

# **Report to the Corporate Services Joint Committee**

Author: Adam Savery – Finance and Procurement Client Manager and Financial Lead Officer

E-mail: Adam.savery@mendip.gov.uk

To: Corporate Services Joint Committee

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## **Financial Update**

### **Recommendation**

To note the current financial status of the 5 Council Partnership.

## **Introduction**

The purpose of this report is to provide the Joint Committee with an overview of the Five Councils Contract costs with Capita and Vinci and to outline the changes since contract signature in April 2016.

The report covers the following key strands.

- Executive Summary
- Background to the Financial Models
- The profile of savings across the term of the Contract
- Current position
- Summary

# 1 - Executive Summary

The detail behind the executive summary figures is included in the body of the report.

The Tables below show the starting point for each of the five councils and the current position.

The Partnership will deliver savings of circa £50m across the term of the contract.

<b>Combined</b>	<b>Baseline £'000</b>	<b>Original Saving £,000</b>	<b>Impact of Movements £,000</b>	<b>Current Saving £,000</b>
South Oxfordshire District Council	35,319	8,927	228	8,700
Vale of White Horse District Council	36,089	9,056	239	8,817
Mendip District Council	36,325	9,725	177	9,548
Hart District Council	21,664	5,362	152	5,210
Havant Borough Council	71,048	17,579	498	17,081
		<b>50,649</b>	1,294	<b>49,356</b>

<b>Lot 1</b>	<b>Baseline £'000</b>	<b>Original Saving £,000</b>	<b>Impact of Movements £,000</b>	<b>Current Saving £,000</b>
South Oxfordshire District Council	29,251	8,017	123	7,895
Vale of White Horse District Council	29,361	8,047	123	7,924
Mendip District Council	34,460	9,445	145	9,300
Hart District Council	17,024	4,666	72	4,594
Havant Borough Council	55,784	15,289	234	15,055
		<b>45,464</b>	697	<b>44,768</b>

<b>Lot 2</b>	<b>Baseline £'000</b>	<b>Original Saving £,000</b>	<b>Impact of Movements £,000</b>	<b>Current Saving £,000</b>
South Oxfordshire District Council	6,068	910	105	805
Vale of White Horse District Council	6,728	1,009	116	893
Mendip District Council	1,865	280	32	248
Hart District Council	4,640	696	80	616
Havant Borough Council	15,264	2,290	264	2,026
		<b>5,185</b>	597	<b>4,588</b>

## 2 - Background

Members will be aware that the Five Councils Contract is made up of two separate elements.

- **Lot 1 provided by Capita** includes: Human resources, Payroll, Licensing, Land charges, Customer Services, I.T., Revenues and Benefits, Finance, Exchequer and Procurement.
- **Lot 2 provided by Vinci** includes: Facilities management, Property management, Car Parks, Print, post and design.

The two elements are priced separately and the savings provided under each are different in their origins.

- Lot 1 savings consist of three main elements,
  - Core Service Delivery Savings – Providing the specified in scope services for a lower than existing cost (55%)
  - Procurement Savings Guarantees (28%)
  - Innovation Hub Guarantee (16%)
- Lot 2 savings consist of Core service delivery savings including income guarantees and a reduction in energy usage.

In total the savings delivered by the provision of the service contracts totalled over £50m. This is detailed below in Table 1.

