The Private Finance Initiative: Electronic Libraries for Northern Ireland (ELFNI)

NIAO

Northern Ireland Audit Office

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Comptroller and Auditor General

Northern Ireland Audit Office
10 November 2005

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Abbreviations and Glossary of Terms

BELB	Belfast Education & Library Board
BISDC	Business Information Strategy Development Committee
BSU	Bibliography Services Unit
CCTA	Central Computer and Telecommunications Authority
DCAL	Department of Culture, Arts and Leisure
DE	Department of Education
DFP	Department of Finance and Personnel
ECDL	European Computer Driving Licence
ELFNI	Electronic Libraries for Northern Ireland
EPF	Executive Programme Funds
FBC	Full Business Case - this informs the final decision on a project and provides a basis for approval to proceed to the award of a PFI contract through: setting out the objectives of the project; reporting key changes since the OBC, including any changes to the strategic context; documenting the development of the PSC assumptions and calculations; appraising and comparing the private sector bids and the PSC using conventional economic appraisal methods; confirming affordability and summarizing the results of the appraisal.
ICT	Information Communication Technology
ISSEC	Information Systems Strategy Executive Committee
NEELB	North Eastern Education and Library Board
NIAO	Northern Ireland Audit Office
NOF	New Opportunities Fund
NPC	Net Present Cost
OBC	Outline Business Case - this provides the basis for a decision on whether to proceed to tendering and preparation of a Full Business Case, pursue a traditional procurement, or abort the project.
OGC	Office of Government Commerce
OJEU	Official Journal of the European Union

PAC	Public Accounts Committee
PBIT	Profit Before Interest and Tax
PID	Project Initiation Document
PIN	Prior Indicative Notice
PFI	Private Finance Initiative
PSC	Public Sector Comparator -this is an estimate of what the project would cost if traditional procurement methods were used; it is used to determine whether private finance offers better value for money than traditional procurement. More recently it has been reformed into an early rigorous economic appraisal of a project at OBC stage, prior to procurement, to allow an alternative route to be chosen at this stage if it offers better value for money.
SEELB	South Eastern Education and Library Board
SELB	Southern Education and Library Board
WELB	Western Education and Library Board

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Executive Summary

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Introduction

1. In Northern Ireland the Department of Culture, Arts and Leisure (DCAL) has overall responsibility for the public library service[1]. At an operational level five Education and Library Boards, each serving a distinct geographical area (see Figure 1), fulfil the role of education authority and library authority in their respective areas.

Figure 1:
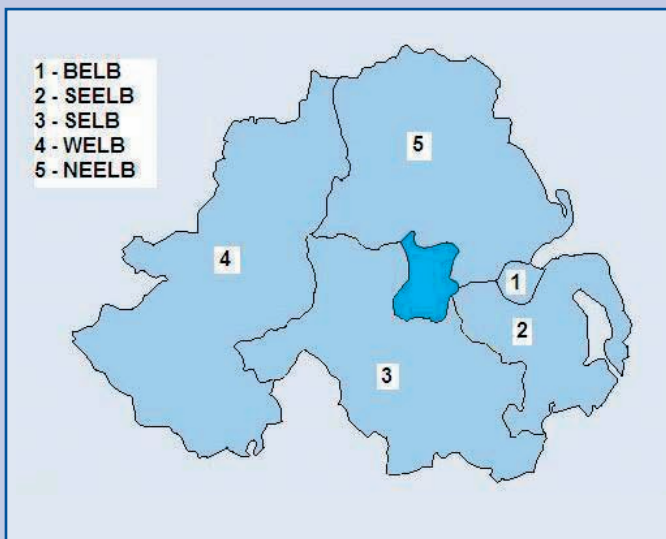
2. The public library service is committed to ensuring that a high quality, equitable, responsive and flexible library service is delivered to all the people of Northern Ireland. In order to fulfil this aim, it provides access to all types of information, knowledge and works of creative imagination through its lending, reference and schools services. The Electronic Libraries for Northern Ireland is intended to enhance access and quality of service through linking Northern Ireland's 113 library branches and 47 mobile libraries via an electronic network of 1,200 personal computers. Within this context

its strategic objectives are:

- to provide all public library service points with equal access to automated facilities and the Internet in a real-time and on-line environment;

- to provide access for the general public to e-Government services through the Libraries portal, a website established to access other sites of interest on the internet;

- to provide library services which are seamless, with a single integrated catalogue, and with interchangeable borrower cards and stock across all five boards;

- to enable the Schools Library Service to share data with individual school libraries; and

- to enable the transfer of information between the library management systems and other Board and Departmental systems.

The origin of this project reaches back to 1993

3. In 1993 a single Information Systems Strategy was agreed by the Northern Ireland Education and Library Boards and the Department of Education. At this time, a Business Information Strategy Development Committee (BISDC) was established to manage future information computer technology requirements. In June 1995, BISDC commissioned a feasibility study to establish future requirements for the public library service. At that time the Boards used three different computer systems which performed similar functions. However, they could not readily exchange information or be integrated. The study concluded that there was scope for the adoption of a single computerised

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[1] DCAL took over responsibility for libraries from the Department of Education (DE) following commencement of the Departments (Northern Ireland) Order 1999.

management system for the provision of library services across the five boards. It also recommended that both in-house and outsourced solutions, including PFI[2] should be explored.

4.   The Department of Education accepted BISDC's findings and gave approval to proceed to procurement. Following the advertising of the Prior Indicative Notice (PIN), in the Official Journal of the European Union (OJEU) in August 1997, PFI was recommended as the preferred procurement option, as the Outline Business Case indicated that it met all the strategic objectives, was affordable, and should provide best value for money.

5.   Following a number of Government initiatives and policy statements, a report, "Building the New Library Network", was published in 1998. This envisaged the implementation of a new library network which would become a key interface between the public and government at all levels - the "People's Network". As a consequence, the original libraries project was broadened to include the People's Network and renamed "Electronic Libraries for Northern Ireland (ELFNI)".

Between Outline Business Case and Full Business Case the project costs almost doubled

6.   As the project broadened, costs increased significantly. Between the production of the Outline Business Case (OBC) in July 1998 and the Full Business Case (FBC) in November 2001, there was an increase in costs from £16m to £30m over the initially proposed 7-year timescale. In order to demonstrate how this increase had occurred, an "OBC/FBC Bridge" was prepared which reconciled the additional

costs to the changes which had taken place since OBC. The major differences were £3m for the increased costs of replacing existing hardware and £7m for additional Communication Line Charges (due to the need to cater for the high specification People's Network, given the absence then of a local broadband network in Northern Ireland).

Feasibility study approval to contract signature took over 5 years

7.   From approval of the feasibility study to contract signature took over 5 years (see Appendix 1). Initially 31 parties had expressed an interest in the project (August 1997). However, only 10 pre-qualification questionnaires were returned in November 1999 following OJEU notice. These were subject to commercial review by the Office of Government Commerce (OGC)[3], following which a shortlist of five were invited, in December 1999, to tender for the contract. However, one supplier withdrew and two of the remaining suppliers merged, resulting in only three bids being received in March 2000, later reducing to two in June 2000 following the withdrawal of another supplier.

8.   At this stage, the evaluation and negotiation process proved to be more protracted than anticipated due to a number of issues outside the control of the project board. Following the introduction of the Northern Ireland Act 1998, there was a statutory duty on the Department to complete an Equality Impact Assessment[4]. There were also legal difficulties associated with the proposed transfer of staff. This resulted in a reduction in the scope of the original requirements (see paragraph 2.20). Despite these delays, the project proceeded to best and final

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2 The Private Finance Initiative (PFI) has become one of the main methods by which the public sector procures services from the private sector. Its underlying objective is to use the best of both public and private sector skills to improve public services. In particular, this means the use by the public sector of capital assets owned and managed by the private sector.

3 The OGC provides customers and suppliers with integrated, flexible and responsive support for all aspects of procurement and supplier management in central civil government.

4 Under Section 75 of the Northern Ireland Act 1998, a public authority shall, in carrying out its functions relating to Northern Ireland, have due regard to the need to promote equality of opportunity - between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation; between men and women generally between persons with a disability and persons without; and between persons with dependants and persons without.

offer in August 2001. A preferred bidder, AMEY plc, was selected in November 2001 and appointed service provider on signing of the contract in January 2002.

The project was funded from a number of sources

9. The contract, which is worth £36.5m (in nominal cash terms), covers a 10-year period commencing 1 May 2002. Rollout across 126 public library sites and the schools library service took 15 months with fully operational status being achieved by the target date of 1 August 2003. Figure 2 details the sources of funding for the project:

Scope of our examination

10. At the commencement of our examination the ELFNI project was nearing the end of its implementation phase. By this stage, the contractor had been running the service for a number of months in several libraries throughout Northern Ireland. Our work focused mainly on:

- the methodology used by the project team to achieve the best possible deal;

- the sustainability of the deal over the contract life; and

- the innovative nature of the project, with particular focus on how it addressed future technological changes and the generation of income for the Boards.

The report does not consider the effectiveness of the ELFNI Project.

11. Our methodology was designed using the National Audit Office's analytical framework for PFI deals:

- Setting clear objectives (Part 1)

- Application of the proper procurement process (Part 2)

Figure 2: ELFNI funding sources over the 10-year contract period

Funding Source	Amount (£m)	Cumulative Total Nominal Value (£m)
DCAL (Assumes 2.5 % increase per year in cash terms)	1.3 (a year)	14.6
New Opportunities Fund[5] (years 1&2)	4.3	4.3
Executive Programme Funds[6] (over 3 years)	2.3	2.3
Existing Library Service Budget (assumes 2.5% increase per year in cash terms)	1.5 (a year)	16.8
Schools Library Service	0.2 (a year)	2.0
Generated Income	0.3 (a year)	2.9
Gates Foundation (one-off payment)	0.1	0.1
		43.0
Less In-House Costs		(6.5)
Total		**36.5**

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5 The New Opportunities Fund, set up as a Lottery Distributor in 1998, delivers programmes across the UK that are designed to improve the quality of life for people and communities, address disadvantage, encourage community participation and complement Government strategies.

6 The Executive Programme Funds were a series of separate funds established by the Northern Ireland Executive to help deliver progress in five priority areas identified in the Programme for Government.

• Getting the best available deal (Part 3)

• Ensuring that the deal makes sense (Part 4)

Detail on the procurement process and the final contract was gathered from the following sources:

• a review of the project board's project management papers, bidders' submissions and legal agreements underpinning the deal;

• a review of the Department's project papers supporting their approval;

• interviews with the project team on how they handled the negotiation of the deal; and

• interviews with Departmental officials who represented the Department on the project board and acted as liaison between the project board and the Minister/Department of Finance and Personnel.

