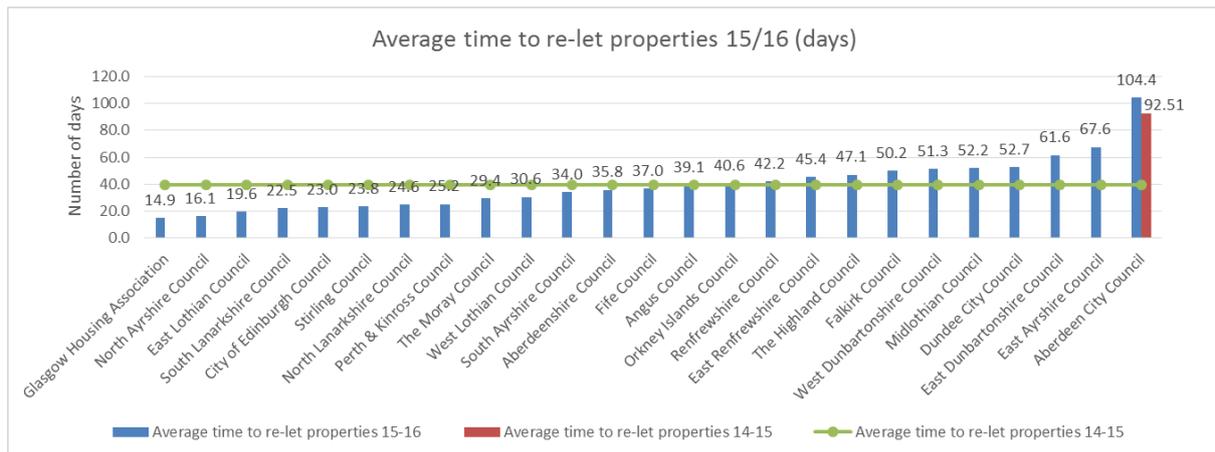
Analysis of further cost/performance measures is required such as: Repair jobs per property per year, average cost of repair, repairs per operative, employment cost per year, per operative etc. These will be explored as part of the on-going work to establish baseline data.

Voids

Property voids represent unoccupied and unlet council owned housing stock. The total void properties are 2,505 which represents 10% of Portfolio and equates to an annual cost of around £4.7m.

The average void cost per property per year is estimated to be around £1,894. Benchmarked against costs incurred by other local authorities, Aberdeen City Council perform £228 higher than the Scotland Average and £578 higher than the lowest spending authority.

The table below sets out the average number of days its takes to re-let properties



The average time to re-let properties was 104.4 days in 2015/16. Aberdeen was the worst performing authority within the sample of Scottish authorities. Notably Glasgow Housing Association and Edinburgh Council were 15 and 23 days respectively. The Housemark void turnaround average was 28 days. The situation has improved in 2016/17 with Aberdeen reducing the average days to 51.6 (unpublished data) but this is still nearly double the Housemark average.

With £79 average weekly rental (£316 per month), the total loss of rent per void per year is £1,095. Therefore £1.9m rent is lost per year across the Voids which is £1.3m above the average time to turnaround a void property. Even with the improvement noted for 2016/17, this still represents lost rent of at least £0.9m compared to the average.

The % of rent currently lost through empty properties is calculated at 1.66%

Efficiencies in voids turnaround to re-let should be considered from a site and sale perspective. For example, “Experience in Void Solutions” by Travis Perkins identify some opportunistic areas to support the working practices:

- Plot Packs
- Shared online work schedules
- Just in time Delivery
- On time in full supply
- Pre-planned using route planner
- SMS notification to operative
- Link to mobile pre-inspection & ordering tools

In a ‘Wrekin House Trust’ Case Study, Travis Perkins achieved a reduction in void time from 26 days to 6 days reducing forfeited rental income by £1.4m per annum.

Customer Feedback

The percentage of tenants who have had repairs or maintenance carried out in the last 12 months were 95.9% satisfied with the repairs and maintenance service. The average within the family group is 80%.

Furthermore, 79.5% of tenants were satisfied with Standard of Home when moving in. The average for the family group is 84%, Dundee and Edinburgh are 88.64% and 70.42% respectively.

Building Services - Non-Housing

Service Levels

- There is a Service Agreement in place to keep Bon Accord Care and Sports Aberdeen wind and watertight.
- Hard FM Management hold the Statutory Maintenance budget for schools. This is restricted to Statutory Maintenance and Health, Safety and Environmental issues and details are outlined in the 'Devolved Education Management' (DEM) Agreement on Premises Budgets.
- Asset Management hold the budget for Commercial Property maintenance, out with the scope of the lease, which is managed in cooperation with the Hard FM Management Team.

Performance

KPIs for Building Services work have been provided by the Hard FM Manager.

KPIs for Building Services and Cyclical Maintenance carried out by Term Contractors are based on response and completion times, i.e. within 30 days from the initial due date. Issues with manual recording from spreadsheets and suppliers not using handhelds linked to the Consilium System are currently prohibiting the ability to accurately track this external performance through 'Confirm', the Hard FM System. However, the Council does have a number of other cost/performance measures for external comparison.

