

# **London Borough of Barnet**

## **Study on the Financial Impact of bringing the existing CEO Service (and related activities) In-House**

**December 2017**

**NOTE – This report contains  
redactions in Green where  
Commercially Sensitive Information  
has been removed**

## Executive Summary

This report considers the financial impact of bringing the current service mix provided by NSL, In-House at the end on the current contract period (2018). The report used the current NSL cost matrix as the basis for comparison, identifying additional costs or savings on a line by line basis. The context of all cost variations and assumptions made are detailed within the report. Cost variances are considered against three broad buckets:

- Mobilisation
- Annual Running Costs
- At Risk Costs

Cost variances in the Mobilisation category are driven mainly by the requirement to source a new premise and set up IT systems. Variances in the Annual Running Cost section are driven by the additional cost of employing staff in a Local Government setting, while the At Risk Costs are largely driven by the risk of lower productivity of an In-House workforce and the impact that may have on PCN revenue. The At Risk Costs have been profiled at both a Low and High end estimate.

If Barnet is to consider moving its service back In-House, it need to consider its appetite for incurring the following costs:

		Year 1
1	Mobilisation	£304,783
2	Annual Running Costs	£1,060,930
3	Total (1+2)	<u>£1,365,713</u>
4	At Risk Costs (Low)	£1,054,326
5	Total Low (3+4)	<u>£2,420,039</u>
6	At Risk Costs (High)	£1,708,652
7	Total High (3+6)	<u>£3,074,365</u>

**As a minimum, the council should expect additional Year 1 cost of £1.4m**, which, should the At Risk cost materialise, would rise to £2.4m as a low end estimate or £3m as a high end estimate. Obviously in future years the £304k mobilisation cost would drop away.

While the **At Risk Cost** are not guaranteed to materialise, the council should consider the At Risks Cost (Low) as Highly Likely to materialise and the At Risk Cost (High) as More Likely Than Not to materialise.

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## Terms of Reference

This report considers the merits of moving the current Civil Enforcement operation and its associated services, provided by NSL under contract until 2018, in-house at the end of the current contract period.

The report focuses on the key financial impacts of such a move and makes the following assumptions:

1. There is nothing fundamentally wrong with the current service i.e. there is no need to undertake a major business transformation or reengineering activity as part of the migration
2. An In-House service is likely to be of similar size and scope to the existing service
3. Staff with the current contractor will exercise their right of TUPE

## Methodology

The report considers three key cost areas related to the return of the current Civil Enforcement Operation (and its associated services), provided by NSL, back into the direct control of the council, namely:

- One Off / Mobilisation Costs
- Annual Running Costs
- At Risk Costs

The report uses the current schedule of costs, from the council's contract with NSL, as the costing comparison template for Annual Running Costs. This allows easy and direct comparison from one service to the other of the direct costs of service provision, allowing the reader to easily understand where savings may be realised or additional costs may be incurred. Both the NSL & In-House costs are in effect 2017 / 18 business costs.

The report also considers **At Risk Cost**. Costs in this category may or may not materialise either in part or full, however it is prudent for the council to be aware of their existence and consider their impact should they materialise.

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## One Off / Mobilisation Costs

This section addresses the likely costs that will be incurred as part of the mobilisation of an In-House service by the London Borough of Barnet. The costs are broken into three key areas:

- Premises
- IT
- Project Management

It is likely that there will be other costs, however, the exact detail of those will not become apparent without carrying out a substantial pre-project planning exercise which was out scope of this exercise.

The costs are budgetary only, and the final rates (and schedule) would be dependent on the exact specification that the council set out. They are, however, consistent with a number of Civil Enforcement mobilisations that have been recently been carried out and to that extent the **£305k cost of mobilisation** identified below, can be considered realistic and accurate.

