CGT Consulting Ltd
Commercial Development: Business Improvement

CCTV Development Overview
May 2017

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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.

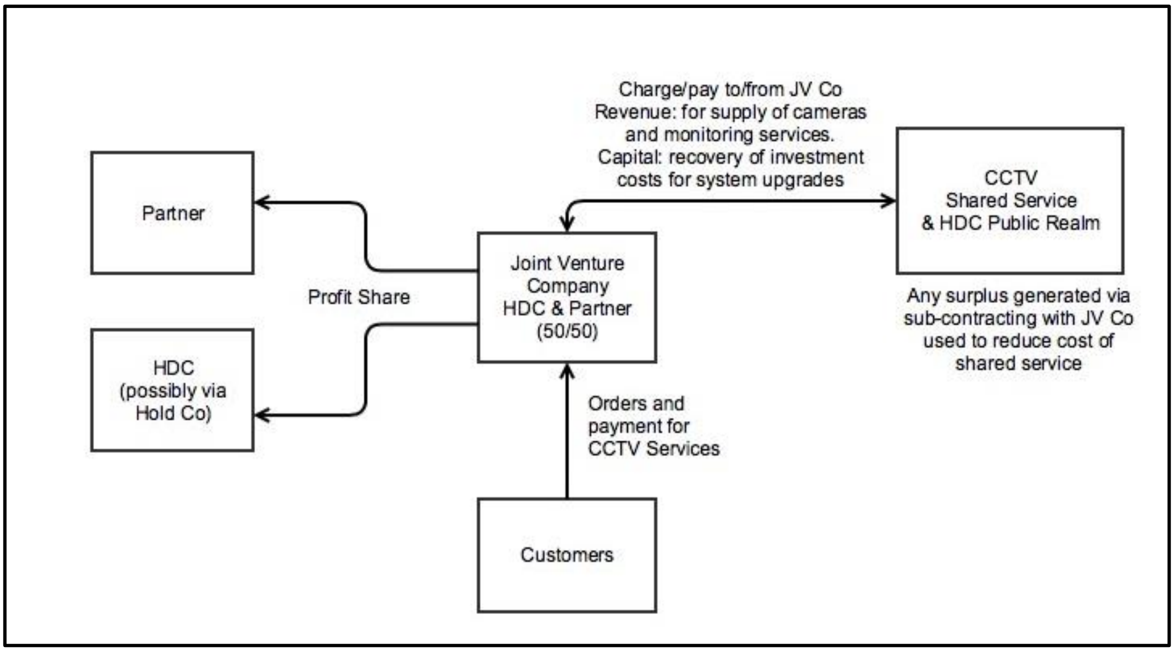
2. **HDC to commercialise the CCTV service without a partner.**

   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

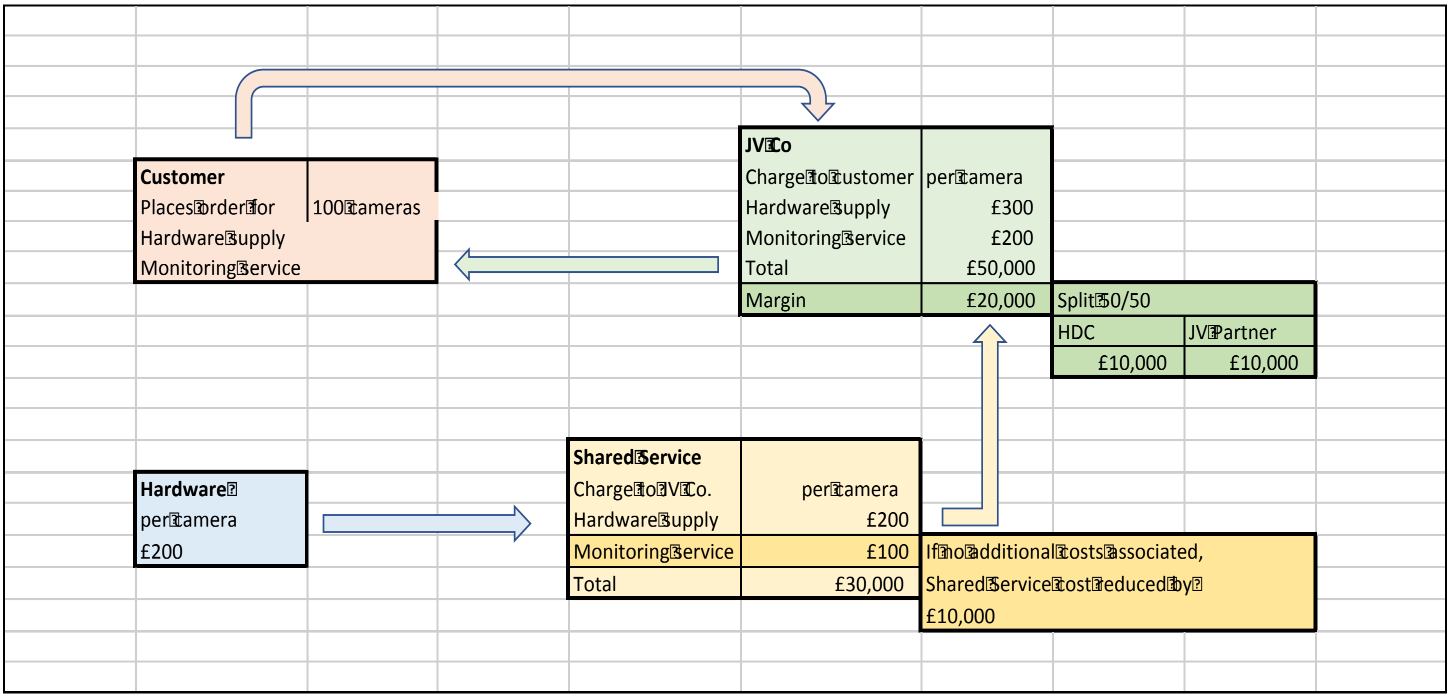
HDC wishes to ensure, whilst not undermining mutual confidence in the Shared Service, that cost neutrality against HDC's contribution to the shared costs is achieved by 2021. Any further reduction in the cost base of the Shared Service that may be realised as a by-product of this, will be an additional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

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.