As per the 2016/17 service plan, the service still faces significant challenges in the process of accurately measuring and improving productivity.

Further cost/performance measures are required to be developed and compared. These include: Repair jobs per property per year, average cost of repair per building type, repairs per operative, employment cost per year, per operative etc. All indicators will be explored as part of the on-going work to establish baseline data and further work is required develop and compare the results with similar benchmarking authorities.

As detailed above, improvements in IT would assist with management information.

Customer Feedback

Customer feedback had been previously collected for Non-Housing Properties, however the response rate was so poor that collection was discontinued. This is something that will be explored as part of our on-going work.

Income Generation

Building Services are currently supported by income internally from the Housing Revenue Account, Hard FM (Non-Housing) Management, and other Services with individual building spend requirements.

However, it was highlighted that there is approximately £2.5m value of work not being issued to Building Services, where they have the capability and capacity to complete the work.

While the majority of Housing Works are carried by Building Services, approximately £2M of the Hard FM Non-Housing budget (£4M) is spent on outside contractors. Building Services are offered the Contracts for statutory works, however if they cannot execute these for reasons of seasonal capacity or capability (for example Building Services have a full programme of work throughout the Summer), these are tendered externally as Term Contracts with 13 week break clauses for the works to be taken back in house by Building Services, if required.

Building Services are further required to tender against the private sector for capital works issued by the Council, regardless of potentially having the resource availability to complete carry out these works.

The team further undertake work for a number of external public bodies such as Aberdeen University, Police Scotland and Langstane Housing Association.

Determining results for Building Services non-housing performance is in progress.

Price Increase – Building Services (Housing and non-housing)

Building Services have increased their rates by 8%-11% this year which runs contrary to Council's requirement to save money. This has a direct impact on the cost of work for the HRA and non-housing budget holders. Historically, Building Services has been viewed by internal budget holders as an expensive service, and this has resulted in works being tendered externally.

The increase in rates will directly affect the amount of work that can be completed for the Housing/Non-Housing Budget Holdings. The Hard FM Management budget has not been increased to take consideration of the rate change. It further makes Building Services less attractive for other internal customers, i.e. Capital Works and Schools. In addition it will reinforce the perception of an expensive service and increase pressure on service areas to tender works and award outside the Council.

If the options for Budget Holders to tender works externally still exists, without single sourcing to Building Services, this results in money exiting the council and generating spare capacity within the Building Services team. Alternatively it is an indicator that Building Services is inefficient and as such they should be aiming to reduce cost instead of passing on these inefficiencies to internal customers.

This area needs to be examined further, as there are indications that internal customers do not feel they are receiving a good service in both terms of quality and price thus driving them to tender work. Hence, consideration should be made as to why we need both delivery methods (Internal Team and External Contractors).

Building Services aim to deliver 100% job compliance, fully estimated, where outside contractors can escalate costs post award of work through issuing variations for 'extras' and have been required to re-visit sites for corrective works. An exercise is underway to try to gather outturn costs and draw some comparisons.

Budget holding responsibility is an area that should also be reviewed. There may be efficiencies in having a single Hard FM Budget responsible for repairs and maintenance, allowing others to focus on their key objectives, i.e. Head Teachers focus on Education.

Summary Conclusions

The service information collected demonstrates that Building Services are efficient in housing response and repair works. They are a large Hard FM delivery team with a strong footprint within Aberdeen. However, further cost performance indicators are required in order to benchmark their delivery against other authorities and the private sector in order to establish competitiveness in the open market. Further studies are ongoing to determine the market need.

The recent price increase does run contrary to an efficient service and will lead to increased pressure from service areas to tender Hard FM work especially given that maintenance budgets have not been increased. This reinforces the perception that the service is inefficient and expensive. The price increases should be reviewed to determine value for money and provide assurance that they are more than a budget balancing exercise.

The service is built for reactive works in which they are efficient. However, reactive type services are often more costly than those where activity can be planned with efficiency in mind. Work should be undertaken to unlock efficiencies in moving from a reactive to planned model, allowing greater visibility of work and scheduling to achieve to the highest productivity from the team.

Void turnaround and re-lets is established as an area for improvement. Efficiencies in service delivery could be examined in the short and long term to increase performance and therefore increasing collection of rent.

The Service also recognises further opportunity to increase income via:

- Delivering more of the Capital Works of the Council through Building Services instead of using external contractors
- Increased income from delivering repair and maintenance services along with consultancy and asset management services in the open market (including to 23,000 former council houses)
- Securing funding opportunities through asset management of the Council Housing assets
- Increasing contracts for services with other public sector bodies in the North East of Scotland

Stores

Storage is an enabling function within the Council and historically in-house stores operations were developed to address supply chain issues by having materials readily available. Hence, it is an area where costs should be minimised and outputs maximised. The overall requirement is to ensure the provision of goods and services at the point of need at the time they are required for service delivery.