Category	Description	Quantity	Unit £	Cost £
Premises	IT Infrastructure (Inc. CAT5E cabling & ports for 25 workstations)			
Premises	Workstations (Inc. PC, desk, chair, divider / partition)			
Premises	Meeting Room (2 wall glass with single door with conference table & chairs)			
Premises	Kitchen / Rest area (office) Inc. white goods			
Premises	CEO Locker room (construction)			
Premises	CEO Locker Room (Inc. lockers, tables & chairs, white goods)			
Premises	HHC Racking (Inc. 50 x double sockets in 5 rows & surge protection x 5 )			
Premises	UPS Solution (controlled shutdown only)			
Premises	General Decoration			
Premises	Toilets / Showers - renovations			
Premises	Fire & Security Systems			
Premises	Legal & Technical Fees			
	<b>Total</b>			<b>113,225</b>
IT	Server Room (Inc. server, air con & cabinet)			
IT	Data Migration (Inc. extraction, cleansing & migration)			
IT	System Configuration (10 days @ £750)			
IT	End User Training (9 Days & £650)			
IT	IVR System (with contact centre hunt group & 27 IP phones)			
IT	Miscellaneous (Inc. phones, projector, screen)			
	<b>Total</b>			<b>78,850</b>
Project Management	PM for 100 days (APM or similar )	100	850	85,000
Sub Total				277,075
10% Contingency				27,708
<b>Total</b>				<b>304,783</b>

## Premises – General

Enquiries were made with the agents of the current contractor's landlord, in respect to, the ability of the council to take on the existing site should NSL vacate. The landlord's agents were reluctant to give any type of positive indication in this respect. This may well be simply good business confidentially or that they would rather test the open market, to obtain the maximum possible return for their client or they may have alternative plans for the site.

In any event the suitability of the current premises is questionable. The current service mix held by NSL includes a back-office function provided via their processing centre in Scotland. As part of the service return, these staff (or their replacements) would need accommodation, which most likely, could not happen at the current NSL site. This in-itself would prompt the council to enter the local property market.

Accepting that the council would have to enter the local property market for at least part of the operation, it would be more practical to secure a single site that could accommodate the entire operation, as this would prompt operational efficiencies and synergies. To this extent, a five FTE headcount reduction has been built into the ongoing back office costs in the following report section.

There is a good availability of sites of both office and warehouse / office within the borough that could accommodate the operation and securing a suitable site would not be a barrier to the project. The final costs would depend on sites available at the exact point in time the council approached the market, however, the budget of £165k included in the revenue section should be adequate for rent / lease costs and NNDR of a suitable site.

The One Off / Mobilisation Costs for premises of £113k, assumes that the unit obtained by the council would be in good material and decorative order. Provision has been made for some minor renovation and subsequent decorative work which may be required following works carried out by the council.

## Premises - Back Office

It is assumed that the general office space will be open plan and the existing flooring, ceiling and lighting will be serviceable. Provision has been made for CAT 5 E cabling sufficient for a 25 workstations in an open plan configuration.

Workstation budget is for a standard size, medium specification work desk, with office chair and provision for a desktop PC (it is assumed this facility will work from its own self-contained network). Each desk would have a IP phone that links to a IVR enabled contact centre system that includes Hunt Group technology.

Budget has also been included for the basic fit out of a kitchen / rest area that would contain Kitchen cabinets, boiler, microwave, fridge freezer, dishwasher, in addition to basic tables / chairs.

Budget has also been included for a battery UPS system to allow controlled shut down of systems in the event of power failure at the building. Please note this is a **battery back-up only** and is not capable of facilitating medium or long term operations in the event of power failure. To achieve this a separate diesel generator would need to be installed and linked to the UPS system.

## Premises - CEO

A budgetary provision (£6,450) has been made minor construction works for a CEO Office & Rest area. It has been assumed that a suitable space in good order will exist in the new building that will need only minor works (such as partition walls) as this will be a factor in the council selection of site.

Provision has been made for the construction and electrical works for the CEO equipment in the form of a five-layer custom build shelving unit that contains 50 double sockets configured in five gangs of 10, with each gang protected by a dedicated surge protection device.



## Annual Running Costs

This section addresses the ongoing costs of service provision and assumes that all services taken In-House by the council will continued to operate on a similar scale and scope as is currently provided by NSL.

