



LONDON BOROUGH OF LEWISHAM PARKS & OPEN SPACES MANAGEMENT - FINANCIAL MODELLING OF INSOURCING

A PAPER BY FMG CONSULTING

SEPTEMBER 2022

1. Introduction

Introduction

- 1.1 The London Borough of Lewisham ('the Council') has appointed FMG Consulting Ltd ('FMG') to prepare a financial model for the insourcing of its parks service.
- 1.2 The management of Lewisham's parks and open spaces has been contracted to Glendale Grounds Management since 2010. On 10th October 2019, Mayor and Cabinet agreed in principle to insource the service. As part of this decision, they also agreed a formal contract extension of 20 months from 1st March 2020 until 31st October 2021 to enable the Council to prepare for the insourcing. The contract was further extended to 31st October 2023 due to the uncertainties surrounding the Covid-19 pandemic.
- 1.3 The service is now due to come under direct Council management on 1st November 2023. In preparation for this, FMG has been asked to develop a financial model projecting the cost of managing the service on an in-house basis.
- 1.4 This paper summarises the results of our financial modelling, sets out all assumptions utilised and identifies the key risk areas for the Council. The remainder of this paper is structured as follows:
 - Section 2 – Summary of Approach;
 - Section 3 – Summary of Financial Model;
 - Section 4 – Risks and Sensitivity Analysis;
 - Section 5 – Beckenham Place Park Efficiencies;
 - Section 6 – Summary and Conclusions.
- 1.5 Any queries relating to this report should be made to Kevin Godden on kevingodden@fmgconsulting.co.uk or Damien Adams on damienadams@fmgconsulting.co.uk.

2. Summary of Approach

Key Steps

2.1 Our approach involved a number of key steps:

- Reviewing the Council's financial modelling which informed the original decision to insource;
- Reviewing Glendale's contract and associated schedules;
- Reviewing the financial performance of the service based on information provided by Glendale;
- Consulting with key Council officers; and
- Re-costing the vehicle fleet and a number of key cost variables including fuel and utility costs.

2.2 Using the information gleaned from the above steps and our own experiencing of working with insourced Council services, we developed a financial model projecting the future income and operating costs of the service under Council management. The contents of the model and working assumptions are summarised over the pages that follow.

Key working assumptions

2.3 The key working assumption around the financial model has been to assume that the service is a 'lift and shift' approach. Some key assumptions that have informed our approach are as follows:

- The price base is 2022/23;
- No changes have been made to reflect how the Council may change the delivery of this service in the future;
- The model captures the key marginal impact on income and operating costs resulting from the transfer back to in-house management;
- We have reflected known cost changes in the model (fuel, utilities etc.) to bring the projections to 2022 levels but not estimates of future CPI inflation beyond September 2022;
- The base (current) cost used in the report (for comparison purposes) is the aggregate values for 2022 relating to Scheduled Payments of £2,520,245 to the Contractor and agreed Variation Orders of £67,682 which provided a total contract value of £2,587,927 for 2022.

2.4 Whilst we have developed the financial projections on a 'lift and shift' basis, the financial model itself (see Appendix A) has been developed so that the Council can use it as an on-going live model and update the income and cost projections as the in-house team changes the way the service is delivered in the future.

3. Summary of Financial Model

Introduction

- 3.1 We have prepared a financial model to collate all income streams, operating costs, financing and resourcing costs into one place and to provide an overall annual net cost projection for the service under an in-house model.
- 3.2 It is clear from discussions with the Council that there are still a number of unknowns including how the service will be delivered under an in-house model, the resources required and the opportunities that may be required in the future. The financial model has been built to include flexibility for accommodating further development of the service, capital financing strategy and quantification of costs.
- 3.3 We have however, taken this opportunity to challenge some of the current income and costs, and where possible to consider the impact arising from some of the key differences in management models, for example; self-insuring the vehicle fleet, pension contributions, better funding arrangements, interest rates, employee costs including terms and conditions, profit and overheads.
- 3.4 This section sets out the projected income and costs of managing the service on an in-house basis.

Structure of the Financial Model

- 3.5 A copy of the financial model is attached at Appendix A to this paper. The model has a number of worksheets in the overall workbook allowing changes to be made to assumptions, to see how income and costs have been calculated and provide sufficient detail to aid understanding of the figures and projections.
- 3.6 The Operator Profit and Loss Account captures the income and costs from each of the worksheets, and has as its main headings the following elements:
 - Input assumptions;
 - Profit and Loss Account;
 - Income – Park Events, rents and pitch hire;
 - Depot Building Works required;
 - Condition survey works for offices and depots;
 - Inventory lists for vehicle fleet, office equipment, hand-held operational equipment;
 - Financing and lifecycle cost provision;
 - Operating costs for both office and depot;
 - Mobilisation costs;
 - TUPE list and operational staffing costs;
 - VAT.

