

February 2016

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**Local Government Boundary Commission England**

# Value for money review 2015-16: Benefits realised from the back office and relocation project

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## Key facts

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**£2.348m**

LGBCE annual expenditure  
2014-15

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**22**

FTE permanently  
employed staff  
2014-15

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**£416,000**

2014-15 Back office (rent, rates and SLA services) charges

**17.6%**

% of total LGBCE 2014-15 expenditure

**£334,000**

2015-16 Budgeted back office (rent, rates and costs of back office services including staff costs) post project implementation

**15.6%**

% of total LGBCE budgeted 2015-16 expenditure

**£238,000**

Total back office and relocation project implementation costs

**£158,000**

Annual savings anticipated in the original business case

**£161,000**

Estimated annual accommodation and back office cost savings arising from 2013-14 to 2015-16, of which £82,000 is directly attributable to the project<sup>1</sup>

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<sup>1</sup> Compared to 2014-15 actual outturn costs. LGBCE had already negotiated a £79,000 reduction in their Liberata SLA costs and business rates during 2014-15, which contributes towards the overall savings in 2015-16.

## Executive summary

**1** The Local Government Boundary Commission for England (LGBCE) is an independent public body established on 1 April 2010 under the Local Democracy, Economic Development and Construction Act 2009. LGBCE's objectives are to ensure that electoral arrangements in England are fair for voters, to deliver electoral equality for voters, and to keep the map of English local government in good repair.

**2** LGBCE is accountable to the Speaker's Committee. The National Audit Office (NAO) is required by statute to report annually to the Speakers Committee on an aspect of value for money achieved by LGBCE. Previous C&AG reports have covered LGBCE's investment in developing an interactive internet-based public consultation portal and redeveloping its website, management of its fixed cost base (focussing on its back office services) and the variable costs of conducting reviews.

**3** In this report we consider the economy, efficiency and effectiveness achieved by the LGBCE in respect of the relocation to Millbank Tower and the restructuring of its back office services. We have reviewed how the options were appraised, including how benefits and costs were estimated (Part Two). We have also reviewed, as far as possible, the most recent forecast benefits against the June 2014 business case and the previous arrangements to conclude on the value for money likely to be achieved by LGBCE from the new rental and back office service agreements (Part Three). We have identified a number of recommendations which are covered below (paragraph 6).

**4** Our findings are based on analysis of the project business case, steering committee meeting papers and minutes, contracts and management accounts. We also conducted interviews with staff at LGBCE and reviewed our findings against market information and relevant best practice available at the NAO.

**5** **The project team successfully planned and delivered the back office and relocation project to enable LGBCE to move into their new accommodation on 27 April 2015. From 2015-16 LGBCE are on course to reduce their annual accommodation and back office costs by £82,000 or twenty per cent per annum, and by £161,000 from 2013-14 costs. The majority of these savings relate to back office costs. LGBCE could have made further savings from relocating outside of London, but they took the decision to rule out this option because of the potential impact on the completion of LGBCE's electoral reviews. The majority of other outcomes set out in the business case were achieved.**

**6 Summary of recommendations to be considered during future exercises:**

- **Paragraph 2.9: As part of any future accommodation options appraisal, LGBCE should, in accordance with the Government Property Unit Hub Programme consider opportunities to co-locate with other public bodies. LGBCE should consider further the potential actions they could take to mitigate potential electoral review delays, and their cost, to objectively explore the options to relocate outside London.**
- **Paragraph 2.17: Particularly now that LGBCE has clearer cost information on the specific services it procures, LGBCE should assess how its back office costs compare to government shared service offerings, as well as back office services that can be offered by their government host organisation, to determine whether further savings can be made when its back office service arrangements are due for renewal.**
- **Paragraph 3.5: Considering the performance conditions stated under contractual agreements with suppliers, together with a range of performance measures that would enable performance comparison with similar government entities, LGBCE should now develop their means for assessing back office service performance across a range of relevant criteria.**

**LGBCE should periodically compare performance and costs with other comparable entities to assess and track the cost effectiveness of its back office services. LGBCE should consider the use of benchmarking data, such as that offered by CIPFA, to do this. This should enable LGBCE to drive either, or a combination of, improvements in back office performance or cost reductions over the longer term.**

# Part One

## Background

**1.1** The Local Government Boundary Commission for England (LGBCE) is a small organisation which successfully completed this challenging back office and relocation project. LGBCE relocated to new offices at Millbank Tower, London on 27 April 2015. LGBCE signed a 3 3/4<sup>2</sup> year Memorandum of Terms of Occupation (MOTO) with the Secretary of State for Communities and Local Government<sup>3</sup>, via the Parliamentary and Health Service Ombudsman (PHSO), for the provision of office accommodation to 24 December 2018. The MOTO has a break clause at 1 July 2017 and includes a six month rent free period. The MOTO covers rent, service charges, electricity, cleaning, maintenance and a small restaurant subsidy.

