

REPORT FOR: CABINET

Date of Meeting: 8th September 2011

Subject: Provision of Responsive Repairs and Maintenance and Procurement of Housing Capital Schemes

Key Decision: Yes
Works valued at in excess of £20 Million and affects all wards

Responsible Officer: Paul Najsarek, Corporate Director Adults and Housing
Brendon Hills, Corporate Director Community and Environment

Portfolio Holder: Cllr Bob Currie, Housing
Cllr Thaya Iddaikkadar, Property and Major Contracts
Cllr Graham Henson, Performance, Customer Services and Corporate Services

Exempt: No but with Part 2 appendix –
Appendix 3 of this report is exempt on the grounds that it contains “exempt information” under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains financial and business information relating to the proposals

Decision subject to Call-in: Yes

Enclosures: Appendix 1 Purchasing Strategy for Responsive Repairs and Maintenance, Cyclical Maintenance and elements of Housing Capital Programme 2012 onwards

Appendix 2 Option 4 diagram
Appendix 3 Exempt Part Two Analysis of offer

Section 1 – Summary and Recommendations

This report sets out the options considered for provision of repairs and maintenance services for Housing and Corporate Property following the expiry of the council's contract with Kier in June 2012.

Recommendations:

Cabinet is recommended to agree that:

1. Procurement of repair and maintenance services for Housing and Corporate Property proceeds on the basis of Option 4 below, for contract periods of up to 5 years as described in the attached strategy document and shown diagrammatically in Appendix 1.
2. The potential for driving savings and service improvement by including corporate repair and maintenance work in a wider Total Facilities Management package, including a possible procurement on a collaborative basis with other organisations, is to be explored by officers. A decision on whether to exclude Corporate Repair and Maintenance work from the proposed procurement described in this report is to be delegated to the Directors of Community & Environment and Adults & Housing in consultation with Cabinet Portfolio Holders for Housing and Property & Major contracts.

(recommendations continue overleaf)

3. The Head of Property, in consultation with the Portfolio Holders for Property and Major Contracts, is authorised to exercise the option to extend the existing contract with Kier on terms to be agreed for up to 6 months if necessary and appropriate to allow sufficient time to complete the proposed procurement process.
4. Delegate the approval of the final specification, contract duration and tender documentation to the Corporate Directors of Adults & Housing and Community & Environment (as appropriate) in consultation with the Cabinet Portfolio Holders for Housing and Property and Major Contracts.

Reason:

The potential expiry of the Kier contract provides the Council with an opportunity to revisit the strategy for delivering repairs and maintenance service to the housing stock as well as some elements of the corporate service. The review process included a review of the market and an assessment of the views of the recipients of the service.

The consultation exercise with recipients assessed what was important to them in any service and this was augmented with a financial assessment and supply chain assessment. This has resulted in a recommendation (Option 4) which officers believe will provide a more customer focused service that has the potential to help the Harrow economy as well as improving the service and achieving significant savings.

