

Committee/Meeting: Cabinet	Date: 8 th September, 2010	Classification: Unrestricted	Report No:
Report of: Originating Officer(s)		Title: Renewal of Housing General Build Repair and Gas Servicing and Repair Contracts Wards Affected: All Wards	

Lead Member	Marc Francis
Community Plan Theme	A great place to live
Strategic Priority	

1 **SUMMARY**

- 1.1 When the Council's Procurement Forward Plan was presented to Cabinet on the 10th March, 2010, Cabinet requested more information on the two new Housing Repair Contracts - the General Build Housing Repair and Gas Servicing and Repair Contracts which are due to be let in December, 2010. These are now at the Invitation to Tender stage and have been offered in two Lots one for the General Build Housing Repair and the other for the Gas Servicing and Repair.
- 1.2 The procurement strategy for these contracts means that both Lots could be awarded to the same contractor or they could be awarded to separate contractors depending on what represent best value to the Council. The award criteria take into account quality as well as price in making this determination
- 1.3 This report provides more information on these contracts so that they can proceed to be awarded at the appropriate time.

2 **DECISION REQUIRED**

- 2.1 Cabinet is requested to;-
- 2.1.1 Agree that the contracts for General Build Housing Repair and Gas Servicing and Repair contracts can proceed to Award stage.
- 2.1.2 Authorise the Corporate Director of Development and Renewal to award the contract or contracts and in consultation with the Assistant Chief Executive (Legal Services) to execute all necessary contract documents

3 **REASONS FOR THE DECISION**

- 3.1 The repair and maintenance of homes and environment is one of the key areas of service provided to the Council's tenants and leaseholders by Tower Hamlets Homes. It is also a statutory responsibility for the Council to carry out repairs and maintenance to its housing stock. These contracts are being procured in such a way to ensure that residents are provided with the highest level of service possible in as efficient a way as possible.
- 3.2 To ensure that all relevant stakeholders are fully able to participate at the start of these contracts a mobilisation period of a full three months is required. The contract has a start date of 1st April, 2011 which does not allow sufficient flexibility for a further report to Cabinet before the award decision is finalised. In order to achieve the deadline Cabinet is requested to note, discuss and provide comments on the content of this report to ensure the contracts are let in accordance with Members' wishes but permit the final decision on award to be made by the Corporate Director, Development and Renewal.

4 **ALTERNATIVE PROPOSALS**

- 4.1 *Extend existing contracts.* The existing contracts have provision within them to be extended by up to two years. One year of that extension has already taken place. To re-extend for the further year will mean the re-procurement process will have to be repeated in the very near future with some reputational damage and additional costs arising for both the Council and the bidders. There is also the risk that existing bidders will not bid due to the abortive bidding costs. Efficiency savings will be limited by extending existing contracts and not entering into new more effective arrangements. The new contracts also have a focus on improved service delivery and client satisfaction which will be lost. Residents are also aware that new contract management techniques will provide a fresh focus on this important service which, along with any efficiency savings, will be deferred if existing contracts are simply extended.

5 **BACKGROUND**

- 5.1 The current contracts were let in April, 2005 on a five year term with an option to extend by a further two years. The repair contract (covering voids, reactive repairs, minor planned works) and the gas servicing and repair contracts (the subject of this report) were extended by one year until 31st March, 2011 with the other specialist contracts being extended until 31st March, 2012. Therefore, new contracts for responsive repair and gas are required for April, 2011 with indicative values of £10m per annum for responsive repair and £2m per annum for gas servicing and repair. This procurement represents approximately 80% (by value) of the Repair and Maintenance spend on Housing properties.

