

CABINET

8 April 2014

Title: Essex and Suffolk Water Agreement	
Report of the Cabinet Member for Housing	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Divisional Director: Maureen McEleney, Divisional Director of Housing and Neighbourhoods	
Accountable Director: Darren Henaghan, Corporate Director of Housing and Environment	
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 2013 Council officers were in negotiations with ESW to obtain a higher percentage level of commission. These negotiations have resulted in an increase in the administration recoupment rate from 13% to 15% of the charges from ESW.</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 1 April 2014. It is estimated that over the course of a three-year arrangement the Council could be collecting in the region of £19.5m on behalf of ESW and obtaining a commission in the region of £3m.</p> <p>In accordance with the Council's 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 a formal three-year agreement with Essex and Suffolk Water, effective from 1 April 2014, on the terms set out in this report.</p>	
Reason(s) <p>The Council's vision and priorities are underpinned by the theme 'a well-run organisation'. This report supports this theme and enables the Council to provide an efficient and cost effective Housing Management service to its tenants and leaseholders.</p>	

1. Introduction and Background

- 1.1. By Minute 52 (2 November 2010, the Cabinet agreed proposals for the Council to collect 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 2013 Council officers were in negotiations with ESW to obtain a higher percentage level of commission. These negotiations have resulted in an increase in the administration recoupment rate from 13% to 15% 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, effective from 1 April 2014.
- 2.2. The Council's commission for collection of water charges currently stands at 13%. The ending of the current three year term presented an opportunity to renegotiate this commission rate. Under the terms of the proposed agreement, the Council will receive 15% commission.
- 2.3. Whilst the current contract was for three years it also contained a one year notice period which meant that the Council was contracted for four years. The negotiations have enabled the new rate to apply from the end of the three-year term. The revised agreement, therefore, offers a significant improvement in terms of value and efficiency in administration.
- 2.4. In 2013/14 the HRA paid Essex and Suffolk Water £6.6m in respect of water and sewerage charges and received a commission of £860,000 based upon 13%.
- 2.5. Based on the proposed commission of 15%, and an estimated water and sewerage payment of £6.5m in 2014/15, it is expected that the level of commission will increase to £975,000. The water and sewerage charge is expected to reduce in 2014/15 due to decanted properties through the Estate Renewal Programme. Over the course of the contract the Council could be collecting in the region of £19.5m on behalf of ESW and obtaining a commission in the region of £3m.
- 2.6. The contract is proposed to be effective from 1 April 2014 for a minimum period of three years, with either party having the right to cancel the agreement by giving 12 month's notice at the end of year two of the contract. The contract will continue up to the expiry of the 12 month notice period, so will extend beyond the proposed three-year period if the appropriate notice is not given. This gives the Council greater flexibility as to when to renegotiate the terms of the arrangement.

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 the use of the negotiated process as opposed to the usual competitive tendering process.

4. Consultation

- 4.1 The Cabinet Member for Housing 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: Carl Tomlinson, Finance Group Manager

- 5.1 In 2013/14 the HRA paid Essex and Suffolk Water £6.6m in respect of water and sewerage charges and received a commission of £860,000 based upon 13%.
- 5.2 Based on the proposed commission of 15%, and an estimated water and sewerage payment of £6.5m in 2014/15, it is expected that the level of commission will increase to £975,000. The water and sewerage charge is expected to reduce in 2014/15 due to decanted properties through the Estate Renewal Programme.
- 5.3 The commission includes a 2% void allowance which covers our current void level.
- 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 commission has been factored into the HRA rent proposals for 2014/15 and the supporting HRA efficiency programme.

6. Legal Implications

Implications completed by: Kayleigh Eaton, Lawyer

- 6.1 The Council's Contract Rule, 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 contractual implications are explained in the body of the report.

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