Model Working Assumptions

3.7 We have used the following working assumptions in the financial model;

- 20 year model;
- Commencement date 1st November 2023;
- Current ERNI Calculation (2022);
- LGPS ER Contribution Rate – 22.5%;
- Pay scales 2022-23 as provided by the Council;
- Interest rate 4% fixed rate annuity over 20 years;
- New vehicle fleet leased using a leasing rate £212 per £'000 plus VAT;
- Capital works on other non-fleet assets funded by prudential borrowing;
- Increase in London Living Wage calculation estimated in model at 8.6%
<https://www.incomesdataresearch.co.uk/resources/news/whats-in-store-for-the-national-living-wage-in-2023#:~:text=The%20latest%20central%20estimate%20from%20the%20Low%20Pay,21%2B%29%20%E2%80%93%20increases%20of%208.6%25%20and%206.1%25%20respectively;>
- Shift and lift concept applied to the provision of the service;
- Existing contract management costs excluded from the model.

3.8 The table below sets out a summary of the financial projections for years 1 – 3 compared to the current cost of the service ('budget'). The net cost of the contract for the Council in 21/22 was circa £2.59 million (excluding the client function), as explained in paragraph 2.3.

Table 3.1 – Summary of Financial Model

All £	Budget	Year 1	Year 2	Year 3
Park Events/Licences	0	25,787	25,787	25,787
Commercial Rent and Hire	0	57,907	57,907	57,907
TOTAL INCOME	87,800	83,694	83,694	83,694
Total Operational Staffing Costs	-1,779,887	-2,991,692	-2,991,692	-2,991,692
Total Depot Premises and Operational Costs	-354,692	-430,078	-438,078	-446,078
Total Transport Costs	-452,543	-504,994	-504,994	-472,575
Total Office Premises Costs	0	-17,426	-18,146	-18,866
Operator Equipment - Debt Service Costs	0	-2,266	-2,266	-2,266
Mobilisation Costs	0	-383,000	0	0
Central Support Costs %	0	-258,198	-258,198	-258,198
TOTAL EXPENDITURE	-2,680,889	-4,632,579	-4,258,299	-4,234,600
NET SURPLUS OR (DEFICT)	-2,593,089	-4,548,885	-4,174,605	-4,150,906

3.9 A review of the summary position in the table above indicates that income is not projected to significantly change but the main increase in costs is likely to be operational staffing costs and central support costs. The net cost of the service is projected to increase to circa £4.55m in Year 1, falling to circa £4.15m by Year 3. We have set out below a breakdown of the key income and expenditure areas.

Income

- 3.10 There are a number of areas where income is generated covering sports pitch hire, concessions and events. We have been provided with a breakdown of these elements which we have included in the profit and loss projections.
- 3.11 Essentially, the parks have generated income from events held in Blackheath and other parks covering fun fairs, firework displays and a circus. A key income generator was the firework display (£35,000) but this has now been removed from the financial model as we understand that this is no longer provided.
- 3.12 The other source of income has been café and ice cream concessions around the park portfolio as well as some small value fitness permits. We have retained these at their existing value however we are not qualified to advise on whether the rental income from these café concessions is suitable for the opportunity provided. There is also pitch hire income that the contract receives amounting to circa £10,000 per annum which has been retained within our projections. A breakdown of the income is included in the table below.

Table 3.2 – Analysis of Income

All £	Budget
Park Events including fun fairs etc	£25,787
Pitch Hire Income (Football and Cricket)	£9,964
Cafe Concession	£40,423
Ice Cream Concession	£7,200
Fitness Permit	£320
Total Income	£83,694

- 3.13 Discussions with the Council team have indicated that there is an opportunity to leverage additional income (potentially around £100,000 per event) at Blackheath where the Council is allowed to hold two large events per annum. We feel that this would not be prudent to include such provision within the financial model at this time. We do however recognise that there may be potential for large events which generate additional income such as concerts and musical events that are commonplace in outdoor spaces around the country.
- 3.14 The income included in our model is all assumed to be VAT exempt. It should also be noted that no CPI inflation has been applied to any of our income projections (we have not seen the individual agreements with each hirer / concession but we would normally expect an annual inflationary increase to be included each year).

