

## PLYMOUTH CITY COUNCIL

**Subject:** Transfer of Corporate Fraud Team to Devon Audit Partnership  
**Committee:** Cabinet  
**Date:** 13<sup>th</sup> February 2018  
**Cabinet Member:** Councillor Ian Darcy  
**CMT Member:** Andrew Hardingham  
**Author:** Jonney Steven  
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**Ref:**

**Key Decision:** No

**Part:** I

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### Purpose of the report:

This report recommends to Cabinet a strategy that reduces the costs of the seven-strong Corporate Fraud Team (CFT) whilst maintaining the significant cashable and non-cashable benefits of the team based on a strategic business case. This is achieved by TUPE transferring the team from Plymouth City Council to the Devon Audit Partnership (DAP), of which Plymouth City Council are already a significant partner. The financial benefits are based on the ability of DAP to sell spare capacity in the team to their other partners and customers, generating new income which is passed back to PCC in the form of savings.

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### The Corporate Plan 2016 - 19:

The business case shows how the recommendations deliver our Pioneering vision through supporting the themes:

- Balancing the books – through the delivery of savings and income
- New ways of working – through a new model for service delivery
- Best use of Council assets – through using this service to further integrate with partners
- Working constructively with everyone – through supporting greater integration across partner organisations

It supports our Growing vision through supporting the theme:

- Quality jobs and valuable skills – through developing the skills of the team with growth potential

It supports our Confident vision through supporting the theme:

- Setting the direction for the South West – through bolstering a shared services partnership to deliver integration across the public sector
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### Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land:

**Finance:** The Financial outcome of the proposal to transfer the Corporate Fraud Service to the DAP shows a payback by year 2 with the service provided back to the Council contributing net benefit in the region of £50,000 from 2020/21. This reduces the residual efficiency target to circa £22,000 per annum from 2020/21. This is compared to retaining the service in house option of a shortfall of circa £72,000 per annum. The proposals will however cost £4,000 more in year one due to the one off set up costs and the gradual phasing of new income reflecting the time to establish and sell into a new market.

<b>FRAUD SERVICE PCC</b>	<b>18/19</b>	<b>19/20</b>	<b>20/21</b>	<b>21/22</b>
Residual Target to Find	£72,341	£72,341	£72,341	£72,341
DAP Financial Performance	£4,523	(£20,992)	(£50,748)	(£53,072)

**Human:** Seven members of staff are affected by this proposal and they have been informally consulted in an early engagement session. Staff are positive about the potential of this transfer. Once the decision is endorsed by Cabinet, PCC HR will work with DCC HR on the TUPE transfer of these staff from PCC to DAP (hosted by DCC) with a formal consultation process with unions and staff will be undertaken prior to any transfer being made.

**IT:** Transferred staff will continue to have access to PCC IT systems as well as the systems that DAP operate.

**Land:** Transferred staff will share office space with their Plymouth based DAP offices which are currently located in Midland House.

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**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

At this stage there are no implications for these outcomes anticipated.

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**Equality and Diversity:**

Has an Equality Impact Assessment been undertaken? No

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**Recommendations and Reasons for recommended action:**

1. It is recommended to approve the transfer of the seven members of the PCC Corporate Fraud Team (CFT) to Devon Audit Partnership, with a contract put in place for DAP to continue to deliver these services.

The reasons for this recommendation are that this transfer will:

- Enable the ongoing work at the same service level of the CFT to investigate and prosecute fraud against PCC
- Enable the generation of income which will result in an annual saving to the PCC budget
- Increase the resilience of the CFT
- Strengthen a shared-services partnership of which PCC are a key partner (also increasing PCC's share of the partnership from 38% to almost 50%)

2. It is recommended to delegate the negotiation and signing of the aforementioned contract to the Joint Interim Strategic Director for Transformation and Change.
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**Alternative options considered and rejected:**

The following options have been considered and are rejected as a result of the approval of the recommendations made in this report:

1. Service to remain in house as is
2. Entirely close the service

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**Published work / information:**

None

**Background papers:**

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7

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**Sign off:**

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Originating SMT Member: Andrew Hardingham													
Has the Cabinet Member(s) agreed the content of the report? Yes													

