Business Case

F/R.6.001 Contract Efficiency

Project Overview

Project Title	F/R.6.001 Contract Efficiency		
Project Code	TR001378	**Business Planning Reference**	F/R.6.001
Business Planning Brief Description	To review contracts across a number of themes (size, age, type) to identify areas for better contract management, re-design, tighter specification, renegotiation or other routes of provision outside of traditional contract approaches to deliver longer term savings.		
Senior Responsible Officer	Amanda Askham		

Project Approach

Background

Why do we need to undertake this project?

LGSS Procurement have already begun to look at contracts below £100k to identify areas for potential efficiency through bulk purchasing and renegotiation based on similar activity supporting other Councils. This has started to yield some savings, and shown the potential for further savings, albeit at a lower level.

Applying a blanket saving percentage to the contract register in its entirety does suggest that much more significant savings could be made through a review of contracts at all levels of contract type and price. LGSS Procurement have been able to review a number of areas of contracts (in terms of size, type and age) where there is potential to explore different approaches, and yield savings in the future as well as learning from partner organisations that LGSS Procurement support.

With this intelligence, and the potential for savings available, it is important that these efficiencies should be pursued.

What would happen if we did not complete this project?

We would fail to capitalise on the potential savings within the large number of contracts we have, resulting in avoidable spend and duplication of effort continuing.

Approach

Aims / Objectives

To undertake a high level review of the contract register to identify areas that may yield savings in the future either through reviews of specifications or more commercially focused renegotiation.

Complete a detailed review of Contracts with services to identify those contracts that have the best potential for savings, and return on investment.

Where re-specification and renegotiation is considered to be financially worthwhile this work will be taken forward. Where we need specialist resource to support this we will use Transformation Fund funding to meet this cost.

Our primary objective will be aiming to secure the best value for money contracts, when and where they are needed.

Project Overview - What are we doing

Stage 1: High Level Analysis of Contract Register.

Initial High Level Analysis of the Contract Register (as at the end of August 2018) identified a number of contracts in the medium term which are potentially viable for review and renegotiation.

This analysis identified contracts worth over £10 Million in total annual values that expire at the end of 2018/19 (and total annual values in excess of £200 Million expiring in both 2019/20 and 2020/21). We have used these figures to give an indicative amount of savings within the Business Plan for 2019/20 and beyond.

Further analysis (as set out in Stage 2) with services on each of the contracts identified will be necessary to better understand the potential for savings, and to account for those contracts which may be linked to other savings within the business plan already. This should provide a more definitive savings target we can monitor progress against.

Stage 2: Initial Assessment of Contracts with Services

This stage will involve working with the services to better understand the contracts identified at Stage 1, and to ensure that we are focusing on the right areas for more detailed review, and know where we can add the most value in terms of providing commercial expertise.

If, after this initial analysis, we believe that there is real potential for further savings we will push the contract through to the next stage.

Stage 3: Detailed Assessment of Contracts

Officers from Transformation, Finance, Audit and Procurement will assess the opportunity for savings from each contract. This will be done through assessing the individual extent of the opportunity (i.e. contract failure, inflated costs), with the levers (re-procurement, deductions, service changes) against the overall contract value.

We will agree the next steps after this stage, be that improved contract management; early review of contracts; reconsideration of extension clauses; re-design of services; re-specification of contracts; commercial renegotiation or use of Alternate Delivery Models.

Stage 4: Review of Individual Contracts

The timing of this will be dependent on the outcomes of stage 3. We hope that this work could begin before the start of the Financial Year to begin to realise savings as early as possible. The length of involvement will be dependent upon the timing of the contracts, and the resource chosen to undertake the work. We will need to draw on both internal and potentially external specialist support (legal, procurement, commercial expertise), and a related bid to the Transformation Fund has been made to fund this, where needed.

What assumptions have you made?

We have assumed that the contract register which has been used for the initial analysis is materially complete and correct. In addition we have assumed that there will be resource available to support this work and that there will be some flexibility in terms of changing the requirements and or procurement process for selecting suppliers.

What constraints does the project face?

Procurement regulations, time, cost and quality

Delivery Options

Has an options and feasibility study been undertaken?

Scope / Interdependencies

Scope

What is within scope?

All contracts within the contract register.

What is outside of scope?

Recently negotiated contracts.

Spend below £100k (covered in separate work).

Project Dependencies

Title

Commercial Acumen Training

Cost and Savings

See accompanying financial report

Non Financial Benefits

Non Financial Benefits Summary

Better specifications for contracts.

Genuine consideration of best methods of provision of service (if needed).

Commercial awareness spread more widely across the organisation.

Title

Risks

Title
Volume of data may cause timescales to slip
Unable to make savings due to lack of engagement from service areas
Unable to provide commercial negotiation expertise for services
Contract Register is incomplete/incorrect
Breaching Public Contract Regulations 2015 should CCC negotiate any arrangements outside the terms of the contract originally advertised.

Project Impact

Community Impact Assessment

Who will be affected by this proposal?

No service users should be impacted, services would remain. The way services are procured may change resulting in them being more cost effective.

What positive impacts are anticipated from this proposal?

Reducing contract costs will enable us to continue running those services and others.

What negative impacts are anticipated from this proposal?

No negative impacts are anticipated

Are there other impacts which are more neutral?

Levels of service for the contracts should remain the same.

Disproportionate impacts on specific groups with protected characteristics

Details of Disproportionate Impacts on protected characteristics and how these will be addressed

No disproportionate impacts have been identified.

