

REPORT FOR: CABINET

Date of Meeting:	13 January 2011
Subject:	Planned Maintenance Procurement
Key Decision:	Yes
Responsible Officer:	Lynne Pennington, Divisional Director Housing
Portfolio Holder:	Councillor Bob Currie, Portfolio Holder for Housing Councillor Thaya Idaikkadar, Portfolio Holder for Property and Major Contracts
Exempt:	No
Decision subject to Call-in:	Yes
Enclosures:	Procurement Programme / Time-line Equalities Impact Assessment

Section 1 – Summary and Recommendations

This report sets out proposals and reasons for the short-term procurement of a planned maintenance contract to replace the current Major Works contract with Kier.

Recommendations:

It is recommended that Cabinet agree to:

Delegate authority to the Portfolio Holders for Housing and Property and Major Contracts to deliver the programme for 2011/12 using a hybrid procurement approach combining

- (i) the London Housing Consortium (LHC) Frameworks and
- (ii) Housing Asset Management, Legal and Procurement staff resources to let elemental contracts pending a full tendering process.

Reason:

The existing contract with Kier expires in June 2011 and the report explains the rationale for entering into a short term replacement contract pending consideration of the most appropriate long term solution.

Section 2 – Report

Background:

2.1 The Harrow Integrated Property Services Partnership was a multi-asset contract for minor and major repair and maintenance works for housing, schools, corporate and other buildings. It incorporates full design and other related services and provides a one-stop service approach.

2.2 The tender packages are split into Minor works (a term partnering contract) and Major works (a Partnering framework contract). The responsive maintenance (minor works) element of the partnership contract is due to expire in June 2012 with option to extend for up to a further 5 years, subject to the agreement of both parties. The major works contract expires in June 2011 with no provision for extension.

2.3 As from the 1st October 2010 Housing has taken over responsibility for the housing repairs and maintenance function. Prior to this the work was subdivided in major and minor works, where the division was set according to the magnitude of the works – thus responsive and most cyclical was within minor and the capital / decent homes programme formed the major works. The restructure of these sections into housing takes the form of Planned Maintenance and Responsive Maintenance. Planned Maintenance includes all works that can be identified in advance and Responsive includes repairs / replacements resulting from breakdowns / failures. This report relates to the Planned Maintenance procurement.

2.4 The quality and standard of our stock is the highest profile issue for our residents. It is the area that affects tenant satisfaction most and controls the largest single budget within the HRA. Apart from the statutory leaseholder consultation requirement, an important front line service provision such as this must take account of the views and priorities of residents, and in particular tenants. To this end resident engagement will take place using the existing forums and publications including:

- Asset Management Improvement Group
- HFTRA

2.5 Customer satisfaction is critical to the success of the procurement exercise. Previous consultation has indicated that value for money is a high priority and it is essential to stretch limited resources to improve the standard of the dwellings for the residents benefit.

2.6 Existing council construction contracts/partnerships are unable to deliver the 2011-2012 housing programme so an alternative solution is being sought to deliver the Housing Capital programme for 2011-2012.

2.7 Options:

2.7.1 The value of a comprehensive new long term contract to cover the Housing Planned programme would exceed the financial threshold above which we would need to undertake a full EU complaint public procurement and would take approximately one year to achieve.

2.7.2 Housing's preference is to contract separately with specialist providers for each category of Planned Maintenance work to ensure a focus on quality and VFM. One of the main reasons Housing opted out of the Apollo procurement was because it felt that a "one stop shop" large construction company did not always deliver a service suitable to our locally tailored needs.

In some cases, contracting with specialist companies directly is likely to deliver better service and potentially better value for money, as the large construction company overheads will be removed. This will be verified during the pre-procurement phase.

2.8 Therefore the recommended solution would be to procure contracts on this basis for a one year period (2011/12 financial year) whilst planning the longer term solution for 2012/13 onwards. This would have an added advantage of bringing both the Planned and Responsive renewal dates into closer alignment, and thus facilitate a full repair and maintenance (Planned and Responsive) long term solution, should this prove to be the chosen arrangement. The short term contracts would provide adequate time to fully investigate and consult on the form of the longer term contract.

2.9 In addition a one-year "in-fill" arrangement would also provide useful data on the advantages/disadvantages of employing multiple contractors rather than employing a management company to procure works through sub-contractors.

2.10 The procurement process must take into account the need to consult with residents, and in particular to comply with leasehold legislation. This legislation requires two 30-day consultation periods, so even a one-year, non-OJEU contract would not be on site until May 2011 at the earliest.

