

Report of the Director of Neighbourhood Services

## **Vehicle Maintenance and Procurement**

### **Summary**

1. This report provides an update to members on progress with the procurement of a replacement for the current vehicle maintenance provider and makes recommendations for a short to medium term solution.

### **Background**

2. In April 2007, ABRO (Army Base Repair Organisation) commenced a long term contract for the maintenance and procurement of all City of York Council vehicles. This followed a decision to expose the previous in house service to the market as the in house arrangements were deemed to be expensive and inefficient. A procurement exercise was undertaken which resulted in ABRO being successful and awarded a 12 year contract. ABRO also operated other similar contracts outside of their 'core' business, that of maintaining the UK's 'green fleet' (military vehicles and aircraft).
3. The contract commenced in January 2007, following the opening of the EcoDepot. In the May of 2008, the Ministry of Defence (MOD), announced the decision that ABRO should pull out of all their non defence contracts and focus on the maintenance of their green fleet. At the same time, the Minister announced that ABRO would be merged with the trading arm of the RAF, who had received similar instructions to withdrawn from commercial business. The new organisation became the Defence Support Group (DSG). This decision, taken in the light of the continuing war theatres overseas, has led to DSG looking to extract themselves from all its commercial contracts including City of York Council.
4. DSG has indicated that it wishes to give up its contractual obligations with City of York Council as soon as possible but are sensitive to the needs of our business and that its decision places the council in a difficult, and vulnerable, position.
5. DSG has offered, as a gesture of goodwill, £50k to the council to assist with the cost of any future procurement exercise that the council needs to go through to replace the current arrangements. Whilst this offer remains one that the council will accept, the procurement process takes longer than DSG are prepared to continue working with the council. Therefore, a solution needs to be found so that DSG can withdraw from their contract obligations There exists a Deed of Variation of the main contract with ABRO through DSG to the extent

that the contract will terminate on 31 March 2009 or such extended period for the Council to arrange procurement of the Service. This agreement provides for certain payments to be made by DSG in order to compensate and assist the Council for early termination.

## **Current Costs**

6. The current annual costs to the council for the management of it's fleet is £2,941,325. the is made up of the following elements:
  - a. Fuel - £924,949
  - b. Fixed charges (lease and maintenance or just maintenance if council owned) - £1,063,845
  - c. Repairs - £302,408
  - d. Tyres - £127,853
  - e. Vehicle Hire - £489,786
  - f. Taxi testing - £32,484

## **Update**

7. In November 2008, a Vehicle Maintenance Procurement Board was established. This board consisted of the Director of Neighbourhood Services, senior officers and the finance manager from the same directorate along with officers from corporate finance, legal services and insurance and risk. The first meeting of the board took place in November and a decision was taken then to undertake a review of the current arrangements, what the council was looking to achieve and an appraisal of the councils options. SERCO, a consultancy company specialising in these types of contracts, were employed to undertake this work.
8. SERCO reported back to the board in December 2007. Their report was comprehensive, and included an analysis of options available to the council.
9. The SERCO report indicated that a shared service arrangement with another council or public service body in the region may be beneficial to the council. Several were approached, including other local authorities , police and fire services. The responses from these organisations, whilst initially seeming enthusiastic, soon became luke warm with several later stating they would not be interested.
10. During this time, the council engaged the services of an efficiency partner, Northgate Kendrick Ash (NKA). NKA, as well as working to identify £15m of efficiency savings across the council, expressed an interest in both the short and long term solutions for vehicle maintenance and this raised concerns about the legality of such a proposal. This is further explained in the options section following.

## **Options**

11. The council, as part of the corporate efficiency project, would utilise NKA to undertake the efficiency review as part of their wider corporate remit.
12. This leaves the council to decide on how the service is managed whilst this review is undertaken. The council has three options to consider:
  - i. Bring the service back in house and manage it directly
  - ii. Employ external expertise to manage the service
  - iii. Utilise NKA to manage the service as part of their efficiency review.

## **Analysis of Options for Service Management**

13. The analysis of the three options, as detailed in para 12, exclude any efficiency review and are solely based on management of the service.

### **In House**

14. If this option was considered, NKA would still scrutinise the service as part of the corporate efficiency project whilst the service would be managed directly by the council. Following the efficiency review, it may transpire that bringing the service back in house on a permanent basis is the preferred option.
15. Bringing the management of the service back in house immediately poses a significant risk to the council. It was not an effective and efficiently managed service prior to exposure to the market and little has changed in the way the service is managed to make running it directly, in the immediate future, a serious option.
16. Conflict of interest between the efficiency review and ongoing management of the service may be a factor that prolongs, or inhibits, the efficiency review.

### **External Expertise**

17. If this option was considered, NKA would scrutinise the service and external management expertise would be brought in to manage the service.
18. No work has been undertaken to identify what availability there is in the market for external management expertise. With it being only a potential short term solution, and having to work with NKA to drive through efficiencies, a procurement exercise may need to be undertaken that would add further delay to the departure of DSG.
19. Similar conflicts of interest between the management of the service and the efficiency review may also be a factor, similar to those of bringing the service back in house.

20. As a result of the SERCO report, as mentioned in para 9, the council approached several other regional organisations and local authorities with a view to entering into a shared service agreement. Of those approached only Leeds City Council provided a written proposal and this is attached as Annexe A.
21. The Leeds proposal offers both service management and efficiency review although, as already indicated in para 11, NKA will undertake the efficiency review so the Leeds proposal would be considered for service management only.
22. The proposal from Leeds includes their latest performance management results and these are not encouraging. They are significantly adrift of several key performance indicators and the trend is not positive.
23. If the council were to consider using external management expertise then a wider procurement exercise would be required.

