

**Report of the Director Environment and Housing**

**Report to the Executive Board**

**Date: 11<sup>th</sup> February 2015**

**Subject: City-wide Housing Repairs and Maintenance Procurement Strategy 2016**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of Main Issues**

1. The report details the procurement strategy for Housing Leeds between 2015 and 2020. It is proposed that all the significant current agreements with contractors and suppliers will be re-procured over this period.
2. The strategy has considered and reflects the lessons learned from previous exercises with particular focus on the procurement and subsequent contract management of the planned, responsive repairs and gas servicing contracts let in 2011.
3. The contracts currently managed by Mears in the South and West Leeds areas expire in March 2016. There are extension provisions within the contracts and it is proposed to implement these provisions in accordance with the contract's terms and conditions. The final decision on the extensions will be taken by the Director Environment and Housing under delegated powers. The total value of works if these extensions are approved is estimated at £90m.
4. The strategy is intended to generate the following outcomes:
  - Engagement with a wider cross-section of the construction market, potentially attracting a more diverse range of suppliers including smaller contractors;
  - Enhanced Value for Money in contract pricing due to the provision of accurate stock information reducing opportunities for claims, together with effective management of the contracts, proportionate risk apportionment and effective performance management with a focus on contractor productivity.

- Increased direct contract relationships, to avoid unnecessary sub-contracting;
- Improved contract management activity, incorporating lessons learnt from previous phases.
- Reduced supplier risk by using a wider range of contractors.
- Support for the local supply chain by providing opportunities for SMEs to engage.
- Improvements in the procurement process and programme delivery.
- Robust performance and contract management with clear roles and responsibilities.

## **1 Recommendations**

1.1 Members of the Executive Board are recommended to:

1.1.1 Approve the overall strategy and direction of travel set out in this report.

1.1.2 Note the proposed extensions to the Mears Contracts

1.1.3 Authorise the Director of Environment and Housing to implement the strategy following Executive Board Approval under existing powers in the scheme of delegation.

## **2 Purpose of this report**

2.1 The report provides Members with an overview of the proposed strategy for key strategic procurement exercises that Housing Leeds will conduct between 2015 and 2020, outlining the approach for future contracts or internal arrangements for the delivery of the following.

- Provision of material stores for Internal Service Providers (ISP)
- Provision of key subcontractors for ISP
- Housing responsive repairs and maintenance
- Gas servicing and repair, installations, commercial gas and gas quality audit
- Adaptations to private stock and council dwellings
- Planned improvement and capital investment works and annual servicing/legislative obligations.

## **3 Background information**

3.1 The strategy and process aligns with the Council's Procurement Strategy whereby goods and services to be procured are divided into specific category plans with defined processes and benefits.

3.2 Two thirds of the citywide delivery of planned, responsive repairs and gas servicing contracts are currently being delivered by a single company (Mears).

3.3 The lessons learned exercise undertaken following the 2011 procurements identified that the procurement of all services across the city at the same time was

a high risk and should be avoided where possible; the strategy is in accord with this view.

3.4 The strategy takes account of the incorporation of the three ex-ALMOs into Council ownership and seeks to ensure that contracts are suitably scaled to ensure a wide range of suppliers are able to secure and deliver contracts. This will encourage competition and capacity and promote a sustainable and effective local supply chain.

3.5 One outcome of the strategy may be to reduce the Council's ability to maximise economies of scale by concentrating work with one contractor and that additional procurement activities may be required to deliver the programme. However, a larger number of contractors will both reduce the risk to the Council of contractor failure and encourage competition and innovation between providers over the period of the contracts.

#### 4 Review of current Service Provision

4.1 A formal review of the current contracts was undertaken in 2012. There were three significant conclusions.

- The decision to procure all the services at the same time created unnecessary and disproportionate risk to the Council. Whilst the intention was to have separate contractors for the contracted areas the procurement resulted in one contractor winning 5 of the 6 contracts on offer.
- The Council should procure a mixed economy with works being undertaken by a range of providers including SMEs and the ISP.
- There was a lack of leadership in the process with responsibility and ownership disseminated between stakeholders with too much responsibility placed on external consultants to provide information and drive the process.