Conclusions and Recommendations

On the setting of clear objectives

12. Overall, the project objectives were clear and in line with the strategic vision. This contributed to a favourable outcome. In addition, the project board, that had been established to update and modernise library services, was thorough in its planning. For example, the Project Initiation Document set out the objectives, scope, requirements and benefits of the project. This was followed by an Outline Business Case that set out in detail the service requirement, benefits and business options and cost savings to be achieved and demonstrated that PFI would be the most effective option (paragraphs 1.1 to 1.7).

13. However, the project's strategic objectives changed to reflect the Government's vision for transforming the Library Service by making it a key component of its plan for life-long learning by providing all citizens with access to the Internet and interactive services of the future. This added considerably to the costs (see paragraph 6) although additional funding was provided through the New Opportunities Fund and Executive Programme Funds (paragraphs 1.8 to 1.15).

On the application of the proper procurement process

14. The procurement process was thorough and this was aided by the assembly of a properly qualified team comprising representatives from all business units. In addition, an external consultant with previous PFI experience was appointed as Project Manager. Financial consultants were also appointed. However, our review identified flaws in the appointment process that limited competition and may have impacted on value for money. We also found that, while consultancy costs were consistent with projects previously reviewed by NIAO, they could, in our view, have been better managed and monitored through the establishment of a ring-fenced budget, a fixed price contract linked to achievement of milestones and regular reconciliation of costs to an approved budget[7]. The Department told us that it is content that the chair of the project actively managed the consultancy assignment and verified that all payments were reconciled to services received. In addition, we found that, while general Department of Finance and Personnel approval was sought and obtained for the overall Education and Library Boards' Information Systems Strategy consultancy expenditure, it was not project specific and did not establish an upper limit to the consultancy spend (paragraphs 2.1 to 2.6).

15. The project board established the conditions for a successful competition and this helped maintain competitive tension throughout the procurement. The adoption of Gateway Review, at a time when its use was not compulsory, is commendable. Indeed it was the first project to use the Gateway Review process in Northern

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7 The Use of Consultants by Northern Ireland Government Departments has been the subject of a NIAO report in June 2004 (NIA 35/03, HC 641, Session 2003-04).

Ireland. Its use provided assurance to the Senior Responsible Officer that the project continued to be worthwhile. It also highlighted a significant potential risk to the project which required the much speedier development of contingency planning arrangements (paragraphs 2.7 to 2.16).

On getting the best achievable deal

16. A good range of solutions was put forward for what was an innovative project. These were subject to a rigorous technical evaluation process, including benchmarking, which resulted in the best available deal being selected. As a result, the project is the first in the United Kingdom to share, between library authorities, a single network infrastructure and a single Library Management System across all areas of business. It provides a single high speed telecommunications network linking all public libraries throughout Northern Ireland (paragraphs 3.1 to 3.10).

On ensuring that the deal makes sense

17. The signed contract also reflects the deal and is tailored to meet the needs of the authority. There are also arrangements in place to manage the contract. For example, a Contract Executive Team provides a platform for open discussion and strategic overview and direction with membership from both parties who can resolve problems and clear obstacles as they arise (paragraphs 4.1 to 4.17).

18. The contract provides incentives for both parties but the profit sharing arrangements appear to be weighted in favour of the contractor. However, whether these will ever have to be applied depends on how quickly other revenue streams can be brought on line and how successful they are. The Department told us that the contract provides many non-profit making benefits and that profit sharing on services, such as genealogy or the provision of supplementary services to third parties, which may be contracted in the future, will be open to negotiation (paragraphs 4.18 to 4.21).

19. Overall, the procedures leading to the awarding and implementation of the contract were well handled and our review has identified a number of key lessons and best practice which have wider applicability (see below). However, whether or not the project provides value for money to the taxpayer will only be confirmed in the longer term through assessing usage of the system by the public and reviewing its success in meeting the wider needs of government. We note that the project has an active rolling process for monitoring its effectiveness and efficiency. This includes the implementation of a Gateway 5 review (Benefits Realisation) which is currently underway, the first project or programme in Northern Ireland to be subject to such an examination; the Contract Executive Team will be considering similar reviews every three years.

Summary of Key Lessons and Best Practice

- Requirements must be well thought through and specified prior to seeking bids and certainly before contracts are signed;

- Good project management is a key requirement to delivering a successful project. This includes establishing the right team with the right skills at the right time - this includes the intelligent user;

- Subjecting projects to the rigour and challenge of Gateway Review enhances the prospects of delivering a successful project. This has been highlighted in the recent Committee of Public Accounts Report, "The impact of the Office of Government Commerce's initiative on the delivery of major IT-enabled projects" (HC 555, Session 2004-05);

- Where Gateway Reviews register "amber" or "red" status, remedial action should be taken immediately and sponsor departments, DFP and the Strategic Investment Board should be kept fully informed of the potential impact on delivery and financial consequences. Furthermore, in line with PAC's recommendation, those projects receiving a second consecutive "red" review should be brought to the attention of the Comptroller and Auditor General, highlighting the risks associated with the project in question;

- Budgets for external advisory and internal costs should be set at the outset and monitored and managed throughout the project; and

- Approvals, whether given by DFP or sponsor departments, should be specific, both in terms of individual projects to which they relate and in placing an upper limit on expenditure.

The project objectives were clear, in line with the strategic vision and contributed to a favourable outcome

A project board was established to update and modernise library services and was thorough in its planning.

1.1 In 1995, the Education and Library Boards reviewed their Library Management System as, at that time, they used three different computer systems. The review concluded that the systems should be updated and modernised through sharing of information and rationalisation of services. It was also proposed to reduce the current three computer systems to one, taking account of future strategic library requirements, across all Boards. A project board was therefore established in June 1995 to take the scheme forward.

1.2 The project board was thorough in its planning and approach to the project, adopting the Projects in a Controlled Environment (PRINCE) methodology, a widely utilised project management tool launched in 1990 and recommended at that time by the Computers and Communications Executive Agency. As procurement through PFI was in the early stages of development in Northern Ireland, the project board appointed an external consultant with PFI expertise to fulfil the role of project manager and lead consultant.

1.3 Throughout the life of the project the project board endeavoured to implement best practice and procedures, in particular using the Treasury Taskforce[8] step by step guidance. In line with the guidance, the project board established a timetable and benchmark for the achievement of each milestone and revisited this as changes occurred. In addition, the project team formally set out the objectives of the project, the required output specification and the management arrangements for implementation, through the production of:

- a Feasibility Study;

- a Project Initiation Document (PID); and

- an Outline Business Case (OBC).

1.4 The feasibility study identified five options. However, following its publication in April 1996, several developments were introduced (for example the upgrading of the TALIS[9] software) which required revisions to the options. In light of developments the project board considered the feasibility study to be unsafe as it no longer reflected the latest position. It therefore redefined its evaluation criteria and revisited its options. In this evaluation, it identified Migration to a Single System (PFI) as the preferred option, as detailed at Figure 3 below. The main difference between Options 4 and 5, is the allocation of risk to the private sector in the latter option, one of the key features of PFI (see paragraph 1.7).

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8   The Treasury Taskforce replaced the Private Finance Panel following the publication of the Bates Report into PFI in June 1997. It combined project and policy expertise, to become the focal point for all PFI activities across Government. From 2000, Partnerships UK (PUK) absorbed the activities and transaction staff of the Treasury Taskforce, the policy arm of the Treasury Taskforce was transferred to OGC.

9   TALIS was one of the three IT Systems (referred to at para 1.1) which provided IS services to the five Boards. This was delivered through a bureau service (Birmingham Libraries Co-operative Mechanism Project).

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Figure 3: Option Evaluation

Shortlisting of Options	Conforms to ISSEC[10] Policy and Strategy	Mandatory requirements	Future Proofing	Desirable/ Optional Requirements	Risk to Public Sector	Impact	Timescale
Option 1: Do Nothing	No	No	No	No	High	Low	N/A
Option 2: De Minimis	Partial	Partial	No	Partial	Medium	Low	7 years
Option 3: Single system (Migrate to one of the existing systems)	Partial	Partial	Yes	Partial	Medium	Medium	<2 years
Option 4: Single system (Migrate all users to totally new system) Open Competition	Yes	Yes	Yes	Yes	High	High	2+ years
Option 5: Single system (Migrate all users to totally new system) PFI	Yes	Yes	Yes	Yes	Low	High	<2 years

Source: Full Business Case

1.5 The Project Initiation Document (PID) set out the objectives, scope, requirements and benefits of the project. The issues, assumptions and constraints that could impact on the project deliverables, timescale and management were identified and evaluated (see Figure 4). The PID also documented the procedures for procurement and review; the standards of project management, analysis, design and documentation (including the quality of delivered products); and the arrangements for the retention and management of all project documents.

PFI was the Preferred Option

1.6 In July 1998, an Outline Business Case demonstrated the PFI/PPP solution to be the most cost-effective option. It was assumed at this stage that the contract would be for seven years (later extended to 10 years). The OBC took account of all salient Government and Library Community initiatives and future changes in both library and IT requirements and set out in detail the service requirements, benefits, business options and cost savings to be achieved. This was approved by the Department of Education 10 months later in May 1999. The Department explained that the delay in approving the OBC had been caused by a number of factors; these factors included the need to obtain the approval of, initially, BISDC, and, following the securing of additional funding from the 1998 Comprehensive Spending Review, the approval of DFP.

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10 Information Systems Strategy Executive Committee which developed IT Policy for the Library Service.

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Figure 4: Issues, Assumptions, Constraints and Risks

Issues	Assumptions
1. Assignation of roles and responsibilities	1. The project is of medium complexity and will follow the CCTA's Total Acquisition Process (TAP methodology)
2. Establishing tolerances for timescale and cost	2. OJEU cannot be issued until OBC approval
3. Education and Library Board reorganisation	3. Risk analysis will be appropriate to the size and complexity of the project
4. Appointment of Specialist Advisers	4. Risk analysis will be undertaken during all stages of the project
5. Roll Out of Project	5. A request for information will be placed in OJEU which will enable the scope of the OJEU advert to be determined
6. Storage of Evaluation Model	6. The proposed system will include core functionality and variant bids will be considered
	7. All five boards will use the service
	8. The services will use the infrastructure provided under PFI
	9. Award of Contract will not be made until FBC has been approved.

Constraints	Risks
1. Project must be affordable 2. Mandatory standards must be used in service provision	In the initial PID, the risks were not identified. However, it did set out a methodology for the collation, allocation, validation and negotiation for risk allocation.

Source: Project Initiation Document

1.7 The Department told us that the major deciding factor in choosing PFI rather than traditional procurement was that it measured up well in terms of value for money and, furthermore, the latter required significant in-house expertise and capital investment[11]. The Boards would also have had to meet the overheads associated with parallel management when overseeing the migration from their existing systems to the new service. PFI, on the other hand, transferred many of the risks to the private sector and offered innovation, and possible revenue generation sources[12]. It also addressed a business gap in IT and library requirements; the present systems did not provide many of the on-line functions required, and none had security features necessary to meet the requirements for on-line access from non-library sites. Figure 5 illustrates the range of services which public libraries in Northern Ireland were seeking to provide.

