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**PROJECT INITIATION DOCUMENTATION**
**DETAILED BUSINESS CASE**

Completed By:	Ian Bunn, David Laycock, Mike Wall	Project Name	Building & Planning Support Consultancy ASDV
Programme Name	6.1 Develop New Delivery Models	Portfolio Holder:	Cllr Don Stockton
Project Reference Allocated	TBC	Service:	Building & Planning Support
Senior Responsible Owner (SRO):	Caroline Simpson	Project Manager	David Laycock
Date endorsed at Gate 1	27/6/14	Major Change project number	N/A
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## **1. Background**

The landscape in which frontline services are designed, structured and delivered is changing rapidly in response to new legislation, government policy and changing market conditions. Cheshire East Council (CEC) is responding to these pressures and on February 2013, the Council announced its three year plan to becoming a strategic commissioning council. This consisted of 29 major change programmes covering 8 key priorities. The plan identifies the core purpose of the council, and identifies the need to redefine 'the council's role in core place-based services'.

The intention to become a strategic commissioning council is supported by a clear strategic framework. This framework establishes the key principles of achieving the Council's required financial savings, providing opportunities to deliver qualitative benefits and ensuring residents receive excellent services which meet the changing needs and aspirations of modern life.

The Council also seeks to support economic growth within the area and as a consequence needs to provide effective and efficient services which support and assist those who wish to invest in the area, through development or relocation. The Council's building and planning support services provide a number of services that do just that, with some of these services currently operating within a commercial and competitive arena, attempting to respond and react appropriately whilst operating within the constraints associated with a traditional council operation.

To support the achievement of these ambitions a review of the service has been completed, identifying and reviewing the differing operating models which could be used to support the building and planning needs of residents, businesses and other organisations. A guiding principle of this review has been the desire to create a more effective, efficient and locally responsive service whilst responding to a number of threats currently endangering service delivery whilst those services remain in their current form.

The purpose of this business case is to summarise the findings of the review and demonstrate how the implementation of a Council Owned and Controlled Company (COACC) best meets the Council's objectives.

### **Building and Planning Support Consultancy Scope**

The scope of the services is those functions currently included within the remit of the teams listed below:

- Building Control
- Local Land Charges and property searches
- Street Naming & Numbering
- Planning Support

The key service responsibilities and activities which are proposed to be included are detailed in Appendix 1.

## Performance Measures and Standards

National performance for Building Control services are stipulated by the Building Control Performance Standards Advisory Group (BCPSAG).

A summary of the recently published (July 2014) BCPSAG performance standards that apply to all Building Control bodies are associated with;

- People and skills
- Specialist Experience
- Age and Gender profiling
- Respect for people

There are no data figures available for these as yet due to the recent nature of their publication.

It is anticipated that the Council, as commissioner, may wish to incorporate other measures focussed on corporate outcomes such as stronger communities and carbon reduction. These will be agreed by negotiation and may include references to the following:

*Through effective management of resources the company will ensure the needs of local residents are met and protected by;*

- 1.1 Encouraging innovation to produce energy efficient and sustainable buildings
- 1.2 Supporting local, regional and national business
- 1.3 Educating and informing building professionals, contractors and trades people
- 1.4 Defending vulnerable communities and householders
- 1.5 Driving out dangerous cheats and rogue traders
- 1.6 Safeguarding the investments of individuals and companies
- 1.7 Enhancing access for disabled, sick, young and old people
- 1.8 Protecting the community from dangerous structures
- 1.9 Provide life saving advice to emergency services
- 1.10 Ensuring cost effective service operations

In addition to the above, the service has identified specific areas where targets should be met. These include;

- Average SAP rating for new buildings
- Number of Building Regulations applications determined
- Number of land drainage cases handled
- Number of nominations for Building Excellence Awards (a proven marketing tool)
- % of customers satisfied.

Further specific measures are proposed in the table below and it recognised that the service commissioners may wish to add further outcome-focussed measures which will be agreed as part of contract negotiations

Action	Reason	Benefits to the Service	Benefits to the customer	Service Level Indicator	Operational Targets	Position as of 2012/13	Target
Monitor Market activity under the Building Regulations	Encourage innovation to produce energy efficient and sustainable buildings	Data can be used to forecast future trend, staffing requirements and to identify marketing potential	Performance set against associated guidelines to achieve what the service sets out to achieve	Number of Local Authority applications received	Number of LA Apps as a % of all notices received	80%	<b>All targets to be agreed as part of contract negotiations</b>
				Number of Approved Inspector Notices received	Number of LA "Commercial" Apps as a % of all commercial notices received	62%	
					Number of LA "New Build Domestic" Apps as a % of all New Build Domestic notices received	62%	
					Number of LA "Domestic Other" Apps as a percentage of all "Domestic Other" notices received	85%	
					Estimated cost of works of LA Apps as a % of all notices received	80%	
					Number of applications received	2601	
					Percentage of "Full Plans" applications checked within 15 working days	94%	
					Average number of commencements per case officer	224	
					Average number of completions per case officer	200	
					Average number of visits per completed project	7	
Monitor disabled applications under the Building Regulations	Enhance access for disabled, sick, young and old people	Highlight the number of applications specifically for disabled applications	Ensure access is available equally to all.	Number of Applications	Number of disabled applications received as a percentage of total applications received	new	
					Percentage of disabled applications commenced	new	
					Percentage of disabled applications completed	new	
Ensure the recovery of costs associated with dangerous structures	Ensure cost effective service operations	Ability to provide the service at cost	Provision of a high quality responsive service that protect members of the public, ensuring property owners fulfil their legal obligations	Number of Dangerous structures reports received	Number of Dangerous structures reports received where action has been required	new	
					Percentage of dangerous structures reports logged where cost recovery has been achieved	new	
					Percentage of cost recovery associated with overall cost of the function	new	
					% of reports received out of hours	new	

## Staffing Resource Implications

The services have 47.59 established posts. These members of staff are wholly dedicated to the service and responsible for different aspects of building and planning support.

The majority of staff currently delivering the services as their primary role will transfer to the COACC under these proposals. The transfer would be carried out in compliance with 'The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). TUPE regulations protect existing terms and conditions and assumptions have been included in the financial business case to cover this. This proposed transfer would only take place following full consultation with staff, unions and members.

Any known risks that may affect employees have already been recorded and included in this business case and in the developing project plan. Both formal and informal consultation and engagement activities are already underway with staff and unions. This valuable process will continually be used to promote staff involvement and engagement with feedback used to inform decisions and project planning.

## Service Staff Profile

The table below sets out the core staffing data for the service.