4.2 Mears currently holds six contracts with the Council managed by Housing Leeds for Planned and Responsive Maintenance Services and Gas Service and Repair in the West and South areas of the city. The Contracts expire on 31<sup>st</sup> March 2016. Within the contracts there is a facility to extend the period for up to five years beyond March 2016.

4.3 Extensions to the contracts are proposed as per table 4-1 below and support the recommendations in this report and the proposed procurement strategy. The programme ties in with the procurement programme detailed in table 5-1 below.

<b>Contract</b>	<b>Extension Period</b>	<b>Proposed end date</b>	<b>Approximate Value</b>
Gas Service and Repairs South	No Extension	31 <sup>st</sup> March 2016	£0
Gas Service and Repairs West	One Year	31 <sup>st</sup> March 2017	£2.65m
Planned Maintenance Works South	Two Years	31 <sup>st</sup> March 2018	£8.02m
Planned Maintenance Works West	Two Years	31 <sup>st</sup> March 2018	£16.1m
Responsive Repairs South	Three Years	31 <sup>st</sup> March 2019	£19.03m
Responsive Repairs West	Four Years	31 <sup>st</sup> March 2020	£44.748m
<i>Table 4-1 Extension Programme</i>		<b>Total</b>	<b>£90.548m</b>

4.4 Discussions are underway with Mears to agree the terms of the contract extensions and the decision will be taken following approval of this Strategy by Director Environment and Housing under existing powers in the scheme of delegation.

## 5 Scope of the Proposed Procurement Strategy

### 5.1 External Procurements

The following approach for external contracts is recommended.

- Works will continue to be procured and administered in the current East, West, and South configuration, with the exception of Capital and Planned works which will operate City Wide.
- The revised Public Contracts Regulations enable the Council to restrict the number of lots for which one contractor can apply in any single procurement. This will restrict the maximum that any one Contractor can win to one lot per procurement cycle. For example, it is intended that the Gas procurement is undertaken as a single exercise with three separate commencement dates, resulting in three suppliers for the service across the City. This will be replicated with the Responsive Repairs and Voids procurements in 2019/20. The maximum that any one contractor can win will be one Gas Servicing and one responsive repair contract across the City. The Capital and Planned works will be a framework with a range of suppliers.

Service	Mobilisation	Operational period start	Contract Period	Approx. Contract Value per annum
<b>Managed Stores and Internal Stores Provision:</b>				
East	Jan- Mar 2015	1 <sup>st</sup> April 2015	4 years	£4,000,000
East/ City Wide	Jan –Mar 2019	1 <sup>st</sup> April 2019	tbc	£7,000,000
<b>Gas servicing and Repair:</b>				
East	Feb - June 2016	1 <sup>st</sup> July 2016	4 years + extension of up to 4 years	£2,000,000 Service £2,000,000 Installs
West	Jan- March 2017	1 <sup>st</sup> April 2017	4 years + extension of up to 4 years	£2,500,000 Service £2,000,000 Installs
South	Jan – March 2016	1 <sup>st</sup> April 2016	4 years + extension of up to 4 years	£2,000,000 Service £2,700,000 Installs
<b>Responsive repairs and voids</b>				
East - subcontractors	Oct 14 - Jan 2015	January 2015	4 years + extension of up to 4 years	£15,400,000
South	Jan - Mar 2019	April 2019	4 years + extension of up to 4 years	£10,500,000
West	Jan - Mar 2020	April 2020	4 years + extension of up to 4 years	£15,700,000
<b>Capital and Planned works</b>				
City Wide	Oct 17 - March 2018	1 <sup>st</sup> April 2018	4 years + extension of up to 4 years	£65m

Table 5-1 Procurement Programme

## 5.2 Commercial and Contract Management

5.2.1 Clear and comprehensive Contract and Commercial Management processes and procedures are integral to the Strategy to ensure that risk to the Council is mitigated. Development of these processes is underway with training for all staff completed by April 2015.

