

Appendix B

Proposal for Re-Procurement of the Repairs and Maintenance contracts for Housing & Regeneration Department Property Services

1. Introduction

The current service delivers circa 50,000 responsive repairs each year including 7,500 repairs to communal areas to approximately 17,500 homes. The statutory obligation to annually check and service gas installations is completed to 11,000 tenanted homes.

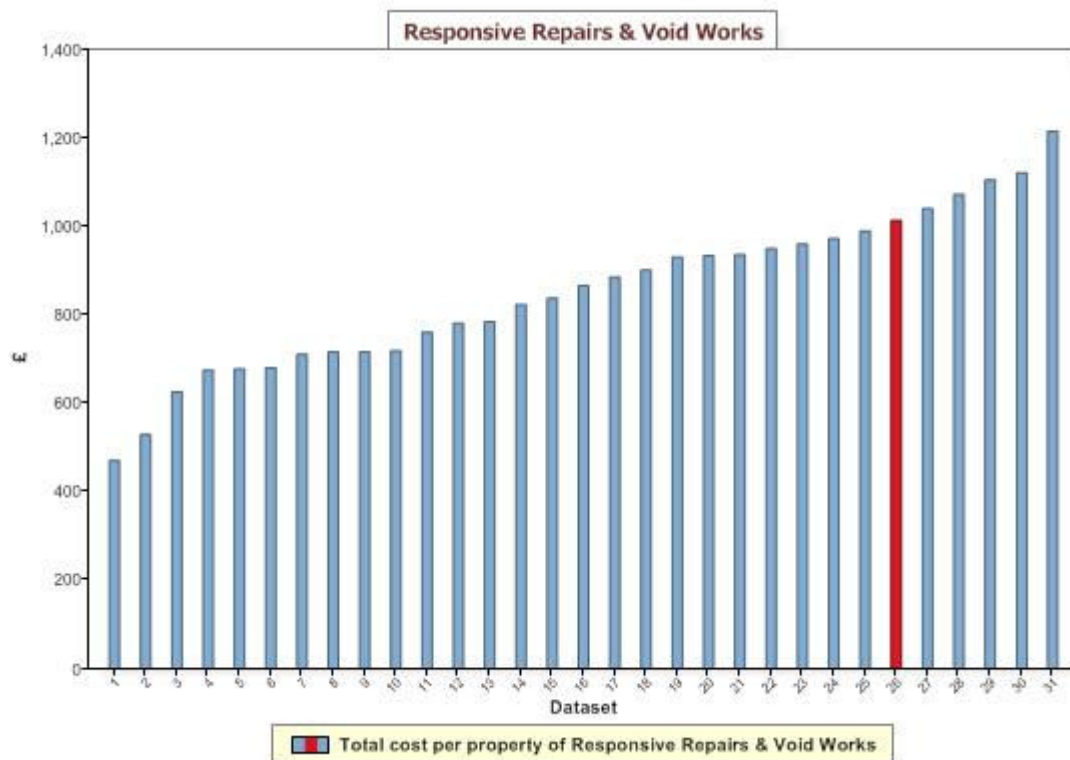
The total expenditure on responsive and planned preventative maintenance is approximately £49 million per annum – this expenditure is spread over 27 separate contracts.

A number of factors have influenced the need to re-procure the current contracts which exist within the department, and which provide for the repairs and routine planned maintenance of the department's housing stock. This paper outlines the strategic review and planning, the options considered, and makes a proposal for re-procurement.

It is generally considered that there is no perfect solution for the methods and arrangements for undertaking day-to-day housing repairs and associated services. Best practice advice is that the optimal solution is one, which will serve the needs of the organisation's customers, its business drivers, and its stakeholders' desires at any particular time.

Repairs and maintenance activity is a significant driver of customer satisfaction and therefore the opportunity of a re-procurement exercise will be used to drive greater scale economies and efficiencies whilst improving service outcomes through better KPIs. We will also get closer to our customers through our new Resident Involvement Strategy, which includes a Repairs Working Panel.

The chart below shows the total costs per property (including direct works costs, direct non-pay costs, direct employee costs and allocated overhead costs) of responsive repairs and voids re-servicing compared with LBHF's benchmarking peers based on data provided by the HouseMark 2010-11 dataset. It includes both the 'client side' management and administration functions and the 'contractor side' direct spend.



In the following table we have distinguished between the ‘client-side’ costs and the ‘contractor-side’ direct spend of responsive repairs and void works costs. However, it is not always easy to separate these costs, especially where partnering arrangements are in place or where client-side functions are outsourced, so these values should be treated as indicative only.

Cost KPIs	Upper	Median	Lower	LBHF Result	Ranking
Total Cost Per Property of Responsive Repairs Service Provision	£372	£484	£537	£559	27 /30
Total Cost Per Property of Responsive Repairs Management	£157	£187	£273	£267	22 /30
Total Cost Per Property of Void Works Service Provision	£87	£123	£157	£133	18 /30
Total Cost Per Property of Void Works Management	£26	£38	£51	£54	25 /30

Property Services Repairs & Maintenance Re-Procurement Proposal



LBHF collect a number of key performance indicators for responsive repairs and void works and our results compared with our HouseMark peer group are shown in the table below.