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11 Current guidance on the use of PFI, as set out in DAO (DFP) 18/04, states that it should only be pursued where it delivers VFM, defined as the optimum combination of whole life cost and quality (or fitness for purpose) to meet the user's requirement, and does not always mean choosing the lowest cost option.

12 To date income generation has been limited to approximately £310k a year received for photocopying and use of internet services by non-registered users. Further opportunities were identified at FBC, including the sale of old library stock, advertising services on the library portal, catering and the development of genealogical services. These have yet to be realised.

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Figure 5: Future scenarios for the provision of library services
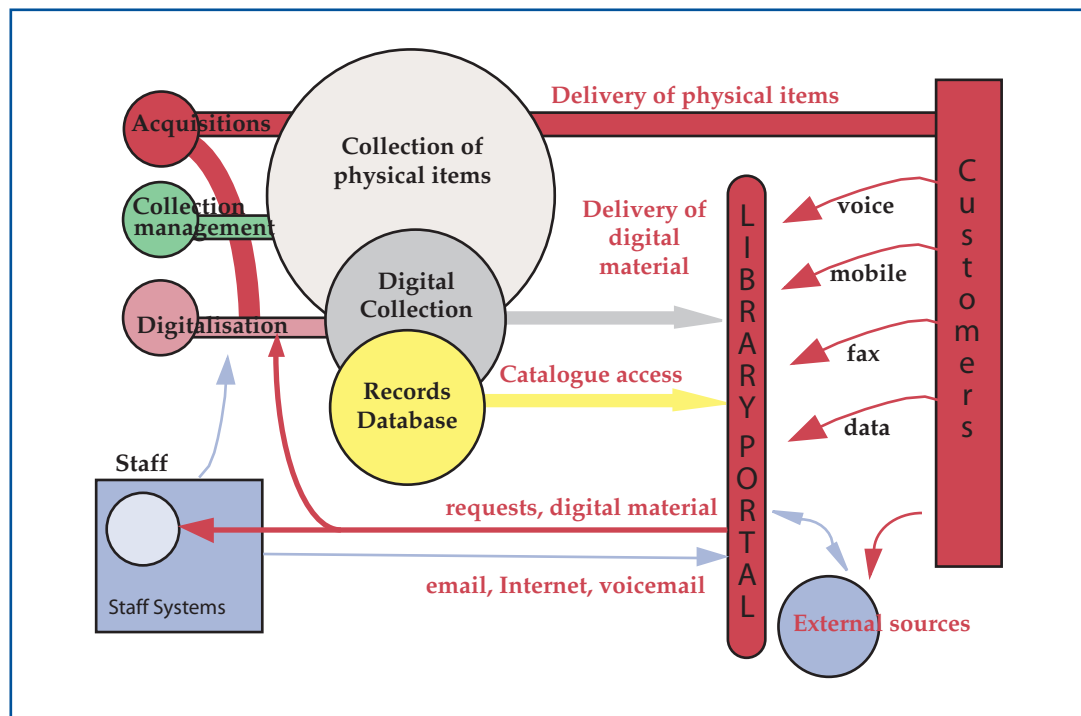
However, the Project's Strategic Objectives Changed

1.8 The project progressed within a dynamic environment; during its development, a number of government initiatives were introduced which impacted on how library services should be provided.   In 1997 the Library and Information Commission produced a report "*New Library - the People's Network*[13]", on behalf of the Department for Culture, Media and Sports (GB), to address how public libraries should respond to the challenge of new technology. This report and the subsequent government response[14] became the basis for transforming the current library service whilst achieving most of government's vision for future education, public access to knowledge and information, social inclusion and modernisation and delivery of public services. The Library & Information Commission subsequently produced a report, *"Building the New Library Network"* (October 1998) which contained proposals to develop a New Library network that, among other things, would also become a key interface between the public and government at all levels.

1.9 As a result of these reviews, the three key requirements of the People's Network were identified as follows:

- the development of the network itself;

- digitisation of unique resources held in public libraries; and

- training for library staff using and assisting others to use the system.

1.10 In 1998, the Government set out its vision of the role which ICT should play in the modern economy[15]. This was followed by a White Paper in March 1999[16] which detailed a strategy for Modernising Government through a programme of making public services available

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13 New Library - The People's Network, Library and Information Commission 1997

14 New Library - The People's Network, The Government Response (Cm3887)

15 Our Information Age: The Government's Vision, Policy Statement by Prime Minister, April 1998

16 Modernising Government, March 1999, Cm410

24 hours a day, seven days a week. The White Paper included a commitment to demonstrate "joined-up government" in action and to publish an IT strategy for government, which would focus on the needs of citizens and business. This strategy was published by the Cabinet Office in April 2000[17], and set a target date of 2005, for all citizens to have access to the Internet, either in their home or through community access points. Fundamental to achieving this objective was an effective programme of networking across the UK; networks with enough bandwidth to carry sophisticated interactive services of the future.

1.11   In February 2001, a report[18] aimed at maximising the impact of network development was published. It recommended that Government should set a target for the UK to have an extensive and competitive broadband market by 2005. This would significantly increase broadband connections to schools, libraries, further education colleges and universities. In delivering these aims, libraries were given the potential to become key players, particularly in rural areas.

1.12   In conjunction with these aims, Government intended to use the library network in its plan for lifelong learning. In its report of February 1998[19], it set out its vision of a "learning society in which everyone is able to learn and upgrade their skills throughout life". An earlier consultation paper[20] set a target date of 2002 by which all public libraries should, where practicable, be on-line. It also included a view that in developing librarians' skills and the role of the library, it would be contributing to the development of the new National Grid for Learning.

1.13   There were also a number of high profile strategic visions and reports published, notably in Northern Ireland, *Tomorrow's Libraries"*, the DCAL study on the future of the library service,

which were incorporated through the expansion of the output specification (see Appendix 2).

The ELFNI Project received £2.3m from the Service Modernisation Fund

1.14   In 2001, the Northern Ireland Executive recognised in its "Programme for Government" that ELFNI could play a major role in achieving a number of its objectives (see Figure 6). Consequently, £2.3m was provided from the Service Modernisation Executive Programme Fund to be spent in the years 2001-2004.

Figure 6: NI Executive Objectives 2001

Aim	Action
Growing as a community.	Widening community access to information by developing the role of libraries as community information hubs.
Investing in education and skills.	Encouraging increased out-of-school learning opportunities.
Securing a competitive economy.	Developing and implementing a strategy to ensure a world-class telecommunications infrastructure.
Commitment	
Modernising government.	Monitoring progress towards meeting targets to deliver more public services via the Internet and other electronic means.
Improving the efficiency of public services.	Simplifying interactions between citizens and government.

1.15   We were told that a unique aspect of the project was that the Department was not required to fund the project through resource savings. However, it was tasked with improving performance through efficiency savings, such as the release of library personnel from library support and management activities and

17 E-Government: A Strategic Framework for Public Services in the Information Age, Cabinet Office, 2000
18 UK Online: The Broadband Future. An Action Plan to Facilitate Roll-Out of Higher Bandwidth and Broadband Services. Office of the E-Envoy, February 2001
19 The Learning Age (Cm3790) the Stationery Office, February 1998
20 Connecting the Learning Society, October 1997, Department for Education and Employment

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economies of scale through the reduction in duplication of effort. The majority of funding for the project was "new money" which was used in the early capital spend years, leaving the revenue costs to be financed by individual Library Board contributions from their budget and an annual contribution from DCAL.

Part 2

The procurement process was thorough

A properly qualified team was assembled

2.1 From the outset, the Business Information Strategy Development Committee intended that the ELFNI project would provide a service to all five Education and Library Boards and the Schools Library Service. The project board, which had overseen the project, was chaired by a Chief Librarian and staffed by appropriately qualified personnel with expertise in library requirements and technical knowledge of IT. Its role was to work with the Senior Responsible Officer, the Chief Executive of the North Eastern Education and Library Board, in order to ensure that the project:

- was carried out in accordance with proper procedures;

- provided value for money;

- established a business case; and

- provided a focused approach in balancing the demands of the business, the users and the supplier.

2.2 The project board was supported by the ELFNI project team (7 members), an evaluation team (4 members), an expert library team (10 members) and a negotiation team (4 members). The make-up of the project board and teams ensured that all business units were represented and involved in the procurement process. The roles and responsibilities of the teams were clearly documented in the business case (see Appendix 3). Within each team there were overlaps of personnel. However, this was considered to be advantageous to the project as it was believed that this enhanced the teams' capability to deliver quality decisions quickly.

An external consultant was appointed as project manager although consultancy costs could have been better managed.

2.3 It was recognised at the outset that members of the project board and the supporting teams had no previous experience of working on a PFI project. As a result, the project board, using Departmental tendering procedures, appointed an external consultant as project manager. In this role, he was required to provide lead procurement consultancy, negotiation skills, and develop both the public sector comparator and the output-based specification.

2.4 We were advised that the financial consultants[21] were also appointed through competitive tendering, which drew on DFP Procurement Service's Consultancy Framework[22]. Our review however, identified flaws in the appointment process that limited competition and may have impacted on value for money. Best practice at that time recommended that all contracts in excess of £20k should be publicly advertised. For projects valued between £50k and £100k (EU threshold), expressions of interest should be sought from 6-8 firms, with a shortlist of 3-4 being drawn up to submit formal tenders. However, in this competition, only three firms were approached for an assignment which eventually cost £91k. We also found that there was no real competition since only one firm expressed an interest in the assignment.

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21 In line with general expenditure delegations, Departments are required to obtain DFP approval for all consultancy assignments exceeding £50,000 (increased to £75,000 in March 2004). At the time of the ELFNI project, this did not extend to the Education and Library Boards, although this has now changed (DAO (DFP) 6/04 refers). However, the project board did advise the Department that their consultancy costs would exceed the limit.

22 The Procurement Service has established a Framework Agreement with external consultants which meet all EU Procurement Regulations. From the agreement, a list of consultants has been produced and is available for use by all NI public sector bodies. Its use streamlines the procurement process, reduces internal costs and aims to provide competitive rates through the collaborative buying power of the public sector.

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2.5   As sponsoring department for ELFNI, DCAL's role was to attend project board meetings, critically review and assess the Full Business Case (FBC) and, having assured itself of its validity and robustness, submit the FBC to the Department of Finance and Personnel (DFP) for approval. DCAL told us that, although it was not its primary responsibility, it also administered the payment of consultants' fees and highlighted to the project chair when, in its opinion, consultancy costs were giving rise for concern.