Stores generally fulfil the purpose of improving availability of items to meet required turnaround times (some of these are mandatory in terms of Social Housing Tenant’s responsive repair requirements and Emergency Road and Lighting repairs), often with some additional facilities around PPE supply and some limited plant provision.

Generally a stores operation for consumable items consists of the follow processes;

- Unloading from delivery vehicle and storing in correct stock location
- Receipt and booking of stocked items in financial systems
- Storing and managing stock through stock checks/location moves
- Stores requisition by customer
- Item is picked and delivered to counter / site (double handling)
- Stock re-order generated when thresholds reached (automation or manual processes)
- Purchase order placed and goods delivery expedited.

Immediate customers of these stores are generally Council employees delivering services to the ultimate customer generally being a member of the public.

Volume storage across the Council is held in the following areas:

- Building Materials (repair and maintenance of Social Housing and Corporate Buildings)
- Roads and Lighting Materials (repair and maintenance of road and lighting assets)
- Fleet Spares (repair and maintenance of the Council’s vehicle fleet)
- Corporate Records (hard-copy, currently managed by IT & Transformation. Covering the whole council, although the majority of social care client records are held separately in a store managed by Education & Children’s Services)
- Aids for Daily Living (Occupational therapy equipment).

In order to provide buffer stock the Council has to invest capital and working capital to provide assets and staff resources to maintain a stores operation. The most capital intensive stores are those within Communities, Housing and Infrastructure (CH&I).

Stores are located as follows:

Service	No of Stores	Location and Type	Approx. Area (m2)
Land and Property Assets (Building Services)	3	Kittybrewster (Main Store)	3421
		Kincorth (Satellite Store)	171
		Hilton (Satellite Store)	179
Public Infrastructure and Environment (Roads)	2	West Tullos (Main Store)	1800
		Bucksburn (Road Salt only)	
Land and Property Assets (Fleet)	1	Kittybrewster (Main Store)	3741

Service	No of Stores	Location and Type	Approx. Area (m2)
Records Stores	3	Unit 1 Whitemyres (Low Activity Corporate Records)	676
		Marischal College (High Activity Corporate Records)	178
		Unit 2 Whitemyres (social care client managed by Education & Children's Services)	656
Health and Social Care Partnership	1	Joint Equipment Store, Whitemyres*	

*work is underway to integrate this store with the NHS Grampian Warehouse at Central Stores, which is on the Foresterhill site

A number of areas have been identified for improvement:

- **Integration:** Each individual store operates individually, to meet the needs of its own Service, and as such there is little in the way of shared systems, or shared best practice.
- **Infrastructure (buildings):** Some of the stores have sub-optimal premises leading to operational inefficiencies:
 - Kittybrewster (Building Services) is classified as a 'C: Poor - showing major problems and/or not operating adequately',
 - Roads and Lighting Stores have a store based on the first floor, requiring goods intake to be forklifted up to the first floor level
 - Records storage is split across 2 different sites with a need for a more flexible, sustainable solution being required.
- **The price paid for stockable items:** This is currently being tackled via various competitive tenders from Scotland Excel frameworks for Building Services and Roads and Lighting stores. In essence stock replenishments are a leverage purchase and therefore price can be improved through the consideration of strategies to maximise the potential spend with suppliers, such as co-operation across Council areas. This must currently be assessed against a backdrop where suppliers pricing is anticipated to sharply increase owing to currency fluctuations and Brexit risk. It may well be that cost avoidance rather than overall reduction is achieved. Devoting time and resource to increasing rationalisation and substitution of goods should allow us to maximize the savings opportunities. It also should be recognised that in this area in many cases the cost of acquisition (purchasing and handling the good) is significantly more expensive than the good itself.
- **Operational Efficiency:** Minimising the amount of staff resources dealing with stores and accessing consumable stocks must be a key focus. These resources could either be in the Service areas or directly involved in stores operations.
- **Stores Working Practices:** In terms of working practices; a number of innovations and efficiencies have been adopted – but further investment is required to maximise these and harmonise best practice across the Councils. The main opportunity comes in those actually undertaking the repair and maintenance work.
- **IT Systems:** In terms of IT systems, a divergence in systems is occurring:
 - Roads are moving away from the Total Mobile system (which is also used by Building Services) and implementing their new 'Pillar' system.

- Building Services are upgrading the Total Mobile system with a new server environment underway and future upgrades planned. A move from Handheld devices to Tablets is also planned in the next year.
- Environment Services have expressed an interest in the use of Total Mobile.

There is little or no scope to generate new revenue streams from Stores services.