**1.2** As part of the back office and relocation project, LGBCE also entered into a series of contracts to outsource their finance, IT, human resource, payroll and other facilities functions.

**1.3** Prior to the move LGBCE had leased office accommodation from the Local Government Association (LGA) at Layden House, Farringdon, London and obtained back office services via LGA and their service provider, Liberata.

**1.4** In 2013, we reported on the previous back office services contract with LGA and Liberata and concluded that:

- the LGA contract (entered into in 2010) made up almost a fifth of LGBCE's total costs annually (in addition to the cost of LGBCE's own corporate and office management staff), although the contract cost had declined over the course of the contract;
- LGBCE had an incomplete understanding of the costs for the specific services it was paying for. LGBCE, therefore, was not aware of how its back office costs compared to other alternatives including receiving services from government bodies and government shared service offerings;
- benchmarking data suggested that even for an organisation of LGBCE's size, cheaper alternatives may be available if it can adapt its requirements to a standard offering; and
- that LGBCE needs to prioritise its contract management and build its

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<sup>2</sup> There are discussions ongoing with the landlord over the option of LGBCE not triggering a break clause and committing to stay until 24 December 2018, in return for a further one months rent free period and the installation of a shower.

<sup>3</sup> The head lease agreement is between TST Millbank LLC and the Secretary of State (dated September 2002)

capacity to monitor service quality.

**1.5** Since our previous report, LGBCE successfully negotiated a reduction of £34,000 and then £45,000 per annum to their LGA contractual costs. These reductions applied to the last year of the LGA contract (2014-15), reducing actual 2014-15 costs under the contract to £416,000.<sup>4</sup>

**1.6** Towards the end of 2013, LGBCE was given notice to vacate their LGA provided office accommodation as it was to be refurbished. LGBCE could leave between April 2015 and April 2016. LGBCE's five year contract with Liberata ended in May 2015.

**1.7** In a bid to reduce annual expenditure, LGBCE decided to look for alternative accommodation and to investigate whether it would be cost effective to contract out their back office services directly with Liberata or with other commercial suppliers. This activity was brought under the 'back office and relocation project' which ran from March 2014.

### **Project approach**

**1.8** LGBCE formed a project steering group, comprising of three commissioners to manage the project to relocate LGBCE and reframe its support services. The steering group appointed a project officer (finance director) and project team comprising other LGBCE officers to progress the project. The project team updated LGBCE and met the steering group regularly throughout the project where they discussed progress, decisions and issues.

**1.9** The project team followed PRINCE 2 methodology and developed and updated the business case, project plan, risk register and risk management plans, and communication plan during the project. Where deemed necessary the project team engaged IT, property and finance consultants to provide advice and to help LGBCE assess the options.

**1.10** LGBCE internal audit reported separately in July 2015 as part of the post implementation review, giving reasonable assurance over the project controls. LGBCE presented their benefits realised findings to the steering group in October 2015.

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<sup>4</sup> Source: LGBCE annual report and accounts 2014-15

# Part Two

## Business case and options appraisal

### Business case development

**2.1** A business case was presented to the steering group for approval in April 2014. This included:

- anticipated outcomes for the project to deliver (Figure 1);
- options to be considered as part of the project (Figure 2);
- performance measures (Figure 3), which at this stage focused on the services to be delivered, rather than measures of the cost / performance of the services provided; and
- cost benefit analysis estimating an annual saving of £158,000 from the accommodation and back office services move (Figure 4). This figure was derived at the start of the project by comparing the difference between anticipated costs of £275,000 under the new arrangements and the prior year estimate of £432,000<sup>5</sup>. This analysis was updated in June 2014.

