

**Report of:** Head of Responsive Repairs, Voids and CPM.  
**Report to:** Director of Resources and Housing  
**Date:** December 2018

**Subject:** **Extension of housing Responsive Repairs and Voids contracts for the provision of services in the South and West areas of Leeds.**

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?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

## 1.0 SUMMARY OF MAIN ISSUES

- 1.1 Leeds City Council (LCC) currently has two contracts in place with Mears Group for the provision of responsive repairs and voids management services covering South and West areas of the city. The contracts sit within Housing Leeds and are managed by Property and Contracts (P&C). The contracts are on 5+5 year arrangements and have previously been extended. Housing Leeds South Responsive has been extended by 3 years to 31<sup>st</sup> March 2019 and West Responsive has been extended by 4 years to 31<sup>st</sup> March 2020, as agreed at Exec Board on 1<sup>st</sup> May 2015.
- 1.2 There is provision to further extend both contracts up to the end of March 2021. The services are performing well with no major concerns. The average annual contract value of both contracts is £25.3m. This is a key decision and as such has been placed on LCC's Forward Plan of Forthcoming Key Decisions.
- 1.3 These two contracts provide a comprehensive responsive repairs and voids (RR&V) service to around 35,000 council house tenants. Extending the contracts will enable continuity of a good quality service to around 35,000 council house tenants and provide an ongoing period of stability as we continue to work with a contractor with whom we have developed a sound working relationship.
- 1.4 The purpose of this report is to seek approval from the Director of Resources and Housing to extend the two contracts until their maximum expiry date of 31<sup>st</sup>

March 2021. With the current responsive repairs and voids contract covering the south of the city coming to an end on 31<sup>st</sup> March 2019, its extension is a matter of urgency.

- 1.5 The proposal detailed above (in 1.4) was added to the list of key decisions on 3<sup>rd</sup> December 2018 with an expiry date of 3<sup>rd</sup> January 2019.
- 1.6 In extending the current contracts this will allow further development of the current business plan within the existing internal provider (LBS) so that the work to procure a new repairs service moving forward allows for significant growth of LBS
- 1.7 In order to fully develop the ICT repairs interface for the effective implementation of Civica work has already commenced with Mears to ensure a smooth transition from a customer perspective. Any change in the current repairs service over the next 12mths could have an adverse effect on the interface between the Council and the repair provider which could have an adverse impact on the customer.
- 1.8 The current business growth for LBS has been significant over recent years with an anticipated increase in turnover of over £20m within a period of 5years.

15/16 = £50.16m

16/17 = £50.8m

17/18 = £54.9m

18/19 = £65.2m

19/20 = £70.2m

- 1.9 In order to plan for a further period of significant growth the service is working to develop a significant increase in its infrastructure in order to take on a significant amount of additional work when these contracts are let from 1 April 2021.
- 1.10 In addition to the business plan that will increase the amount of responsive repairs and void activity that will be undertaken on 1 April 2021 consideration is also being given to the full range of additional contracts that are due to expire prior to 1 April 2021.

## **2.0 RECOMMENDATIONS**

It is recommended that the Director of Resources and Housing approves option 4 outlined in this report including the main points:

- 2.1 To enter into a 2 year extension to the existing 5+5 year of Responsive Repairs and Voids contract for the South area for the period 1<sup>st</sup> April 2019 until its expiry on 31<sup>st</sup> March 2021.
- 2.2 To enter into the final year extension to the existing 5+5 year of Responsive Repairs and Voids contract for the West area for the period 1<sup>st</sup> April 2020 until its expiry on 31<sup>st</sup> March 2021.
- 2.3 To commence a 'Market Sounding Exercise' to influence the procurement options for a responsive repairs service from 1st.April 2021.which will include increasing the volume of work delivered through Leeds Building Services.

### 3.0 PURPOSE OF THIS REPORT

3.1 In accordance with CPR 21.2 the purpose of this report is to seek a decision from the Director or Resources and Housing to extend two Term Service Contracts (TSC's 5+5 years) with Mears Group for the Responsive Repairs and Voids Contracts in the south area by 2 years until 31<sup>st</sup> March 2021 and in the West area by 1 year to 31<sup>st</sup> March 2021.

