

Business case update.

Remodelling the LGSS business case, removing the financial benefits and implementation costs associated with Slough Borough Council

5 February 2010



Introduction

- The purpose of this document is to summarise the impact on the LGSS business case of removing Slough Borough Council (Slough) from the programme.
- The business case workings have been reviewed to identify each cost and saving component that would be affected by the removal of Slough. We have then made appropriate changes to each variable affected, based on:
 - The baseline position of the authorities;
 - The original benchmark targets; and
 - LGSS operating assumptions (regarding the target operating model).
- It is important to note that *none* of the underlying assumptions regarding the nature of savings or costs associated with the financial model have been changed.

Revised financial model: summary of changes

The following summarises the main impacts on the financial business case when Slough Borough Council's costs and benefits are removed from the proposed programme:

Financial item	Original business case	Business case without Slough	% change
Capital project cost	£3.9m	£2.6m	33%
Total project cost	£10.9m	£6.9m	37%
Cumulative saving	£31.8m	£19.3m	39%
Recurrent annual saving	£3.5m	£2.1m	40%
Annual saving as % of baseline cost	10%	9%	10%
Payback period (NPV)	4.3 years	4.5 years	

From this analysis, it is apparent that the removal of Slough has made little impact on the ratio of cost to benefits. Nevertheless, due to Slough's relatively inefficient baseline position, their removal from the business case has reduced the savings by 39%, with only a 37% reduction in cost. (These figures assume a revised contingency of 15%.)

Revised financial model: NPV summary

The following table represents the revised version of the summary table included within the executive summary of the business case:

Project costs	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Totals
Capital	£2,595	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£2,595
Revenue	£1,458	£1,694	£282	£0	£0	£0	£0	£0	£0	£0	£0	£3,434
Contingency @ 15%	£608	£254	£42	£0	£0	£0	£0	£0	£0	£0	£0	£904
Total project spend	£4,660	£1,948	£325	£0	£0	£0	£0	£0	£0	£0	£0	£6,933

Recurrent revenue impact												
Net impact	£76	-£836	-£1,859	-£2,127	-£2,078	-£2,076	-£2,076	-£2,076	-£2,076	-£2,076	-£2,076	£19,281

Net cashflow												
<i>Annual</i>	£4,736	£1,112	-£1,535	-£2,127	-£2,078	-£2,076	-£2,076	-£2,076	-£2,076	-£2,076	-£2,076	-
<i>Discounted</i>	£4,736	£1,074	-£1,433	-£1,918	-£1,810	-£1,748	-£1,689	-£1,632	-£1,577	-£1,523	-£1,472	£12,348
Cumulative NPV	£4,736	£5,810	£4,377	£2,459	£648	-£1,100	-£2,788	-£4,420	-£5,997	-£7,520	-£8,992	-£8,992

Net revenue saving %	-	-3.64%	-8.10%	-9.27%	-9.05%	-9.04%	-9.04%	-9.04%	-9.04%	-9.04%	-9.04%
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Revised financial model: NPV summary by partner

The following table represents the revised version of the summary table showing the impact on a per partner basis. (This assumes an even split between CCC and NCC.)

Project costs	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	Totals
Capital	£1,297	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£1,297
Revenue	£729	£847	£141	£0	£0	£0	£0	£0	£0	£0	£0	£1,717
Contingency @ 15%	£304	£127	£21	£0	£0	£0	£0	£0	£0	£0	£0	£452
Total project spend	£2,330	£974	£162	£0	£0	£0	£0	£0	£0	£0	£0	£3,466

Recurrent revenue impact												
Net impact	£38	-£418	-£930	£1,063	-£1,039	-£1,038	-£1,038	-£1,038	-£1,038	-£1,038	-£1,038	-£9,640

Net cashflow												
<i>Annual</i>	£2,368	£556	-£767	£1,063	-£1,039	-£1,038	-£1,038	-£1,038	-£1,038	-£1,038	-£1,038	-£6,174
<i>Discounted</i>	£2,368	£537	-£716	-£959	-£905	-£874	-£844	-£816	-£788	-£762	-£736	-£4,496
Cumulative NPV	£2,368	£2,905	£2,189	£1,229	£324	-£550	-£1,394	-£2,210	-£2,998	-£3,760	-£4,496	

Revised financial model: NPV detailed analysis

Project (Capital) Costs	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
External Advisory support	225	0	0	0	0	0	0	0	0	0	0
Technology Infrastructure	2,088	0	0	0	0	0	0	0	0	0	0
Software Costs	282	0	0	0	0	0	0	0	0	0	0
Total	2,595	0	0	0	0	0	0	0	0	0	0
Project (Revenue) Costs											
Staffing - project & programme roles	1,207	788	0	0	0	0	0	0	0	0	0
Staffing - service backfill roles	113	0	0	0	0	0	0	0	0	0	0
Training	119	121	0	0	0	0	0	0	0	0	0
People Transition	20	784	282	0	0	0	0	0	0	0	0
Total	1,458	1,694	282	0	0	0	0	0	0	0	0
Contingency (15% of total cost)	608	254	42	0	0	0	0	0	0	0	0
Net Recurrent Revenue Savings/Costs											
Staffing	-62	-210	-1,235	-1,503	-1,503	-1,503	-1,503	-1,503	-1,503	-1,503	-1,503
Other Professional Services	0	0	0	0	0	0	0	0	0	0	0
Technology Infrastructure Support	136	-627	-626	-625	-576	-574	-574	-574	-574	-574	-574
Software Maintenance	1	1	1	1	1	1	1	1	1	1	1
Total	76	-836	-1,859	-2,127	-2,078	-2,076	-2,076	-2,076	-2,076	-2,076	-2,076
Total Cash Flow	4,736	1,112	-1,535	-2,127	-2,078	-2,076	-2,076	-2,076	-2,076	-2,076	-2,076
NPV	4,736	1,074	-1,433	-1,918	-1,810	-1,748	-1,689	-1,632	-1,577	-1,523	-1,472
Cumulative NPV (cashable)	4,736	5,810	4,377	2,459	648	-1,100	-2,788	-4,420	-5,997	-7,520	-8,992
Discount Factor	3.50%										
Baseline expenditure	22,953	22,953	22,953	22,953	22,953	22,953	22,953	22,953	22,953	22,953	22,953
% saving against the baseline	-	-3.64%	-8.10%	-9.27%	-9.05%	-9.04%	-9.04%	-9.04%	-9.04%	-9.04%	-9.04%

Revised financial model: other observations

- The original business case used benchmark figures to estimate the savings associated with both HR and finance functions. Through discussion with the LGSS partners, these targets were moderated to reflect the scale of business change would be required at Slough; reflecting the higher unit costs at Slough versus the other two partners. These benchmarks have not been changed. However, the other LGSS partner may feel less daunted by adopting more stretching benchmark targets.
- No savings were previously associated with professional services and none have been incorporated within this update.
- Although the some aspects of the transition effort and associated costs are reduced by a 1/3. There are a number of issues, such as the impact of existing customisations within the Cambridgeshire Oracle solution and the detailed design of the new operating model are not significantly affected by the removal of Slough. Consequently, some of technical implementation and advisory costs have been reduced by only 15%.
- The reduced number of post reductions has proportionately reduced redundancy and associated costs.
- Oracle hosting costs have not been reduced proportionately as there is a significant fixed cost element, which would be incurred for two partners anyway.

Business case comparators: cumulative NPV (per partner)



Business case comparators: cash flow (per partner)



Deloitte.