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### Figure 1

**The anticipated outcomes of the project, as set out in the draft business case were to arrange:**

Premises which were flexible enough to allow for:

- growth or decline of the business;
- homeworking; and
- Geographically dispersed working.

Back Office Services suitable for the size and nature of LGBCE:

- HR advice and support;
- Payroll Services;
- IT Provision and support;
- Finance and Management Accounts; and
- Facilities (unless this is included in the above).

For IT, LGBCE wanted IT equipment to enable them to make better use of technology to reflect the way they work and enable staff and commissioners to work more flexibly in the office, on the road or at home. LGBCE also anticipated that systems and data would be hosted remotely to allow staff to work flexibly.

Figure Source: LGBCE business case April 14

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<sup>5</sup> Gives £157,000, a £1,000 rounding difference

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## Figure 2

### Options to be considered as part of the project

#### Premises

As well as size, facilities and flexibility an important decision will be location. There would be advantages and disadvantages to relocating from a central London location (possibly a central England location).

#### Back Office Services

Currently all back office services are provided by one contractor, but going forward the project team will consider a number of delivery options ranging from;

- One supplier provides all (current provider or new);
- A number of suppliers delivers all;
- All the functions are brought in-house;
- Some of the functions are brought in-house;
- We consider jointly purchasing with other organisations; and
- We use a government supplier for Back Office service provision.

Figure Source: LGBCE business case April 2014

## Figure 3

### Activities to be outsourced and performance measures

Key Resource/ Process/ Service	Performance Measures
HR	HR service to include sickness and absence reporting, payroll (or payroll output files), recruitment service, on line annual leave approvals & recording, HR policy reviews, retention of employee records, training records, appraisal records
Finance	Payments, receipts, bank account reconciliation, general ledger and balances, monthly management accounts, management accounting, budgeting, final accounts
IT	Software, hardware, servers, data management, technical support and maintenance
Facilities	Building maintenance and running costs
Premises	Rent for approx. 25 staff (plus or minus), meeting rooms, board room, meeting equipment (i.e. PowerPoint),

Figure Source: LGBCE business case April 2014

**Figure 4**  
**Cost benefit analysis**

Action	Action Type	Description	First year costs (- indicates anticipated savings) EXC VAT
Exit from LGA Contract	Saving	Current annual cost inc rent and rates	-£432,000
New premises	Cost	Rent & rates (estimated figures)	£160,000
HR Service	Cost		£20,000
Finance	Cost		£40,000
IT	Cost		£30,000
Facilities	Cost		£25,000
Net Annual Savings			£158,000
Implementation Cost	Cost	Project costs/experts/equipment/removal/ relocation	£45,000

Figure Source: LGBCE business case April 2014

**2.2** After further analysis, a business case for the relocation of LGBCE was shared with HM Treasury in August 2014, which opted for London as LGBCE's location. LGBCE acknowledged that any move would need to deliver better value for money and savings against current funding, but there would need to be a balance between realisable savings and the requirements of the Commission (paragraph 2.7).

**2.3** An options appraisal covering London properties, recommending the Millbank Tower option, was presented to the project steering group for approval on 18 November 2014.

## Relocation appraisal

**2.4 The cost benefit analysis completed by LGBCE on the various location options within the business case presented to the steering group (June 2014) included a reasonable estimation of the costs and benefits under each option.** LGBCE considered various options, including potential moves to locations including Inner and Outer London, Birmingham, Reading and Milton Keynes. The project team carried out SWOT analysis to logically compare benefits and monetary costs against the potential impact on the review programme for the different locations.

**2.5 LGBCE's options appraisal was well informed by relevant market research and government requirements.** Using the government's 'high performing office' space efficiency targets, LGBCE compared market rent, rates and service charges for

various locations. They also considered factors including travel cost and staff retention, using a staff survey to inform the assessment of the potential volume of redundancy cases under each location. The cost benefit analysis, in particular the staff retention costs component, was subject to sensitivity analysis to inform the steering groups decision making.

