

Meeting:	Cabinet
Date:	19 <sup>th</sup> April 2007
Subject:	The Harrow Integrated Property Services Partnership
Key Decision:	Yes
Responsible Officer:	Andrew Trehern, Executive Director of Urban Living. Eddie Collier, Interim Head of Property and Infrastructure
Portfolio Holder:	Councillor Chris Mote
Exempt:	No
Enclosures:	Appendix a – Kier Supporting Information Appendix b – Tender Evaluation data (Pt 2) - Exempt by virtue of Part 3, Part I of Schedule 12A of the Local Government Act 1972 (as amended) on the grounds that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

## **SECTION 1 – SUMMARY AND RECOMMENDATIONS**

### **SUMMARY:**

This report sets out the procurement and evaluation process undertaken, which has led to the recommendation to integrate the full range of the Council's Housing and Corporate property services, within one joint project. The Harrow Integrated Property Services Partnership (HIPSP) is the second major programme of service delivery innovation undertaken by Urban Living in the partnering field, builds on the Infrastructure partnership with Accord MP and responds to the Government's Rethinking Construction Agenda to adopt better and more constructive working relationships.

## **RECOMMENDATIONS:**

Cabinet is recommended to:

1. Approve entering into a partnering contract with Kier, with a commencement date of 1/7/07, for the provision of construction minor works, major works, design and related services, across the full range of the Council's property assets.

## **REASON:**

The desire to transform the customer experience from property related work, away from satisfaction to one of delight, is paramount in the reasoning to move away from traditional adversarial contracts. A new partnering contract with a single contractor, in a well managed genuine partnership, will enable a renewed focus on customers that can be sustained and not repeatedly lost, through the unnecessary break up of successful single project teams.

The existing repetitive multi contractor/consultant approach to construction and maintenance building work within Harrow is both significantly ineffective and represents poor value for money. The current cost to develop, procure and manage design and works programmes, represents a significant charge to revenue and capital budgets. There are over 100 major construction projects tendered within an average annual period and more than 100 maintenance contractors and numerous design consultants engaged at any one time.

The partnership with Kier will rationalise this approach, dramatically reduce the level and number of staff interfaces/overlaps with contractors, together with the risks associated with the constant introduction of new companies. In addition, it will produce cost benefits of around £1.5M in each full year of operation, primarily from Capital and HRA programmes, through the delivery of a more effective service.

## **SECTION 2 – REPORT**

### **2.1 Options Consideration**

Cabinet has previously considered the option to implement an exit strategy from the current Housing repairs contracts and ensure delivery of the Housing decent homes programmes. Members agreed to delegate authority to officers to undertake this approach and as a result, the strategy was developed further by a cross-departmental working group. Options were considered to leave Housing repairs as a separate area or encompass the works within a more cost effective, integrated approach to property services. The conclusion was that there were significant synergies to be achieved from incorporating the future repairs contracts, alongside the decent homes projects and that this would achieve a

seamless approach to property management and provide tenants with a more effective service.

Information on how this approach would be managed, together with the process for re-tendering Housing and Corporate building works, through the Harrow Integrated Property Services Partnership, was included within a report to Tenant's and Leaseholder's Consultative Forum in January 2006 and a subsequent report to Cabinet 6/4/06.

## **2.2 Background**

The Urban Living Directorate has advocated the partnership approach to service delivery in recent years and led the procurement of a new supplier for Highways engineering works and Transport planning management, through the partnership with Accord MP. This project was successfully designed, developed and implemented during 2005/6, with tangible benefits in time and cost management currently being delivered. The recent major roadwork contract in Station Road, where a complex work programme was completed on time and under budget with the use of innovative quieter surface materials, is an example of the potential advantages of a collaborative contractual relationship.

