



London Borough of Hammersmith & Fulham

CABINET

8 APRIL 2013

AWARD OF NEW HOUSING REPAIRS AND MAINTENANCE CONTRACT

Report of the Cabinet Member for Housing – Councillor Andrew Johnson

Open Report

A separate report on the exempt part of the Cabinet agenda provides exempt information relating to the evaluation of the tenders received.

Classification - For Decision

Key Decision: Yes

Wards Affected: All

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1. EXECUTIVE SUMMARY

- 1.1. The Housing Revenue Account (HRA) Financial Strategy and Rent Increase 2013/14 report was approved by Cabinet on 11th February 2013. The report noted £6 million savings in management costs between 2008 and 2010. A further HRA Medium Term Financial Strategy (MTFS) transformation programme is underway to achieve on-going revenue savings of £4m per annum from 2014/15 onwards. Delivery of the transformation savings programme is required to contain the current reliance on asset sales to fund on-going repairs and maintenance activity and to improve the financial position of the HRA overall, freeing up investment for debt repayment, innovation, estate improvements and service improvement.

- 1.2. The Cabinet report “Housing Revenue Account – Medium Term Financial Strategy Transformation Programme: Housing Services Market Testing and Repairs and Maintenance Re-procurement Exercise” approved on 21 May 2012 gave authority to proceed with procuring (the provision of) a new 10 year Housing Repairs and Maintenance Contract with an option to extend for a further 5 years.
- 1.3. The report of the 21 May 2012 also provided delegated authority “that the provisions of Contract Standing Orders (Section 3, para. 9.2) be waived and authority be delegated to the Cabinet Member for Housing, in conjunction with the Executive Director for Housing and Regeneration, to progress the related procurement processes up to, but not including Contract Award. Subsequent decisions relating to the entering into of contractual arrangements will be the subject of a further report back to Cabinet.”
- 1.4. In October 2012 the Cabinet Member for Housing approved the short-list of organisations, which, following the Pre-Qualification(PQQ) process, were invited to tender for the Borough Wide Housing Repairs and Maintenance Services Contract (Lot 1), for the North of the Borough Housing Repairs and Maintenance Services Contract (Lot 2),and/or for the South of the Borough Housing Repairs and Maintenance Services Contract (Lot 3).
- 1.5. The tender evaluation process for the repairs and maintenance contract(s) is now complete and this report sets out to:
 - a) Update Cabinet on the procurement process with a recommendation to award the contract under Lot 1 Housing Repairs and Maintenance on a borough wide basis and to outsource a number of related service teams; as set out in Section 4.2 of this report;
 - b) Outline the major differences in approach between the existing contracts and the proposed new contract; and
 - c) Report on the progress made by Property Services in relation to its savings targets under the agreed HRA MTFs Transformation Programme.

2. RECOMMENDATIONS

- 2.1. That officers’ recommendation that the Repairs and Maintenance contract be awarded to MITIE Property Services (UK) Ltd be noted.
- 2.2. That authority be delegated to the Cabinet Member for Housing in conjunction with the Executive Director for Housing & Regeneration to:

- (i) award a borough wide sole supply contract under Lot 1, Housing Repairs and Maintenance Contract(s) 2013-2023 to MITIE Property Services (UK) Ltd, to provide works and services for a 10 year period (2013-2023), with the option to extend for a further 5 year period, subject to due regard being taken of the outcome of the section 20 consultation described in paragraphs 7.2.1 and 7.2.2. of this report.
 - (ii) approve any necessary amendments to the contract in light of the consultations.
- 2.3. That the notional Annual Contract Value¹ in the region of £17.9m, subject to annual indexation, and including revenue works (HRA), capital works and some further call off provision for capital schemes, be noted (this figure assumes that all KPIs are achieved and full incentivisation payments made).
- 2.4. That the TUPE transfer of approximately 41 Council staff to the new contractor be noted and that approval be given for the Council to enter into any necessary ancillary agreements as a result of such transfer.

3. REASONS FOR DECISION

- 3.1. Following creation of the ALMO in June 2004, a tender process was agreed for the reactive repairs and voids contracts in August 2004. In July 2005 a repairs contract for the south of the borough and a separate contract for voids work (for the whole borough) were awarded and at the same time a decision was taken to proceed with a tender for the north of the borough with the subsequent repairs contract being let in 2007. In addition separate contracts for the north and south of the borough for the servicing and maintenance of domestic gas installations were let in 2006.
- 3.2. The current repairs and maintenance contracts have been timed to expire this year, with two of the four contracts having no further extension available. Officers have conducted an extensive procurement exercise as outlined elsewhere in this report and as detailed in the report submitted and approved by Cabinet on 21st May 2012.
- 3.3. Approximately one thousand repairs are undertaken each week and repairs and maintenance activity is a significant driver of resident satisfaction but all too often feedback from residents and members is that service is below expectations. Therefore, rather than simply mirroring past re-procurement exercises, the opportunity was taken to undertake a root and branch review of the service.