Section 2 – Report

Introduction

- 2.1 The background to this matter is that in April 2006 the Cabinet decided to proceed with a project to secure the future provision of all construction and maintenance work (both Housing and Corporate) through an integrated partnership approach. Such a decision was taken against the background of significant increases in the Council's capital programme through the need to accelerate decent homes work and deliver Building Schools for the Future. As part of this process options were considered around leaving Housing work separate the conclusion reached was that an integrated approach to property services would be more cost effective.
- 2.2 The work was tendered in two lots: a 4 year project partnering contract covering major construction and a 5 year term partnering contract covering minor repair and maintenance work which has a council only option to extend for a maximum of a further five years. The outcome of the process was reported to the April 2007 Cabinet, which on the basis of a detailed evaluation exercise awarded both lots to Kier.
- 2.3 The Kier 4 year Project Partnering Contract has expired and been replaced for corporate works by a contract awarded to Apollo to deal with corporate works. Cabinet however agreed in January 2011 to adopt a hybrid of direct procurement and the accessing of Framework contracts for housing major works during the current financial year. An alignment of the Planned and Responsive (construction and maintenance work) renewal dates presents an opportunity for the Council to consider its overall approach to the procurement of these services to meet both Housing and Corporate needs.
- 2.4 As a result of an internal restructure in autumn 2010 responsibility for management of the term maintenance contract with Kier is split between the Housing & Adults and Community & Environment Directorates. In order to ensure robust governance arrangements with a "One Council" approach to determining the optimum procurement strategy and subsequent implementation, a cross directorate project team was established. The team is led by representatives of both Adults & Housing and Community & Environment supported by specialist colleagues from across the Council (e.g. finance, legal, procurement, risk etc) and there is a detailed action plan and risk register in place for the project. It reports to a Strategic Board comprising Portfolio Holders for the Service (Cllrs Bob Currie and Thaya Idaikkadar) together with Cllr Henson and the two Corporate Directors and stakeholder representatives. If Cabinet agrees it is proposed that the Board should also include a representative from the opposition group within the Council.

2.5 The Council contract with Kier for Responsive Maintenance was let in 2007 for 5 years, with an option for the council to extend for up to a further 5 years. The current contract will terminate on 30th June 2012 unless the Council exercises its right to extend. The works covered by the contract relate to all repairs and cyclical maintenance of the council owned housing stock as well as the repairs to the corporate estate, offices, public buildings etc.

2.6 There were 4 primary options considered each having the potential for variation around the duration of contract, pricing and integration with the council. These 4 options were;

1. Extend the current contract with Kier

Kier were approached in relation to extending the contract and they were specifically asked if they could provide Harrow with an incentive for considering this approach.

Residents generally expressed concerns about the extension of the contract and wanted a fresh look at the market and options for improving the service.

The Administration had also requested that opportunities for local employment also be given due regard and an extension of the contract may not provide as much flexibility as other options in this respect.

Clearly this option may be cheaper in the short term because it obviates the cost of the tendering exercise, but this benefit was outweighed by the potential savings that could arise from a totally different contractual arrangement.

2. Re-tender the contract on the same basis as the current contract

It was felt that retendering the contract on the same basis as the current contract would not offer the same range of flexibilities and financial savings that Option 4 was likely to be able to deliver.

3. As 2 above but pass more management and control responsibilities to contractor.

4. Re-tender using smaller work packages with the aim of shortening the supply chain

2.7 Option 4 is one which would operate using between 2 and 3 general contractors for day-to-day housing responsive works, with a further possible contractor for corporate works. Due to the size of these packages it would open up the work to competition from a range of small to medium sized companies who would be excluded if the work is let as one single package. However, to avoid some more specialist works being sub contracted and reintroducing a "middle man" it is proposed that a range of mainly electrical and mechanical works be tendered as discreet packages to allow for the Council to contract directly with these specialists. Such works as lifts, fire alarms, door entry systems, warden call alarms, asbestos surveys and air conditioning would fall into this specialist

category. It has also been identified that the repair and servicing of gas appliances can be let on the basis of a fixed price per property to give greater certainty of pricing. If to this was added the contract for boiler renewals the company installing new boilers would be incentivised to install efficiently as they would pick up ongoing maintenance risks in their fixed price. Furthermore it is proposed to split the larger gas installations of sheltered housing and corporate buildings, into a separate contract from the domestic heating systems, however it is possible that one competent contractor may emerge to win both gas packages. Lastly the repetitive housing capital works that can be predicted (kitchen and bathroom renewals, roof renewals etc) can be set up as frameworks and thus shorten future procurement timetables. This is the proposed route for most of the future Housing Capital Programme. This will not remove the need for one-off tendering exercises where discrete works are identified. The whole approach described above for Option 4 is summarised in diagrammatic form in appendix 2

