Appendix B: Financial Evaluation

This document sets out the key financial elements of the tender and the financial evaluation of the options in respect of the future delivery of Education and Skills services.

Financial elements of the tender

Contract price

As part of the final tender, the bidder was asked to submit a comprehensive set of spreadsheets setting out the detailed costs and income projections for each service. These were consolidated into a summary spreadsheet, from which the contractually guaranteed tendered price is derived.

The contract price is built up from the following elements:

Total anticipated cost of providing services (including partner fee)
Less total anticipated external income
Equals annual guaranteed contract price

This means that the contract price remains fixed, regardless of the actual cost of providing services and/or the actual income generated. So, if the bidder fails to achieve the anticipated level of income from growth, that will not affect the price charged to the Council.

The annual contract price represents guaranteed savings to the Council, as set out in the tables below:

Joint Venture Model								
Financial Year	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**Contract Period Totals**
Contract Period - Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	
	£000							
Baseline budget (including DSG funding)	11,548	11,548	11,548	11,548	11,548	11,548	11,548	**80,837**
Less Annual guaranteed contract price	10,738	10,458	10,203	9,753	9,753	9,753	9,753	**70,412**
MTFS saving amount	810	1,090	1,345	1,795	1,795	1,795	1,795	**10,425**

Strategic Partnering Model								
Financial Year	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**Contract Period Totals**
Contract Period - Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	
	£000							
Baseline budget (including DSG funding)	11,548	11,548	11,548	11,548	11,548	11,548	11,548	**80,837**
Less Annual guaranteed contract price	10,648	10,368	10,113	9,663	9,663	9,663	9,663	**69,782**
MTFS saving amount	900	1,180	1,435	1,885	1,885	1,885	1,885	**11,055**

The difference in annual contract price between the two models reflects the additional costs to Cambridge Education of servicing a joint venture company, which are estimated to be £90k per annum.

The quoted baseline budget and final contract price is subject to further discussions regarding apportionment of costs and budgets, as set out in the full business case.

The following table provides a comparison of the savings against MTFS targets for the two models:

Financial year	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**Total**
	£000				
Revised MTFS savings profile (including SEN transport)	900	280	255	450	**1,885**
JV model	810	280	255	450	**1,795**
SP model	900	280	255	450	**1,885**
Cumulative MTFS profile	900	1,180	1,435	1,885	**5,400**
JV model	810	1,090	1,345	1,795	**5,040**
SP model	900	1,180	1,435	1,885	**5,400**

The contract price will remain fixed for the duration of the contract, other than for adjustments arising out of the application of agreed mechanisms for annual indexation and contractual changes.

<u>Partner fee (profit)</u>

It should be recognised that profit is not the sole motivation for entering into commercial relationships and that CE will secure the following benefits:

i. Partnering with a successful council builds on their reputation for delivering innovation and education excellence;

ii. It also increases the credibility of their existing consultancy and training business;
iii. The Barnet brand can be utilised as a launch-pad for growing the business;
iv. It gives CE access to a skilled workforce of current practitioners that will enable cross-fertilisation with their consultancy business, which has experience UK-wide and beyond;
v. It provides them with some further (inherited) track record when selling services to other councils; and
vi. A significant increase in turnover.

Cambridge Education has placed 100% of this fee at risk in the event of poor performance.

Cambridge Education's ability to actually take their partner fee is dependent upon them achieving the income targets set out in the final tender. Regardless of whether or not they achieve this, the amount at risk for poor performance is fixed for each year of the contract.

As the profit margin is relatively low, this does mean that the amount at risk also represents a relatively low proportion of the contract value overall. However, the greater risk to them is the impact of poor performance on their reputation and their ability to secure the level of growth required to achieve any financial return on the contract at all.

Upfront investment

The financial submission incorporates an up-front cash investment from the bidder year 1 of the contract, with a further investment in year 4 to underwrite MTFS savings targets. This would be recouped by Cambridge Education over the period of the contract, prior to any additional income being available for gain share.

Gain share arrangements

The final tender proposes that any additional profit from growth in education services above that required to meet the MTFS savings target, will be shared between Cambridge Education and the Council, with a portion being set aside for the benefit of schools.

