

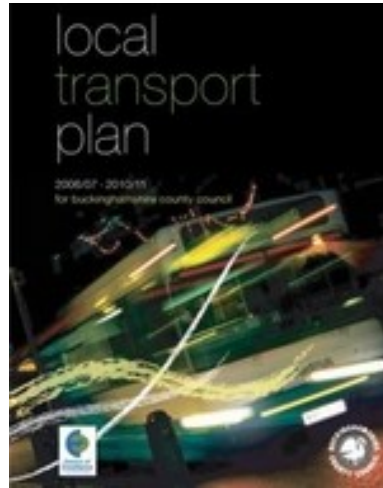
# Understanding the Contract

# The world outside (2008)



- **As against Local Authorities' 2008-9 budget:**
  - **Property income 45% down**
  - **Planning fees 17% down**
  - **Building control 13% down**
- **Recession has increased demand for Council services**
- **From 2010 onwards**
  - **Non-essential services at risk**
  - **All services must demonstrate vfm**

# What the Contract was seeking to achieve



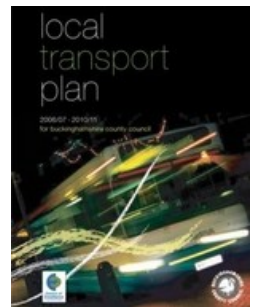
- **“Employer’s Strategic Objectives”** – the objectives set out in the LTP, the Corporate Plan and LAA within the limits of the Services Budget in a manner that demonstrates value for money and year on year Efficiency Savings
- **Contractor’s obligation** (Clause 10.1.3):  
*“The Contractor continually seeks to carry out the Services in a manner that achieves greater value for money for the Employer, year on year, by reducing costs and delivering the Services more efficiently whilst seeking to maximise the achievement of the Employer’s Strategic Objectives, year on year”*

# The underlying rationale


**Transport for Buckinghamshire** (RJ + Council's transportation employees) - Highways expertise in planning/delivery

**BCC** (the "retained client" role) - Democratic accountability

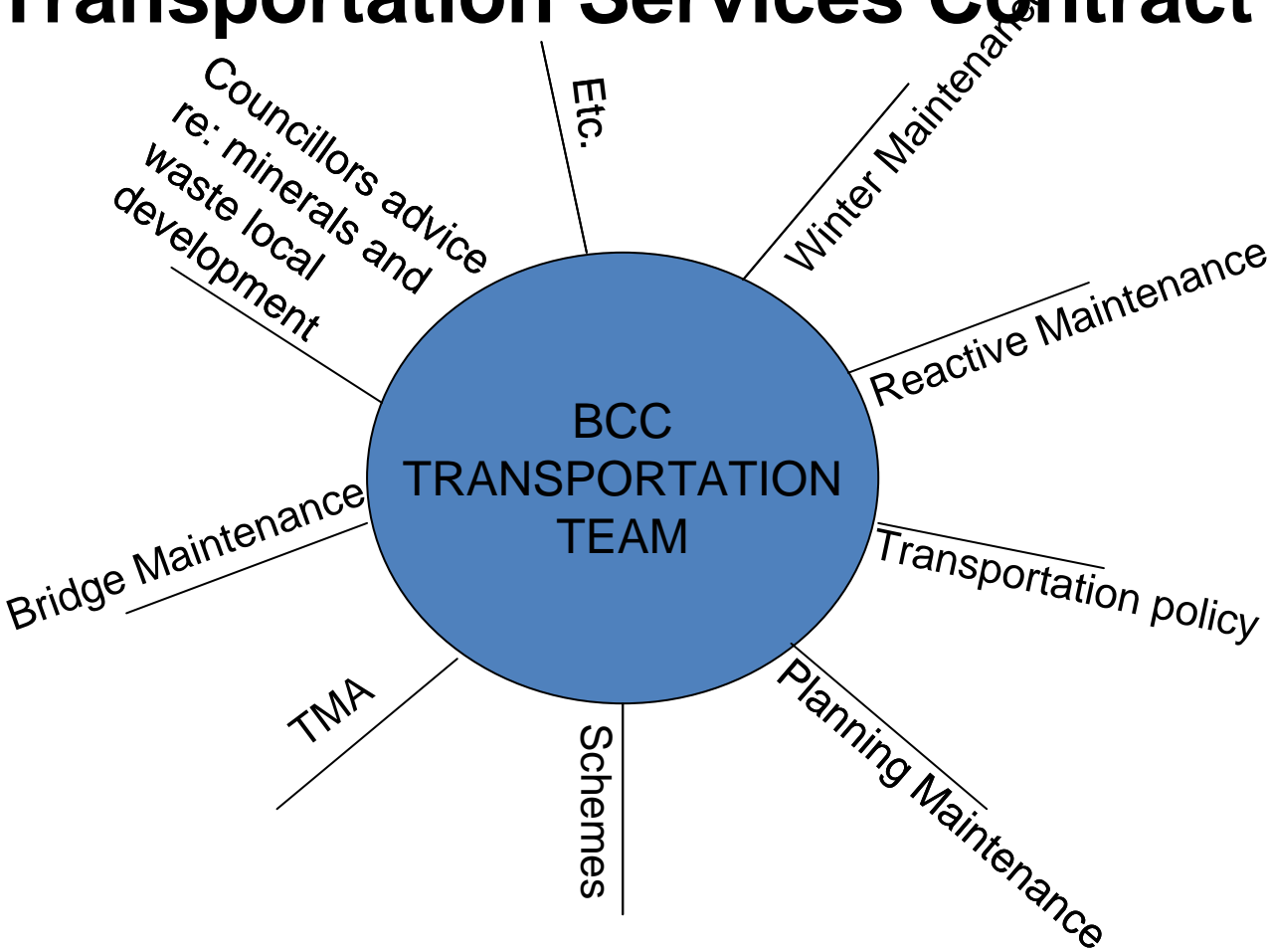
Better highways services for Buckinghamshire ratepayers