- 2.8 Kier has offered the council a range of discounts and price adjustments if the current contract is extended for 5 years. The details of this offer are commercially sensitive and as such are included together with officer commentary in Part Two of this report which is an exempt item.
- 2.9 The attached strategy sets out why there was a need to address the contract and the objectives that a tendering exercise needs to deliver in order to be successful. On the basis of the work undertaken the officer advice is that the Council should proceed with the procurement of repair and maintenance works on the basis of Option 4. Whilst extending the existing contract for 5 years would offer some savings by not having to undertake a procurement exercise the potential savings achievable by tendering the work are likely to outweigh the discounts and price adjustments proposed by Kier. The recommendation to adopt option4 is based upon the analysis of costs and also the lessons learnt from recent experience. The lessons learnt are described more fully in section 3 of the attached strategy; however key issues have been setting up the appropriate client and skilled client side within the council as well as ensuring sufficient time is allowed to mobilise the contract.
- 2.10 Proceeding with procurement on the basis of Option 4 involving the tendering of the work in a series of packages opens up the possibility of pursuing an alternative approach for the provision of corporate repair and maintenance work. Earlier this year Price Waterhouse Coopers (PWC) undertook a review of the Facilities Management function within the Council. They concluded that with the current annual spend there is insufficient critical mass to look at outsourcing delivery of the service unless the Council looks at packaging the work with other services and/or works collaboratively with other councils.
- 2.11 It is proposed that further work is undertaken to explore whether putting the repair and maintenance of corporate property and facilities management together into a single Total Facilities Management package would result in greater savings and service improvement. This is an approach that has been increasingly adopted by organisations in both the private and public sector in recent

years. Currently a consortium of 5 London Boroughs advised by E C Harris (Hammersmith & Fulham, Kensington & Chelsea, Wandsworth, Westminster and Camden) has been formed to work collaboratively on the procurement of a Total Facilities Management contract. Brent is commissioning advice on adopting this approach and this is also being looked at by the West London Alliance.

2.12 The outcome of this exercise will be considered by the Strategic Project Board and the Strategic Procurement Board.

Recommendation 2 of the report clarifies who will decide whether corporate repairs and maintenance are procured as part of option 4 or through a separate Total Facilities Management approach. In order to keep the Council's options open and minimise risk pending that decision, the plan is that the corporate repairs and maintenance work would be included in the option 4 procurement. Adopting the Total Facilities Management approach could enable the Council to move to a commissioning model for the delivery of these services streamlining the internal clienting arrangements in the process. This review should be complete before the end of December 2011

2.13 Throughout the development of the strategy a panel of residents (tenants and leaseholders) have been consulted and their views have been incorporated into the recommended tendering strategy for Housing Services. A separate event was held to which all leaseholders were invited and while the attendance was small the adoption of option 4 was unanimously supported. A formal consultation exercise will still be required which will involve writing to all leaseholders twice to allow them to formally express a view.

2.14 The Group nominated Scrutiny Leads have been briefed on the proposal for Housing and they supported following option 4 with the following specific comments:

- a) Getting the governance right and where the administration sits within the organisation is a key consideration
- b) There must be proper ways to monitor delivery of contracts and break clauses if performance is poor
- c) Scrutiny members support Option 4 (as per the draft report to Cabinet 8 September) and are happy with the model presented as the preferred option
- d) The new contract should improve quality and drive down costs (projected 13% savings) and this ultimately benefit tenants
- e) This should demonstrate a reinvestment in housing services as savings are driven into improved maintenance and repairs – on time and more effective repairs should save the service in the longer term and this can be reinvested back into the service. This fits with the Housing Ambition Plan and provides a better service to tenants.