## **Transfer of Corporate Fraud Team to Devon Audit Partnership**

### **Report**

#### **I. Background on Plymouth City Council's Corporate Fraud Team (CFT)**

I.1. Plymouth City Council's Corporate Fraud Team (CFT) investigate and prosecute an array of irregularities and illegal acts characterised by intentional deception with intent to make a gain or cause a loss which is perpetrated for the benefit of an individual to the detriment of PCC, by persons outside or inside the Council. These include:

- Social housing fraud
- False insurance claims
- Blue badge fraud
- Concessionary bus travel fraud
- Council tax fraud (Single Person Discount, Council Tax Support)
- Adult social care payments fraud
- Staff fraud (eg false expense claims; sickness absence; and abuse of position)
- School admissions

I.2. The team is comprised of seven members, all full time employees:

- Corporate Fraud Team Manager (Grade H)
- Technical Expert (Visiting) (Grade E)
- Technical Expert (Fraud) (Grade E)
- Technical Expert (Fraud) (Grade E)
- Technical Expert (Fraud) (Grade E)
- Technical Expert (Fraud) (Grade E)
- Intelligence Officer (Grade D)

I.3. The past few years have seen a great deal of change in the counter fraud area within Local Authorities. Our investigation team have moved away from the traditional investigation of housing benefit and council tax benefit to become the Corporate Fraud Team. The implementation of the Government's Single Fraud Investigation Service (SFIS) initiative under the Department for Work and Pensions (DWP) in 2015 meant that all 'benefit fraud' is now investigated by them.

I.4. PCC opted to keep the team in place and as the Corporate Fraud Team to continue to counter other fraudulent threats to our budgets and reputation. This did not occur in all Local Authorities, less than half (45.7%) of councils now have a counter fraud team tackling non benefit fraud. In Devon the situation is even worse, with only Plymouth having an organised and effective deterrent against fraud. There is no other genuine investigative, qualified counter fraud capability within Devon for LA's with any experience of corporate fraud case work.

I.5. This is not a statutory function but the savings generated, both in terms of cashable savings from returned funds and non-cashable savings in terms of costs avoided, have been demonstrated to far outweigh the cost of the team.

I.6. PCC is seen as the leader in the field in counter fraud work in the South West Peninsula; it has an experienced, committed and fully qualified team of investigators and administrators. All investigators are 'Accredited Counter Fraud Specialists' and all other team members are 'Accredited Counter Fraud Technicians' (validated by the University of Portsmouth). As such, there is a good opportunity to sell these services to other authorities who have disbanded their own Counter Fraud teams, utilising the investment we have made in our own team to generate income to help subsidise the service in future. This approach fits well with our Commercial Enterprise strategy.

- 1.7. A central government funded trial two years ago demonstrated the ability of the team to work with other authorities. The PCC CFT organised and ran the successful 'Devon Social Housing Fraud' project from start to finish in December 2015, quadrupling the initial investment of £200k obtained from the DCLG in non-cashable savings.
- 1.8. For the past 18 months the team have been trying to do this, but there appears to be a reluctance from other authorities to outsource this work to another authority. To counter this problem, our proposal is that the Counter Fraud Team are TUPE transferred from PCC to the Devon Audit Partnership where they will be better placed sell their services to other partners and customers of DAP due to existing commercial relationships already in place.

## **2. Background on Devon Audit Partnership (DAP)**

- 2.1. Devon Audit Partnership (DAP) was formed in 2008 when Devon County Council, Torbay Council and Plymouth City Council pooled their internal audit functions into the newly formed partnership. The staff are 'hosted' by Devon County Council who provide their support services and are physically based at offices in Plymouth, Exeter and Torquay.
- 2.2. Since the partnership formed, additional partners have joined including Torridge District Council and Mid Devon District Council. In addition to the work for the partners, DAP also work under contract to a variety of other public sector partners including Devon and Somerset Fire and Rescue Service, Devon and Cornwall Police, Dartmoor National Park and some newly formed academy schools.
- 2.3. The organisation has a not-for-profit business model but any surplus from their operation belongs to the partners based on the ratio of business they put through DAP. PCC's ratio is currently 38% but with the possible additional work from Fraud Services, this would move to nearer 50%.

