

## London Borough of Hammersmith & Fulham

**Report to:** Leader's Urgency Decision

**Date:** 12/05/2020

**Subject:** CONTRACT AWARD REPORT: RESPONSIVE REPAIRS AND VOIDS

**Responsible Director:** Jo Rowlands, Strategic Director for Economy

**Report author:** William Shanks, Governance and Commissioning Manager, The Economy

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### Summary

A Cabinet report of 7th October 2019 approved a procurement strategy to procure long term contracts for the repairs and maintenance of the Council's housing stock. These are the contracts that will replace the 'interim model' repairs and maintenance contracts that were put in place following the termination of the Mitie contract, and that were to last for 15 months.

The Cabinet report delegated authority for awarding any contracts resulting from the procurement strategy to the Cabinet Member for Housing. Due to the impact on the Housing Revenue Account, the report was escalated to a Leader's Urgency Decision.

The Economy department have followed the approved procurement strategy and this report now recommends the appointment of three contractors to deliver Repairs and Voids services to the Council, across the three geographical areas ('lots') described in the Cabinet report. The contracts are for a period of 5 years with the option to make two 1-year extensions.

Separate reports will recommend the appointment of specialist contractors to carry out Gas, Electrical and Asbestos services, and an Out of Hour call handling function.

### Recommendations

It is recommended that the Leader:

1. Notes that Appendix A is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).
2. Agrees the award of the following repairs and maintenance contractors to the following contractors:
  - a) Contract for Lot 1, Housing Repairs and Maintenance Contract, for the North of the borough (NW10, W12, W10 and W3) for five years to 31<sup>st</sup> July 2025

with a provision to extend for up to two 12 month periods, to Morgan Sindall Property Services, for the value of £12,863,000 (consisting of a fixed fee of £9,246,000 representing a Price Per Property, Contract Overheads and first year Mobilisation costs, plus an estimated £3,617,000 of out of scope works priced against bespoke rates and a discounted Schedule of Rates),.

- b) Contract for Lot 2, Housing Repairs and Maintenance Contract, for the Centre of the borough (W11, W6, W4 and W14) for five years to 31<sup>st</sup> July 2025 with a provision to extend for up to two 12 month periods, to DW contractors, for the value of £15,445,000 (consisting of a fixed fee of £10,990,000 representing a Price Per Property, Contract Overheads and first year Mobilisation costs, plus an estimated £4,455,000 of out of scope works priced against bespoke rates and a discounted Schedule of Rates),.
  - c) Contract for Lot 3, Housing Repairs and Maintenance Contract, for the South of the borough (SW6 and SW10) for five years to 31<sup>st</sup> July 2025 with a provision to extend for up to two 12 month periods, to Mears, for the value of £14,732,000 (consisting of a fixed fee of £10,096,000 representing a Price Per Property, Contract Overheads and first year Mobilisation costs, plus an estimated £4,636,000 of out of scope works priced against bespoke rates and a discounted Schedule of Rates),.
  - d) The award of a reserve contract to Mears for Lot 1, Housing Repairs and Maintenance Contract, for the North of the borough (NW10, W12, W10 and W3)
  - e) The award of a reserve contract to Morgan Sindall for Lot 2, Housing Repairs and Maintenance Contract, for the Centre of the borough (W11, W6, W4 and W14)
  - f) The award of a reserve contract to DW contractors for Lot 3, Housing Repairs and Maintenance Contract, for the South of the borough (SW6 and SW10)
3. Notes that the award of contract cannot be made until the conclusion of the S.20 consultation referred to in section 5 of the report
  4. Agrees that for 2020/21, the part-year costs of these contracts of £5.699m plus one-off mobilisation costs of £0.295m are funded from the following sources:
    - the Housing Revenue Account General Reserve for the one-off mobilisation costs (£0.295m) and part-year contract costs (£0.068m)
    - existing revenue budgets within the Housing Revenue Account (£4.315m),
    - the capitalised repairs budget within the housing capital programme (£0.133m),
    - additional revenue savings of £1.183m from a savings plan to mitigate the additional contract costs which is currently being developed.
  5. Agrees that from 2021/22 onwards, the full-year costs of these contracts of £8.549m are funded from the following sources:
    - existing revenue budgets within the Housing Revenue Account (£6.472m),

- the capitalised repairs budget within the housing capital programme (£0.200m),
- additional annual revenue savings of £1.877m from a savings plan which is currently being developed.

6. Agrees that if the required level of compensating savings cannot be delivered for either or both 2020/21 and 2021/22 onwards, that the HRA General Reserves are used to fund any shortfall up to £1.183m for 2020/21 (in addition to the £0.068m required for part-year contract costs) and up to £1.877m for 2021/22 onwards for the term of the contract.