3 Implications of the Recommendation

- 3.1 There is a cost to re-tendering the works which is in addition to base budget and this is estimated to be £180,000. However the savings predicted from the tendering exercise would see these costs recovered within 6 months. In order to deliver the tendering exercise existing staff will need to be diverted from their current work and or be supplemented in the short term by interim managers.
- 3.2 There is the potential for a number of staff and tradesmen currently employed by Kier to be transferred under TUPE to either the council or to the contractors who eventually win any of the tenders.
This tendering exercise is aimed at delivering the existing policies and strategies relating to repairs and maintenance and only addresses the mechanism of delivery an initial Equalities Impact Assessment has been undertaken which confirms that no full assessment is required at this stage. However, a full Equalities Impact Assessment will be necessary during the tendering exercise to ensure that the successful bidders have a full understanding of the potential needs of service users and are capable of appropriate delivery mechanisms.
What the tendering exercise does aim to deliver is as many opportunities as possible for local businesses and employment to be encouraged in delivering the work. This could offer a number of economic benefits both in the support of local suppliers and in employment.
- 3.3 There will be a need to restructure the client side services to ensure that it is appropriately staffed and skilled to meet the new contract requirements and be able to secure the benefits identified. The particular additional skills needed in the future include Clerk of Works, Quantity Surveyors, Electrical & Mechanical Engineer, Customer Satisfaction staff and potentially a Voids Officer. Initial views are the client side will need grow between 6-8 roles, but this is still work in progress and a fully worked up proposal will be considered by the Procurement Board [see 3.6]. However the costs are likely to be in the region of C £170,000 plus on costs. The Strategic Management of Contracts would be managed within existing resources
- 3.4 The proposal to increase the number of contractors directly managed by the Council could lead to pressures in controlling the delivery of service. However, officers believe that the appropriate balance is struck with this proposal as the bulk of the works will be managed through no more that 4 contractors and with enhancements in IT services over previous years better automation of the service can be achieved.
- 3.5 Because of the range of packages proposed and the potential number of bids to be considered it may be necessary to allow an extended period for evaluation of Pre Qualification Questionnaires and of formal tenders. There is therefore the potential that the current contract with Kier may be extended for a short period. Such an extension would be requested on the same terms as the existing contract.

3.6 A Responsive Repairs Procurement Board has been created to oversee the transition from the existing arrangements to the proposed new way of delivering this key service. The Board has the relevant Portfolio Holders, an opposition member and senior staff from Adults and Housing, Corporate Services and Procurement.

4 Financial Implications

4.1 Section 11 of the attached strategy document sets out detailed budget headings for the various work packages. The global sums are identified in the table below

	2012/13 full year
Responsive Repairs Housing	4,469,000
Capital works Housing	6,160,000
Corporate Response Repairs	1,200,000

4.2 The analysis of the current value chain has indicated that the removal of tiers of overhead by shortening the supply chain would reduce costs but that in addition smaller companies than those such as Kier tend to have lower overhead. Further assumptions have been made of the future prime costs of work which are thought to be very conservative. There is an expectation that the tendering exercise will reduce ongoing costs by an amount in the order of 13%. The calculation of this saving allows for an increase in the Harrow costs of approximately £400k in year one. To illustrate; the current cost structure of the Housing Responsive Repairs budget allows for over £1m to be paid to Kier for overhead and Profit from the annual total shown in the above table.

4.3 The relative value of savings to Housing is in the order of £580,000 in a full year for responsive repairs with up to £195,000 of savings for Corporate repairs.

As the Housing budget has overspent significantly in previous years (partly off-set by under spends on external decorations) there is an expectation that the savings will be needed to maintain the current service and to expand the repairs service to undertake works that ideally would have been undertaken in the past but have been curtailed due to budget pressures. This includes servicing of communal laundry equipment, undertaking repairs to landlord fixtures which are currently excluded from the repairs policy.