## 5.3 Performance Management

5.3.1 A robust series of Performance and Incentive Measures will continue to be incorporated in to the contracts

## 5.4 Contact Centre

5.4.1 The Council's Contact Centre will continue to perform a central role in the receipt and diagnosis of calls and will be a key consultee in the development of the service descriptions and tender documentation. A key element of these discussions is how the service users will interface with the Council via the Contact Centre and ensuring that communication with multiple providers is efficient and effective.

## 5.5 Programme

5.5.1 The procurement programme will be developed to define the key activities, milestones and dependencies that enable the Council to either exercise contract extensions, or begin new procurement activity.

5.5.2 The high level programme is attached in Appendix A

## **6 Benefits of the Procurement strategy 2016**

### 6.1 Use of a mixed economy approach

6.1.1 Engagement with a wider cross section of the construction market will place less reliance on one or two large contractors and potentially attract a more diverse market including smaller local organisations. Undertaking the procurement in stages will enable the tender preparation to be done at a manageable scale.

6.1.2 The strategy will result in a number of benefits including:-

- Enhanced Value for Money (VFM) due to the following factors
  - The tender documents will accurately reflect the stock, thereby limiting the opportunities for contractors and suppliers to claim additional money for variations or inaccurate data and ensuring the Council receives an accurate price for the works tendered, reflecting market conditions.
  - Consistent and effective Contract and Project Management processes and procedures will reduce the risk of claims due to missing, incomplete or late information.
  - Considered, proportionate and effective risk apportionment, recognising Client risks that cannot be economically transferred.

- Effective performance management focusing on input as well as output measures whereby the Contractor and ISP are incentivised to enhance productivity and reduce costs by more effective working.
- Increased direct contract relationships, to avoid unnecessary sub-contracting;
- Providing the council with more scope & opportunity to improve contract management activity, and allow lessons learnt from previous phases to be incorporated through;
  - Phasing of document production,
  - Phasing of procurement engagement and contract award;
  - Phasing of de-mobilisation and mobilisation activity aiding a smoother transition for service delivery;
  - Implementing robust Contract Management Plans for each contract, with clearly defined roles and responsibilities.

## 6.2 Efficiencies and value for money savings

- 6.2.1 Officers will identify cashable savings targets as part of the Procurement strategy. These savings, along with non-cashable savings will be achieved through a continuous and thorough review of commercial contract performance designed to drive down costs through a more effective contract management regime.
- 6.2.2 In recognition of this, Property and Contracts has included a Housing Contracts Team under a Head of Service with responsibility for developing and implementing a robust and rigorous monitoring and review regime.
- 6.2.3 The Housing Contracts Team supported by PPPU is undertaking the following
- Develop a standard Housing Performance Regime that can be utilised during the procurement stages and implemented fully on award of contract. This performance management system will seek to address issues in current housing contracts and provide a mechanism and climate for the achievement of cashable savings in the future.
  - Quarterly commercial and performance reviews of all contracts and service agreements with both external and internal suppliers.
  - Robust and proactive risk management.
  - Formal Benchmarking at contract commencement and then at three yearly intervals covering costs and key component parts.

## 6.3 Social Responsibility Benefits

- 6.3.1 As part of the procurement process, consideration will be given as to how the works and services being procured might improve the economic, social and environmental wellbeing of the area. The expected benefits include employment and skills outputs, engaging with SMEs and the third sector and the protection

and enhancement of the environment. The current Mears contract will deliver 58 apprentices to 2016 and a further 50 apprentices during the extension period. The procurement strategy will focus on improving these current apprenticeship numbers with particular emphasis on NEETS and developing the skills of Looked After Children. Construction Services currently have 30 apprentices.

## **7 Corporate Considerations**

### **7.1 Consultation and Engagement**

7.1.1 Due to Commercial Confidentiality consultation to date has been restricted to within the Council. The strategy has been developed with PPPU/PU and supported by Chief Procurement Officer and Housing Contracts Board.