**Wards Affected:** All

### H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
<ul style="list-style-type: none"> <li>• Building shared prosperity</li> </ul>	<p>Well maintained and safe homes are an important foundation for our tenants' prosperity. The new contractors have made social value commitments relevant to this priority – around apprenticeships, training and employability schemes.</p>
<ul style="list-style-type: none"> <li>• Creating a compassionate council</li> </ul>	<p>Repairs contractors have been chosen partly on the basis of qualitative questions including those that focus on customer experience. The contract sets high standards around customer experience, dignity and respect, and equality, that contractors must abide by.</p>
<ul style="list-style-type: none"> <li>• Doing things with local residents, not to them</li> </ul>	<p>Residents' forums and Tenants Associations have been involved in the design of the long-term repairs model since the summer of 2018, through workshops and consultations. Two tenant/leaseholder representatives took part in the evaluation of initial tenders – scoring a question on customer experience.</p>
<ul style="list-style-type: none"> <li>• Being ruthlessly financially efficient</li> </ul>	<p>Repairs contractors have been chosen partly on the basis of their price (a 60:40 quality to price ratio was applied). The procurement process involved a five week negotiation period to ensure there was</p>

	<p>absolute clarity about the commercial model and payment terms in the contract, to ensure bidders priced correctly and the risk of future disputes are minimised. The commercial model in the long term repairs contracts has been carefully designed to reflect lessons learned from the interim model and ensure greater value for money for LBHF.</p>
<ul style="list-style-type: none"> <li>• Taking pride in H&amp;F</li> </ul>	<p>The new repairs contracts have a focus on IT integration, data analysis and data-driven decision making that is innovative and is intended to help LBHF achieve an exemplary repairs and maintenance service.</p>

## Financial Impact

### Summary

A summary of the financial costs and funding of the contract, and associated repairs contracts, is set out below. Further detail and explanation is provided following the table.

Expenditure Category	Annual Costs		Funded by:			One-off Costs	Funded by:
	Estimated Annual Contract Cost £000s	Existing HRA Revenue Budgets <sup>1</sup> £000s	Existing Housing Capital Programme Budgets* £000s	Additional HRA Savings Plan / Drawdown from HRA General Reserve £000s	£000s	One-off Mobilisation Costs £000s	HRA General Reserve £000s
General repairs and voids	8,549	6,472	200	1,877	295	295	
Gas servicing and maintenance	5,896	2,682	2,469	745	190	190	
Electrical servicing and works	2,968	1,108	1,860	0	0	0	
Asbestos	TBC	720	TBC	TBC	TBC	TBC	
Out of hours support	TBC	70	TBC	TBC	TBC	TBC	
<b>LTRM contracts being procured</b>	<b>17,413</b>	<b>11,052</b>	<b>4,529</b>	<b>2,622</b>	<b>485</b>	<b>485</b>	
Other contracts		1,616					
In-house costs		10,131					
<b>Total Funding</b>		<b>22,799</b>	<b>4,529</b>	<b>2,622</b>		<b>485</b>	
<b>Total Funding over 5 years</b>		<b>113,995</b>	<b>22,645</b>	<b>13,110</b>		<b>485</b>	
<b>Part-year effect</b>	<b>11,609</b>	<b>6,841</b>	<b>3,019</b>	<b>1,748</b>		<b>485</b>	

The part-year effect savings requirement is £1.633m. A drawdown from the HRA General Reserve of £0.115m will also be required. However, if the savings target cannot be met this year, up to £1.748m will need to be drawn from the HRA General Reserve.

\*This includes an assumption that some of the unallocated budget within the Housing Capital Programme will be utilised to provide sufficient capital funding for the gas contract to deliver 1,000 boilers. The current estimate is that £0.797m per annum will be required for this.

<sup>1</sup>This includes an adjustment to existing budgets to include a virement of £0.332m of budget from Electrical servicing and works to General repairs and voids. Also, this includes a virement of £0.130m from the Asbestos budget to the General repairs and voids budget to cover the £0.130m of estimated costs relating to asbestos removal on voids.

As the contracts are expected to commence in August 2020, the table above shows there will be a part-year effect associated with the costs and funding of the new procurements during 2020/21. It has been assumed that the contract costs will be incurred on a pro-rata basis with the exception of the one-off mobilisation costs which will be wholly incurred within 2020/21.

The table also shows that there will need to be a further savings plan in addition to the existing plan agreed at Cabinet in February 2020. An initial part-year additional saving of £1.633m will be required in this financial year and in subsequent years this

will rise to £2.622m per annum (in addition to the existing savings plan of £0.5m in 20/21 rising to £4m per annum from 23/24 onwards). The acting Strategic Director for The Economy Department and the Chief Housing Officer are leading on the development of the savings plan.