STAFFING GROUP	STAFF NUMBERS
Building Control	22
Land Charges	4.45
Planning Support	19.64
Street Naming	1.5
Total	47.59

## Service Budget

The table below summarises the current service budget

2014/15 BUDGET	TOTAL £K
Employees	1,546
Transport	44
Supplies & Services	53
Service Expenditure	1,643
Support service recharges to service	1,029
Gross Expenditure	2,672
Income	1,756
Net Expenditure	916

## **Out of Scope Activities**

The scope of activities for this project include the provision of administrative and technical support for professional planning officers, however does **not** include the professional process and considerations made to dealing and determining a planning application. In relation to the planning application workflow, handover to the professional planning team would be following validation of the appropriate submission.

(NB: Planning support is included because legislation is moving toward a more integrated approach between Building Control bodies and Planning. Such proposals are highlighted within the recent Housing standards review that refer to technical standards that may need to be included within the local plan and conditions, but will need to be administered through the Building Regulations)

Ownership of Land Registry data will remain with the Council as will any non-delegable duties

## **Future Scope**

In The Council's three year strategic plan there is a clear prioritised framework to becoming a commissioning council. This recognises the necessity to phase the creation of alternate service delivery vehicles, allowing for resources to be allocated, to be prioritised and for lessons to be learnt.

This proposal is in the third phase of this plan and will soon be followed by a much broader review of Council Services. As this review progresses the Council is seeking to identify improved delivery vehicles for many services. As the Council provides a range of customer focused services it may be advantageous for the Council, over time, to consider extending the remit and responsibilities of the proposed COACC to include other suitable services from within the Council. Such considerations would necessitate the development of robust feasibility studies and business cases.

### Partnership and joint working ventures:

It is considered essential to provide economies of scale in terms of staffing. Each function in turn relies on the key resource; staff. Other local authorities are currently experiencing similar problems and favourable discussions have already taken place with two other councils with a view to developing joint arrangements benefiting all participants. Any such developments would form a second phase of the project and would be subject to further Council approvals as necessary.

Additionally any such discussions may identify further possible efficiencies and savings relating to corporate systems and their associated rationalisation. Any appropriate joint venture may allow the combined use of a single system and the opportunity to create less unwieldy solutions.

## **2. Why is the Project needed?**

### **Drivers for Service Change**

The Council has realised the need to change the way future services are provided in order to create opportunities for innovation and provide service efficiencies. As a result the Council has determined to take a more commissioning role. This aspiration to redefine its role in core place-based services is set out in the Council's Three Year Plan.

The services under consideration currently generate a surplus of £113k per annum (excluding support service costs of £1,029k) but are currently under threat from a number of factors:

- Building control inspection has become increasingly competitive with significant growth in the number of private sector companies offering inspection services. These companies are poaching key staff with more attractive remuneration packages. Five (4.5 FTE) out of eleven field inspectors have resigned in the last 2 months and have proved difficult to replace
- The competition has reduced CEC's market share from 83% two years ago to 59% currently and is now aggressively pursuing business with 'bundled' deals. *It is therefore imperative that this decline is addressed quickly.*
- The loss of volume is impacting our ability to provide non-chargeable statutory services (e.g. Disabled advice, Dangerous structures enforcement) at an economic cost by exploiting economies of scale. If left unremedied this will increase the burden on the tax payer.
- Local Land Charges income (£424K operating surplus) is at risk from the Land Registry proposal to centralise the Land Charge register from October 2017.

To stem this decline, and to support future inward investment in our communities, it is therefore proposed to develop options for the creation of a "Building and Planning Support Consultancy" service to realise the benefits and associations of those services which may be improved through the provision of a "one-stop" shop approach, co-ordinating advice and support and exploiting opportunities for upselling and package deals together with new services such as energy and fire risk assessments.

The proposal aims to bring together services which have connections in the property market, providing a "one stop shop" approach to delivery.

Should action not be taken then:

- The council faces a predicted loss of £892k over the next 5 years.
- The service will be further limited in its ability to generate income.
- The ability to enhance statutory services through development of additional services would diminish, making the services less competitive and proactive, restricting the possibility of the development of a "one stop shop" approach to service delivery.
- There would be an inevitable increase of the costs associated with corporate funding for non-fee earning statutory functions
- There would be no direction and intention to innovate, increasing the risk of losing further key professional staff members
- The service will remain restricted to improvement through high support costs

The proposed new COACC will be able to innovate in a way not possible in the Council environment by:

- Developing the opportunity to deliver and maintain the integrity of the regulatory functions, offering adequate legal and governance controls, whilst minimising risk associated with conflicts of interest. These regulatory functions provide the ability for the Council to ensure residents' health & well being and to reduce the burden on emergency and after care services. Some elements of these regulatory function can be undertaken by others, however it is generally left to the Council to remedy and co-ordinate any issues that arise at a future date. The COACC will enable the Council to deliver these functions and maintain a high degree of control, compared with passing legislative interpretation to others.
- Increasing the opportunity to develop and sell specialist services within and outside the Cheshire East region
- Developing joint working arrangements that will enable economies of scale for staffing, ensuring consistent service delivery to customers, not only across Cheshire East, but across other areas. Collaboration with other councils has already proved successful in these areas.
- Developing commercial business support services.
- Having the ability to develop a key brand that attracts professionals wanting to work for the company, presenting a proactive and commercial approach to service delivery.

The outcomes for the Council (and the COACC) can thus be summarised as:

- *Transforming a predicted loss of £892k into an operating profit of £269k over 5 years*
- *Provision of a resilient and improved service*
- *Reversal of the loss of business back to a minimum of 83% (and beyond) market share in building inspection*
- *Continuing to provide statutory services within a best-value budgetary envelope*
- *Exploitation of new market/bundling opportunities*
- *Incorporation of a strategy for staff recruitment, retention and development*
- *Ensure that the Council retains capability and therefore has pricing leverage that encourages continued private investment in local property*

The COACC approach is one that has already being demonstrated to work by other LAs such as:

- Birmingham (ACIVICO)
- Norwich & Norfolk (CNC Building Control)
- Breckland Borough Council

## **Objectives and deliverables**

### **The primary objective is:**

*To create (by 1<sup>st</sup> April 2015) an efficient, effective and profitable Wholly Owned Company (COACC), limited by shares, for the delivery of the Council's statutory and discretionary building and planning support services which support strong and supportive communities, green and sustainable places and a strong and resilient local economy. This will place the needs of Cheshire East residents first - at the heart of the company's activities.*



### **Supporting objectives**

- To create (by 1 April 2015) a wholly owned company, limited by shares, for the delivery of current Building & Planning Support services that is a fully equipped to succeed by virtue of having
  - a fully integrated multi-skilled approach
  - Robust contractual arrangements agreed by both parties
  - A positive brand identity
  - A detailed business plan and marketing strategy for the subsequent 3 years with outline plans for the succeeding 2 years
- To achieve best value and quality for Building and Planning Support services and to reduce net operating costs wherever possible, as measured quarterly using an agreed performance framework, that will ensure the best possible service for customers.
- To maximise the new opportunities and flexibilities to deliver services that a COACC offers hence delivering the expectations of the business plan and in accordance with the assumptions and timings contained within that plan.
- To identify, retain and subsequently TUPE transfer all staff to the new delivery vehicle by 1 April 2015 and subsequently develop and motivate said staff to deliver service improvements and excellence as measured quarterly using an agreed performance framework.

