

Ward: All

Building Services Invest to Save Procurement of Vehicles

Report by the Director for Communities

1.0 Summary

- 1.1 This report requests approval for an Invest to Save scheme proposal for the procurement of 9 vehicles for Building Services. The proposal has been prepared in accordance with the capital strategy requirements and criteria for Invest to Save schemes. It is a capital proposal which is expected to comfortably produce revenue savings that exceed the cost of prudential borrowing by at least 10% over the life of the investment.
- 1.2.1 The proposal supports the increase of work being undertaken by the in-house Building Services team following the award of new contracts, and requires the employment of 8 additional staff and the procurement of 8 medium sized vehicle vans and 1 tipper vehicle.

2.0 Background

- 2.1 Building Services operates as a self contained trading unit within Adur District Council. It has been responsible for the day to day repairs and maintenance of the council's housing stock in the west of the Adur district and the void property repairs across the whole of the Adur district since 2007. In 2010 the service took on responsibility for lock changes and repairs to all entrance doors. In October 2012 it also became responsible for the repairs and maintenance of all glazing, PVC windows, doors and screens across Adur.

In the last 12 months Building Services has competitively tendered and won the following reactive repairs contracts:-

- a five year contract to carry out the reactive repairs to all Adur District Council and Worthing Borough Council corporate properties. The contract was subject to Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) and three operatives were transferred to Adur District Council from the previous contractor.

- a five year contract to carry out the reactive repairs to the East side repairs for Adur Homes that will commence on September 1st 2014. The contract was subject to Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) and three operatives were transferred to Adur District Council from the previous contractor.
 - Adur Homes has increased its budget for repairs and improvements to void works by £100,000.
- 2.2 These new contracts are based on a Schedule of Rates regime and are a significant expansion of the business. Logistically reactive repairs require a quick turnaround including an out of hour's service. Most of the staff are multi-skilled tradesmen, and each member of staff requires an allocated medium sized van.
- 2.3 Currently Building Services is working at full capacity yet it is failing to meet all its targets leading to a backlog of repairs. Measures have already been put in place to deal with these shortfalls. However, with a considerable amount of additional work planned for the immediate future there is a need to increase the workforce and team management to an appropriate optimum level to deliver a service that meets tenants' expectations and fulfils corporate obligations.
- 2.4 In summary the amount of work undertaken by Building Services has doubled in the last 18 months whilst staffing levels have only increased by less than 50%. At present the deficit is being absorbed to a degree by employing subcontract and agency labour, but these services are obtained at a premium and it is difficult to maintain consistency of contracted resources due to the reactive nature of the repairs service.

3.0 Proposals including financial implications

- 3.1 Appendix A shows last year's final revenue outturn for comparison. The Business Case has estimated a projected outturn assuming the new East side was in place for a full financial year.
- 3.2 The new contracts are effectively 'demand led' so the projected additional income cannot be guaranteed but represents a realistic, prudent estimate.
- 3.3 The additional income is expected to be £630,000 pa, and would increase the positive contribution/surplus from Building Services from £122,000 pa to £405,000 pa, after taking into account additional direct costs such as staff, supplies and running costs that are needed to deliver the work.

3.4 The staffing levels needed to deliver the proposals would change as follows:-

	Current	Proposed
Manager	1	1
Assistant Manager	1	1
Admin Assistant	1	1
Supervisor	0	1
Carpenter	1	2
Plumber	1	1
Electrician	1	1
Drainage	1	1
Multi-trade	9	15
Total	16	24

3.5 When the new staffing levels are fully bedded in Building Services is intending to recruit 2-4 apprentices. This will not require additional vehicles but in the longer term will help to speed up the turnaround time for each repair. The cost of employing apprentices is not included in the financial estimates reported in Para 3.3 above, or the option appraisal contained in Para 3.7 below, but would be expected to be met from the additional income generated.

3.6 For schemes to satisfy the council's Invest to Save criteria the additional net revenue raised from the proposals must exceed the cost of financing (usually prudential borrowing) the vehicle acquisitions by more than 10%.

3.7 Accordingly, a financial option appraisal was undertaken for all vehicles which considered a number of alternative funding options. The cash outlays for each option were further discounted to Net Present Values (NPV) to reflect the relative timing effects on the value of money, which is regarded as a more appropriate indicator of overall cost. The results are summarised below based on financing the capital cost over 5 years, being the minimum expected usage of the vehicles.

