Dear Councillor

OVERVIEW AND SCRUTINY PANEL (PERFORMANCE AND CUSTOMERS) - WEDNESDAY, 5 JULY 2017

I am now able to enclose for consideration at the above meeting the following report, which was unavailable when the agenda was printed.

Agenda No.	Item
4.	**CCTV/SECURITY SERVICES - BUSINESS CASE FOR COMMERCIALISATION** (Pages 3 - 22) The Panel are to receive the CCTV/Security Services – Business Case for Commercialisation.

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Public - Yes
Key Decision - Yes

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Procurement of a Joint Venture partnership for the commercial development of HDC's CCTV service
Meeting/Date:	Overview & Scrutiny (Performance and Customers) Panel – 5 July 2017 Cabinet – 20 July 2017
Executive Portfolio:	Executive Councillor for Commercialisation and Shared Services - Councillor D Brown
Report by:	Head of Community - Chris Stopford
Ward(s) affected:	All

Executive Summary:

Cabinet approved the creation of a Local Authority Trading Company (LATC) at its meeting on 17th November 2016. This was determined as an essential stage in enabling the Council to develop a range of commercial, income generating, activities in line with its strategic objectives. It will also make an essential contribution to the Council achieving its aim of achieving financial self-sufficiency by 2020.

In June 2017, Cabinet approved the creation of HDC Ventures Ltd, as the LATC Holding Company, and set in place the management arrangements for the company. This was a significant step in the commercialisation agenda, and enables the commercialisation of the CCTV Service.

This report presents an commercialisation update to support the viability of procuring a joint venture to develop HDC's CCTV service. The update is presented as Appendix 1.

Recommendation(s):

The Overview and Scrutiny Panel are invited to comment on:

- The suitability of the proposed business model which is based on the formation of a joint venture company which will encompass:
  - The supply and maintenance of CCTV cameras and associated hardware
  - Wireless/fibre connectivity to a technologically robust 24/7/365 control room.
  - Monitoring of alarm activated cameras, with 24/7 recording and alarm response, and evidence retrieval on demand by SIA accredited staff.
  - Development of added value services for the control room, including lone worker monitoring, security monitoring and related activities.
  - Integration with wider CCTV coverage and/or Police services

- The strategic objectives of seeking to establish a joint venture company, including:
  - Enabling HDC to achieve cost-neutrality for this service by 2021.
  - To enhance the resilience of the Council's, and its Shared Service partners, public space CCTV monitoring services
  - Providing HDC with a more robust and cost-effective supply chain for CCTV equipment and resources.
  - Introducing the experience, skills and capacity necessary to drive commercial development.

- Any omissions, amendments or additions that it is felt would improve this document.

- The proposed timetable for the procurement of a suitable joint venture partner for HDC's CCTV service (Appendix 1)

Cabinet are recommended to approve:

1. That the CCTV Development Overview presents a fair reflection of the broad potential benefits of establishing a partnership with an external joint venture partner.

2. The model described in the CCTV Development Overview is used, as part of an EU compliant procurement process (Restricted Procedure with Competitive Dialogue), as the framework for negotiations with potential joint venture partners.

3. That the Head of Community be authorised to undertake the procurement process, and to present information to the Executive Councillor for Commercialisation and Shared Services, and the HDC Ventures Ltd Board on the preferred partner.

4. That the Head of Community, in consultation with the Executive Councillor for Shared Services and Commercialisation, and the HDC Ventures Ltd Board be empowered to determine the preferred partner, and award the Contract.

1. PURPOSE OF THE REPORT

1.1 This report is provided to enable Members to approve the proposed basis for the procurement of a suitably qualified and experienced commercial partner to form a joint venture company to facilitate the commercial development of HDC's CCTV Service.

The attached Development Overview describes an operating model that will allow HDC's CCTV Service to contribute its existing skills, experience and resources to a joint venture that will be capable of achieving significant commercial growth.

2. WHY IS THIS REPORT NECESSARY

2.1 This report will ensure that Members have a clear understanding of the relative levels of risk and reward roles that this proposed strategy presents to HDC. In addition, it provides an overview of the resource commitments that HDC will be required to ensure that the projected outcomes are achieved.