The cost are broken into four key areas that broadly reflect the service provision and follow the current NSL pricing regime to allow for easy comparison of areas where savings can be achieved or additional expenditure is incurred:

- Street Services – Staff
- Street Services – Support Costs
- Back Office Services – Staff
- Back Office Services Support Costs

There are areas of overlap or conflict, however, as stated above, for ease of comparison the original formatting has been retained.

**The net additional annual cost of £1,039k** is driven for the most part by staff costs in the street based services. Many of the existing staff (on private sector contracts) are paid substantially less than their public sector equivalents, including a number of colleagues they currently work with that are on historic council T&C's. It is highly unlikely that the council could resist calls for harmonisation (upwards) by these staff members, not least because there has been several similar harmonisation exercises across the council in recent years.

This assumption was tested with the Council's HR team who agreed. The additional cost of the LGPS adds to this adverse tangent.

No additional cost has been included for a reduction of hours, increase in annual leave or sickness benefit as it was felt that these may be matters of negotiation between the council and its workforce as part of the harmonisation process and as such to fully load those costs at this stage could be premature. If, however, they were fully realised, they would add at least another £300k to the annual street services costs and a similar amount has been included in the **At Risk Cost** table.

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Ref		Description	NSL	Unit Cost	Target Cost	LBB	Unit Cost	Target Cost	Comments
1	NSL Street Services Staff	Contract Manager							Assumes like for like salary but enrolment in pension scheme
2		Assistant Contract Manager							Assumes like for like salary but enrolment in pension scheme
3		Supervisor							Assumes like for like salary but enrolment in pension scheme
4		CEOs - Senior							Assumes staff will revert to historic CEO In-House rates & enrolment in pension scheme with £1k uplift for Senior CEO duties
5		CEOs - Basic							Assumes staff will revert to historic CEO In-House rates & enrolment in pension scheme
6		CEOs - Mobile							Assumes staff will revert to historic CEO In-House rates & enrolment in pension scheme
7		Suspensions / maintenance operative							Assumes like for like salary but enrolment in pension scheme
8		<b>TOTAL</b>	<b>77.79</b>		<b>2,428,824.83</b>	<b>77.79</b>		<b>3,264,558.74</b>	
9	NSL Street Services Systems, Equipment & Premises	Premises/Bases - ops base							Site in borough large enough to accommodate CEOs & back office (6,000sq ft)
10		Telecommunications - ops base							Assumes that LBB can secure similar rates from market as NSL
11		Data Communication - ops base							Assumes that LBB can secure similar rates from market as NSL
12		IT - Hand Held Equipment							LBB is unlikely to secure the volume discounts that NSL or other large contractors do
13		Radios/Telecoms, cameras							LBB is unlikely to secure the volume discounts that NSL or other large contractors do
14		General office equipment - Ops base							Assumes that LBB can secure similar rates from market as NSL
15		Uniforms and associated equipment							LBB is unlikely to secure the volume discounts that NSL or other large contractors do
16		Vehicles - Vans							Assumes that LBB can secure similar rates from market as NSL
17		Vehicles - Cars							Assumes that LBB can secure similar rates from market as NSL
18		Vehicles - Mopeds							Assumes that LBB can secure similar rates from market as NSL
19		IT system							Assumes that NSL currently pass full licence fee through and LBB can secure similar rate
20		IT system - Costs for full provision from April 2016							Assumes that LBB will not be able to secure the volume discounts that NSL or other large contractors do
21		<b>TOTAL</b>			<b>£401,400.49</b>			<b>£487,239.27</b>	
22	NSL Back Office Processing Staff	Notice Processing Manager							Grade K post and enrolment in pension scheme
23		Team Leader							Grade I post and enrolment in pension scheme
24		Quality Control							Grade G post and enrolment in pension scheme
25		Customer Service Reps							Grade F post and enrolment in pension scheme
26		MTC/BL Review							Grade E post and enrolment in pension scheme
27		<b>TOTAL</b>	<b>24.03</b>		<b>£495,295.43</b>	<b>19.00</b>		<b>£644,317.17</b>	Assumption that LBB controlled operation will produce a 5.3 headcount efficiency
28	NSL Back Office Processing Systems, Equipment & Premises	Management and Employee related support costs							Shared Service Centre / Corporate Resources recharge
29		Property Related Charges (Rent, rates, service charge, utilities, insurance)							Placeholder for all costs of combined operations site @ £3 per sq ft p.a. (excludes rent&rates which is captured above)
30		Disaster Recovery Site Costs (3rd party DR site)							One off placeholder for any IT related DR / BC charges
31		Infrastructure for site (IT network, equipment etc.)							Place holder for high capacity private fibre line rental, maintenance and licences to allow BLE & MTC review at new site
32		Site service costs (consumables, waste etc.)							Placeholder for all site related costs
33		Telephony infrastructure and charges							Assumes that LBB can secure similar rates from market / internal suppliers as NSL
34		Correspondence, document printing, scanning & payment processing							Assumes that LBB can secure similar rates from market as NSL
35		Stationery, Postage and fulfilment, all items							Assumes that LBB can secure similar rates from market as NSL
36		<b>TOTAL</b>			<b>£464,309.57</b>			<b>£454,644.92</b>	
		<b>Annual Target Cost</b>			<b>£3,789,830.32</b>	<b>Annual Target Cost</b>		<b>£4,850,760.10</b>	