¹ See para. 5.1.1 for explanation of the difference between notional annual contract value & annual budget

Current experience

- Poor diagnosis of the fault at first call stage which leads to wasted visits, resident dissatisfaction and extra costs;
 - Inconsistent interpretation of the repairs policy leading to customer confusion and dissatisfaction;
 - Numerous chase up calls are needed to ensure that the repair gets done;
 - Missed appointments;
 - Inconsistent hand-offs between call centre and different contractors;
 - Failure to get repairs done right first time and little or no incentivisation to drive contractor behaviours; and
 - Insufficient client side focus on the commercial management of the contracts; weak contractual terms and conditions and insufficient obligations on the contractor to provide prompt financial information to ensure that the best possible costs are achieved
- 3.4. In a drive to improve both the cost effectiveness and service quality of the housing repairs and maintenance service, a contract specification and performance framework has been drawn up which incentivises the contractor to “get it right first time”.
- 3.5. In addition, the revised output based specifications of the new contract puts responsibility for repair diagnosis and delivery squarely with the contractor, supported by a payment regime which incentivises “right first time” and penalises customer dissatisfaction.
- 3.6. Incentivised Key Performance Indicators (KPIs) - see Appendix 1 - and improvements in the financial information provided by the contractor are part of the contractual terms that combined with the measures above, will help to change and drive behaviours leading to a continuous improved service at reduced cost.

Future experience

- The contractor is incentivised to get the job done right first time - if a job is done poorly repeat calls will not be paid for by the Council;
- Call centre run and managed by the “repair experts” - the contractor, who carries the cost risk of poor call handling;

- Contractor uses their own dynamic scheduling system to log, diagnose and make appointments;
- Use of SMS text messages to confirm appointments;
- Future use of smartphone “apps” for residents to request repairs, submit supporting images and make/change appointments;
- Residents are contacted within 15 minutes of completion to provide feedback on the repair;
- Repairs policy will form part of the contract;
- Planners have real-time visibility of demand and appointments via large plasma/LCD screens;
- Independent customer satisfaction surveys will constitute a part of the incentivised KPIs to support performance management arrangements
- Use of one repair system linked to the Council’s housing management and financial systems will provide more robust and transparent cost control;
- Fewer contractors leading to less hand-offs between suppliers;
- Majority of the work (excluding communal works) is priced on a fixed lump sum price per property basis;
- Fixed price per property provides more budget and forecasting certainty;
- Officers will have the ability to access Management Information from one system via a web portal;
- Improved use of data (utilising MITIE’s GIS mapping) to plot repair volumes and spend by location, leading to informed decisions and improved management of assets;
- A Property Services management team, re-structured to reflect the needs of managing a large sole supply contract. Emphasis will switch from managing less day to day issues, to a more strategic approach focussed on; contract management, compliance monitoring, customer quality and a unified approach to asset management; and
- All properties to be inspected annually, to assist in preventing dis-repair and abuse.

- 3.7. Following evaluation of all tenders submitted under 3 separate Lots, the tender submitted by MITIE Property Services (UK) Ltd., under Lot 1 (borough wide sole supply) represents the best value for money; will deliver the MTFS savings target allocated to Property Services and will provide the desired improvements in service and quality of delivery, necessary to increase the customer satisfaction ratings.
- 3.8. Results of the tender exercise reveal that the highest ranked tenderer for the whole borough is over 11.6% more cost effective than the two highest ranked tenderers for Lots 2 & 3. The best value for money solution for two contractors, one in the north and one in the south of the borough would add over £2m to the cost, per annum, which would negate any savings achieved through the procurement exercise

4. INTRODUCTION AND BACKGROUND

- 4.1. To enable delivery of part of the programme, on 21 May 2012 Cabinet gave approval to proceed with procuring (the provision of) a 10 year Housing Repairs and Maintenance Contract (with an option to extend for a further 5 years), to incorporate the packaging together of all responsive repairs, gas, voids and as much of the planned maintenance works as possible, into either a single borough wide contract or, via 2 contracts split north and south of the borough. This was done so as to maximise value for money, improve the efficiency and benefits of the service to residents and improve the resilience of the overall service.
- 4.2. Approval was also granted to include the outsourcing of a range of closely interwoven services currently handled in-house, which would better sit with the new contractor; these being:
- Repairs Call Centre; responsible for handling all repair related calls from residents, diagnosing the cause of faults, arranging appointments and appointing the appropriate contractors;
 - Gas team; arranging servicing and gas safety inspections and liaising with gas contractors;
 - Voids (Repairs team); manage the in-work voids process from notification by Housing Management to handing back of keys when work is complete;
 - Technical Team; carry out pre & post inspections and diagnosis and specification of works (reactive repairs only); and