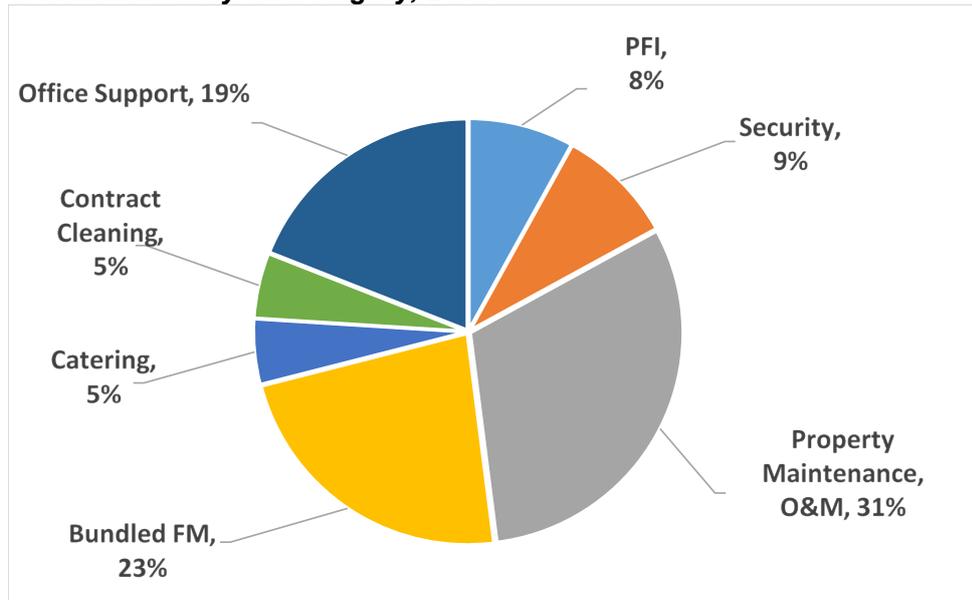
Draft for Discussion

Appendix C: Overview of FM trends and key service providers

The FM Market – Key Trends

- Maturing market:
 - Even before Brexit, growth in the UK FM market was projected to soften to around 3.0% per annum. This reflects a high level of market maturity in terms of outsourcing
 - The ability to grow margin for FM providers is more difficult because cost savings which are easiest to realise have already been taken, particularly in second or third generation outsourced contracts
- People pressures: the National Living Wage and Apprenticeship levy represent near term cost challenges for FM supplies, In the current market, it will not be easy to pass these costs onto to customers, impacting the margins of FM providers
- Brexit ramifications:
 - Companies may delay renegotiation of FM contract until there is greater certainty on economic impact of Brexit and their requirements for office space
 - Restriction on the supply of labour, attractiveness of the UK as a destination for migrant labour and decline in value of sterling are already starting to have an impacts as a result of Brexit
- Nature of contracts:
 - Trend towards greater consolidation, bundling and integration of FM services (e.g. TFM contacts)
 - Typical length of contract is increasing
- Perception of FM
 - FM being seen as more integral to business, strategic partnering relationship
 - Further professionalism of FM industry
- Technology: likely to be impacted by – IoT devices, drones, Blockchain, Artificial Intelligence

UK FM market by FM category, 2016:



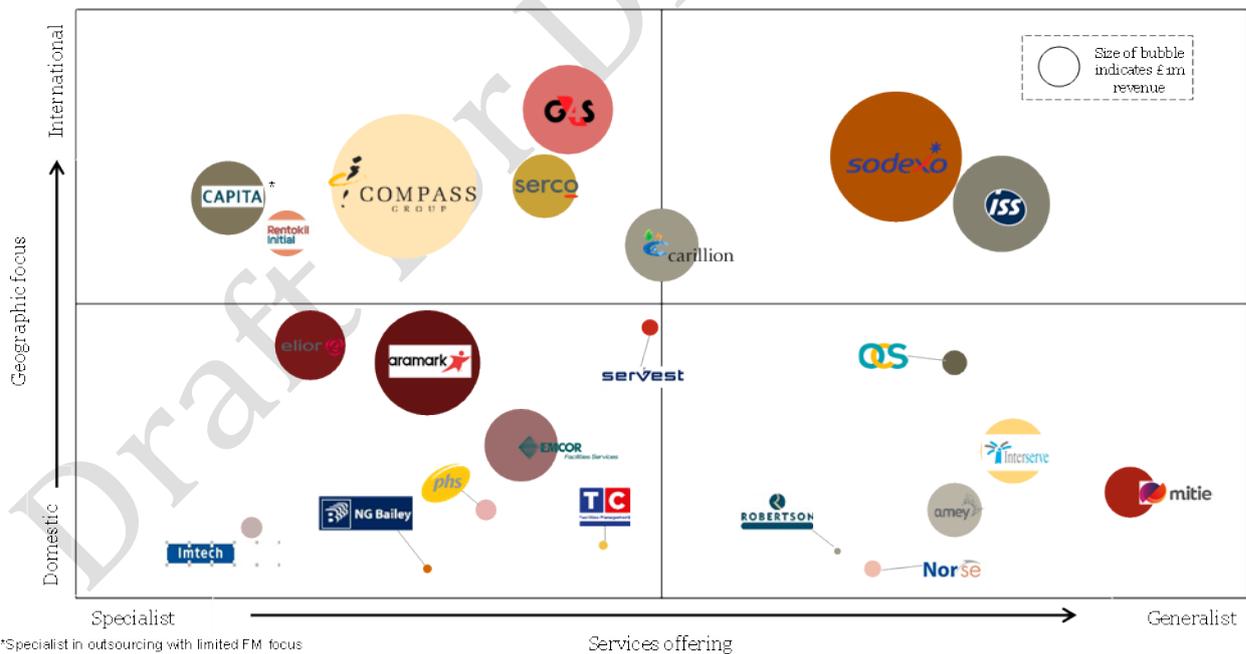
Source: Facilities Management Market Research and Analysis, UK 2016, MTW Research