Quality KPIs	Upper	Median	Lower	LBHF Result	Ranking
% of respondents satisfied with repairs and maintenance (GN & HfOP)	73.46	71.00	68.00	70.00	17 /24
% of repairs completed on time	98.4	96.8	93.7	93.6	23 /29
Average time to complete a repair (in days)	5.40	6.80	8.35	6.79	13 /25
Average time in days to re-let empty properties	20.41	24.90	28.72	No Data	6 /16 (2009-10)
Repairs “right first time”	94.8	90.9	83.2	83.8	17 /23
P1 & P2 as a % of total repairs	38.8	46.5	59.5	64.2	25 /29

* Following the revision of HouseMark benchmarks in 2010-11, LBHF have been unable to agree outputs for one of the Voids KPIs; where this is the case a best estimate has been provided based on 2009-10 STATUS data and on the local definition for void turnaround time.

Following successful implementation of the transformation programme we expect to see:

- significant improvement in all of the Cost KPI’s together with marked improvements in the Quality KPI’s benchmark figures;
- a “slimmer” department that is more effective and focused on meeting key objectives, through monitoring, planning and contract management, rather than handling day to day operational issues;
- several large partnering contracts in place that are aligned to deliver service improvement and increased value for money with appropriate risk/reward mechanisms in place;
- a fully integrated department that has access to good quality data in which to shape joined up strategies for asset management and meeting the housing needs of residents;
- re-organised departments with the right skills and experience to manage and deliver against SMART objectives that link in with the HRD vision.
- a flexibility in service to continuously evolve to meet the needs of the Residents’ Involvement Strategy circumstances
- to drive continuous improvement and seek opportunities to promote ongoing integration with other teams within the wider Council.

Key themes are service improvement and increased efficiency – not just about taking the money out.

2. Summary

The conclusions reached from the thorough reviews of practice, strategy, and business drivers, are that:

- a. A single source supply contract across the borough is most likely to provide the optimal solution that will meet the business drivers and stakeholders' needs.
- b. A second option of single source supply contract in each half of the borough (one in the north, and one in the south) will also be tendered to test whether greater value for money can be achieved through competitive tension whilst at the same time creating resilience in the supply chain.

Currently, all responsive repairs, including gas servicing, electrical inspections and void refurbishments are planned to be included within the single source contract. Further areas of work are currently being considered and the precise details of the service delivery levels and method for risk and reward will form part of the re-procurement project currently being delivered as part of the department's MTFS Transformation Programme. The department is also redefining its approach to resident liaison, and the project team will consult at all suitable junctures, with the new Local Residents' Panel and the Residents' Repairs Working Group.

The details of the form of contract and contract payment mechanism will be subject of further advice from a Professional Quantity Surveyor. It is envisaged that the contract will be established upon a true partnering basis. This means working together to improve performance through agreeing mutual objectives, devising a way for resolving any disputes and committing to continuous improvement, measuring progress and sharing the gains.

*'An essential aspect of partnering is the opportunity for participants to share in the rewards of improved performance.'*¹

Some client functions - for instance the repairs call centre- could sit with the contractor. If the contractor is taking the orders it is crucial to accompany this with measures to remove incentives to increase the work, usually through paying at least the profit and overhead costs in a lump sum payment by ring-fencing.

If the contractor takes the order they are more likely to have ready access to technical staff to diagnose repairs accurately, and can more speedily feed back any inaccuracies in diagnosis so as to improve performance. Similarly with appointments: the contractor is in a better position to judge workload and manage appointments directly with residents.

¹ Egan Report – Rethinking Construction

3. Background

The existing repairs contracts (shown in Annex E) are a series of individual contracts, some reflecting an earlier fragmented approach to service delivery within the borough, and very few of them *co-terminus*. However, it was identified that a potential window of opportunity was available, with regard to the four major existing contracts (Repairs – Kier Services Southern and Willmott Dixon Partnerships; Gas Servicing – P H Jones Ltd and Robert Heath Ltd) whereby all of them would, at some point, be within their extension periods between 1st October 2012 and 31st March 2014.

In the first quarter of FY 2011/12, the department's MTFs savings were formalised, and a tender competition was undertaken through Buying Solutions to procure a consultant to work with HRD on its wider MTFs Transformation Programme. One element of the programme is to re-procure the repairs and maintenance contracts, and assist in the re-organisation of the Property Services department. The re-organisation includes the integration of the property services arm of BPM, who are due to transfer from Environment Services to HRD in April 2012.

The tender for project management of the HRD MTFs Transformation Programme was won by Amtec, with the work undertaken by Northgate Public Services (NPS). The NPS approach identified two principal overarching aims to be achieved (which incorporated the four imperatives above):

1. Reduce the annual repairs and maintenance budget by £2.4 million through more efficient procurement and improved business processes
2. Sustain and/or improve the service delivery levels

NPS also undertook an options appraisal, which identified that the optimal solution would be to re-procure the existing contracts under a sole supply arrangement.

However, NPS went further by proposing that in order to realise the full efficiency savings and improve service delivery, certain services such as the repairs call centre, currently run in-house, could be outsourced to a sole supply contractor. This would lead to improved fault diagnosis, leading to more right first time repairs and would enable the contractor to make effective use of the latest technology to schedule appointments and monitor workloads.

A suite of KPIs, focused on customer satisfaction, and incentivised through a pain/gain share mechanism, will drive service improvement. The KPI suite will address contractual outputs in terms of quality of completed work, completion within specified time scales, work being completed right first time and customer satisfaction. Additional KPIs will deal with specific high-risk areas such as gas compliance. The incentivisation will allow for deduction of monies where works are not completed in accordance with contract requirements.

