

CABINET

23 January 2018

Title: Essex and Suffolk Water Agreement	
Report of the Cabinet Member for Finance, Growth and Investment	
Open Report	For Decision
Wards Affected: None	Key Decision: Yes
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Accountable Director: Robert Overall, Director of My Place	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary: <p>The Council collects water and sewerage charges from its social housing tenants on behalf of Essex and Suffolk Water (ESW) who trade as Northumbrian Water. In return for providing this service, the Council receives an administration recoupment payment from ESW which is paid into the Housing Revenue Account (HRA).</p> <p>During 2017, Council officers were in negotiations with ESW to enter into a new contract. These negotiations have resulted in changes to the contract with an administration recoupment rate of 15% of the charges from ESW plus a 2% void allowance.</p> <p>The report presents the proposal to enter into a formal three-year contract with ESW on the revised terms, which will be effective from 1st April 2017. It is estimated that over the three-year term of the contract the Council could be collecting in the region of £21m on behalf of ESW and obtaining a total administration and voids allowance in the region of £3.6m (17%), subject to price inflation and stock loss adjustments.</p> <p>In accordance with the Councils procurement policy any contract in excess of £500,000 requires Cabinet approval.</p>	
Recommendation(s) <p>The Cabinet is recommended to agree that the Council enters into the revised three-year agreement with Essex and Suffolk Water, effective from 1 April 2017, on the terms set out in the report.</p>	
Reason(s) <p>To assist in achieving the Council's vision of 'a well-run organisation' through the provision of an efficient and cost-effective Housing Management service to tenants and leaseholders.</p>	

1. Introduction and Background

- 1.1. The Council collects water and sewerage charges from its social housing tenants on behalf of Essex and Suffolk Water (ESW) who trade as Northumbrian Water. In return for providing this service the Council receives an administration recoupment payment from ESW which is paid into the Housing Revenue Account (HRA).
- 1.2. During 2017 Council officers have been in negotiations with ESW to obtain a higher percentage level of admin fee and void allowance. These negotiations have resulted in an increase in the administration recoupment rate from 15% to 17% of the charges from ESW.

2. Proposal and Issues

- 2.1. The report presents the proposal to enter into a formal three-year contract with ESW on the revised terms, which will be backdated to 1st April 2017.
- 2.2. The Council's fee for collection of water charges currently stands at 15%. The ending of the current three-year term presented an opportunity to renegotiate. Under the terms of the proposed agreement, the Council will receive a 17% fee.
- 2.3. Whilst the current contract was for two years with a notice period of one year the new contract is for three years.
- 2.4. In 2016/17 the HRA paid Essex and Suffolk Water £7.1m in respect of water and sewerage charges and received an income of £1.1k based upon a 15% (13% Admin and 2% Voids).
- 2.5. Based on the proposed fee of 17%, and an estimated water and sewerage payment of £7.1m in 2017/18, it is expected that the level of income will increase to £1.2k. The water and sewerage charge and fee may both reduce in future years due to stock loss but this will be partially offset by any price inflation. Over the course of the contract the Council could be collecting in the region of £21m on behalf of ESW and obtaining a fee in the region of £3.6m.
- 2.6. The contract is proposed to be effective from 1st April 2017 for a period of three years with either party having the right to cancel the agreement after two years by serving notice on the other party no less than 12 months prior to the commencement of a financial year (1st April)

3. Options Appraisal

- 3.1 The structure of the water supply industry in the UK is such that the council has no choice in who provides the service. Hence, use of the negotiated process as opposed to the usual competitive tendering process.

4. Consultation

- 4.1 The Cabinet Member has been kept informed of the negotiations and colleagues in finance have been directly involved in the negotiations with ESW. The Procurement Board has also been appraised of the current position.

5. Financial Implications

Implications completed by: Martin Sharp, Principal Accountant

- 5.1 In 2016/17 the HRA paid Essex and Suffolk Water £7.1m in respect of water and sewerage charges and received a fee of £1.1m, based upon 15%.
- 5.2 Based on the proposed fee of 17% and an estimated water and sewerage payment of £7.1m in 2017/18 it is expected that the level of income will increase to £1,2m. The water and sewerage charge and fee may both reduce in future years due to stock loss but this will be partially offset by price inflation.
- 5.3 The fee includes a 2% void allowance which covers our current void level. Confirmation of actual performance is required by ESW from LBBD Housing.
- 5.4 The arrangement places the risk of non-collection with the council, and the introduction of welfare reform potentially increases this risk. Non-collection would have to be absorbed within the wider HRA.
- 5.5 The increase in fee will be factored into the 2018/19 HRA budget.
- 5.6 Under the revised contract a gross payment will be required to ESW with an invoice to be issued and sent by LBBD Housing to ESW to request payment of the Admin fee and Void Allowance, this will ensure clear separation of the two elements.

6. Legal Implications

Implications completed by: Martin Hall, Legal Team Leader, Commercial Housing

- 6.1 The Council's Contract Rules, rule 28.8, requires that all procurements of contracts above £500,000 in value must be submitted to Cabinet for approval.
- 6.2 Under the proposed arrangement, the Council will not be procuring services but will be providing services to Essex and Suffolk Water. As such the Public Contracts Regulations 2006 are not applicable. Under this arrangement the Council can generate income through commission earned on money collected on behalf of Essex and Suffolk Water.
- 6.3 Contract rule 49.2 requires that all contracts with a total contract value of £100,000 or more must be sealed by Legal services.
- 6.4 Legal Services will be available to assist and advise in relation to any queries which may arise.

7. Other Implications

- 7.1 **Risk Management** - The Council will retain the risk of non-collection. Whilst 2% void allowance has been built into negotiations, any additional losses will have to be absorbed within the remaining 15%. The additional risk relating to the impact of changes to welfare benefits where tenants may withhold rent payments in favour of other personal expenses has also been considered. The impact of welfare reform

was one of the primary negotiation points used by the Council in its discussions with ESW. The reduced contract period will enable the Council to reconsider its position prior to the planned roll out of Universal Credits.

- 7.2 **Contractual Issues** - The contract is proposed to be effective from 1st April 2017 for a period of two years with either party having the right to cancel the agreement after two years by serving notice on the other party no less than 12 months prior to the commencement of a financial year (1st April).
- 7.3 **Corporate Policy and Customer Impact** - There will be no direct impact on council tenants as the agreement is a continuation of existing arrangements, albeit on better terms which will benefit the HRA.

Public Background Papers Used in the Preparation of the Report: None

List of appendices: None