

REPORT TO EXECUTIVE			
PORTFOLIO AREA: ALL PORTFOLIO AREAS			
Date of Meeting:	6TH FEBRUARY 2003		
Public			
Key Decision:	Yes	Recorded in Forward Plan:	Yes
Inside Policy Framework			

Title: COMPETITIVE TENDERING

Report of: HEAD OF COMMERCIAL AND TECHNICAL SERVICES

Report reference: CTS 003/03

Summary:

This report summarises the current position regarding the service 'contracts' developed through Compulsory Competitive Tendering and sets out a range of options for the future. In addition the disparate mechanism of annual inflation increases which are no longer considered to be sustainable is set out. Options for funding this are identified.

Recommendations:

It is **recommended** that:

1. The Executive identify the preferred option for service delivery to enable further development/preparation work to be undertaken.
2. The Executive agree the principle that the employee costs of the relevant services be increased by the annual pay settlement in April and identify the preferred option of meeting of the costs.

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1.0 BACKGROUND INFORMATION AND OPTIONS

1.1 Following the replacement of Compulsory Competitive Tendering (CCT) with Best Value the Council has adopted an interim approach by extending earlier 'contractual' arrangements. The current situation is set out in the following paragraphs:

1.2 At its meeting on 17th December 2001 the Executive resolved to extend the following existing 'contracts' until 31st March 2004:

Grounds Maintenance

Highway Maintenance

Lighting Maintenance

Car Parking and CCTV monitoring.

1.3 A number of other former defined activities have been included within the Best Value review programme:

- **Street Cleaning/refuse collection** – achieved a 2* likely to improve definition from the BV Inspectorate. The existing 'contracts' have been extended pending a fundamental review of the service caused by the national waste minimisation strategy.
- **Municipal Building Maintenance/Cleaning** – advocated an integration of services and client/contractor roles.
- **Cemeteries/Crematoria maintenance** – has been included in a review which is scheduled to report to the Executive early in 2003.

In general terms these reviews identify that the Council is achieving good service and value for money. Each review identifies service development and improvement issues which are considered to have a higher priority than current costs.

1.4 Over the past 12 months there has been a number of significant changes which impact upon the current service arrangements.

- The organisational review has created a culture of 'one Authority' with a new Business Unit, CTS, which is focussed on service excellence not operating in a contractual mode.
- BV reviews have highlighted the need to move away from the current client/contractor roles and look at the competitiveness of services as an

entity.

- Significant areas of work have transferred from the Council as a result of LSVT and the Leisuretime externalisation and other potential service changes are likely to be considered over the next 12 months i.e. Tullie House.
- The need to 're-engineer' processes to embrace the customer contact centre has been identified.

5. These pressures identify the the need to fundamentally reconsider how the Council ensure it achieves value for money services which continuously improve to meet the needs of the community. A number of options are available:

1. Option 1 – subject the existing "contracts" to competitive tendering

- ensures value for money is achieved, subject to market forces within specific service areas
- a budget will be required to upgrade existing documentation and undertake the tendering process
- the flexibility, control and scope for service modifications is limited within the traditional contractual framework
- the loss of any contracts from within the Council will have a consequential corporate impact.

1. Option 2 – Develop a partnership with an external provider for the whole range of services provided by the Commercial & Technical Services Business Unit or other service delivery mechanisms

- professional support would be required to explore, evaluate and progress the preferred option, which would have budget implications
- success depends upon the level and quality of the market response.

1. Option 3 – Adopt a Best Value approach where competitiveness/market testing is undertaken as part of any review

- existing contracts would be replaced by Service Level Agreements which focus on service outcomes
- refuse collection/recycling requires a fundamental review of the service to achieve Government targets and this could be done in conjunction with Eden District Council (to build upon the existing pilot scheme), prior to market testing
- whole services/groups of services can be assessed rather than discrete elements, to provide a more holistic approach
- greater flexibility and scope for service development.

5. A great deal of work needs to be undertaken to develop the preferred option, but an initial indication is required to develop the CTS Business Unit within

the new organisational structure.

The outcome of the Comprehensive Performance Assessment and subsequent options set out in the Local Government Bill 2003 together with the development of the Local Strategic Partnership would suggest the need to retain maximum flexibility in the short/medium term. The most appropriate solution to achieve this would be Option 3 which also best fits the corporate culture. In the medium/long term Option 2 may develop as a more suitable option but is considered premature at this stage.

1.7 Whilst there are a number of 'single status' issues which remain to be addressed, one aspect which needs to be considered as a matter of urgency is the annual inflationary rise which is applied to those services. The 'contractual' arrangements include a provision, linked to RPI/RPIY, which is applied on the anniversary of the contract. A schedule of those applied in 2002/3 is appended which shows that costs have increased at a much higher level (primarily as a result of the pay settlement) than the service cost.