### **Key deliverables**

- The set up and registration of a company limited by shares.
- Appointment of a company board of Directors.
- A detailed service specification and contract (including all assets, maintenance issues and performance measures) which has been agreed by both the Company and Council.
- Detailed TUPE consultation with all 47.59 affected staff.
- Successful user acceptance testing (UAT) of all supporting systems and procedures.
- Formal transfer of staff and the service responsibilities detailed in Appendix 1.

### **3. Proposed Solution**

The continuing provision of the range of Building and Planning Support services remains a key priority for Cheshire East Council as it moves to becoming a Commissioning Authority. To consider how this can best be achieved an options appraisal exercise has been completed to review alternate delivery models for running the services.

To ensure the service is best placed to meet current and future challenges the review has focused on identifying ways of delivering the service which can create greater flexibility and are more commercially focused.

During this exercise consideration has been given to the following operating models:

- a) Continuing in house provision
- b) External tender
- c) Local authority wholly owned company

- d) Charitable models
- e) Community Interest Company
- f) Industrial Provident Society
- g) Staff mutually owned company

The options appraisal (Appendix 2) concluded that Building & Planning Support Consultancy services should transfer to an external provider, with the most appropriate model being that of a wholly owned company.

## **Management Arrangements**

### **Governance**

The COACC will be directly accountable to a board of directors which will include 2 appointed members who will represent the interests of the Council, as the sole shareholder for the COACC. There will also be a nominated officer representation on the board. There will be no private interests.

The Board will focus on the strategic management of the business.

### **Proposed Governance Board Membership:**

<b>ROLE</b>	<b>COMPOSITION</b>
<b>CHAIRMAN</b>	<b>MEMBER – Cllr Andrew Kolker</b>
<b>DIRECTOR</b>	<b>MEMBER – Cllr Olivia Hunter</b>
<b>GENERAL MANAGER</b>	<b>OFFICER – Ian Bunn</b>

Alongside the other ASDVs that the Council is establishing, it is anticipated that the COACC will become a subsidiary company within the overarching holding company: Cheshire East Residents First (CERF).

Within that governance structure it is critical that individual roles and responsibilities are defined in a way which allows for clear and robust arrangements which value and recognises the contribution of both organisations.

These responsibilities will clearly be set out in the 'Articles of Association' and service specification which will define the type and amount of influence that the authority will have with the COACC and will cover key issues such as:

- Financial responsibilities
- Management of Risk
- Business Planning
- Service Standards

It should be noted that the on-going viability of the project will continue to be monitored by the Board of Directors of both the company and of CERF.

### **Contractual arrangements**

The COACC will have a strategic contract, a tailored element to the contract, a detailed method statement and a set of outcome-based Key Performance Indicators. To oversee the delivery of this it is acknowledged that CEC will need to develop the role of the commissioner to manage the contract and contractual relationships. This

will include the relevant contract monitoring and management, general client relationship and any specific management requirements.

It should be noted that the proposal assumes that the COACC will be established to operate as an agent for the council in order to qualify for the 'Teckal' exemption. Its agency work will therefore need to represent at least 80% of its turnover and will be undertaken on a non-profit making basis. The remaining 20% of turnover can be profitable.

### **Constraints and Dependencies**

Building and Planning Support services are currently reliant on a number of support services provided by CEC directly. These are critical in allowing the service to perform and would need reflecting through service level agreements so that – at least for the short term 'incubation period' – the service can continue to function adequately while it becomes fully established. The expectation is that over time the company will be given freedom to explore alternative support arrangements where these can be more cost effectively obtained elsewhere. The support services include (although not exclusively) IT, Finance and HR support.

The role of the land charge function provides for refinement of data held by other services within the Council in order to produce the necessary search required. Those services are statutorily required to maintain registers that should be available for examination by anyone wishing to undertake a search relating to property.

The Localism Act 2011 grants powers allowing a local authority to do anything an individual can do unless expressly prohibited to do so. If a local authority wishes to conduct Building Regulation business outside its geographical boundaries it must form a trading company (section 4(2) of the Localism Act) and in order to undertake those activities that company must seek approval from the Construction Industry Council to act as an approved inspector. This involves the acquisition of appropriate level of professional indemnity from a single provider (Griffiths and Armour) and restrictions on other professional or financial interest in building work.

Local authority companies acting as approved inspectors **WILL NOT** have the powers granted to local authorities under the Building Act or the Building Regulation 2010, in the same way that approved inspectors do not have these powers. e.g. they would not be able to undertake formal enforcement of the Building Regulations.

One authority has recently followed this path and successfully been approved by the CIC, however that business has focussed on the private sector competitiveness rather than competing with other authorities for building control work.

### **Business Planning**

This business case is intended to provide a framework for planning, managing and defining the proposed business change. A separate, detailed business plan will need to be prepared and agreed which defines the business goals, the rationale behind them, the plan to achieve them and fully developed financial projections covering the first 3 years of operation.

## **4. SWOT Analysis**

A SWOT analysis has been completed for both Building Control and Land Charge functions. These are attached as Appendix 6.

## **5. Benefits and Benefit Realisation**

### **Service Quality Benefits**

The current service is of good quality and generally well regarded by service users. This quality derives from the experience, affiliation and in depth knowledge of the current team who exhibit a genuine motivation to provide high levels of service and care for service users. The staff delivering the service would TUPE transfer into the COACC ensuring their skills and abilities are retained.

Furthermore real opportunities will exist for the team to shape how the service is delivered, designed and provided. This increased level of involvement in running the service, coupled with the ability to act promptly on decisions is undoubtedly a key way of engaging and motivating the team and has been acknowledged by staff during stakeholder meetings.

With the ability to offer a broad range of services and to respond quickly to the marketplace it is expected that a COACC would offer a better and more responsive service for users and retain key staff members. This is already having an impact - illustrated by the fact that one staff member, recently approached by a competitor with an employment package including incentives such as a company car, has refused to resign since recognising the opportunities that the creation of this new company will deliver.

Specific, intangible benefits to be delivered include:

- The creation of a new, dynamic and vibrant brand that will attract new business and, importantly, foster a sense of belonging and commitment amongst staff
- Improved service provision focussing on a proactive can-do approach, developing a more affordable, customer-first, model of professional and support services
- Stimulating a commercial, market-led approach to everything we do
- Improved working practices through reorganising services into a more customer orientated and efficient group providing skills and resources to meet customer demand and protect the public interest, thereby improving the council's reputation
- Improving staff motivation by creating competitive and diverse services, providing opportunities for personal development
- Improved staff recruitment/retention potential from reduced bureaucracy and increasing job satisfaction and morale.

