

NORTH LANARKSHIRE COUNCIL

REPORT

To: COUNCIL		Subject: RETENDERING OF BUILDING AND ROADS DLO CONTRACTS.
From: CHIEF EXECUTIVE		
Date: 30 JUNE 1999	Ref: AIC/GW/BMcG	

1. Introduction

- 1.1. The purpose of this report is to advise the Council of the current position regarding the re-tendering of a proportion of the contracts currently held by the Building and Roads DLO which has been progressed in accordance with the Section 19B Direction of the Secretary of State. The report also makes recommendations regarding the future contract arrangements for this work based on the results of dialogue which has recently taken place with the Scottish Office and its advisers.

2 Background

- 2.1. The background to the current Building and Roads DLO operation and the main causes of the deficit incurred at the end of financial year 1997/98 have been well documented in the Council's main submissions of 19 June and 16 October 1998 to the Secretary of State and the various reports prepared by the external auditors and consultants. In December 1998 the Scottish office confirmed the proportion of DLO maintenance work which had to be put to competitive tender by the private sector, without a bid from the Council's in house DLO. This was on the agreed basis that the position in respect of each tendering exercise would require to be reviewed if the outcome did not represent better value for money than the current arrangements.
- 2.2. Following the evaluation of the tenders received from the private sector it was apparent that in a number of cases the most economically advantageous tender did not compare favourably with the rates applicable under the existing DLO contracts. A summary of the current position regarding the tender evaluation process is at Appendix 1. The conclusions reached by the Council's officers regarding the following contracts, which did not compare favourably with current DLO rates, were independently verified by Deloitte Touche.
- Roads - Street Lighting
 - Corporate Property Multi Trade - North
 - Corporate Property Multi Trade - South
 - Housing Gas and Solid Fuel Heating
- 2.3 Subsequent to the Council's letter to the Scottish Office of 16 April 1999, which highlighted the issues in relation to the above contracts, PricewaterhouseCoopers (PwC) were commissioned by the Scottish Office to consider the results of the tendering process.

2.4 PwC visited the authority on 11/12 May and 2 June and their report was finalised on 14 June. The report was thereafter the subject of discussion at a meeting chaired by the Secretary of State for Scotland and attended by representatives of the Scottish Office, PwC and North Lanarkshire Council on 21 June 1999.

The report highlighted concerns regarding three main issues:

- The robustness of the financial information, in particular the allocation of certain costs within the DLO accounts;
- the construction of the DLO rates and their use within the evaluation process; and
- the provision of information to bidders in the tender process.

2.5 Arising out of this meeting the Scottish Office confirmed *inter alia* the Secretary of State's suggestion that the Council should respond to the issues raised by PwC by providing additional information or supporting evidence where this was needed and appropriate; by seeking to change views by providing counter arguments with supporting evidence; and by recognising where concern was valid in some areas and making changes as required.

2.6 On 22 June the Council provided an interim response following an initial review of the PwC report which had been received the previous evening. Thereafter a full response was submitted on 25 June 1999 and discussed with representatives of the Scottish Office and PricewaterhouseCoopers (PwC).

2.7 In summary the Council's response sought to provide additional information and supporting evidence to clarify a number of key issues and confirm that the Council:

- has effective DLO financial management systems in place to allocate and control operational costs including overheads, and most importantly provide accurate monthly management accounts;
- has made good progress in developing Business Plans for the downsized DLO Unit to sustain financial recovery and improve operational performance;
- has progressed the re-tendering exercise, in the time available, in a fair and transparent manner to elicit the most competitive response from the private sector; and
- has objectively and as rigorously as possible (given the complexities of the exercise) compared the best private sector price with the current DLO costs to determine which option would secure best value for the Council.

2.8 Additional information has been provided every day this week, including today, as further requests have been received from the Scottish Office consultants, with detailed examination of budgets, results and business plan forecasts for the DLO itself and of the rates used in tender comparison and their composition. At the time of writing (1.50 p.m.) all information requested so far has been provided, although at times it appeared that the requests might overwhelm us. It is hoped that the information provided to date will enable the Secretary of State for Scotland to make an informed decision before the matter passes to First Minister of the Scottish Executive at midnight, which might occasion some delay as the First Minister would presumably have to go over much of the ground already covered.

3. Proposed Contract Arrangements based on the results of the Re-tendering exercise to date

3.1. As part of its most recent submission the Council has recommended that the Secretary of State for Scotland look favourably on the following course of action:

- The 10 single trade contracts in Corporate Property encompassing Decoration/Graffiti removal, Electrical Repairs, Water Quality, Drain Cleaning, Bituman-Mac repairs and other small contracts with a total annual value of £1.51m should be awarded to the most competitive private sector tenderer securing an estimated annual saving of £0.24m against the current arrangements;
- The 6 Housing Footpath and 3 Colourwash Contracts along with the Corporate Property Mechanical Engineering Contracts (subject to finalisation of the evaluation for the latter contract) should be awarded to the most competitive private sector tenders, all subject to satisfactory confirmation of the TUPE transfer provisions. In total this will involve approximately £4m of work being transferred to the private sector with an estimated annual saving of approximately £700,000;
- The Street Lighting and 2 Multi-Trade Corporate Property Contracts should be retained by the DLO and included in the proposed public private partnership. This work is valued at approx £5.45m and will avoid additional annual costs in the first year estimated at £900,000 had this work been allocated to the private sector based on the results of the tender evaluation process.
- The Gas and Solid Fuel Heating Contract should be retained by the DLO for inclusion in the public/private partnership. Based on the worst case scenario of the DLO operating this contract at an annual loss of £100,000 this course of action still represents a net saving of £447,000 per annum against the best private sector option and retendering at this time could result in winter disruption to tenants;
- The 6 housing fencing contracts with a total annual value of £1.855m should be retained by the DLO for inclusion in the public/private partnership subject to the basis of the price comparison being agreed to by the Scottish Office and its advisers. This will avoid additional costs of approximately £160,000 if the private sector bid is accepted.