3. COMMENTS OF OVERVIEW & SCRUTINY

3.1 The comments of the relevant Overview and Scrutiny Panel will be included in this section prior to its consideration by the Cabinet.

4. KEY IMPACTS

4.1 The cost to HDC of providing a CCTV service will be neutralised by 2021.

4.2 The potential to generate income from 'external' customers, including those in the commercial sector and outside of HDC's District borders will be increased.

4.3 The range of operational expertise, alongside commercial capability and capacity, will be extended.

5. WHAT ACTIONS WILL BE TAKEN

5.1 An OJEU compliant procurement process– Restricted Procedure with Competitive Dialogue - will be initiated with the intention of awarding a contract during the latter part of 2017.

6. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND / OR CORPORATE OBJECTIVES

- Implementing our Transformation Programme.
  Establishing this joint venture will contribute to the way HDC functions in the future. The creation of a de facto trading entity forms one of the key elements of the transformation plan.
- Ensuring our Medium Term Financial Strategy is focused on strategic priorities.
  The anticipated revenue income from the extended commercial activity of this joint venture, as well as the anticipated cost savings, will play an important role in ensuring the Council's future financial stability.
- Maximising income opportunities, where appropriate.
  This commercial activity will require the Council to take a measured approach to market opportunities. Robust business planning will ensure that the joint venture generates revenue within an acceptable a sustainable cost base.

- Identifying new opportunities for income generation, where appropriate.
  This will be achieved via the introduction of key commercial capabilities such as marketing, business development and account management.
- Having a more engaged and motivated workforce.
  Combining the existing CCTV team with expertise from a commercial partner will introduce new ways of thinking and working into the Council, which will provide opportunities for professional and personal development across the organisation.

7. LEGAL IMPLICATIONS

7.1 Trowers & Hamlin have assessed HDC's planned actions in regards to incorporating trading companies and have confirmed that this is within the Council's legal powers as defined in:

- Local Authorities such as Huntingdonshire District Council are able to create Local Authority Trading Companies (LATC) under:
- Local Government Act 2003 allows local authorities to trade in any of their ordinary functions.
- The Localism Act 2011 enables local authorities to undertake activities for a "commercial purpose" in order to make a profit but only if delivered within a company
- Local Government Best Value Authorities Power to Trade England Order 2009.

7.2 Further legal advice will be commissioned, as necessary, to validate the specific form and governance structure of the proposed joint venture company.

8. RESOURCE IMPLICATIONS

8.1 The joint venture company will also require a range of support services in areas such as HR, Finance and IT. It is anticipated that these services will be competitively sourced and that HDC will be provided with an opportunity to submit a bid for each contract.

9. OTHER IMPLICATIONS

9.1 Key risks

Acting outside law: external legal advice has been taken to establish legal basis for local authority trading.
Business return may not be there: the attached CCTV Development Overview has been developed with external support to validate the anticipated commercial proposition.
Higher risk profile: procurement of a joint venture will help to spread risk.
Loss of control over services: HDC shareholding in the company will ensure that influence is maintained, but the Council will not retain sole control of services.

9.2 As noted above, input from the Monitoring Officer will be required to support any required changes to the Council's constitution.

Should operational support for the joint venture be provided by HDC, this will be a market rates and under the terms of a Resourcing Agreement which will be negotiated between the company and the Council.

Any rental agreement for office accommodation in Pathfinder House will be at market rate and configured as a contractual arrangement between the two parties.

10. REASONS FOR THE RECOMMENDED DECISIONS

10.1 In order that HDC can proactively pursue its intention to be financially self-sufficient by 2020, it is essential that the Council establishes the commercial vehicles necessary to provide opportunities to increase income and, where possible, reduce costs.

The establishment of this joint venture company will enable to Council to protect its existing investment in CCTV services (people and equipment) whilst also creating opportunities to enhance the commercial potential of a business that is equipped to service a wider range of customers across the public, private and third sectors.