## Street Services - Staff

It has been assumed that the existing management structure for street based services will be retained and that it will report up into the existing In-House Management team in much the same way as an DSO type arrangement.

Generic roles (Contract Manager, Assistant Contract Manager, Supervisor & Maintenance Operative) have been assumed into the model at current rates as it is assumed that they are charged to the council “fully loaded”, however, the assumption has been made that these post holders would join the LGPS and pension costs loaded appropriately. There is an additional risk that these post holders may ask for their roles to be revaluated against the council’s job evaluation criteria, and the outcome could produce an uplift for some or all. This risk, however, is too speculative for inclusion at this stage, and is therefore not included in the At Risk Cost table.

All CEO roles have had salaries adjusted to parity with the existing CEO staff that are currently on councils T&Cs as per the table below. No additional loadings had been included, other than for Senior CEOs who could realistically expect to receive an additional £1k uplift for their supervisory duties.

	QTY	HOUR P/W	ENHANCEMENTS & O/T	TOTAL PAY	NI @ 13.8%	PENSION (1%/14.4%)	UNIT TOTAL	TOTAL
NSL CEO	21	42.5						
TUPE CEO	12	36						

The above adjustments produce an annual £836k adverse variance for staff costs.

As previously stated, no additional loading has been included for the reduction in working week for the majority of staff, from 42.5 hrs to 36, increase in annual leave or more favourable sickness absence terms and other leave policies, as it was felt that some of these matters may be the subject of negotiations part of the harmonisation process.

If these costs were realised it is likely that they would most likely be in excess of £300k, moving the adverse variance in this section to £1,136k.

## Street Services – Equipment, Services & Premises

For the most part, it has been assumed that the council can achieve rates for services in this section, that are as good as the private sector. This is due to the nature of the services involved, however, two particular areas of variance exist; Premises & IT

### Premises

As discussed earlier the current premises used by NSL only houses their street services, whereas a premise secured by the council would have to house both the street & back office services. This drives an adverse variance of £63k to row 9. There is a partial offset at row 29 of £14.6k, however the higher property costs in London combined with the economies of scale NSL achieve in their bulk processing centre do not allow for parity.

### IT

NSL has bulk supply arrangement with two of the three leading system suppliers in the marketplace, using one of them (Imperial Civil Enforcement Solutions Limited (ICES)) in Barnet. It is highly unlikely that the council could achieve similar rates from the market and the (percentage increase detailed here has been removed so as not to reveal the initial cost to NSL) additional cost (rising to £77.5k) is at best optimistic. While the final cost would depend on a detailed specification from the council, it would not be surprising if this cost broke the £100k barrier.