- Works Contract; part of the direct labour force located in Transport and Technical Services, who carry out repairs & maintenance to domestic communal mechanical and engineering installations.
- 4.3. Council officers have now completed the tender evaluation for the Housing Repairs and Maintenance procurement. This stage also ensures that all organisations who tendered have met the financial requirements to undertake the advertised services, and their technical proposals have been scored and ranked in order to determine the most economically advantageous tender. This report outlines the process undertaken to date, and based on the tender evaluation, recommends the organisation who should be provisionally invited to contract with the Council.
 - 4.4. The contract will run for an initial 10 years from November 2013 or earlier, with an option to extend for a further 5 years.
 - 4.5. Notices of Intention were issued on 2 March 2012 to leaseholders, and a Prior Information Notice (PIN) was issued on 22nd March 2012, and subsequently published on 27 March 2012 (reference 2012/S 60-097365).
 - 4.6. A 'Meet the Buyer' day was held on 27 April 2012 for prospective contractors and service providers, for both Property Services and Housing Services, with over 100 people in attendance. The event was hosted by the Cabinet Member for Housing and included presentations from the Cabinet Member, the Executive Director for Housing and Regeneration and the Director of Asset Management and Property Services. 27 building contractors attended and this gave the opportunity for contractors and officers to exchange ideas, in preparation for the issuing of the tender specifications.
 - 4.7. A contract advertisement (ref 2012/S 119-196850) and pre-qualification questionnaire (PQQ) was issued on 19 June 2012, and subsequently an advertisement was published on 23 June 2012, on the London Tenders Portal.
 - 4.8. Organisations were required to submit their completed PQQs by 26 July, 2012. One hundred and thirty six initial expressions of interest were registered on the e-tendering system (London Tenders Portal), out of which thirteen submitted completed application forms (PQQs).
 - 4.9. The PQQ set out the information required by the Council in order to assess the suitability of applicants in terms of their technical knowledge and experience, capability/capacity and organisational and financial standing, in order to meet the requirements of the Council and the technical demands of the service.
 - 4.10. The Tender Appraisal Panel markers convened on 30th August 2012 to undertake a consensus scoring of the PQQs received. Expert advice from specialist officers in Finance and Health and Safety was also sought for the evaluation of the financial assessment and Health and Safety criteria.

- 4.11. Five of the thirteen applications failed the evaluation criteria and officers submitted a recommendation and gained approval from the Cabinet Member for Housing on 11 October 2012, that the following companies be invited to tender for the contract to provide housing repairs and maintenance services:

Contract Lot 1 – Borough Wide	Contract Lot 2 – North of the Borough only	Contract Lot 3 – South of the Borough only
Axis Europe plc	Apollo Property Services Group Ltd	Axis Europe plc
Kier Services Ltd	Geoffrey Osborne Ltd	MITIE Property Services (UK) Ltd
Mears Ltd	Kier Services Ltd	Willmott Dixon Partnerships Ltd
MITIE Property Services (UK) Ltd	Mears Ltd	
Morrison Facilities Services Ltd	Morrison Facilities Services Ltd	
Willmott Dixon Partnerships Ltd		

- 4.12. The invitation to tender (ITT) was issued on the London Tenders portal on the 29th October 2012 (contract reference number DNWC – 8VEJHJZ). The portal closed to questions from tenderers on 19 December 2012. The deadline for tender submissions, originally set for 21 December 2012, was extended following requests from several tenderers, to the 11th January 2013.
- 4.13. Mid tender reviews were held on 13 and 14 November 2012. All tenderers were invited to attend individual mid-tender clarification meetings prior to the submission of their tenders. A written record of all questions asked and answers given was issued (in anonymised form) via the tender portal.
- 4.14. Morrison Facilities Services Ltd formally withdrew from the tender process following their acquisition by Mears Ltd (in accordance with the terms of the Council's PQQ).
- 4.15. A total of 10 tenders were received from 6 separate tenderers, with some tenderers submitting tenders for two Lots.

- 4.16. An evaluation team was established to complete the quality marking. Each tender was evaluated against the qualitative aspects of the bid using the criteria and weightings set out in the ITT, "Evaluation Methodology & Award Criteria", Appendix 2 refers. The evaluation comprised of a wide range of organisational, operational, service delivery, IT. and quality control proposals that were scored on a consensus basis.
- 4.17. The Council appointed Keegans Ltd. as their professional Chartered Quantity Surveyors (QS) and their remit included:
- Providing a detailed tender price breakdown;
 - Construction of pre-tender estimate of costs; and
 - Lead on the evaluation and scoring of the pricing elements of the tenders.
- 4.18. The tender price breakdown was prepared with specific reference to the specification of each element for the works. The elements of work are required to be priced in accordance with various mechanisms, dependent upon the type of work. For example, tenanted properties are priced under an annual lump sum; communal works, where Section 20 leaseholder charges apply, are priced under a published schedule of rates and planned upgrade works are priced under a tendered bespoke schedule of rates.
- 4.19. Where lump sum pricing is required, the pricing schedule identified three property archetypes:
- Street Properties;
 - Purpose built properties up to 6 storeys; and
 - Purpose built properties over 6 storeys.

In addition, each archetype was split down by bedroom size ranging from bed-sit, to those having more than 4 bedrooms.

- 4.20. For service elements that applied only to blocks, a full property list was provided, with the specifications detailing the extent of equipment in each block, and the tenderer having the option of submitting an individual price for each block.
- 4.21. Pre-tender estimates were worked up by reference to the tender specifications, Keegans' information of previous tender pricing and procurement exercises, and knowledge of the current market situation. They were prepared independently without reference to the Council's departmental working budget, in order that they should be as objective as possible. Thereafter, they were compared to the budget to establish whether the target

saving's figure was likely to be achieved, prior to the tender specifications being finalised.