11. LIST OF APPENDICES INCLUDED

Appendix 1 – CCTV Development Overview
Appendix 2 – Draft procurement timeline

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CGT Consulting Ltd
Commercial Development: Business Improvement

CCTV Development Overview
May 2017

Version Control	V3.0	18/07/17
Originated	Colin Taylor	18/07/17
Reviewed	Chris Stopford	
Approved	Nigel McCurdy	
Informed	Joanne Lancaster	

Prepared by
Colin Taylor
CGT Consulting Ltd

May 2017

Advisory Note
As external consultants we have prepared this document to in response to a request from Huntingdonshire District Council. It is designed to assist the Council in analysing and evaluating the potential to develop a specific service area. We have not prepared and do not present this document as a recommendation to follow a particular course of action, nor is it intended to constitute any form of advice.

HDC wishes to develop a joint venture company that can offer the following services to a range of public, private and third sector organisations:

- The supply and maintenance of CCTV cameras and associated hardware
- Wireless/fibre connectivity to a technologically robust 24/7/365 control room.
- Monitoring of alarm activated cameras, with 24/7 recording and alarm response, and evidence retrieval on demand by SIA accredited staff.
- Development of added value services for the control room, including lone worker monitoring, security monitoring and related activities.
- Integration with wider CCTV coverage and/or Police services.

Huntingdonshire District Council and Cambridge City Council have confirmed that continuation of the current Shared Service contract (valid until 2024) is a key strategic objective for both parties. In addition, HDC is committed to ensure that 'public space' CCTV coverage is protected and, wherever possible, improved and made more resilient. These objectives were confirmed between the two lead Members for the Shared Service on 11th May 2017.

The development of this joint venture proposal is based around HDC's confirmed position (Cabinet, 17th November 2016), to identify a suitable partner to assist in the development of a commercial CCTV offer. In addition to potentially generating commercial income, HDC aspires to make its CCTV operation cost neutral by 2021. Cost neutrality will be measured against HDC's cost commitment to the Shared Service arrangement – c £256,000 in 17/18 (see table on page 5). Appendix A explains how this can be managed within an operational finance context.

Options Appraisal

The review of options below clearly indicates that HDC does not believe that it has the resources, expertise or market engagement required to generate commercial income and/or achieve significant cost savings.

1. **Do nothing, continue with the existing service delivery model.**

   By maintaining the existing Shared Service in its current form, HDC and CCC would continue to invest in this delivery model at least at current levels. This would enable them to maintain the integrity and continued provision of public space surveillance and community safety.

   This approach will not allow for any appreciable income generation, nor is it likely to create opportunities for any significant reduction in HDC's revenue costs for CCTV provision.

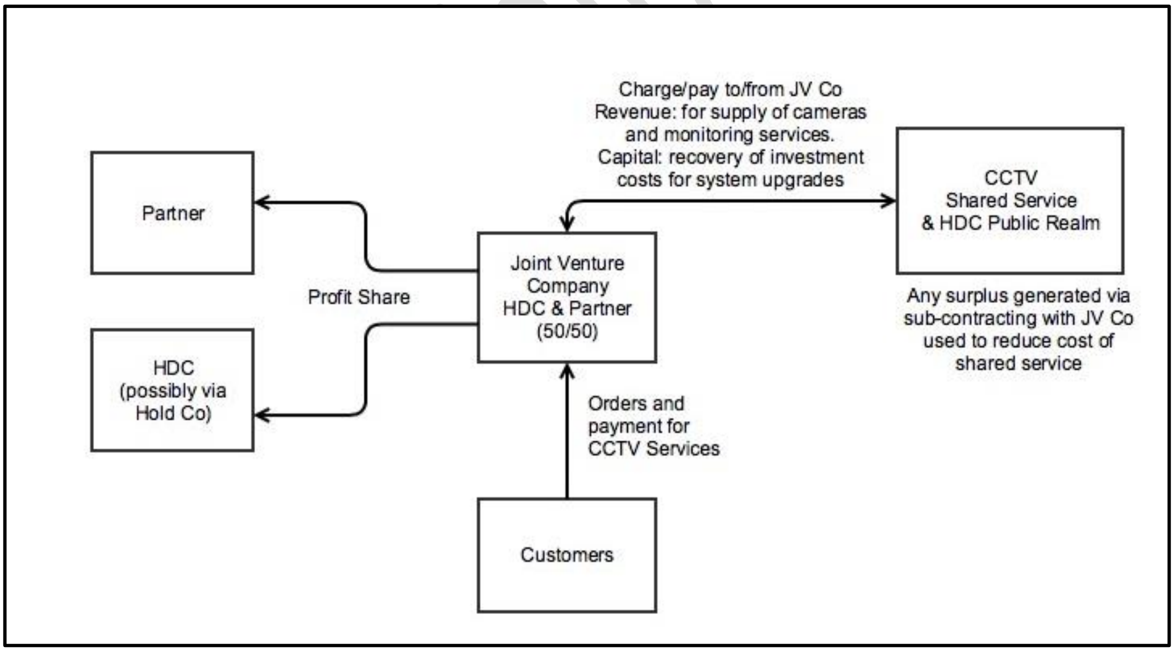
2. **HDC to commercialise the CCTV service without a partner.**