The window of opportunity for timing of re-procurement commences in September 2012 and ends in March 2014, and applies to the four major repairs contracts. There are a number of additional repairs and maintenance contracts, largely of a mechanical and electrical nature, which were due to expire between 2009 and the end of the window of opportunity timeframe. On the basis that these services had to be supported, as it was not permitted to extend these contracts beyond their stated periods, it was decided to re-procure the contracts individually, but including a break clause such that, should the strategic review identify that an alternative strategy would be desirable, all options remained open. This break clause was inserted into the contracts to achieve the most economic solution for all eventualities.

4. Proposal

The Public Procurement Regulations stipulate much of the manner in which the Council can proceed to procure these works. Existing contracts, which are reaching the end of their prescribed terms, must be re-procured. Other contracts which have reached the end of their initial duration, and which contain options to extend, can be re-procured at any suitable point during that extension period.

The time period identified in the window of opportunity, allied to the business driver of MTFS savings, determine the fact that the re-procurement should be initiated now, with a programme driving towards contract commencement during late 2013.

The options appraisal has been wide ranging. Both have been undertaken without pre-conceived ideas, and have considered all available options.

The risks associated with the various options have been considered, and the risks associated with the optimal solution examined in greater detail.

Soft market testing has been undertaken on an informal basis to ascertain whether the proposed solutions are likely to be seen by the market as a workable arrangement. Any undue risk perceived by the market would result in higher levels of pricing.

It is acknowledged that there are a number of local and central government initiatives that are in development at the current time. The proposed solution is intended to retain some flexibility, in order that these changes can be reflected into the contractual arrangements without the need for wholesale re-negotiation.

The service delivery of the contract will be managed by a series of risk and reward measures. The KPIs which feed these measures will be determined during the preparation of the full specification, based on best practice and in consultation with all stakeholders, including the new residents' working group, however at this stage, it can be confirmed that the KPIs will drive improvements in customer service and satisfaction through headline KPIs covering:

- Satisfaction with Repairs & Maintenance
- Satisfaction with Cyclical Maintenance
- Satisfaction with Voids
- Quality Assurance Inspections
- Complaints
- Repairs completed on time
- Right First Time
- Appointments Kept
- Voids - Average time in works
- Gas Compliance
- Management Information

5. Procurement Review Process

The entire process that underpins this proposal is detailed in a series of appendices as follows:

Annex A – Options Appraisal

Annex B – Risk Management

Annex C – Procurement Route

Annex D – Procurement Programme

Annex E - Existing repairs and maintenance contracts

Annex A

1. Procurement Options Appraisal

1.1 Options considered

We have looked at a number of contracting options available to the Council. Eight options for the re-provisioning of repairs and maintenance were considered:

- **Option 1 - Extend the current contracts** – individual contracts for North and South of the borough as well as gas servicing are extended.
- **Option 2 - Re-tender the current arrangements** – individual contracts for North and South of the borough as well as gas servicing are re-tendered using existing or similar specifications.
- **Option 3 - Re-tender using a sole/prime contractor for the core work with separate work packages for very specialist services** – all responsive, planned and cyclical maintenance to be carried out by one firm including management of repairs ordering plus minor contracts for specialist services.
- **Option 4 – Re-tender using a dual contractor split-borough approach for the core work with a separate work package for very specialist services** – close to option 3 but core work of responsive, planned and cyclical maintenance is divided between separate contracts for the north and south of the borough. Bids would be invited for either of the North and South of the Borough and for all services cross the Borough as a whole.
- **Option 5 - Re-tender using smaller work packages with the aim of shortening the supply chain** – individual contracts are tendered for each trade.
- **Option 6 - Mutualise the repairs and maintenance service** – procure the current arrangements via a community cooperative.
- **Option 7 - Grow an in-house direct labour service provision** – procure the current arrangements via an in-house delivery option.
- **Option 8 - Collaboration with other Local Authorities or Housing Associations** – expand current arrangements by collaboration and carrying out a joint procurement exercise with other Councils.

Appraisals of these eight options were undertaken by NPS. Work had initially been carried out to identify the main requirements of the contract, and a stakeholder workshop was held to assist in the review.

It was established that whilst a number of the options are relatively balanced in respect of cost, value for money and quality, Option 3 (sole/prime contractor approach) is seen as the best match to the Council's overall objectives for this service but with Option 4 (dual contractor across the Borough) close behind.

1.2 Options appraisal

The options considered and their advantage/ disadvantages are summarised in the following pages.

The scoring system is based on a 1 – 5 score where 1 represents the worst outcome and 5 represents the best outcome for the Council.

Option 1 - Extend the current contracts (i.e. no requirement for a new tendering process)

Advantages	Disadvantages
<p>Various minor local cost model reductions have been initiated, and some savings achieved.</p> <p>Kier, Willmott Dixon, PH Jones & Robert Heath continue to manage the supply chain.</p> <p>Savings to the Council in avoiding cost and time of the re-tendering exercise.</p> <p>No hand-over to new contractors and consequently no handover disruption to residents/leaseholders.</p> <p>No immediate TUPE implications.</p>	<p>The current contractors' low satisfaction levels with tenants and leaseholders.</p> <p>No cost of tendering initially however there will be a cost once extensions have been used in 2014/15.</p> <p>There is no further provision in some of the contracts to extend beyond 2014 and this would effectively just postpone the need to re-procure.</p> <p>The Council will not benefit from current market conditions, which potentially offer opportunities for significant savings and alternative delivery models.</p> <p>Does not encourage investment and technological innovation from contractors.</p> <p>Current expenditure on repairs and maintenance viewed as expensive.</p>
Conclusion	
<p>Council officers have reviewed the possibility of extension but this does not offer savings to the required level. Existing KPIs do not facilitate service improvement. It is planned to extend the contracts to co-terminate in time for the new contract(s) but there is no long-term extension possible within the contract terms. This option is therefore not recommended.</p>	