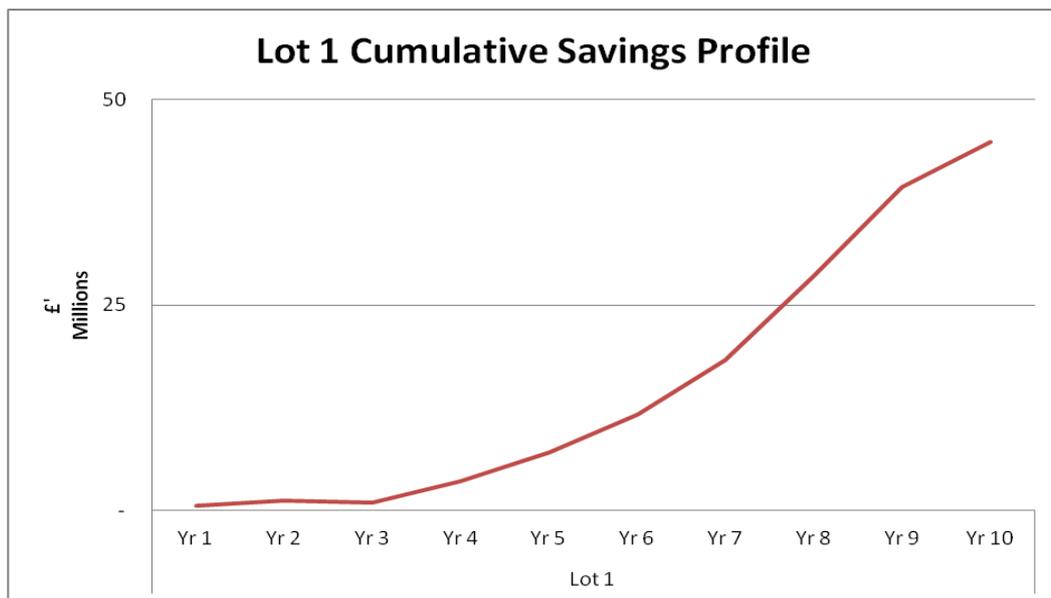
**Table 1**

<b>Savings at Contract Signature</b>			
<b>LOT 1</b>			
	<b>Baseline £'000</b>		<b>Saving £,000</b>
South Oxfordshire District Council	29,251	27.40%	8,017
Vale of White Horse District Council	29,361	27.40%	8,047
Mendip District Council	34,460	27.40%	,445
Hart District Council	17,024	27.40%	4,666
Havant Borough Council	55,784	27.40%	15,289
<b>Total Lot 1</b>			<b>45,464</b>
<b>LOT 2</b>			
	<b>Baseline £'000</b>		<b>Saving £,000</b>
South Oxfordshire District Council	6,068	15.00%	910
Vale of White Horse District Council	6,728	15.00%	1,009
Mendip District Council	1,865	15.00%	280
Hart District Council	4,640	15.00%	696
Havant Borough Council	15,264	15.00%	2,290
<b>Total Lot 2</b>			<b>5,185</b>

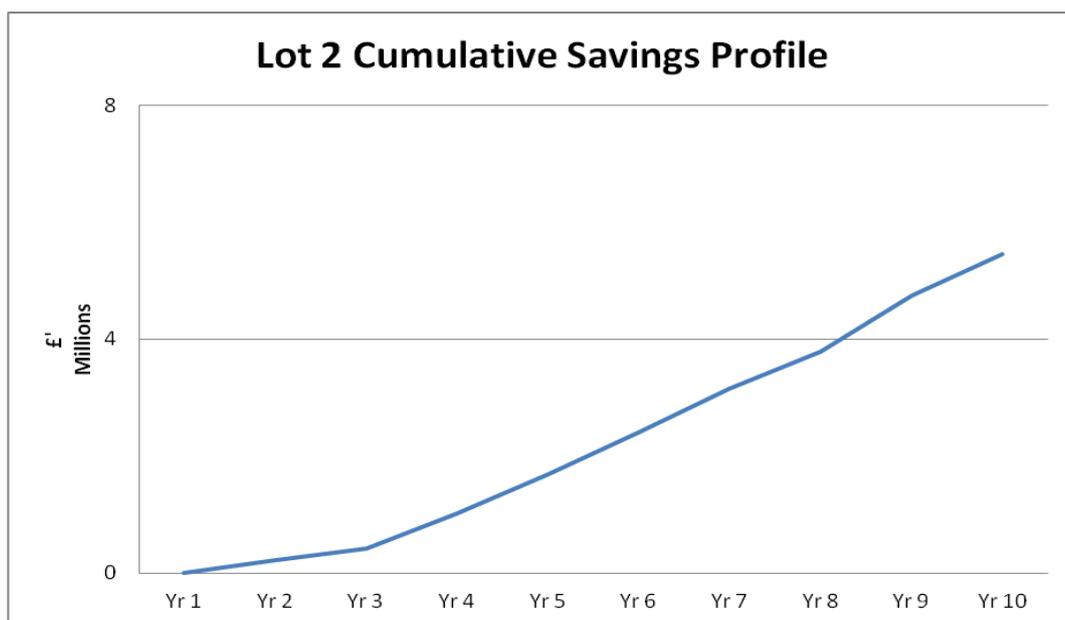
*The savings achieved by the joint procurement are higher than those which could be achieved individually; as such the benefits are apportioned across the Councils pro rata to the baseline figures as agreed by the Strategic Management Board.*

### 3 - Savings Profile

The profile of the savings across the term of the contract are also different with Lot 1 involving a significant upfront investment which is recovered through the price over the first few years of the contract. This is shown in the graph below with a flat profile in the first three years followed by a sharp increase in the savings thereafter.



