

# Executive Decision Report

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## Stores Service Review

Decision to be taken by: Executive Member for Housing

Decision to be taken on: 9 June 2016

Lead Director: Frank Jordan

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**City Mayor**

## **Useful information**

- Ward(s) affected: All
- Report author: Frank Jordan
- Author contact details: frank.jordan@leicester.gov.uk
- Report version number:

### **1. Summary**

- 1.1 This report provides a summary of a review that has been undertaken in the management and storage of materials provision for the Housing and Highways functions.
- 1.2 The review has considered all aspects of provision and has also been informed through a soft market testing exercise, benchmarking exercises and visits to other local authorities.
- 1.3 Based on the findings of the review it is recommended that the most effective approach in delivering a good quality service to staff and customers would be through a managed service provided by an external supplier.
- 1.4 The report makes proposals for the Executive to consider.

### **2. Recommendations**

The Executive is recommended to;

- Approve the proposal that stores should be delivered through a managed service using an external supplier (option 3).
- Authorise the project team to move to the next stages in the project as follows :
  - a. conducting a pre-procurement staffing review;
  - b. identifying a suitable site for the stores location;
  - c. preparing the procurement documentation for the managed service.

### **3. Supporting information including options considered:**

#### **Options**

The options for consideration were analysed as follows:

1. 'As is / do nothing' option
2. 'Internal investment' option
3. 'Managed Service' option

Using the data collated and supported by additional information, the 3 options were considered.

### **Option 1 - 'As is / Do nothing'**

A full service delivery review including staff from both the Highways and the Housing stores teams has been conducted. The data indicates that costs have remained static over the last few years, and to do nothing to the existing processes and working practices would continue to support the ineffective delivery of the current service.

A number of process issues were identified and, where appropriate, measured and costed out. There are a clear set of issues that have been highlighted in the review that must be addressed as follows:

- Returned stock
- Unsuitable stores buildings
- parking constraints
- Transfer of materials between sites
- Stock write-off levels
- IT systems
- Staffing levels
- Waste handling

### **Option 2 – 'Internal Investment'**

Option 2 takes existing costs as a baseline, and using the internal review findings considers opportunities to improve existing working practices. This option was considered from two perspectives; keeping the Housing and Highways stores functions separate or combining them.

The investment required is substantial because there is a lack of internal expertise to oversee the stores functions. There would be a need to recruit someone into this role; however, what restricts this is in finding the right level of experience against existing pay scales as average market rates for this type of role are much higher.

IT investment would also be required to establish the appropriate front end management system.

The other large investment costs are related to getting the buildings up to a required standard. Indicative costs suggest expenditure around £250,000. Whilst there are efficiencies to be gained by improving each individual store, bringing the services together will create greater savings.

The areas with biggest significance are in the combined procurement activity route, where there are already a number of lines ordered by both services and in the reduction of staffing numbers.

The limitations and constraints of this option include:

- The significant investment required has an impact on the level of savings that can be delivered.
- Site limitations
- Limited expertise and capacity in the council in terms of contract management, logistics and purchasing

In contrast, the opportunity for efficiencies and savings include:

- Introducing effective procurement arrangements
- Exploring the option of moving all the stores to a single site
- Reviewing the staffing structure.

In terms of the risks, the biggest concern with this option relates to the failure of realising the savings.

The investment required would have to be recovered against the annual savings. There are also concerns around implementation delays which may have an impact on delivery.

### **Option 3 – ‘Managed Service’**

Option 3 also takes the existing costs from Option 1 as a baseline and considers both perspectives of a combined and separate service delivery for Housing and Highways.

Unlike option 2, the up-front investment required by the Council is likely to be minimal. The majority of the supplier’s set up costs and ongoing management costs will be built into the contract which would span over at least a 5 year period. The longer the contract length, the more efficient the costs should become. Depending on how effective we can be in formulating a new procurement contract, there is the potential to reduce the costs we might normally end up paying for by taking advantage of the competitive marketplace. Otherwise, the worst case scenario would mean paying for the upfront costs through the new contract.

Efficiencies identified in Option 2 can still be implemented, if not expanded to the Councils benefit. A managed service from an external supplier can address two of the fundamental concerns of the existing services.

Firstly, a managed service can ensure that through its own ability to purchase materials with its parent company, it can guarantee obtaining a better price than if the Council set up its own framework to purchase materials. Our evidence shows a very conservative saving could be least 14% of current materials costs in this model.

