



To: Executive Councillor for : Strategy & Transformation
Cllr Lewis Herbert

Report by: Head of Estates and Facilities

Relevant scrutiny committee: Strategy & Resources 12/10/2015
Scrutiny Committee

Wards affected: ALL

MILL ROAD STORES – FUTURE OPTIONS

Key Decision

1. Executive summary

This paper summarises proposals for the re-location of the materials stores service from Mill Road Depot in preparation for plans to vacate and dispose of the site by 2017. Re-location can be achieved by either outsourcing the service to established merchant suppliers or by transferring the in-house service to alternative premises.

The service also requires significant modernisation to improve stock management processes and to support a more mobile and flexible operational team which has to become increasingly less reliant on visits to a central depot site. Approval is therefore sought to carry out a full market testing exercise in order to properly assess the relative costs and service standards possible from either a retained “in-house” service or an external provider prior to reaching a final decision.

2. Recommendations

The Executive Councillor is recommended to:

- a. approve the proposal to invite competitive tenders(market testing) for the possible future provision of a stores service by external providers.
- b. authorise the Director of Customer and Community Services to agree, following consultation with Executive Councillor, the Director of Resources, Chair and Spokes of the Committee, to new arrangements for a re-located Stores Service based upon the outcome of a full cost/quality comparison between a retained in-house service and the results of formal market testing.

3. Background

3.1. Existing Stores Service

- 3.1.1. The existing stores service occupies a purpose built store shed with approximately 400sq.m floor area and a mezzanine floor.
- 3.1.2. The service has operated in its current form from Mill Road depot for many years. Overall stores activity has reduced significantly in the last 10 years as depot based services have been outsourced(Planned Maintenance Works, Cleaning Services) or relocated to other sites(Waste Services to Waterbeach).
- 3.1.3. The current stores service now operates almost entirely as a supplier of building materials to the Repairs & Maintenance(R&M) team within Estates & Facilities (E&F). In 2014/15 the R&M team accounted for over 85% of stores transactions and this reliance on the R&M work will inevitably increase further when one of its few other customers service areas, Vehicle Maintenance, relocates away from the Mill Road site.
- 3.1.4. Excluding the supply of building materials to the R&M function the stores team currently provides branded workwear and protective clothing, miscellaneous cleaning materials and some general supplies to the Vehicle Maintenance and Streets & Open Spaces teams.
- 3.1.5. Current staffing comprises two Storekeepers/Drivers, one Stores Team Leader and one Buyer(temporary post).

3.2 Issues

- 3.2.1. The Council has an overriding priority to vacate Mill Road and release the site for disposal and re-development by March 2017. The stores service will therefore have to be re-located elsewhere within the next 18 months.
- 3.2.2. Additionally, there is a need to modernise the entire process of supplying materials to the R&M workforce so that there is much less reliance on traditional practices of multiple, inefficient depot visits to collect materials and much greater use of comprehensive, managed van stocks, auto-replenishment and mobile site deliveries.
- 3.2.3. Successive audits (most recently 2011 and 2015) have identified that many of the Stores material stocklines have never been formally tendered or benchmarked and procurement is often “negotiated” locally or sourced via long established and un-tested suppliers.
- 3.2.4. The audit and replenishment of existing DLO fixed van stocks is largely unmanaged as part of the overall stores service and requires

much greater intervention and establishment of standardised stock controls(6 monthly audits) and work practices to reduce materials wastage.

- 3.2.5. Ordering of materials into stores from multiple suppliers on daily/weekly basis is very time consuming and in 2014/15 the purchase of £750,000 worth of building materials for R&M generated in excess of 6800 individual invoice transactions. Processing such a high volume of individual orders/invoices is very inefficient and wasteful use of staff administrative resource. Even using a very conservative estimate of £15/ invoice for the cost of processing then this cost equates to over £100,000 each year.
- 3.2.6. Comprehensive reporting of management information about materials issued/operative/job together with details of all consumables, power tools, workwear and other sundry items is not readily available.
- 3.2.7. Stocklines in stores require comprehensive review and rationalisation. There are currently in excess of 2200 different stocklines but many have not been accessed within the last year.
- 3.2.8. Ready access to the stores service in its existing location and format supports a long established, but inefficient, practice for R&M operatives to return frequently and unnecessarily to Mill Road depot to obtain materials on that would be better sourced from fully managed and enhanced van stocks or via mobile site deliveries. This practice is supported by the relative ease of parking which would be unlikely to be replicated on a more restricted alternative site. A move to alternative premises would be an opportunity to completely review the stores delivery model and to implement the changes needed to modernise. All external suppliers, who were consulted during the soft market testing exercise, confirmed that their stock management and delivery systems are already well developed and capable of delivering the up to date service required.
- 3.2.9. Current overhead re-charge for stores is approximately 19% for all materials. As transactions continue to reduce with services vacating Mill Road the percentage overhead will inevitably increase unless the total overhead can be reduced. Consultations with market competitors indicate an equivalent addition of 8-12% for a bespoke managed stores facility.

3.3 Options for Stores Service

- 3.3.1 Given the principal objective of re-locating the stores away from Mill Road there are only two possible alternatives to consider:

OPTION 1: Retention of the existing in-house service but re-located on a different site. The potential benefits of this option are

- Retention of in-house team and positive message of commitment to long serving staff
- Retention of established good service practices developed at workforce level between long serving employees

However work must also be done to fully review the service provision to address many of the current issues (outlined in 3.2 above) concerning non-compliant procurement practices, inefficient working and the provision of accurate management information

OPTION 2 : Fully Outsourced Service (contracted service)

The procurement and engagement of a major private sector materials supplier provides a clear opportunity to re-locate the stores service from Mill Road whilst also potentially addressing all of the current outdated service failings and embracing modern industry standard practices, efficient working, stock management (supported by a Regional and National Distribution Centres) and reporting procedures.