Operating Staff Costs

- 3.15 We have been provided with an indicative TUPE list for all permanent employees. The list of employees numbered 60 people, most working a full 40 hour day, with some working shorter hourly weeks resulting in FTE of 58.60 staff. The average length of reckonable service for pension purposes is 11 years.
- 3.16 The list provided details of their basic pay, enhancements and bonus pay which, when aggregated, provided a total cost of £1.5 million. A comparison with the 'Lewisham Income / Cost Breakdown (Core Service)' workbook which shows the current cost of service, indicates that staffing costs including agency and sub-contractors was £1.8 million in 2022. Therefore, seasonal staff are estimated to be circa £300,000 per annum but this may also include sick or annual leave cover (use of agency staff).
- 3.17 Working with the Council's lead officer for the service, the TUPE list has been increased bringing the establishment to 66.4 FTE. This includes additional seasonal staff for grounds and parks plus an additional grounds team leader.

- 3.18 The Council has considered each job level and allocated it to the local authority pay scales for 2022-23. This new list of employees before new posts, redundancy or seasonal posts, provides a new salary cost including on-costs of £2.26 million. The additional seasonal posts excluded from the TUPE list are £256,000 per annum including on costs. The additional team leader post is circa £45,000 per annum including on-costs.
- 3.19 Bringing all the data together, the new operational staffing establishment is £2.61 million. This compares to the £1.78 million provided by the current contractor Glendale. We have then applied a number of other adjustments as detailed below.
- 3.20 We understand that the Council provide that all staff should be paid as a minimum the London Living Wage. An adjustment will need to be made for 2023 for a further increase and applied to the establishment for those eligible to receive the top up, although the threshold for the 2023 LLW is not yet known (we have assumed £12 per hour).
- 3.21 We have not seen sight of the existing terms and conditions covering working hours and annual leave under the current contract but we are advised that the working week will decrease from 40 hours to 35 hours a week. We have also made a broad assumption that annual leave will increase from 22 days currently to 26 days under the in-house arrangements. These changes will require additional resources to cover the loss of working hours and cover for additional annual leave.
- 3.22 We have also applied £2,350 to each FTE for the backdated pay award for the current year.
- 3.23 The table below sets out our calculations to cover these changes in terms and conditions.

Table 3.3 – Impact of a Change to Working Terms and Conditions

Area	Detail	Impact
Living Wage Adjustment	The announcement on National Living Wage and London Living Wage is made in the autumn prior to the relevant year. The projected increase for the national living wage is 8.6% and we have applied this to the London Living Wage. Although this can be different in value terms the percentage applied will be sufficient for this purpose. We estimate that the revised LLW will be £12.00 per hour. On a 35 hour week this would affect anyone on a salary of under £21,840 per annum in 2022-23. A review of the new pay scales for employees shows that no member of staff is under this threshold. Therefore the impact is £0.	£0
Working Hours – TUPE List	There are 53 FTE who work a 40 hour week under the TUPE list. Reducing their working time to 35 hours would equate to 53 x 5 hours and divided by 35 hours = 7.57 FTE. With average total pay at circa £28,550 (£26,200 + £2,350) using 2022-23 pay scales this would result in an additional cost of £216,124 per annum plus on-costs (36%) resulting in an overall cost to the profit and loss of £293,928 per annum.	£293,928
Annual Leave	From the 53 full time staff, assuming that their current annual leave is 22 days and this is increased to 26 days, this would result in (53 x 4 days) 212 days a year of extra cover. Assuming 1 FTE covers 226 days, this would require an additional 0.93 FTE at £28,550 per annum = £26,551 x 36% on-costs = £36,110 additional cost per annum.	£36,110
	Total Adjustment	£330,038.00

Depot Premises and Operational Costs

3.24 The table below highlights the costs of the operation including the depot costs.

Table 3.4 – Operational and Depot Costs

All £	Budget	Year 1	Year 2	Year 3
Planned Preventative Maintenance	0	-6,000	-8,000	-10,000
Reactive Repairs & Maintenance	0	-18,000	-24,000	-30,000
Waste Removal	-62,664	-88,500	-88,500	-88,500
Lifecycle Costs - Buildings	0	0	0	0
Lifecycle Costs - Equipment	0	-295	-295	-295
Utilities	-108,877	-136,309	-136,309	-136,309
Business Rates	0	-28,788	-28,788	-28,788
Cleaning Costs	0	-7,000	-7,000	-7,000
Refuse collection	0	0	0	0
Stock Purchases	-107,295	-93,636	-93,636	-93,636
Insurances	0	0	0	0
Leasing - Hand Equipment	0	0	0	0
Equipment purchase	-75,856	-50,000	-50,000	-50,000
Rental Payable	0	-1,550	-1,550	-1,550
Total Depot and Operational Costs	-354,692	-430,078	-438,078	-446,078