Business Case

F/R.6.101 Commercial Investments

Project Overview			
Project Title	F/R.6.101 Commercial Investments		
Project Code	TR001411	**Business Planning Reference**	F/R.6.101
Business Planning Brief Description	To create a commercial investment portfolio to maximise the available return to support the delivery of a balanced budget. This will require external support to advise on the investment options available, how to create a balanced portfolio and the best vehicle to use to undertake the investments.		
Senior Responsible Officer	Amanda Askham		

Project Approach

Background

Why do we need to undertake this project?

Developing strength and depth in our commercial activity is a key enabler in supporting our ambitious outcomes of;

A good quality of life for everyone
Thriving places for people to live
The best start for Cambridgeshire's children

'Acquisitions and investments' is a critical element of the 2019-22 Commercial Strategy and we need to develop a balanced investment portfolio which aligns our commercial aspirations to the core mission (above) as well as outcome-based performance measures.

Economic context / what other local authorities are doing

Local authorities spent more than £1bn acquiring property in 2016 as a way of generating new revenue.

A survey undertaken by Localis showed that entrepreneurial activities currently make up 6% of council budgets. However respondents indicated that by 2020 this figure will rise to 18% - a sum potentially worth upwards of £27bn. It was estimated that this would generate up to £2bn of additional income each year; a sum equivalent to £100 off each 2019/20 council tax bill.

Cambridge and Peterborough City Councils, and Huntingdonshire District Council, have been undertaking such acquisitions for some time. Examples from other local authorities include:

Spelthorne BC
- £200m+ commercial portfolio developed over nine years
- £360m investment in BP office park (considered high risk)
- Use of interim consultants to develop internal expertise

Sevenoaks DC

- Financially self-sustaining council

• Owns a pub, petrol station, an office block (and building a Premier Inn)

Initial advice has been sought as to the potential level of returns which could be achieved through property investments. This has identified that whilst the returns will be the same regardless of the amount invested, the amount and associated risk, will vary depending on which mechanism to invest is used.

As an example;

• If £100m was invested using a 'Direct Approach' i.e. the organisation would own any property outright, you would (conservatively) expect a return of approx 5.31% (net of costs) with a moderate risk.

• If £100m was invested using a 'Multi-Portfolio Approach' i.e. the organisation invested in multiple properties but would not own any outright, you would expect a return of approx 4.10% (net of costs) with a low risk.

However, national government and CIPFA have raised concerns over the financial risks a number of Councils have taken in order to expand their commercial portfolio and re-iterated that;

"Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed....Where a local authority chooses to disregard the Prudential Code the [Capital] Strategy should explain:
Why the local authority has decided to disregard and the policies in investing the money borrowed including the management of risk"
S15(1)(a) of the Local Government Act 2003 (effective 1st April 2018)

What would happen if we did not complete this project?

A balanced investment portfolio will provide both an additional revenue stream to enable the Council to continue to provide services as well as an opportunity to directly add (social) value to our citizens. Without this there is a risk we would need to reduce the delivery of services.

Approach

Aims / Objectives

The key objective of this project is to develop a broad portfolio of acquisitions / investments that maximises social and economic return to support the delivery of frontline services to our communities.

Project Overview - What are we doing

Through this work we will:

- Develop and agree a new Commercial Investment Strategy - setting out our approach to investments and governance arrangements
- Commission external support to advise on appropriate portfolio approach (this will include skilling up of existing staff) - we would expect this support to be for one year
- Agree risk appetite and profile for investments
- Develop an investment portfolio / plans - this could include (but not limited to)
    - Residential and Commercial properties (within and outside of Cambridgeshire)
    - Businesses (going concerns and start-ups)
    - Joint investments / sponsorships
- Commission support to provide advice and / or manage an agreed fund(s) on a short to medium term basis until our existing teams would be able to take it over. We would expect to be in a position to do this over the next five years.
- Create the infrastructure to identify and pursue ad-hoc investment opportunities

What assumptions have you made?

The following assumptions have been made;

- We want to develop a wide and mixed portfolio to mitigate the investment risk
- Have an average yield of 6% across the portfolio
- The local authority will be the preferred investment vehicle

What constraints does the project face?

The main limitation to the project revolves around the ability to borrow money to fund commercial acquisitions with additional guidance expected in Jan 2019.

Delivery Options

Has an options and feasibility study been undertaken?

The options considered were:
In house management
Outsource all investment management processes

Scope / Interdependencies

Scope

What is within scope?

The scope of this project is to develop a balanced portfolio of acquisitions and investments; considering all opportunities within the limitations on the borrowing powers of local authorities.

What is outside of scope?

Whilst opportunities (including developing a shared strategy) with Peterborough City Council will be considered, the primary focus of the investments will be in relation to Cambridgeshire.

Project Dependencies

Title
Generation of capital receipts
Power to borrow

Cost and Savings

See accompanying financial report

Non Financial Benefits

Non Financial Benefits Summary

The revenue achieved through the investment strategy will support the Local Authority to continue to provide outcome-focused services to the citizens of Cambridgeshire.

Title
Income generation
Social Value

Risks

Title
Market stability
Skills of the workforce to manage the portfolio
Identification of suitable investments - ability to act quickly
Increased financial risk to the Local Authority

Project Impact

Community Impact Assessment

Who will be affected by this proposal?

Everybody in the Local Authority area and potentially beyond

What positive impacts are anticipated from this proposal?

Increased revenue generation to support frontline service
Increased capital holdings

What negative impacts are anticipated from this proposal?

Increased financial risk to the Local Authority although this will be mitigated through the development of a diversified portfolio.

Are there other impacts which are more neutral?

N/A

Disproportionate impacts on specific groups with protected characteristics

Details of Disproportionate Impacts on protected characteristics and how these will be addressed

N/A