### 4.0 BACKGROUND INFORMATION

- 4.1 Mears Group are a national organisation that provides housing repairs and maintenance services to the affordable housing sector and also provide homecare and personal support services through their care division.
- 4.2 Housing Leeds, Property and Contracts currently have a number of other current contracts with Mears for planned works that include kitchens, bathrooms and rewires and gas fuelled domestic heating lot 1 in the South area.
- 4.3 The Responsive Repairs and Voids contracts, below, form the basis of this report as part of Housing Leeds consideration of its options in relation to the responsive repairs services in the South and West areas of Leeds. An initial period of extensions has previously been approved by Executive Board on 1<sup>st</sup> May 2015. There is provision to extend the contract covering the South area by a further 2 years period and the West area for 1 year. This would result in both contracts expiring at the end of March 2021 (as shown in Table 1 below).

**Table 1**

<b>Contract</b>	<b>Contract Type</b>	<b>1<sup>st</sup> extension invoked</b>	<b>1<sup>st</sup> Extension end date</b>	<b>2<sup>nd</sup> Extension end date</b>	<b>End Date</b>
Responsive repairs & Voids South	NEC3 ECC (Option C) 5+5 years	Yes 3 Years	31 <sup>st</sup> March 2019	2 years provision available	31 <sup>st</sup> March 2021
Responsive Repairs & Voids West	NEC3 ECC (Option C) 5+5 years	Yes 4 Years	31 <sup>st</sup> March 2020	1 year provision available	31 <sup>st</sup> March 2021

### 5.0 MAIN ISSUES

5.1 If the extension options are not taken up the two contracts are due to expire at the end of March 2019 (south) and March 2020 (west). These contracts need to be extended in order to allow sufficient time for a complex procurement exercise to be completed with sufficient provision for contract mobilisation, liable to take 18-24 months. Due consideration has been given to an appropriate period of planning and preparation at the beginning and a sufficient lead in contract mobilisation period that should be in the region of 6 months.

- 5.2 The Mears Group has expressed a desire to extend the current contractual arrangements with Housing Leeds; they presented an initial proposal to P&C Senior Management Team in early 2016. This initial offer was subject to detailed scrutiny by officers in P&C commercial team and rejected on the grounds of value for money and the need to undertake market testing for alternative solutions. Following a period of negotiations with Mears several variances of the 'Mears offer' have been presented to LCC and subsequently appraised by a joint team of officers across P&C and Commercial Finance to establish which option offers the overall best Value For Money (VFM) for LCC.
- 5.3 Details of the financial benefits to the proposed contract extension for both South & West contracts are detailed and attached as a confidential appendix to this report.
- 5.4 This appraisal was a detailed piece of work which culminated in the recommendation by the team that the contracts should be extended. The exercise also involved undertaking a benchmarking exercise to offer some level of assurance that the Mears proposal offers value for money in the wider market.

## 6.0 SCOPE OF SERVICES

- 6.1 The Responsive Repairs services included within these two contracts are provided across all LCC Housing stock in the South / South East (S/SE) and West / North West (W/NW) of the City. This equates to 33,857 properties of mixed age and archetype, (including non-traditional build and high rise flats). Housing stock in the East area of the City is maintained by the LCC's in-house provider, Leeds Building Services (approximately 17,051 homes).

**Table 2**

Area	Properties	Contractor
South	14,257	Mears
West	19,600	Mears
East	17,051	LBS
<b>Total</b>	50,908	

- 6.2 The services include the following functions:
- Provision of a 24/7 responsive repairs service to council homes / housing stock
  - Provision of a Void repairs service including void security
  - Minor adaptations
  - Cyclical maintenance (Mechanical & Electrical) including commercial gas

## **7.0 OPTIONS APPRAISAL**

7.1 An options appraisal has been undertaken. The following 4 options were appraised:

- Option 1 Do nothing
- Option 2 Bring the services in house to Leeds Building Services
- Option 3 Commence competitive procurement immediately
- Option 4 Extend the contracts to full extension

A summary of the appraisal is set out below.

### **7.2 Option 1 Do nothing**

No benefits to this option as this would result in service failure.

### **7.3 Option 2 Bring the service in-house delivery through Leeds Building Services**

The main advantage to be gained from bringing the services in-house and delivering through LBS is that it keeps money within LCC; however the risks of this option far outweigh the benefits at this current time. At present LBS is undergoing a large scale transformational programme which includes a complete re-organisation of the management structure and re-engineering of all business processes. At present LBS lacks the resources and infrastructure to provide a city wide RR&V services to over 50,000 council homes.