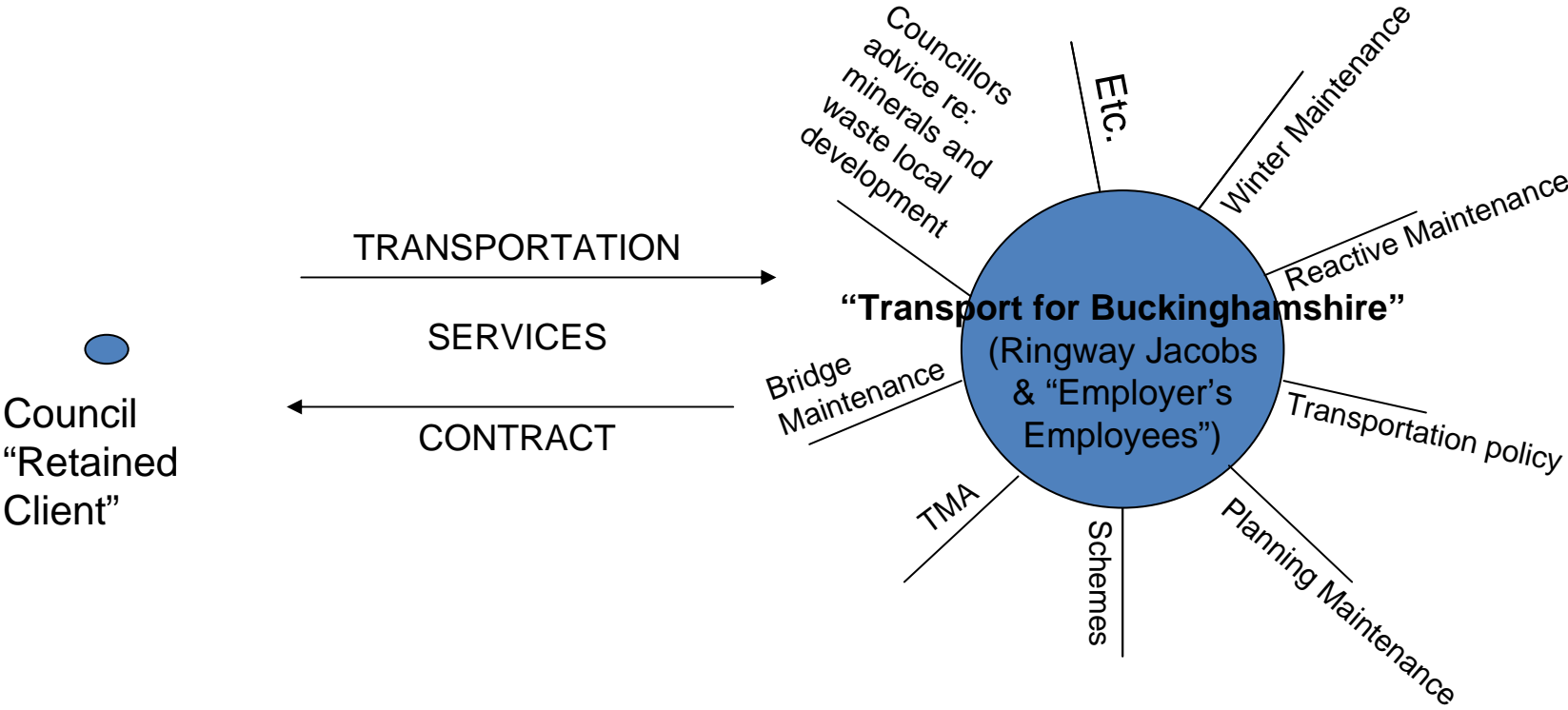
## **Making the contract work**

- A collaborative not a confrontational approach – based on TRUST
  - Proper planning of service delivery to allow:
    - economies of scale
    - greater efficiency in delivery
    - greater certainty of delivery
    - removal/mitigation of risk
  - Focus on delivery (for the ratepayers of Buckinghamshire)
- 