The current projected level of HRA cashable reserves following the budgeted appropriation from the HRA General Reserve of £7.924m for 20/21 is £16.481m. A drawdown of £0.485m for known estimated mobilisation costs and £0.115m for the part-year effect of the new general repairs and voids, gas servicing and electrical servicing contracts would reduce this balance to £7.957m. Further annual recurring drawdowns for the next four / five years, taking into account the budgeted appropriations from and transfers to the HRA General Reserve planned within the latest approved HRA business plan, will need to be offset by further savings, as outlined above and as included in the recommendations to this decision report.

If these savings are not achieved, the table above shows that a total of £13.110m will be needed from HRA General Reserves. Given the projected HRA General Reserve balance for the end of 2020/21, is £7.957m, this would not be a financially sustainable scenario and so it is imperative savings are identified and delivered.

#### Costs of the general repairs and voids contract

The estimated total annual value of the contracts is £8.549m. In addition, one-off mobilisation costs of £0.295m will be incurred in 2020/21 only.

A detailed breakdown of the approach to estimating the fixed and variable elements of each of the contracts are set out in section 3 of Appendix A. In summary, there are five main elements to the estimated annual contract costs:

- contractual commitments to incur spend related to the fixed price element of the contracts of £6.007m;
- an assumed level of 400 voids indicates that a further £1.052m of variable costs will be incurred;
- it is expected that the Council may also need to incur spend on repairs services that are less frequently required (such as repairs jobs exceeding £2,000 in value, void works in excess of £6,000 in value and jobs inherently outside the scope of the fixed price element of the contract). The volume of works has been estimated and this indicates a potential cost of c.£1.200m;
- an estimate of £0.160m has been made for TUPE and pension adjustments;
- the repairs and voids contractors will also be expected to carry out asbestos removal works on void properties costing £0.130m.

Of these costs, it is estimated that a proportion of the £1.200m of less frequently required repairs services (such as void works significantly in excess of £6,000) may be capital in nature. Based on the Council's recent housing repairs spending pattern together with a professional opinion from the service, it is estimated that £0.200m of these costs may be eligible for capitalisation. However, this depends on how the "out of scope" element of the contract is spent and it may be the case that the amount of repairs capitalisation is much lower than this in practice.

## Funding

Following Cabinet approval of a one-off annual revenue budget of £22.2m for the interim repairs model for 2019/20 in March 2019, this budget was made permanent for 2020/21 to fund the long term repairs model following Cabinet approval of the “Financial Plan for Council Homes: The Housing Revenue Account (HRA) Financial Strategy, 2020/21 HRA Budget, 2020/21 Rent Increase and HRA 40 Year Financial Business Plan” on 3 February 2020. The revised budget for 2020/21 is slightly higher than the original £22.2m (as a result of adjustments undertaken as part of the budget setting process) and is separated out below into the following categories of spend:

<b>Division</b>	<b>Expenditure Category</b>	<b>20/21 Budget (£000s)</b>
	Customer Service Centre	2,223
	Out of Hours support	70
<b>Place</b>		<b>2,293</b>
	Gas	2,782
	Staffing	2,414
	Electrical / Security	1,740
	Asbestos	850
	Lifts	678
	Professional fees	537
	Water	438
	Legal costs	233
	Compensation payments	140
<b>Property &amp; Compliance</b>		<b>9,811</b>
	General repairs	4,962
	H&F Maintenance	3,123
	Staffing	1,462
	Voids	1,048
	Drainage	100
<b>Void &amp; Repairs Total</b>		<b>10,695</b>
<b>Total Revenue Budget</b>		<b>22,799</b>

Of the £22.8m set out in the table above, the budgets available to fund the costs of the general repairs and voids contracts are the General repairs budget of £4.962m, the Voids budget of £1.048m and £0.130m of the Asbestos budget of £0.850m (the Asbestos budget covers void removals, which is relevant for these contracts, but also asbestos removals on non-voids, surveys and consultancy). This means that a total annual revenue budget of £6.140m is available. In addition, it is planned to vire £0.322m of surplus budget from the electrical servicing and works revenue budget to general repairs. This will increase the total annual revenue budget for general repairs to £6.472m.

The current capital budget for capitalised repairs approved at Budget Council on 26 February 2020 is £3.264m for 2020/21.

Assuming that revenue costs are incurred in line with the estimated contract costs outlined above, this means that the available budget of £6.472m will be insufficient to cover the annual costs of £8.349m (net of estimated capitalisation).

The capital element of the estimated variable cost is £0.200m per annum will need to be accommodated within the capitalised repairs budget which is set aside for responsive capital repairs that fall outside of the scope of repairs contracts such as this one. This budget is currently £9.989m for the current programme to 31<sup>st</sup> March 2024. There may be further capital costs coming from other contracts and therefore once all of the repairs contracts are in place this budget will need to be reviewed periodically to ensure it is sufficient on an ongoing basis.