## Back Office Services - Staff

It has been assumed that none of the existing staff (24 FTE's) based in Scotland would exercise their TUPE employment rights upon service transfer and take up a post with Barnet. This leaves two possibilities for those staff members namely; Redundancy or Redeployment.

No provision has been included for the first scenario in the Mobilisation costs for two reasons

- It is understood that several members are relatively new which would result in minimal redundancy payments

- NSL are unlikely to let experienced staff go from the bulk processing centre in Scotland and would most likely absorb them into the operation recharging them to other clients

An allowance of £100k has been made in the **At Risk** table in the event redundancy payments did materialise.

The replacement Back Office staff, that would be employed locally (and work from the new premises), have been graded against similar roles across several London Local authorities and cross referenced with Barnet's pay scales. Roles have been allocated to the bottom of the relevant scale and loaded by 30% to account for add-on cost such as NI, Pension etc.

Consideration has also been given to efficiencies that could be driven into the back-office service. In the first instance, given the volumes that Barnet produce, the current NSL headcount for back office service appears heavy. Consideration should also be given to the benefits on having the back-office function in close proximity to the enforcement operation (complaints more easily resolved, bad practice eliminated faster etc.). With these points in mind, a reduction in headcount by 5 FTE's has been made to the back-office service.

These changes combine to produce a £149k adverse variance

### Back Office Services – Systems, Equipment & Premises

For the most part it has been assumed that the council can achieve rates for services in this section that are as good as the private sector. This is due to the nature of the services, with items such as telephone charges print & post being relatively generic, with similar rates being available to all organisations.

As previously indicated a reduction has been made at row 29, as the rental element of this cost is now captured in row 9.

The adverse variance at row 31 is driven by the need to install dedicated private fibre links in the Councils' new premises to allow the review of Bus Lane and Moving Traffic Contraventions (video clips) and the associated up/download activity connected to that task. It would be possible to carry out this activity over standard broadband connections, however, industry experience suggests that the cost of dedicated fibre links is far outweighed by the waste time experienced as staff wait for clips to load over standard internet connections.

These changes combine to produce a £10k saving in this section

## Additional At Risk Costs

Two **At Risk** costs have been identified earlier in the report namely:

- Street Services              Staff T&Cs                      £300k
- Back Office                      Scottish Staff Redundancy      £100k

This section considers a third risk – Impact on PCN revenue.

While the objective of any enforcement operation is to obtain compliance, a by-product of that activity is the issuing of Penalty Charge Notices which have a financial value. The value of that activity to the council over the past three financial years is detailed in the table below.

Financial Year	2014-15	2015-16	2016-17	Average
Reg 9 PCN (£)	£6,194,061	£6,557,391	£6,878,324	£6,543,259
Reg 10 PCN (£)	£149,038	£125,426	£200,379	£158,281
Total (£)	£6,343,099	£6,682,817	£7,078,703	£6,701,540

It is a well-accepted industry fact that without careful management, the CEO workforce in any Borough, whether in-house or outsourced, will not always be as productive as desired with a corresponding impact on the issuing of Penalty Charge Notices (PCNs). The issuing of PCNs is often a difficult task, and while a small number of staff relish it, most do not. Officers regularly receive verbal abuse, have to work in inclement weather and occasionally face physical threats or assault. Nonetheless, these obstacles need to be overcome to effectively and fairly enforce restrictions.

Without tight and robust management, CEO's will sometimes not identify contraventions or find a reason to do something else.. These issues, albeit individually small, have a cumulative effect across the days and weeks, resulting in events of non-compliance going undetected and / or unenforced.

A consistent experience of the industry is that the private sector have developed more fully the ability to deal with this when compared to a local authority. The reasons for this are likely to be multiple, however, the focus of a private operator is very much on parking and as their core business all recruitment, HR, training and performance management structures are set

up to focus on parking and related performance. Local authority set ups are by their nature far less centred on specific tasks and relationships between employer and employee in the public sector tend to be different to those in the private sector. This has been seen to lead to a productivity gap with some directly employed workforces. While each case is different, it is generally accepted that a directly employed workforce is less productive than a private sector one, and that the issues underpinning those performance differences are typically more difficult to address in a Local Authority setting.