   Commercialisation of the service will require significant investment in resources that are not currently available, including securing the skills needed to effectively engage with a small competitive market and secure contractual opportunities. Any reduction in the cost of the procurement of equipment will be based on small ad-hoc purchases that are unlikely to offer the economies of scale in procurement that could be delivered by a through a joint venture.

3. **Outsource/Privatise the service**
The transfer of all the service's assets (including a TUPE transfer of staff) into the JV company, would require a complete re-configuration of the Shared Service. Such a fundamental change in the relationship between HDC and CCC could disrupt the consensus around its founding principles. If this caused CCC to question their own or HDC's commitment to the partnership it could precipitate the dissolution of the Shared Service arrangement. In such a case, it is likely that HDC would be liable for any costs incurred by CCC in reinstating their own CCTV monitoring service.

   HDC Members have indicated that any proposal to transfer the infrastructure and operational assets into a joint venture company could prove be unsupportable, as HDC would retain less control of service provision than under an in-house operating model.

4. **Commercialise the CCTV service with a joint venture partner**
In this model, the two key entities - the existing Shared Service and the JV Company - are kept separate in governance, operational and commercial terms. In essence the JV Company would buy-in capacity from the Shared Service. In this context, CCC would see no material change in the way the Shared Service operates (or the principles that underpin it) and HDC would be able to continue to demonstrably provide a socially driven CCTV service.



The confirmation of the preferred approach ***will determine the nature of the procurement specification*** and will impact on the delivery of a 'cost neutral' service by 2021. In addition, with the Shared Service agreement with CCC due to expire in 2024, consideration must be given as to how the established cost infrastructure could (if necessary) be supported if the shared service was to terminate at that point.

Viability of procurement

To date, HDC has used its contacts within the supply side of the market to gain an insight into the viability of identifying and contracting with an external partner. Over the past two years, HDC has been approached by a small number of CCTV hardware and monitoring services providers who have expressed an interest in discussing the potential to develop a partnership.

The Council also commissioned a review of the CCTV market, focused on the identification of potential revenue opportunities (utilising existing capacity), the generation of additional revenue to reach a cost neutral position and to investigate the assumptions necessary to validate a business plan for CCTV development opportunities.

In addition, high level market scanning has highlighted the existence of other public/private partnerships for CCTV services. As the summaries below show, although these contracts vary considerably in value, the potential value of an HDC contract would be of a quantum that would interest the market.

Bexley

Outsourced in 2010 to Siemens and Wilson Jones at a value of £10m over 7 years. It is generally accepted that this has resulted in fixed cost for the Council and increased capacity for the service to take on third party (commercial) contracts.

Barnet

Service outsourced to OCS in April 2014 with the initial contract due to end in May 2019. There is the potential for this to be extended for a further two years.

Waltham Forest

Initial 5 year (value £1,064,216) contract with NSL Ltd was extended for a further two years in October 2013.

Southampton

Outsourced to Balfour Beatty at a value of c£50m in 2012 for a period of ten years. The service has invested significantly in the modernisation and extension of the service.

Lambeth

OCS were awarded the contract for CCTV Monitoring Services for a 5 year period from 2013 to 2018 at a full term cost of £2,074,284.00 (excluding VAT) with an option to extend by 5 years as appropriate. The Eurovia Group Limited was awarded the contract for CCTV Maintenance and Repair Services for five years at a cost of £948,358.91 with an option to extend the period of the contract by a further five years.