- 5.2 Tower Hamlets Homes (THH) is responsible for the delivery of the repairs service as part of a Management Agreement entered into in July 2008.
- 5.3 After receiving expressions of interest a shortlist of eight contractors was identified, all of which were sent tender packs on the 16th July, 2010.
- 5.4 In December, 2009 as part of the resident consultation process, statutory consultation commenced with leaseholders for the responsive repair contract. This consultation outlined the content of the new contracts and the relevant comments that were made, have been taken on board.
- 5.5 Prior to this, in early 2009, a group of residents had been formed with the aim of improving delivery through the existing contracts. This group subsequently became the Residents Repair Procurement Group (RRPG) helping THH develop and shape the ideas that were needed to construct a contract that would most appropriately meet the needs of the residents. This is an important innovation in a citizen centric service and the involvement of the RRPG will be key in the award and future scrutiny of contractor performance.
- 5.6 One of the major areas of focus was on the number of contractors that were needed. Currently one contractor carries out our gas servicing and repair work and this same contractor shares the general build responsive repair with another one. The proposal, agreed through this residents group and the Council's procurement tollgate process, is to appoint one or two contractors to do this work for us from April, 2011.
- 5.7 In addition in May and June, 2010 a group of officers from the technical and housing sections of THH were formed to look at how residents view the existing repair service particularly looking at what they value. This exercise used existing and new data derived from telephone surveys and analysis of the issues raised in repairs calls to the Council's call centre.
- 5.8 The key findings from this exercise were that residents value the following:
 - 5.8.1 Being offered an appointment at the time that suits them
 - 5.8.2 A tradesperson who is empowered to diagnose and fix the repair in one visit.
 - 5.8.3 Tradespersons who are free to complete a quality repair in the time it takes
 - 5.8.4 Van stock which is based on what is regularly used and needed. It is recognised that insufficient van stock interrupts the flow of work.
 - 5.8.5 The skills of tradespersons are related to customer demand
 - 5.8.6 A tradesperson who checks for additional repairs that are THH/Council responsibilities and, where budgets allow, carries out this work in the same visit or by appointment.

- 5.9 The ability to meet these expectations will be built into the final award process ensuring that some of the softer but still measurable aspects of what residents require in a repair service are delivered.

6 **FORMAT OF CONTRACT DOCUMENTS**

- 6.1 For a number of reasons set out within this report the form of contract will be a term partnering contract, theTPC2005. This is a modern form of contract that was specifically written for partnering taking account not only of the client/contractor relationship but other stakeholders, most important of which are residents. The non-adversarial nature of this contract allows a much more collaborative and flexible approach to problem solving and continuous improvement and can be very specific about what is required to move forward.

- 6.2 The benefits of this form of contract over a traditional measured term contract is the delivery of a more transparent service in terms of isolating the real costs of repairs, offering real prospects of continuous improvement and more consistent with lean, flexible services focused on the customer.

It is possible to achieve greater budget certainty, particularly if labour is allocated to neighbourhoods, and greater planning of work to suit the needs of the resident. Additionally, methods of remuneration are more transparent because profit, head office overheads and site overheads are separated from work costs. This makes it possible to target savings in management and drive down works costs allowing the contractor to enhance profits via a risk share by enhancing delivery within budget rather than simply boosting turnover via variations or more order generation as can be the case with a JCT contract based solely on a schedule of rates.

- 6.3 Continuous improvement becomes an integral part of the contract and the timetable for implementation will be formally incorporated via the Partnering Timetable. The Partnering Timetable is a key contract document that is managed through a Core Group of officers and contractor staff who meet on a monthly basis to ensure that we deliver what has been agreed. The contract allows for 'interested parties' to have a real influence on the partnering timetable and it is envisaged that residents will be key amongst the interested parties.

- 6.4 Although procured for mainly Housing properties the contract itself allows for its use by other clients and non-residential stock. This offers potential cost efficiencies to other clients. Thus flexibility is built into procurement structures in that a range of services can be offered on a fully accountable basis.

AIMS OF THIS PROCUREMENT

7.1 Focus on the Customer

7.1.1 With a focus on Neighbourhood delivery of services the contractor will be obliged to not only work with local officers but with Tenants Resident Association (TRA) groups and other residents where appropriate. To this end the contract requires suitably senior managers on the contractor side to be co-located in each of the three Area offices. This ensures close cooperation and working with officers, residents and resident groups.

7.1.2 Maximising the use of our assets by timely and appropriate repairs enables residents to enjoy the full benefit of their homes and their environment. For instance the contract requires the contractor to regularly inspect playgrounds and maintain them on a planned basis. Another example is the focus on rapid turnaround of empty properties to ensure we maximise the rent and subsequently the budget available for spending on resident's homes and environment.

7.2 Access to the Service

7.3 There is currently a range of access methods for residents requesting a repair to be carried out in their home or on their estate. The main method is through the Council's Call Centre where there has been some recent innovation by co-locating contractor's staff to improve the accuracy of repair diagnosis.

7.4 No change is envisaged in the call receipt and diagnostic process for first time calls for the start of the contract. As this is a 5 year term with the option for the Council/THH to extend the term by up to a further 5 years bidders will be asked to submit written proposals for taking first emergency calls and then full call receipt. Bidders will be asked to submit outline costs with their methodologies and should LBTH/THH wish to proceed with this transfer the proposals and costs will form the basis of discussions.

7.5 Early exploration with the new contractor around how best to limit the number of chase up calls (as opposed to first time calls) together with a simple method of them taking the main responsibility for dealing with these calls will take place within the first six months of the contract. In addition, by incorporating the contractor into some of our current systems eg answering complaints, they will better understand the focus of our customers.