2.6   Between 1997-98 and 2001-02, consultancy costs on the project were £1.5m (see Figure 7 below). This equates to 4 per cent of the overall contract value which compares favourably with the Royal Victoria Hospital Car Park project, where consultants' fees were seven per cent of total capital value, and similar to the Antrim Renal Unit and Education Pathfinder projects, where consultants' costs were also 4 per cent[23]. The Department is content that the chair of the project board effectively managed these and verified that all payments were reconciled to services received. We were also told by DCAL that DFP approval to consultancy costs had been sought and received in 1996 as they would exceed delegated limits. However, we found that DFP's approval was not project specific; it related to the Education and Library Boards' Information Systems Strategy as a whole, of which ELFNI was only one project, and no cap was placed on total spend. DFP has advised us that present day approval letters normally have an upper financial limit and are time-bounded as well as being project specific.

Furthermore, contrary to accepted best practice, DCAL had no budget earmarked specifically for this task. As a result, it was funded through the Department's annual allocation of £1.3m to the project (see Figure 7).

Through good planning the project board established the conditions for a successful competition

2.7   Best practice stipulates that PFI procurement is only practicable where there are suppliers able to deliver the required service and willing to accept sufficient risk transfer. It is therefore sensible to assess the quality of the potential market before embarking on a potential PFI project. In ELFNI this was achieved through the publication of the Project Initiation Document (PID) in 1997. This attracted 31 expressions of interest confirming, at an early stage, that there were sufficient suppliers to ensure that competitive tension could be sustained throughout the negotiating phase of the contract.

2.8   While the project board recognised the need to maintain competitive tension, it was equally aware that the private sector would be unwilling to compete strongly if excessive numbers were invited to bid. There was also a need to ensure that timetables were set which were sufficiently tight, yet adequate to allow bidders to address contractual issues before the selection of the winning bid.

Figure 7: Consultancy Costs

	97-98	98-99	99-00	00-01	01-02	Total
Total Cost per Departmental Report	62,964	30,455	192,246	469,236	712,407	£1,447,308

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23 NIAO Report "The Private Finance Initiative: A Review of the Funding and Management of Three Projects in the Health Sector" (HC 205: Session 2003-04); and "Building for the Future: A Review of the PFI Education Pathfinders Projects "(NIA 113/03, October 2004).

2.9 In light of this, the project board issued Pre Qualification Questionnaires to those parties that responded to the OJEU notice in October 1999. Ten expressions of interest were subsequently received and reviewed by OGC. The suppliers were assessed under the following pre-determined categories:

- technical capability;

- experience;

- project management structure; and

- overall quality of submission.

Following assessment only one supplier was found to be poor. The difference in quality of the remaining submissions was found to be negligible.

2.10 In line with original pre-determined criteria, it was decided in December 1999, to invite the five suppliers with the highest scores to submit proposals. These suppliers were given background and baseline information, the OBC, and the draft terms and conditions of the output specification. Following this, one supplier withdrew and two merged to become sub-contractors to one of the lead bidders, leaving two clear runners.

2.11 Best and final offers were subsequently requested from both companies in August 2001; the preferred bidder was selected in November 2001 and awarded the contract in January 2002. The project team, through forward planning and early research, had managed to maintain competitive tension from the issue of the Prior Indicative Notice in August 1997.

Regular assessments were carried out to ensure that the project was worthwhile

2.12 In November 2001, the project board introduced Gateway Review[24] to the procurement process (at Gate 3 (Investment Decision)) in order to ensure compliance with best practice. This process is now mandatory for all capital investment projects from February 2003[25], but was optional at the time of adoption by the ELFNI project board. In this initial review, 17 recommendations were made by the review team, each of which were dealt with by the project team in its formal response.

2.13 In the Gateway 4 review (Readiness for Service), carried out in April 2002, the review team found that a partnership had been established between the supplier and the Intelligent Customer Unit (see Appendix 4), which it believed, would represent a firm foundation for the ultimate success of the project. It also recorded that all of the Gateway 3 recommendations had been positively acted upon.

2.14 A further 23 recommendations were made, including the need to carry out an optional Gateway 4(a) review (in order to test the roll-out of the service). This was completed in December 2002 and it was found that 20 of the 23 recommendations from stage 4 had been addressed; a further 12 recommendations were proffered, one of which registered "amber" status[26] indicating that action was required before the next Gateway Review. This related to the future financial viability of the service provider (AMEY plc). It was recommended that

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24 The Gateway review process is a review of an acquisition programme or procurement project carried out at a key decision point by a team of experienced people, independent of the project team. Best practice involves five OGC Gateway Reviews during the lifecycle of a project; three before contract award and two looking at service implementation and confirmation of the operational benefits. A project is reviewed at the OGC Gateway Review stage appropriate to the point reached in its lifecycle. Retrospective or combined OGC Gateway Reviews are not supported. The process emphasises early review for maximum added value.

25 Supplement to DAO (DFP) 33/03 Annex E Gateway Review Process and DAO(DFP) 17/04 Delivering Success in Government Acquisition-Based Programmes and Projects.

26 At each stage of the Gateway Review colour coding is used to indicate the overall status of the project:
- Red indicates that to achieve success the project team should take action immediately to remedy the shortcoming(s) identified;
- Amber indicates that the project should proceed although the actions and recommendations identified should be addressed before the next review; and
- Green indicates that the project is on target to succeed, but may still benefit from addressing recommendations identified in the review.

the Senior Responsible Officer of the project board should deal directly with each of the recommendations relating to partnership and delivery and that contingency plans should be accelerated in the event that there was a buy-out of the service provider, or contract default.

2.15 Subsequent to the issue of the Gateway 4(a) Report, the project board addressed each of the recommendations. Contingency plans were drawn up to address the buy-out of AMEY plc and contract default. Both DCAL and DFP were kept informed of the potential financial costs, in the event of contractual termination. This was calculated using a rolling model which identified the potential costs throughout the lifecycle of the contract. The Department told us that it considers that the issues surrounding AMEY plc's ability to provide on-going support for the project has been successfully resolved.

2.16 The Department believes that availing of OGC's services and advice in this process, albeit only from stage three of the five stage process, contributed to the ELFNI team's accomplishment of the overall satisfactory outcome of the project. The Committee of Public Accounts recent Report, *"The impact of the Office of Government Commerce's initiative on the delivery of major IT-enabled projects"* (HC555, Session 2004-05), has also highlighted the potential benefits of adopting the Gateway process.

The deal was affordable although unforeseen issues impacted on this

2.17 Central to the project were ongoing concerns regarding affordability. Two of ELFNI's funding elements, New Opportunities Fund and Executive Programme Funds (EPF), required part of the funding to be spent in the early years of the project - see Figure 2. The Northern Ireland share of NOF (£4.3m) and EPF

(£2.3m), had to be spent by December 2002 and in the years 2001-2004 respectively. As a result, the negotiation team ensured that the agreement included provision for milestone payments during the 15-month implementation period (which were linked to the achievement of targets such as the scheduled rollout of libraries and service availability) with the remainder of the contract price being paid as a monthly unitary charge over the remaining life of the contract (105 months).

2.18 In comparing the resources available against the estimated costs pre-award of contract, a funding deficit of £1.0m in milestone payments was identified. However, the project board successfully addressed this issue at best and final offer stage through requesting both suppliers to submit re-profiled bids; this approach was endorsed by both the legal and financial advisors. This reduced milestone payments in Year 2 and increased the unitary charge in Years 3 - 10, without changing the total bid price. As a result of this exercise, only one of the two remaining bids remained affordable. This bidder was subsequently selected as preferred bidder and later awarded the contract.

2.19 During the development of the project, there were a number of issues outside the control of the Project Board which also impacted on affordability. For example, at the outset of the project, it did not require access to a Northern Ireland broadband network. However, expanding the project to incorporate the People's Network required the provision of a dedicated broadband network. Since none was in existence in Northern Ireland at that time, its provision led to project costs and corresponding project funding increasing by an additional £7m.

2.20 Following the introduction of the Northern Ireland Act 1998, there was a statutory duty on the Department to subject ELFNI policy to an Equality Impact Assessment (see paragraph 8). In the early stages of ELFNI

development, it was not necessary to carry out such an assessment. This exercise highlighted a risk to the overall project timescale due to potential legal challenges to the delivery of the Bibliography Services Unit (BSU) service through the ELFNI contract. This could have had a significant influence on the financial viability of the project, as delays could have jeopardised funding from the New Opportunities Fund and the Executive Programme Funds which were both time bound (see paragraph 2.17 above). As a result, the Project Board decided to de-scope the BSU as a mandatory requirement and include it as an optional service. This ensured that the project remained on schedule. Subsequent to this decision, a separate financial evaluation of BSU was carried out which demonstrated poor value for money and resulted in its removal from future project development plans.

2.21   In keeping with best practice at that time, a Public Sector Comparator (PSC) was produced in November 2000, which reflected both the procurement costs and the cost of additional risks which fell to the supplier. Each risk was assessed against both cost and probability. These were revisited as the project progressed and developed. The PSC was used as a value for money benchmark during negotiation of the financial aspect of the deal. In keeping with best practice, this was never disclosed to the suppliers as the project board considered that this was essential in sustaining competitive tension through to contract award. At contract signature the project board was thus able to demonstrate that the project selected was less costly than its PSC[27].

2.22 Since the ELFNI project was undertaken, there have been significant changes in PFI policy. In its report, *"PFI: meeting the investment challenge"*, (July 2003), HM Treasury signaled its intention to reform the PSC and to

reassess the role of PFI in projects with small capital values and in the IT sector. The review of the PSC was in direct response to concerns expressed in several reports by the Committee of Public Accounts[28], about departments' over-reliance on PSCs; application of a simple pass or fail test to the quantitative analysis; and their spurious precision or manipulation to get the desired result.

2.23 Subsequent HM Treasury guidance, Value for Money Assessment and the Quantitative Assessment User Guide (both published August 2004), set out a new approach to appraising the value for money of investment proposals to be procured under PFI. This guidance has been adopted and promulgated in Northern Ireland by DFP. The key features of the new guidance are:

- a new test of the potential value for money of procurement options when overall investment decisions are made, to ensure PFI is used only in those sectors where it is appropriate and has a good value for money case, and that departments provide sufficient budget flexibility to accommodate subsequent decisions not to use PFI;

- reforming the PSC into part of an early rigorous economic appraisal of an individual project at the stage an Outline Business Case is produced, prior to the procurement of the project, to allow projects to proceed down alternative procurement routes where they offer better value for money; and

- instituting a final test at the procurement stage of a project that would evaluate the competitive interest in a project and the capacity of the market to deliver it effectively.

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27 From November 2004, it was determined that the PSC should no longer be referred back to once it has been agreed, at Outline Business Case, to progress using the PFI methodology (DAO (DFP) 18/04).