The concept of building on this partnering approach was expanded into the Property service, where the HIPSP project scope was built around Harrow's vision of integrating all phases of the construction and maintenance process, into one holistic view of property services management. Significant increases in the Council's capital programmes, through the need to accelerate decent homes work to achieve the standard by 2010 and the major influx of funding for Building Schools for the Future have accentuated the need to deliver projects as efficiently as possible.

## **2.3 Brief History**

The cabinet report informing members of the commencement of the HIPSP project in April 2006 included, in line with best practice, a project initiation document detailing the proposed project scope and procurement options. The benefits of combining Harrow's wide range of property services were clearly identified as assisting the Council to improve the quality, innovation and sustainability of its building and asset planning related services, while delivering enhanced value for money and an increased customer focus.

The key areas of improvement are likely to include:-

- The development and retention of skilled and experienced teams, able to deliver innovation, construction excellence and continuous improvement.
- The development of smarter use of resources, generating significant efficiency savings.
- An increased focus on whole life costing, moving away from short-term approaches to property management.
- The full integration of sustainability into our approach to property design.
- A move away from costly and resource intensive adversarial contracts.

- Improved financial management of capital and revenue construction projects.
- The full introduction of a performance led approach to building project management, linked to corporate priorities.
- The ability to resource and complete on time, major capital work programmes.
- The reduction of duplication and professional overlay between organisations addressing the same challenges.
- Re-structuring the supply chain and reducing complexity.
- Moving towards output and outcome based specifications to allow greater innovation in both design and construction.

This report advises Cabinet on the methodology followed to translate the ambition of the outline document into a fully EU compliant partnering agreement. In addition, it details the cross departmental approach to the project and the engagement of portfolio holders and stakeholders throughout the process.

## **2.4 Project Management**

The approach to project management was developed in line with the “Gateway” system of project delivery. A project board was set up to provide overall project direction, together with final accountability for the implementation of the project and delivery of benefits. The Board was led by the Interim Head of Property, under the strategic direction of the Executive Director of Urban Living, together with the Portfolio Holder for Housing and Assistant Portfolio Holder for Property. A project manager and representatives from Legal, Finance, Housing, Property, Procurement, People First, HR, ICT and Internal Audit attended the board, with specialist support from Trowers and Hamlin solicitors and MMBL cost consultants when necessary.

A project team was developed from board nominations and was responsible for managing the project on a day-to-day basis. This involved the creation of specialist sub groups covering risk, ICT, communications, HR issues and tender evaluation etc. The team maintained a comprehensive and up to date risk register throughout the project, which was fully considered and evaluated during the procurement and award stage. In addition, the groups developed system process maps, and project procedure plans for all areas, to enable a fully auditable, transparent procurement process to be produced.

## **2.5 Contract Area**

The contract will cover all minor works of repair and maintenance to housing, corporate and other Council buildings and schools where the Council has a maintenance obligation. This section of the project has its own form of partnering contract (the Term Partnering Contract issued by the Association of Consulting Architects) and will last for 5 years. There is provision for this term to be extended at the Council’s discretion for a further 5 years.

Also included is a major works section for the delivery of the decent homes standard and other aspects of the Housing and People First capital programmes. These will be called down on a project by project basis from a framework

agreement and will have separate contracts for each project or batch of projects governed by a standard form of Project Partnering Contract (PPC) also issued by the ACA. The duration of this agreement, in line with EU guidelines, is 4 years, although with work in progress it is expected in practice to last for 5 years.

The Council will also be able to commission Kier to carry out design and other property professional tasks including engineering and quantity surveying services on a pre-tendered basis. It is expected that this service will be used on most projects but there will be some schemes where more specialist design expertise is desirable and therefore commissioned separately.

## **2.6 Procurement Methodology**

A contract of this size and duration must comply with EU procurement directives and in line with the project plan, an advertisement was placed in the Official Journal of the European Union. This attracted 72 expressions of interest resulting in 37 completed pre-qualification questionnaires.