### Risks

The current best estimate of the full-year revenue costs of the general repairs and voids contracts is, at £8.349m, £1.877m in excess of the available budget of £6.472m. It is expected that the estimated capital costs of £0.200m can be contained within the capitalised repairs budget.

Although the fixed revenue costs of £6.007m are certain, the variable revenue costs (estimated at £2.342m) may be higher or lower than the estimates above. This could lead to either a higher or a lower overspend than the £1.877m indicated above.

The eventual capital / revenue split of costs is not precisely known and, as the current expectation that up to £0.200m of the contract costs may be capitalisable is considered a prudent estimate, it is possible that some costs currently assumed to be revenue, may be eligible for capitalisation (depending on the nature of the spend incurred under these contracts), releasing some of the pressure on the revenue budgets.

Each of the budgeted expenditure categories in the table above have been reviewed with the service to identify any additional funding to close the budget gap. The review has identified some spend categories where there is uncertainty over the costs (for example, due to pending procurements and demand-led expenditure). Whilst there may be opportunities to reduce costs across these categories, due to the level of uncertainty at this stage, it is not possible to release any revenue funding from within the long-term repairs model approved budget.

Finance officers have been advised that the renewal of doors is not included in the repairs and voids contract specification. Although the majority of door renewal costs would be likely to be capital in nature, there is a risk that there may be associated revenue costs such as the costs of regular compliance inspections. It is not possible to quantify this risk at the current time but with changes being made to fire and health and safety regulations, there is a real possibility that further cost pressures will emerge in the coming months.

There are a number of other contracts due to be awarded to successful tenderers under the Long-Term Repairs Model and the relevant decision maker will be asked to approve contract awards for gas and electrical testing within the same timeframe



as these general repairs and voids contracts. In the following weeks, further reports to award contracts for asbestos removals, surveys and out of hours call handling will be brought to the appropriate decision maker. As a number of these procurements are not sufficiently progressed at this stage to determine the estimated costs compared to the budget available, there is a significant risk that the total revenue budget of £22.8m and other capital budgets (including the capitalised repairs budget of £9.989m to March 2024) may not be sufficient to contain all costs under the Long-Term Repairs Model. This could result in the need to make additional ongoing drawdowns from the HRA General Reserve, which are unsustainable in the medium term.

Analysis of the cost estimates for the new gas contract suggest that, after having taken account of the scope for capitalisation, annual revenue costs of £3.427m are expected. As the existing revenue budget for the gas contract is only £2.682m, there is a revenue shortfall of £0.745m.

Analysis of the cost estimates for the new electrical servicing and works contract suggest that, after having taken account of the scope for capitalisation, annual revenue costs of £1.108m are expected. As the existing revenue budget for the electrical servicing contract is £1.440m, the surplus budget of £0.332m will be made available to recover some of the shortfall on the repairs and voids contracts being procured in the same timeframe.

Taking the above funding concerns into account, there is a significant risk that it will not be possible to manage these contracts within approved budgets and therefore that the contract costs will need to be met from a drawdown on the HRA general reserves until compensating savings can be delivered elsewhere in the HRA.

### Reserves and Financial Sustainability

The plans set out in this report indicate that the shortfall against the revenue budgets for the general repairs and voids contract of £1.877m will need to be funded by a recurring drawdown from the HRA General Reserve.

The “Financial Plan for Council Homes: The Housing Revenue Account (HRA) Financial Strategy, 2020/21 HRA Budget, 2020/21 Rent Increase and HRA 40 Year Financial Business Plan” approved by Cabinet on 3 February 2020 included an expanded £22.799m revenue budget for the combined elements of the Long-Term Repairs Model. This represented an increase of £4.7m from the previous established revenue budget of £18.1m. To accommodate the increased Long-Term Repairs Model costs and to ensure the HRA’s overall financial viability (with limited reserves), a 4-year phased £4m savings plan from base costs was approved.

The Coronavirus pandemic has resulted in the loss of income and increases in costs for the HRA. The latest modelling indicates that during 2020/21, the HRA will suffer a net loss of income of c£6m. The long-term financial impact of operating in the “new normal” has not been fully understood and further time is needed to assess the impact. However, it is clear that this will result in the need to make further savings in addition to the existing savings plans to deliver £4m of revenue savings.

As set out above, there is an estimated shortfall against the revenue budget for the new gas contract of £0.745m and this will need to be funded by a recurring drawdown from the HRA General Reserve.

In addition to this, there is a currently unquantified risk from the other two contracts (asbestos surveys and removals, and out of hours support) which are yet to be financially evaluated.