28 For example, PFI: Redevelopment of MOD Main Building (HC 298, January 2003) and Delivering better value for money from the Private Finance Initiative (HC 764, June 2003).

The best available deal was selected

A good range of solutions was put forward for an innovative project

3.1   As outlined at paragraphs 2.7 to 2.11, the number of parties remaining in competition for the ELFNI contract was reduced from 31 to 2. At best and final offer stage, the project board sought two bids from each supplier, one for the full ELFNI project and a further set of costings for a de-scoped project, i.e. minus the BSU which incorporated acquisition and cataloguing services, delivery services and management of reserve stock. This was done in order to ensure that the project progressed and also remained affordable. The de-scoped option was subsequently selected and progressed to contract completion.

3.2   Where PFI is selected as the appropriate procurement method, there should be scope for innovation in design that allows the service provider to design away risks and bring new ideas to the way a service is provided. In ELFNI, the overall aim was to install a system that provided a "seamless service" within Northern Ireland's public library service. To this end the service provider was tasked with recommending and implementing the technology to meet the current service requirements. The technology also had to be capable of accommodating future technological developments.

3.3   This was delivered through the implementation of a dedicated broadband network for the public library service linking all major towns in Northern Ireland, complimented by a mobile solution on 47 vehicles. It also offered a full range of ICT services to the general public.

3.4   As a result of this technological innovation, a 10-year PFI contract has been established, according to the Department, which is the first in the United Kingdom to share, between library authorities, a single network infrastructure and a single Library Management System across all areas of business. It provides a single high speed telecommunications network linking all public libraries throughout Northern Ireland. This enables them to provide access to a vast array of electronic resources.

3.5   The public library service claim that these new electronic services offer greater opportunities to participate in cultural, democratic and economic activities. For the first time, the combined book-stock of each of the five library services will be made available to everyone, irrespective of where they live. Facilities available through ELFNI include:

- the ability for the public to access library services remotely via the internet;

- video conferencing;

- photocopying and scanning;

- free internet access for library members; and

- provision of a library portal which includes library addresses, details of opening hours and services provided (which reflect the age groups accessing the portal).

All front-line library staff are trained to at least European Computer Driving Licence[29] standard in order to provide assistance to users.

3.6   The contract also allows for two refreshes (updates of hardware and software) during its 10-year lifespan. Future options for ELFNI include the establishment of wireless

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29 The European Computer Driving Licence Ⓡ (ECDL) is the internationally recognised qualification which enables people to demonstrate their competence in computer skills.

technology, the provision of a genealogy service, the development of wider partnerships in the community, formation of virtual reading groups and digitisation of library stock.

The technical evaluation process at best and final offer stage was rigorous; this included the establishment of a benchmark to compare supplier bids.

3.7 Both evaluation and negotiating teams were formed to evaluate the bids and conduct the negotiations with suppliers. As part of the ELFNI project structure, the project team established a group of specialists, from within the public library service, to provide advice and assess the library management software system of the two suppliers during site visits. Additionally, a library team was created to provide expertise and to represent all aspects of the library service across the five library boards in the production of the OBC.

3.8 When initial proposals were received in March 2000, the evaluation team was employed on practically a full-time basis. Prior to the receipt of bids, it had developed negotiation positions for each of the key elements of the service required; these were validated by CCTA[30]. The project team subsequently developed detailed qualitative evaluation models in order to assess supplier bids as they progressed. These covered:

- acquisitions and cataloguing;

- circulation and stock;

- infrastructure;

- information and reference;

- optionals; and

- environment, general, operational, infrastructure and implementation.

The most economically advantageous bid was selected

3.9 In order to ensure that the most economically advantageous bid was selected, the project board appointed financial advisers to examine the bids for both affordability and value for money. The team was made up of Corporate Finance, Public Sector Audit and Information Risk Management experts. Financial Due Diligence[31] was performed by OGC Supply Intelligence Service. Site visits were also made to suppliers to investigate management, service and technical aspects of their proposed Library Management Systems.

3.10 The resultant scoring of the two bids found only a marginal difference between suppliers. A qualitative evaluation had been carried out by the team prior to the financial evaluation which had determined whether the suppliers' proposals were fit-for-purpose, and scored them accordingly. The bidders' proposed milestone payments and unitary charge payments were also compared with the risk adjusted PSC. They showed that, in quantitative terms, both bids could deliver a value for money PFI solution with PFI offering cost savings of between 4 and 26 per cent over the PSC (see Figure 8). Following affordability considerations, it was evident that the AMEY plc bid provided greater cost savings whether the Board opted for a full or de-scoped service (see paragraph 3.1).

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30 Central Computer and Telecommunications Authority (CCTA) was absorbed within OGC in April 2001.

31 The process of investigation into the financial details of a potential investment, such as the examination of operations and management and the verification of material facts.

Figure 8: Comparison of Bids

Bidder	Bid	NPC of PFI Option £m	NPC of risk adjusted PSC £m	Cost Saving £m	% Saving	Rank
Winning Bidder	De-scoped	25	33	8	26	1
Reserve	Service	27		6	19	2
Winning Bidder	Full	33	39	6	16	1
Reserve	Service	37		2	4	2

The process was well managed between winning bid and contract award

3.11 It is not uncommon in PFI deals for the winning bid to change before contract signature. Between the appointment of preferred bidder and contract signature there is often a need to clarify the finer details of the agreement and/or insert additional requirements. The cost of project financing is also not normally fixed until immediately prior to contract signature. However, we were advised by the Department that, due to the intensity of the project negotiation and evaluation process which took place prior to best and final offer and the funding arrangements (see paragraphs 3.7 to 3.10), the amount negotiated did not vary in the period between the appointment of preferred bidder (November 2001) and contract signature (January 2002).

Part 4

The deal makes sense

A benefits realisation plan was adopted

4.1 At OBC, a contract length of 7 years was used, with the possibility of extending to 10 years. During negotiations with suppliers, both contract periods were considered by the project team. However, it was agreed by both the suppliers and the project board that the ten-year period was more appropriate. Given that rollout could have taken up to 18 months, it was concluded that a seven-year contract would not give time to realise the investment or complete the business change process in the library service. This also allowed for the refresh of equipment at reasonable intervals, thus allowing assets to be transferred back to the Boards at contract completion in good operational condition.

4.2 We have been advised by the Department that the contract is sufficiently detailed to ensure that the deal will meet the objectives of the Boards in the short-term. Within the contract framework, formal arrangements have been established in order to ensure that the services are delivered in a planned and controlled way. Change control procedures have also been included in order to deal with changing structures, services, legislation and technology during the contract life.

4.3 In order to measure the benefits encompassed within the Electronic Libraries Programme, the project board has developed a benefits review model. This sets out the business and system objectives, the measurable benefits and the measurement methodology.

Experience to date suggests that there are sufficient safeguards to ensure both timely delivery and quality of service

4.4 The contract, signed in January 2002, is proving to be operationally robust. Although still at an early stage, experience to date suggests that there are sufficient safeguards in place within the contract to ensure both timely delivery and quality of service. During the six months from transition to steady state, the first review, carried out in March 2004, concluded that the programme is delivering many of the business benefits on which the whole ELFNI project business case was developed (see Figure 9).

Alternatives were evaluated and fairly eliminated

4.5 For ease of implementation and for costing purposes, the mandatory requirements in the ELFNI project were grouped ("clumped") into logical areas. These were:

- Clump 1 - Legacy Services;

- Clumps 2-5 - Core Services; and

- Clump 6 - Separately Costed Mandatories;

- BSU - Bibliography Services Unit.

Clump 1 was the cost of running the current services during transition and implementation. This was not included in the calculation of the PSC, as the Education and Library Board's would continue to bear this cost.

Figure 9 : Six month review of benefit realisation

Benefits Grouping	Benefits Identified	Benefits Achieved	Achievements at 6-month Review
Realisation of Economies of Scale	4	3	Three of the four savings were realised, with savings in the Library Management System subscription costs, roll out costs and hardware, software and communication line charges. No savings were achieved in publishing, as no joint board publications had been produced.
Improved Service Performance	14	6	A number of the benefits had to establish baseline statistics when the system went live or it achieved steady state. Examples of benefits realised include the provision of a wide area network for CD Roms and a projected increase of visitor numbers of 127,000 a year.
Wider Access to Information	7	7	All of the benefits were achieved, including access to all library stock from anywhere in NI, the provision of a NI Libraries portal and the availability of adaptive technology for disabled users.
Harmonisation of Library Services	10	4	A number of the benefits such as provision of e-mail accounts for all staff, increased availability of laptops with remote access have already been achieved. However, neither third-party revenue streams nor sponsorship deals have been achieved.
Realisation of Equality Benefits	10	5	A number of the benefits such as all staff trained to ECDL, internet terminals available in all libraries, access to library services available from home PCs have already been realised. However, some information will remain unavailable until the implementation of the Community Information Service and the provision of management reports from the Pharos Software (that enables the borrower and PIN access to public access terminals in libraries).

4.6 The PSC was worked up on the basis of costing clumps 2-6, referred to as the de-scoped service, and clumps 2-6 plus the Bibliography Services Unit (referred to as the full service) with adjustments for risk. As detailed at paragraph 3.1, the project progressed to contract completion, selecting the de-scoped service as the preferred option.

The output based specification costs increased significantly

4.7   The PSC was based upon the reference project in the Outline Business Case. This was subsequently updated (May 2001) when the nature and duration of the service providers' solutions became apparent. Between 1997 and 2001 there were significant changes in policy and technology that impacted on the ELFNI project. For example, the UK Government introduced "The People's Network", which set high specifications for the numbers of PCs offering broadband internet access for public use, into all UK Public Libraries. As a result, the comparison of the OBC reference project and the PSC showed a non-risk adjusted, non-discounted increase from £16m to £30m[32]. In order to demonstrate the reasons for the increase an OBC/FBC Bridge was prepared (see Figure 10), which detailed the changes that took place between the OBC (July 1998) and FBC (November 2001) and tested whether they were still applicable. The largest differences relate to hardware and telecomms, additional communication line charges (due to the need to cater for the high specification People's Network, given the absence then of a local broadband network in Northern Ireland), software licences and an agreed additional refresh of technology. This document concluded that the project represented a good proposition to the Library Service, offering value for money, affordability and equity of service provision across all public service points in Northern Ireland and was used to confirm that the project should progress to Best and Final Offer.