**2.6 Following the analysis, LGBCE's preferred option was to remain in London despite the potential for greater financial savings in other locations because of the potential impact on delivering its programme of electoral reviews.** LGBCE determined that the two lead options were to remain within Inner London or to relocate to Birmingham, based on these locations having the best transport links. Within the business case submitted to Treasury, LGBCE estimated that they could stay in London and save around £100,000 per annum or move to Birmingham and save up to £172,000 per annum. Whilst a move to Birmingham would have generated greater annual savings of rent, rates and service charges, the greater first year implementation costs, estimated at £265,000-£300,000, including potential redundancy and staff relocation costs<sup>6</sup> (whereas a London move was assumed to have incurred no such costs), meant the move would generate net savings after 1.5-1.75 years and savings would have exceeded those from a London move after 3.5-4 years. Considering a standard lease term period, arguably the Birmingham location had the potential to generate greater savings and certainly had the potential to deliver greater longer term benefits beyond this.

**2.7 It is clear from the analysis LGBCE completed that moving outside of London would have had a significant impact on the number of electoral reviews to be completed following the move. This would have meant LGBCE not achieving the commitments set out in its most recent corporate plan (June 2012), including priority reviews ahead of the 2016 local elections.** LGBCE estimated that between nine and twenty cases would not be completed in the one year period following a move outside of London. LGBCE estimated that the back-log would be cleared between 2019 and 2022. We note, however, that LGBCE's statutory requirement is to perform an electoral review on 'each principal council from time to time'<sup>7</sup>. The project steering group aware of the political implications of LGBCE's work at a time when individual electoral registration was being introduced, therefore recommended that LGBCE remain in London. The number of backlog cases was reasonably estimated as a function of the number of potential leavers (as informed by the staff survey), average time to recruit and train new staff members, the staff effort to complete each case, and the impact on other staff members from supervising new staff. The assumptions made over the inputs to this calculation were reasonable and based on appropriate research and historic management information.

**2.8 LGBCE's aim was to complete the project with minimal impact on the business. It is, however, unclear what the longer-term view of the location move would have been as a result of further assessment of additional actions to mitigate delays to electoral reviews during the move and their costs.** In the June

<sup>6</sup> but doesn't include associated back office service implementation costs.

<sup>7</sup> Local Democracy, Economic Development and Construction Act 2009 (c. 56)

2014 business case, LGBCE note some potential mitigation strategies against electoral review back-logs resulting from a move outside of London. This included possible retention allowance payments to keep staff to continue with electoral review work while relocating the organisation, recruiting new staff in the new location in advance of moving offices or relocating new staff to the current office in the short-term. In addition, setting up new IT systems to allow flexible working, which the set-up with new supplier allows, could have allowed some staff to work at home at various points during the transition period. The cost benefit analysis did not include a complete, detailed assessment of these options for consideration by the commissioners. While the payback period would conceivably be longer, and probably longer than the duration of a parliamentary period, these options remained untested and had potential for delivering greater savings over the long-term.

**2.9 Recommendation: As part of any future accommodation options appraisal, LGBCE should, in accordance with the Government Property Unit Hub Programme consider opportunities to co-locate with other public bodies. LGBCE should consider further the potential actions they could take to mitigate potential electoral review delays, and their cost, to enable an objective decision around the options to relocate outside London.**

## **Properties appraisal**

**2.10 Once government approval was given to locate within London, to start assessing savings, LGBCE considered properties that were available to facilitate an early accommodation move during the notice period given by LGA and before the 2015 General Election.** The Speaker, HM Treasury and Cabinet Office agreed LGBCE's proposal to relocate within London and encouraged LGBCE to consider properties with the Government Property Unit (GPU). Using a property consultant, LGBCE viewed and considered four GPU properties as well as four commercial London based properties. LGBCE opted to take the available GPU property at Millbank Tower, rather than seeking to obtain approval for an exception and move to a commercial property (paragraph 3.17), because it was unsure how long approval for an exception would take.

**2.11 It is unclear whether LGBCE would have been able to access a better deal for its accommodation by considering a later move and potentially increasing the property options for consideration.** In the June 2014 business case it was also highlighted that the current facilities contract with Liberata would cease in May 2015 and, therefore, that LGBCE would need to move before that date. LGBCE may have been able to negotiate a short-term contract with Liberata at Layden House so that they could remain in the accommodation while they assessed their options. LGBCE had obtained a quote from Liberata to provide short term services at the new accommodation (although this option was not taken on cost grounds see paragraph 2.15). We note in Part 3, paragraph 3.21 that the cost of the lease with PHSO is greater than the market rates highlighted in the June 2014 business case. Under the current arrangements, unless the lease can be extended, LGBCE will need to relocate

again during December 2018 which would negate some of the benefit from the investment in back office service implementation costs.