Option 1 Scoring	
Factor	Score (out of 5)
Fit with Council's strategic and procurement objectives	1
Fit with Service objectives	2
Securing continuous service improvement	2
Set-up costs and longer term resource cost implications	5
Potential to improve customer satisfaction	1
Potential to add value and facilitate innovation	2
Capability of delivering the service consistently well	1
Sector track record	3
Reducing risk exposure	3
Total	20

Option 2 - Re-tender the current arrangements

Advantages	Disadvantages
<p>Current market conditions may offer opportunities for savings from other contractors but these will not be of the level necessary for the MTFS.</p> <p>Re-procurement could be straightforward if similar scope, pricing and delivery approach taken.</p> <p>TUPE issues simpler – all staff taken on by new contractor(s).</p> <p>Overhead costs limited.</p>	<p>Relatively high cost of tendering given they are let on 4+3-year terms.</p> <p>Current model sees expenditure on repairs and maintenance significantly above market best.</p> <p>No guarantee of reduced price and very unlikely to deliver savings for MTFS.</p> <p>Council would continue to pay for duplication of overheads.</p> <p>Unlikely to encourage investment and technological innovation from contractors when based on existing specification.</p> <p>Less flexibility to adapt when there are likely to be significant policy changes in the form of the Localism Bill.</p> <p>Too many contractors involved in repair process produces less ownership of issues and causes inefficiencies.</p>
Conclusion	
<p>This is a low risk option but it will not deliver the level of savings that the Council require nor deliver any marked improvements in service to residents.</p> <p>The result of independent audit in 2009 indicated that the current cost was significantly above market best. Some savings have been introduced, but the current arrangements offer limited opportunities, and all possibilities have been explored. Re-procurement along these lines is therefore unlikely to deliver the required savings within the next 2-3 years. This option is therefore not recommended.</p>	

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Option 2 Scoring	
Factor	Score (out of 5)
Fit with Council's strategic and procurement objectives	1
Fit with Service objectives	2
Securing continuous service improvement	3
Set-up costs and longer term resource cost implications	5
Potential to improve customer satisfaction	1
Potential to add value and facilitate innovation	2
Capability of delivering the service consistently well	1
Sector track record	3
Reducing risk exposure	3
Total	21

Option 3 - Re-tender using a sole/prime contractor for the core work with separate work packages for very specialist services

Advantages	Disadvantages
<p>Benefits of scale offer opportunities for significant procurement and efficiency savings from a single contractor.</p> <p>Contract value will allow investment and technological innovation from contractor.</p> <p>Contract size will allow contractor to introduce best practice and operational efficiencies.</p> <p>Contract value will allow the contractor to invest in community engagement initiatives</p> <p>Contractor takes responsibility for delivery contract outcomes, which allows further reduction of client side costs.</p> <p>Greater focus on customer service offered by strategic partner to residents/leaseholders.</p> <p>Mobilisation costs reduced - fewer contractor meetings, fewer IT interfaces and technology changes, clearer customer service and more transparent costs for leaseholder communication.</p> <p>Innovation in service delivery is more likely when one 'vision' operates across the whole borough.</p> <p>A single contract will result in one interface between IT systems reducing costs and enhancing data accuracy</p> <p>A more intimate knowledge of one supplier is likely to improve understanding and foster close working which would provide improved clarity for</p>	<p>Medium cost of tendering due to time resources required;</p> <p>The model requires a more "intelligent" client side for on-going contract management with some associated training costs.</p> <p>Lack of competition once the contract is in place might lead to complacency from the contractor if contract management is poor.</p> <p>May preclude a contractor who does not wish to undertake specialist services (possibly planned maintenance elements).</p> <p>Risk of contractor remaining viable and financially stable for the duration of the contract</p>

<p>leaseholders and tenants</p> <p>Collaborating with a single contractor will provide for consistency at all levels across the repairs service.</p> <p>A single point of contact will allow for re-focused client functions</p>	
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Conclusion

This option makes best use of market forces to achieve the two principle strategic drivers of:

- Reducing costs;
- Improving service delivery;

The option is recommended since the use of a sole/prime contractor offers the greater opportunity to redesign service delivery outcomes and therefore has a greater certainty of delivering the required savings within the next 2-3 years. **Similar benefits can be obtained in Option 4 (tenders for split borough) and whilst this option would otherwise be recommended, the conclusion of this analysis is that the procurement should embrace the approach of Options 3 and 4.**

Option 3 Scoring	
Factor	Score (out of 5)
Fit with Council's strategic and procurement objectives	4
Fit with Service objectives	3
Securing continuous service improvement	5
Set-up costs and longer term revenue cost implications	4
Potential to improve customer satisfaction	4
Potential to add value and facilitate innovation	4
Capability of delivering the service consistently well	4
Sector track record	3
Reducing risk exposure	2
Total	33