7.6 **Maximising Planned works (in a reactive service)**

- 7.6.1 Certain areas of the service such as gas lend themselves to pre-planning and some level of budget risk transfer to the partner. This has been undertaken in the current contract and will be built upon for the new one.
- 7.6.2 THH encourage residents to attend neighbourhood inspections and regular neighbourhood events are now well established. In the development of such repair days and neighbourhood days, existing contractors are involved in working with residents to identify and, where possible, complete jobs in a more planned way. The new contracts will continue and build upon this practice so that residents can have a real involvement and say in what is important to their particular neighbourhood.
- 7.6.3 Other areas such as reactive internal and communal repairs and voids can occur randomly and THH will adopt a policy of 'planning for the reactive' as open book techniques become developed.
- 7.6.4 Historic demand levels are well documented and will be included for information in tender documents. In a service of this type levels of demand are reasonably constant but their incidence cannot be predicted. There are exceptions e.g. gas servicing which can be planned on an annual basis and is to be let on a lump sum per home basis.
- 7.6.5 The response repair service can best be illustrated by an example. THH knows that it undertakes approximately (say) 10,000 plumbing repairs per year. Rather than just referring orders as they come up it would be more cost effective to staff the contract with sufficient operatives to undertake the likely volume and increase their efficiency. Slack time can be filled with back up jobs in planned preventative maintenance such as gutter clearing , further reducing the reactive maintenance bill, and periods of excessive demand can be covered with additional labour possibly via a sub-contractor.
- 7.6.6 Additionally, the contract allows for a proportion of small planned schemes (up to £150,000 each) to be facilitated through this contract. These can be funded from any saving achieved through efficiencies or by capitalisation where appropriate. For instance, the replacement of individual boilers on a programme is more straightforward, therefore cheaper, to manage if carried out by the same contractor who installed them.

8 EVALUATION, MANAGEMENT AND GOVERNANCE OF THE CONTRACT

- 8.1 The evaluation process is not based purely on financial considerations. THH/LBTH will implement the evaluation split as detailed in Tollgate 1 – 60% based on cost, 15% based on quality and 25% reserved for customer confidence.
- 8.2 The contractor is required to evidence alignment to THH/LBTH vision, values, aims and objectives and in particular how they ensure an efficient, continuously improving value for money service.
- 8.3 Within the method statements requested from bidders, an Employment and Skills Plan (ESP) has been requested which will identify the manner that the contractor will provide additional benefits to the local community and economy. It is important to note that 'promises' made in this ESP will be built into the contract terms and as such capable of being monitored and implemented. This marks a significantly different approach to our previous contracts and will be used as a vehicle to stimulate the local economy by encouraging local employment and supply chain patronage by partners.
- 8.4 THH is aware that any new contract, especially one as important as this, needs to fit a neighbourhood operating model. A review will be undertaken of the current operational management skills set and their capacity to manage a modern partnering contract in this context. THH acknowledge that this will require significant change moving from a current skills set of process management, specification, checking and variation monitoring to one of management by outputs and incentives for maximising delivery within budgets and an understanding of managing a partner by risk sharing and reward. This will be undertaken in parallel with the procurement process and will inform the direction and content of some of the training mentioned earlier. An outline programme and content is being formulated with the project sponsor and the result, aimed for completion by December 2010, will be a lean and flexible client model driving the Council's localisation agenda.

9 PROGRAMME

Cabinet Report	8 th September, 2010
Evaluation Completed	End October, 2010
Director/Competition Board Approval to Proceed to Proposal to Leaseholders	End October, 2010
2 nd Stage Leaseholder Consultation	1 st November, 2010
Director/Competition Board Approval to Proceed to Tender Award after taking into account leaseholder comments.	Mid-December, 2010
Tender Award	Mid-December, 2010
Mobilisation Period	January – March, 2011