Secondly, the issue of not having experienced or qualified staff to manage the function effectively would be removed by having representatives from the trade leading the delivery of the new function.

There would still be a requirement to review the current staffing numbers prior. The remaining staff that would transfer to the new provider would be protected through the TUPE process. The Council could however choose to provide additional protection for such staff (and indeed any new staff working on this contract), albeit the ongoing savings would be reduced.

The limitations or constraints of this option include:

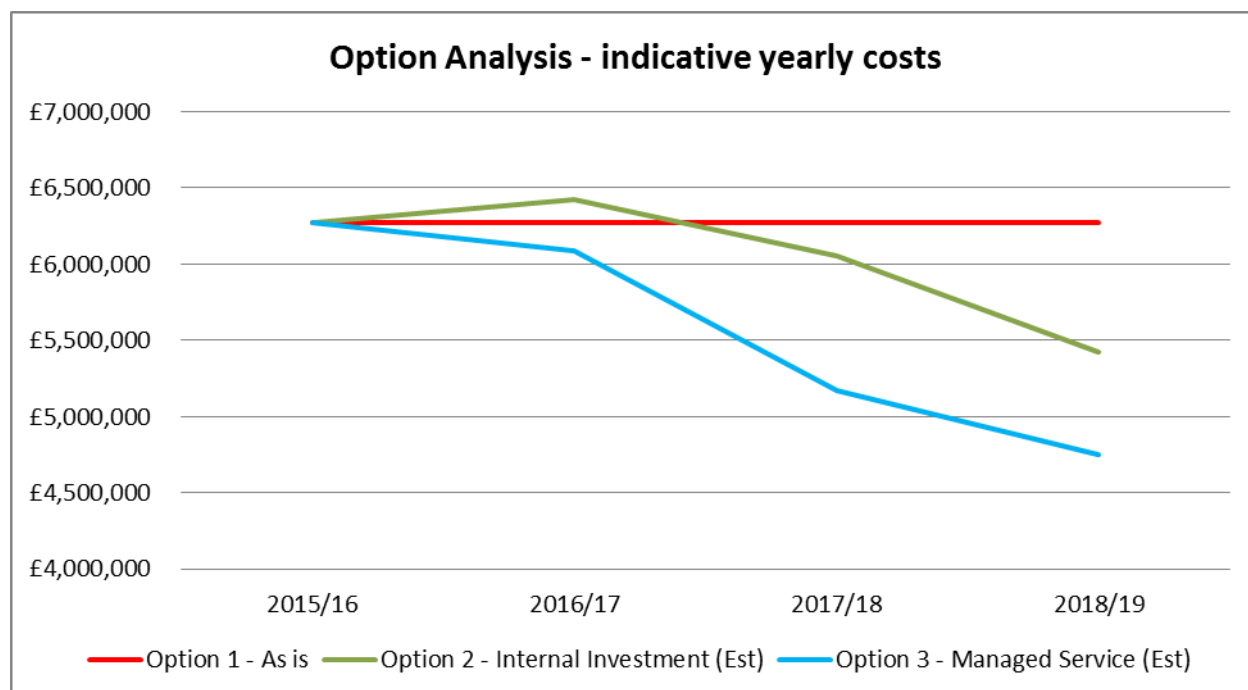
- Site limitations.
- Pension issues.

In contrast, the opportunity for efficiencies and savings include:

- Effective procurement arrangements for both services by maximising the purchasing power through a single supplier.
- Effective management of the service with 'expertise' built in.
- Waste management can also be included as part of the service.
- Robust stock control management and audit.
- Possibility of a single site location.
- Staffing expenditure, management and on-costs liability reduced.

In terms of the risks, operationally the biggest risk is around effective contract management and ensuring that we have controls in place to ensure we get the best value from the provider.

An analysis of the costs and indicative savings over the next few years, by option are highlighted below.



## Conclusion

What this review has identified so far is that the two stores functions – for Highways and Housing – run at different levels of effectiveness. Although Highways runs a smaller and more effective process than housing, the size of the operation lends itself to bringing the two services together thereby delivering more efficiency.

The baseline costs for delivery of each service per year suggests that there are efficiencies to be gained and that the procurement items can be done much better.