Luton

Quadrant Security Group were awarded a five-year partnership contract to look after a broad range of security and FM services, worth £1.5m with an option to extend.

Bristol

Contracted to Mitie for three years, starting in 2013.

Although these contracts differ from each other, and from the specific objectives of HDC, they do provide a strong indication that there is an 'appetite' in the commercial sector to develop this type of arrangement.

The CCTV Service has undertaken this viability assessment to ensure that the outcomes of any procurement process, as resolved by Cabinet in November 2016, can be assessed on the basis of best available information and knowledge of the market and service sector.

Contributions to JV Company

In progressing a commercialisation approach with a joint venture Partner, Officers and Members should consider the balance of contribution to be made by the Council and the potential partner.

The formation of a JV Company will bring together the resources and CCTV operational expertise of HDC and those of a commercial operator. These will be mostly complimentary and the added value for each JV partner should be clearly identifiable.

HDC will provide access to:

- The CCTV control room and its recording and operating systems and assets.
- Shared Investment capital for additional assets to meet commercial requirements.
- CCTV operational staff and management of the same.
- Experienced operational management of CCTV services.
- Local knowledge of Huntingdonshire DC and Cambridge CC of their surrounding areas.
- Legal support.

Commercial Partner will provide:

- Existing contractual relationships
- Customer pipeline
- Shared Investment capital for additional assets to meet commercial requirements.
- Commercial and subject matter expertise to facilitate the objectives of the JV.
- Assistance in the procurement, including potentially preferential rates from economy of scale from increased purchasing power.
- Expertise in the installation and configuration of new/replacement cameras, and the implementation of a wi-fi based transmission system
- Project management of all stages of development, accreditation, implementation and operation of JV activities.
- Sales, marketing and customer management of services (strategy, plan and execution).

However, it is essential to note (and reflect in any agreement and/or profit share) that HDC will be carrying the majority of the risk in this type of arrangement, including:

- Retention of the (cost of) physical assets and human resources required to run the service.

- A share of the capital financing necessary for the technical upgrades required to operate in a commercial setting.

Achieving cost neutrality

A key objective for HDC in considering commercial development, and/or forming a joint venture to facilitate this, is to achieve a cost-neutral position for the CCTV service by 2021.

Consideration of this objective should not be undertaken in isolation from the fact that this target date falls before the expiry date for the current shared service agreement with CCC. Although provision exists for the early termination of this agreement, its dissolution at this point could precipitate the need to reimburse CCC (in full or part) for the costs of re-establishing their own capability.

It is recognised that the capital investment costs of upgrading the control centre to meet commercial requirements is not a simple binary calculation. The scale of investment, and whether it is geared to establishing Alarm Receiving Centre (ARC) status or not, will depend on the type of new customer that a JV Partner believes it can attract.

The model below provides a high level, indicative, summary of how a joint venture **could** grow during the period to 2024 (excluding any capital investment) and how this could flow into the budget for the HDC CCTV service.

The stating position for 17/18 uses current HDC budget figures.

	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Current HDC Costbase	£555,389	£462,051	£475,912	£490,190	£504,895	£520,042	£535,643
Additional Costs	£0	£51,000	£96,000	£141,000	£195,000	£210,000	£195,000
Income - shared service	£299,000	£299,000	£299,000	£299,000	£299,000	£299,000	£299,000
Income - cost recovery	0	£51,000	£96,000	£141,000	£195,000	£210,000	£195,000
Net Position (HDC)	**(£256,389)**	**(£163,051)**	**(£176,912)**	**(£191,190)**	**(£205,895)**	**(£221,042)**	**(£236,643)**
Income - CCTV contracts	£0	£170,000	£320,000	£470,000	£650,000	£700,000	£650,000
Income - other services	£0	£30,000	£33,000	£36,300	£39,930	£43,923	£48,315
Margin (JV)	£0	£149,000	£257,000	£365,300	£494,930	£533,923	£503,315
Margin HDC	£0	£74,500	£128,500	£182,650	£247,465	£266,962	£251,658
Net position (HDC & JV)	**(£256,389)**	**(£88,551)**	**(£48,412)**	**(£8,540)**	**£41,570**	**£45,919**	**£15,014**

Notes	
Current Costbase	Annual increase of 3%. Reduced by £90k to reflect lower maint and fixed line costs
Additional Cost	Estimated at £1,000 per additional camera
Income - shared service	Current income from SLA
Income - commercial	Estimated value and phasing

The assumed build in customer acquisition is modelled on an premise that the majority of business will be large-scale contracts (from £50k to £150k in value), with a duration of either 3 or 5 years.