- 3.25 These costs relate directly to the parks service operation and the depot costs covering Blackheath, Deptford, Forester Park, Mountsfield Park and Sydenham Park.
- 3.26 We have not had details of the exact gross internal floor areas of the buildings in the depot but we have estimated that circa £24,000 per annum may be required to undertake maintenance and repairs of the facilities which is an average of £4,800 per annum for each depot.
- 3.27 The waste removal of all the green waste is estimated to cost £88,500 per annum under the SELP heat and power contract. We have not seen site of the contract but it identified that the cost has increased since 2022 and we are not clear if this is likely to increase further in 2023, although we have not made any provision for inflationary increases.
- 3.28 We have not visited the sites but we have assumed that no provision is required for lifecycle replacements for the buildings on site, which is consistent with the Council's approach to its assets.
- 3.29 We have assessed the actual utility costs from 2021 which were £38,020 for electricity, gas £9,272 and water £55,015 net of VAT. We have identified that the gas and electricity costs need to be increased by 66.9% (indexes from Jan 22 at 99.5 to July 2022 at 166.1) to bring them up to current costs and water by a ratio of 4.2% (Jan at 107.8 to July at 112.4).
- 3.30 We have reviewed the five depot sites on the Valuation Office Agency database and could only find Mountfield Park Depot which had a rateable value of £11,750 and we multiplied this by the small business rate (£0.49p) and for a broad estimate multiplied this by the 5 sites to produce an estimate of the business rates bill that the Council will have to meet.
- 3.31 We included some general cleaning costs for each depot of a couple of hours per week.
- 3.32 We have not seen the details of the stock requirements, bills of quantities and turnover of the stock and we note that in 2022 the costs were £107,295 so we have taken the figure provided by the Council at £93,636 as being sufficient. We have not increased this for inflation.
- 3.33 Equipment purchased were £75,000 in the actual costs incurred by the business in 2022 which included play but we have tempered this down to a provision of £50,000 per annum. Any additional play equipment will be leased or come under the maintenance budgets.

- 3.34 The rent payable is for the Brockwell Park Thames Water (£1,500) and Dulwich Estate (£50) per annum.

Transport and Fleet Costs

- 3.35 The table below provides details of the transport and fleet costs. In terms of the fleet, we understand that there are 32 vehicles that will be required, excluding the two tractors that are likely to transfer from the contractor at Net Book Value.

Table 3.5 – Transport and Fleet Costs

All £	Budget	Year 1	Year 2	Year 3
Vehicle Hire Charges	0	-36,500	-36,500	-36,500
Leasing - Vehicles	0	-239,470	-239,470	-239,470
Transport Fuel Costs	0	-151,024	-151,024	-118,605
Vehicle Insurances	0	-60,000	-60,000	-60,000
Other Transport Costs (Tax, servicing etc)	0	-18,000	-18,000	-18,000
Total Transport Costs	-452,543	-504,994	-504,994	-472,575

- 3.36 We have taken a prudent approach and assumed that 1 vehicle is likely to be off the road for maintenance and servicing etc. We have budgeted to replace this with a commercial hire vehicle at £100 plus VAT per day. This assumes the operation is 365 days per year, albeit this may be overstated as we assume that the service is not provided at Christmas and New Year.
- 3.37 We have been given a list of commercial vehicles and we have arranged for these to be priced in the market for initial purchase and leasing over both 3 and 5 years. We have taken the view that the fleet will be leased for 3 years and handed back at the end of the lease. The value of the stock is £1.13 million. If we were to extend the lease to 5 years, this would reduce the annual leasing costs down by £50,000 per annum. We note that these costs are higher than the quote sourced by the Council for its original budget forecasts (£104,040 per annum).
- 3.38 The cost of fuel is £79,000 in 2022 but with the increase in pump prices for both petrol and diesel our research indicates that an index of 1.91 should be applied to reflect the increase in future costs, although after the first two operational years, we have reduced this down to an index of 1.5 from the 2022 prices.
- 3.39 The average commercial vehicle insurance in the market is £2,000 each. We have provided market pricing although it may be that some of this will be self-insured resulting in a level of savings but for this exercise we have included a provision of £60,000 for the 34 vehicles including the tractors.
- 3.40 We have included a general provision for tax, insurance excess and servicing costs of the fleet at £18,000 which is circa £600 per fleet item.
- 3.41 We note that the Council's service lead believes that the Council may be able to operate with a slightly reduced number of vehicles however we have assumed no reduction to be prudent, noting that there is potential for a budget saving if a reduction in the vehicle numbers can be achieved.