- 4.4 The potential implications for the Medium Term Financial Strategy (MTFS) should be to contain expenditure within budget proposed
- 4.5 Part of the strategy will be to ensure that the client structure within Harrow is appropriate for the needs of the contracts let. To achieve this, a full change programme will be initiated fully consulting with staff and unions and redesigning the structure(s) following the council's Protocol for Managing Change
- 4.6 The Repairs and Maintenance Contract is a Works Contract under EU public procurement rules implemented in the UK by the Public Contracts Regulations 2006 (the 'Regulations') and so must be tendered in full compliance with EU rules and the Regulations. The contract will be tendered using the 2-stage restricted procedure, i.e. a pre qualification stage followed by an Invitation to Tender stage for those short listed bidders who pre qualify.
- 4.7 There are potentially some IT costs. Costs will vary according to the degree of integration into the current ANITE management system; however it is currently envisaged that the costs required are more tailoring of the existing system rather a major reinstallation. These costs have been reflected in the proposed cost of the exercise identified above.

5 Performance Issues

- 5.1 All the corporate priorities are supported in the delivery of the repairs service, see final paragraph to this report. There is a full suite of performance indicators for both the Housing and Corporate Repairs Services; of these Performance Indicators the following are seen to be key when delivering this contract;
- Tenant satisfaction with repair service
 - Completion of works at first visit
 - Keeping appointments made
- No new targets will need to be set as a result of the re-tendering; however, in evaluating the bids received on the basis of quality and cost it may be that some bidders offer higher targets for delivery.
- 5.2 The appointment of contractors would be based on an evaluation of cost and quality as described in the attached strategy document arriving at the most economically advantageous bid(s). The expectation is that a quality threshold will determine which bidders can be considered and that subsequent evaluation focuses mainly on price. However, the exact evaluation matrix will need to be agreed by the Strategic Project Board.

5.3 The Tenant Services Authority and their successor, the Homes and Community Agency (HCA), place great value on the involvement of tenants in the delivery of the management service. This re-tendering exercise has involved tenant and leaseholder representatives from an early stage and it is planned to maintain this involvement through the tendering process and including the mobilisation of the contractors.

If the council decides not to proceed with re-tendering the work, tendering it in a different format or extending the Kier contract then potentially the service will not be able to demonstrate that is delivering in the most cost effective manner.

The current suite of performance indicators are shown as appendix 2 to the report

6 Environmental Impact

6.1 The letting of these proposed contracts will not impact upon the environment per se. The contractors will be expected to produce their own environmental policy statements which at least match the council in this area. The fact that greater encouragement is being given to local employment and business is expected to reduce the impact of travelling by the workforce delivering the work.

There are 4 possible areas of environmental impact:

- Harrow Council operations – should be minimal change for this project
- The supplier operation e.g. distance travelled to job (covered above)
- The environmental impact of manufacturing the 'kit' we buy e.g. where does the timber used in doors come from?
- The environmental impact of the 'kit' in operation e.g. do we buy energy efficient showers?

6.2 The responsive repairs contractors will need to support the council in its Warmer Homes Strategy and Green Deal, however these factors will be more important in the capital works and potential frameworks that are established where working in partnerships with different funding streams and models of working will be more important.

The contract(s) will be let in accordance with relevant Council policy and strategy relating to environmental performance.

7 Risk Management Implications

Risk included on Directorate risk register? Yes

Separate risk register in place? Yes

Key risks		
Risk Heading	Description of Risk	Mitigation
The Project fails to deliver key work outputs against required timescales	There is a strict timeline to follow to comply with OJEU requirements slippage in the programme would mean new contracts would not be in place by the time the current contract ends	Project team closely monitors project progress? and reports to the Programme Strategic Board
Client-side arrangements are not adequately designed, or are timely or robust or are compatible for the tender & contract	There must be appropriate client structures in place to service the contracts or the council is at financial and	A planned review of structures following the council's change process

	reputational risk. The client structures will need to be defined to an appropriate level of detail before tender documents can be issued.	
IT systems are inappropriate and/or inadequate or otherwise not fit for purpose for any new contract arrangements	Due to the high volume of transaction the efficient administration of the contracts require that adequate IT provision is made	A separate group is to be set up to run a subproject relating to IT changes, which are based on process issues and not procurement of new systems
Failure to consult lawfully and properly with tenants, leaseholders and other stakeholders of the service	Tenants and leaseholders are legally entitled to consultation on the management of this service. For leaseholders in particular failure to consult appropriately could mean a loss to the council	Consultation milestones built into project. Consultation with tenants and leaseholders already commenced