## **Back office services appraisal**

**2.12 As the re-location project progressed, LGBCE performed an assessment of the various options for the provision of back office services (HR, payroll, finance, facilities, IT provision).** As noted in Figure 3 above, the project team established the desired outcomes from each of the new back office service provisions and kept this in view when identifying and appraising various suppliers.

**2.13** LGBCE identified prospective suppliers, principally through the Government's Digital Marketplace, the online platform which contains details of suppliers with relevant experience and expertise that public sector organisations can use to find and buy cloud-based services (e.g. web hosting or site analytics). LGBCE also engaged technical support to assist with establishing requirements, particularly in respect of IT and finance, before requirements were discussed with suppliers and contracts tendered and awarded.

**2.14 In light of lessons learnt from the previous arrangements (see paragraph 1.4), LGBCE ensured they detailed all elements of the potential service provision ensuring they fully understood the services being contracted for.** This should enable LGBCE to better understand specific service costs and manage these over the longer-term.

**2.15 After further assessment of the quotes from potential suppliers against its requirements, LGBCE entered into twelve different contracts for the set-up (three) and provision (nine) of its various back office functions.**<sup>8</sup> Excluding set-up costs, Liberata had quoted an annualised cost of £219,000 for similar services and £201,000 for cloud based service provision against an annual cost of £122,000 for the total of the services finally contracted for (a saving of £79,000). LGBCE had assessed with their advisors that the total service offering from Liberata exceeded their requirements as a small entity and so took a more proportionate service offering with individual suppliers. Under the new arrangements, LGBCE has more of the finance and HR functions in-house and has added an extra full time equivalent staff member at an annual cost of up to £50,000 (included within the £122,000).

**2.16 It is unclear whether other back office service provision options could have delivered further savings alongside a clear and appropriate service offering for LGBCE.** Due to the timing of the selection of, and move into, the new office accommodation, LGBCE were progressing back office service contract discussions before they had made a final decision to move to Millbank Tower and intended to ensure that contracts would be in place before the move. LGBCE had approached other organisations such as the Parliamentary and Health Service Ombudsman from whom they lease their offices and the Electoral Commission to consider opportunities to procure back office services jointly or directly. Although not a feasible option at this

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<sup>8</sup> LGBCE currently has a separate printing contract with Liberata which was not due for retendering at this time

time, we understand that LGBCE considered the option to join a government shared service provider in the future.

**2.17 Recommendation: Particularly now that LGBCE has clearer cost information on the specific services it procures, LGBCE should assess how its back office costs compare to government shared service offerings, as well back office services that can be offered by their government host organisation, to determine whether further savings can be made when its back office service arrangements are due for renewal.**

## Part Three

### Benefits realisation

#### Monitoring the benefits

**3.1 LGBCE has monitored expected accommodation and back office contractual costs during the first year under the new arrangements (2015-16).**

During various stages of the project, LGBCE has estimated the savings likely to arise from the project. This has been achieved as part of the quarterly management accounts reporting process by comparing 2015-16 actual and forecast costs with the prior year budget (rather than the prior year outturn). The majority of costs are fixed such as rent, rates, and service charges, others such as telephone usage and printing costs are variable and forecasts need to be estimated.

**3.2** All significant LGBCE expenditure has been captured under the quarterly management accounts report, although our work identified that some forecast accommodation and back office costs (service charges) had been under reported, by £6,000 (annual recurring) and £8,000 (implementation non-recurring), in the project benefits realisation assessment within the quarter two management accounts. We understand LGBCE will correct this in the quarter three management accounts.

**3.3 Following the accommodation move, LGBCE has started to monitor other aspects of supplier performance.** For example, LGBCE receives monthly dash board reports from the IT supplier showing IT support activity which are used to monitor the resolution of issues raised through calls made to the helpdesk. LGBCE compare monthly performance to ensure they are receiving the agreed level of performance and aim to be able to quickly identify issues that need to be discussed and resolved with the service provider.