In one of the more recent outsourcing exercises of an In-House workforce (London Borough of Hounslow), productivity increased under the private sector contractor by over 30% per deployed hour. This was with the same workforce and supervisory team and without any meaningful change in the enforcement environment. It was simply a case of better management primarily through the ability to address non-performance issues in a more robust way.

In transferring this scenario to the London Borough of Barnet, it would be highly likely that over the medium to long term, the council would see a drop in officer performance with an In-House workforce. This would represent a reversal of the gain experienced when the service was outsourced. How large that drop and when it would occur are to a degree a matter of speculation. It could be the case that for the first few months performance increases as engagement is high, with the staff being happy with the transfer and the likely increase in salary as harmonisation takes place.

However, as time passed and the impact of the specialised tools and techniques at the disposal of the private sector reduces, it is considered very probable that performance would drop off.

For the purposes of this exercise a low and high model has been developed based on a drop of 10% and 20% respectively. It is worth noting that both these figures are well below the performance difference seen in Hounslow.



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Financial Year	Average	10%	20%
Reg 9 PCN (£)	£6,543,259	£5,888,933	£5,234,607
Reg 10 PCN (£)	£158,281	£158,281	£158,281
Total (£)	£6,701,540	£6,047,214	£5,392,888
Variance		-£654,326	-£1,308,652

It should also be noted that the performance issue only typically effects Regulation 9 PCNs i.e. those PCNs issued by CEO rather than CCTV PCNs i.e. Regulation 10.

This cost risk combines with the other previously identified to give the overall At Risk Cost table below.

:

At Risk Costs - Low	
Street Services Staff T&Cs	£300,000
Back Office Redundancy	£100,000
PCN (Low)	£654,326
	£1,054,326

At Risk Costs - High	
Street Services Staff T&Cs	£300,000
Back Office Redundancy	£100,000
PCN (High)	£1,308,652
	£1,708,652

## Conclusion

Although this report has not gone into the operational elements of service transfer in detail, there is in effect no operational barriers to bringing the service In-House. In general terms, anything the private sector can do – the council can do for itself. There would be a substantial amount of work required to affect this transition, however it could be achieved

That ability to self-deliver does come at a cost however. At its most basic level the Council's cost of employing people is greater, its ability to leverage existing operations or secure bulk discounts from the market place smaller and its ability to maintain operational performance and consequently PCN revenue lower. The level of all these factors can be debated to an extent, however, their existence cannot. This has been borne out over many years and over many contracts.

If Barnet is to consider moving its service back In-House, it needs to consider its appetite for incurring the following costs:

		Year 1
1	Mobilisation	£304,783
2	Annual Running Costs	£1,060,930
3	Total (1+2)	£1,365,713
4	At Risk Costs (Low)	£1,054,326
5	Total Low (3+4)	£2,420,039
6	At Risk Costs (High)	£1,708,652
7	Total High (3+6)	£3,074,365

As a minimum the council should expect additional Year 1 cost of £1.366m which should the At Risk cost materialise would rise to £2.420m as a low end estimate or £3.074m as a high end estimate. Obviously in future years the £304k mobilisation cost would drop away.

While the **At Risk Cost** are not guaranteed to materialise, the likelihood of materialisation was a subject of much debate by the team that pulled this report together. The conclusion of that discussion was that the council should consider the At Risk Cost (Low) estimate as Highly Likely to materialise and the At Risk Cost (High) estimate as More Likely Than Not to materialise.

## Appendix 1 – About the Author

### **Kevin Hagan**

Kevin is the managing director and principal consultant for Oaklawn Consulting.

Kevin has been involved in the parking sector since 1995, holding a number of notable roles including Head of Parking – London Borough of Hounslow, Director for Parking Services – London Borough of Ealing, International Director of Parking & Transport – ACS / Xerox and Director of Civil Enforcement – Serco.

Kevin has managed both In-House and externally contracted CEO workforces including overseeing the outsourcing on an In-House service.

Kevin holds a MBA from Kingston University and a keen Crossfitter.