Office Staff Costs

- 3.42 All the employees on the TUPE list have been included under Operations. The current contract management staff at the Council have been excluded.

Office Premises Costs

- 3.43 We have provided a summary of the premises costs relating to the current administration offices of the current service, which we understand are based at The Lodge (SE23 1DD).

Table 3.6 – Office Premises Costs

All £	Budget	Year 1	Year 2	Year 3
Planned Preventative Maintenance	0	-1,260	-1,680	-2,100
Reactive Repairs & Maintenance	0	-360	-480	-600
Decoration	0	-540	-720	-900
Lifecycle Costs - Buildings	0	0	0	0
Lifecycle Costs - Equipment	0	-295	-295	-295
Utilities	0	-9,000	-9,000	-9,000
Business Rates	0	-3,871	-3,871	-3,871
Contract cleaning	0	-2,100	-2,100	-2,100
Total Office Premises Costs	0	-17,426	-18,146	-18,866

- 3.44 In terms of office premises costs, we have made a number of small provisions for likely expenditure including some maintenance, business rates (based upon the rateable value) and then some costs to cover cleaning and repairs and maintenance costs. We do not have access to previous levels of expenditure and we have not visited the site, so have applied a reasonable estimate.

Office Supplies and Services

- 3.45 We have no information on the function of the management team and their supplies and service requirements but have made a general provision for usual costs including equipment, IT licensing, insurance, IT links, telephones, small items of equipment (desks, chairs etc.) and the cost of commercial refuse collection.

Table 3.7 – Office Supplies and Service Costs

All £	Budget	Year 1	Year 2	Year 3
License/subscriptions	0	-2,500	-2,500	-2,500
Advertising and Marketing	0	0	0	0
Refuse collection	0	-12,000	-12,000	-12,000
Insurance	0	-8,625	-8,625	-8,625
Equipment purchase	0	-1,000	-1,000	-1,000
Office Equipment/stationery/printing/postage	0	-4,000	-4,000	-4,000
Telephones/Data Comms	0	-1,800	-1,800	-1,800
ICT	0	-10,000	-10,000	-10,000
Costs of Sales - Catering / Vending	0	0	0	0
Leasing - Office Equipment	0	0	0	0
Other Administration	0	-5,000	-5,000	-5,000
Total Office Supplies and Services	0	-44,925	-44,925	-44,925

Mobilisation Costs

- 3.46 Mobilisation costs refers to the one-off costs that the Council will need to incur prior to transfer. We have based our estimated staffing cost at £350k. This is based on intelligence from the London Borough of Southwark's leisure insourcing costs, with appropriate adjustments to account for the smaller size of this service. The £350k is primarily intended to cover the necessary new resource (which could be employed or consultants) to help manage the mobilisation and provide specialist advice such as legal and HR.
- 3.47 In terms of additional costs beyond staffing, our initial thoughts are on the rebranding of the new vehicle fleet and also staff uniforms and PPE. Section 9 of the Health and Safety at Work etc Act 1974, states that no charge can be made to an employee for providing them with PPE which is used only at work.

3.48 Our working assumptions are:

- 57 staff at £228 each (average) including clothing, helmet, safety boots, glasses etc.
- 32 vehicles at £625 each (average) for signage.

3.49 The mobilisation costs are summarised in the table below.

Table 3.8 – Mobilisation Costs

All £	Budget
Total Staffing	-£350,000
Total Office Staffing Costs	-£13,000
Total Office Supplies and Services	-£20,000
Total Costs	-£383,000

3.50 There is also likely to be considerable officer time required to support the transfer of services but we have not attempted to estimate the cost of this officer time in this paper. HR officers from within the Council are currently attempting to estimate some of this input required more accurately.

Central Support Costs

3.51 We have been working with the Council team to establish the marginal cost to the Council central support functions to support the in-boarding of 65 staff and on-going business support systems such as HR, finance, legal and IT services. The working assumption for the Council's original options appraisal was that 15% of employee costs can be attributed to these costs but we think that this may be high and have included 10% of employee costs, providing a cost of £258,198 which is the equivalent of five PO1 (Scale 30) posts full time. HR officers from within the Council are currently attempting to estimate some of this input required more accurately.