# Pre Transportation Services Contract



# Post Transportation Services Contract



# Key provisions of Transportation Services Contract

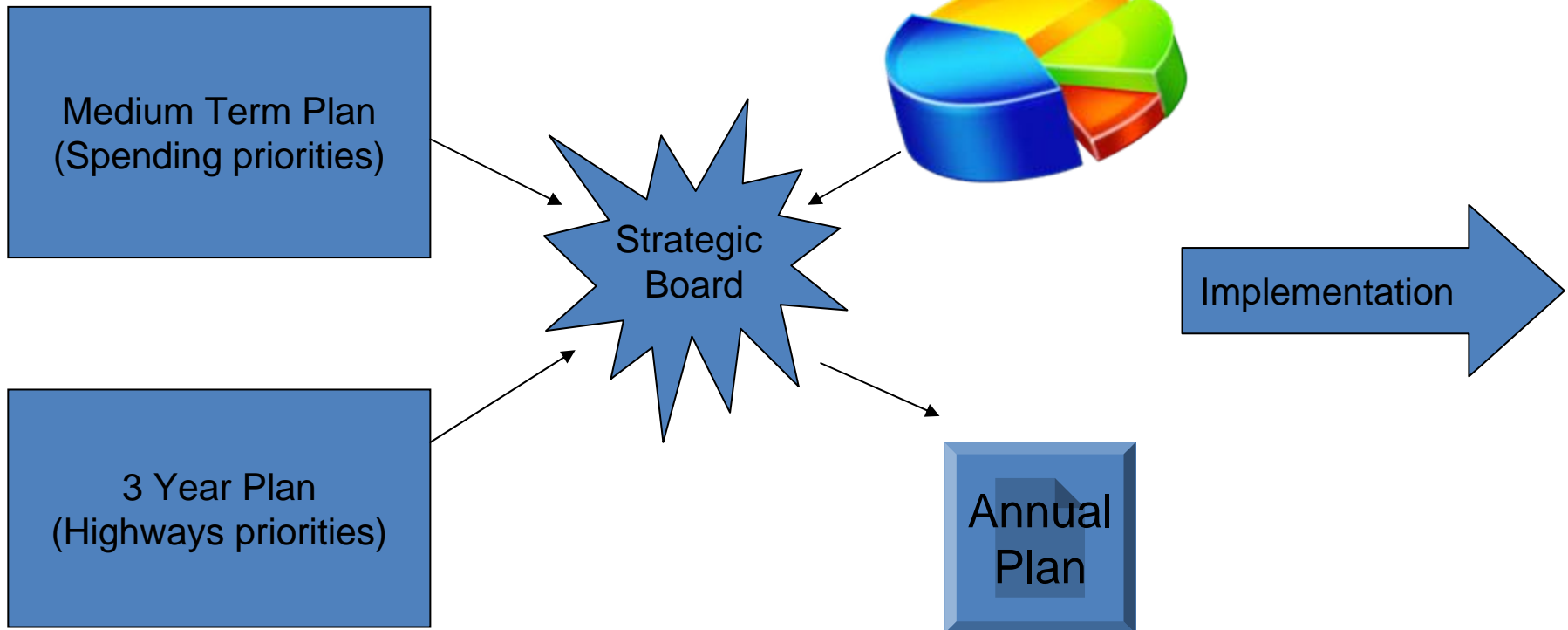
- Advance planning of Services (clauses 10.2 – 10.8)
  - Issue of Task Orders before/during Financial Year (clauses 10.9 and 10.10)
  - Payment based on actual (“Defined”) cost
  - Minimum performance against KPIs a pre requisite to:
    - sharing in saving against target costs (clause 13.8)
    - payment of Fee Profit Element (clause 13.12)
    - extensions to the initial 8 year Service Period (paragraph 5 of Schedule 5)
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# Advance planning of services (1)