- 4.22. Following clarifications and completion of the pricing evaluation scores for the pricing and qualitative aspects for each tender were combined. An overall score was achieved for each tender response with a weighting of 60% applied to pricing and 40% to quality.
- 4.23. A Tender Appraisal Panel (TAP) meeting was held on the 21st February 2013, chaired by the Director Asset Management and Property Services, with representatives from Legal and Procurement in attendance, together with the Director of Finance and Resources – Housing and Regeneration Dept. (HRD).
- 4.24. Officers presented a report recommending that a decision be taken to Cabinet to seek approval to award a borough wide sole supply contract under Lot 1, Housing Repairs and Maintenance Contract(s) to MITIE Property Services (UK) Ltd. The contract to provide works and services for a 10 year period (2013-2023), with the option to extend for a further 5 years.

5. PROPOSAL AND ISSUES

5.1. Value for Money

5.1.1. The notional contract value of £17.9m contains both capital and revenue expenditure², as well as the provisional quantities for various items of work. This is used to establish a pre-determined, like-for-like basis for cost evaluation of tenders, and for the reasons identified below, does not necessarily directly correlate to the annual expenditure under the contract:

- The pricing mechanism of this contract includes a series of bespoke schedules of rates for renewal of kitchens and/or bathrooms. The tender price is based on a provisional number of these, and officers will prepare schemes each year, balancing the numbers to suit budget availability. The budget for 2014/15 is based on upgrading 150 kitchens and bathrooms. This expenditure is additional to the larger schemes undertaken by the Planned Preventative Maintenance Team;
- The pricing mechanism for the majority of the revenue works is based on lump sum prices, which are linked to KPIs with financial deductions for failure of service. Whereas this entails a pre-

² Capital expenditure is that which is directly attributable to the acquisition, construction or enhancement of fixed assets, which are items held in the long term (over one financial year at least). Revenue expenditure is all other expenditure – generally day to day expenditure on repairs and maintenance. For example, refurbishment of a property will probably be capital expenditure whilst day to day repairs are treated as revenue.

determined budget commitment, the risk of performance efficiency is suitably placed with the contractor. These fixed prices have been factored into the 2014/2015 indicative budget figures given in this report; and

- The provisional items are principally included in the pricing mechanism to allow for flexibility in ordering works which may arise, but do not form part of any firm commitment at tender stage. This allows the Council an element of flexibility under the contract for unforeseen issues.

5.1.2. The table below demonstrates the year on year savings that will be achieved through the new contract terms, based on existing predicted volumes.

Budget savings	2012/13 Based on existing arrangements	2013/14 Based on 6 months existing arrangements and 6 months new contract	2014/15 First full year with new contract
Capital	£ 7,390,000	£ 7,025,000	£ 6,513,000
Revenue	£ 14,512,500	£ 14,006,000	£ 12,958,000
Repairs Budget Total	£ 21,902,500	£ 21,031,000	£ 19,471,000
Revenue Savings		£ 506,500	£ 1,048,000
Capital Savings		£ 365,000	£ 512,000

Note: The budget figures contain extra planned quantities of work, over and above that contained in the notional contract value and this extra work will benefit from the new contract terms.

5.1.3. This proposal for a repairs and maintenance contract consists of delivery of a number of service elements, some of which have differing styles of service demand:

- Day-to-day repairs are very largely response driven;
- Mechanical & Electrical (M&E) servicing is driven by a prescribed calendar of actions, with some response repairs arising from the servicing report; and
- Planned Maintenance allows for a longer term sustainable approach allied to programmed budget spend.

5.1.4. To meet these various demands, each of the service delivery elements of the contract has been priced separately using a variety of mechanisms that are intended to:

- Provide certainty of commitment and clarity of costs, enabling improved budget control and accountability;
- Prevent unnecessary confrontation between contractor and client, utilising clear processes in the contract;
- Allow for variation, validation and modification during the course of the contract; and
- Comply with the requirements of the Commonhold and Leasehold Reform Act 2002.

5.1.5. Listed in Appendix 3 – Service Delivery Pricing, are the service delivery elements of the contract, and the contractual price mechanisms that will be used to manage the costs.

5.1.6. All of these mechanisms will allow officers to be able to control and manage the level of spend within pre-determined budgets.

5.1.7. In addition, the lump sum pricing arrangements for the planned maintenance elements will allow operational and finance officers to agree budgets in advance, with the full knowledge and transparency of what can be achieved within cost limits.

5.1.8. In conjunction with the Council, MITIE will agree a standard list of materials and goods that will be used throughout the duration of the contract. This will be kept under regular review and changes will be made where there is a demonstrable business case to do so and as the needs of the Council and residents change and as products and technology evolve.