The longer term aim of the service is to increase the amount of responsive repair activity it undertakes on behalf of the Council in line with the business growth of Capital work that has been undertaken over the last 2years

LCC is also committed to maintaining a mixed economy model in the delivery of these services and therefore supporting local SME's. Bringing the services in-house would result in TUPE implications.

### **7.4 Option 3 – Commence competitive procurement immediately**

Although this is the only way of truly testing the market, it has not been possible to procure a fully functioning Responsive Repairs & Voids contract for the South and West of the city without extending the existing contracts to their final end date. This is related to the implementation of the housing IT solution project (CIVICA) which is a complex, large scale project that will result in a complete replacement of the entire IT infrastructure in Housing Leeds. It will involve replacing all the main IT operating products, which are currently separately contracted and will thereby affect every service strand within Housing Leeds, including this responsive repairs contract.

This option is likely to incur significant risk pricing from any potential new contractor as they would need to incur additional costs to create an ICT system interface in advance of any formal contract award.

## **7.5 Option 4 Extend both contracts to March 31<sup>st</sup> 2021 (recommended)**

- 7.5.1 There are a number of advantages to this option. The main strengths of this option is that we have well-established contracts in place in which we have achieved VFM efficiencies consistently over the last 3 years. Since 2015 income generated through our rents has reduced by 1% annually and will continue to do so until April 2021. Alongside this the repairs budget has been at a standstill for the last two years with no forecast to increase.

If the contracts were to be extended until March 2021 the extension period (2 years for South and 1 year for West) will not be subject to any annual inflationary uplift during the extension period which offers the council some level of assurance on budgetary commitments until 2021.

In addition to not applying an annual inflationary uplift Mears have offered a 2% reduction on the SOR rates which is likely to generate a saving of over £500k over the extension period up to March 2021.

For years 9 and 10 Mears have also offered to reduce their fixed overheads by £100k per year therefore delivering a saving of £200k if the contracts were extended to March '21.

Extending the contracts will allow the council time to prepare for a complex procurement process and engage the market to achieve established objectives.

- 7.5.2 Maintaining stability with the RR&V service during an otherwise significant period of change (generated through the LBS change programme and CIVICA) will minimise disruption to over 33,000 tenants and maintain reputational confidence in the service and the Council. It will mitigate the risk of service failure if we attempt to mobilise a new contractor and interface to an IT system before it is fully embedded.

- 7.5.3 The disadvantage to this option is that we are potentially creating a pressure point in 2021 when both contracts simultaneously expire. If both contracts expire at the same time however, this allows us to procure more efficiently in a single tendering exercise.

However this option provides an opportunity to package up services/contracts differently and not be restricted by the current arrangements, potentially increasing the number of properties maintained by LBS by a manageable amount.

This option will also allow for a comprehensive Market Sounding Exercise to be undertaken which will allow us to enter into a dialogue with providers to assess a range of alternative options for the delivery of a responsive repairs and voids service rather than

These options could include a contract that provides an agreed price per property which has the potential of driving VFM, better productivity and increased tenant satisfaction.

7.5.4 In order to ensure a smooth transition and full service integration, it is imperative to ensure there is a contract mobilisation period of no less than 6 months prior to contract commencement.

## **8.0 CORPORATE CONSIDERATIONS**

### **8.1 Consultation and Engagement**

There is no adverse impact on any specific communities based on the recommendations set out in this report.

The Chief Officer Property and Contracts has been consulted and is supportive of the recommendations set out in this report.

The Executive lead member for Housing and Communities has been made aware that Mears Group have put forward a commercial proposal and that officers across P&C and Procurement and Commercial Services (Commercial Finance) have reviewed this.

The Executive Commercial Accountant (Commercial Finance) has been fully involved in commercial review of the Mears proposal and supports the recommendation.

### **8.2 Equality and Diversity / Cohesion and Integration**

An Equality, Diversity, Cohesion and Integration screening tool has been completed. This indicates that a full assessment is not required as the two contracts are already in place and the recommendation is for a continuation of the existing provisions.