Vehicle Type	1 x 3.5 tonne flatbed tipper		8 x medium L2H1 panel vans		Total	
Purchase Price	£21,000		£96,000		£117,000	
	Cost including interest £	Discounted NPV £	Cost including interest £	Discounted NPV £	Cost including interest £	Discounted NPV £
Operating Lease	18,978	17,946	76,560	72,391	95,538	90,337
Finance Lease	25,765	18,813	103,061	78,043	128,826	96,856
Purchase by Annuity Loan	19,534	18,108	81,337	75,173	100,871	93,281
Purchase by Maturity Loan	18,725	16,995	88,800	80,539	107,525	97,534
Purchase using Capital Receipts	20,055	20,807	85,104	85,924	105,159	106,731

- 3.8 The option appraisal showed that acquiring all the vehicles by operating lease is the cheapest funding source. However, the cost of an operating lease is approximately £3,000 less than prudential borrowing by an annuity loan, the latter of which has the advantage of securing ownership of the vehicles outright. This would allow further usage beyond five years, if required, without recourse to extending the lease or obtaining a new lease at a higher cost. Consequently, it is proposed the vehicles be bought outright from prudential borrowing.
- 3.9 Taking all the costs of the proposal into consideration (Appendix B) the total revenue savings that are expected to be generated exceed the costs of borrowing well in excess of 10%, thereby satisfying the Invest to Save criteria.

4.0 Legal

- 4.1 The councils have power under section 111 of the Local Government Act, 1972, to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions. The procurement of vehicles is ancillary to the above functions.
- 4.2 Section 1 of the Local Authorities (Contracts) act 1997 provides that every statutory provision conferring or imposing a function on a local authority confers power on the local authority to enter into a contract with another person for the provision or making available of assets or services, or both, (whether or not together with goods) for the purposes of, or in connection with, the discharge of the function by the local authority

5.0 Conclusion

- 5.1 This proposal is expected to generate additional income of approximately £264,000 pa, which is more than sufficient to meet the Invest To Save criteria for the proposed vehicle acquisitions.

6.0 Recommendation

- 6.1 The Joint Strategic Committee is recommended to approve the Invest to Save proposal to procure 9 vehicles to be funded by prudential borrowing in accordance with Paragraph 3.8.

Local Government Act 1972

Background Papers:

None

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Schedule of Other Matters

1.0 Council Priority

1.1 Ensuring value for money and low Council Tax.

2.0 Specific Action Plans

2.1 Matter considered and no issues identified.

3.0 Sustainability Issues

3.1 Matter considered and no issues identified.

4.0 Equality Issues

4.1 Matter considered and no issues identified.

5.0 Community Safety Issues (Section 17)

5.1 Matter considered and no issues identified.

6.0 Human Rights Issues

6.1 Matter considered and no issues identified.

7.0 Reputation

7.1 Please refer to 9.1

8.0 Consultations

8.1 TUPE regulations have been followed regarding consultation.

9.0 Risk Assessment

9.1 The risk of not procuring the vehicles:-

- Significant downtime for operatives as vehicles would have to be shared
- Escalating damage to corporate property and housing stock due to the significant delay in carrying out repairs
- Reputational risk for Adur Homes and the Council due to the dissatisfaction of tenants and leaseholders

The risk of procuring the vehicles:-

- As all contracts are based on schedule of rates there is a low risk that vehicles would not be fully utilised

10.0 Health & Safety Issues

10.1 Matter considered and no issues identified

11.0 Procurement Strategy

11.1 The report complies with the Procurement Strategy.

12.0 Partnership Working

12.1 Matter considered and no issues identified

BUILDING SERVICES BUSINESS CASE to increase staff - 2 Carpenters and 6 multi-trade ops (cost £200,000 pa) and purchase 9 vehicles at cost £117,000

Additional anticipated income from East Side Contract Adur Homes - £430,000 per annum

Additional income from voids - Adur Homes £100,000 per annum

Additional anticipated income from corporate , £100,000 per annum

Total additional income £630,000

Appendix A

Building services 2013/14 outturn

Description	Final Outturn	% of income
Direct Labour and Salary costs	£	
Salaries	344,065	
Overtime	11,052	
Employers NI	27,554	
Pension costs	41,905	
Employee Insurances	3,076	
Travel expenses	947	
Workwear	3,157	
Agency Staff	2,617	
Direct Management recharges	5,087	
Central Recharges	11,318	
Services brought -in	96,063	
	546,840	60%
Supplies		
Stationery & Office Supplies	1,304	
Cleaning supplies	2,644	
Eqpt,Furniture & Materials	4,002	
Spares Parts & Consumables	199,346	
	207,296	23%

Building Services Business Case - Additional income and costs

Description	Estimated for Business Case	% of income
Direct Labour and Salary costs	£	
Salaries	371,820	
Overtime	11,052	
Employers NI	26,010	
Pension costs	44,258	
Employee Insurances	4,922	
Travel expenses	947	
Workwear	4,857	
Agency Staff	0	
Direct Management recharges	7,674	
Central Recharges	11,318	
Error -No charge for admin building for 2013/14	15,000	
Services brought -in	52,522	
Additional staff required		
2 carpenters	54,860	
6 multi trade	143,760	
	748,999	48%
Supplies		
Stationery & Office Supplies	1,327	
Cleaning supplies	4,457	
Eqpt,Furniture & Materials	6,243	
Spares Parts & Consumables	336,494	
	348,521	23%