**3.4** While we acknowledge that LGBCE has begun to monitor aspects of supplier performance other than cost, it does not yet have in place an agreed set of specific performance measures to measure performance across its back office functions (including coverage of functions now delivered in-house). While some performance measures (such as time taken to resolve calls to the IT helpdesk) should come from specified performance levels under contractual agreements, linked to our recommendation in paragraph 2.17:

**3.5 Recommendation: Considering the performance conditions stated under contractual agreements with suppliers together with a range of performance measures that would enable performance comparison with similar government entities, LGBCE should now develop their means for assessing back office service performance across a range of relevant criteria.**

**LGBCE should periodically compare performance and costs with other comparable entities to assess and track the cost effectiveness of its back office services. LGBCE should consider the use of benchmarking data, such as that offered by CIPFA, to do this. This should enable LGBCE to drive either, or a combination of, improvements in back office performance or cost reductions over the longer term.**

**3.6** To assess how LGBCE's back office services relate to comparable public sector organisations, LGBCE could consider approaching an organisation such as CIPFA who can arrange for data relating to finance (e.g. typical transaction processing costs), ICT (e.g. cost of IT support, incident resolution within contracted service level, service availability), estate management (e.g. occupancy rates) and procurement (e.g. amount of spend through pre-established contracts) functions to be compared with peer public sector organisations.

**3.7 At the end of the project LGBCE undertook an exercise to identify lessons learnt.** The main lessons highlighted by LGBCE are:

- As a result of the project, and the different dates of expiry now agreed under individual contract arrangements, LGBCE should be able to re-let future contracts at different times and reduce the impact of contract negotiations on LGBCE.
- LGBCE should have an increased understanding of legal process. A number of unanticipated legal issues arose during the project, including the need to sign a pre-lease agreement, which resulted in higher legal costs than anticipated.
- LGBCE learnt not to make assumptions about what can be delivered, they needed to monitor progress and have contingencies in place.

### Implementation costs

**3.8** LGBCE set a budget of **£158,000** for back office service implementation costs under the relocation and back office project during 2014-15. This compares to £45,000 in the original business case (see figure 4), which did not include the costs to prepare an IT Strategy and purchasing necessary IT and communications equipment which had previously been supplied by the LGA. As the project developed, LGBCE prepared a more complete and detailed budget. This was compared against the available unallocated funding. This allowed LGBCE to hold a small contingency within the implementation budget.

**3.9** No implementation costs for the accommodation move element had been noted in the business case when moving to a London site. However, moving costs were £3,000 and, therefore, not a significant part of the overall cost of the project.

**3.10 The costs of implementing the relocation and back office project (£238,000) are higher than anticipated in the budget (£158,000). When the higher costs are offset against the annual savings attributable to the project (£82,000 Figure 6a),**

**the total cost savings arising from the exercise are reduced.** The implementation costs exclude the internal staff costs (non-incremental) of the project team, but include the development costs of an IT strategy, the purchase of IT equipment (£86,000) and installation of services such as broadband. Total implementation costs are estimated to be **£238,000** (£162,000 in 2014-15 and £76,000 in 2015-16).

**3.11** Although LGBCE found that the process of exiting from and setting up new contracts was more difficult and expensive than expected, the main attributable factor to the increase in implementation costs is the purchase and installation of IT equipment, LGBCE anticipate that some of the IT equipment now purchased should be useable beyond the duration of accommodation lease and IT service contract.

**3.12** The additional implementation costs will be partly funded by a £90,000 refund of overpaid business rates from the period 2010-11 to 2013-14. We understand LGBCE anticipated this refund before incurring the additional implementation costs and, therefore, considered the affordability of the additional costs.

### **Achievement against the business case**

**3.13 As a result of the back office and relocation project, from 2015-16 LGBCE are on course to reduce their annual accommodation and back office costs compared to the annual cost incurred under the previous arrangements.** As at the 2015-16 half year, LGBCE estimated that the equivalent forecast annual costs on accommodation and back office services was £334,000<sup>9</sup> (Figure 6a). When compared to the prior year outturn of £416,000<sup>10</sup>, the annual savings attributable to the back office and relocation project are estimated to be £82,000 per annum from 2015-16 (see Figure 6a).

**3.14** Our view is that less savings are attributable to the actual accommodation move and back office service change than has previously been reported by LGBCE, because savings were made by negotiating down the actual costs of the LGA/Liberata SLA in the final year of service provision. LGBCE managed to reduce their 2014-15 SLA costs by some £79,000 in total during 2014-15. Throughout the project, LGBCE used different 2014-15 budgeted cost figures as the base line comparison for 2015-16 costs within the various benefits realisation calculations. The base line figure was not adjusted to reflect £45,000 of the £79,000 SLA cost reductions.