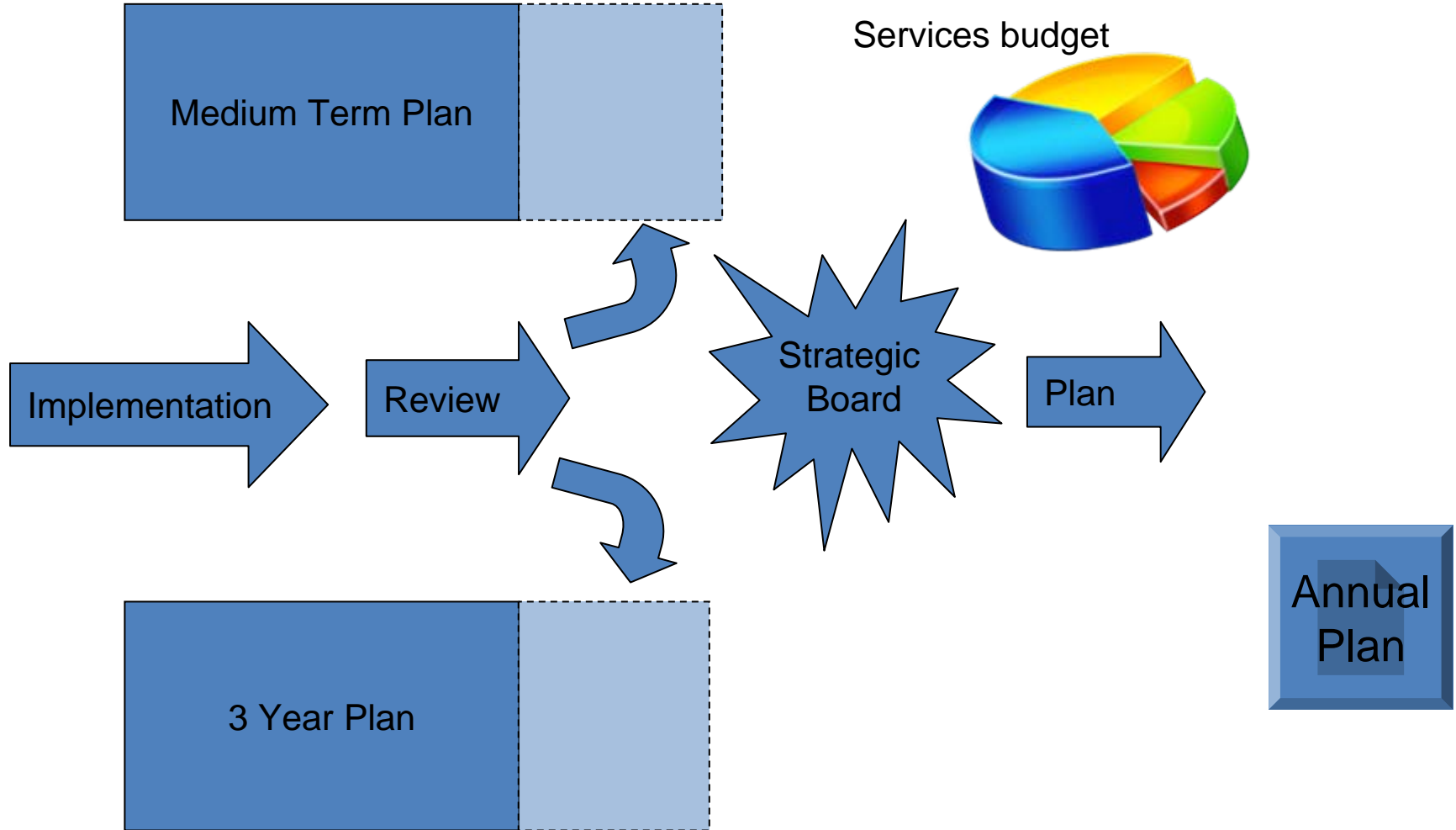
BCC

Services budget




Transport for  
Buckinghamshire

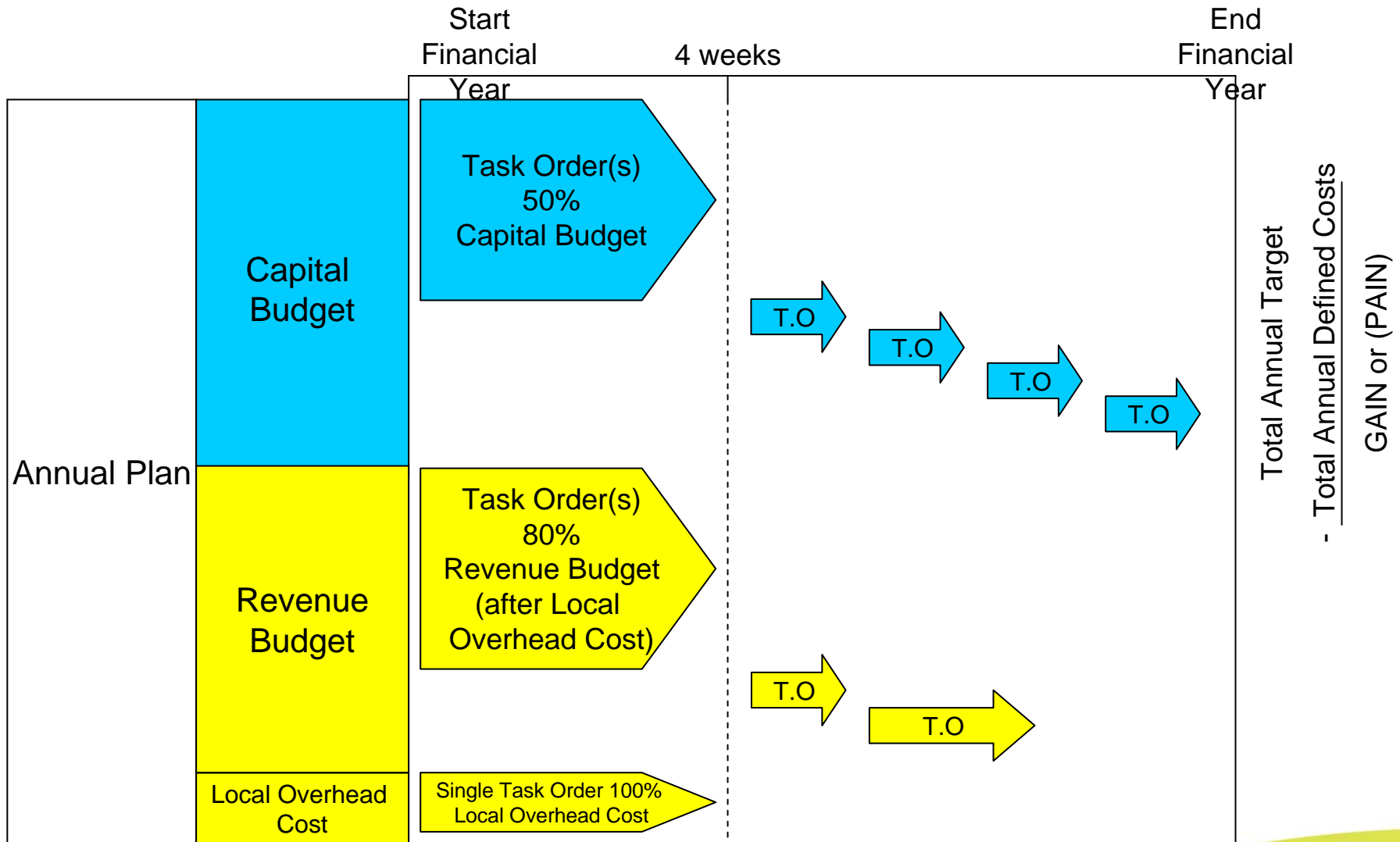
# Advance planning of services (2)