2.11 All the options identified are listed in the table at the end of this report and are summarised below:

1. Let individual contracts on an elemental basis – reduced risk but not on site until around quarter 2 2011/12

2. Access one or more of the pre-tendered Consortia – e.g.
 - London Housing Consortium (LHC)
 - Cyntra
 - Procurement for Housing (PfH)Note: Harrow placed work through LHC prior to the Kier contract
3. A hybrid of 1 and 2

2.12 Each Consortium is set up to carry out the tendering process and provide members with a list of recommended contractors, each with a pricing framework. The process followed included assessment of quality in addition to pricing.

2.13 The relevant statutory consultation required by the leasehold legislation will be undertaken with tenants in relation to works commissioned under the new arrangements.

2.14 To ensure that both VFM and quality aspects are maximised it is intended to carry out a mini competition between contractors on the Consortium lists.

2.15 Each Consortium covers a limited number of the elements that make up the 2011/12 programme so if a Consortium is used, there would still be a need to let some of the smaller elements through traditional forms of contract. A draft programme is included at the end of this report to indicate the type of contracts that would be required in 2011/12.

Financial Implications

2.16 The HRA Medium Term Financial Strategy 2011-12 to 2015-16 was considered at the December Cabinet and did not include any financial impact in relation to potential changes in the procurement of the Major Works capital funded schemes.

2.17 The draft HRA budget assumes that the cost of the services procured during 2011-12 will be contained within the existing capital allocation of £6.160m. If these services can be procured at a more cost effective price this will reduce the revenue cost of borrowing and assist in managing down the in year deficit currently being reported.

2.18 Any increased costs of monitoring associated with the management of multiple contractors, rather than the current single contractor are expected to be contained within existing staffing levels and costs.

2.19 The risk of financial loss, if this arose, would be a revenue cost to the HRA for which there is no specific provision. A contingency provision of £200k exists for unforeseen HRA expenditure which could be utilised if required. The HRA is projecting balances to be in the region of £3.2m for 31st March 2011, however, an in year deficit of £1.3m is anticipated for 2011-12 if the income maximisation options are not approved, and any further reduction in the balances in relation to a financial claim would further reduce the resources available and affect the longer term viability of the HRA.

Performance Issues

2.20 The proposal is intended to maintain or improve on current performance within the Kier contract and to provide a useful comparison of prices, and thus VFM, between the existing contract and the use of smaller specialist companies on an elemental basis.

Current performance indicators are:

PI:	October performance	Target (end of year)
Customer satisfaction with major works service	100%	98%
Major works - % properties with snags at handover	60%	0%
Major works – number of defects post handover	0.05	0

Additional Performance Measures to be introduced:

Programme delivery on target with plan
Programme within budget estimates

2.21 There is an expectation that there will be efficiencies arising from the proposed arrangements – the impact of potential efficiencies will be built into the contractual arrangements and monitored specifically as part of the above performance measures to ensure contract compliance and delivery of VFM.

2.22 It is not anticipated that the targets would change with the contract replacement, though it is expected that contractor performance should improve.

Environmental Impact

2.23 The works carried out within this contract will be the same whichever form of contract is employed. The use of smaller specialist contractors could result in an increase in the use of more local companies and this could provide a reduction in the transport related carbon footprint.

Risk Management Implications

2.24 The risks involved in the replacement of the Kier contract are set out in the table below.

Risk:

Mitigating factors:

<ul style="list-style-type: none">• Kier may lose interest in the remaining responsive contract if they were to lose the planned contract.	<i>Loss of the contract is due to the agreed contractual term being complete, and not from any disagreement concerning service level or value for money. Kier have indicated they wish to be considered for inclusion on the tender list for the long term solution for the contract for 2012/13 and beyond.</i>
<ul style="list-style-type: none">• If Kier lose the planned contract there is a risk that they may lose interest in the remainder of the 2010/11 programme.	
<ul style="list-style-type: none">• Insufficient specialist contractors to cope with an elemental programme.	<i>Soft market test carried out which indicates that sufficient specialist companies are available.</i>
<ul style="list-style-type: none">• A short time for new contractors to become familiar with Harrow – unless they are previous sub-contractors.	<i>The quality element of contractors' tenders would be a major feature of their selection and appropriate lead in times and training would be agreed.</i>
<ul style="list-style-type: none">• Customer issues in relating to more than one contractor for the planned maintenance work	<i>Needs careful management – Kier currently employ sub-contractors on planned works</i>

Equalities implications

2.25 An EIA has been carried out and a draft is attached, however as the service and its users will remain unchanged we are not anticipating any detrimental impact.

Corporate Priorities

2.26 The replacement of the contract is intended to improve support for vulnerable people by ensuring better performance and higher quality outcomes.