7.1.2 On approval of the strategy a formal consultation process will commence. This will include the following.

- Housing Advisory Board and Housing Advisory Panels
- Key stakeholder consultations including the Tenant Focus Groups
- Consultation and engagement with affected service areas in the Council including the Contact Centre.
- Engagement with the market

Detailed consultation proposals and programmes will be included within the specific procurement Delegated Decision Reports.

### **7.2 Equality and Diversity**

7.2.1 Equality Impact Assessments will be undertaken and will form part of the specific programmes as they are progressed.

### **7.3 Council Policies and City Priorities**

7.3.1 The new strategy will link to the council's vision for Leeds and best council objectives and more specifically 'Best city... to live' objectives and priorities for 2013 to 2017 which states that "Leeds will be a great place to live with good housing..." where "houses to rent and buy will meet the needs of people at different stages of their lives" and "local people benefit from regeneration investment. This priority also states that over the next four years, the council will "increase the number of properties with improved with energy efficiency measures", and "increase the number of properties which achieved the decency standard".

### **7.4 Resources and Value for Money**

7.4.1 Details of the proposed efficiencies and value for money savings are identified in section 6.2 above. Specific financial and performance benefits to be derived from each procurement exercise will be detailed in the respective Delegated Decision Reports for each programme.

## 7.5 Legal Implications, Access to Information and Call In

7.5.1 Procurement Unit and PPPU (including legal colleagues) have been consulted and engaged with the development of this strategy and report. The Director Environment and Housing has the necessary powers under the existing scheme of delegation to implement the strategy following approval of the report by Executive Board.

7.5.2 This report does not contain confidential or exempt information and will be subject to call.

## 8 **Risk Management**

8.1 The resource implications for managing multiple contracts across the city need to be carefully factored in, to ensure that any projected savings related to less sub-contracting activity are realised and that savings through efficient contract management are maximised.

8.2 The primary potential risks identified at this stage are

- Contract failure prior to re-procurement;
- Resources and skills for contract management inadequate; Procured contractor's resources and skills for contract management inadequate
- Commercial terms not VFM/inadequate.
- ICT systems inadequate impacting on payment and performance issues.
- Performance framework inadequate.
- Failure of communication strategy.
- New services do not demonstrate VFM.
- Failure to identify and realise savings and efficiencies; and
- Failure to deliver added value benefits from multiple contracts.

8.3 A risk register has been produced which details the probability and impact of the risks identified at section 8.2 and the strategies for mitigation.

## 9 **Conclusions**

9.1 Significant progress has been made over the last 12 months through category planning to develop and refine the scope and value of the arrangements.

9.2 The extension of the current contracts will enable the Council to achieve its objective of a phased procurement of the current services provided under existing contracts.

9.3 The Procurement will provide the following benefits.



- Engagement with a wider cross-section of the construction market, potentially attracting a more diverse market including smaller contractors;
- Enhanced VFM due to accurate stock information reducing opportunities for claims, effective management of the contracts, proportionate risk apportionment and effective performance management with a focus on contractor productivity.
- Increased direct contract relationships, to avoid unnecessary sub-contracting;
- Providing the Council with more scope and opportunity to improve contract management activity, and allow lessons learnt from previous phases to be incorporated.
- Reduced risk by using a wider range of contractors.
- Support the local supply chain by providing opportunities for SMEs to engage.
- Continuous experience feedback to ensure improvement in the procurement process through the programme.

9.4 There are a series of defined commercial and operational reviews programmed that will inform the scope of the procurement exercises in this programme. These include revised performance measurement and incentive processes, assessment of contract form and type and robust commercial and contract management processes.

9.5 The conclusions of this work have informed this overall procurement strategy.

## **10 Recommendations**

10.1 Members of the Executive Board are recommended to:

10.1.4 Approve the overall strategy and direction of travel set out in this report.

10.1.5 Note the proposed extensions to the Mears Contracts

10.1.6 Authorise the Director of Environment and Housing to implement the strategy following Executive Board Approval under existing powers in the scheme of delegation.

## **11 Background documents<sup>1</sup>**

11.1 **None**

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.