#### **Northgate Kendrick Ash**

24. The proposal from NKA is attached as Annexe B.
25. In addition to undertaking the efficiency review, NKA, alongside council officers, would manage the service and will also assist in negotiations with DSG on important issues such as:
  - i. Negotiating a final price for workshop equipment
  - ii. Ensuring that the council receives the £50K from DSG as their contribution towards future procurement and explore opportunities for a contribution towards an interim solution.
  - iii. Ensuring that current IT systems for fleet maintenance (TranMan) and fuel monitoring (Merryfield) were maintained and available to the council.
  - iv. Negotiating on fuel supply to achieve the best and most cost effective solution for the council
  - v. Negotiating on the framework agreements currently entered into by DGS around vehicle hire.
26. NKA believe that negotiations with DSG would commence in mid March 2009 and work would commence in early April.
27. As a starting point, and immediately following negotiations with DSG, NKA would carry out an immediate review of the current service arrangements. This would allow them to:
  - i. verify the original estimates made by NKA and track any changes

- ii. establish the full potential of any wider efficiency gains to be won.
28. Once this initial exercise is completed, after 4 – 6 weeks, NKA would then forecast the full extent of the efficiencies to be gained and agree them with the Neighbourhood Services Director.
29. NKA would implement an agreed action plan for delivery of the services whilst providing day to day management of all the service activities. NKA would also assist York to evaluate the form of the longer term solution. If, after four months, it is evident that a period of management longer than six months is required to arrive at the appointment of a partner or contractor, NKA would inform the York Director of Neighbourhood Services and, if required, would extend the term of the arrangement.
30. The NKA risk model, agreed within the Northgate Corporate Efficiency Partnership, would apply. The savings achieved would be credited to the total savings of that Partnership and the total fees would be subject to the same rebate formula as in the Partnership contract.
31. The NKA mode of operation is to take personal responsibility of the service whilst driving through efficiency and transformational change. This model allows NKA to directly manage and implement the initiatives required. This, in effect, means NKA staff managing the service on a day to day basis. Their proposal for DSG is in line with this.
32. This direct management accountability is critical for NKA to employ their risk based model (i.e. putting their fees at risk against agreed deliverables). Driving out these efficiencies in a short space of time requires the NKA team on site having responsibility for day to day operations.

## **Costs**

33. Costs have been identified for the Leeds and NKA proposals but not for any other external expertise or the in house option.
34. The Leeds and NKA costs cannot be simply compared with each other as the proposals are fundamentally different. There will be a cost to the council if Leeds, external expertise or in house options were used. However, with NKA using the agreed operational risk model, then any costs are recoverable from savings and if identified savings are not achieved, then a rebate would apply.
35. Leeds' costs are included in their proposal.
36. NKA have indicated that a monthly fee of £15,000 would be made for the management and review of the service. An additional £5,000 would be added to the first two months costs to cater for the initial review and negotiations with DSG. As indicated in para 33, the NKA risk model would apply.

## Conclusion

37. It is clear that any efficiency work is undertaken by our already approved partner, NKA. The key decision is whether NKA manage the service as part of the efficiency review or whether other management arrangements are put in place.
38. In house management is not considered to be a viable option at this stage, though may be in the future following the review. The council does not have the necessary expertise to manage the service though will contribute to the other arrangements that will be implemented.
39. External expertise may, on the face of it, be a cheaper option. This option, though, will incur additional costs that will not be recoverable from any future savings. Given that only one proposal has been received, a further procurement exercise, adding delay to the project, would be needed to identify a proper and workable arrangement.
40. NKA have a track record of success already within the council with the transport partnership. They applied their risk model to this project and undertook direct management of the service to achieve positive results. NKA indicate that direct management accountability is critical to employ their risk based model. Given that NKA will be undertaking the efficiency review, and applying their risk based model, then, as part of that, they will require to manage the service directly whilst doing so.

## Implications

**Financial** – NKA have stated that any savings realised from this project would contribute to the wider council wide savings. Therefore their fee would be part of their overall fee to the council and subject to a rebate if the savings were not realised. Costs would also be covered by savings realised.

If NKA do not undertake the management of the service as part of their efficiency review, then additional costs would be incurred.

**Human Resources (HR)** – Staff currently employed by DSG, fitters, workshop managers and admin staff would be subject to a TUPE transfer back into the employment of the council. The council will manage this process. It may ultimately be that the staff transfer to another employer in the future, depending on the outcome of the review, or remain in house if that is a realistic option for the council.

**Equalities** – no implications

**Legal** – Legal advice has been sought on both options and is contained in the body of the report.

**Crime and Disorder** - no implications.

**Information Technology (IT)** - no implications.

**Property** - no implications.

**Other** - no implications.

## **Risk Management**

41. There will be risk to the council in entering into any of the options detailed in the report. For the preferred option, a comprehensive risk assessment and register would be established and agreed, using the council's corporate risk management framework.
42. This will be owned and managed by the councils project manager and discussed and reviewed regularly with the service and efficiency manager.

## **Recommendations**

43. Members are asked to:
  - i. Note the options in the report
  - ii. Approve the option of using NKA to provide interim management for, and efficiency review of, vehicle maintenance to be funded from the council's Corporate Efficiency Project.

## **Contact Details**

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Director of Neighbourhood Services

**Report Approved**  **Date** 2 March 2009

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Director of Neighbourhood Services

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### **Specialist Implications Officer(s):**

**Wards Affected:** *List wards or tick box to indicate all*

**All**

**For further information please contact the author of the report**

### **Background Papers:**

**Annexe A** – Leeds City Council Proposal

**Annexe B** – Northgate Kendrick Ash Proposal