The one-off costs of mobilisation of £0.295m will be funded from the HRA General Reserve in 2020/21. In addition, there are one-off mobilisation costs associated with the contract award for gas and this may also be the case for the asbestos and out of hours contracts (although there are none for the electrical servicing contract). There are no estimates as yet for the mobilisation costs for the asbestos and out of hours call handling contracts but if there are such costs, they will also need to be funded from the HRA General Reserve.

Given the costs of the general repairs and voids contract award and the known and unknown costs of other contracts under the Long-Term Repairs Model based on current information, there is a significant risk that the current £22.799m revenue budget envelope will be insufficient.

Without additional savings or income this will have an adverse impact on the overall viability of the HRA business plan and the long-term financial sustainability of the HRA. The service has advised that there will be an annual contract review process, one outcome of which will be to ensure the delivery of savings on repairs costs.

The Acting Strategic Director of The Economy and the Chief Housing Officer have advised that any shortfall against the existing budgets is expected to be funded from other HRA efficiencies and these are being developed currently. The expected financial impact of the award of the general repairs and voids, gas and electrical testing contracts will mean increasing the annual budgeted drawdown from the HRA General Reserve for each of the next 5 years at least unless savings can be delivered to offset this.

#### Financial status of the contractors

As part of the tender process, credit checks were carried out on:

- Morgan Sindall Property Services on 28<sup>th</sup> April 2020 and has indicated a low risk credit rating of 61% and the suggested contract limit of £30,392,640 and turnover of £83,040,000 is more than sufficient for the value of the proposed contract. Further, finance officers have reviewed key accounting ratios within the contractors' financial statements and found these to be satisfactory.
- DW contractors on 28<sup>th</sup> April 2020 and has indicated a low risk credit rating of 66% and the suggested contract limit of £12,523,698 and turnover of £31,625,500 is more than sufficient for the value of the proposed contract. Further, finance officers have reviewed key accounting ratios within the contractors' financial statements and found these to be satisfactory.

- Mears on 28<sup>th</sup> April 2020 and has indicated a low risk credit rating of 85% and the suggested contract limit of £257,614,515 and turnover of £505,126,500 is more than sufficient for the value of the proposed contract. Further, finance officers have reviewed key accounting ratios within the contractors' financial statements and found these to be satisfactory.

### Other risks and mitigations

Although TUPE and pension costs have been included in the estimated costs of the contracts (the approach is set out in Appendix A, section 3.6 below), there is a risk of a price adjustment claim from any of the contractors.

The risk of commercial disputes arising has been mitigated by including within the negotiation process the need for the tenderers to understand payment terms and the commercial model.

Contractual inflation of CPI (Consumer Prices Index) is included within the contracts which will mean future inflationary increases in the budget will be required for each of the five initial years of these contracts. However, the service have advised that there will be an annual contract review process, one outcome of which will be to ensure the delivery of savings on repairs costs.

Once this contract is in place, Finance officers will work closely with the service to ensure costs are closely monitored and reported. It will be necessary to seek additional approval should any costs exceed the approved budgets.

There is also a risk that there may be other unexpected costs which will result in further pressure on the available budgets. For example, it will be necessary to ensure adequate controls are in place to ensure only approved contracts are used. This could also include any overspends on existing contracts this year which will be reported through the Council's revenue monitoring regime.

### **Legal Implications**

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## **Background Papers Used in Preparing This Report**

Cabinet report: 'Procuring and delivering a long-term Repairs and Maintenance model for Hammersmith and Fulham', 7<sup>th</sup> October 2019.