Vehicle costs

Vehicle Repairs Maintenance	10,435	
Vehicle Running Cost	613	
Vehicle Fuel	17,354	
Contract Hire Leases	9,713	
Transport insurance	4,544	

42,658 5%

Income

Adur Homes	-794,569	
Corporate	-124,283	

-918,852

surplus excluding support charges and depreciation **-122,057** 13%

Support and depreciation

Recharges from other services	23,713	
Depreciation	7,340	

31,053 3%

Net surplus **-91,004** 10%

Vehicle costs

Vehicle Repairs Maintenance	12,235	
Vehicle Running Cost	898	
Vehicle Fuel	25,451	
Contract Hire Leases	0	
Transport insurance	7,689	

46,273 3%

Income

Adur Homes	-794,569	
Corporate	-124,283	
NEW Corporate	-100,000	
NEW Adur Homes East side	-430,000	
Increase voids	-100,000	

-1,548,852

surplus excluding support charges and depreciation **-405,060** 26%

Additional surplus from new business in 1st complete year - excludes finance charges and includes inflation **-283,002**

Support and depreciation

Recharges from other services	24,187	
Depreciation	10,765	

34,953 2%

Net surplus **-370,107** 24%

CAPITAL SCHEMES OPTIONS APPRAISAL - Invest To Save Scheme

Invest 2 save

Description of Option	1 X 3.5 Tonne flatbed tipper and 8 medium L2H1 panel vans			
Expected Date of Commencement	1st September 2014			
Expected Life of asset	5 years			
Method of Acquisition :	Construction	Outright Purchase	Hire/rent	Leasing
Proposed Method(s) of Capital finance	Capital Receipt	Borrowing	External Finance	Leasing

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Total £
Capital Payments									
Purchase Cost	117,000.00								117,000.00
Other - Technical Services									0.00
									0.00
Total Capital Payments	117,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	117,000.00
Revenue Payments (incremental / whole life)									
Financing Charges	3,357.90	3,357.90	3,357.90	3,357.90	3,357.90	0.00	0.00	0.00	16,789.50
Min/Vol.Revenue Provisions	0.00	23,400.00	23,400.00	23,400.00	23,400.00	23,400.00	0.00	0.00	117,000.00
									0.00
									0.00
Cost of Borrowing	3,357.90	26,757.90	26,757.90	26,757.90	26,757.90	23,400.00	0.00	0.00	133,789.50
EXPECTED Savings (Additional Income less Expenses)									
Savings / Income									
Additional Income from East Side Contract Adur Homes	430,000.00	430,000.00	430,000.00	430,000.00	430,000.00				2,150,000.00
Additional Income from Voids	100,000.00	100,000.00	100,000.00	100,000.00	100,000.00				500,000.00
Additional Income from corporate	100,000.00	100,000.00	100,000.00	100,000.00	100,000.00				500,000.00
Resale Value 5%									0.00
Total Savings	630,000.00	630,000.00	630,000.00	630,000.00	630,000.00	0.00	0.00	0.00	3,150,000.00
Additional Costs									
Staff	198,620.00	198,620.00	198,620.00	198,620.00	198,620.00				993,100.00
Supplies & Services	137,148.00	137,148.00	137,148.00	137,148.00	137,148.00				685,740.00
Vehicle Costs	3,617.00	3,617.00	3,617.00	3,617.00	3,617.00				18,085.00
Other (Specify)									0.00
Total Costs	339,385.00	339,385.00	339,385.00	339,385.00	339,385.00	0.00	0.00	0.00	1,696,925.00
NET REVENUE (COST) / SAVING	290,615.00	290,615.00	290,615.00	290,615.00	290,615.00	0.00	0.00	0.00	1,453,075.00
SAVINGS EXCEED COST OF BORROWING By (£)	287,257.10	263,857.10	263,857.10	263,857.10	263,857.10	-23,400.00	0.00	0.00	1,319,285.50
SAVINGS EXCEED COST OF BORROWING By % (must exceed 10%)	8554.7%	986.1%	986.1%	986.1%	986.1%	-100.0%			986.1%

Additional Information

Net Present Value Basis									
	2%	0.9804	0.9612	0.9423	0.9238	0.9057	0.888		
NPV of Savings	617,652.00	605,556.00	593,649.00	581,994.00	570,591.00	-	-		2,969,442.00
NPV of Costs	332,733.05	326,216.86	319,802.49	313,523.86	307,380.99	-	-		1,599,657.26
Net Saving on discounted NVP Basis									1,369,784.74
								Savings as % Cost	85.63%