Net Cost of the Service

3.52 The financial model has established an indicative net cost of service based upon a number of assumptions as stated in this paper. It is reflective of the likely position with the major cost lines being developed from first principles, including staffing, fleet costs, stock and fuel costs. The table below provides a summary of the net cost of the service.

Table 3.9 – Summary of Net Cost of Service

All £	Budget	Year 1	Year 2	Year 3
Park Events/Licences	0	25,787	25,787	25,787
Commercial Rent and Hire	0	57,907	57,907	57,907
TOTAL INCOME	87,800	83,694	83,694	83,694
Total Operational Staffing Costs	-1,779,887	-2,991,692	-2,991,692	-2,991,692
Total Depot Premises and Operational Costs	-354,692	-430,078	-438,078	-446,078
Total Transport Costs	-452,543	-504,994	-504,994	-472,575
Total Office Premises Costs	0	-17,426	-18,146	-18,866
Operator Equipment - Debt Service Costs	0	-2,266	-2,266	-2,266
Mobilisation Costs	0	-383,000	0	0
Central Support Costs %	0	-258,198	-258,198	-258,198
TOTAL EXPENDITURE	-2,680,889	-4,632,579	-4,258,299	-4,234,600
NET SURPLUS OR (DEFICIT)	-2,593,089	-4,548,885	-4,174,605	-4,150,906

3.53 It can be seen that we are projecting the cost of the service to be circa £4.55m in Year 1, decreasing slightly to £4.15m in Year 3.

3.54 It is clear that there are a number of ideas that could improve the position including increasing income from large events in Blackheath and other parks and also the Council may be able to access more advantageous leasing costs than the general commercial market costs we used to test pricing. These are valued at £300,000 for income improvements and leasing cost savings of £140,000 per annum.

4. Risks and Sensitivity Analysis

Key Risks and Considerations

- 4.1 This section identifies the key considerations and financial risks for the Council, arising from the expiry of the contract and insourcing of the service. The table below summarises our view of the key risks. It should be noted that it only relates to risks which have a financial impact and not wider risks such as user satisfaction, health and safety incidents etc.

Table 4.1 – Potential Risks Arising from the Insourcing

Risk Title	Risk Description	Likelihood	Impact	Risk Mitigation
TUPE list accuracy	TUPE list provided by Glendale is not accurate and more staff transfer than expected or there are disciplinary and claim issues to resolve which the Council has not been informed of.	Low	High	TUPE list already received from Glendale. Contractual provisions may give the Council some protection if information provided is inaccurate.
Staff harmonisation estimate	A draft staff harmonisation costing assessment has been carried out but will need to be carried out in more detail when the transfer takes place and individual staff responsibilities and roles are fully understood.	Medium	High	Initial staff harmonisation already costed into the financial model.
Lack of experience	The Council's staff may not have sufficient experience of managing a parks and open spaces service.	Low	Medium	A number of the senior managers will transfer to the Council, the internal service is headed up by an extremely experienced parks operator and the Council also already manages Beckenham Place Park.
Lack of income	The Council does not generate sufficient income from events, hires etc. to meet the financial model projections.	Low	Low	The financial model is based on very prudent income projections which are mainly relatively guaranteed income sources. There is a greater likelihood of overachieving on the income projections.

Risk Title	Risk Description	Likelihood	Impact	Risk Mitigation
Inflation	Inflation pushes the cost of goods, services, materials and equipment higher than projected.	High	High	Inflationary increases beyond 2022 have not been factored into the model. Need to review costs on a regular basis and obtain updated quotes, prices etc.
Cost of living	The cost of living results in greater than expected increases to staff rates of pay.	High	High	A 5% increase has been included in the financial model for 2023 although this may not be sufficient. Further contingencies could be considered to further prepare for this risk arising.
Loss of key staff	Key staff leave or are relocated within Glendale rather than be transferred over to the Council.	Medium	Medium	TUPE list to be monitored to note any late changes. Enhanced terms and conditions offered by the Council is a big motivation for staff to transfer and remain with the Council.
Pension increases	As the staff will be joining the LGPS, the risk of future increases in the contribution rate will fall to the Council.	High	High	Further contingencies could be considered in the business plan to model this eventuality. Sensitivity modelling available within the financial model to assess the potential impact.
Condition of assets	The condition of the buildings and equipment which will transfer to the Council is not known.	Medium	High	Condition surveys will be carried out. Glendale can be held to contractual terms in relation to the condition of assets upon handover (although we have not viewed how detailed / strong these contractual terms are).
Management time	The amount of time required from the Council's senior officer team to mobilise and then manage / support the service is significantly greater than expected.	Medium	High	A mobilisation budget has been included in the financial model and 10% of staff costs has been added for on-going central support costs. The Council's HR team is currently working up more detailed projections of these costs.