**3.15** Notwithstanding our view that the cost savings resulting from the project are lower than those reported by LGBCE, there is clearly a longer term trend of LGBCE continuing to reduce its back office costs. Figures 6a and 6b show that SLA costs in total and as a percentage of total operating costs has been reducing since 2012-13.

<sup>9</sup> Source: Actual and forecast costs (accommodation, back office services, facilities, and additional finance staff cost etc.) incurred and forecast as per LGBCE's 2015-16 quarter two management accounts.

<sup>10</sup> For comparison purposes we have used £416,000. The 2014-15 resource accounts included £448,000 (SLA charges for services (£368,000) and rent (£80,000)) after the previous year's SLA costs had been negotiated down, from which we have deducted £32,000 for exit costs and year end financial support.

**Figure 6a**  
**LGBCE Expenditure from 2012-13 to 2015-16**

	Actual 2012-13 (Actuals) £000	Actual 2013-14 £000	Actual 2014-15 £000	Projected 2015-16 £000	Savings 14-15 to 15-16 £000
Staff Costs Note 1	1,166	1,200	1,252	1,362	-110
Project Costs	1,078	1,035	1,096	775	321
<b>Total Operating Costs</b>	<b>2,244</b>	<b>2,235</b>	<b>2,348</b>	<b>2,137</b>	<b>211</b>
SLA Costs (Rent, Service Costs and Rates) Notes 2,3	609	515	416	334	82
SLA Costs as a % of Operating Costs	27.14%	23.04%	17.72%	15.63%	

Figure Source: LGBCE Annual Accounts, NAO and LGBCE budget and monitoring analysis

**NOTES**

1. 2015-16 Staff Costs includes one additional FTE in the Business Team
2. 2014-15 published results were £448,000, this included £32,000 of Liberata exit costs and year end financial support costs which have been deducted.
3. 2015-16 SLA costs include additional finance staff costs for comparison purposes.

**Figure 6b**

LGBCE expenditure from 2012-13 to 2015-16

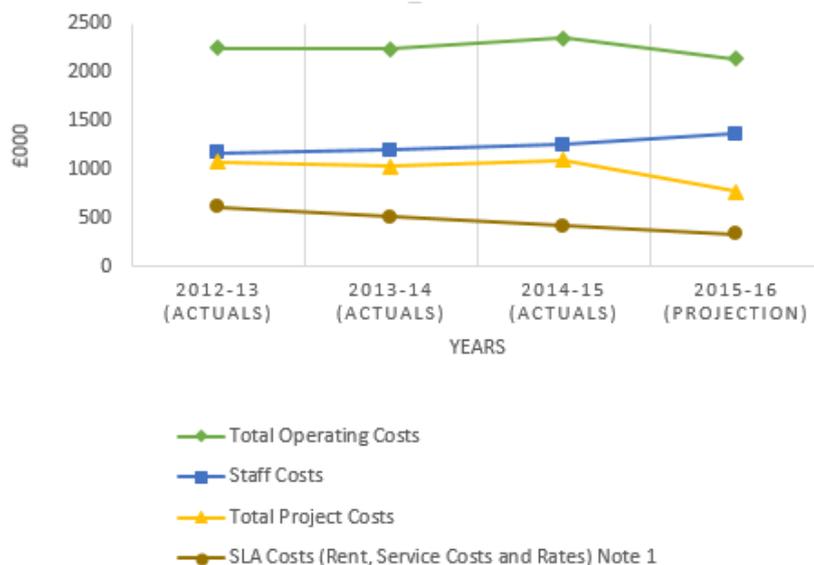


Figure Source: LGBCE Annual Accounts, LGBCE budget, and NAO analysis

**NOTES**

1. 2014-15 published results were £448,000, this included £32,000 of Liberata exit costs and year end financial support costs
2. 2015-16 SLA costs include additional finance staff costs for comparison purposes.