The 2 corporate property glazing contracts and felt roofing contracts with a total annual value of approximately £390,000 should be retained by the DLO pending further examination and discussion on the issues raised by PwC. In the event that retention is not deemed to be more cost effective immediate action will be taken to invite further tenders for this work which represents a relatively small proportion (5.6%) of the overall value of Corporate Property contracts.

3.2 It should be noted that tender reports in respect of the end of the above contracts which it is recommended should be awarded to the private sector are included as additional items elsewhere on the agenda for the Council meeting.

3.3 Pursuing the above approach will:

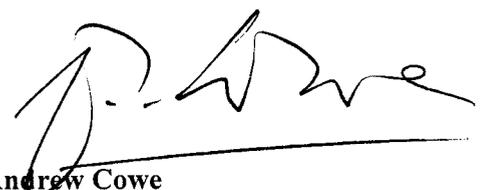
- achieve the most cost effective arrangements for the delivery of the services which have been included in the retendering exercise securing a total estimated annual saving of over £0.9m and avoiding additional costs of over £1.6m had several of the existing DLO contracts been awarded to the lowest private sector bids;
- minimise disruption of existing services;
- minimise potential problems and complications with TUPE transfers;
- improve morale in the existing DLO and assist further in sustaining the financial recovery;
- further enhance the viability of the proposed public/private partnership; and
- help to further develop the mixed economy of service provision through the allocation of over £5.5m of revenue contracts to private sector providers.

- 3.4. Retention of the street lighting, multi trade corporate property, Housing Gas and Solid Fuel heating and fencing contracts would increase the turnover of the Building and Roads DLO by approximately £8.6m per annum above the figure of £27.584m previously agreed by the Scottish Office in December of last year. The DLO would also retain 191 employees who would otherwise have been the subject of TUPE transfer to private sector providers. Such changes would necessitate an urgent review of the DLO Business Plan and this would be the subject of a report to Committee as soon as possible.
- 3.5 It will be appreciated that this report is being written at a time when full answers are not available to a number of questions which could be raised. It will also be recognised that it has been necessary for much detailed discussion to have been undertaken by the Leader and senior management of the Council with the Scottish Office and their advisers. Because of the sensitivity and detailed nature of the discussions it has not been possible to provide information until now and it is acknowledged that this will have been a frustrating experience for the workforce involved, as they read various newspaper stories. The discussions have been detailed, searching and hopefully fruitful and at all times the Council's representatives have sought to achieve best value for the Council. The trades union representatives were briefed on the situation earlier this afternoon and the Council must now await a decision from the Secretary of State for Scotland, failing whom the First Minister of the new Scottish Executive.

4. Recommendation

It is recommend that the Council:

- a) Approve the terms of this report and the actions taken in its name as being in the best interests of the Council, as the basis of the way forward to sustain the financial recovery of the DLO prior to transfer to the proposed public/private partnership and to introduce new private sector providers where appropriate subject to satisfactory resolution of any outstanding issues in relation to TUPE transfer of employees: and
- b) Otherwise note for information the content of this report.



Andrew Cowe
Chief Executive

30 June 1999

AIC/GW/BMcG oc

**RETENDERING OF DLO CONTRACTS
SUMMARY**

1.	<u><i>Recommended for Acceptance</i></u>	Est Value £000	Est Saving £000
	Property - Decoration/Graffiti Removal	350	163
	Property - Electricity Repairs North	200	42
	Property - Electricity Repairs South	170	35
	Property - Water Quality North	225	N/A
	Property - Water Quality South	175	N/A
	Property - Drain Cleaning	125	N/A
	Property - Bit Mac Repairs	200	N/A
	Property - 3 other small contracts	65	N/A
		1510	240
2.	<u><i>Issue to Private Sector subject to confirmation of TUPE conditions</i></u>		
	Housing 6 x Footpath Contracts	1222	
	Housing 3 x Colourwash Contracts	2462	
		----- 3684	713
3.	<u><i>TUPE and Benchmarking Issues to be resolved</i></u>		
	Property Mechanical Engineering 2 Contracts	315	To be determined
4.	<u><i>Benchmarking Issues to be resolved</i></u>		Est Cost £000
	Street Lighting	1450	150 (Year 1)
	Corporate Property North	2250	403
	Corporate Property South	1750	349
	Housing Gas and Solid Fuel	1250 **	547
	Property Bit-Felt Roof Repairs	230	80
	Glazing Repairs	160	124
	Housing 6 x Fencing Contracts *	1855	160
		8945	1813
	Overall Total	14454	

* Subject to final checking

** 1998 Estimated contract value