Short-listing criteria cited in the “Pre Qualification Questionnaire” was used by the evaluation team to deliver a final short list of 5 bidders for the minor works contract and 9 for the major works. Four companies were included on both lists and one of these withdrew late in the tender process making a bid list of 4 companies for the minor works and 8 for the major works. Tenderers on both lists were given the option to include a discount for the award of both packages reflecting the potential for economy of scale.

Financial reviews were undertaken on companies prior to confirming them on a shortlist and references sought. After a bidder’s briefing held 30/10/06, where prospective bidders were requested to confirm their interest, tender documents were dispatched 30/11/06 with a return date of 29/1/07.

All 12 tenders were returned and 11 found to be fully compliant and capable of being formally evaluated.

## **2.7 Project Team Evaluation**

Tenderers were advised in the tender documents of the evaluation process. The matrix used by the evaluation team and agreed by the project board, was decided on the basis of:-

- 40% Cost evaluation.
- 15% Delivery of efficiency savings.
- 20% Quality, including ICT proposals and the capacity to accommodate conditions for transferring staff in terms of employment protection and pension provision.
- 25% Customer and client confidence.

Part of the evaluation comprised a ‘bidder’s challenge session’, held for each bidder who had reached a pre-determined threshold level. These were held on 20-21/2/07 and formed part of the assessment by the evaluation team.

Careful consideration was given throughout the process of the benefits or otherwise of a joint contract award across both minor and major works. The summarised version of the Matrix shown below, is after taking into account all price discounts for appointment to both packages. Kier are the most competitive when aggregating major and minor service combinations and it was the view of the evaluation team that they should be recommended:-

Overall outcome - in ranking order

<u>Minor works</u>	<u>Major works</u>	<u>Score</u>	<u>Ranking</u>
Kier	Kier	143.68	1
Morrison	Breyer	138.62	2
Kier	Breyer	135.48	3
Morrison	Kier	131.72	4
Mears	Mears	111.72	5

Additional details of the matrices used for evaluation are included in Appendix B (part 2)

## **2.8 Customer and Stakeholder Evaluation**

The involvement and consultation with internal and external customers and stakeholders in the evaluation process, was essential to ensure the chosen contractor demonstrated a clear understanding of the need to improve the customer experience from property related work. The need to deliver a modern, effective and cost efficient service, in line with customer's expectations was clearly defined.

The evaluation procedures were therefore structured to enhance the involvement and relationship between the Council and its customer base. Representatives from the Harrow Tenants and Leaseholders Federation were on the evaluation team as well as a representative of school governors and a head teacher. Client budget holders for all areas were also represented.

Advanced briefings were provided by the corporate procurement representative, to ensure meaningful involvement was undertaken within an accountable framework, evenly applied to all bids under consideration. The objective was to allow future service clients and customers to influence the result, gaining their confidence that a service provided by a selected bidder would have been professionally assessed and augur well for the future

The views expressed by customer representatives assisted in the decision making process. It is intended to build on this relationship and include stakeholders in future project management structures. This will enhance the working relationship between the Council and its customers, as contract delivery commences.

## 2.9 Tender Validation

In addition to the formal tender evaluation process undertaken by the project team and agreed by the project board, including portfolio holder members, Harrow's internal audit team were engaged throughout the process and have made the following statement:-

Internal audit has undertaken a review of the contract evaluation process as part of the HIPSP project. The review ran concurrent with the evaluation process to enable proactive input from the Auditor and covered the evaluation of cost, quality and customer/client confidence. Recommendations were made and implemented during the course of the review, that mainly dealt with improving recording of evaluations/decisions, recording of explanations on spreadsheets and process improvements to ensure contractors were compared on a like for like basis. As a result, in the opinion of Internal Audit, the overall process was well managed, transparent and robust.