### **Financial Benefits**

Unlike other COACCs this proposal is largely a defensive measure in the short term in that it seeks to address the decline in income that has previously been discussed. In the longer term it is anticipated that new business opportunities will see a growth in both income and profit.

Over the first five years of operation it is forecast that the company will turn a predicted 'do-nothing' loss to the authority of £892k into a small profit of £269k – a net improvement of £1.161m.

This will be accomplished by a combination of several initiatives:

- Restoration of previous levels of building control market share which will produce an increase in income of 6% (equates to £70k/annum).
- By maintaining and growing a high level of chargeable market share we are able to support the delivery of non-chargeable services at a level below cost. This avoids a projected cost increase of £70k/annum.
- The adoption of new technology and applying flexible working, which will be stimulated by the new company ethos, is anticipated to produce efficiency/service delivery savings of £80k/annum from year 3 (part year effect of £40k in year 2). *NB: It is acknowledged that some of these specific savings could be delivered without the formation of a new company.*
- Consideration of current government proposals to move the maintenance of the land charge register to the Land Registry would initially result in lost income for the Authority. Based on the current year's level of activity this loss would be approximately £234k, against a mid-year expected income figure of £727k and a budgeted income figure of £582k. The worst case scenario for this proposal for the Council would be the loss of all income associated with the function should nothing be done. This proposal therefore seeks to protect the income generated by works within the search realm, other than the LLC1 searches, and to achieve additional income to negate the impact of this expected loss. The proposal would allow additional services to be provided that initially are expected to generate an additional £134k, which would reduce the risk of loss to the Council to £100k, based on the current year's expected level of actual income.

Continued or enhanced take up of the service would create the potential for additional revenue streams to be established. This could be used to reduce unsustainable costs, to provide a source of new investment to improve the service and/or to provide a tangible means of developing talent and rewarding staff for good performance.

There is the *future* potential (after the expiry of the incubation period) for the Council to save money by generating efficiencies in its central support services and reviewing the level of support purchased. This would allow it to reduce the value of the management fee payable to the company.

Costs (based on estimated apportionments) currently include £60K (Democratic services), £3.5K (Procurement), £190K (Customer Services), £54.5K (HR), £202K (Accommodation), £45K (Directorate Management), £14K (Communications). Targeting a 50% reduction of these could deliver savings of £285K.

These savings have not been included in the business case for the company.

### **Innovation and Growth Benefits**

The review of service delivery options concluded that a COACC can offer one of the quickest means of delivering change, promoting cost efficiencies and effectiveness whilst managing the reputational risks associated with service delivery.

There will clearly be opportunities for employees to develop and implement their entrepreneurial skills without being constrained by the red tape found in larger

organisations. Already ideas have emerged during the staff engagement process of new ways to expand the type of services offered and their scope.

### **Benefits and effects for Local Residents:**

Current in-house costs are inflated due to excessive support service costs allocated due to corporate calculations and allocations. The future ability to procure services outside the corporate constraints would enable these costs to reduce and therefore provide an enhanced service at a lower rate to local residents and developers. This would also enable the service to compete more effectively, as the private sector does not have the same corporate/political overheads as the council.

Increased productivity and the impact of Local Authority Building Control would ensure that residents continue to have their health and well-being maintained in a proactive manner.

Improved service delivery in respect to planning applications.

The Building Regulations have driven a 70% saving in energy usage compared with 1990 and 50% reduction of deaths due to fire in the home since 1980. The recent Housing standards review has stated that the energy reduction objective will move within the remit of the Building Regulations with the removal of the code for sustainable homes moving towards zero carbon in 2016.

Legislation such as this places a statutory obligation on those who undertake building work to existing and new developments. It is the responsibility of a Building Control Body to ensure those obligations are met, however, as with other areas of legislation these regulations are open to interpretation of individuals. To ensure that Cheshire East local residents continue to improve the local area, it is important to manage/assist and direct those who interpret this legislation. This COACC will ensure the ability to compete with others, maintaining integrity of the Council to influence the interpretation of legislative requirements and compliance.

To provide added value specialist service business support services that are currently not provided by the council.

### **New Business and Income Generation**

There is an expectation that from year 2 the COACC will be able to create new and additional income streams. At staff stakeholder meetings there has been a consensus that by becoming a COACC, service levels would improve through quicker decision making and greater flexibility to enhance the services provided.

From the existing discussions, the following ideas have already been suggested:

- One Stop Shop Facility - offering link to all search service provisions (coal board, brine etc).
- Set up contractual 'on accounts' with T&C for Land Charge customers
- The development of specialist services such as the provision of energy performance certificates.
- Ability to provide and offer new services:
  - Energy performance assessments
  - Fire Risk Assessments
  - Air Tightness testing

- Develop a service to meet conveyancer's specific needs (e.g. Gold star service vs. standard service).
- The provision of bundled services, offering packages that make service use attractive by bringing information together.
- Collaboration with other Councils. Selling the provision of support to planning services will be of interest to other Councils where economies of scale may result in savings across all areas of resources, such as single management of ICT management processes.
- Direct employment of specialists (e.g. electricians for electrical compliance work) avoiding expensive sub-contracting.

The table below illustrates the initial range of cashable benefits that will be delivered by the company.

It is expected that the first 2 years are focussed on 'stabilisation', thereafter growth and development.

Benefit	Type	Comment	Anticipated date of benefit commencement / delivery	Benefit Owner
<b>Restoration of previous building control market share (6% inc)</b>	Financial	Estimated to be £0.07m from year 2, with £0.035m in year 1 (part year)	2015/16 onward	Ian Bunn
<b>Bundling of land charges searches with building control work will protect £134k at a time when the LLC1 land charges work is being centralised nationally which would otherwise result in a loss of £234k</b>	Financial	Estimated to be £0.134m a year	From 2016/17 onwards	Ian Bunn
<b>Recovery of fixed costs from chargeable works will reduce the cost of non-chargeable time</b>	Financial	Estimated to be £0.07m a year	From 2016/17	Ian Bunn
<b>Better use of new technologies and flexible working arrangements</b>	Financial	Estimated to be £0.08m from year 3, with £0.04m in year 2 (part year)	From 2016/17	Ian Bunn

## Benefits realisation

A detailed benefits realisation plan will be developed and included in the performance management framework incorporated into the service specification.

Cashable benefits will be monitored using the company accounts. Non-cashable benefits will be measured using the suite of performance indicators listed in pages 4 & 5 of this document. The reporting frequency will be agreed and included in the service contract between the Council and the Company.

Responsibility for delivering the benefits ultimately rests with the Board of Directors but in practical terms will be delivered by the Company's General Manager.