10 COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 10.1 This report seeks Cabinet approval to agree that two major contracts, the General Build – Housing Repair; and Gas Servicing and Repair; can proceed to award stage subject to the approval of the Corporate Director of Development and Renewal. It is intended that the contracts will come into effect from 1 April 2011.
- 10.2 The indicative total annual value of these contracts is £12 million, estimated as £10 million for responsive repairs and £2 million for gas servicing. These costs form the major elements of the Housing Revenue Account Repairs and Maintenance budgets managed by Tower Hamlets Homes on behalf of the Authority. The costs must be contained within the annual budget set for the works element of the Repairs and Maintenance budget – currently £14.3 million in 2010-11, and the contract must be flexible in order that it can be varied in future to reflect available resources.
- 10.3 The form of contract to be utilised is outlined in section 6, with the efficiencies that are expected to be generated from the procurement process detailed in section 16. The contract lends itself to a more transparent service, based on a partnering approach between the Council, the contractor and key stakeholders, including residents. The contract will be operated on an open book system which will separate the real cost of repairs from the profit generated by the contractor, and will incorporate a performance system based on customer satisfaction levels. Tenderers have been asked to indicate the amount of their profit that they are willing to put at risk if their performance does not meet the Authority's standards.
- 10.4 As mentioned above it is essential that the contract is structured in order that the Authority is able to adapt to any future budgetary pressures that might arise which may necessitate a reduction in available funding.
- 10.5 The contract must only be let with the full support and involvement of the Authority's procurement and legal teams, and it is essential that all necessary statutory consultation is undertaken prior to the finalisation of the contract in order that any appropriate future rechargeable repair costs can be recovered from tenants and leaseholders as necessary.
- 10.6 In conjunction with the procurement process an exercise is being undertaken to review and improve the systems and methodology that is in place to manage the contracts. This has identified potential duplication of functions between the contractor and THH (paragraph 16.1) which will be addressed as part of the process.
- 10.7 The contract includes scope for other Council departments to utilise the contractor's services for repairs on non-residential stock. The utilisation of

this facility would need to be assessed on an individual basis but offers potential for further cost efficiencies to be realised across the Council.

11 **CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)**

11.1 The Council has a number of statutory duties in relation to the maintenance of its housing stock and this contract or contracts will help to fulfil these. The procurement has been conducted in accordance with EU and UK procurement law and will be assessed on the basis of most economically advantageous proposal for the Council. The selection criteria take into account not only price but quality of service and the contractor's proposals on how to improve the service.

11.2 The proposal to enter into the 5 year contract/s with the provision for extension for up to a further five years has been subject to leaseholder consultation and so will be a qualifying long term agreement enabling the Council to recover costs from leaseholders if they receive work under the contract. There are also provisions in the contract documentation so that leaseholders can elect to receive repairs and maintenance work from the contractors direct e.g, if they wanted their gas servicing done at the same time as other flats in their block.

11.3 Given the timetable to ensure mobilisation starts at the beginning of January to ensure a smooth transition on 1st April it is not possible for the award to the specific contractor/s to come back to Cabinet so an authorisation is sought for the Corporate Director of Development and Renewal to award this contract and then in consultation with the Assistant Chief Executive (Legal Services) to execute the contract documents.

12 **ONE TOWER HAMLETS CONSIDERATIONS**

12.1 THH diversity strategy seeks to ensure that all services are accessible, inclusive and fairly delivered. The repair contracts and their method of delivery through external organisations is an area of service that affects most residents. Nearly 80% of tenants have direct contact with a repair contractor each year and leaseholders, through work carried out to communal areas for which they are recharged, equally benefit. The contract specifically requires the contractor to report back issues of vulnerability identified and, as a partner, together we will seek to meet our aims.

12.2 These contracts support the community plan theme of making Tower Hamlets a great place to live. It provides safety for our tenants through the

gas servicing programme and maintains both the communal and internal environment of the homes we own.

- 12.3 The contracts allow, as far as legally permissible, the encouragement of the future contractor to maximise the number of local staff, particularly through training initiatives.
- 12.4 A considerable part of the Council's budget will be paid to the successful contractor(s) and the encouragement to use local businesses will be part of the monitoring process.
- 12.5 An Equality Impact Assessment (EQIA) for repairs is in place but a specific EQIA has been completed for this procurement in order to ensure that the focus is appropriate. The main focus is on ensuring that the evaluation process takes account of diversity issues as far as is legally permissible and that the contract contains specific elements on working with and engaging the local community and ensuring that tradespersons are aware of the diverse needs of residents.

13 **SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 13.1 The contractor(s) will be required to set up a local operation minimising CO2 emissions in travelling costs.
- 13.2 The contractor(s) will be obliged to conform to LBTH policies on use of sustainable timber and other associated building elements.

Environmental sustainability will be a key strategic aim for this service. All bidders have an in-depth capacity to deliver a 'green' service as their policies were vetted at the short-listing stage and a company falling short on sustainability would not have been short-listed.

Some service specific measures will include:

- controlled disposal of waste materials arising from demolition works
- material specification from sustainable supply chains e.g. timber from accredited renewable sources
- reduction of CO2 emissions by minimising travel by placing labour on a neighbourhood basis, employing locally and use of a local supply chain
- recording travel distances of labour and the supply chain and working with partners to minimise this

In addition, partners will be expected to comply with the Council's sustainability policies which have been included in tender documents. Partners will also be expected to keep information to contribute to the relevant National Indicators for sustainability.