The final tender anticipates additional potential surplus from growth that would be subject to gain share arrangements, but this is not contractually guaranteed. As the primary financial objective is to achieve the MTFS savings for the service, any additional income arising from gain share should be regarded as a welcome extra.

Corporate support services

Service budgets do not include corporate support costs, which cover, for example, accommodation, payroll, HR support, ICT and finance support. It is, therefore, necessary to make an appropriate allocation of support costs to the service and this is currently estimated to be approximately £900k.

Where the bidder uses existing overhead services, this cost is treated as an additional cost to the contract, for which there is a corresponding budget allocation. Where the bidder chooses to source overhead services from elsewhere, they will receive a rebate, reflecting an appropriate element of the budget, to fund this. The bidder has tendered on the basis that they will continue to use the Council's accommodation, along with a variety of support services provided by the Customer and Support Group. They have also advised that they will use some of their own support services (notably catering payroll and HR and finance business partner support), for which they have assumed a rebate.

Discussions are ongoing between the Council, the bidder and the Customer and Support Group to confirm which elements of these support services will be required by the bidder and the appropriate budget and cost apportionment. Any additional costs associated with establishing the interface arrangements between the bidder and the Customer and Support Group will be met from the transition costs element of the project budget. It is intended that the outcome of these discussions will be cost-neutral to the Council.

Evaluation of the tender

The financial elements of the tender were evaluated by:

- LBB Finance: Anisa Darr, Ruth Hodson
- Commercial advisors (iMPOWER): Jason Walton, Martin Cresswell

The evaluation covered four elements:

1. Achievement of the annual MTFS savings target by 2019/20
2. Achievement of the profiled cumulative MTFS savings target 2019/20
3. Robustness of the proposals for achieving growth to support the delivery of MTFS savings and additional growth that would be subject to gain share
4. The possible cost of change arising out of significant changes in the contract

Element of tender response	**Weighting**	**JV model**	**Partnering model**
MTFS annual savings target	15%	6.0%	7.5%
MTFS cumulative savings target	9%	3.8%	4.5%
Approach to achieving financial benefits	3%	1.8%	1.8%
Cost of change	3%	2.4%	2.4%
Sub-total: Financial benefits	**30%**	**14.0%**	**16.2%**

The scoring for the first two items is formula-driven, where achievement of the Council's targets attracts a score of 2.5. The difference in scores between the two models is attributable to the additional costs of servicing a joint venture company, which are estimated to be £90k per annum. Without these costs, the joint venture proposal would meet the Council's MTFS savings target of £1.885m by 2019/20, as required, and would also meet the cumulative savings profile requirement. In addition, the proposal forecasts a surplus that would be distributed under gain share arrangements. This is not taken into account in the above scores, because it is not guaranteed.

The proposal setting out the approach to achieving the financial benefits incorporates an overall assessment of the size and trends in the education market. It also identifies a number of key areas for income growth, notably through the sale of core services to other local authorities. The proposal recognises the challenges associated with growing income, which are not insignificant. Whilst demonstrating clear ideas on where growth might be achieved, the proposal does not incorporate detailed plans or evidence of detailed market testing that would warrant a score of 4.

The cost of change element of the proposal demonstrates a reasonable and pragmatic approach to volume changes and, significantly, does not seek to contractualise the potential impact of population changes. Day rates for project work are reasonable.

Comparison of options

The options that are now being considered are:

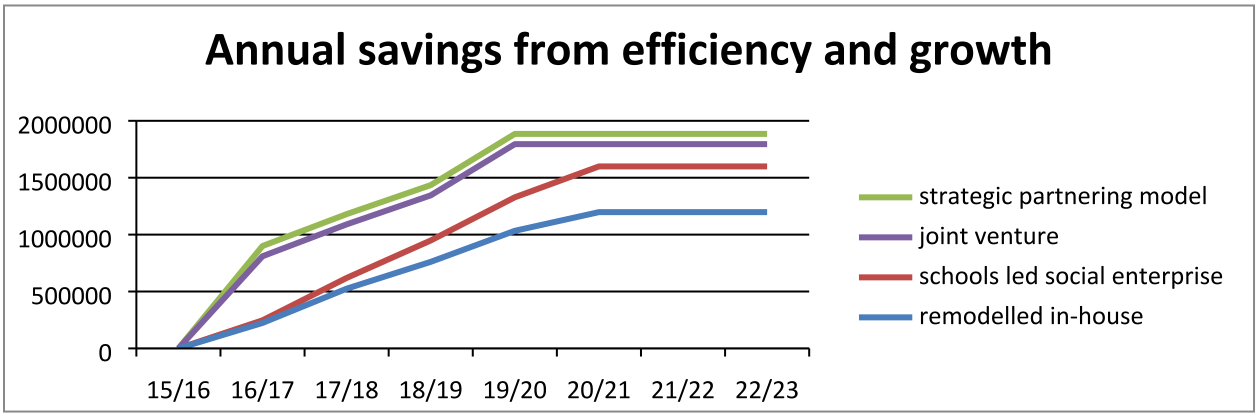
i. Award contract and establish a joint venture company
ii. Award contract on the basis of a strategic partnering agreement
iii. Do not award the contract and revisit in-house and social enterprise models

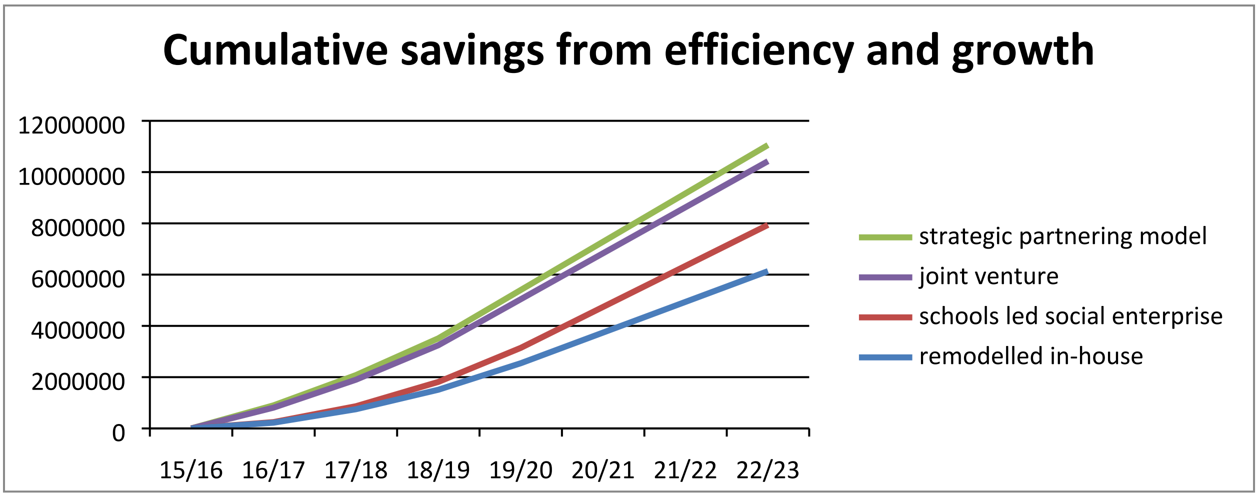
The project is required to deliver the MTFS savings which build up to an annual saving of £1.885 million by 2019/20.

The diagrams below set out the profile of annual savings for the strategic partnering and joint venture models, based on the provider's final tender response. These savings would be guaranteed by the provider and would be achieved through efficiency and growth, with no service reductions. The profiles for the social enterprise and in-house options also reflect those savings that it is anticipated would be achieved through efficiency and growth, i.e. excluding any savings required from service reductions, to enable comparison.

The savings which could be made from the remodelled in house and schools led social enterprise are based on the financial analysis contained in the final outline business case. In order to reflect changes that have taken place since the final outline business case was considered by Elected Members, SEN transport savings have been added to the schools-led social enterprise and remodelled in-house options in order to provide a like for like comparison. It is assumed that these savings would be made through efficiencies, rather than income growth. In addition, the savings profile for these two models has been rolled forward by one year to provide a fair comparison against the revised MTFS profile.