5.2. **Service Delivery**

5.2.1. MITIE provided the optimum combination of value for money combined with a good quality service offering. Some of the key features of their service offering include:

- Call centre staff will be provided with front end tools to gather the right information to enable planners to send the right operative to the job. MITIE's own IT system has a dynamic scheduling system for allocating and recording appointments at first point of call;
- There will be a single point of contact for all resident enquiries 24x7, regardless of whether the call relates to repairs, gas, M&E or

planned works/general enquiries. Calls for repair requests can be made at any time of the day or night;

- MITIE will have some staff based in the existing area offices, but also intends to base supervisors, RLOs, handypersons and operatives local to the work, using a combination of supplier branches and small shop fronts/offices close to or within the estates. The rationale for this approach is to minimise travel, facilitate local knowledge of the stock and to present visibility on the estates;
- It is also proposed that a compliance team consisting of a compliance manager, performance administrator, health and safety coordinator and complaints officer are co-located with Council staff;
- MITIE's systems have been designed to support their processes rather than being driven by the system. Key to getting repairs right first time is a combination of resource allocation and having a multi-trade workforce. MITIE will review the top 20 repair types, analyse what skills are required to undertake the repairs and ensure that operatives are up-skilled accordingly;
- Operatives are supplied with hand held PDA's in order that information can be captured in "real time". This helps drive efficiencies both in terms of scheduling work and alerting the supply chain when van stocks are running low;
- MITIE have also provided resilience in their supply chain by identifying two major suppliers in the local area for each work type (building, plumbing and electrical);
- MITIE are an experienced provider of gas servicing and maintenance contracts across both domestic and communal systems and have provided evidence and case studies showing how they can achieve 100% compliance for gas safety certification. In recognition of their effective methodologies they were asked to present their methods at a HouseMark³ conference; and
- MITIE have an integrated IT system so if a resident rings in for a repair, the system flags up if a gas service is due. The system also provides clear transparent information, so that officers can monitor compliance. The Council will be afforded full visibility of MITIE's IT system; this is something that MITIE already provide in other contracts.

³ HouseMark is a nationally recognised benchmarking organisation that LBHF subscribes to.

5.3. Cost Control

- 5.3.1. Cost control and budget monitoring will be a pivotal point of shared knowledge between client and contractor and MITIE have experience of managing client budgets; agreeing them jointly based upon the previous year and taking full responsibility for delivery of services within that budget, with any overspend being their responsibility.

5.4. Local opportunities

- 5.4.1. MITIE is partnered with “Working Knowledge” a social enterprise dedicated to bridging the gap between education and the workplace. The partnership involves MITIE employees taking on roles as Business Experts in “Dragon’s Den” style enterprise events. MITIE have committed to actively promote and support this initiative within LBHF.
- 5.4.2. MITIE has a committed “Real Apprentice Programme” that works to break down barriers and help the long-term unemployed and people with physical or learning difficulties back into the world of work through training and placement at MITIE and its clients
- 5.4.3. Construction Youth Trust currently work within the borough to help deliver employment and training opportunities. They provide a range of support and provide links to local schools, colleges and youth clubs. MITIE have an agreement with the CYT , who will help them to achieve the following:
 - **Awareness** – promoting the construction industry and their business;
 - **Coaching and mentoring** – our staff, residents and trainees;
 - **Education and skills awareness** – by highlighting the opportunities that exist;
 - **Employment brokerage** – by creating links with local businesses and Job Centre Plus;
 - **Outreach work** – to help MITIE reach all sections of the community; and
 - **Work placements** – in our business and through our suppliers.

MITIE will commission the CYT Mobile Classroom to get “out and about” onto estates and will agree with the Council the initiatives to be progressed in order that they are co-ordinated with other initiatives

5.4.4. MITIE are committed to engage with and play an active part in the “White City Challenge” and have highlighted a number of ways in which they could add value:

- Facilitate estate walkabout’s with neighbourhood police officers and TRA’s to identify measures to reduce anti-social behaviour;
- Provide technical support to TRA’s regarding surveying and asset management;
- Provide repair data to TRA’s and use tools such as our GIS mapping to help identify areas and scope of communal repairs;
- Work with and provide support to TRA’s to prioritise projects;
- expand the proposals above for a project specifically targeted at the White City Estate;
- Identify the skills required for undertaking straightforward communal repairs and the most frequent repairs and develop training courses to meet these needs; and
- Develop proposals for locally employed Handyperson service.

5.5. Managing the Risks of Sole Supply

5.5.1. Using a single contractor to undertake all of the repairs, and a large proportion of the maintenance work across the borough carries a number of risks, the principal risks being:

- Potential Insolvency;
- Sustainability of the tendered price; and
- Ability to deliver the service.

5.5.2. Whereas there may be linkage between any of these factors, in order to mitigate the risks, it is helpful to consider them separately. For example, a contractor who can demonstrate excellent financial stability and prospects, and who could submit a carefully prepared and competitive tender, may not have formulated an adequate response to deliver the service in a manner that meets expectations.

5.5.2.1. Potential Insolvency

At Pre-Qualification Questionnaire (PQQ) stage, in addition to the Council’s standard procedure of requiring a Creditsafe

rating in excess of 50, applicants were required to demonstrate further financial rigour.

In the event, four applicants were discounted at PQQ stage because they failed to meet these criteria, and all of the companies invited to tender for the whole borough solution had credit ratings in excess of 90 at the time of tender.