## **3. Background on proposed transfer of CFT to DAP**

- 3.1. The proposal is to transfer the seven members of the CFT from PCC to DAP, following on from the precedent set when the PCC Audit team were moved from PCC to DAP in 2009.
- 3.2. Simultaneously, PCC will enter into a contract with DAP to provide the services that the CFT currently provide, based on a service level agreement, with the budget that funds this team paid to DAP as an addition to the current contract with DAP to deliver our Internal Audit. The level of the counter-fraud services will remain the same.
- 3.3. Since both PCC, CFT and DAP believe that they will be able to sell services to new customers, including the existing partners and customers of DAP, there will be a reduction in the budget that PCC pays to fund this team. This new work will be undertaken by the existing team, utilising spare capacity.
- 3.4. These income targets will be phased as follows to ensure the team has the time to market and sell the new services and can have a smooth transition to DAP:
- Year 1 - £5,500
  - Year 2 - £27,500
  - Year 3 - £55,000
- 3.5. In addition, if DAP manage to bring in more income than the above in the first three years, PCC will see a corresponding reduction in the amount they pay to DAP.

- 3.6. In the event that DAP cannot bring in new income, and there is a need to make redundancies, the cost of redundancies will be borne by PCC in years one and two, 50/50 between PCC and DAP in year three and entirely by DAP in years 4 onwards.
- 3.7. The team members transferred will continue to be based in Plymouth, probably in the office space that DAP currently occupy in PCC's Midland House.
- 3.8. A SWOT analysis and risk mitigation report have been prepared to help analyse the benefits of this proposal and are attached in appendix to this report.
- 3.9. Research has also been undertaken by DAP around similar assurance partnerships, including an interview with another assurance partnership in their network (Veritau) which has a counter fraud service similar to that offered by the CFT. Max Thomas at Veritau gave positive feedback on the proposal in terms of the commercial viability of growing the counter-fraud work as part of a wider "assurance-based" offering.

#### **4. Proposed Timeline**

- |      |                       |   |
|------|-----------------------|---|
| 4.1. | 23rd January          | PCC CMT approval meeting (paperwork by 18th Jan)              |
| 4.2. | 30th January          | PCC Cabinet Planning Approval Meeting (paperwork by 25th Jan) |
| 4.3. | 13th February         | PCC Cabinet Approval Meeting (paperwork by 2nd Feb)           |
| 4.4. | 1 <sup>st</sup> March | Formal HR consultation with staff begins                      |
| 4.5. | 1st May               | Transfer of staff   |

#### **5. Financial Model**

- 5.1 The financial case measures a baseline Corporate Fraud (retained in PCC) compared to the DAP proposal over 4 years to determine the level of growth and thus the point at which payback occurs.
- 5.2 The transfer of services into another organisation always creates two financial issues that need to be considered, LGPS Pension and back office Support Services costs. Careful consideration has been given to the presentation of these issues within the business case given the complexity and also the fact that a longer term view is needed to address them.
- 5.3 LGPS Pensions. The Council is ultimately responsible for any LGPS pension deficit that arises from the cohort of former Internal Audit Council employees who TUPE transferred to create DAP. The Council will also be responsible for the LGPS pension liability of the Corporate Fraud employees TUPE transferring. As the Council has this liability where the service is currently provided in-house it has been assumed to be the same in both financial models so has been ignored for the purpose of simplifying the analysis.
- 5.4 One off project costs of £1,500 are assumed for the LGPS pension actuary in the event a review at the point of transfer is needed.
- 5.5 Support Services. In reviewing the support service costs the model is based on an assessment of what support activities would be needed to operate the Corporate Fraud service assuming it transfers to DAP. The Support Service charges not required to operate the service needing to be addressed by the Council over time.
- 5.6 Thus, the business case financials make some key support service assumptions. They are:
  1. Only the support service costs that would be needed by the transferring services are in the scope of the financials in the business case.

2. Where these costs are in scope there will be stranded costs with the Council because DAP purchase most of their services from Devon County Council.
3. Support Service costs of activities that are not needed by the Corporate Fraud service are outside the scope of this business case. However, it has to be acknowledged that a separate review of the support services and their costs is needed as the Council changes shape to ensure the level of support service is right for the remaining organisation and any external clients buying back services from the Council.