**Accommodation move benefits**

**3.16 LGBCE is likely to make modest savings to its accommodation (rent, rates, service and core facilities charges) costs compared to its previous arrangement.** LGBCE opted to take the GPU property at Millbank Tower (paragraph 2), rather than seek an exception to move to a commercial property, as **its view was that** this would have delayed the timing of the move and resulted in opportunity costs as savings would be delayed. The annual contracted costs for rent, rates, service charges and core facilities at Millbank Tower £212,000<sup>11</sup> which means that the accommodation costs are now only slightly less than the equivalent prior year costs of £218,000<sup>12</sup> before any adjustment to reflect the reductions to SLA costs under the previous arrangement at Layden House.

**3.17 For accommodation costs, LGBCE has made lower savings than anticipated at the point the (June 2014) business case was presented to the commissioners.** The business case included estimated accommodation costs (rent,

<sup>11</sup> LGBCE Quarter 2 budget monitoring analysis.

<sup>12</sup> Budgeted prior year costs from the LGBCE quarter two budget monitoring analysis.

rates and service charge) of **£110,000 to £126,000** for remaining within inner London. Equivalent 2015-16 accommodation costs are now estimated to be **£142,000** (rent £80,000, rates £32,000, service costs £30,000) due to a larger floor space being rented (2,300 versus 2,065 square feet).

**3.18** LGBCE also pays approximately £70,000 (including £10,000 for cleaning, electricity and building maintenance) to cover other facilities costs such as broadband, telephones, photocopiers, business insurance and postage. This gives the total accommodation cost of £212,000 we note in paragraph 3.17. The £70,000 also includes the cost of hiring additional larger meeting rooms (approximately £9,000).

**3.19** Under the new accommodation arrangement, LGBCE now occupies around 2,300 square feet of office space at Millbank Tower, this equates to just under 10 square meters per employee. This is in accordance with the government targets set out within the 2009, HM Treasury Operational Efficiency Programme, but above the 8 square meter per person for new or refurbished office buildings as set out within the Government Property Office National Property Control document 2011 / *Cabinet Office Control Guidance, Annex 7.1 property guidance (updated 28 October 2015) (the most recent government guidance on accommodation space)*. We note that LGBCE has also provided one desk per full time equivalent employee where the aim per the guidance is to provide 8 desks for 10 full time equivalents and to support flexible working which is now possible using the new IT system and equipment. We understand that LGBCE achieved the mid range target due to the size and configuration of the accommodation available via GPU.

### Back office service benefits

**3.20 LGBCE is on track to achieve cost savings in respect of delivery of its IT, HR, payroll and finance functions.** Under the new arrangements, based on advice that it would be more cost effective, LGBCE now has more of the finance and HR functions in-house and has added an extra full time equivalent staff member at an annual cost of up to £50,000. This additional cost has been contained within the overall savings. The total forecast cost savings across IT, HR, payroll and finance functions are estimated to be £142,000<sup>13</sup> (forty six per cent) compared to 2014-15 budgeted costs of £264,000.

### Commentary on other benefits

**3.21 The majority of the outcomes set out in the business case (Figure 1) were achieved.** This includes arranging accommodation and IT provision that can accommodate working either within the office or working remotely on client sites or at home. LGBCE wanted to ensure that they could easily access their data when contracts eventually end. Where possible, LGBCE opted for their data to be stored on

<sup>13</sup> 2014-15 budgeted costs (the base line LGBCE have used in their comparison) are before the deduction of the £45,000 Liberata reduction to actual SLA costs in 2014-15

the Cloud. This provides flexible access that enables staff working across all functions to access data remotely.

**3.22** LGBCE note that they have made a compromise with the actual accommodation arrangement as it provides less flexibility on size than desired. It would be difficult to alter the office space, to accommodate more staff, without making costly alterations and possibly moving elsewhere. However, we do not consider the current arrangement to be unusual in this regard. In addition, there is some scope for accommodating additional staff in the existing space if LGBCE adopted more flexible working arrangements including remote working amongst its workforce.

**3.23** In comparison to the original business case, the HR contract does not currently cover recruitment or a HR policy review. However, LGBCE considered during the project that the provision of payroll, fees and expenses administration was the priority. It is possible that recruitment and HR policy review could be added to existing arrangements when needed or procured separately.

**3.24** Within the business case it was anticipated that the project would be completed by 30 April 2015. While we have noted earlier in the report that there are some factors to consider in setting a quick timescale for the move, staff have fed-back positively as part of the staff survey that the project team successfully planned and coordinated the office move to minimise disruption. This enabled LGBCE to move into their new accommodation on 27 April 2015.