# Task Orders

- Instruction to Contractor from the Council to carry out a specific Service/grouping of Services
  - Required in respect of ALL Services to be carried out by TfB
  - Envisaged that majority of Task Orders will be issued as soon as possible before, and in any event within 4 weeks of commencement, of each Financial Year:
    - 100% Local Overhead Cost
    - 80% Services Revenue Budget; and
    - 50% Services Capital Budget)
  - Still flexibility for the Council to deal with balance of Services
- 

# Issue of Task Orders



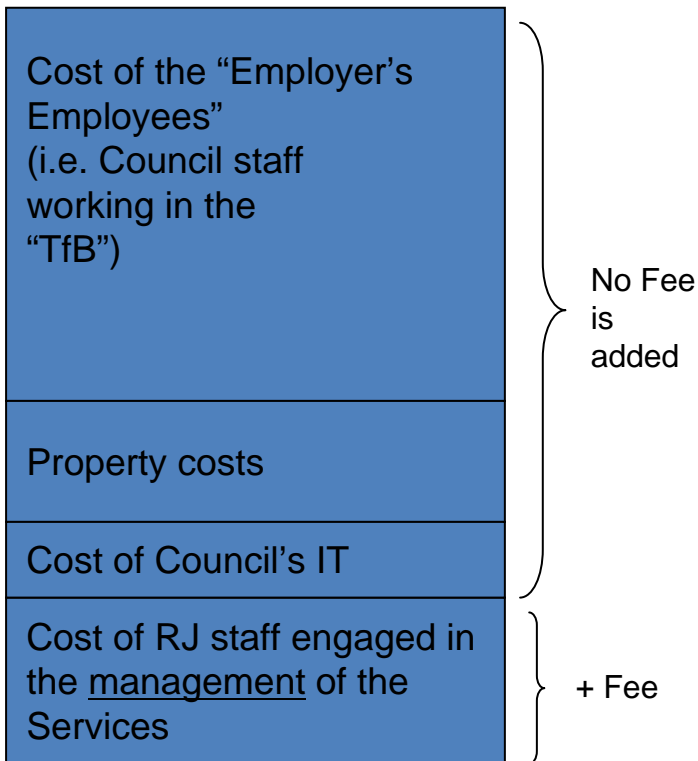
# Payment – principles

- Separate accounting for:
    - Local Overhead Cost (which will be the subject matter of a separate Task Order); and
    - the cost of providing the Services (under individual Task Orders)
    - and no double counting
  - Open book accounting – Contractor provides monthly breakdown of “Defined Costs” in respect of both
    - Local Overhead Cost; and
    - cost of providing the Servicesand keeps detailed records that are fully auditable
  - Within individual Task Orders, separate records to be kept in respect of:
    - Capital Services
    - Revenue Services
- 

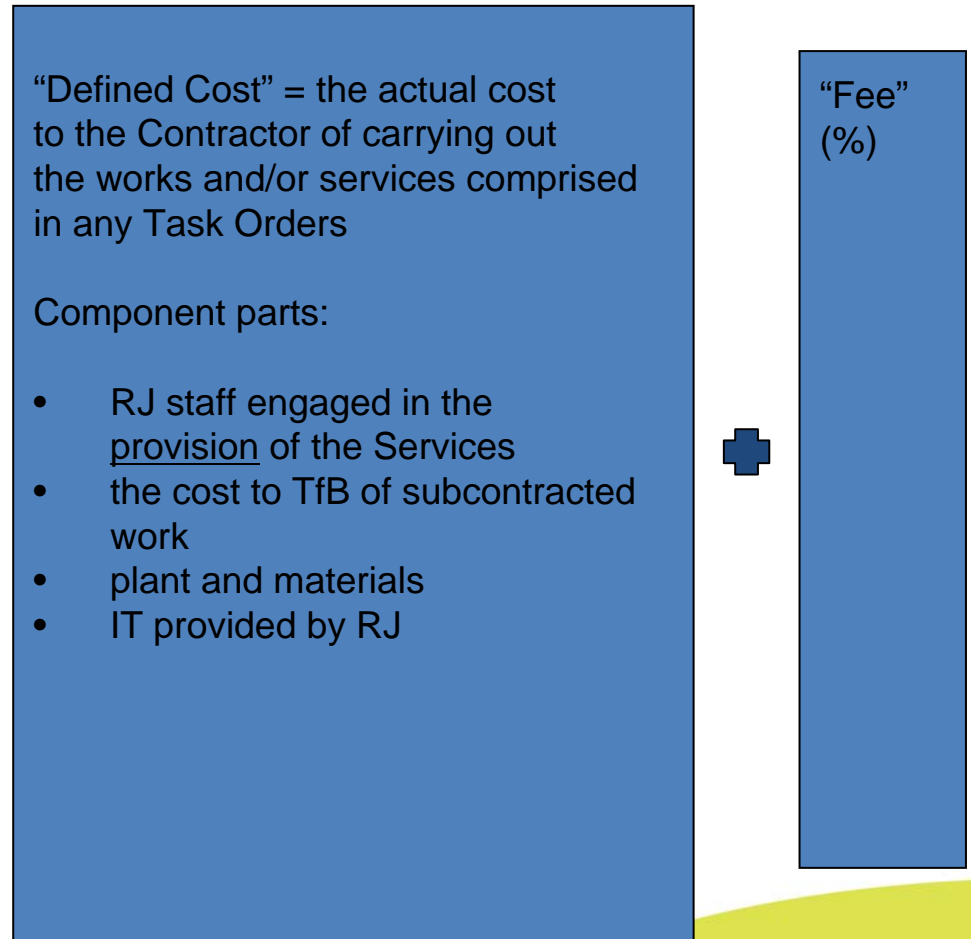
# PAYMENT - The Local Overhead Cost and the Cost of Services