5.7 There is a residual savings (income) target of £72,341 per annum assumed in the Councils Corporate Fraud budget, after the removal of a vacant post (£27,659). One of the drivers for the proposals for DAP to take on the Fraud service is the better entry to market position DAP has to drive income growth. To measure the internal service, with the residual target in it, against the DAP proposal would not enable a like for like comparison. Therefore, the income target has been removed from the Councils base. In essence the benefit gained from the DAP proposal would be a further contribution towards the residual target of £72,341 pa.

5.8 The Financial position is set out in detail in Appendices 3 with a summary below.

#### PAYBACK SUMMARY

	1	2	3	4
	18/19	19/20	20/21	21/22
DAP (with PCC consequential costs)	£258,076	£236,968	£211,708	£213,971
PCC Base	£253,553	£257,961	£262,457	£267,043
Difference	(£4,523)	£20,992	£50,748	£53,072
Cumulative	(£4,523)	£16,469	£67,218	£120,289
Payback Period		2		

FRAUD SERVICE PCC	18/19	19/20	20/21	21/22
Residual Target to Find	£72,341	£72,341	£72,341	£72,341
DAP Financial Performance	£4,523	(£20,992)	(£50,748)	(£53,072)
<b>Net GAP for PCC to find (stranded cost)</b>	<b>£76,864</b>	<b>£51,349</b>	<b>£21,593</b>	<b>£19,269</b>

5.9 The key points contained in the analysis are explained below.

1. Payback occurs at year 2
2. The net cost to the Council increases initially in the first year but then reduces over time from year 2
3. Income growth is a risk to DAP
4. Inflation has been included and the Council will fund this in the normal way under the existing arrangements with DAP
5. Additional costs have been assumed for the cost of setting up the arrangements (legal costs and pension actuary costs – worst case scenario)
6. The Council picks up the LGPS Pension deficit (should one arise)
7. DAP require Support Services budget and will use this to buy services from Devon County Council, this will leave the Council with real cash pressures of £3,000 per annum – this is factored into the modelling
8. Budgets have been removed from the baseline for costs that will not be required by DAP for this proposal (Pension deficit recovery rate, apprenticeship levy).

## **6. Outcomes**

6.1. The following outcomes are envisaged from the proposed transfer of the Corporate Fraud team:

- Income generation resulting in savings to PCC
- Income generation resulting in future surplus being returned to PCC
- Improved resilience of service
- Jobs and investment retained in the region
- Strengthened relationships with other local authority partners including more cross-authority working

## **7. Other Delivery Options Explored**

7.1. The following list of delivery options have been considered:

- 7.1.1. Service to remain in house as is
- 7.1.2. Entirely close the service

7.2. The service remaining in house has been rejected because this proposal offers a better financial position for PCC without affecting service levels. We have also attempted to sell services ourselves to bring in additional income but we have not been successful, with the desire to purchase services by neighbouring authorities limited.

7.3. The latter has been rejected due to the cashable and non-cashable savings that the team generates exceeding the cost of the team. The overall position would be worse if we did not have the position because fraud against PCC would go undetected and unchallenged.

## **8. Conclusion and Recommendation**

8.1. A precedent for transferring appropriate services into a partnership with other regional Councils was set in 2009 with the transfer of Internal Audit to DAP. This successful transfer has paved the way for new services to move into DAP where savings can be demonstrated and additional income can be generated.

8.2. The CFT fits well with DAP, both in terms of their current offering and their 'end goal' of offering a wider range of assurance services across the South West Peninsula. Their increased ability to generate income from the existing team members enables PCC to be offered the same service but at reduced cost. The fact that we are a partner and as such, in effect, an owner of DAP means that their success will also be our success.