The FM Market –Provider Structure

In the UK FM market, “generalist” and “specialist” business models co-exist:

Facilities management companies by geographic focus and services offering*

ILLUSTRATIVE



*Specialist in outsourcing with limited FM focus
Source: PwC Analysis, Company accounts

Outlook for the UK Facilities Management market

Appendix D: Long list of delivery model options

#	Option Name	Characteristics
1	In-house	All services with the exception of small technical services such as lift maintenance, managed and delivered in-house by directly employed Council Staff. This would include in-sourcing services currently outsourced. This option is often popular with staff and trade unions and offers the highest degree of control.
2	Current Delivery model	Mainly in-house management and delivery of services with some discrete services outsourced (eg Specialist Works). Continuing with this option involves on-going service review. Could be delivered by setting up a new company but this is likely to still have certain activities restricted eg ability to trade.
3	Arms Length Trading Company/WOC/Mutual	All management and services are transferred to an Arms Length Trading Company/wholly owned company which is responsible for delivery against SLAs agreed with the Council. The company operates separately and is accountable for the delivery of the services. The company has the ability to operate outside the Council but is effectively a Teckal company and therefore subject to restrictions on levels of trading. Sub options for delivery include a Wholly Owned Company (WOC) or a Mutual company whereby employees are involved in the running of the company
4	Single Source and In-house mix	Management retained in-house. Some individual services retained in-house with others outsourced to different suppliers. e.g. cleaning and property management in-house and maintenance and security outsourced to different suppliers. Typically single source contracts of 3-5 year terms. This option is common where some in-house services are seen to offer high levels of value for money and/or where the organisation is risk averse.
5	Single source outsourcing	Management retained in-house with individual services outsourced to different providers e.g. a cleaning contract, a maintenance contract, a security contract, a catering contract and a property management contract etc. Typically single source contracts of 3-5 year terms. This option is common where very high levels of performance are required such as professional service firms or where organisations are risk averse (avoiding all “eggs in one basket”). Becoming less common as integrated FM companies improve quality of delivery and more single source companies transition to or are acquired by integrated FM companies.
6	Shared Services Group	Management and delivery of services transferred to a special purpose vehicle (SPV) created with one or more other local public sector bodies who also transfer their management and delivery to the SPV. The SPV then pools resources and expertise and delivers services back to the parent organisations. Typically Shared Services Group agreements

#	Option Name	Characteristics
		would be >5 years in length. Common where VAT would be attracted by outsourcing or where outsourcing is not accepted for political or other reasons. Complex and expensive to establish and with a mixed record of success. Requires one or more local partner.
7	Managing Agent	Management is outsourced to a specialist management company. The Managing Agent then undertakes single source outsourcing on the Council's behalf. The Council contracts directly with the suppliers chosen by the Managing Agent who typically charges a percentage of the individual contract values as their management fee. Typically Managing Agent contracts are for 3-5 years in term. This model is less common due to perceived poor value for most organisations (margin on margin). More common for Global or European, Middle Eastern and African contracts.
8	Bundled FM	Senior and Middle Management retained in-house. Junior Management and delivery staff outsourced typically to two different suppliers; one covering Hard FM (maintenance, projects, hard landscaping) and one covering Soft FM (cleaning, catering and security). Alternatively, FM could be bundled by asset class eg schools, housing etc. Contract terms typically of 3-5 years. Popular with organisations that want the benefits of integration but perceive that the level of risk from just one company is too high. Becoming less common as integrated FM companies improve quality of delivery and more bundled service companies transition to or are acquired by integrated FM companies.
9	Managing Contractor	Senior Management and Middle Management retained in-house. Junior Management and delivery staff outsourced to more than one supplier. One supplier acts as the lead, directly delivering a significant proportion of the services. This "Managing Contractor" then sub-contracts with other suppliers of its choice to deliver the remainder of the services. Typically contract terms of 3-7 years. This option is common where an organisation wants to outsource all services and to work with a specific company but one that does not have the experience to deliver all the services. e.g. a maintenance company sub-contracting for cleaning and catering services. Becoming less common due to the growth of integrated FM companies.
10	Strategic Partnership (Integrated FM or Total FM)	All management and services outsourced to a single supplier. A "thin" or "intelligent" contract management function is retained to manage the contract and the relationship. The supplier typically self-delivers the majority of services (>80%) and only sub-contracts for specialist services such as lift maintenance. Typical contract lengths are 5-10 years. The higher value and longer terms of these contracts mean that the relationship is as a strategic partner with a high degree of trust and flexibility required. These contracts are increasingly common as they are perceived to offer the best value and as they are the most attractive to the market.
11	Joint Venture Company	As for Strategic Partnership but the client organisation forms a special purpose vehicle, typically a limited company or an LLP with the supplier. These JV companies can have a minor or major shareholding by the client and can trade externally. Contract terms are typically 5-10 years. This model can be beneficial for tax purposes, where there is a real