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## DETAILED ANALYSIS

### Proposals and Analysis of Options

- 1 Following the Cabinet report of 7<sup>th</sup> October 2019, a fully compliant procurement process was initiated to put into practice the Procurement Strategy as set out in that report.
- 2 In order to draw the attention of the market to the new contracts before the procurement commenced, a 'Meet the Buyer' day was advertised and took place at St Paul's Centre on 26<sup>th</sup> September 2019. This provided the opportunity for contractors to learn about the Long Term Repairs Model and the contracts that would be put out to tender. The event was attended by more than 50 suppliers and was well received.
- 3 In line with the Procurement Strategy approved by Cabinet, a Competitive Procedure with Negotiation (CPN) was launched with a Contract Notice in the Official Journal. The Council's preferred online procurement portal Capital Esourcing was used for the procurement.
- 4 Leaseholder consultation was carried out from 13<sup>th</sup> September 2019 to 18<sup>th</sup> October 2019, presenting the suggested lot structure and approach to procurement. No issues were raised by leaseholders and so the tender documentation and advert were prepared ready for publication.
- 5 A notice was submitted to Contracts Finder and the Official Journal of the European Union (OJEU) via the Capital Esourcing portal in accordance with the Council's Contract Standing Orders on 1<sup>st</sup> November 2019 (contract reference number 524676-2019).
- 6 The tender process then proceeded in four stages
- 7 Selection Questionnaire (SQ) stage:  
Bidders were required to submit SQ information to qualify for an invitation to tender. Bidders had to provide information to satisfy certain legal and financial requirements (for example confirming their compliance with regulations and providing audited accounts to verify their financial robustness). Bidders were also required to pass certain minimal technical requirements of the service, primarily concerning their IT capacity and holding the relevant licences to carry out required works. The ability for contractors to interface with the Council's Housing Management system (Northgate) in real time is a key requirement of many of the long-term repairs and maintenance contracts.
- 8 Lots 1-3 (Repairs and Voids) received 12 SQ submissions before the deadline of 4<sup>th</sup> December 2019. Following evaluation of the responses eight suppliers subsequently passed the SQ stage and were invited to tender.
- 9 Initial tender:  
The shortlisted economic operators invited to tender were required to submit a formal bid featuring answers to Qualitative/Technical questions set by LBHF,

and a set of prices that would constitute their Commercial Offer.

- 10 For Lots 1-3 (Repairs and Voids), one of the bidders invited to tender withdrew from the process before the submission deadline of 7th February 2020. Ultimately, 7 bids were submitted. These bids were evaluated on the basis of the published evaluation criteria which were a 60:40 quality to price weighting. The tender documents stipulated that the highest scoring 6 firms would be invited to negotiate, so one supplier was rejected at initial tender stage.
- 11 Negotiation:  
The 6 remaining bidders took part in a month-long negotiation process with LBHF officers. The aims of the negotiation were:
  - 1) To ensure the bidders fully understood the scope of the contract and LBHF's requirements, so as to be able to offer a service solution that would be of maximum value to LBHF. There was a particular objective to ensure bidders understood the commercial model and payment terms of the contract, to minimise the risk of future commercial disputes.
  - 2) Identify areas where bidders could offer additional value beyond the requirements of the contract, and where these aligned with LBHF objectives, to confirm that LBHF would welcome these offers in the final bids.
- 12 The format and guidelines for the negotiation were planned in advance with the input of the Council's legal advisors, Sharpe Pritchard. The officers leading the negotiation were trained in these guidelines.
- 13 The negotiation period lasted for five weeks in March 2020 and involved three meetings with each bidder (originally face to face meetings until the Covid 19 crisis led to a switch to virtual meetings). The meetings with each bidder were structured in the same way to ensure fair and equal treatment. The first focused on the bidders plans for managing contract mobilisation and transition to full capacity, and their plans for delivering Social Value, the second focused on the commercial model, and the third focused on areas of additional value – the innovation that bidders could bring to the contract and the savings this might deliver. The third session also covered bidders' commitments regarding the use of electric vehicles. The meetings involved presentations from bidders and LBHF. Between the meetings, additional information was circulated online (via Capital Esourcing) to all Bidders, such as information about the IT integration and a guide to the Council's in-house Housing Repairs Call Centre.
- 14 The negotiation period was judged a success by the LBHF officers involved because they felt it led to bidders gaining a fuller understanding of LBHF's priorities: effective mobilisation, well-managed TUPE transfer process, fully functioning IT integration, customer experience, First Time Fix, firm Social Value commitments, carbon reduction, and innovative use of data in order to manage future demand and deliver savings. It was felt that the quality of all bids would improve as a result LBHF would ultimately procure a higher quality

service.

15 Final tender:

On 8<sup>th</sup> April 2020 the six bidders were invited to prepare their final bids. Final versions of the contract documents (specifications, asset lists, pricing schedules) were published. The deadline for bids was 22<sup>nd</sup> April 2020.

16 A team of five evaluators was put together to mark the bids. The team was comprised of the Assistant Director for Operations, the Assistant Director for Repairs, the Head of the Council's 'DLO' (Hammersmith and Fulham Maintenance, the in-house communal repairs team), Project Manager (Corporate ICT) and Project Manager (Economy Department ICT). The evaluators were trained by the procurement project team and by Corporate Procurement to ensure compliance with the Council's standards.

17 Tenders were opened virtually on the 22<sup>nd</sup> April 2020 with representatives from Corporate Procurement in attendance.

18 Tenders comprised two sections. These were:

A) Qualitative / Technical Questions:

The weighting given to the qualitative section in the evaluation criteria was 60%. Bidders were required to submit a number of method statements which were then evaluated.

A moderation session was held on 28<sup>th</sup> April 2020 to agree on a single score for each method statement for each Bidder. The overall weighted quality score was then calculated.