8.3. As such, it is recommended that the CFT is transferred from PCC to DAP.



## Appendix 1: SWOT Analysis

Strengths	Weaknesses
<p><b>To PCC directly</b></p> <ul style="list-style-type: none"> <li>Helps address the current budget pressure created by the unmet income target</li> <li>Any commercial success that the service has benefits PCC through their share of DAP</li> </ul> <p><b>To DAP (of which PCC are a partner)</b></p> <ul style="list-style-type: none"> <li>Fits with DAP vision of transforming into a wider assurance offering</li> <li>Service is already “up and running” allowing DAP to bring a new service to market quickly</li> <li>The team are well regarded as regional experts</li> <li>Would enable us to better compete with South West Audit Partnership</li> <li>The income target is phased with a low weighting in year one to help the service ‘bed in’</li> </ul>	<p><b>To PCC directly</b></p> <ul style="list-style-type: none"> <li>If the service does become very commercially successful, the benefits are shared with other DAP partners</li> </ul> <p><b>To DAP (of which PCC are a partner)</b></p> <ul style="list-style-type: none"> <li>As Housing Benefit Fraud is no longer with Councils, the appetite to pursue fraud might have diminished (the impact may now be perceived as less)</li> </ul>
Opportunities	Threats
<p><b>To PCC directly</b></p> <ul style="list-style-type: none"> <li>Reduces the budget pressure from FY2018/19 and in subsequent years</li> <li>Increased resilience of the fraud offering if it expands to do work for others</li> <li>Ability for new team members to specialise in niche areas if it expands to do work for others</li> <li>More ability for partnership working with other LA's in the fraud space, utilising their data to help fraud cases in our area</li> </ul> <p><b>To DAP (of which PCC are a partner)</b></p> <ul style="list-style-type: none"> <li>To build a new service offering for DAP, which could become the first step in DAP having a wider assurance offer</li> <li>Ability to target potential customers in the existing partners and customers – more likely to buy from DAP as they are a partner rather than a neighbouring LA</li> <li>Further potential public sector customers, again more likely to buy from DAP</li> <li>More kudos for DAP</li> <li>Potential to do some “no win/no fee” type work (i.e. CTax discount etc) with DAP clients</li> <li>Previous/current perceptions that DAP are not “forensic” in their investigation work – this may help to address this perception.</li> <li>Any change in legislation to make this a statutory service puts DAP in a very strong position</li> </ul>	<p><b>To PCC directly</b></p> <ul style="list-style-type: none"> <li>If DAP sell the services to others, there might be capacity issues which affect the team's ability to focus on our work (note however that a significant increase in commercial income could fund additional resource)</li> </ul> <p><b>To DAP (of which PCC are a partner)</b></p> <ul style="list-style-type: none"> <li>The market for these services is not as strong as anticipated and income targets cannot be met.</li> <li>PCC CFT staff see this as a threat and aren't keen on transferring</li> <li>DAP staff see this as a threat or become distracted by the new offer. May result in more management time</li> <li>Not enough management capacity at DAP to sell this service</li> </ul>

## Appendix 2: Weakness and Threat Mitigation

Weakness/Threat Identified	Mitigation
If the service does become very commercially successful, the benefits are shared with other DAP partners	The initial benefit that the existing team members bring in in terms of additional income will be returned to PCC. Further growth of this service will result in all DAP partners benefiting – which is a fair reward for their investment.
As Housing Benefit Fraud is no longer with Councils, the appetite to pursue fraud might have diminished (the impact is now less)	There is no statutory requirement for Council's to pursue fraud, but the sales and marketing materials that will be developed will demonstrate the cashable and non-cashable savings that the CFT can bring to any of their new customers.
If DAP sell the services to others, there might be capacity issues which affect the team's ability to focus on our work	A detailed Service Level Agreement (SLA) will be developed and will continue to be monitored via our board membership of DAP, with our Section 151 Officer sitting on the board. The transition of the Internal Audit Team has not thrown up any problems in this regard.
The market for these services is not as strong as anticipated and income targets cannot be met	In this unlikely eventuality there may be the need for redundancies which PCC have agreed to cover in the first two years following transfer with shared responsibility in year three. This reduces the risk for DAP, and maintains the same level of risk for PCC in this regard as PCC has with the current situation.
PCC CFT staff see this as a threat and aren't keen on transferring	Informal discussion has been undertaken with the staff and they support the proposed transfer. A formal consultation will also occur once Cabinet have approved this proposal, with a staff engagement/communication plan developed jointly by PCC and DAB.
DAP staff see this as a threat or become distracted by the new offer. May result in more management time	As previous.
Not enough management capacity at DAP to sell this service	A lot of work has already been undertaken by the CFT manager to prepare to bring this service to market and this has been reviewed by the Commercial Enterprise Team at PCC. This should enable the service to be brought to the existing DAP partners and customers quickly and efficiently with minimal input from existing DAP management.