## Local Overhead Cost

(the overhead costs of providing the Services that are local to Buckinghamshire c.f. the central office overheads of RJ Ltd)



## Cost of the Services



## PAYMENT – the Fee and Fee Profit Element



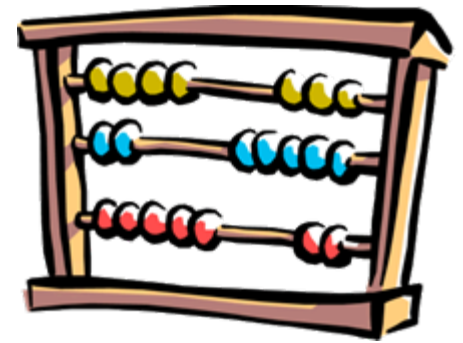
- The Fee is a % of the Defined Costs and comprises
  - a fixed amount of x%
  - a “Fee Profit Element” of y%
- Contractor’s entitlement to Fee Profit Element is dependant on performance against the Key Performance Indicators (KPIs) (Schedule 5)
- 50% of the Fee Profit Element is paid monthly, 50% is retained until end of Financial Year (when TfB’s performance against KPIs is assessed)

# Key Performance Indicators (Schedule 5)



- Set out the standards against which TfB's performance is measured
  - “minimum acceptable performance”
  - “expected performance”
- TfB self assessment throughout the year and report to Council “retained client” on not less than a three monthly basis
- Overall performance during the Financial Year is measured within 1 month before or after the end of the Financial Year and has implications on
  - the term of the contract
  - the level of Fee Profit Element entitlement
  - sharing in savings below total annual target costs





# Pain Share/Gain Share

Starting point - at the end of Financial Year:

- Calculate the **Total Annual Target Costs** by adding up all target costs agreed in relation to individual Task Orders (the “**TATC**”)
- Calculate the **Total Annual Guaranteed Maximum Costs** by adding up all Guaranteed Maximum Costs agreed in relation to individual Task Orders (the “**TAGMC**”)
- Calculate the **Total Annual Defined Costs** by adding up all Defined Costs incurred in relation to individual Task Orders *plus* the resultant Fee (the “**TADC**”)

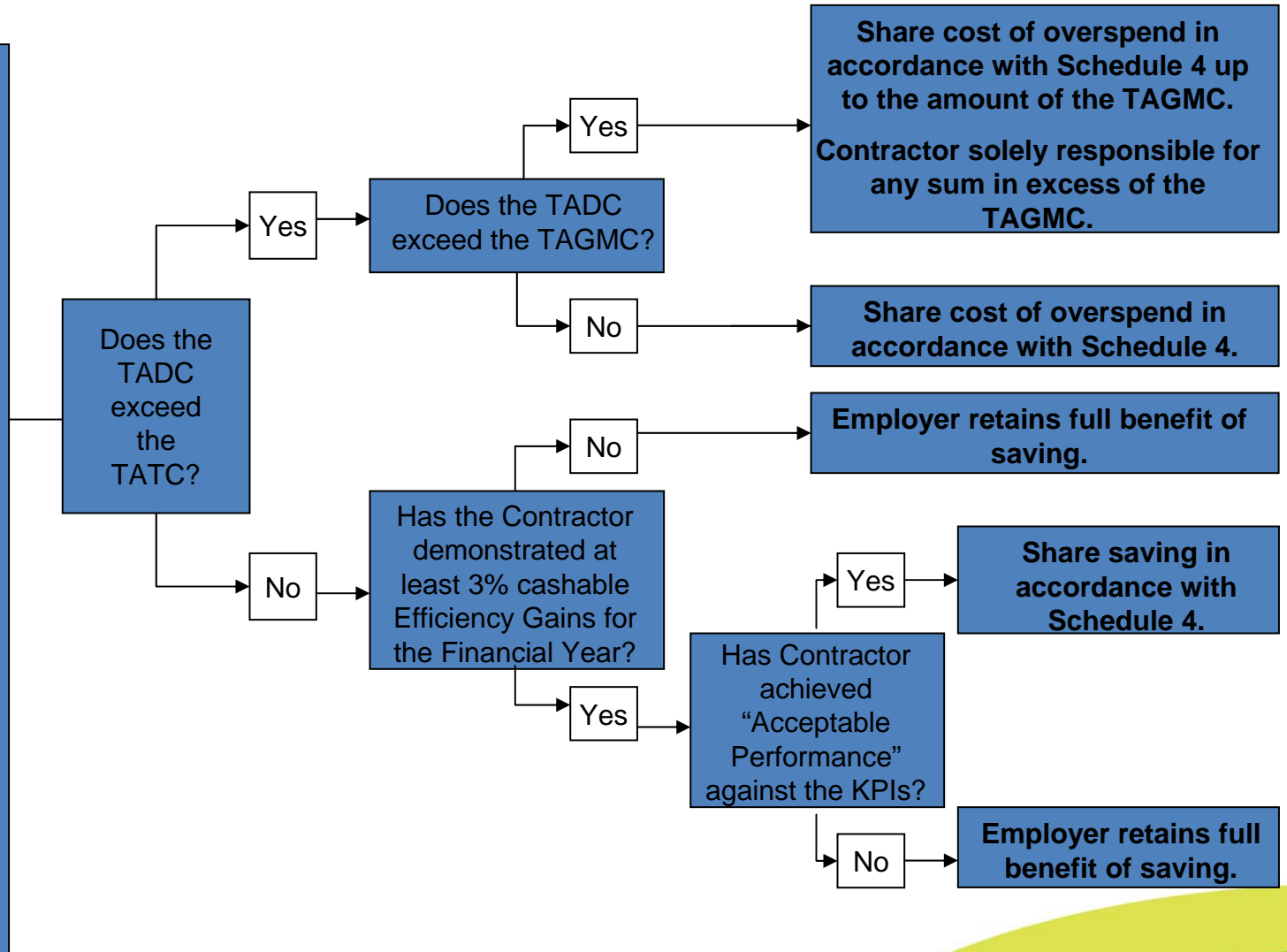
**Pre-conditions to Contractor sharing in any Gain Share:**