Lot 2 has a more traditional savings profile with a more uniform increase in savings from year one of the term of the contract



## 4 - Current Position

Since the signing of the contracts in April 2016, the partnership has continued with due diligence across the board and this has identified changes to the position. Service delivery is under continual review and, as such, these figures are subject to further change during the contract term.

### Lot 1

- The original proposal did not include the full Customer Services for Hart District Council. After negotiation with the Contractor this was added to the contract and an additional cost of £94k.
- At an early stage following contract signature we identified that some I.T. licence cost which were included in the financial baseline for South and Vale but need to be retained by the Council. The impact of this is an additional cost of £522k.
- Following further due diligence on retained system requirements and existing contracts where arrangements overlapped the 1<sup>st</sup> August start date for South and Vale we identified:
  - Switched system retained until TOM cost 20k
  - Symphony costs £108k
  - Icon costs £80k
  - Techforge costs £3k
- Havant have a retained cost for the maintenance of the Civica financial system which will overlap the implementation of Integra with an additional cost of £43k.
- Occupational health costs were included in the baseline for Havant but the delivery of the service is out of scope leading to a cost of £243k.
- The negotiation of early commencement dates by the Five Councils Partnership delivered additional savings of £416k

The overall impact of these movements is a minor decrease in the savings detailed in Table 2 below.

**Table 2**

Change Detail – Lot 1	Council	Full Life Cost £'000's
<b>Services Added to the Contract</b>		
<i>Customer Services</i>	Hart	94
<i>Treasury Management</i>	South and Vale	0
<b>Additional Savings</b>		
<i>Early Commencement Dates</i>	All	-416
<b>Costs included in baseline but outside contract scope.</b>		
<i>IT Licence costs</i>	South and Vale	522
<i>Switched system to be retained in house until TOM</i>	South and Vale	20
<i>Symphony Costs</i>	South and Vale	108
<i>ICON Costs</i>	South and Vale	80
<i>TECHFORGE Costs</i>	South and Vale	3
<i>Civica FMS system maintenance charge</i>	Havant and East Hants	43
<i>Occupational Health Costs</i>	Havant and East Hants	243

<b>Total impact on savings</b>	<b>697</b>
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<b>Original Contract Savings - 27.4%</b>	<b>45,464</b>
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<b>Current Contract Savings - 27%</b>	<b>44,768</b>
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**Lot 2**

- During the bid process it became apparent that the Five Councils were not able to fully analyse the nature of spend on repairs, maintenance and lifecycle costs. As such the Councils have identified a figure of £300k, representing just over 1 years worth of funding as supplied in the Vinci financial model for repairs and maintenance, as a contingency sum while further due diligence is undertaken during the first year of the contract. It is expected that additional costs will decrease as backlog works are completed; hence this figure is not expected to continue across the life of the contract.
- During due diligence Vinci and the partnership have also identified properties which were omitted from the specification at South and Vale, alongside others which had been included but needed to be removed. This resulted in a Change Notice and additional costs of £297k.

The overall impact of these movements is a minor decrease in the savings detailed in Table 3 below.

**Table 3.**

Change Detail – Lot 2	Council	Full Life Cost £'000's
Costs included in baseline but outside contract scope.		
<i>Repairs and Maintenance - Lifecycle etc</i>	All in scope	300
Costs included in baseline but omitted from contract scope in error.		
<i>Change Control - Property Additions and Omissions</i>	South and Vale	297

<b>Total impact on savings</b>	<b>597</b>
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<b>Original Contract Savings 15%</b>	<b>5,185</b>
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<b>Current Contract Savings 13.27%</b>	<b>4,588</b>
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Meetings have been arranged with the S151 officers for each Council over the next week and a half in order to represent the detailed budget impact for individual authorities by the end of the month.

## 5 – Summary

The financial position within the scope of the Five Councils Partnership remains strong with savings of circa £50m being achieved. Despite the various movements in the overall position detailed in the report, the contract is structured in such a way that the actual savings that could be realised will exceed the original position.

The drivers for this are:

- the Procurement and Innovation hub provided by Capita. This revolutionary approach to delivering savings in the public sector is boosted by the joint approach taken by Capita and Vinci to maximise the benefits through joint working.
- Better use of the Councils property assets through the strategic expertise provided by Vinci. This will deliver better returns on investment and potentially realise capital receipts for further investment.