### Appendix 3: Financial Analysis

<b>FRAUD SERVICE TO DAP BEST CASE</b>	<b>18/19</b>	<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>TOTAL</b>
Employee costs	£219,620	£224,012	£226,253	£228,515	£898,400
Other employee based costs	£3,193	£3,193	£3,193	£3,193	£12,772
Supplies costs	£5,915	£5,915	£5,915	£5,915	£23,660
Training	£6,500	£6,500	£6,500	£6,500	£26,000
Relevant Support Services (Office, ICT, HR)	£27,907	£27,907	£27,907	£27,907	£111,627
<b>Total Expenditure</b>	<b>£263,135</b>	<b>£267,527</b>	<b>£269,767</b>	<b>£272,030</b>	<b>£1,072,459</b>
Revenue & other Income	(£6,000)	(£6,000)	(£6,000)	(£6,000)	(£24,000)
New income	(£5,500)	(£27,500)	(£55,000)	(£55,000)	(£143,000)
<b>Total Income</b>	<b>(£11,500)</b>	<b>(£33,500)</b>	<b>(£61,000)</b>	<b>(£61,000)</b>	<b>(£167,000)</b>
<b>TOTAL NET Budget</b>	<b>£251,635</b>	<b>£234,027</b>	<b>£208,767</b>	<b>£211,030</b>	<b>£905,459</b>
<b>PCC</b>					
PCC recurring Costs - clientside	£0	£0	£0	£0	£0
Stranded Costs - Vacancy saving					£0
Stranded Costs - ICT (delt)	£1,718	£1,718	£1,718	£1,718	£6,873
Stranded Costs - Insurance	£1,223	£1,223	£1,223	£1,223	£4,892
Stranded Savings Target					£0
					£0
Project Set up Costs (legal and Actuary)	£3,500				£3,500
PCC Savings targets					£0
					£0
					£0
<b>Sub-total</b>	<b>£6,441</b>	<b>£2,941</b>	<b>£2,941</b>	<b>£2,941</b>	<b>£15,265</b>
<b>Net DAP Model with PCC Clientside and Project Costs</b>	<b>£258,076</b>	<b>£236,968</b>	<b>£211,708</b>	<b>£213,971</b>	<b>£920,724</b>

#### PCC Base Case

<b>FRAUD SERVICE PCC</b>	<b>18/19</b>	<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>TOTAL</b>
Employee costs	£220,390	£224,798	£229,294	£233,880	£908,361
Other employee based costs	£3,193	£3,193	£3,193	£3,193	£12,772
Supplies costs	£5,915	£5,915	£5,915	£5,915	£23,660
Training	£6,500	£6,500	£6,500	£6,500	£26,000
Relevant Support Services (Office, ICT)	£23,555	£23,555	£23,555	£23,555	£94,220
<b>Total Expenditure</b>	<b>£259,553</b>	<b>£263,961</b>	<b>£268,457</b>	<b>£273,043</b>	<b>£1,065,013</b>
Revenue & other Income	(£6,000)	(£6,000)	(£6,000)	(£6,000)	(£24,000)
New income	£0	£0	£0	£0	£0
<b>Total Income</b>	<b>(£6,000)</b>	<b>(£6,000)</b>	<b>(£6,000)</b>	<b>(£6,000)</b>	<b>(£24,000)</b>
<b>TOTAL NET Budget</b>	<b>£253,553</b>	<b>£257,961</b>	<b>£262,457</b>	<b>£267,043</b>	<b>£1,041,013</b>

#### PAYBACK SUMMARY

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DAP (with PCC consequential costs)	£258,076	£236,968	£211,708	£213,971	£920,724
PCC Base	£253,553	£257,961	£262,457	£267,043	£1,041,013
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Cumulative	(£4,523)	£16,469	£67,218	£120,289	
Payback Period		2			