- TfB have demonstrated at least 3% cashable Efficiency Gains for the Financial Year (taking into account the effect of any potential shared savings); and
- TfB have achieved “Acceptable Performance” against the KPI’s

# Pain Share/Gain Share in diagram form

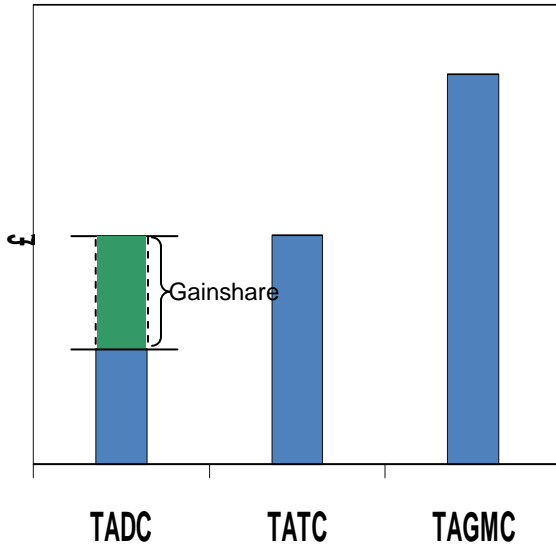
At the end of the  
Financial Year :

Calculate the **Total Annual Target Costs** ("TATC")  
Calculate the **Total Annual Guaranteed Maximum Costs** ("TAGMC")  
Calculate the **Total Annual Defined Costs** ("TADC")



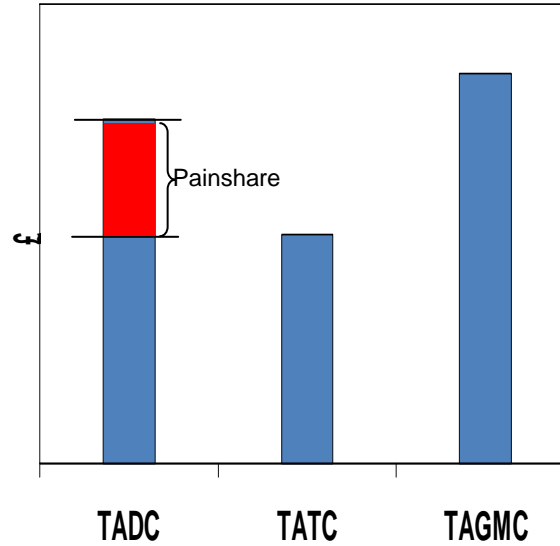
# Pain Share/Gain Share

Gainshare



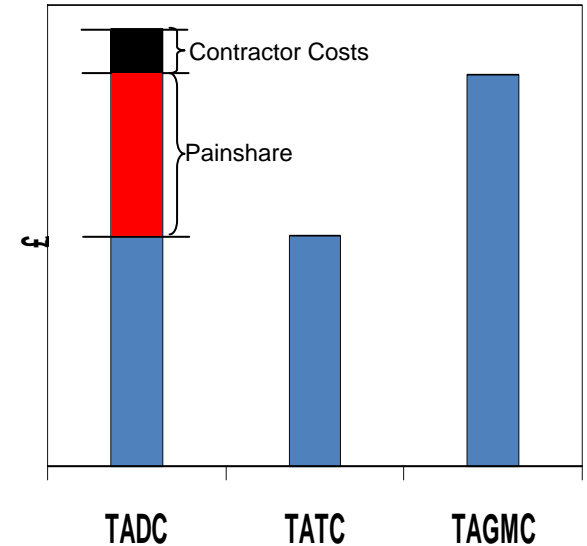
TADC is less than the TATC  
Difference between the two is shared  
in accordance with Schedule 4.