All applicants were asked at PQQ stage whether they would be prepared to offer a Parent Company Guarantee (PCG), and tenderers were asked the same question, with an example of the wording of the form of guarantee. Traditionally this can be one of the more difficult areas in contract documentation, and officers dealt with queries and anomalies in an appropriate manner during the tender period. Unacceptable suggestions were discussed with the Council's Legal department and suitably declined.

The Council is currently undertaking an exercise to review the processes in relation to its supply chain resilience and this will include checks on the financial strength of contractors. Pending the development of an enhanced corporate approach the financial strength of the contractor will be formally checked on a six monthly basis with reference to the most recent accounts, interim statements and other market intelligence.

5.5.2.2. Sustainability of the Tendered Price

An unsustainable price has the potential to cause problems in the long run and as stated in Section 5, officers engaged Keegans Ltd, to advise on the costing and pricing elements of this contract. A significant element of the QS brief was to prepare pre-tender estimates.

In addition, the pricing matrix developed by the QS in conjunction with Council officers, provided sufficient granularity to interrogate the tenders submitted. The QS, sought some clarifications where tenderers had not correctly carried figures through to the summary in accordance with issued instructions. On completion of this exercise it became clear that one tender was abnormally low, and the process outlined in the Public Contracts Regulations was applied.

5.5.2.3. Ability to Deliver the Service

The PQQ itself is the first gateway to determining whether a company has the required expertise and experience to provide the service. Officers compiled a specific

questionnaire that was tailored to the demands of the elements of service delivery under the contract.

The ITT includes a requirement for a Method Statement, and tenderers were required to prepare this in response to specific questions set by officers. The questions were divided into ten sections – see Appendix 2 Evaluation Methodology & Award Criteria:

The purpose of the Method Statement is not just for tender evaluation, it then becomes a tool for managing the contract. The tenderer has made a commitment to deliver certain things, and the Method Statement is part of the contract documents.

5.6. Actions in the event of sole supply failure

- 5.6.1. The contract includes mechanisms and escalations in the event that performance is poor. As an ultimate remedy, the form of contract includes a break clause which allows the Council to determine the contract. It should be noted that no such reciprocal right is afforded to the contractor. This was again seen as an inducement to prevent abnormally low pricing (there having been some instances elsewhere in the social housing sector where contractors, having under-priced, sought to walk away from their responsibilities).
- 5.6.2. If the contractor should become insolvent, there is no opportunity under Public Procurement Regulations for the works to be handed to another contractor. Proposals tabled by the EU are seeking to reinforce this by placing defined limits on the amount by which any contract can be varied. Thus it would not be possible to novate the contract to another provider on a permanent basis, irrespective of the number of contractors operating in the borough.
- 5.6.3. The regulations do permit a client to engage a contractor without public tender in an emergency until such time as a procurement exercise can be properly conducted. The Council would rely on this measure, and would be able to make use of any labour force that was faced with potential redundancy as a result of a company's failure, thus only requiring another body to mobilise a management team at short notice, with the labour force engaged by that contractor – TUPE would not apply where notices of redundancy are issued. In such circumstances, clients usually have a period of awareness in which to draw up contingency plans, and to sound out potential service contractors who could step in. No matter how shocked the media may appear to be when a company fails, this is always preceded by a period of speculation while an organisation goes through its final throes. The Council would move quickly to make provision during this

period, such that any period of disruption was kept to an absolute minimum.

- 5.6.4. Once a provider had been engaged on a short term basis, re-procurement would be necessary. The contract contains a clause whereby a proportion of the contractor's mobilisation costs (paid to them during year 1) can be offset and recovered as a debt in the event of early contract termination.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Borough wide sole supply v Split borough dual supply

- 6.1.1. In the report to Cabinet in May 2012, a Repair & Maintenance Re-procurement Proposal report was included. This report detailed all the various options that had been considered and concluded that:

d) 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.

e) 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.

- 6.1.2. As outlined in Section 4, the highest scoring tenderer (representing the best value for money) over the whole borough, is over 11.6% more cost effective than the two highest scoring tenders for lots 2 & 3. The best value for money solution for two contractors, one in the north and one in the south of the borough would add over £2m. to the cost, per annum, which would negate any savings achieved through the procurement exercise.

- 6.1.3. It should be noted that leaseholder charges would be over 16% higher in one half of the borough due to differences in the tender pricing. This is likely to give rise to challenges from leaseholders and leading to a loss of income.

- 6.1.4. The often used argument for promoting two contracts, is the perceived resilience this brings in the event of one contractor failing. However having two contractors simply doubles the risk of any failure and the resilience provided by having two contractors is currently very limited. It will be further restricted under proposed EU changes to the Public Contracts Regulations.

- 6.1.5. Faced with this scenario, the premium of £2m. per annum is not considered to be a worthwhile cost, and therefore the borough wide approach is recommended.