#	Option Name	Characteristics
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potential to generate profits from external trading and/or where the client organisation wants to be seen to retain an interest for political reasons. It could also be an unincorporated JV whereby the Council and strategic partner collaborate in generating traded revenues in partnership to benefit of both parties but without forming a special purpose vehicle.

12 Total Property Outsource

The Council transfers ownership of most or all of its property assets to a third party (which could be a JV) and transfers staff along with the property and pays an annual Unitary charge to cover rent and services. The client organisation may also receive an initial capital consideration at the cost of a higher unitary charge over the term. At the end of the term agreed core assets are returned to the Council. Contract terms are typically 20-25 years. This option involves radical change and provides the lowest level of control (the supplier may move your staff around and dispose of assets as part of the arrangements). It can be beneficial where an estate needs transformation or where an organisation needs capital.

Draft for Discussion

Appendix E: Analysis and shortlisting delivery model options

The following table summarises the qualitative assessment of the long list of options and the shortlisted options to be scored against the business requirements to assess those options to financially model. For each, a summary of the main benefits, opportunities, costs and risks are set out in the table below.

Delivery Model	Benefits	Opportunities (leading to sustainable innovation)	Costs	Risks	Shortlist
1.In-house	<ul style="list-style-type: none"> • High level of control • Acceptances by trade unions • Low level of change • Flexibility • Low level of opposition by staff and opposition by staff and politicians • Known and understood • Familiar model • Clear lines of responsibility and accountabilities 	<ul style="list-style-type: none"> • In-source services currently outsourced and improve performance levels • Clarify lines of responsibilities and accountabilities • Improve level of services • Corporate / one council approach to service • Reconfiguration of services • Develop existing work force • Bring private expertise in to improve services • Improve management expertise 	<ul style="list-style-type: none"> • Reconfiguration costs (but to generate savings) • Redundancy costs • Opportunity cost to realise full potential savings • Opportunity cost – less commercial solution • Constraints on flexibility of staff T&Cs • High management burden • High infrastructure requirements • Loss or reduction in external and internal business 	<ul style="list-style-type: none"> • Lack of innovation • Less commercial • High risk of internal stakeholder challenge • Risk of staff and industrial relations issues • Loss or reduction in external and internal business • Not financially sustainable 	No
2.Current Delivery model/Enhanced Status Quo	<ul style="list-style-type: none"> • High level of control • Acceptance by trade unions • Low level of change 	<ul style="list-style-type: none"> • Retender underperforming outsourced services • Bring in expertise for the underperforming 	<ul style="list-style-type: none"> • Reconfiguration costs (but to generate savings) • Redundancy costs • Opportunity cost to realise full potential 	<ul style="list-style-type: none"> • Resistance to change by outsourced staff • Current suppliers of outsource service change delivery staff so 	Yes (base case)

Delivery Model	Benefits	Opportunities (leading to sustainable innovation)	Costs	Risks	Shortlist
	<ul style="list-style-type: none"> Flexibility Low level of opposition by staff and politicians Known and understood Familiar model Clear lines of responsibilities and accountabilities Some costs savings from retender of external services 	<ul style="list-style-type: none"> outsourced services Clarify lines of responsibilities and accountabilities Improve performance levels Corporate/ one council approach to services Reconfiguration of services Develop existing work force Bring private expertise in to improve services Improve management expertise 	<ul style="list-style-type: none"> savings Opportunity cost – less commercial solution Constraints on flexibility of staff T&Cs High management burden High infrastructure requirements Management of the design services contract Loss or reduction in external and internal business 	<ul style="list-style-type: none"> that they retain high performing staff on re-let Reputation of contractor Performance of contractor Lack of innovation Less commercial High risk of internal stakeholder challenge Risk of staff and industrial relations issues Loss or reduction in internal or external business 	
3.Arm's Length Trading Company/WOC/Mutual	<ul style="list-style-type: none"> Politically acceptable Acceptance by trade unions Low level of change Low level of opposition by staff Low procurement costs Reduction in bureaucracy 	<ul style="list-style-type: none"> Clarify lines of responsibilities and accountabilities Improve level of services Reconfiguration of services Develop existing work force Bring private expertise in to improve services 	<ul style="list-style-type: none"> Reconfiguration costs (but to generate savings) Opportunity cost to realise full potential savings Opportunity cost – less commercial solution Constraints on flexibility of staff T&Cs High management burden 	<ul style="list-style-type: none"> Variable success rates for Local Authority Trading Companies in achieving objectives Less commercial Competing with external / local market for new business Lack of flexibility of changing staff T&Cs Able to change culture 	No