Option 4 - Re-tender using a dual or split borough approach

Advantages	Disadvantages
<p>One contractor per area could be give residents a feel of greater ownership</p> <p>Benefits of scale offer opportunities for savings with two prime contractors.</p> <p>Contract values will allow for some investment and technological innovation from contractors.</p> <p>Contract size may allow contractors to introduce best practice and operational efficiencies in some areas.</p> <p>Contract value will allow the contractors to invest in some community engagement initiatives.</p> <p>The contractors take responsibility for delivery contract outcomes that allows some further reduction of client side costs.</p> <p>Two contracts will reduce the number of interfaces between IT systems offering some cost reduction.</p> <p>Two contractors could create an element of competition between each other.</p> <p>A single point of contact will allow for re-focused client functions.</p>	<p>Although costs will be reduced, there may not be sufficient savings to achieve MTFS targets.</p> <p>High cost of tendering due to time resources required;</p> <p>The model requires a larger and more “intelligent” client side for on-going contract management with associated training costs.</p> <p>May preclude a contractor who does not wish to undertake smaller value specialist services</p> <p>Risk of two contractors remaining viable and financially stable for the duration of the contract</p> <p>Duplications of IT systems and interfaces causes discrepancies and adds to cost.</p>

Conclusion

This option also makes good use of market forces to achieve

- Reduced costs;
- Improving service delivery;

The use of dual contractors offers similar opportunities for service delivery improvements as the sole supplier route, but having duplicate systems and separate

contracts to manage will add to costs. The economies of scale are not as large as for sole supply but the state of the market is probably such that competition between just two contractors may deliver the target savings. The closeness of these two options suggests that the preferred procurement route should be to test both options at the same time. **This option is therefore suggested to be tendered as a procurement alternative with Option 3 – sole supply.**

Option 4 Scoring	
Factor	Score (out of 5)
Fit with Council's strategic and procurement objectives	3
Fit with Service objectives	3
Securing continuous service improvement	4
Set-up costs and longer term revenue cost implications	4
Potential to improve customer satisfaction	4
Potential to add value and facilitate innovation	4
Capability of delivering the service consistently well	4
Sector track record	3
Reducing risk exposure	2
Total	31

Option 5 - Re-tender using smaller work packages with the aim of shortening the supply chain

Advantages	Disadvantages
<p>Potentially greater focus on customer service offered by local contractors</p> <p>If one contractor failed to perform then it may be possible to transfer their work to another contractor.</p> <p>Smaller contract size would be attractive to small and medium-sized contractors who also have experience of providing a responsive repairs service to smaller local authorities and housing associations throughout the country – supporting local SME’s.</p>	<p>High resource implications to configure client side capacity for contract management. More contract management with multiple contractors and contracts to manage – duplication of effort with more meetings & performance statistics to analyse. Would not offer a value for money repairs service.</p> <p>Increased cost of large client management team would not be recoverable from leaseholders placing an increased financial burden on the Council.</p> <p>Multiple contractors (rather than going through a large contractor) presents risk of disjointed customer services and call management.</p> <p>Smaller contract size may not be attractive to large-sized national contractors and thereby reduce the competitiveness of tender prices received.</p> <p>Economies of scale may not be achievable - discounts offered by merchants to contractors of smaller contracts are not the same as they offer to larger contracts.</p> <p>Small contractors may experience difficulties with cash flow and raising finance thereby increasing the risk of a contractor collapsing.</p> <p>TUPE implications to Council spread across multiple contractors could be</p>

	open to challenge.
Conclusion	
<p>The use of small contracts serves to provide a fragmented approach, which does not allow for consistent delivery of efficiencies across all areas. A large number of contractors is likely to create more contract management challenges and therefore unlikely to deliver the required overall savings achieved by service delivery and department re-structure required within the next 2-3 years. This option is therefore not recommended.</p>	

Option 5 Scoring	
Factor	Score (out of 5)
Fit with Council's strategic and procurement objectives	3
Fit with Service objectives	2
Securing continuous service improvement	3
Set-up costs and longer term revenue cost implications	5
Potential to improve customer satisfaction	3
Potential to add value and facilitate innovation	2
Capability of delivering the service consistently well	3
Sector track record	3
Reducing risk exposure	4
Total	28

Option 6 – Mutualise the repairs and maintenance service

Advantages	Disadvantages
<p>Potentially greater focus on customer service offered by provider with a single client focus.</p> <p>Would create local employment opportunities.</p> <p>Meets government’s aspiration ‘Big Society’ agenda.</p> <p>Local authority forms a wholly owned company with which it contracts to provide a service.</p> <p>It is permissible that two or more local authorities could jointly establish the mutual.</p> <p>The Council(s) would be the sole customer of the contractor/mutual.</p>	<p>The Council, in the light of the MTFs targets, would not wish to provide resource and support to establish such capability.</p> <p>The company has to be wholly owned by the local authority (without any third party ownership) to comply with EU Procurement law.</p> <p>The mutual would only benefit a comparatively small number of staff.</p> <p>Mutual would need to procure repairs etc through contractor(s) but would need to comply with Government Procurement Regulations.</p> <p>Higher risk of failure with additional on-costs.</p>
Conclusion	
<p>The conclusion of the Cyril Sweett review noted that this method was the preferred route to market. In outline detail, the Government as part of their Programme noted the concept of a mutual for Government, which promised to support the creation and expansion of mutuals, cooperatives, charities and social enterprises. The proposals were designed to enable community groups to have a much greater involvement in public services and to give public sector employees a new right to form employee owned co-operatives and bid to take over the services they deliver. In summary terms, a mutual can be described as commercialisation of an existing internal service.</p> <p>The option is not recommended because of the relatively high start-up costs, and the fact that this route is largely untried. Additionally there would be a need for on-going access to capital support in the early years, and therefore it is unlikely to deliver the required savings within the next 2-3 years. This option is therefore not recommended.</p>	