## **6. Project and Investment Appraisal**

In considering the financial viability of a COACC consideration has been given to the potential financial benefits for both the Council and the COACC. A high-level summary of the benefits is provided below with more detail included in the Finance Appraisal (Appendix 3).

It should be noted that all the figures are based upon comparing the Council's liability in a 'do-nothing' situation with the situation offered by the new company.

### **Summary Financial Business Case**

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
	2015/16	2016/17	2017/18	2018/19	2019/20	5 years
	£k	£k	£k	£k	£k	£k
<b>'Do-nothing' profit/(loss)</b>	-125	-125	-214	-214	-214	-892
<b>New company initiatives</b>	-15	+264	+304	+304	+304	+1161
<b>Net profit/(loss)</b>	-140	+139	+90	+90	+90	+269

\*The figures above do not incorporate inflation / interest rates.

### **Detailed Financial Considerations**

Both the fee earning areas included within the proposal generate significant income and operate within a competitive environment.

Both the Building Control service and the local land charge service are "data rich" in the sense that other competitors are required to report their planning activity into the council. *This critical business intelligence places them in a leading market position* and has allowed the generation of the horizon-scanning data discussed below:

Recent market analysis has shown that for 2011/12 the local economic value of building work that required permission under the regulations was in the region of £305,000,000. Further assessment recognises that whilst the service attracted a significant portion of that work, approx £240,000 of revenue was lost to competition that year.

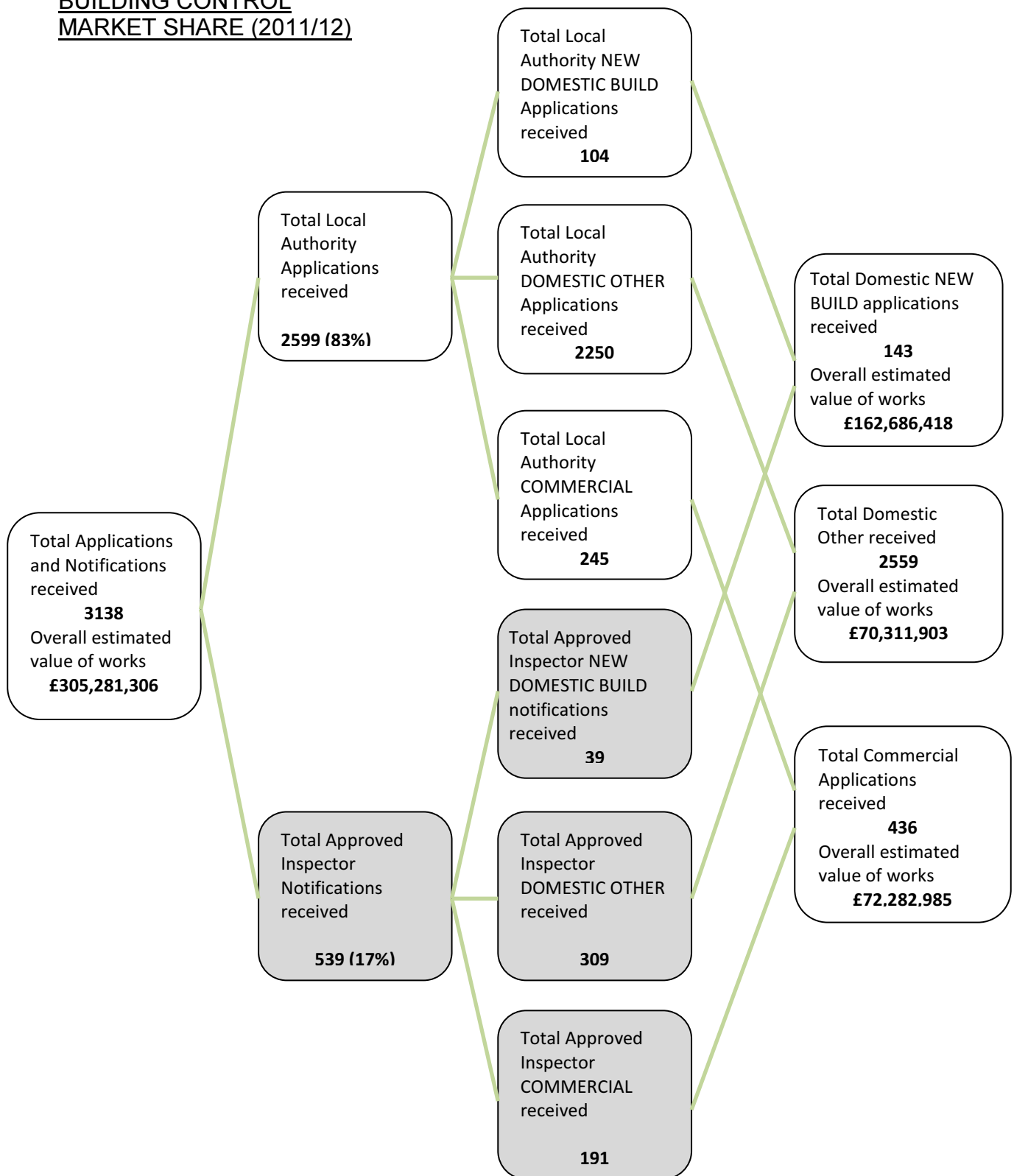
In 2013/14 that competition also represented a total of £225,000 of lost revenue.

This last year has seen a growth of the overall building market but the Council has been limited in its ability to respond having lost a significant number of staff to the private sector. This has resulted in an effective decline in its share of the market, although operational levels remain stable. The market share position over the last 12 months for the Building Control service has declined from 81% in Oct 2013 to 59% in Oct 2014.