In addition, further tender validation was undertaken on the tender submission by Kier, which included the following:-

- A visit to Sheffield Council was undertaken by a Harrow cross departmental staff team, led by the Interim Head of Property and Infrastructure. Liaison directly with numerous Sheffield staff, concluded that Kier had made a major contribution to Sheffield's excellent/beacon council status. The corporate and housing repairs contract exceeds £700M over 10 years, decent homes projects are valued at £20M p.a. and Keir currently build one new school each year.
- A thorough review of other reference sites and work scope was also undertaken, concluding that Kier already deliver contracts of a significantly greater value than that proposed for Harrow, for other public sector clients.
- A second check was carried out by Price Waterhouse Cooper on Kier's financial standing and their parent company, concluding that they have the financial stability to undertake this scope of work.
- A full review by the Project Team of the mobilisation plan concluded that the proposed process had been thoroughly developed and provided a clear lead in to the commencement of the contract.
- Kier were additionally challenged to demonstrate adequate resource availability to deliver all of Harrow's construction and maintenance services and the submission received was considered to be comprehensive, realistic and achievable.

## **2.10 Staff Matters**

The project partnership involves the TUPE transfer of craft operatives in the housing building works DSO, which currently numbers 11 staff. Full consultation has been undertaken with Unison and the GMB over this and they have been offered monthly briefing meetings to provide full updates.

Unison have the most members affected and were offered, and took up, a question slot on the bidder's challenge day and formed part of the final customer/client review team.

Full protection of existing terms and conditions has been drafted into contract terms and the pension proposals offered by Kier have been reviewed and found acceptable subject to conclusion of formal options and terms.

The formation of the project board and teams has contributed to a significant area of staff development in procurement and project management terms.

## **2.11 Leasehold management matters**

Some areas of the work to be undertaken under this contract will have a re-charging implication for leaseholders and consultation must be undertaken in accordance with section 20 of the Landlord and Tenant Act 1985 (as amended by section 151 of the Commonhold and Leasehold Reform Act 2002).

The second notice under the above legislation has been sent out and comments are due to be received by 13/4/07. The Council then have 14 days to respond to any relevant observations. Cabinet will be briefed at its meeting on the progress of this and the partnership is flexible enough to respond to any concerns/observations.

## **2.12 Future Contract Management**

In partnering contracts a strong client, acting strategically, is key to success. Managing the HIPSP contract has been fundamental to the review of the new Environmental Services Department and the Property and Infrastructure Group, bringing together all property professionals from across the Council to ensure a fully integrated approach to property matters. The effective management of the Council's property and infrastructure assets is essential to deliver maximum value and this new co-ordinated view was successful in improving asset management to level three, in the recent Use of Resources review undertaken by the Audit Commission.

Property staff managing the HIPSP contract will delegate the maximum amount of process work consistent with an accountable service to Kier. This will free up staff for planning and value added impact, maximising customer satisfaction and building on the start made during the project's procurement for customer participation.

Project delivery will be developed closely with the contractor's professional staff and it is likely that Kier will be asked to undertake significant design and related services allowing improved target setting, value engineering and performance management.

A single service provider will allow improved contract management techniques. Minor works will now be predominately based on the National Housing Federation schedule of rates, which has the benefits of ease of benchmarking with other organisations and reductions in the risk of overcharging for works. Major works contract procurement will change, as former repeated competitive tender procedures yield several (typically up to six) tenders for specific major works projects, now there will be one.

Contract management staff will employ different but no less robust value management techniques. First Kier's profit levels will already be known via the competitive tendering process and built into prices. The Council will then be provided with a full project cost build-up, having jointly agreed with Kier a budget and required work scope. The "Agreed Maximum Price" for the project (a defined PPC 2005 contract term), will be jointly compiled with all labour, material and sub-contractor prices declared. These will be based on the cost models contained in the tender documents ensuring a competitive basis for pricing.

The Council will retain the right to undertake independent benchmarking and cost appraisals by quantity surveyors and a process of review will be agreed with Harrow's internal audit team. In addition, the Council have given no throughput guarantees to Kier and will require optimum value to be continuously demonstrated through the life of the agreement. Individual project procurement outside the partnership will still be an option to the Council, although if this occurs, a through review of the partnership will need to be undertaken.