Figure 10: OBC/FBC Bridge (based on seven year comparison)

Expenditure Heading	OBC £m	FBC £m
New Hardware and Telecomms Equipment	0.80	0.22
Replacement of Existing Hardware at Branches and Mobiles	1.75	5.07
Initial Software Licences	0.30	1.17
Data Conversion, applicable to Circulation and Stock Security	0.05	0.10
Other Capital Costs, inc. fitting out Data Centre	-	0.59
Basic Service Charge	1.29	1.78
Transferred Services Charge	1.20	0.30
Consumables	0.47	-
Hardware Maintenance	0.69	0.31
Communications Line Charges	3.70	10.64
Software Maintenance	0.06	0.47
Software Licence Fees	0.06	0.33
Staff Costs	3.72	2.27
Contract Management Costs	0.70	1.47
Training Costs	0.22	0.09
Project Costs	0.58	0.70
Integration and Implementation Costs	0.39	1.29
Other Operating Costs	0.02	0.12
Separately Costed Mandatories - Photocopying, Disposals, Self Issue, Security Systems, Corporate e-mail	-	3.19
Total	**16.00**	**30.11**
Difference		14.11

32 Based on 7 year costing model as no 10 year costing available at OBC.

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Arrangements are in place to manage the contract

4.8 The signed contract is tailored to meet the needs of the Boards. The project board believes that it has covered all eventualities from the implementation phase through to an exit plan for the supplier and termination by the Boards.

4.9 In June 2002, AMEY plc, of which the supplier is an integral part, experienced considerable financial difficulties, which led to its share price dropping 93 per cent during 2002[33]. The nature and timing of this event tested and confirmed the efficacy of the signed contract which had a built-in provision to preserve business continuity in the event of early termination (see Appendix 5).

4.10 The timing of this event, although at a critical juncture, highlighted the strength of the pre-implementation contract terms whereby, the Boards could buy back assets installed for the nominal sum of £1. Post implementation, the contract allowed for the assets to be purchased for the "written down value" at the date of termination. The project team recognised that, within this provision, there was the possibility that the Boards could pay in excess of the asset valuation should the contract terminate in the early stages after implementation. However, they did not consider this to be a high risk, given that the service provider would have to forfeit its monthly unitary payments, write-off its own investment of time and manpower into the project and also lose credibility within the sector should it default. Should termination occur, a service transfer plan had been agreed where services in the contract could either be brought in-house or transferred to a third party supplier.

4.11 The service to each library business area was rolled out on a planned 'go live' timetable schedule between 1 May 2002 and 31 July 2003. During this period the service provider was entitled to milestone payments totalling £7.9m. The mechanism for payment to the service provider was based upon the achievement of approved milestones, which the ELFNI Contract Executive Team signed off by means of pre-determined acceptance criteria. All milestone payments were made only when the planned service was implemented and live. The Contract Executive Team was of the opinion that these conditions ensured that the service provider successfully met, what was considered to be, a challenging implementation timetable.

4.12 The contract details the core library service availability and performance levels and how the unitary payment was estimated (see Figure 11). Following post-contract signature, the Contract Executive Team agreed that the Boards would take back responsibility for disposing of stock and the risks associated with it. The provision of this service, estimated to be worth £0.75m over the life of the contract, had been linked to the wider Bibliography Services Unit that had been de-scoped from the contract (see paragraph 2.20). The Department told us that in place of the credit amounts originally included in the contract for stock disposal, the Boards negotiated a reduced credit amount, additional training and support provision. In addition to this, the Boards receive the revenue from stock disposals.

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33 AMEY plc was subsequently acquired by the Ferrovial Group of Spain in 2003.

Figure 11: Breakdown of estimated unitary charge

	Business Area	Unitary Charge £
Clump 2	Acquisition and Cataloguing	1,849
Clump 3	Circulation & Stock Control	4,530
Clump 4	IS Services and Telecommunications	204,045
Clump 5	Information and Reference	2,627
Clump 6	Photocopying[34]	11,029
	Disposals	(5,952)
	Self Issue	596
	Security Systems	852
	Corporate e-mail	1,135
£1m milestone transfer (see paragraph 2.18)		10,628
Total monthly payment		**231,339**

4.13 The contract also outlines the reduction in the monthly unitary charge which underachievement attracts, based on the effect the loss of service has on an individual business operation and on the aggregate overall level. The deal has been structured in such a way that faults in different business areas are not treated in isolation. Where target times are not achieved, faults will be recorded and accumulated for both failure and persistence against each service level. If the target, agreed in the contract, is exceeded in any area of service, the element of the unitary payment attributable to that service will be reduced by 50 per cent. Additionally, a system of points will be calculated across the entire service, based on the overall weighting that each service level attracts. Within the contract, a level of cumulative weighted persistence points has been set, which, if exceeded in any month, will lead to no monthly payment being made.

4.14 From the outset, the project board was proactive and forward thinking. In order to ensure successful performance of the project post-implementation, a specialised and dedicated management team was established whose sole responsibility was to ensure that the contract requirements were managed within a comprehensive and robust structured framework. To this end the Intelligent Customer Unit and the Contract Executive Team (see paragraph 4.16) were formed. A Contract Manager was also appointed in 2001 prior to contract completion. This allowed for familiarisation with the service requirements of the Boards. The project team considers that this was a major contributory factor in the Boards obtaining a workable and realistic contract that would ensure an efficient service throughout the contract life.

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34 Figure is indicative only and will vary from month to month depending on usuage.

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Good relationships have been established with the Service Provider which includes the creation of a Contract Executive Team.

4.15 The Boards and the service provider have recognised that it is essential for both parties to understand their respective business positions in order to achieve a successful working partnership that fulfils both parties' strategic business objectives and expectations. To this end, a structured framework has been set up within each organisation which formally sets out and clarifies each of their roles and responsibilities. Both parties have agreed a communication strategy that, although flexible, ensures that information will be channelled and conveyed to the correct person in an open and constructive manner. The service provider has agreed to sit on all project steering groups and, to date, there has been a full sharing of all issues. It also produces a newsletter which is issued to all staff and provides a forum for interaction and feedback. Such has been the progress in relationship development between the two parties that, in its Gateway 4 review, OGC has acknowledged that a partnership culture was evident between the project board and the service provider and that it represented a firm foundation for the ultimate success of the project. The ELFNI project team therefore feels that this open and constructive process is working well.

4.16 A Contract Executive Team was established to provide a platform for open discussion of issues between the Boards and the service provider as they arose, thus operating and managing the contract by consensus. It also provides strategic overview and direction with membership from both parties who could resolve problems and clear obstacles as they arose. It encompasses senior personnel from both the Boards and the service provider who have sufficient expertise and skills in each of the core areas. Appendix 4 details the Contract Executive Team structure and responsibilities. Its responsibilities will evolve over the contract life as it gains familiarity with the business activities.

4.17 The service provider, although having representation on the Contract Executive Team, has set up its own team to embrace partnership working and to aid the channel of communication between both parties. It is responsible for ensuring that the service it has signed up to is provided in a professional, expeditious and economical manner.

There are incentives for both parties but profit sharing appears to be weighted in favour of the service provider

4.18 The contract has been drawn up based on a Business Weight Model. The reduction in unitary charge for underperformance by the service provider is therefore based on the effect this has on the business as opposed to how long the service or equipment is unavailable (see paragraph 4.13). Although responsibility for monitoring this performance lies with the service provider, the Boards review reports and corroborate performance through their own service managers. Since becoming operational, the performance levels have been good. There have only been two occasions when the service parameters exceeded service levels which resulted in financial penalties (£22k and £12k). This early identification of lower than acceptable service levels demonstrates a transparent and committed joint working relationship between the two parties.

4.19 Under best practice, Profit Before Interest and Tax (PBIT) should be based upon the nature

of the project and the risks involved for the private sector. PBIT is the service provider's profit on the project recorded in its profit and loss account. The projected PBIT for the ELFNI contract has been projected to be 5.85 per cent; should profits exceed 14 per cent, profit sharing will commence between the service provider and the Boards (see Appendix 6). It has been agreed in the contract that reviews of PBIT will be carried out at year 3 and year 7 and on expiry or termination of the contract. At each stage, any share of profits due to the Boards will be paid into an interest bearing joint bank account in equal annual amounts over the four and three year period after each review, with the service provider retaining its share immediately.

4.20 On contract expiry, or earlier termination of the contract, a review over the whole ten year period will be conducted. If the PBIT over the full timescale of the contract exceeds the threshold, the excess shall be apportioned equally between both parties. If there is any excess in the bank account (excluding interest) after the Boards have received their share, this will be paid to the service provider. However, if PBIT does not exceed the threshold at contract completion, then any amount held in the bank account, including all accrued interest, will be released to the service provider.

4.21 The Boards have identified a number of 'Optional Requirements' which they were unable to include in the initial service provision. However, the service provider has been contractually committed to producing a business case for each of these requirements during the first two years of the agreement. It is anticipated that some of these commercial services, for example genealogy, may provide the service provider with an element of profit that the Boards could share. In addition, there is scope within the contract for the service provider to provide supplementary services to third parties using, in whole or part, the mandatory assets. If the Boards agree to such an arrangement the service provider is required to

pay a Supplementary Exploitation Payment to the Boards. The Department told us that the contract provides many non-profit making benefits and that profit sharing on services, which may be contracted in the future, would be open to negotiation.

Appendices

Appendix 1

(paragraph 7)

Chronology of key events in the ELFNI project

Event	Date
Libraries Harmonisation Project Inception	April 1996
Feasibility Study Issued	June 1996
Agreed	September 1996
Scope of Libraries Harmonisation Project approved by BISDC	1997
Project Initiation Document (PID) Issued	May 1997
Invitation to potential bidders (PIN) (31 expressions received)	August 1997
Outline Business Case produced	July 1998
Outline Business Case approved by DE	May 1999
OJEU Notice issued	October 1999
Replies to Pre Qualification Questionnaires received and Commercial Reviews carried out by OGC	November 1999
Shortlist of five invited to bid	December 1999
Receipt of bids	January 2000
Proposals from suppliers received and evaluated (see paragraph 3.8)	
• V100	June 2000
•V200	August 2000
•V300	November 2000
Public Sector Comparator produced	November 2000
OGC Gateway Review 3 (Interim)	June 2001
V400 Proposal from suppliers received and evaluated	July 2001
Chief Executives "sign up"	July 2001
Best and final offer request and receipt	August 2001
Preferred Bidder appointed	November 2001
OGC Gateway Review 3 (Final)	November 2001
FBC Approval	January 2002
Contract signed	January 2002
OGC Gateway Review 4	April 2002
OGC Gateway Review 4a	December 2002

Appendix 2

Strategies and Reports Impacting on the ELFNI Project

1. **Learndirect Centres** - In "*The Learning Age*", February 1998, the Government set out its vision of a "learning society" in which everyone is able to learn and upgrade their skills throughout lifeî. It highlighted the potential of the public library to deliver information and learning to people of all ages and backgrounds, right across the community. As a result, a number of "**Learndirect Centres**" were established, some in public libraries (e.g. Belfast Central Library), where adults could learn in a more informal way.