Painshare



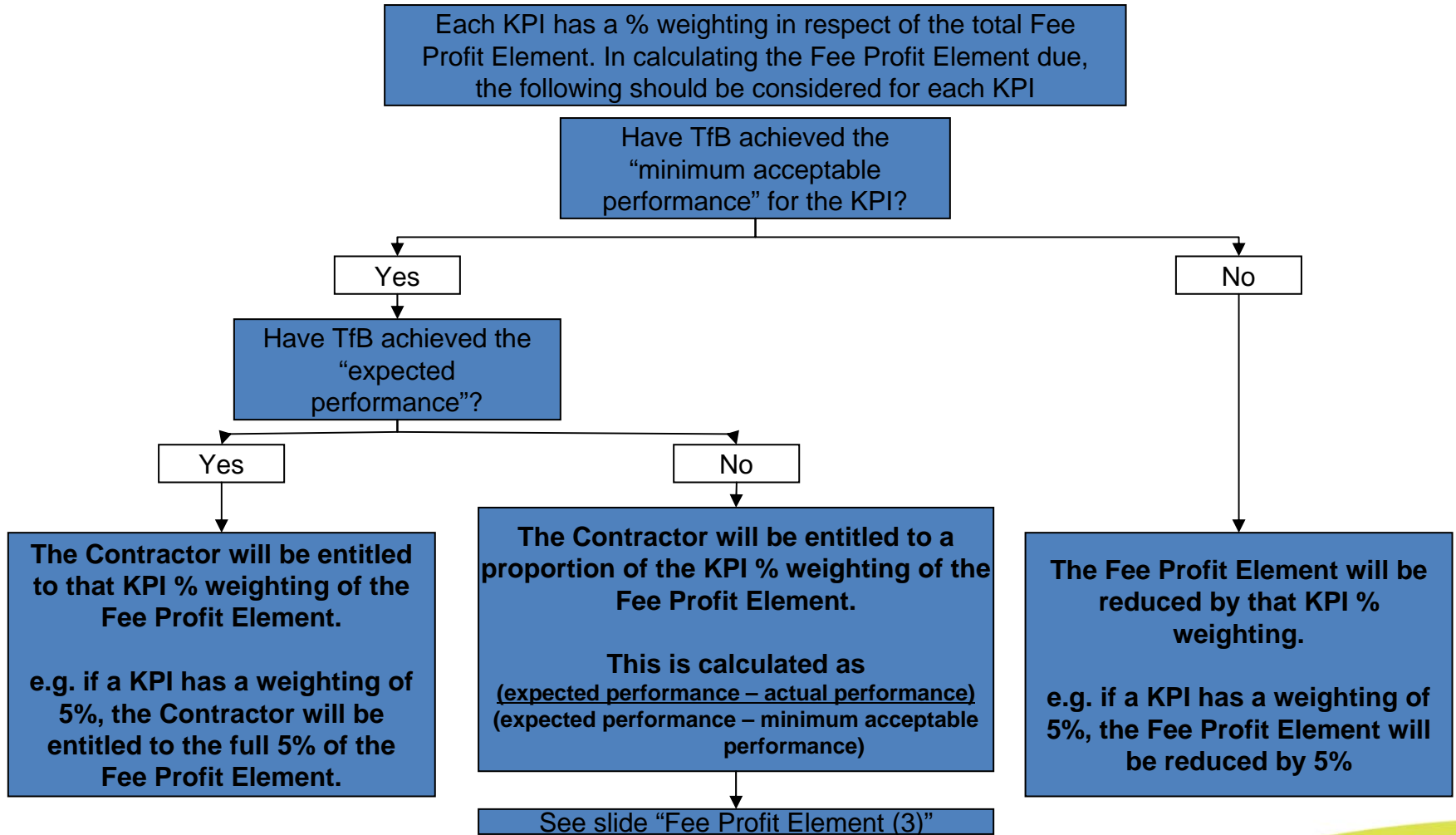
TADC is greater than the TATC  
TADC is less than the TAGMC  
Difference between the TADC and  
TATC is shared in accordance with  
Schedule 4.

Painshare Plus



TADC is greater than the TATC  
TADC is greater than the TAGMC  
Difference between the TATC and  
TAGMC is shared in accordance with  
Schedule 4.  
Remainder of TADC is Contractor 's  
responsibility

# Payment of balance of Fee Profit Element (1)



# Payment of balance of Fee Profit Element(2)

Calculation of proportional % of Fee Profit Element

BEFORE YOU START YOU NEED TO KNOW

- the KPI % weighting – e.g. 5%
- expected performance score – e.g. 10
- minimum acceptable performance score – e.g. 8
- actual score – e.g. 9

WORKING PART 1

$$\frac{(\text{expected performance} - \text{actual score})}{(\text{expected performance} - \text{minimum acceptable score})} = \frac{(10 - 9)}{(10 - 8)} = 0.5$$

WORKING PART 2

$$\text{Part 1 result} \times \text{KPI \% weighting} = 0.5 \times 5\% = 2.5\%$$

RESULT

**The Contractor will be entitled to recover 2.5% of the Fee Profit Element in respect of its performance against this KPI.**