14 **RISK MANAGEMENT IMPLICATIONS**

- 14.1 Our current contract structure for this work is with a single provider for gas servicing and repair and that same provider carrying out general building maintenance on a shared basis with another contractor. The new arrangement is to potentially continue with two contractors but with a different split of work. The risk of any of the contractors who have returned tenders ceasing to trade is extremely low and the benefits of managing one contractor outweigh the appointment of more than one for each element of work. The contract contains a Parent Company Guarantee in the case of sections of a large plc ceasing to trade and a Performance Bond has been included to cover any reprocurement costs.
- 14.2 The TPC has a hierarchy for non-adversarial dispute and problem solving which will minimise the risk that the aims and objectives of the procurement will not be achieved. Risks are also reduced through joint risk management to achieve these aims.
- 14.3 Although the contract does not formally commence until 1st April, 2011 the TPC covers the mobilisation period which allows transitional arrangements with previous providers to take place more effectively (bearing in mind that some of the existing contractor's staff may transfer to the new employer under statutory processes). Such transitional management processes are built into the contract via the Partnering Timetable which shows commencement of activities in January, 2011.

15 **CRIME AND DISORDER IMPLICATIONS**

- 15.1 Amongst other things these contracts will be used to provide appropriate answers to security issues within and around our stock.
- 15.2 Ensuring that the contracts are managed locally using, wherever possible, the same contractor's operatives in local areas will allow awareness to be maximised which may help avoid/solve issues of anti-social behaviour.

16 **EFFICIENCY STATEMENT**

- 16.1 A concurrent exercise to the procurement is being carried out to look at the systems we have in place to manage these contracts. This has identified areas of duplication between the contractor and THH which, when reduced or eliminated, will allow the appropriate savings to be made.
- 16.2 The separation of overheads and the potential to undertake open book accounting for this and/or all work will allow us to work cooperatively with the contractor(s) to rationalise costs and make savings over time ensuring that we are able to contribute to the realisation of cost savings required under the HRA Medium Term Financial Strategy and thus forms a key part of THH's overall economic strategy. Innovations such as open book accounting will be entirely controlled by THH and only used where there is a clear service and economic advantage to customers to do so.

16.3 This contract is currently one of the most attractive in the London area given its size and potential term of 10 years. Market interest at the short-listing stage proved intense and the procurement team are confident that it can take full advantage of the current market to secure keen prices consistent with quality of service delivery.

The contract also contains attractive economic terms from the Council's perspective . For example any extension to the 5 year term is completely at the Council's discretion and annual price increases are limited to 75% of inflation indices encouraging our partners to seek economies from within available budgets to maintain their levels of return.

16.4 Pain/gain mechanism. The tenderers were asked, as part of the evaluation process, to indicate the amount of their profit they are willing to put at risk if their performance does not meet our standards. In addition additional profit can be made if our targets are exceeded. The only measure to be used in this regard will be resident satisfaction with the repair service. In a truly customer centric service there is only one performance measure that really counts and that is customer satisfaction. Thus tenderers will be offered the opportunity to place a proportion of their profit at risk for failing to meet agreed customer satisfaction levels measured by completely independent customer satisfaction surveys.

This is an important innovation in that under the existing contract there could be an incentive to enhance profits by undertaking a greater volume of work and claiming variations on work instructed. The new approach will re-focus our partners with incentives not to exceed budgets and deliver the best for available resources by adopting 'lean' processes

Other performance measures may be used for operational purposes and to monitor and control the efficiency of service delivery and these will underpin the citizen centric overall objective.

16.5 Although the aim is to move to an at cost method of payment the pricing will always be capped by what we would have paid if we continued with payment under a schedule of rates system which itself had any annual increases limited to 75% of the appropriate inflation index.

16.6 As stated earlier these contracts are able to be used by other clients within the Council providing additional value through economies of scale.

16.7 Joint working between the Council's and THH's procurement teams has delivered a flexible contract capable of fully accountable multi-client use. The companies short listed have the capacity to work across a number of client sources and contract management structures will ensure that the THH core business is properly resourced should other sources of work come on stream. Other Council sections can therefore immediately buy into the competitiveness of contract prices with a clear efficiency saving on time and procurement costs.

17. APPENDICES

There are no appendices

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

Brief description of "back ground papers"

Name and telephone number of holder and address where open to inspection.

None

N/A