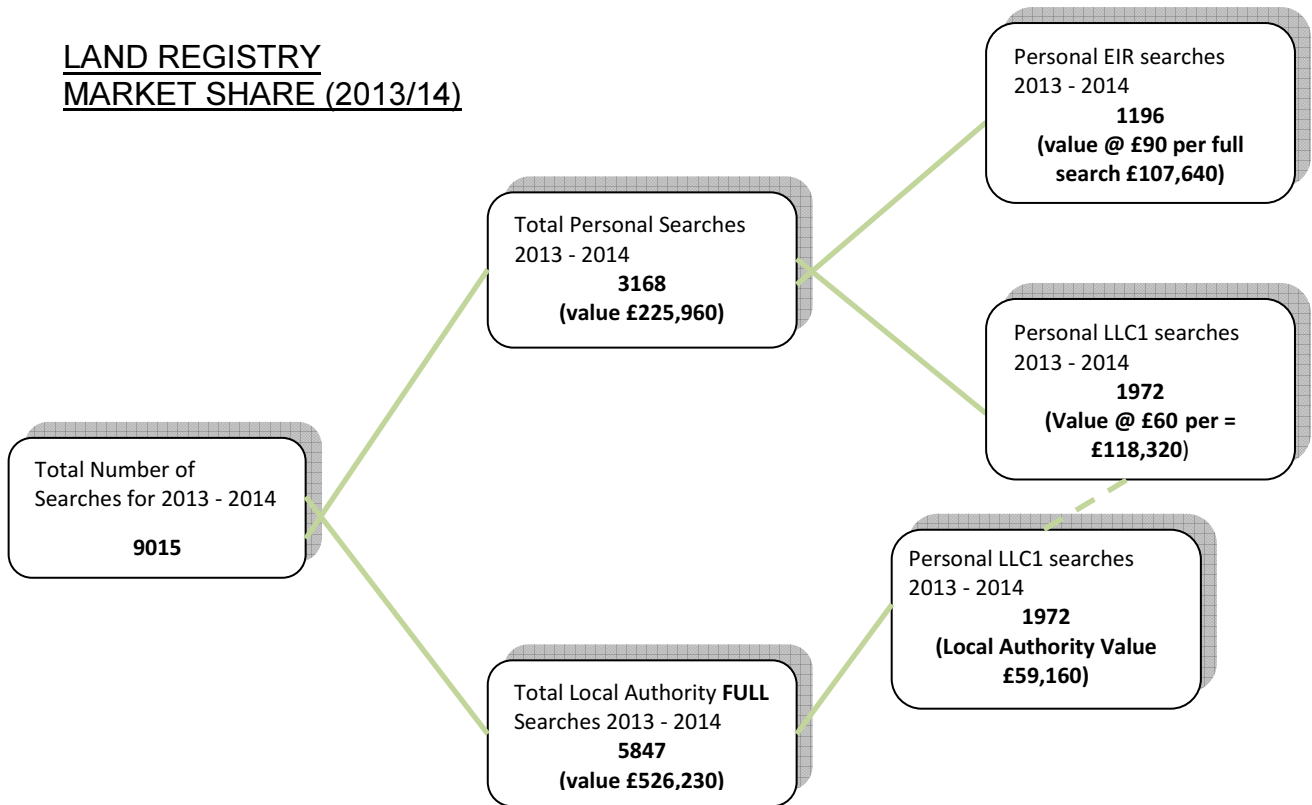


The charts below provide a breakdown of business and revenues between CEC and its competition.

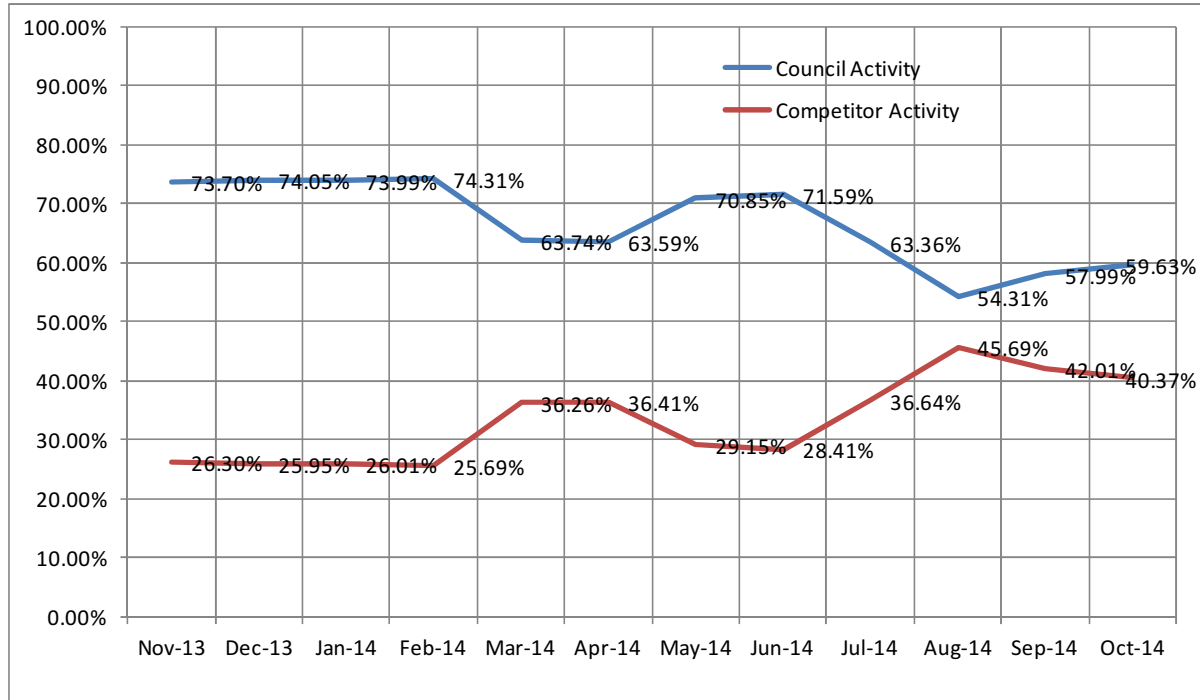
**BUILDING CONTROL**  
**MARKET SHARE (2011/12)**