Section 3 - Statutory Officer Clearance

Name: Donna Edwards

on behalf of the
Chief Financial Officer

Date: 7/12/2010

Name: Matthew Adams

on behalf of the
Monitoring Officer

Date: 13/12/2010

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap

Divisional Director
Partnership, Development
and Performance

Date: 8/12/10

Section 5 – Environmental Impact Officer Clearance

Name: John Edwards

Divisional Director
(Environmental Services)

Date: 8/12/10

Section 6 - Contact Details and Background Papers

Contact: Howard Beresford, Head of Asset Management
Tel: 020 8424 1011

Background Papers: None

**Call-In Waived by the
Chairman of Overview
and Scrutiny Committee**

NOT APPLICABLE

**DRAFT HOUSING CAPITAL PROGRAMME
2011/12**

	2010 / 11	2011 / 12	2012 / 13	2013 / 14	Comment
1 C/F from 2009/10 - (Cabinet 23rd June)	1,671,480	0	0	0	
2 Mid year re-phasing	400,000	0	0	0	
3 Capitalised by Housing - salaries	187,000	187,000	187,000	187,000	
4 Property Services Fees	700,000	0	0	0	
5 Aids and Adaptations	700,000	700,000	700,000	700,000	Demand led
6 Contingency / Fire damage	100,000	100,000	100,000	100,000	
7 Decent Homes Standard	3,000,000	0	0	0	Now elemental prog
8 Kitchen / Rewire programme	0	1,250,000	1,250,000	1,000,000	
9 Bathroom / Heating programme	0	1,000,000	1,250,000	2,000,000	
10 Roofs / Doors / Windows programme	0	900,000	1,500,000	2,000,000	
11 Door Entry - repair / upgrade	230,000	0	0	0	
12 Door Entry Renewal	0	200,000	100,000	100,000	
13 Sheltered Lifts	300,000	300,000	300,000	200,000	
14 Sheltered Door Entry	200,000	280,000	0	0	
15 Digital TV Aerials	700,000	350,000	0	0	to be confirmed
16 Electric Heating	500,000	500,000	250,000	0	
17 Environmental Improvements	400,000	300,000	500,000	150,000	
18 Security Flat Blocks	200,000	200,000	200,000	0	
19 Water Tank Replacement	0	25,000	25,000	0	
20 Stock Condition Survey	80,000	80,000	0	0	
21 Sheltered Warden Call	200,000	120,000	0	0	
22 Work following Fire Risk Assessment	50,000	0	0	0	
23 Asbestos database - development	25,000	5,000	0	0	
24 Structural Issues / drainage	450,000	50,000	50,000	50,000	Demand led
25 Loft Insulation	10,000	0	20,000	0	
26 Capitalising Responsive Works	150,000	150,000	150,000	150,000	
27 Garages	30,000	30,000	30,000	0	
28 Communal Asbestos Surveys	75,000	0	0	0	
29 Codeman Licence	20,000	20,000	20,000	20,000	paid from revenue
Total Programmed Costs:	10,378,480	6,747,000	6,632,000	6,657,000	

Revised Budget:

9,681,480	6,160,000	6,160,000	6,160,000
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Over Programming:

697,000	587,000	472,000	497,000
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The Following Procurement Options Have Been Identified

Option	Description	Benefits	Drawbacks
Option 1	Access CYNTRA Housing Frameworks	Pre-procured Frameworks Not duplicating procurement Quickly accessible Access to qualified/experienced staff Leverage consortia buying power	£20-£40k access fee Still need to do mini competition procurement Not all elemental requirements are covered by the frameworks Still need to do cost analysis/benchmark
Option 2	Access London Housing Consortia (LHC) Housing Frameworks	Pre-procured Frameworks Not duplicating procurement Quickly accessible Access to mini competition template docs Access to qualified/experience staff & additional services OJEU Compliant Potential for rebate as an associate member Leverage consortia buying power	5% levy for LHC (in form of rebate from suppliers) Still need to do mini competition procurement Not all requirements are covered by the frameworks Still need to do cost analysis/benchmark
Option 3	LBH to procure own individual contracts (non-OJEU) Using staffing within the Council Housing / Corporate Procurement/Legal	Tailored to fit own requirements No consortia fees, levies (or rebates) Open competition, ensure local specialist companies invited to tender?	Cost of Procurement Harrow staff time required to form contracts Re-inventing the wheel High input for small (1 year) output
Option 3a	LBH to procure own individual contracts (non-OJEU) Using external resources (I.e. Procurement Consultant / capita / RB)	Tailored to fit own requirements No consortia fees, levies (or rebates) Open competition, ensure local specialist companies invited to tender Utilise experienced construction procurement specialist	Cost of Procurement Re-inventing the wheel High input for small (1 year) output
Option 4	Hybrid Procurement - Using a combination of Frameworks and own procurement	Should cover all capital programme requirements Best of both worlds - utilise pre-tendered arrangements where suited Procure areas that frameworks cannot provide value Likely to provide cost savings compared with Kier contract Frameworks: see benefits for Option 2 LBH Procurement: see benefits for Options 3 & 3a	Cost of Procurement Cumbersome to manage See Drawbacks for Options 2, 3 & 3a