It should be noted that any savings from the social enterprise or in-house models could not be guaranteed and significant additional investment (£1.3m – £1.5m) would be required to achieve them.





As shown in the diagrams, the strategic partnering model is anticipated to deliver the highest financial savings annually, achieving the MTFS savings requirements, compared to the other options and would start achieving greater savings earlier. For the in-house and social enterprise models, it is estimated that savings from growth would be substantially lower without the assumed initial investment.

<u>Source of savings</u>

The following table sets out how the savings would be achieved under each of the models over the term of the MTFS period. These would represent the ongoing annual savings from each model.

	Joint Venture		Strategic Partnering		Social Enterprise		In-house	
	£000	**%**	**£000**	**%**	**£000**	**%**	**£100**	**%**
otal from efficiencies and growth	**1,795**	**95**	**1,885**	**100**	**1,599**	**85**	**1,198**	**64**
Balance required from service reductions	90	5	0	0	286	15	687	36
Total savings to be achieved	1,885	100	1,885	100	1,885	100	1,885	100

Notes:

1. With the joint venture and strategic partnering models, it is anticipated that efficiencies in staff time will release capacity to support traded activity and income growth. The "additional income growth" for these two models would, therefore, be over and above that income growth and would be serviced by additional staff.
2. With the social enterprise and in-house models, the original modelling was based on an expectation the staff capacity released by greater efficiency would be deployed into securing the "additional income growth" and there would, therefore, be no increase in staff numbers.
3. With the in-house and social enterprise models, the achievement of the growth levels indicated is dependent on initial investment as follows:
   - In-house - £1.3m by the council
   - Social Enterprise - £0.75m by the council and £0.75m by schools.
4. In the survey of schools prior to the production of the Outline Business Case only 32 schools indicated they might be prepared to invest in a Social Enterprise model (assumed to be between £5,000 and £10,000 per school) and no secondary schools indicated willingness to invest.
5. If the proposed investment is not available, it is assumed that there will be little or no savings arising from growth and thus the likely balance of savings is as follows:

	Joint Venture		Strategic Partnering		Social Enterprise		In-house	
	£000	**%**	**£000**	**%**	**£000**	**%**	**£100**	**%**
Total from efficiencies and growth	**1,795**	**95**	**1,885**	**100**	**1,111**	**59**	**913**	**48**
Balance required from service reductions	90	5	0	0	774	41	972	52
Total savings to be achieved	1,885	100	1,885	100	1,885	100	1,885	100

Conclusions

Based on the financial evaluation of the final tender and each of the options, it is concluded that the strategic partnering option provides the most financially advantageous solution, because:

1. It meets the Council's MTFS savings requirement on both an annual basis and a cumulative basis;
2. It does not require service reductions to off-set any shortfall from savings arising from anticipated efficiencies and income growth;
3. The tender is based on the provision of existing service levels at a fixed annual price that takes into account the Council's MTFS savings requirements, including the savings target for SEN transport; and
4. The risk of generating the income growth that is necessary to reduce the net cost of these services to match the price being charged to the Council sits entirely with the bidder.

Appendix B

Summary of financial benefits

Benefit Type	Description of the benefit	Who will benefit	Expected benefit value	Financial year that the benefit will be realised	Benefit Owner	How will the benefit be measured	Baseline value (£, % etc) and date
Financial benefit – cashable	Delivery of MTFS savings	Schools, Service users, Residents, Staff	£1.885 million annually by financial year 2019/20 Cumulative savings of £11.055 million by financial year 2022/23	Savings profile commences 2016/17. Annual savings target against base budget to be realised by financial year 2019/20 Cumulative savings total by financial year 2022/23	Commissioning Director Children and Young People	As set out in contract	Baseline budget £11,334k, 2015/16
Financial benefit – non-cashable	Potential further financial gain via access to established commercial expertise	Schools, Service users, Residents, Staff, other local authorities	Exempt information	From 2016/17	Commissioning Director Children and Young People	As set out in contract (gain share agreement)	Nil