Option 6 Scoring	
Factor	Score (out of 5)
Fit with Council's strategic and procurement objectives	4
Fit with Service objectives	4
Securing continuous service improvement	4
Set-up costs and longer term revenue cost implications	1
Potential to improve customer satisfaction	4
Potential to add value and facilitate innovation	4
Capability of delivering the service consistently well	4
Sector track record	1
Reducing risk exposure	3
Total	29

Option 7 – Growth of an in-house direct labour service provision

Advantages	Disadvantages
<p>Potentially greater focus on customer service offered by direct labour organisation contractors.</p> <p>Would create local employment opportunities.</p> <p>It is permissible that two or more local authorities could jointly establish a mutual.</p>	<p>The Council has no existing direct labour service for repairs and so there would be significant up-front costs in mobilising a new workforce while incurring additional on-costs.</p> <p>Funding need for on-going access to capital for plant and equipment for use by operatives in addition to investment in terms of innovation, training and management costs.</p> <p>Fixed level of on-costs regardless of work volumes going forward.</p> <p>Increased Supervision requirements with appropriate skill sets</p> <p>Increased pension and redundancy burden to the Council if volume of work means that staff are no longer required.</p> <p>Higher risk profile for the Council and there is an extremely well developed external market for the provision of repairs and maintenance services.</p> <p>Value for money will depend on high calibre management and a motivated workforce.</p>
Conclusion	
<p>Whereas several senior members of staff interviewed, expressed a desire to reintroduce an in-house capability and move away from contracted services, this route offers high risks in terms of the need to motivate and manage staff, IT requirements, HR resources, plant & equipment usage etc</p> <p>This would mean creating a Direct Labour Organisation to deliver the repairs and maintenance service. This approach would still need market testing to establish value for money. Historically the management performance of direct labour activity, in many local authorities, has not been good. In our view, with the significant costs</p>	

involved, this option is high risk and offers only a slender hope of an improved service at reduced cost.

The services would also be constrained in terms of limited economies of scale when compared to that of large contractors and the ability for the direct labour force to achieve growth when limited by legislative trading company regulations would make the costs unsustainable and therefore unlikely to deliver the required savings within the next 2-3 years. **This option is therefore not recommended.**

Option 7 Scoring	
Factor	Score (out of 5)
Fit with Council's strategic and procurement objectives	3
Fit with Service objectives	2
Securing continuous service improvement	2
Set-up costs and longer term revenue cost implications	3
Potential to improve customer satisfaction	3
Potential to add value and facilitate innovation	2
Capability of delivering the service consistently well	3
Sector track record	3
Reducing risk exposure	4
Total	25

Option 8 – Collaboration with other Local Authorities or Housing Associations

Advantages	Disadvantages
<p>Collaboration is one option of creating savings by achieving economies of scale, through for example, joint management structures, letting of joint procurement contracts delivering aggregation of spend etc.</p>	<p>Collaboration with tri-borough partners on Housing Services has already discounted in the tripartite agreement.</p> <p>Soft market testing was unable to identify any potential partners to collaborate with.</p> <p>Current timescales are not sufficient to progress a (longer) collaborative procurement exercise and there is a risk that a partner’s timescales are not in line with the Council’s current needs.</p> <p>Co-ordination between collaborative clients not straightforward possibly leading to a loss of local control and influence.</p> <p>Only the very largest of contractors could compete thereby significantly limiting competition in a complex co-ordinated procurement.</p> <p>Likely to see any contractor increase their level of sub-contracting with increased on-costs to deliver service to collaborative partners.</p>
Conclusion	
<p>Logical partners are Westminster and Kensington & Chelsea authorities, as part of the Tri-Borough agreement. However whilst collaboration is starting to happen in respect of Children and Environmental Services, Adult Social Care and Corporate Services, the current view by the tri-borough partners is that the same approach is not practicable in a social housing context given the varying organisational structures, legal remit for each authority, and existing contract timetable in the other boroughs.</p> <p>The current tri-borough agreement specifically excludes Housing & Regeneration as all three Councils have different organisational models for delivering housing services and it would be difficult to harmonise the services whilst at the same</p>	

time improving services to residents and saving costs, within a 2-3 year timeframe.

Having assessed the collaboration option, soft market testing was undertaken by the Council and Cyril Sweett in order to gauge the market appetite. This also included dialogue with other client organisations. Having concluded this phase, it was no longer possible to consider further joint procurement on the basis that there were no immediate neighbouring peer organisations looking to re-procure their repairs services in the near future.

This does not mean, however, that this option should be discounted in the longer term. As a minimum, any future contracts, where possible, should be let with the opportunity to allow other partnering authorities to utilise them, to facilitate greater economies of scale in the longer term subject to the disadvantages above being revisited.

The option is not recommended since no partners for collaboration were readily available and therefore unlikely to deliver the required savings within the next 2-3 years. **This option is therefore not recommended.**

Option 8 Scoring	
Factor	Score (out of 5)
Fit with Council's strategic and procurement objectives	3
Fit with Service objectives	2
Securing continuous service improvement	3
Set-up costs and longer term revenue cost implications	2
Potential to improve customer satisfaction	4
Potential to add value and facilitate innovation	4
Capability of delivering the service consistently well	4
Sector track record	3
Reducing risk exposure	3
Total	28

1.3 Recommended Options

The options appraisal has established that Option 3, sole supply, is the optimal solution and the one that is the most likely contract model to meet the two business drivers. It is therefore the recommended procurement route for this Strategy.

It is also acknowledged that this is a significant divergence from previous strategies, even though it is supported with case study evidence to the effect that it can be an effective model to operate. In these circumstances it is recommended that the procurement exercise should include an alternative tender price based on Option 4, dual or split borough approach.

