Appendix

PROPOSED CONTRACTING OUT OF PLANNING AND BUILDING CONTROL – S151 FINANCIAL ASSESSMENT

Executive Summary

"The Authorities finance staff have been involved in the due diligence process with Eversheds and consider the potential value of the contract to be proportionate to that outlined to Cabinet in February. The due diligence process has seen further negotiation and clarification, allowing amendment and alignment of financial aspects of the contract and resulting in a mutually acceptable position for both parties to make a decision. The conclusion for the Council is that a financial benefit averaging £250,000 per annum is possible over the term of the contract. This figure would be generated through a mix of a lower contracted cost of service with Capita, an opportunity to remove residual costs from the Council and a sharing of the turnover generated by the growth of the Breckland Capita team. The Cabinet have previously been advised of the numerous risks attached to such a long term contract and it will be necessary to manage these risks to derive any of the anticipated benefits. Indeed Cabinet are encouraged to make their decision primarily against the other evaluation criteria, such is the level of risk attached to the determination of an accurate financial benefit under the proposed arrangements. "

Matters arising during due diligence

The nature of the contract over 15 years makes a very challenging set of circumstances to attach any real value against. The initial challenge is that we do not have a 15 year plan for our existing in house service provision for which to compare against. Simply we do not know how inflation, legislation and service demand will change over time.

Our assumptions have however been widely rehearsed with Officers and Members and the due diligence process has required some of these to be amended. The key message is that the due diligence process has substantiated a proportionate benefit to the Council over the term. The latest model predicts a potential benefit of £3.7m which aligns strongly with the £4m pre due diligence. I've itemised below where the model has been revised.

Further clarification with Capita

- Capita have confirmed they will not be buying Finance and HR services for the first 18 months
- The value of the Ocella upgrade has been included
- The pension offset offered by Capita is now built into their core contract price and is therefore not subject to withdrawal should contribution rates change
- Capita will charge a "mark up" for the dedicated Thetford Growth Point team
- Capita are no longer identifying guaranteed savings but simply a lower base year contract price
- We now consider it is necessary to include, as a cost against the Capita option, our residual support service costs for Finance and HR.

Changes arising through further negotiation

- The mechanism for contract uplift has been confirmed so as to allow an NJC cost of living increase only element to 75% of the contract price (Initially incremental drift might also have been included if based on the Breckland scheme)
- The additional capacity of a £60K Building Control Officer has been withdrawn and this value is now removed from the base contract price
- The final TUPE list is likely to see a "fair" change to contract price to reflect the number of occupied posts on the day of transfer, subject to agreement?. This may allow for the inclusion of items on the Councils growth list for 2009/10

Financial model summary

Savings arising from the adjustment of residual costs

- Avoidance of pay increments -0.3m
- Lowering of the central training budget -0.6m
- Avoidance of increased pension costs -1.0m

Commercial partnership with Capita

- Turnover share -1.5m
- Ocella investment -0.3m

Lower cost of service through contract payment

- Capita -3.8m

Additional costs

- Thetford Growth Point mark up +0.1m
- Residual support costs +1.2m
- Client costs +0.1m
- Additional pension costs +2.4m

Net benefit to the Council -3.7m

This model assumes the service specifications are adequate for the 15 year term, and that there will be no creep in either requirements or costs.

Risks

The risks of such a long term contract are plentiful and should be anticipated in view of the opportunities this contract would offer. I've listed below matters which should be fully understood and managed in order to realise the benefits given above.

- Capita are a commercial company with hard business targets. They will no doubt seek to maximise income from Breckland Council over the 15 years. The Council will be dependant on their services and be subject to a commercial price for additional work. Negotiation going forward will be hard.
- There is a danger that Service Specifications will need to change over a term of 15 years which will provide income generating opportunities to Capita.
- The Council is tasked with saving over £1m in support service costs which is not yet scoped. Likewise the Council will have Capita as a client who may or may not see the purchase of support services as a long standing arrangement. The Council could be subject to residual cost exposure.
- The range of services being contracted is unusual and almost groundbreaking. It would not be inconceivable for the contract to fail on grounds of misunderstanding or wrong interpretation. Similar private sector arrangements have a 2 out or 3 failure rate.
- Growth in volumes will cost more through the contract as the goodwill of employees will not be present under these contractual arrangements.
- The financial assessment of the contract assumes a benefit by the deference of future pension liabilities. This assumption may prove to be wrong.
- At the end of the 15 year term it is likely that a significant client base could be retained by the contractor and not by the Council. An end of contract loss on income is likely.
- Should the financial circumstances of the contract become undesirable then other than a Critical Service Failure, there are no break clauses to allow early termination.

END