	Value p.a.		18/19	19/20	20/21	21/22	22/23	23/24
Contract 1 - 5 year	£100,000		£100,000	£100,000	£100,000	£100,000	£100,000	
Contract 2 - 3 year	£70,000		£70,000	£70,000	£70,000			
Contract 3 - 3 year	£100,000			£100,000	£100,000	£100,000		
Contract 4 - 5 year	£50,000			£50,000	£50,000	£50,000	£50,000	£50,000
Contract 5 - 3 year	£50,000				£50,000	£50,000	£50,000	
Contract 6 - 5 year	£100,000				£100,000	£100,000	£100,000	£100,000
Contract 7 - 3 year	£150,000					£150,000	£150,000	£150,000
Contract 8 - 5 year	£100,000					£100,000	£100,000	£100,000
Contract 9 - 3 year	£150,000						£150,000	£150,000
Contract 10 - 5 year	£100,000							£100,000

However, it is clear from this model that a cost-neutral position for HDC is possible by 21/22 and could be sustained beyond. However, the rate and timing of customer acquisition, alongside the value and duration of each contract, will have a material impact on these outcomes.

The commercial assumptions that underlie this model – including rate of customer acquisition, value of contracts, phasing of onboarding – will be tested during the procurement process (particularly the competitive dialogue phase). This will help to establish a higher degree of confidence around this outline model.

Appendix A
Cost neutrality – calculation methodology

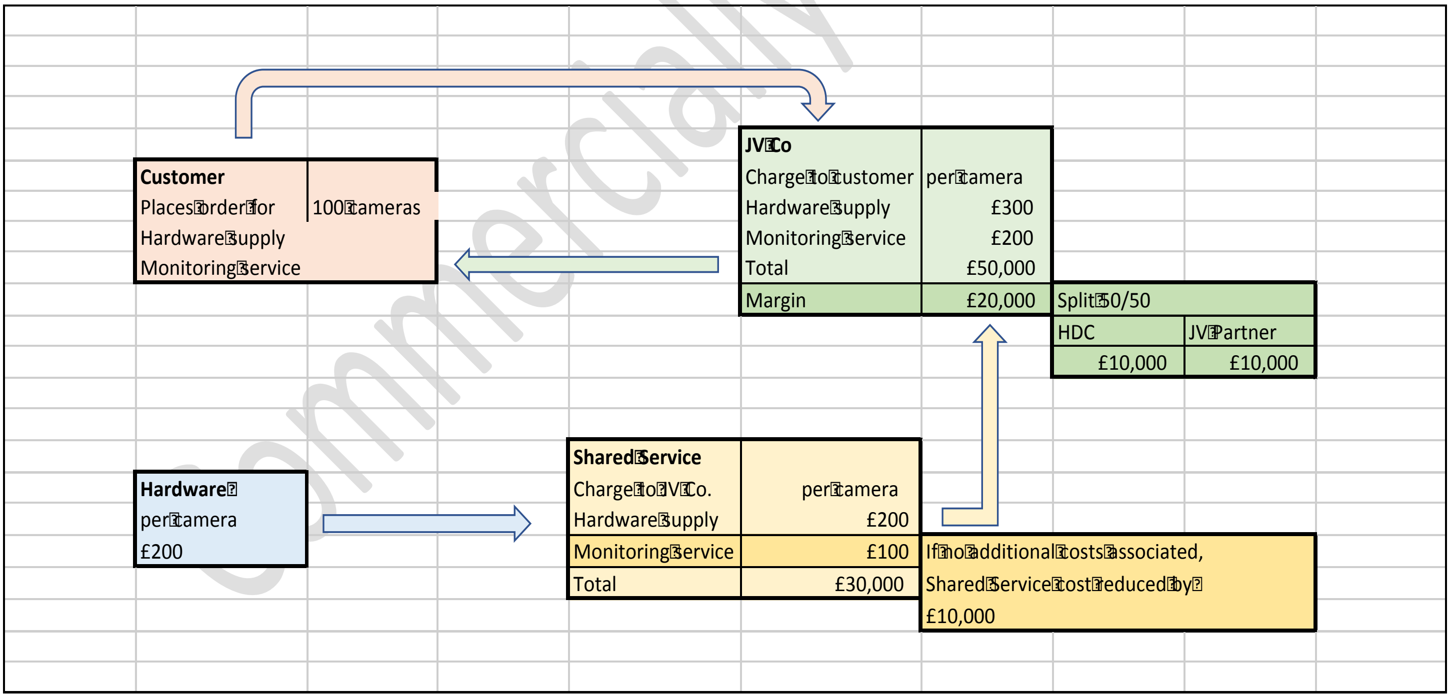
HDC wishes to ensure, whilst not undermining mutual confidence in the Shared Service, that cost neutrality against HDC's contribution to the shared costs is achieved by 2021. Any further reduction in the cost base of the Shared Service that may be realised as a by-product of this, will be an additional benefit of commercialisation.