In reality, with the continuation of existing turnover levels, this can be absorbed in 2002/3 in conjunction with client negotiations. However, in 2003/4 the workload halves in value and the pay levels increase by 3.5% on 1.4.2003 together with an additional 1% National Insurance. The budget assumptions are based on only a 2.5% rise which is unsustainable. The financial impact of this on each service is as follows (based on 2% of current value).

Cemeteries £8060

Grounds maintenance £12000 approx.

Street Cleaning £16500

Refuse Collection £17200

Building Cleaning £6200

CCTV £2400

Car Parking £4300

£66,660

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8. Another important consideration on the Grounds maintenance/cemeteries contract is that the annual pay award to the workforce is linked to the inflation indices. The outcome of this is that whilst the vast majority of employees in the Council received an increase of 3-4% in 2002/3, the employees in this

area received 1.3%. This does not fit well into the culture the Authority is now embracing.

9. For comparative purposes the inflationary uplift to be applied in 1.4.2003 for these services to be provided to CHA is 4.5%.
10. It is considered that in view of the circumstances that funding needs to be allocated to meet the salary increases in line with the budget policy adopted across the Authority. The options are:
 - a. Reduce the service budgets to meet the additional employee cost – this would have an impact on service quality and may generate redundancies.
 - b. Include the increased costs in the budget for 2003/4.
 - c. Fund the increased cost in 2003/4 from existing DSO reserves and include within the base for future years.

2. CONSULTATION

1. Consultation to Date. Corporate Management Team.
2. Consultation proposed. Employees and Trade Unions.

3. STAFFING/RESOURCES COMMENTS

The outcome of any tendering process could result in TUPE issues for relevant employees and the consequential impact on corporate costs. Additional external support is likely to be required to develop the preferred option and this would need to be evaluated and reported back to the Executive.

4. HEAD OF FINANCE COMMENTS

The increased annual cost from 2003/04 onwards of linking the salaries element of the current 'contracts' to the national pay award rather than RPI/RPIY has been estimated at £66,600 per annum. The actual amount will be calculated each year as part of the annual review of the 'contract' fee, which is undertaken as part of the budget process.

Should the principle be agreed, it may also be an opportune time to bring the review of the contract fees into line at 1st April, rather than keeping the current variety of review dates as set out in the Appendix.

The options to fund the increase are set out in paragraph 1.10. However, the Executive should note that Option C) would be a one-year solution only, and the issue would need to be addressed from base budgets from 2004/05 onwards. In addition to this, there are other significant single status issues that have not as yet been addressed (particularly holidays and sickness) and these will also need to be considered.

5. LEGAL COMMENTS

Any consideration by the Executive on how to proceed should be based on a broad application of the principles of securing best value for the Council's taxpayers in accordance with the statutory requirements of the best value legislation under which authorities currently operate.

6. CORPORATE COMMENTS

1. The Council's Procurement Officer considers that Option 1 would be an expensive exercise which is unlikely to generate significant market interest in some service areas. Options 2 and 3 retain the integrated, whole service approach which avoids 'cherry-picking' and are likely to provide the best value for money. Option 2 should be regarded as more long term to ensure it can be linked into corporate service developments. This option would require significant additional resources.
2. The report has been considered by the Corporate Management Team who support the recommendations.

7. RISK MANAGEMENT ASSESSMENT

1. A detailed risk assessment will be required for the preferred option within the framework of the Council's approved Risk Management Strategy.

8. EQUALITY ISSUES

1. These would need to be fully embraced within the preferred option.

9. ENVIRONMENTAL IMPLICATIONS

1. Environmental issues will be incorporated within updated service specifications and the Commercial & Technical Services Business Plan.

10. CRIME AND DISORDER IMPLICATIONS

Not applicable.

11. RECOMMENDATIONS

It is **recommended** that:

11.1 The Executive identify the preferred option for service delivery to enable further development/preparation work to be undertaken.

11.2. The Executive agree the principle that the employee costs of the relevant services be increased by the annual pay settlement in April and identify the preferred option of meeting of the costs.

12. REASONS FOR RECOMMENDATIONS

See above.

APPENDIX A

Existing contract inflation details

	Annual Contract Review Date	RPI %	RPIY %	Wages %	2002/03 Contract Value £
Cemeteries	01/04/02	1.3		1.3	403,240
Grounds	01/04/02	1.3		1.3	1,012,551
Street Cleaning	01/04/02	1.3		3.0+ 1.0	824,820
Refuse	01/04/02		2.5	3.0 + 1.0	861,000
Bld Cleaning (1)	01/02/01		3	3.0 + 1.0	185,000
Bld Cleaning (2)	01/06/02		1.8	3.0 + 1.0	132,700
CCTV	01/10/02	0.7		3.0 + 1.0	120,500
Car Parks	01/10/02	1.7		3.0 + 1.0	215,940