Exercises have been undertaken to assess the approach to a split of the borough. One option would be a 'vertical' method, that is to say a replication of sole supply, but simply split into small packages by geographical areas north and south of the borough as currently defined. Another alternative would be a 'stratified' approach where various services were established across the borough, and the packages of work parcelled up into two separate contracts in varying methodologies. This latter option does not offer any significant advantages but could present a number of disadvantages e.g. one of the boroughs could have significantly more contract spend than the other so minimises the opportunities for savings. It is therefore recommended that the alternative tender using Option 4, should be based on a 'vertical' solution which replicates sole supply within each geographical half of the borough.

The contract duration should be one that affords the most economical option and that can promote the benefits of collaboration. The proposal is to engage in a contract term of 10 years (with a possible break clause after 5 years) with a possible further 5 year extension. This approach will be attractive to the market, but will also provide the council with the ability to undertake strategic reviews, and thus ensure that performance remains a key success factor for both parties. It will also retain the flexibility to accommodate future legislative or government policy change.

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A summary of the option appraisal scoring is shown below.

Option	1	2	3	4	5	6	7	8
Factor	Score	Score	Score	Score	Score	Score	Score	Score
Fit with Council's strategic and procurement objectives	1	1	4	3	3	4	3	3
Fit with Service objectives	2	2	3	3	2	4	2	2
Securing continuous service improvement	2	3	5	4	3	4	2	3
Set-up costs and longer term revenue cost implications	5	5	4	4	5	1	3	2
Potential to improve customer satisfaction	1	1	4	4	3	4	3	4
Potential to add value and facilitate innovation	2	2	4	4	2	4	2	4
Capability of delivering the service consistently well	1	1	4	4	3	4	3	4
Sector track record	3	3	3	3	3	1	3	3
Reducing risk exposure	3	3	2	2	4	3	4	3
Total	20	21	33	31	28	29	25	28

Annex B

Risk Management

There are two distinct elements of risk to be managed. There are those risks associated with the re-procurement project (Project Risks), and those risks associated with the chosen outcome and the ongoing contracts management (Contract Risks).

NPS have compiled a risk register, which is routinely updated, and any highlighted issues are brought to the Project Team. The Project Team manages project Risks; Programme Risks are managed by the Programme Board. A copy of the Property Services Risk Register as it currently stands is attached.

The Contract Risks have been the subject of consideration within the Options Appraisal, and the specific risks identified with the recommended Options are detailed below, with their principal mitigations. The optimal model of a sole supplier requires an appropriate review of the risks involved, and proposals for mitigating those risks. The second highest scoring model of a split borough approach contains largely similar risks.

Risk		Mitigation
Supplier becomes insolvent	1	An appropriate degree of scrutiny of potential tenderers' financial standing at PQQ stage.
	2	A carefully developed process to ascertain that the price submitted as part of any bid is sustainable in terms of overhead and profit allowances. This will include cost benchmarking by a QS company (to be appointed), and involving the QS in the price evaluation.
	3	Parent Company Guarantee.
	4	Performance Bond.
	5	Step in clauses
Supplier does not meet performance standards	1	Carefully drafted technical questions in the quality section of the PQQ to ensure that contractor can demonstrate satisfactory past performance.
	2	Carefully drafted technical questions in the quality section of the ITT to ensure that the tender offer is technically adequate and directly related to the specific levels and types of service desired.

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Supplier does not meet performance standards <i>(continued)</i>	3	A contractual mechanism of risk and reward linked to headline KPI performance.
	4	A contractual mechanism for escalation procedures, which would allow for eventual determination of the contract with award of costs.
	5	Consultation with Resident Working Group will clarify intended levels of performance
Management difficulties with supplier	1	Gap analysis of skills within the HRD staff to ascertain training needs before contract mobilisation.
	2	Implement a partnering approach that identifies common objectives, linked to the risk and reward model.
	3	A pricing model that leads towards the contractor being incentivised to reduce costs where appropriate (consider such things as ring-fenced overhead contribution).
	4	Involvement of Resident Working Group will bring added stakeholder emphasis to performance achievements.
Statutory Requirements are not being followed <i>1. Site Activities</i>	1	Ensure that PQQ and ITT procedures are adequate, and that Strategic review meetings routinely include Statutory compliance.
Statutory Requirements are not being followed <i>2. Landlord's Responsibilities</i>	1	Retain Landlord's statutory duties so that they are not included as part of the contract – only includes consequential works within the contract.
	2	Include appropriate KPIs to reflect the importance of any statutory activities.
	3	Continue with compliance audit to monitor activities with statutory implications.
For split borough solution, two suppliers	1	Retain a staff resource flexibility to re-procure.

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offers greater risk of one of the above failures	2	Ensure that OJEU Notice includes the provision to step into the other geographical area if the need arises.
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Annex C

Procurement Route

These contracts fall within the Public Procurement Regulations. The complexity of the sole supply contract initially suggested that the Competitive Dialogue route might be an effective way to ascertain the full benefits of efficiency that could be derived from technological advancement that tenderers could offer. Procurement advice arising from consultation with the Council's procurement team identified that this route would, in all likelihood, require more time than was allowed within the Medium Term Financial Strategy target, also that there would be no guarantee of better outcomes being achieved in the long term over and above those achieved through the Restricted Procedure.

It was therefore proposed to use the Restricted Procedure to tender the works. The requirement for improved service delivery will be carefully articulated within the tender documents, without outcome requirements, best practice, and KPIs all co-ordinated to drive the improvement.

