

Dear Eleanor, Steve and Lucy - BCC kindly paid for this course and hopefully the travel too. The least I can do is write it up so we benefit from it - Best regards - Clive

Although this course had the quite awful sounding title of, "Creating a Compelling Business Case for Alternative Service Delivery Models" it was actually quite good.

Alternative Service Delivery Models basically include commercialisation business plans and also most Council savings programs. CIPFA (Chartered Institute for Public Finance and Accountancy) are the go to place for this type of thing.

Firstly some statistics: Many Local Authority attempts at commercialisation fail, statistically they are more successful at construction, housing and planning, much less successful in adult social care and average in commercialising legal services and energy businesses. I intend to follow up these statistics because they go to the heart of the matter.

*This paragraph is my analysis from these statistics, my knowledge from business and discussion at the end of the day. To make a success of commercialisation an organisation must leverage off a "core competence". In planning LAs have a local monopoly. In building they have holdings of land that they can use to support building. But in ASC they enter a highly competitive market with nothing special, energy might be more successful in the generating end especially with access to waste and heat networks, but energy distribution is tough, and as for law, well there are plenty of lawyers in the private sector.*

Back to the course; there are five key cases that form part of the business case:

- strategic, is there a compelling case for change?
- economic, is this the best value for money?
- commercial, how will suppliers be selected and managed?
- financial, can we afford it?
- management and governance.

There are a whole host of slides and the Treasury's Green Book to reference but some thoughts that arose.

- The Value for Money VfM study done for the Arena had flaws according to the CIPFA trainer. These include not looking at the benefits UK wide (not just Bristol, and should ignore MRP which it did and sunk costs which it half did...), not measuring social and economic value (both these nowadays are convertible to money), not accounting for the differing risks, not accounting for any residual values e.g. ownership in the arena.
- VfM is simply the NPV of all the benefits divided by the investment cost. It is a ratio of all the benefits to "UK plc" divided by the public investment.
- NPV should be used in the vast majority of business cases. I'm not aware that this is the case for many Bristol projects.
- Affordability is different to VfM in a number of ways and it is not about whether the decision maker can politically afford it. It quite a different beast. Here's the slide of the differences:

## VFM vs. Affordability

- Investment Appraisal (VFM)
  - Designed for selecting the best option and value for money
  - Discounted cash flow using appropriate rate – eg 3.5% in UK
  - UK-wide costs and benefits
  - Constant prices
  - Common costs may be excluded
  - Sunk costs ignored
  - Tax usually excluded
  - Opportunity costs
  - Quantifiable benefits may be “monetised”
- Financial Assessment (Affordability)
  - Designed to decide affordability in Resource and Capital terms
  - Include depreciation
  - Departmental costs less savings
  - Inflation included
  - Total costs (i.e. common costs included)
  - Sunk asset costs may be on BS
  - Non-recoverable VAT included
  - Commercial, “real-world” costs
  - Costed savings to the Department

- And then there's Governance. This normally fails when not enough resource is put in to it, which means don't do too many projects at once. Another suggestion was to build in a Peer Review and continue to monitor the risks through the years.

- Risk. A key part of the decision process. I'm not sure how well BCC does this. But for example a project due to last 5 years should include the risk of a political leadership change and therefore have a built in exit strategy. This is quite at odds with the desires of any existing regime (and not just Marvin's) who I think would want any new Mayor to be locked in to a pre-existing project to force them to complete it. So that's one place where good business cases and politics clash (my view).

I think that's enough. I do have the slides and could produce a more detailed briefing. I'd need to read the Treasury Green Book as its 132 pages are the source document for much of these techniques I believe.....