The principle of an agreed maximum price derived from joint value engineering, is considered a far more accurate assessment of final cost than an often unrealistic and speculative tender. It should be noted that a final project cost and the traditionally tendered sum are rarely the same, with adversarial contracts often encouraging low tenders that disguise the potential level of extra charges.

Training will be required to enhance client management capacity and this has been thoroughly developed with comprehensive training plans in place jointly for in-house staff, customers where appropriate and Kier personnel.

### 2.13 Contract Spend Profile

The current capital programme identifies an indicative spending profile for the next three years and this has been developed alongside the likely minor works available funding, to produce the following tables showing the potential of spend through the property partnership up to 2010.

<b>Capital Programme Service Area</b>	<b>2007/8 (£000s)</b>	<b>2008/9 (£000s)</b>	<b>2009/10 (£000s)</b>	<b>Totals (£000s)</b>
People First	14,000	17,000	11,000	42,000
Corporate	2,500	3,500	3,000	9,000
Housing	12,000	12,000	10,000	34,000
				<b>85,000</b>

The final amount of capital work placed through the partnership, will depend on high contractor performance, continuing levels of Harrow capital investment, the level of external funding available and has the ability in 2010/11 and 2011/12 to be increased further. It should be noted that no throughput guarantees have been made to Kier, but the greater the level of work placed, the greater the cost benefits from economy of scale and spreading of overheads. Over the potential five year course of the major works contract, including Building Schools for the Future, it is anticipated that the total contract value will exceed £100M.

<b>Revenue Programme Service Area</b>	<b>2007/8 (£000s)</b>	<b>2008/9 (£000s)</b>	<b>2009/10 (£000s)</b>	<b>Totals (£000s)</b>
Corporate Repairs	1,500	1,500	1,500	4,500
Housing Repairs	3,500	3,500	3,500	10,500
				<b>15,000</b>

The level of revenue work placed through the minor works contract depends on the continued use by schools of the Council's repairs management arrangements, the level of corporate buildings retained and the funding identified in the Housing options appraisal process. The contract is for five years with an extension clause for a further five years. Over the first five year period it is anticipated that expenditure will exceed £25M.

## 2.14 Contract Performance and Cost Benefits

The table below contains current (Q3) performance data on the CPA BVPI's most likely to be influenced by the property services partnership. In discussion with Kier's continuous improvement manager and subject to the Audit Commission's anticipated threshold settings, targets have been set to achieve realistic attainment of top quartile performance by the years indicated \*.

CPA BVPI's	2006/7 (Q3)	2007/8	2008/9	2009/10
<b>H1 BV184a</b> Non Decent Homes	47% (Red)	35%	17%	1% *
<b>H4 BPSA E5</b> Urgent Repairs in Time	96% (Amber)	98% *	100% *	100% *
<b>H5 BPSA E6</b> Avg Time Non Urgent Repairs	15 Days (Amber)	12 Days	10 Days *	9 Days *
<b>H21</b> % Planned to Responsive Repairs	21% (Red)	35%	55% *	60% *

Significant efficiencies will accrue across the full range of service areas and will be seen through major reductions in the use of agency staff and duplication of effort between Council officers and contractors staff. However, indicative cost benefits can also be demonstrated through the following table, which shows the efficiencies available from the level of capital works and design/supervision services planned to be placed with Kier in the listed areas.

Cost Benefit Area	Proposed Reduction	Benefits 2007/8 (£000s)	Benefits 2008/9 (£000s)	Benefits 2009/10 (£000s)	Benefits Totals (£000s)
Housing major works site overheads	7.18%	861	861	718	2,440
Major works design fees **	3.5%	350	525	525	1,400
Major works supervision	4 Posts	170	170	170	510
					<b>4,350</b>

\*\* It is anticipated that to support the in house design team, major works design services will be placed with Kier at the level of £10M, £15M and £15M over the

next three years. On some major projects, the use of non Kier design teams will be considered.