Use of the restricted procedure is in line with normal practice for a contract of this type. Use of the Open Procedure has been ruled out as it is anticipated that a large number of contractors will respond; using the restricted procedure will be more efficient for both the Council and contractors.

Officers have elected to issue a Prior Information Notice (PIN), to allow an element of formal dialogue with the market before issue of the OJEU Notice. It is intended to provide some written questions with the PIN as a means of eliciting information from interested contractors about the current technology and consequent efficiencies that are in current use.

The OJEU Contract Notice will be issued following Cabinet approval of the Procurement proposal.

The PQQ will be drafted in consultation with stakeholders including the Residents' Working Group. The Tender Appraisal Panel as detailed below will evaluate the PQQ. Short listing will be submitted to the Lead Member for Housing for approval.

Service delivery, and other appropriate matters relating to the ITT will be drafted in consultation with stakeholders including the Residents' Working Group. The Tender Appraisal Panel will undertake ITT evaluation.

Evaluation

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A Tender Appraisal Panel will be established in accordance with the Council's Standing Orders and the guidelines issued by the central procurement team.

The Panel will include Council officers, consultants and resident representatives. The process for identifying resident representatives is currently under review and the Panel will take note of any changes in this process. Current proposals for the TAP are:

PQQ and marking	AD Asset Management & Property Services Head of Repairs Head of Planned Maintenance Head of BPM Managed Services Head of IT Commercial & Contracts Manager Northgate Project Manager - Procurement LBHF Central Procurement Team representative LBHF Legal Services representative AD Finance & Resources (HRD) AD Housing Services	Tender will be
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undertaken by:

Head of Repairs
Head of Planned Maintenance
Head of BPM Managed Services
Head of IT
Commercial & Contracts Manager
Northgate Project Manager - Procurement
Resident – Tenant
Resident – Tenant
Resident - Leaseholder

PQQ Evaluation

PQQ Evaluation will be undertaken on the following basis:

1. Financial – 30%
2. Technical – 70%
 - a. Health & Safety
 - b. Quality Systems
 - c. Environmental Systems
 - d. Sub-contractor management
 - e. References
 - f. Case studies
 - i. Similar projects
 - ii. Innovations
 - iii. Service delivery improvements
 - iv. Community Engagement

ITT Evaluation

ITT Evaluation will be undertaken on the following basis:

1. Cost – 60%
2. Technical – 30%
 - a. Health & Safety
 - b. Service Delivery
 - i. Quality
 - ii. KPI performance
 - c. IT
 - d. Invoicing
 - i. Timeliness
 - ii. Accuracy
 - e. Record keeping
3. Community Engagement – 10%
 - a. Benefits for Business
 - b. Local skills opportunities
 - c. Resident/Estate support schemes

Subject to
final detail

Annex D

Procurement Programme

The main procurement milestones have been extracted and are shown below including an extract of the project's programme from issue of the OJEU Contract Notice, through to the appointment of the new contractor.

Activity	Date
Report on Housing Revenue Account Medium Term Financial Strategy (HRA MTFS) signed off by Executive Director for Housing and Regeneration Services	July 2011
Cabinet Member Key Decision to appoint additional capacity to HRA MTFS Programme	1 st August 2011
Preparation and Development of client-side Requirements	Sept 2011 – March 2012
Leaseholder Notice of Intention (NOI) issued and consultation period	March 2012
Official Journal of European Union (OJEU Prior Information Notice) published via e-sourcing portal	March 2012
Contractors' Briefing Day	April 2012
Full Cabinet Key Decision to consider recommendation to commence re-procurement and issue delegated authority for programme decisions to Cabinet Member for Housing up to award	May 2012
Official Journal of European Union (OJEU Contract Notice) & Pre-Qualification Questionnaire (PQQ) published via e-sourcing portal	June 2012
Deadline for PQQ return and evaluation begins	August 2012
Cabinet Member Decision to consider PQQ short-list	September 2012
Invitations to Tender published via e-sourcing portal	October 2012
Deadline for submission of tender clarification questions by contractors	November 2012

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Tenders return	December 2012
Evaluation period	Late December 2012
Contractors clarification interviews	January 2013
Preferred contractor identified	February 2013
Leaseholder Notice of Proposal (NOP) issued and consultation period	March 2013
Full Cabinet Key Decision to consider recommendation of award	June 2013
'Alcatel' cooling-off period	June 2013
Contract award	July 2013
Mobilisation period & Start of TUPE transfers	July 2013
Contract go-live	October 2013
1 st contract audit	April 2014

Annex E

Existing repairs and maintenance contracts

The repairs and maintenance contracts are shown below:-

1. Reactive Repairs & Out of Hours - North
2. Reactive Repairs & Out of Hours - South
3. Voids
4. Voids EPC
5. Gas Servicing - North
6. Gas Servicing - South
7. Health & Safety Works - Fire Equipment Servicing
8. Fire Risk Assessments
9. Fire Safety Works
10. Asbestos Surveys & Co-ordination
11. Asbestos Works
12. Alarms & Emergency Lighting
13. Controlled Access
14. Lifts
15. Maintenance of Stair Lifts (installed by Occupational Health)
16. Maintenance of Bath Hoists (installed by Occupational Health)
17. Mechanical (Communal Gas, Ventilation etc)
18. Electrical Testing & Portable Appliance Testing
19. Wardens Call System
20. Door Operators/Barriers
21. Lightning Protection
22. Water Quality Management
23. TV Aerials
24. Sprinkler System
25. Cyclical Decorations (external)
26. Works to Water Tanks
27. Maintenance of white goods (sheltered)