	being unable to recover costs from leaseholders	
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Potential Opportunities		
Opportunity Heading	Description of Opportunity	Plans to realise
Achieve cost savings in delivery of works	Potentially 13% savings identified	Re-tender
Engage more local suppliers and businesses in the delivery of the work	An increase in local business and employment / training opportunities	Packaging of work designed and intended to facilitate opportunities for local suppliers to compete while delivering value for money to council
Achieve more streamlined management of the administration associated with the contract	Removal of wasteful administrative processes within the current system should improve customer service and reduce administrative costs	Review of ANITE system usage and links to SAP financials

8 Equalities implications

8.1 Was an Equality Impact Assessment carried out? An initial equalities Implication assessment has been completed. This identified no need for a full assessment at this stage.

8.2 The procurement exercise is designed to deliver existing policies and strategies maintaining the current level of equality in service provision. During the tender period all contractors will be assessed on their ability to meet the council's equality standards.

8.3 The conclusion from the assessment was

By implementing these changes there will be no negative impact upon any of the equality groups listed above. It will always be a service that we have to deliver, and the service change is in response to a resident desire to improve the service. Access to the services will remain the same, and the allocation of improvement works will be based upon the same information as used previously. Where there are vulnerable clients (for example, the elderly or disabled), they will still be able to access existing services, and we are looking to improve our data holdings to inform us of where these residents are located.

The service is not weighted otherwise according to any of the listed characteristics.

A copy of the Initial Assessment is attached as Appendix 4

9 Corporate Priorities

- **Keeping neighbourhoods clean, green and safe**

Ensuring that our housing estates are presented in the best condition, maintaining clean and graffiti free entrance areas to flat blocks and minimising unsightly void properties and building materials at kerbside

There is an opportunity to reference the sustainable communities and climate change strategies here.

- **Supporting and protecting people who are in most need**

The residents of the 5,000 council tenancies include some of the more vulnerable members of society in terms of age, infirmity and low disposable income. Maintaining a good quality repairs service can be critical to maintaining their quality of life. The regular contact enjoyed by our contractors visiting tenant's homes is seen as an important source of information to inform housing management being able to identify vulnerable residents in need of support or those who are abusing the council's assets. The speedy turnaround of void properties not only minimises void loss but also allows those in housing need to be appropriately housed in the shortest possible time.

- **United and involved communities; a council that listens and leads**

The Housing Department has embarked upon a process of engaging a wider range of residents in the management decisions affecting their homes. The procurement exercise for this contract has been one such example where residents have contributed extensively in the shaping of the contract.

- **Supporting our town centre, our local shopping centres and our businesses**

One of the stated objectives of the contract is to encourage the use of local businesses in the supply chain and to foster more local training and apprenticeships for Harrow residents.

Section 3 - Statutory Officer Clearance

Name: Jennifer Hydari	<input checked="" type="checkbox"/> on behalf of the* Chief Financial Officer
Date: 16 August 2011	
Name: Stephen Dorrian	<input checked="" type="checkbox"/> on behalf of the* Monitoring Officer
Date: 15 August 2011	

Section 4 – Performance Officer Clearance

Name: Mark Randall	<input checked="" type="checkbox"/> on behalf of the* Divisional Director Partnership, Development and Performance
Date: 12 August 2011	

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker	<input checked="" type="checkbox"/>	on behalf of the* Divisional Director (Environmental Services)
Date: 15 August 2011		

Section 6 - Contact Details and Background Papers

Contact:

Paul Mullins / Derek Stewart, Head of Asset Management, 0208 424 1075 ext 2075
David Lewis, Interim Head of Property, 02087366848 ext 6848

Background Papers: None.

Call-In Waived by the Chairman of Overview and Scrutiny Committee	NOT APPLICABLE <i>[Call-in applies]</i>
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