B) Pricing / Commercial Offer:

The weighting given to the commercial section in the evaluation criteria, was 40%. Scores were allocated on a comparative basis – with the contractor with the lowest price receiving 40% and all other contractors being scored relative to the lowest price.

19 Following moderation, the pricing and qualitative scores for each tender were combined. An overall score was achieved for each tender response with a weighting of 40% applied to pricing and 60% to quality as set out in the tender documents. The combination of scores provides the Council with the most economically advantageous tender (MEAT).

20 Following moderation, the weighted pricing and qualitative scores for each Bidder were combined. An overall score was achieved for each Final Tender response. The Final Tenders were then ranked – highest first.

- 21 The Cabinet report of 7<sup>th</sup> October 2019 determined that no contractor could be awarded more than one lot from lots 1 to 3. On this basis and the rules laid out in the tender documents, lot 2 (central), the largest lot by property volume, was awarded first to the highest scoring Bidder for Lot 2. This Bidder was then excluded from the evaluation for Lots 1 and 3 (in line with the instructions set out in the tender documentation). Lot 1 was then awarded to the highest scoring Bidder for Lot 1. The Lot 1 successful Bidder was then excluded from the evaluation of Lot 3 and the highest scoring Bidder for Lot 3 was awarded Lot 3. This process was applied to ensure that the model has three repairs contractors. Competition, the ability to benchmark performance, and the flexibility to terminate an underperforming contractor, are key features of the long-term repairs model, a deliberate move away from the single provider model.
- 22 See Appendix A, section 1 for the combined final total scores.
- 23 Therefore the evaluation panel recommends that DW should be awarded lot 2, Morgan Sindall should be awarded lot 1 and Mears should be awarded lot 3.
- 24 The panel also recommend that Mears be appointed as reserve contractor for lot 1, Morgan Sindall be appointed as reserve contractor for lot 2, and DW be appointed as reserve contractor for lot 3, in line with the rule laid out in the tender documents – see Appendix A, section 1.6.
- 25 Next steps
- 26 All bidders will receive written confirmation of the Council's decisions to award the contracts. These letters are prepared in line with the Public Contracts Regulations 2015 and will provide reasons for the decision together with the characteristics and relative advantages of the successful Tenderer for each Lot.
- 27 After the letters have been issued via the Capital E Sourcing portal, a standstill period of 10 calendar days must be observed by the Council in accordance with the Regulations. No activity to engage with successful bidders or to advance progress with the process may be carried out during this time.
- 28 After the conclusion of the standstill period, Privacy Impact Assessments will be carried out for the new contractors. Corporate IT will carry out their standard checks, including a Security Questionnaire to ensure that new contractors have the right controls in place to gain access to our network.
- 29 At the same time, the final stage of leaseholder consultation will take place, with leaseholders being advised of the award decision, and an opportunity to ask questions and provide feedback provided to them. The minimum time for this consultation is 35 working days, and should run from mid-May 2020 to late-June 2020.



30 Once leaseholder consultation has concluded, the process of contract signing will start. Draft contracts were issued at the start of the procurement process in November 2019 and these will be engrossed prior to being executed as a deed. This process should take no more than two weeks.

31 Mobilisation of the new contractors will commence after the statutory standstill period following contract award has finished – expected to be in the week commencing 18<sup>th</sup> May 2020. There will be just over ten weeks to mobilise the new contractors before the new contracts start on 1<sup>st</sup> August 2020. Key mobilisation activities include:

IT mobilisation: a project to integrate the contractors' systems with the Council's Northgate Housing Management system. Integration will allow the Call Centre to book appointments and the contractors to pick them up in real time. It will allow complete mirroring of data for performance monitoring purposes. It will allow contractors to complete works orders to qualify for payment. The effective running of the service relies on successful integration. The Economy's Operations department has assembled a project team to deliver this project, working with colleagues from Corporate IT.

Monitoring of the TUPE process: there will no TUPE transfer of staff from or to LBHF. Transfers will be between outgoing contractors and new contractors. LBHF has no formal role in the TUPE process however it is in our interests that the transfer is well managed and results in the new contractors having a full complement of prepared, trained and reasonably contented staff on day one of the contract. Therefore, LBHF HR will monitor the TUPE transfer process, checking in with outgoing and incoming contractors at key milestones to gain assurance that the process is proceeding as planned.

32 See Appendix A, section 2 for Social Value commitments.

33 See Appendix A, section 3 for the estimates of the cost of the contracts.

### **Reasons for Decision**

34. Hammersmith and Fulham Council has a legal obligation to ensure its properties are maintained and as a landlord it needs to deliver repair and maintenance services to its tenants.

35. The recommendations outlined are required to appoint contractors to carry out these works as the interim Repairs and Voids contracts expire on 31st July 2020.