3.3.2 Early market investigations suggested that the option of outsourcing the stores service could have considerable attraction. There is an established market of, well-resourced Builders Merchants available who have already developed business models and modern processes which could readily meet the Council's demands Early indications were that cost savings could also be achieved.

3.4. Soft Market testing of External providers

3.4.1 External service provider claims can be overstated, so to further test the outsourcing option in more detail, a "Soft Market" Testing exercise was undertaken in July 2015. This entailed inviting interested organisations to review our bespoke service requirements and to complete a Request for Information (RFI) document to explain how, or whether, these could be met.

3.4.2. The RFI confirmed that any replacement stores service would be required, as minimum, to provide:

- a. Counter service
- b. Comprehensive standardised van stocks
- c. Managed and regular Van Stock audits
- d. Deliveries to site for large items and "project packs" (bathroom/kitchen packs)
- e. Product rationalisation - economy of scale and VFM on material purchasing

- f. Competitive pricing of all CCC major volume stock items and standardised equipment – kitchen, bathroom styles
- g. Transparent and competitive pricing of “non-standard” and non-stock items

Additionally, prospective tenderers would be required to demonstrate how they could fulfil additional service requirements

- a. Full management and comprehensive transaction reporting of CCC’s specific stock range (400 regular stocklines, over 2000 total)
- b. Waste removal and handling from site
- c. Emergency stock deliveries
- d. Out of hours access to materials and plant
- e. Emergency Response facility
- f. External storage area for reclaimed specialist materials and rare stock retained for longer term use
- g. Additional considerations of Uniform, tool hire, plant hire – covered by a comprehensive supply chain, and stocked to meet need.

3.4.3 No commitment to any formal tender opportunity was given with the RFI which was essentially an information gathering process. Potential suppliers were also invited to attend a site visit and to tour and discuss the current service with our stores team as part of the process.

3.4.4 The information obtained from the “Soft Market” Testing exercise confirmed, as expected, that there are existing local suppliers who could potentially deliver the required Stores service with possible savings and greater efficiency than the current in-house model.

3.5 Proposal

3.5.1 The option of Outsourcing (Option 2) satisfies the principal objective of re-locating the stores service and vacating the Mill Road site without having to source alternative premises. The option also appears to satisfy a number of secondary, albeit very important, objectives for modernising the service, regularising procurement, establishing more transparent and rigorous stock management and potentially saving cost.

3.5.2 In order to fully test the option it is therefore proposed to proceed with a Full Market test for the future stores service and to invite comprehensive and competitively priced tenders from external providers. A formal tender specification will allow tenderers flexibility to demonstrate innovation and explain how their own services would be tailored to meet and improve the overall stores provision to CCC.

- 3.5.3 It is further proposed that the tender process will not include an “in-house” bid from the existing stores team but that a full VFM exercise will be completed, post tender, in order to compare the submitted proposals with a retained in-house service(taking account of the cost of service modernisation and procurement of the new premises required) in terms of overall cost, and adherence to the service requirements as summarised in 3.4.2 above.
- 3.5.4 Subject to the outcome of the VFM analysis it is proposed that a final decision on whether to proceed with either an outsourced provider or relocated in-house service will be delegated to the Director of Customer and Community Services, following consultation with Executive Councillor, the Director of Transformation & Resources, Chair and Spokes of the S & R Committee.

3.6 Proposed Delivery Timescale

| Deadline | Activity |
|----------------|---|
| Oct 2015 | Member approval of proposed tender invitations(Housing & S&R) |
| Nov/Dec 2015 | Completion of tender documentation/specifications |
| Dec 2015 | Invitation to Tender |
| Jan 2016 | Tender returns |
| Feb/Mar 2016 | Evaluation of Tenders & in-house VFM exercise |
| April 2016 | Final decision delegated to Director of C & CS |
| May – Oct 2016 | Mobilisation, relocation etc |
| November 2016 | New stores provision operational |

4. Implications

4.1 Financial Implications

No additional cost implications. Potential savings as a result of the implementation of an outsourced or modernised in-house service

4.2 Staffing Implications

Potential staffing/TUPE implications for the existing in-house stores team of 3 FTE employees. The employees and their Trade Union representative have been kept fully informed of the work to date and the reasons for the proposed changes. Full consultations will be required, with HR support, once the tendering is resolved and the preferred service option is identified.

4.3 Equality and Poverty Implications

None

4.4 Environmental Implications

None

4.5 Procurement

Via EU compliant Open Tender process managed by Head of estates & Facilities with full support from the CCC in-house procurement team.

4.6 Consultation and communication

4.6.1 Existing stores team have been advised and have been involved in drawing up specifications of the services required.

4.6.2 Consultation with potential external market service providers has been completed using a Soft market testing exercise in July 2015.

4.7 Community Safety

There are no community safety implications

5. Background papers

None

6. Appendices

None

7. Inspection of papers

If you have a query on the report please contact:

| | |
|------------------------|--|
| Author's Name: | Trevor Burdon |
| Author's Phone Number: | 01223 - 457831 |
| Author's Email: | trevor.burdon@cambridge.gov.uk |