7. CONSULTATION AND ENGAGEMENT

7.1. Residents

- 7.1.1. The Council established a Residents Working Group (RWG) in early 2012, comprising of tenants and leaseholders with officers meeting with them on a monthly basis. The RWG quickly decided to set up a procurement sub-group to focus solely on the procurement of the repairs and maintenance contract.
- 7.1.2. The sub-group were invited to the 'Meet the Buyers' day and were also asked to comment upon the make-up of the drafting of the PQQ, the tender documents and in particular the make-up of the KPIs.
- 7.1.3. A number of the sub-group received training from officers in how to evaluate tenders. As a result, one resident volunteered and was involved in the evaluation marking of the service delivery elements of both the PQQs and tenders documents.
- 7.1.4. The department engaged residents early in the re-procurement process with a view to giving residents a good understanding of the new contract. This has laid a firm foundation for residents to be fully involved with the overseeing of the new contract, through regular performance meetings with the new contractor.
- 7.1.5. As well as consulting with the RWG various up-dates have been provided at Borough Forums, Leasehold and Tenant Forums and articles have also been included in Your Home magazine.

7.2. Leaseholders

- 7.2.1. 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) a Notice of Intent was served on 2nd March 2012 and expired on 20th April 2012. All observations were responded to within statutory time limits.
- 7.2.2. The contract will not be awarded until after the Notice of Proposal has been issued and Section 20 Notices expire and any outstanding observations have been responded to. Section 20 Notices are due to be served in April 2013 and will expire in May 2013, with a further 21 days to respond to observations.

7.3. Staff Consultation

- 7.3.1. The MTFFS Transformation Programme began in November 2011. At this time the Executive Director briefed all HRD staff outlining the key objectives, scope of the programme and commitments to staff engagement, throughout the period of change. Following this initial briefing, key messages were reinforced through regular up-date briefings from the Executive Director and Directors, team briefings from Heads of Service and monthly staff newsletters.
- 7.3.2. A dedicated Frequently Asked Questions, "Ask Mel", intranet link has been created to provide staff with the opportunity to pose questions directly to the Executive Director. In addition, suggestion boxes have been placed in all offices to encourage staff to put forward suggestions and raise any queries, anonymously.
- 7.3.3. These measures have been designed to engage and involve staff to ensure as smooth a transition as possible, whilst maintaining the current service. As the Transformation Programme progresses and detailed proposals are formulated, normal consultation processes with trade unions will be followed.

7.4. TUPE Process

- 7.4.1. Up to 41 Council staff will be affected by the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) and staff will receive further, more detailed briefings, after the provisional contract award has been announced.
- 7.4.2. This figure includes 9 staff from Works Contracts, a small in-house direct labour organisation that currently sits within Transport and Technical Services. This represents half of the team, with the remainder due to TUPE transfer to the new Tri-Borough Total Facilities Management contract.
- 7.4.3. It is also to be noted that up to 32 "second generation" staff – those formerly employed by the Council and currently employed by incumbent contractors - may also be affected by TUPE transfer.
- 7.4.4. TUPE 2006 is the main piece of legislation and is designed to protect the rights of employees in a transfer situation enabling them to enjoy the same terms and conditions with continuity of employment as formerly. The TUPE Regulations will be adhered to throughout the process.
- 7.4.5. TUPE requires that employees who are affected by the transfer should be consulted. The obligation to consult in law is where measures might be taken in relation to any of the affected employees. This includes:-

- Employees who are affected;
- Who may be affected;
- Whose jobs are in jeopardy; and
- Job applicants.

There is no obligation to consult with the whole workforce or everyone in the workforce who might apply for a job in the affected areas.

- 7.4.6. Representatives of trade unions recognised by the Council are recognised as 'appropriate representatives' for consultation purposes under the Act. A consultation and communication process regarding TUPE is on-going.

7.5. Housing, Health & Adult Social Care Select Committee

- 7.5.1. In an effort to gain valuable Member insight, support and challenge in terms of KPIs and the customer journey, officers also consulted and engaged with a small Task & Finish Group, established by the HH&ASC Select Committee and chaired by Councillor Lucy Ivimy. The group reviewed and discussed various items with particular focus applied to the Key Performance Indicators and the evaluation criteria for the Invitation to Tender.

8. EQUALITY IMPLICATIONS

- 8.1. An Equalities Impact Assessment was completed and submitted as part of the report to Cabinet in May 2012. The assessment was prepared in consultation with the Opportunities Manager (available upon request). This current proposal does not involve any changes to service delivery or operational policies in the context of equalities legislation. Therefore if an award of contract was agreed by Cabinet the Contractor would be undertaking decisions based on policies that have already been approved by Cabinet and for which EIA considerations have already been made.

9. LEGAL IMPLICATIONS

- 9.1. Legal Services has advised the client department throughout the procurement process. The procurement has been carried out in accordance with the Public Contracts Regulations 2006 (as amended) and the Council's contract standing orders.