Sensitivity Analysis

- 4.2 This section presents a sensitivity analysis for our financial projections, based on 5% and 10% variances as requested in the Council's brief for this work. We have created an interactive tab in our financial model which can be used to input any sensitivity scenario the Council desires in relation to major income and expenditure areas. For the purposes of this paper, we have summarised below the 5% and 10% sensitivity impact as requested.

Table 4.2 – 5% Sensitivity Analysis

AMENDMENT TO BASE PLAN	VARIANCE %	YEAR 1			YEAR 5		
		INCOME (£)	EXPENDITURE (£)	NET POSITION (£)	INCOME (£)	EXPENDITURE (£)	NET POSITION (£)
Base Plan		83,694	4,632,579	(4,548,885)	83,694	4,234,600	(4,150,906)
Increased Income (%)	5	87,879	4,632,579	(4,544,700)	87,879	4,234,600	(4,146,721)
Reduced Income (%)	5	79,509	4,632,579	(4,553,069)	79,509	4,234,600	(4,155,091)
Increased Operating Expenditure (%)	5	83,694	4,864,208	(4,780,514)	83,694	4,446,330	(4,362,636)
Reduced Operating Expenditure (%)	5	83,694	4,400,950	(4,317,256)	83,694	4,022,870	(3,939,176)
Increased Staff Costs (%)	5	83,694	4,782,163	(4,698,469)	83,694	4,384,185	(4,300,491)
Reduced Staff Costs (%)	5	83,694	4,482,994	(4,399,300)	83,694	4,085,015	(4,001,321)
Increased Utility & Fuel Costs (%)	5	83,694	4,646,945	(4,563,251)	83,694	4,247,346	(4,163,652)
Decreased Utility & Fuel Costs (%)	5	83,694	4,618,212	(4,534,518)	83,694	4,221,854	(4,138,160)
Increased Depot Premises & Operational Costs (%)	5	83,694	4,654,083	(4,570,389)	83,694	4,256,904	(4,173,210)
Decreased Depot Premises & Operational Costs (%)	5	83,694	4,611,075	(4,527,381)	83,694	4,212,296	(4,128,602)
Increased Transport Costs (%)	5	83,694	4,657,828	(4,574,134)	83,694	4,258,229	(4,174,535)
Decreased Transport Costs (%)	5	83,694	4,607,329	(4,523,635)	83,694	4,210,971	(4,127,277)

- 4.3 It can be seen that the income is not subject to much risk from variance as we have been very cautious in our projections and there may be some opportunity for upside. However, just a 5% increase in operating expenditure would have a significant impact on the bottom line, increasing the deficit by circa £212k in year 5. This is a big risk, particularly in light of inflation of costs that are currently being experienced in the market.

4.4 Variances in staffing cost would have the greatest impact in terms of expenditure areas. This is particularly important for the Council to note as the cost of living and inflation is increasing significantly and so this could lead to potentially significant increases in remuneration being required.

Table 4.3 – 10% Sensitivity Analysis

AMENDMENT TO BASE PLAN	VARIANCE %	YEAR 1			YEAR 5		
		INCOME (£)	EXPENDITURE (£)	NET POSITION (£)	INCOME (£)	EXPENDITURE (£)	NET POSITION (£)
Base Plan		83,694	4,632,579	(4,548,885)	83,694	4,234,600	(4,150,906)
Increased Income (%)	10	92,063	4,632,579	(4,540,515)	92,063	4,234,600	(4,142,537)
Reduced Income (%)	10	75,325	4,632,579	(4,557,254)	75,325	4,234,600	(4,159,275)
Increased Operating Expenditure (%)	10	83,694	5,095,837	(5,012,143)	83,694	4,658,060	(4,574,366)
Reduced Operating Expenditure (%)	10	83,694	4,169,321	(4,085,627)	83,694	3,811,140	(3,727,446)
Increased Staff Costs (%)	10	83,694	4,931,748	(4,848,054)	83,694	4,533,769	(4,450,075)
Reduced Staff Costs (%)	10	83,694	4,333,410	(4,249,716)	83,694	3,935,431	(3,851,737)
Increased Utility & Fuel Costs (%)	10	83,694	4,661,312	(4,577,618)	83,694	4,260,091	(4,176,397)
Decreased Utility & Fuel Costs (%)	10	83,694	4,603,845	(4,520,151)	83,694	4,209,109	(4,125,415)
Increased Depot Premises & Operational Costs (%)	10	83,694	4,675,587	(4,591,893)	83,694	4,279,208	(4,195,514)
Decreased Depot Premises & Operational Costs (%)	10	83,694	4,589,571	(4,505,877)	83,694	4,189,992	(4,106,298)
Increased Transport Costs (%)	10	83,694	4,683,078	(4,599,384)	83,694	4,281,858	(4,198,164)
Decreased Transport Costs (%)	10	83,694	4,582,079	(4,498,385)	83,694	4,187,343	(4,103,649)