Delivery Model	Benefits	Opportunities (leading to sustainable innovation)	Costs	Risks	Shortlist
		<ul style="list-style-type: none"> • Employ local people • Tender for other work outside the Council 	<ul style="list-style-type: none"> • High infrastructure requirements • Loss or reduction in external and internal business 	<p>to be more commercial</p> <ul style="list-style-type: none"> • Risk of long term sustainability 	
4.Single Source and In-house mix	<ul style="list-style-type: none"> • High level of Council control • Demand management/prioritisation • Flexibility of supplier • Retain key services in-house • Service specific savings from outsourcing • Reduced corporate overheads • Lower management operational burden in relation to outsourced 	<ul style="list-style-type: none"> • Transfer higher risk areas • Best of breed for outsourced services 	<ul style="list-style-type: none"> • Multiple TUPE transfers • Multiple tendering costs that will be recurring • Hidden overheads • Higher contract management burden • High management infrastructure • Complex management model and function; co-ordination of contracts • No integration; less efficient • Multiple interfaces • Duplication of 	<ul style="list-style-type: none"> • Multiple TUPE transfers • Loss of customer loyalty and obligation • Complexity of multiple contracts • Lack of clarity on responsibilities and accountabilities • Multiple interfaces • Loss of knowledge • Complexity of costs and financing; managing budgets • Two tier workforce; tension between 	No

Delivery Model	Benefits	Opportunities (leading to sustainable innovation)	Costs	Risks	Shortlist
	services		management and task <ul style="list-style-type: none"> • Less economies of scale 	internal and outsourced staff <ul style="list-style-type: none"> • Restriction of market interest and expertise 	
5.Single source outsourcing	<ul style="list-style-type: none"> • Medium level of Council control • Demand management/prioritisation • Flexibility of supplier • Service specific savings from outsourcing • Reduced corporate overheads • Transfer high risk areas • Lower operational management burden 	<ul style="list-style-type: none"> • Strong contract management of multiple contracts • Private sector expertise from outsourced services • Best of breed for outsourced services • Introduce robust performance management 	<ul style="list-style-type: none"> • Multiple TUPE transfers • Multiple tendering costs that will be recurring • Hidden overheads • Higher contract management burden • High management infrastructure • Complex management model and function; co-ordination of contracts • No integration; less efficient • Multiple interfaces • Duplication of management and tasks • Less economies of scale • High procurement costs 	<ul style="list-style-type: none"> • Multiple TUPE transfers • Loss of customer loyalty and obligation • Complexity of multiple contracts • Lack of clarity on responsibilities and accountabilities • Multiple interfaces • Loss of knowledge • Complexity of costs and financing; managing budgets • Restriction of market interest and expertise 	No

Delivery Model	Benefits	Opportunities (leading to sustainable innovation)	Costs	Risks	Shortlist
6.Shared Services Group	<ul style="list-style-type: none"> Economies of scale for small organisations Efficiencies from management integration Some commercial focus 	<ul style="list-style-type: none"> Flexibility of resources Existing shared services organisations Shared expertise from member organisations Wider service provision Introduce robust performance management 	<ul style="list-style-type: none"> Tied to public sector pay and conditions Commercial structures potentially required Member organisations retain all commercial risk Not achieve full commercial benefits High implementation costs 	<ul style="list-style-type: none"> Cross subsidy to other organisations Organisations withdraw, especially late in the process Conflict between parties Clarity of control and decision process Require complex commercial structures Responsibility without control High reputational risks Not achieve full commercial benefits Conflict of interest Loss of focus on objective Failure of reaching initial agreement between the members 	No

Delivery Model	Benefits	Opportunities (leading to sustainable innovation)	Costs	Risks	Shortlist
7.Managing Agent	<ul style="list-style-type: none"> • Expert management • Low cost of implementation • Some savings • Reduction in management burden • Ease of exit 	<ul style="list-style-type: none"> • More efficient management of single service contracts • Some integration across services • Introduce robust performance management 	<ul style="list-style-type: none"> • Pay margin on margin • Retaining contract service risk • Additional layer of management • Multiple TUPE transfers • Multiple tendering costs that will be recurring • Hidden overheads • Minimal integration; less efficient • Duplication of management and tasks • Less economies of scale 	<ul style="list-style-type: none"> • Less favourable model for single source contract providers • Loss of management control • Multiple TUPE transfers • Loss of customer loyalty and obligation • Complexity of multiple contracts • Lack of clarity on responsibilities and accountabilities • Multiple interfaces • Loss of knowledge • Complexity of costs and financing; managing budgets • Restriction of market interest and expertise 	No
8.Bundled FM	<ul style="list-style-type: none"> • Some integration of services, i.e. soft FM; 	<ul style="list-style-type: none"> • Innovation • Improve service levels 	<ul style="list-style-type: none"> • Not achieve benefits of full integration 	<ul style="list-style-type: none"> • Not achieve full integration 	Yes