## **2.15 Contract Mobilisation**

Effective mobilisation of the property services contract is essential to ensure a smooth transition from existing service providers and deliver service improvements as quickly as possible. One early consideration will be the termination of the arrangements currently in place for the Housing repairs service. An exit strategy is in place with Housing and Property staff, together with Legal colleagues leading negotiations with contractors.

In order to effectively contribute to the management of the process, Kier have agreed to resource mobilisation immediately at their risk, so that a comprehensive mobilisation plan will be in place by mid April, with tasks fully allocated. The Project Team has adapted its structure to work with Kier and all functions have been identified including IT integration, health and safety, personnel, as well as the technical function applicable to both the major works and minor works contracts.

An initial conference has been held with Council cross-departmental staff and a full range of Kier senior management, so that functions can be paired up between prospective partners and early consideration given to service continuity.

Contractual mobilisation will include securing formal terms to protect the Council's interests by concluding a parent company guarantee for performance and the correct application of employment law for transferring staff. This section of the mobilisation is being led by legal services with input from Trowers and Hamlin as required.

The overall mobilisation process will be managed through the project board, co-ordinated by the project team and monitored against clear milestones.

## **2.16 Legal Implications**

An EU compliant procurement process enables the Council to enter the HIPSP contract. Legal services have approved the forms of contract to be used and confirms that these give adequate legal protection, setting out the Council's rights and obligations and providing a clear allocation of risk.

The successful and unsuccessful bidders need to be formally notified first and 10 days allowed to elapse, before signing the contract with the successful bidder.

## **2.17 Equalities impact**

This is an area that the HIPSP contract is expected to deliver considerable value added benefits. The award of a very significant workload over a sustained period of time puts the Council in a better position to work with partners to enhance strategic Council objectives in areas such as this.

Kier have undertaken to provide an increased number of apprenticeships targeting “hard-to-reach” groups and young people who have not been successful in gaining employment. Kier have the training capacity to address this and are active in the development of learning academies. In addition, they have won the Contract Journal Diversity Award in both 2005 and 2006.

A positive impact is therefore expected in training, widening the scope of construction related employment, as well as adopting innovative design and better delivery techniques to enhance the quality of life of all Harrow people.

### 2.18 Crime and Disorder section

Integration of design and service delivery in one function will enhance the security impact of design solutions. A long term single source provision will enable relations to be built with crime prevention teams, targeting solutions at areas most important to service customers and enhancing relations through consultation. The joint responsibility for the construction and future life cycle maintenance of buildings will encourage the use of vandal resistant materials.

Projected cost benefits will allow greater amounts of work to be delivered for equivalent budgets, enhancing the quality of Harrow resident’s living environments. Training schemes offered by Kier will aid efforts to reduce local youth unemployment.

## SECTION 3 - STATUTORY OFFICER CLEARANCE

Chief Finance Officer	<input checked="" type="checkbox"/>	Name: Sheela Thakrar Carol Maduka
		Date: 4/4/07
Monitoring Officer	<input checked="" type="checkbox"/>	Name: Stephan Dorrian
		Date: 3/4/07

## SECTION 4 - CONTACT DETAILS AND BACKGROUND PAPERS

**Contact:** Eddie Collier, Interim Head of Property and Infrastructure, X3675

**Background Papers:**

- TLCF Report 5/1/06 : Re-tendering the response maintenance service.
- Cabinet Report 6/4/06 : Harrow's Integrated Property Services Partnership

**Appendices**

Appendix a – Kier Supporting Information

Appendix b – Tender Evaluation data (Part 2)

**IF APPROPRIATE, does the report contain the following considerations?**

1.	Consultation	Yes
2.	Corporate Priorities	Yes
3.	Manifesto Pledge Reference Number	N/A