**LAND REGISTRY  
MARKET SHARE (2013/14)**



**MARKET SHARE BY PROJECT (last 12 months)**

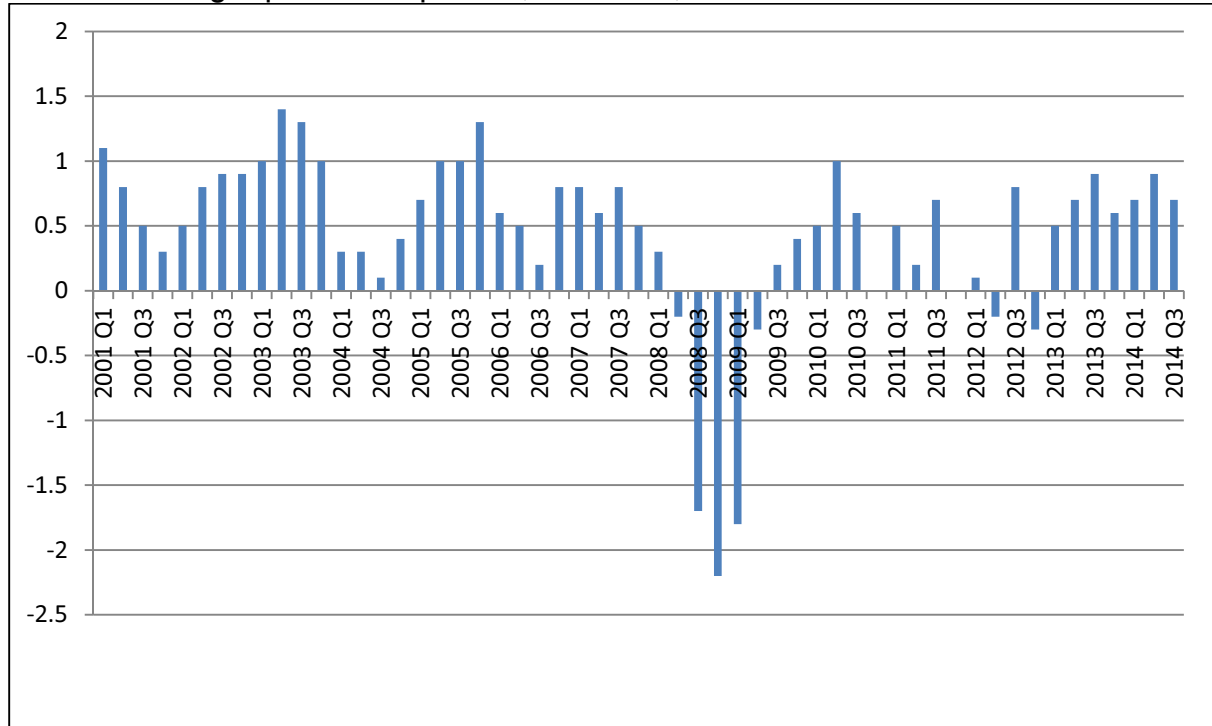


## Market Contingency and Sensitivity

The marketplace is dominated by those who wish to develop their existing homes or those who wish to move their location. It is clear that a person's wealth or perception of wealth will ultimately affect these wishes. Therefore the status of the national and local economies affects the marketplace significantly.

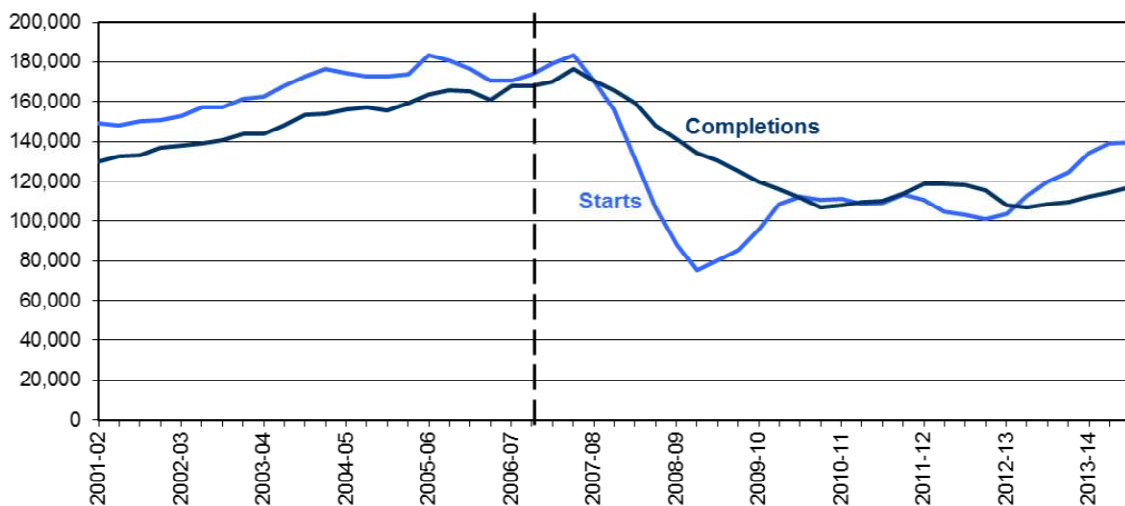
The latest GDP figures show that the overall economic climate is recovering from the downturn of 2008/9.

GDP - % change quarter on quarter (SOURCE: ONS)

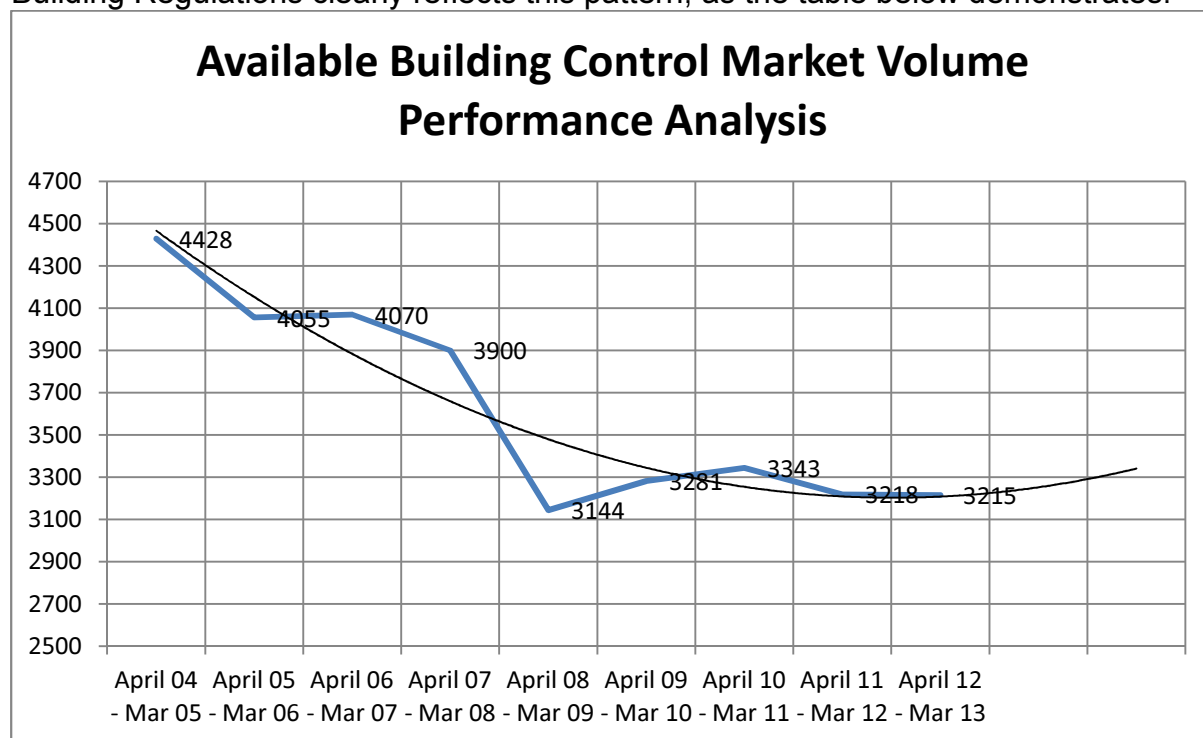


This trend is further reflected in new build activity as reported by the DCLG:  
 “Annual housing starts totalled 139,500 in the 12 months to September 2014, up by 17 per cent compared with the year before. Annual housing completions in England totalled 117,070 in the 12 months to September 2014, an increase of 8 per cent compared with the previous 12 months”

House Building: September Quarter 2014, England



Analysis of overall workload undertaken within the Cheshire East since 2004 for Building Regulations clearly reflects this pattern, as the table below demonstrates.