In order to ensure that the benefits of commercial activity are primarily directed to HDC (on the basis that they are investing/carrying the risk), the calculation of any cost reductions should be managed is via the Final Cost Share Calculation. As the SS agreement says:

"The final cost share calculation for the financial year shall be calculated by the Shared Service Accountant based on the **actual** income and expenditure of the Shared Service for the financial year. "

As the key commercial relationship will be between the CCTV JV Co. and the customer, this is where the margin realisation will reside. The JV Co. will 'buy-in' resource and service packages from the Shared Service. This will, for the Shared Service, be priced on a full cost recovery basis.

For example:

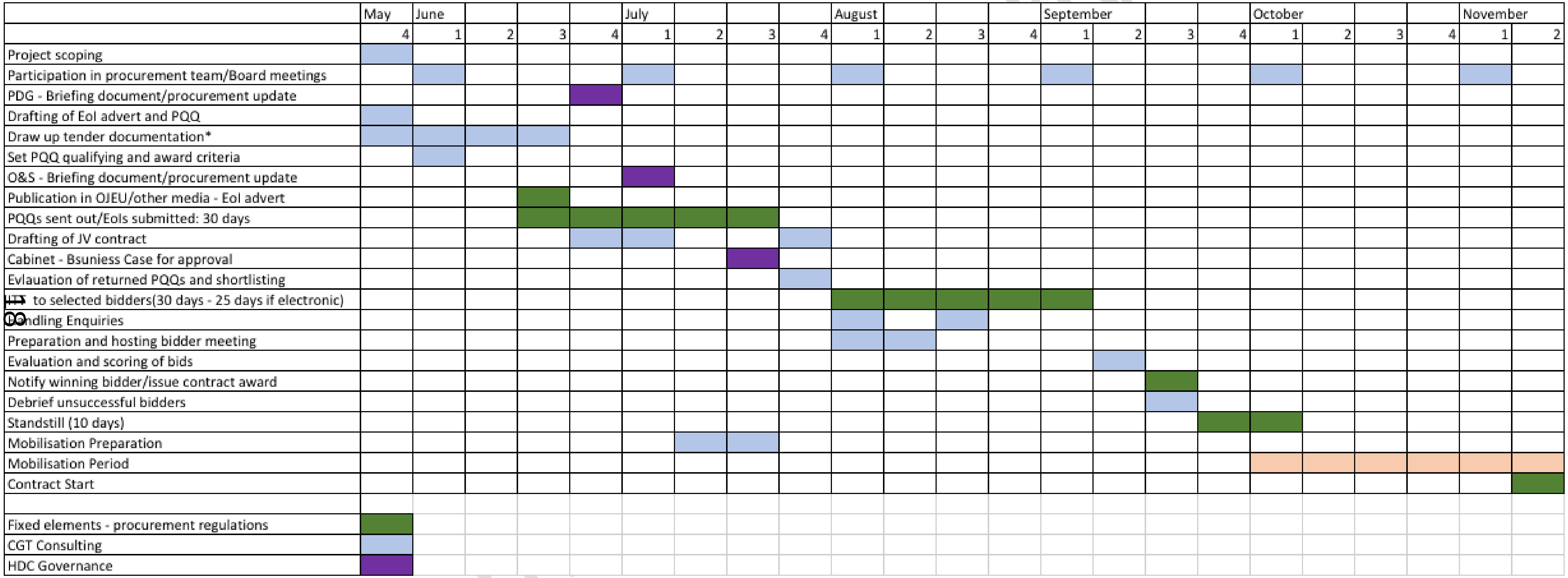


TAs this diagram shows, the monitoring service element would register as income into the Shared Service, unless any cost is attributed against it - i.e. if the Shared Service had to employ additional staff or pay overtime to cover the work.

If there is no cost to cover all or part of this income, then this would be reflected in the Final Cost Share Calculation and would effectively reduce CCC's cost contribution by £5,000 (50% of the total income).

HDC would benefit from the margin retained in JV Co. and returned to the HDC (minus any expenses, tax etc), plus any resulting adjustment via the Final Cost Share Calculation - in this case, 50% of the income into the Shared Service (ie £5,000).

Appendix B
Procurement timetable and process



Procurement documentation

- Prepared in advance of publication of Contract Notice
- Provides all information potential bidders need to assess suitability of contract opportunity.
- Details procurement timetable alongside evaluation/scoring criteria and methodology.

Contract/Expression of Interest (EoI) Notice

- Provides outline of HDC requirements and establishes format for procurement (ie restricted process/ competitive dialogue).
- Established the timeline for procurement.
- To allow interested organisations to express an interest in participating.

Pre-Qualification Questionnaire (PQQ)

- Sent out to organisations responding to Contract/EoI notice.
- Potential bidders have 30 day period (from publication date) to complete and return the PQQ.
- Collects basic corporate data, financial information, suitability/qualifications etc.
- Lists any exclusion criteria.
- Based around scored evaluation to identify shortlist (min 3, preferably 5).

Invitation to Tender (ITT)

- Sent to shortlisted organisations.