36. The recommendations outlined are the most effective way to ensure continuity of repairs and maintenance services and legal compliance.

37. The recommendations outlined are based on a competitive tendering process in line with the Public Contracts Regulations 2015. The Final Tenders received were evaluated by the Council's evaluation team against published evaluation criteria. The Contractors recommended for appointment were

identified as the most economically advantageous tenderers having applied the evaluation criteria.

### **Equality Implications**

38. There are no anticipated negative implications for groups with protected characteristics, under the Equality Act 2010, by the approval of the proposed contracts set out in the recommendations.

*Implications completed by: Fawad Bhatti, Policy & Strategy Officer, tel. 07500 103617.*

### **Risk Management Implications**

39. The Council requires a repairs service which meets its objectives, which provides flexibility in how it manages its housing asset to deliver a higher level of resident satisfaction in its repairs service, which ensures compliance with all statutory health and safety requirements and which delivers on a range of other policies including social value and use of local suppliers. In line with the ruthlessly financially efficient priority, the Council also needs to demonstrate that the repairs service demonstrates and delivers value for money in managing and maintaining its housing stock to an appropriate standard.
40. The Corporate Repairs Board should regularly review the appointed contractors' performance to ensure that the objectives of the contracts are being met and take appropriate action where there is poor performance.
41. Officers have set out in the report how the new contracts are being procured in line with the Public Contracts Regulations (PCR) 2015 and with the Council's Contracts Standing Orders. These actions will mitigate the risk of contract/procurement challenge.

*Implications verified/completed by: David Hughes, Director Audit, Fraud, Risk and Insurance Tel: 020 7361 2389*

### **Business Implications**

42. The Economy department will work with the Business Development team to develop arrangements for monitoring these commitments and facilitating their realisation by, for example, connecting the contractors to initiatives that are already established.
43. Social value commitments will be managed throughout the full period of the contract, and reports provided to Corporate Procurement.

*Implications verified/completed by: Albena Karameros, Economic Development Team, tel. 020 7938 8583*

## **IT Implications**

44. IT Implications: Digital Services is already working in partnership with the Economy on aspects of this proposal. As noted in the report, the Economy's Operations department has assembled a project team, working with colleagues from Corporate Digital Services, to deliver the IT mobilisation (integration of the contractors' systems with the Council's Northgate Housing Management system).
45. Digital Services must be consulted where proposals require new systems to be procured, existing systems to be modified, or IT enhancements to be considered. As such, if further requirements arise – such as the need for mobile application integration for the DLO - Digital Services must be advised as early as possible to ensure prompt service delivery and coordination of all necessary safeguards, permissions and budgets.
46. IM Implications: As noted in the report, a Privacy Impact Assessment will be required to ensure all potential data protection risks resulting from this proposal are properly assessed with mitigating actions agreed and implemented.
47. Suppliers will be expected to have a General Data Protection Regulation (GDPR) policy in place and all staff will be expected to have received GDPR training.
48. Contracts should include H&F's data protection and processing schedule, which is GDPR compliant.

*Implications completed by: Karen Barry, Strategic Relationship Manager – 020 8753 3481.*

## **Procurement/Commercial Implications**

49. The recommendations of the report are in line with the Council's Contracts Standing Orders (CSOs). The CSOs categorise the contract as a high value contract. As per CSO 21.1, the decision maker for the contract award is the relevant Cabinet Member.
50. The procurement, competitive procedure with negotiation, was conducted in line with the CSOs and the PCR 2015. A Contracts Notice was published in TED and Contracts Finder, in accordance with the procedure requirements.
51. The evaluation of each stage followed CSOs 45 and records of the evaluation and moderation process are kept on the auditable e-tendering platform.
52. The recommendation is to award to the most economically advantageous tenderer that provides best value for the Council in terms of quality and prices, in line with the tender documents and the Council's CSOs.

53. A contract award notice must be published in TED and in Contracts Finder following award and the contract record shall be created on the Council's contracts register to ensure compliance with statutory transparency requirements.

*Procurement implications completed by Andra Ulianov, Head of Contracts and Procurement.*

### **Consultation**

54. 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) and the Service Charges (Consultation Requirements) (England) Regulations 2003, a Notice of Intention was served on 13<sup>th</sup> September 2019 and expired on 18<sup>th</sup> October 2019.
55. A second Notice (of Proposal) will need to be issued as the procurement process concludes. The regulations allow for leaseholders to comment on the suppliers being recommended for appointment. The Council, as Landlord, is required to 'have regard' to any comments but is not required to act on any suggestions from leaseholders. At the end of the 30-day period point the Council will be compliantly able to enter into contracts with suppliers and to then recharge leaseholders where contributions exceed £250 per property.

### **List of Appendices:**

Appendix A (Exempt)