Delivery Model	Benefits	Opportunities (leading to sustainable innovation)	Costs	Risks	Shortlist
	<p>hard FM</p> <ul style="list-style-type: none"> • Prioritisation over services • Higher level of innovation 	<p>within bundles</p> <ul style="list-style-type: none"> • Integrate bundles in the future • Introduce robust performance management 	<ul style="list-style-type: none"> • Retain senior and middle management - duplication • High cost of implementation • High contract management – 2 contracts • TUPE for 2 contracts 	<ul style="list-style-type: none"> • Blurred lines of accountability • More limited market • Duplication of management and tasks • Potential for 2 sets of staff T&Cs 	
9.Managing Contractor	<ul style="list-style-type: none"> • Higher level of integration of services • Prioritisation over services • Higher level of innovation 	<ul style="list-style-type: none"> • Innovation • Improve service levels within services • Introduce robust performance 	<ul style="list-style-type: none"> • Not achieve benefits of full integration • Retain some senior and middle management • Medium cost of implementation 	<ul style="list-style-type: none"> • Lower level of control • Not achieve full integration • Blurred lines of accountability; fragmentation 	No

Delivery Model	Benefits	Opportunities (leading to sustainable innovation)	Costs	Risks	Shortlist
	<ul style="list-style-type: none"> Lower Council management burden Managing Contractor to source specialist contractors 	management	<ul style="list-style-type: none"> Some contract management TUPE for contracts Duplication of margin Less direct delivery 	<ul style="list-style-type: none"> More limited market Duplication of management and tasks Multiple contracts to be let by managing contractor No control of subcontractors Dependent on managing contractors project management skills 	
10. Total FM/Strategic Partnership	<ul style="list-style-type: none"> Full integration since all services are outsourced Low management burden Highest potential saving High market interest Well established market Full integrated services attractive for schools Market experienced for 	<ul style="list-style-type: none"> Attract supplier investment Innovation Outcomes focussed solutions Introduce robust performance management Staff development and progression 	<ul style="list-style-type: none"> Good intelligent client function More difficult to exit High implementation costs High procurement costs High time commitment of senior management 	<ul style="list-style-type: none"> 'All eggs in one basket'; exclusivity Choose the wrong supplier Supplier reputation Relationship with supplier breakdown Trade union concerns Demonstrating maintaining VfM 	Yes

Delivery Model	Benefits	Opportunities (leading to sustainable innovation)	Costs	Risks	Shortlist
	<p>this size of contract</p> <ul style="list-style-type: none"> • Long term strategic approach • Well experienced on TUPE and transfer of staff • Improved forward planning • Greater cost certainty • Reduced fragmentation • Greater client satisfaction • Greater cost management • Focus on outputs 				
11.Joint Venture Company	<ul style="list-style-type: none"> • Full integration • Lower management burden • Market interest • Well established and experienced market • Long term strategic approach • Well experienced on TUPE and transfer of staff • Improved forward planning 	<ul style="list-style-type: none"> • Attract supplier investment • Innovation • Outcomes focussed solution • Introduce robust performance management • Tax efficient structuring benefits • Staff development and progression 	<ul style="list-style-type: none"> • Good intelligent client function • More difficult to exit • High implementation costs • High procurement costs • High time commitment of senior management • Potential tax liability e.g. stamp duty, VAT, corporation tax 	<ul style="list-style-type: none"> • 'All eggs in one basket'; exclusivity • Choose the wrong supplier • Supplier reputation • Relationship with supplier breakdown • Trade union concerns • Demonstrating maintaining VfM • Some companies may not be interested • Not develop and utilise fully, i.e. effective 	Yes

Delivery Model	Benefits	Opportunities (leading to sustainable innovation)	Costs	Risks	Shortlist
	<ul style="list-style-type: none"> Greater cost certainty Reduced fragmentation Greater client satisfaction Greater cost management Focus on outputs Higher savings (slightly lower than TFM) More suited to strategic asset management 			strategic asset management	
12.Total Property Outsource	<ul style="list-style-type: none"> Higher savings (slightly lower than Strategic Partnership) No management burden Focus on core council business Cost certainty Potential capital receipt 	<ul style="list-style-type: none"> Innovation Outcomes focussed solution Attract supplier investment Introduce robust performance management Staff development and progression 	<ul style="list-style-type: none"> Potential tax liability e.g. stamp duty, VAT Good intelligent client function More difficult to exit High implementation costs High procurement costs High time commitment of senior management 	<ul style="list-style-type: none"> Potential tax liability e.g. stamp duty, VAT Less flexible for changes for space requirements Require certainty of long term strategy Political support Loss of management control over services Too radical and does not fit with strategic objectives 	No

Draft for Discussion