- 30 day period to complete – includes Bidder Meeting/Competitive Dialogue (below)
- Sets out comprehensive details of service required.
- Allows bidders to provide costed bids/proposals.
- Based around scored evaluation to identify preferred supplier.

Bidder meeting

- One day workshop for all shortlisted bidders
- Individual and group sessions to allow competitive dialogue – including service specification, additional propositions and detailed cost/price evaluation.
- Allows discussion ahead of submission of final bid documents.

Bid Documents

- Submitted to HDC on or before 30 day ITT deadline.
- Evaluated against scoring criteria set out in ITT.
- Identifies successful bidder.

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Fixed elements - procurement regulations	
CGT Consulting	
HDC Governance	

	May	June				July				August				September				October				November				December
	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1
Project scoping																										
Participation in procurement team/Board meetings																										
PDG - Briefing document/procurement update																										
Drafting of EoI advert and PQQ																										
Draw up tender documentation*																										
Set PQQ qualifying and award criteria																										
O&S - Briefing document/procurement update																										
Publication in OJEU/other media - EoI advert																										
PQQs sent out/EoIs submitted: 30 days																										
Drafting of JV contract																										
Cabinet - Bsuniess Case for approval																										
Evlauation of returned PQQs and shortlisting																										
ITT to selected bidders(30 days - 25 days if electronic)																										
Handling Enquiries																										
Preparation and hosting bidder meeting																										
Evaluation and scoring of bids																										
Notify winning bidder/issue contract award																										
Debrief unsuccessful bidders																										
Standstill (10 days)																										
Mobilisation Preparation																										
Mobilisation Period																										
Contract Start																										

Fixed elements - procurement regulations	
CGT Consulting	
HDC Governance	

*Instructions/guidance for tenderers
of the tender
policies, procedures or guidance to be followed
the business will be conducted
differentiate between bidders
let the contract and the rules the tenderers must comply
must be returned
Any relevant supporting information

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