2. **Empowering the Learning Community** - In March 2000, the Library & Information Commission's Education and Libraries Task Group produced a report to the Secretaries of State for Culture, Media & Sport and for Education and Employment in GB, entitled "*Empowering the Learning Community*", drawing attention to the lifelong learning benefits to be gained from partnerships between public and educational libraries. It highlighted the role of the public library as the "*vibrant hub of community life*" and the access point to a nation-wide treasure house of digital content, and it further proposed the efficient co-ordination of library resources across all sectors to ensure that the library continues to play a part as access point to the world of information and personal development. It proposed that libraries of all types should synchronise their online network and digital content creation, and that they should undertake the co-ordinated acquisition of stock and resources.

3. **Libraries for All: Social inclusion in public libraries** - In October 1999, the Department for Culture Media and Sport (GB) issued draft policy guidance for local authorities in England on social inclusion in public libraries: "*Libraries for All: Social inclusion in public libraries*". This report saw libraries as well placed to generate change and pointed to the important role they could play in helping to overcome rural isolation. The need to use ICT creatively and effectively in delivering services was seen as key, while "*affordable (or preferably free) access to ICT at local level*" was also seen as important in mainstreaming social inclusion within the library service. The guidance recommended that:

- Library and Information Services should develop their role as community resource centres providing access to communication as well as information; and

- Libraries should be the local learning place and champion of the independent learner

4. **Centres for Social Change** - Following consultation on "*Libraries for All: Social inclusion in public libraries*" and the related draft social inclusion policy for museums, galleries and archives, "*Centres for Social Change*", the Department of Culture, Media and Sport (GB) in January 2001, issued revised policy objectives across libraries, museums, galleries and archives[35], which endorsed the need to achieve the widest possible access to collections and knowledge through ICT. The revised objectives were grouped within three broad headings of **Access, Outreach** and **Agents of social change**. Libraries were recommended to act in partnership with museums, galleries and archives in tackling social exclusion, while new objectives include developing outreach activities as an integral part of the library's role.

5. **British Library Information Strategy** - In 1996, the British Library published its

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35 Libraries, Museums, Galleries and Archives for All: Co-operating Across the Sectors to Tackle Social Exclusion. DCMS, January 2001.

Information Strategy which set out as one of its strategic objectives "*to improve access to the collection and to resources beyond*". This strategy outlined the need to develop and to provide access to a National Bibliographic Resource and to enable users to search and download bibliographic records. Remote access to the Library's On-line Public Access Catalogue, *OPAC 97*, was subsequently launched in May 1997 and upgraded in January 2001 as the British Library Public catalogue, providing free access via the internet to British Library databases. It also allowed registered customers of the Document Supply Centre to transmit document requests for material found through their on-line searches. In addition to improving access to information for libraries and their users, these developments offer the potential for savings in cataloguing, indexing and electronic storage of bibliographic material by the public library services in NI.

6. **Freedom of Information Act 2000** - The Act, which received Royal Assent in November 2000, created new rights of access for the citizen to government information. The provisions of the Act extend to Northern Ireland, where they were brought into force on 1st January 2005.

7. **Legal Deposit of Publications** - A Consultation Paper, "Legal Deposit of Publications", was published by the Government in February 1997, and a working group was subsequently established to advise on how an effective national archive of non-print material might be achieved. The possibility of digital national collections and access to new catalogues of material impacts upon the way public library services within the UK do their business. New standards for digital cataloguing and indexing will need to be adopted by these libraries, while existing library holdings in NI may need to be re-catalogued and indexed.

8. **Reading the Future - A Review of Public Libraries in England** - In 1996 the Department of National Heritage (GB) published, "Reading the Future - A Review of Public Libraries in England". This report, which formed part of the "IT for All and Information Society Initiative", highlighted changes in library services in England, resulting from the introduction of information technology. A key concept was the "*library without walls*", based on the ability of any member of the public being able to access information from any public library in England or beyond. The concept also extended beyond libraries to include museums and put forward the possibility of linking libraries, museums, archives and their collections electronically.

9. **Audit Commission - Due for Renewal** - The Audit Commission in its 1997 report, "Due for Renewal", highlighted the limitations in the use of ICT in public libraries.

Source - Extracts from the Full Business Case

Roles and Responsibilities of the Procurement Teams
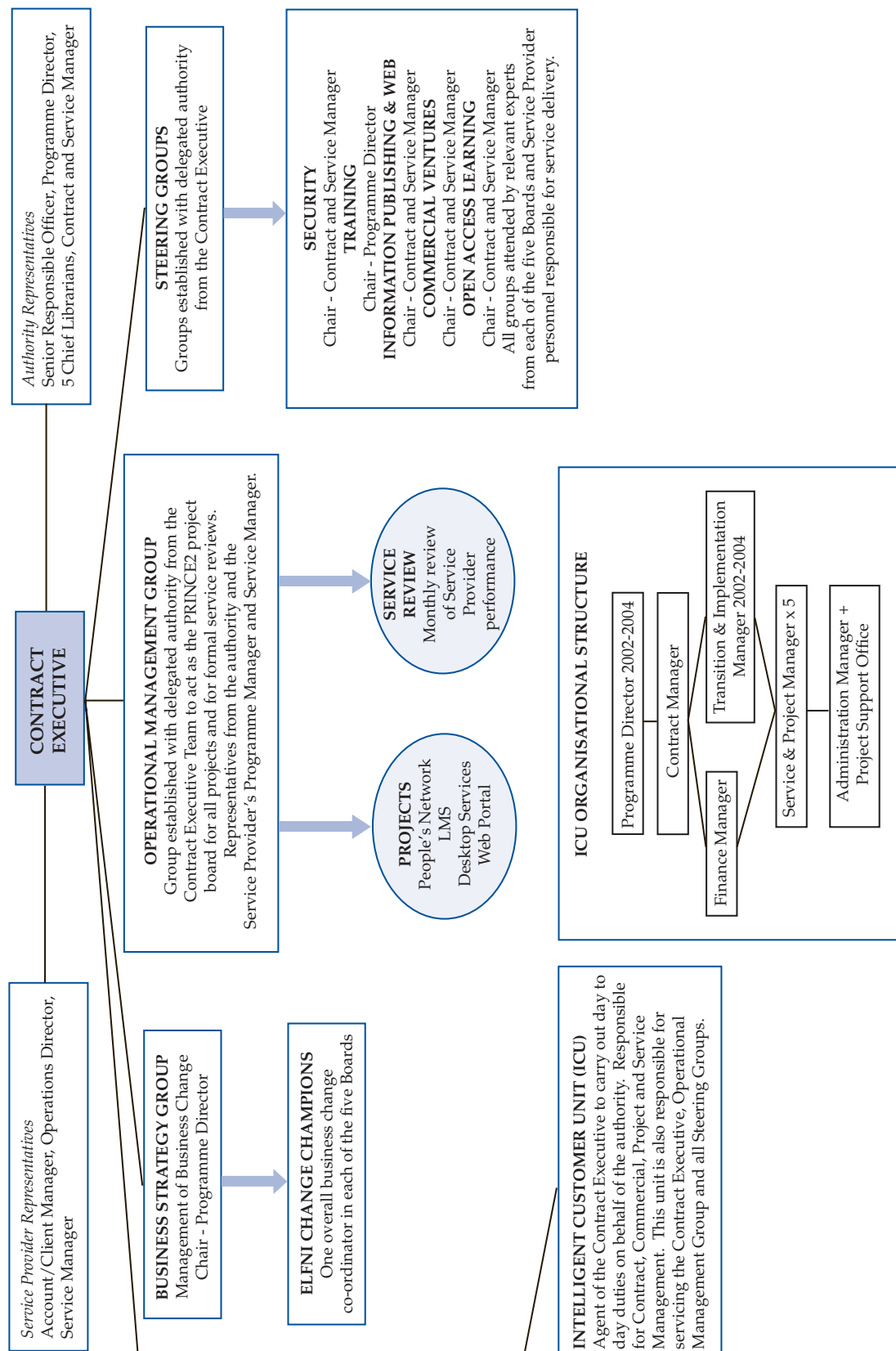
Team	Responsibilities
Project	• The Output Based Specification • Public Sector Comparator • Negotiating positions • Site visits • Development of the Full Business Case • Documentation of procedures and processes • Working with a variety of consultants on technical, legal, financial and procurement matters • Discussions and negotiations with staffing unions • Discussions and negotiations with DCAL
Evaluation	• Short listing of expressions of interest • Evaluation • Pre-BEST AND FINAL OFFER qualitative evaluation • Final supplier evaluation • Formal selection of the successful bidder
Expert Library	• Input representing each Board area to the development of OBC • Representation at workshops and associated communications • Provision of library management systems knowledge during site visits
Negotiation	• All meetings and communications with all suppliers
OGC Review	• Carry out Gateway reviews
OGC Project Assistance	• Provision of the correct application of EU rules, and current best practice on UK procurement.
OGC Supply Intelligence Service	• Financial Due Diligence
OGC Technical Assurance	• Augmentation of the general and managerial IT experiences of the project team • Provision of specialist and up-to-date knowledge of telecommunications • Review supplier submissions
OGC Risk Quantification	• Advice and guidance on risk quantification • Provision of a best-practice framework for the business case
BDS Business Development Service	• Providing pricing information for the PSC • Provision of advise on the Public Sector Network

Appendix 4

(paragraphs 2.13 and 4.16)

Authority Representatives
Senior Responsible Officer, Programme Director,
5 Chief Librarians, Contract and Service Manager

Service Provider Representatives
Account/Client Manager, Operations Director,
Service Manager

CONTRACT EXECUTIVE

STEERING GROUPS
Groups established with delegated authority
from the Contract Executive

SECURITY
Chair - Contract and Service Manager
TRAINING
Chair - Programme Director
INFORMATION PUBLISHING & WEB
Chair - Contract and Service Manager
COMMERCIAL VENTURES
Chair - Contract and Service Manager
OPEN ACCESS LEARNING
Chair - Contract and Service Manager
All groups attended by relevant experts
from each of the five Boards and Service Provider
personnel responsible for service delivery.

OPERATIONAL MANAGEMENT GROUP
Group established with delegated authority from the
Contract Executive Team to act as the PRINCE2 project
board for all projects and for formal service reviews.
Representatives from the authority and the
Service Provider's Programme Manager and Service Manager.