It is widely felt, within the industry, that the market is set to grow in the future and it is therefore vital that we are properly positioned and resourced to benefit from an upturn.

In order to plan for these effects a review of market activity will be undertaken regularly, with an appropriate plan developed each year.

Whilst it is assumed that economic growth will no longer decline there are a number of factors that may be applied that will help mitigate any down turn should it actually happen. These include;

- Recruitment / use of temporary staff.
- The investment in, and development of staff
- The identification of alternative services that can be offered utilising the skill sets of existing staff
- Regular review of fees and charges to maintain a competitive edge
- Develop relationships with customers to establish a firm, repeat customer base, built on years of experience and satisfaction.

To market effectively the factors that represent good service will need to be further identified. Overall the market will need to be continually monitored and reacted to – quickly!

### Best Case

The proposals within this document represent a prudent ‘middle-ground’ approach. They therefore do not include many of the additional revenue generating sources that could be developed should business development progress well. One example would be the creation of partnership working arrangements with other local authorities of similar or smaller size. In this instance each partner would benefit from economies of scale and the sharing of management and support service overheads.

It is estimated that for each one of these arrangements put in place a gross saving of £100k per annum would be delivered. Sharing this equally would result in a net benefit to the company of £250k over 5 years.

### **Worst Case**

Considerable thought, expertise and market knowledge has been utilised in developing these proposals. However it is recognised that unforeseen factors could have a negative impact to some initiatives. In such an event all that is needed is for the company to cover its additional running costs (compared to remaining within the council) of £50k per annum. This is just ¼ of the expected return to be generated and so represents a significant margin of safety

Other 'sensitivity' factors have been excluded from this analysis since the business case is predicated upon a comparison of the company model with a 'do-nothing' approach. Other factors will affect both options equally

### **Corporate core costs**

It has been confirmed that there will be an incubation period for this transition where some support services will continue to be used for a period of at least 3 years. In 2013/14 the baseline recharge to the service for corporate support costs was £1,029k.

After the incubation period there is the option that where the central support services provided by CEC are not suitable, these could be procured externally or delivered from within the ASDV.

Expanding the business and changing the income profile will have significant implications for the COACC and these would need to be fully considered as the COACC matures.

Typically existing operating models indicate that efficiency savings may define the former years whilst energies are focused on developing new income streams during the latter years.

### **Financial Management**

It is anticipated that the company and the Council would agree annually the level of funding that is required to discharge the Council's statutory duties, as well as the discretionary services that the two parties agree. Until the company has built up its reputation and hence marketability to others, it is likely that the primary objective of a financial management regime would be to ensure that the cost pressure in the industry is absorbed, and the current levels of service provision are maintained. The construction of a five year business plan will identify the key cost drivers, activities that can be undertaken to mitigate the cost pressure, and embed better contract and tender management.

## **Financial assumptions**

- The financial business case assumes there is no retained cost for the Council to manage the 'client' relationship as this capacity is already in place within the commissioning services.
- If the COACC is established and a TUPE Transfer takes place, pension provision will be provided by the COACC as either designated or admitted body status. This means that employee's pensions will continue to be provided through existing arrangements. New staff could, however, be refused admission to the LGPS and instead could be offered an attractive, employer-supported defined contribution pension plan.
- The move to a COACC provided pension cost is likely to result in a change in the employer's contribution rate and this will be confirmed prior to company go-live, once the TUPE list has been agreed and the actuarial report prepared.

## **7. Risk**

A full risk log is attached as Appendix 4. This separately identifies risks to the project, the company and the Council.

It is recognised that predicting future needs, demand, user responses and financial viability is an evolutionary process and the process of identifying risks and preparing suitable responses and mitigation, is a continual activity which will be a key part of the Business Case and subsequent Business Plans for the company and the Council.

## **8. Equality Impact Assessments**

An Equalities Impact Assessment is attached as Appendix 5.

## **9. Resource requirements to deliver the project**

<i>Resource</i>	<i>Estimate of number of days required</i>	<i>Source of Resource (corporate/service/Shared Service/external)</i>	<i>Comment from Service Manager (for example: require additional expertise, can manage within existing capacity)</i>
<b>Project Management</b>	100	Corporate	David Laycock- Can manage within existing capacity
<b>ICT</b>	86	Corporate / Shared Service	Val Poyser - Can manage within existing capacity
<b>HR</b>	40	Corporate	Alan Brown - Can manage within existing capacity
<b>Communications Planning</b>	20	Service and Corporate	Michael Moore - Can manage within existing capacity
<b>Procurement</b>	25	N/A	
<b>Legal</b>	90	Corporate and External	Michael Sellors- Can manage within existing capacity Jayne McLaughlin - Can manage within existing capacity plus external advice
<b>Assets</b>	10	Corporate and External	Denise Griffiths - Can manage within existing capacity
<b>Finance</b>	40	Corporate	Mike Wall - Can manage within existing capacity
<b>Risk Management</b>	20	Corporate	Jon Robinson – Risk logs have been produced, ongoing can manage within existing capacity
<b>Other:- please specify</b>		N/A	

## **10. Review Monitoring & Evaluation**

There is a statutory requirement that a business case is prepared and approved by the Council before the Council may trade through a company. Thereafter the Council is required to have regard to guidance issued by the (then) ODPM, which advises that the business case, once approved is used as the basis of developing a business plan to be used by the company in future years.

Up until the go-live date this document will be continuously reviewed by the Project Manager and SRO to ensure compliance with the legal requirements of establishing a trading company and refreshed with any new information. Where this has a material effect on any of the proposals for the project it will be resubmitted through the Council's approval process.

## **11. Exit Strategy**

Any material changes that will result in failure to deliver reduction in costs or improvements in outcomes or sustainability may give rise to concerns that the COACC will not be sustainable over the long term.

It is anticipated that the additional trading opportunities will not be fully known until the COACC formally commences trading. There is a recognition that culture change, efficiency savings through different ways of working and contracting, and new business opportunities are the three main drivers for change through which we aspire to achieve a step change in the company provision.

In the event that sufficient trading potential has not been realised within a 5 year window or costs begin to spiral, the Council's representatives will have the power, subject to any necessary Cabinet approval, to review the on-going viability of the COACC and what steps if any it needs to take in the way the COACC is governed and/or managed to achieve the required benefits.

Given that the Council is the sole shareholder, it potentially has the power to bring the service back in-house or to conduct a formal outsourcing exercise or indeed to sell the COACC subject to any agreed processes or relevant legislation.

## **13. Appendices:**

Appendix 1: Services in Scope

Appendix 2: Options Appraisal

Appendix 3: Finance Appraisal

Appendix 4: Risk Log

Appendix 5: Equality Impact Assessment

Appendix 6: SWOT Analysis