9.2. Implications completed by: Catherine Irvine, Principal Contracts Lawyer, telephone 020 8753 2774.

10. FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1. Evaluation of the tenders confirms that MITIE achieves the highest weighted price and quality mark.
- 10.2. Analysis of the highest scoring tenderer's pricing schedule demonstrates that the required annual MTFs revenue savings in the Housing Revenue Account of £506k in 2013/14 and a further £1.048m (cumulatively totalling £1.554m) from 2014/15 onwards will be achieved in full.
- 10.3. Further savings are also expected to be made on housing capital budgets of £365k in 2013/14 and a further £512k (cumulatively totalling £877k) from 2014/15 onwards.
- 10.4. As stated in para. 5.5.2.1. the Council is currently undertaking an exercise to review the processes in relation to its supply chain resilience and this will include checks on the financial strength of contractors. Pending the development of an enhanced corporate approach the financial strength of the contractor will be formally checked on a six monthly basis with reference to the most recent accounts, interim statements and other market intelligence.
- 10.5. Internal audit have performed reviews of the proposed financial controls in the contract during the development of the Invitation to Tender. They will provide further advice during mobilisation to ensure there are adequate financial controls in place and will perform a follow-up audit shortly after the contract has been let to confirm that financial controls are operating as expected.
- 10.6. It is proposed that the contract allows for the possibility of changes in the numbers of properties being managed. Over a number of years, this could lead to a decrease or increase in the total number of properties that would be managed under this contract. The contract therefore includes an example of how the contract pricing would be recalculated in these circumstances.
- 10.7. Further comments are contained in the separate report on the exempt Cabinet agenda
- 10.8. Pension implications**
- 10.8.1. On commencement of the contract the Contractor will apply for Admitted Body Status to the Local Government Pension Scheme (LGPS) and will be apportioned with a notional share of pension fund assets as calculated by the Actuary to be sufficient to match the pension liabilities. The Contractor will not inherit any pension fund deficit and it will be a requirement of the Contractor to ensure that all contributions have been

regularly made as advised by the Actuary. The Council will retain the liability for the deficit not transferring and it will underwrite the pension fund

- 10.8.2. The Admissions agreement will be a closed agreement.
- 10.8.3. The contribution rate may vary during the course of the contract in accordance with the Agreement. Any variation in the rate of contribution will be at the Contractor's risk.
- 10.8.4. Although the employer contribution rate has been set and will be reviewed by the actuary with the aim of maintaining full funding in respect of the active membership, any deficit which does arise in respect of the active membership will be the responsibility of the Contractor and will be charged to the Contractor on exit. This excludes any contributions that may arise because of early and ill health retirements, where the capital cost of the retirement will be charged as a capital sum, to the Contractor.
- 10.8.5. The Contractor will be required to maintain an indemnity bond to meet the level of risk exposure arising on premature termination of the contract. The value of the indemnity bond shall be assessed by the Scheme Employer's Actuary as arising as a result of the matters mentioned in the Administration Regulations, to the satisfaction of the Administering Authority.
- 10.9 Further financial comment is in the exempt Cabinet report.
- 10.10 Implications verified/completed by: Daniel Rochford, Head of Finance, telephone 020 8753 4023

11. RISK MANAGEMENT

- 11.1. A Programme board was established to oversee the full HRA MTFS Transformation Programme chaired by the Executive Director of HRD. As part of this programme a project risk register is in place and is regularly reviewed. As a condition of the new contract, a post-contract risk register will be developed jointly with the contractor once they have been appointed, in order that risks can be managed throughout the duration of the project.
- 11.2. The strategic risk management of the contract will be managed by means of a joint risk register which will be reviewed quarterly at the Core Group (Strategic Management) meeting. The Director of Asset Management and Property Services is the named lead officer at the quarterly meetings.
- 11.3. A key part of the contract management involves a Core Group meeting comprising of senior managers from both the contractor and client side. This

group will meet on a monthly basis and part of the agenda will include a review of the latest operational risk register.

11.4. The three main risks associated with procurement of this type of contract, are:

- Potential Insolvency;
- Sustainability of the tendered price; and
- Ability to deliver the service.

The risks and mitigating actions have been covered in Section 5 of this report.

11.5. The ITT Method Statements asked tenderers to include a number of key risk items that they considered should be included in the joint risk register; these were:

- The top five risks for Mobilisation;
- The top five risk for Contract Management (term risks); and
- The top five risks for client /contractor relationship.

Council officers will add any further necessary risks to the risk register. This will be routinely reviewed during Mobilisation meetings, and then revert to review at the Core Group.

11.6. Again, as with the financial aspects of the contract, the Council will have the right to carry out quality, cost, environmental and health and safety audits, throughout the duration of the contract.

11.7. Implications verified/completed by: Michael Sloniowski, Principal Consultant, (Risk Management) telephone 020 8753 2587

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. The Contract has been tendered in accordance with the Public Contracts Regulations 2006 (as amended) and the Council's Contract Standing Orders, Accordingly, the Director supports the recommendations contained in the report.

12.2. It is noted that the Council appointed Keegans Ltd. as their Professional Quantity Surveyors (PQS) and their remit included:

- Providing a detailed tender price breakdown;
- Construction of pre-tender estimate of costs; and

- Lead on the evaluation and scoring of the pricing elements of the tenders.
- 12.3. Further comments are contained in the separate report on the exempt Cabinet agenda.
- 12.4. Implications verified/completed by: Bob Hillman, Procurement Consultant Projects, telephone 020 8753 1538.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of files	Department/ Location
1.	None		

LIST OF APPENDICES:

Appendix 1 – Incentivisation & KPIs

Appendix 2 – Evaluation Methodology & Award Criteria

Appendix 3 – Service Delivery Pricing