4.5 The 10% sensitivity analysis highlights the same risks but amplifies the impact of the risks. For example, a 10% uplift in staffing costs will result in a c£299k increase in the cost of the service to the Council in year 5. A change such as this would require income to be increased by circa 300 percent over the same period in order to cover the additional cost.

5. Beckenham Place Park Efficiencies

- 5.1 The Council has asked us to consider any efficiencies to be gained through the integration with the Beckenham Place Park (BPP) management service which is already managed in-house. We have not been able to quantify any financial savings at this stage however can see some limited potential for savings. The table below assesses the main areas of the financial model and identifies whether there may be potential for efficiencies or not through integrating the two teams.

Table 5.1 – Integration with BPP - Potential for Savings

Area	Potential for Saving
Income generation	The Beckenham Place Park team may have some ideas and experience relating to events which may be useful but we do not believe that there will be any discernible difference in income generated if combining the two services.
Management team	This is the area where we believe that a saving could potentially be delivered. There may be some efficiencies in joining the management teams with some of the existing management staff also managing a number of other parks.
Operational staff	The number of operatives delivering the day to day operations will likely be unchanged as the tasks involved in maintaining the parks do not change.
Fleet costs	Depending on the fleet held by the Beckenham Place Park team, there may be an opportunity to reduce the vehicles required under the main parks contract by utilising existing vehicles. However, we do not envisage this providing a significant saving on the fleet costs as the majority of vehicles will already likely be fully utilised.
Equipment	The equipment used by both teams will likely be the right amount required to manage the spaces in question so there is unlikely to be any savings in this area.
Premises costs	Premises costs are unlikely to change through an integration of the services.
Supplies and services	There may be potential for some minor savings for the Beckenham Place Park operation if the main parks contract can access greater value for money rates with suppliers (economies of scale from the number of parks and open spaces involved) compared to the operation of a single (albeit very large) park. We do not think that these savings would be significant.

- 5.2 Overall, we do not envisage there being significant financial savings through the integration with the Beckenham Place Park management service. The principle of integrating the teams into one combined operation is of course sensible and there may be some minor areas of savings as identified in the table above. The most significant of these may be a saving in management costs however to quantify this will need the Council to map out what its future service provision model looks like and how many managers are required across the combined service.

6. Summary and Conclusions

- 6.1 This paper has summarised the projected cost of the Council transferring the management of its parks and open spaces service to an in-house model. The net cost of the contract for the Council in 21/22 was circa £2.59 million but we expect this cost to increase to circa £4.55m in Year 1, falling to circa £4.15m by Year 3.
- 6.2 The increase in costs is predominantly as a result of a significant increase in staffing costs relating to the Council's preferential terms and conditions and pension arrangements which the employees will all qualify for. Despite this, there is potential for some improvement in the cost of the service if greater events income can be generated and the Council can access preferential rates for leasing of its vehicle fleet.
- 6.3 It should be noted that the cost of officer time to mobilise the service has not been factored into our year 1 projections at this stage although further work is on-going to cost this in more detail.
- 6.4 There are a great number of financial risks associated with bringing the service in-house. These risks are difficult to quantify but a number of them are rated as being highly likely and also having a high impact on the Council. The greatest risks are around inflation, cost of living and pensions which could result in significant increases in the Council's cost base.
- 6.5 Sensitivity analysis has been carried out which shows that even a 10% increase in the Council's cost base (which is highly likely considering current inflation rates) will increase the net cost of the service to the Council by over £423k per annum.
- 6.6 Finally, we have considered whether there are efficiencies to be made from combining the management of the service with the Beckenham Place Park management model. Clearly this makes sense from an operational perspective however we do not believe that there are significant financial efficiencies to be made through this (although there may be some limited potential savings in management costs).
- 6.7 Any queries on the contents of this paper should be made to kevingodden@fmgconsulting.co.uk or damienadams@fmgconsulting.co.uk.