There needs to be change in how this service is delivered and by default, rules out Option 1. Two key drivers in delivering a successful stores service is having the knowledge and expertise needed to deliver a great service - and speedy access to high quality, cost effective materials.

## 4. Details of Scrutiny

N/A

## 5. Financial, legal and other implications

### 5.1 Financial implications

The Technical Services Programme aims to identify on-going savings of £7m, which are currently being identified across all project streams, including this Stores Review

The activities to deliver savings would be delivered throughout the course of the next three years. Budget adjustments can only be taken once these actions have been completed.

Some 85% of the savings are expected to accrue to the Housing Revenue Account (HRA). Whilst circa £200k of operating savings are expected in 2016/17, these are likely to be offset by severance costs (largely chargeable to the HRA) as staffing numbers reduce. Hence no net saving is shown in that year.

It should be noted that the savings from outsourcing can only be broadly estimated at this stage; that current levels of purchasing/materials usage continue, which may not be the case as wider spending reductions take effect; and that there are no significant additional costs from TUPE, the National Living Wage and any other additional staff protections.

The table below shows when the budget adjustments are expected to be made, subject to a procurement process proceeding as envisaged.

	<b>Option 3 – Estimated Savings (Stores) £,000s</b>				
<b>Service</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	
HRA	N/A	£ net nil	£500k	£1,280k	
Highways	N/A	£ net nil	£100k	£220k	
<b>TOTAL</b>	<b>£0</b>	<b>£ net nil</b>	<b>£600k</b>	<b>£1,500k</b>	

Colin Sharpe- Head of Finance

## 5.2 Legal implications

The main legal implications relate to public procurement and potential TUPE. As is identified in the report, any procurement of goods or services must be undertaken in accordance with the Council's Contract Procedure Rules and public procurement law with advice from legal services and Corporate Procurement. Legal services will also continue to assist with any contractual implications arising in relation to the matters described in this report.

Emma Horton – Head of Law, ext 37 1426

Option 3 potentially involves a business transfer which will mean that the TUPE Regulations will apply. Legal Services can provide advice on the above and as to whether or not a business transfer(s) will occur as the project progresses.

Where there is a business transfer there is the potential for employees to transfer from the "old" employer to the "new". The Council will be under a statutory duty to ensure that employment rights are not breached for their own employees where there is a transfer from one business to another. If employee rights are breached there is again the potential for successful employment tribunal claims against the Council.

Where there is a TUPE transfer, pensions may be a complicating factor in that they may increase costs or the length of time to effect the transfer of employees. It will be important to identify early on whether or not pensions are an issue as this may significantly affect costs.

Again, Legal Services can advise as to whether employees transfer and on the steps that need to be taken and whether pensions are an issue as the project progresses.

Organisational review, redundancies and TUPE transfers are all processes which rely heavily on consultation. It is recommended that decisions are not made as "final decisions" affecting the workforce in advance of consultation by providing leeway to be able to change course in the event of a valid recommendation arising from consultation. By making a decision (e.g. that X number of redundancies will be made) before consultation may result in successful employment tribunal claims. Employees who are made redundant are dismissed and therefore able to bring claims for unfair dismissal where they can show that process was not followed (such as making a decision before consultation has taken place).

Caroline Woodhouse, Principal Solicitor (Employment and Education). Ext 37 1429

It is advised that both legal advisors from the employment team and HR are consulted throughout in order to ensure that TUPE implications and appropriate consultation is properly addressed. Sufficient time will need to be factored into the timeline to accommodate this.

Karen Demmer – HR Team Manager, ext 37 4343

### 5.3 Climate Change and Carbon Reduction implications

No Climate Change considerations

### 5.4 Equalities Implications

No Equalities Impact Assessment (EIA) has been completed at this stage as we are awaiting the initial decision to proceed with the proposed option. A full EIA will be conducted in accordance with the aims of the Public Sector Equality Duty (PSED).

### 5.5 Other Implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

None applicable.

## **6. Background information and other papers:**

## **7. Summary of appendices:**

## **8. Is this a private report (If so, please indicated the reasons and state why it is not in the public interest to be dealt with publicly)?**

No

## **9. Is this a “key decision”?**

Yes

## **10. If a key decision please explain reason**

This is a key decision because the proposed reduction in recurrent revenue expenditure is more than the current threshold of £0.5m. It is expected that a £1.5m p.a. reduction would be achieved as a result of this change.