SERVICE REVIEW
Monthly review
of Service
Provider
performance

PROJECTS
People's Network
LMS
Desktop Services
Web Portal

ICU ORGANISATIONAL STRUCTURE

Programme Director 2002-2004

Contract Manager

Finance Manager

Transition & Implementation
Manager 2002-2004

Service & Project Manager x 5

Administration Manager +
Project Support Office

BUSINESS STRATEGY GROUP
Management of Business Change
Chair - Programme Director

ELFNI CHANGE CHAMPIONS
One overall business change
co-ordinator in each of the five Boards

INTELLIGENT CUSTOMER UNIT (ICU)
Agent of the Contract Executive to carry out day to
day duties on behalf of the authority. Responsible
for Contract, Commercial, Project and Service
Management. This unit is also responsible for
servicing the Contract Executive, Operational
Management Group and all Steering Groups.
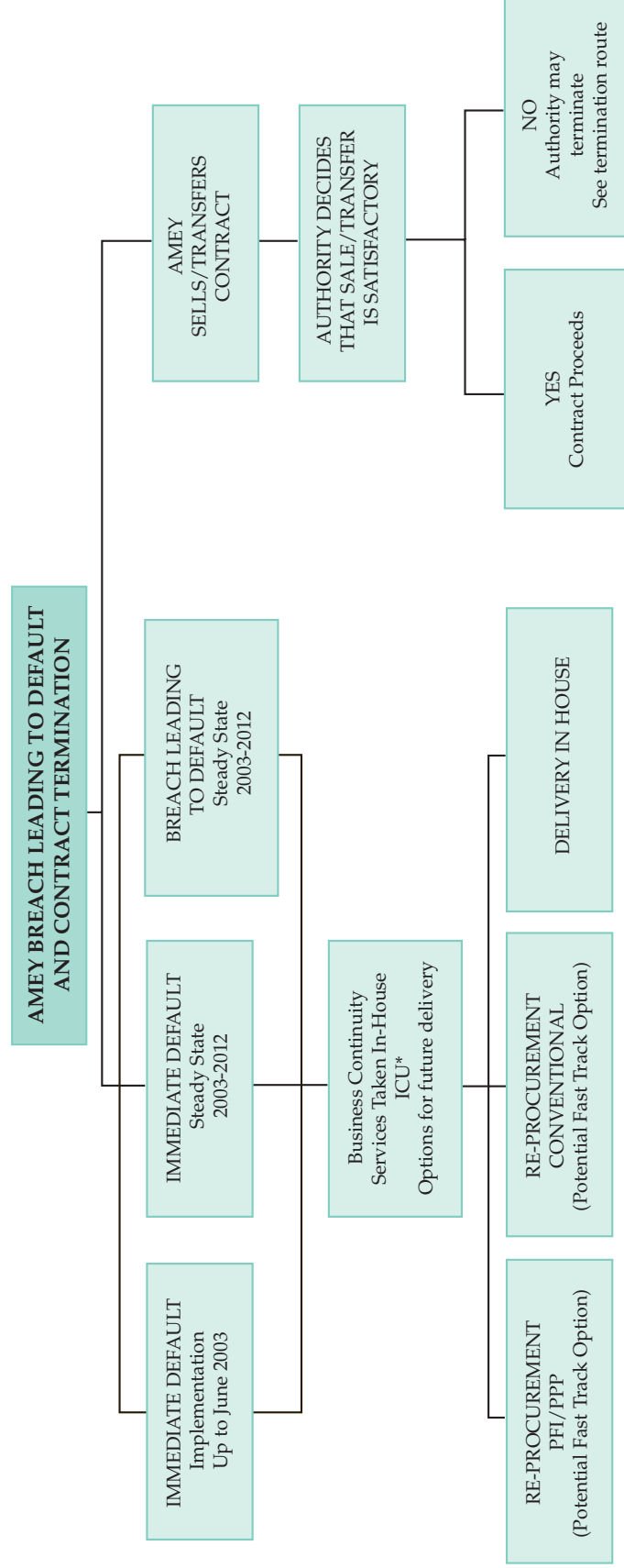
Appendix 5

(paragraph 4.9)

Contractual Contingency Scenarios - Termination in Exceptional Circumstances

AMEY BREACH LEADING TO DEFAULT AND CONTRACT TERMINATION

- IMMEDIATE DEFAULT
  Implementation
  Up to June 2003

- IMMEDIATE DEFAULT
  Steady State
  2003-2012

- BREACH LEADING
  TO DEFAULT
  Steady State
  2003-2012

- AMEY
  SELLS/TRANSFERS
  CONTRACT

Business Continuity
Services Taken In-House
ICU*
Options for future delivery

AUTHORITY DECIDES
THAT SALE/TRANSFER
IS SATISFACTORY

- RE-PROCUREMENT
  PFI/PPP
  (Potential Fast Track Option)

- RE-PROCUREMENT
  CONVENTIONAL
  (Potential Fast Track Option)

- DELIVERY IN HOUSE

YES
Contract Proceeds

NO
Authority may
terminate
See termination route

* Business continuity planning in place including; Staffing (TUPE, recruitment, training); Budget (on a rolling basis ie taking account of refresh points etc. and settlement values); Staff Morale; Public Perception; Procurement; Tomorrow's Libraries objectives; and ongoing initiatives.
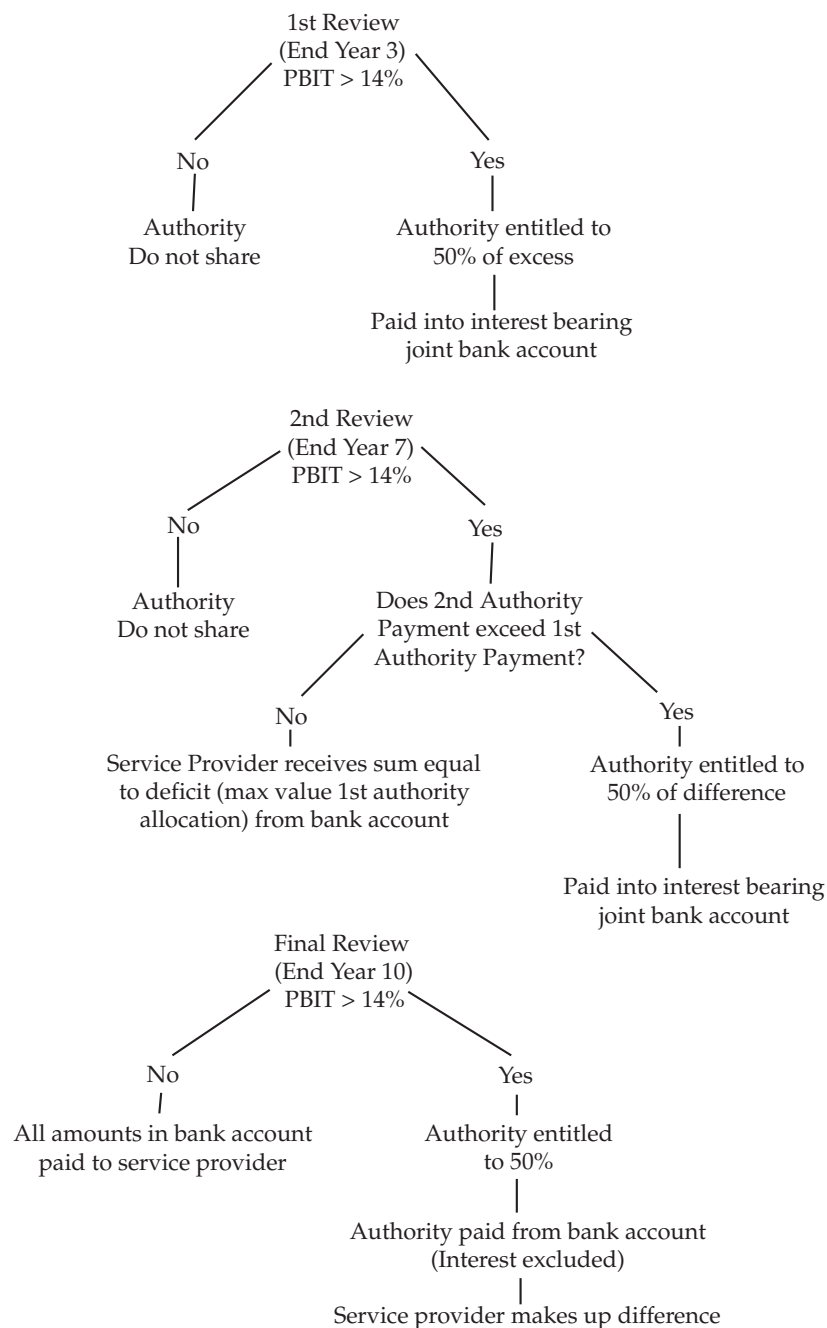
Appendix 6

(paragraph 4.19)

ELFNI Profit - Sharing Model

Projected Profit Before Interest and Tax 9PBIT) = 5.85%
Authority share if PBIT > 14% = 50:50

1st Review
(End Year 3)
PBIT > 14%

No   Yes

Authority   Authority entitled to
Do not share   50% of excess

Paid into interest bearing
joint bank account

2nd Review
(End Year 7)
PBIT > 14%

No   Yes

Authority   Does 2nd Authority
Do not share   Payment exceed 1st
                 Authority Payment?

No   Yes

Service Provider receives sum equal   Authority entitled to
to deficit (max value 1st authority   50% of difference
allocation) from bank account

Paid into interest bearing
joint bank account

Final Review
(End Year 10)
PBIT > 14%

No   Yes

All amounts in bank account   Authority entitled
paid to service provider   to 50%

Authority paid from bank account
(Interest excluded)

Service provider makes up difference

NIAO Reports 2004-05

Title	NIA/HC No.	Date Published

2004

Title	NIA/HC No.	Date Published
Navan Centre	HC 204	29 January 2004
The Private Finance Initiative: A Review of the Funding and Management of Three Projects in the Health Sector	HC 205	5 February 2004
De Lorean: The Recovery of Public Funds	HC 287	12 February 2004
Local Management of Schools	HC 297	23 February 2004
The Management of Surplus Land and Property in the Health Estate	HC 298	26 February 2004
Recoupment of Drainage Infrastructure Costs	HC 614	8 June 2004
Use of Consultants	HC641	10 June 2004
Financial Auditing and Reporting: 2002 -2003 General Report by the Comptroller and Auditor General for Northern Ireland	HC673	25 June 2004
Introducing Gas Central Heating in Housing Executive Homes	HC725	1 July 2004
Department of Employment and Learning: Jobskills	HC 762	7 July 2004
Imagine Belfast 2008	HC826	15 July 2004
Building for the Future	NIA113/03	14 October 2004
Departmental Responses to Recommendations in NIAO Reports	NIA 124/03	26 October 2004
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Waiting for Treatment in Hospitals	NIA 132/03	25 November 2004

2005

Title	NIA/HC No.	Date Published
Modernising Construction Procurement in Northern Ireland	NIA 161/03	3 March 2005
Education and Health and Social Services Transport	NIA 178/03	9 June 2005
Decision Making and Disability Living Allowance	NIA 185/03	16 June 2005
Northern Ireland's Waste Management Strategy	HC88	23 June 2005
Financial Auditing and Reporting: 2003-2004 General Report by theComptroller and Auditor General for Northern Ireland	HC96	7 July 2005
Departmental Responses to Recommendations in NIAO Reports	HC206	19 July 2005

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