### **8.3 Council policies and the Best Council Plan**

8.3.1 The Responsive Repairs and Voids services support LCC's ambition for Leeds to be a compassionate and caring city that tackles poverty and reduces inequality. Through the provision of these service we ensure that council tenants (including some to the most vulnerable people in our city) are able to enjoy living in safe, accessible and well maintained homes. The services will contribute to the 'Best Council Plan 2018/19- 2020/21- Tackling poverty and reducing inequalities'. With regard to housing it will contribute to having 'Housing of the right quality, type, tenure and affordability in the right places'.

### **8.4 Resources and value for money**

#### **8.4.1 *Annual Expenditure***

The annual contract value is not fixed as it is dependent on the number of orders raised. The average annual volume of completed orders for the last three contract Years is 124,000 combined (S 48,300 and W 75,700). The average annual cost to LCC for the last three contract years is £25.3m combined (S/SE £10.2m W/NW £15.1m) as shown in Table 3 below:

**Table 3**

<b>TSC Contracts</b>	<b>Target Price</b>	<b>Overheads</b>	<b>Total</b>
	Last 3 Year Average (yr4-Yr6)	Fixed Annual	<b>Incl. Overheads</b>
<b>South (S/SE)</b>	£7,644,005	£2,525,647	£10,169,652
<b>West (W/NW)</b>	£12,121,935	£3,000,302	£15,122,237
<b>Total</b>	£19,765,939	£5,525,949	£25,291,888

8.4.2 The average combined annual contract value for both contracts is £25,921,888 inclusive of overheads. There is existing financial provision within the Housing Revenue Account to cover the cost of these contracts.

8.4.3 There are no specific resource issues if the recommendation is approved to extend the contracts.

8.4.4 There are significant issues arising if the recommendations set out in this report are not approved. The contract covering the south of the city will expire 31<sup>st</sup> March 2019, with no time to procure an alternative.

## **8.5 Legal Implications, Access to Information and Call In**

8.5.1 The recommendations set out in this report are pertaining to two contracts, the value of these individually and collectively exceeds £250,000, this is therefore a key decision and in line with LCC's governance requirements it has been placed on the Forward Plan of key decisions. The decision will be subject to a 28 day call- in period.

8.5.2 The Legal Manager in Procurement and Commercial Services has confirmed that there is provision within the existing contracts to extend them both until 31<sup>st</sup> March 2021 and that Contract Procedure Rule 21.1 allows a contract to be extended before the expiry date in accordance with its contract terms provided the contract continues to deliver value for money to LCC.

8.5.3 The Director of Resources and Housing has the delegated authority to approve the recommendations set out in this report and there is no legal obstacle to approving the recommendations as long as he is satisfied that the course of action chosen represents best value for money.

8.5.4 The Legal Manager in Procurement and Commercial Services did highlight that there was always a possibility performance could drop during the extension period. It was accepted that a complex procurement of this nature requires sufficient lead in/mobilisation period in order to be successful. The contract monitoring process which is already in place will identify any reduction in contractor performance and enable a rectification plan to be put in place should this be required.

8.5.5 There are no grounds for treating the contents of this report as confidential under LCC's Access to Information Rules.



## **8.6 Risk Management**

- 8.6.1 There is no risk of challenge from the market associated with the recommendations set out in this report as there is provision within the contracts to extend until the end of 2021.
- 8.6.2 The risks of not demonstrating VFM, without going out to competitive tendering, has been mitigated through VFM negotiations. The risk of creating a pressure point in 2021 with both RR&V contracts expiring at the same time has been mitigated through the implementation of a procurement strategy that will take close to 2 years and allow for an extensive contract mobilisation period from contract award to contract start for what could be multiple contracts.

## **9.0 CONCLUSIONS**

- 9.1 The current contractor is delivering the scope of these two contracts well with no concerns. There is provision to extend within both contracts up until March 31<sup>st</sup> 2021. Relationship management between LCC and Mears is excellent and the existing contracts provide VFM, are subject to robust contract management and the services are delivering continuous improvement.
- 9.2 If the recommendations are not approved, there will be insufficient time to procure replacement contract arrangements to provide Responsive Repairs & Voids services for the South and West of the city.

## **10.0 RECOMMENDATIONS**

It is recommended that the Director of Resources and Housing approves option 4 outlined in this document including the main points:

- 10.1 To enter into a 2 year extension to the existing 5+5 year of Responsive Repairs and Voids contract for the South area for the period 1<sup>st</sup> April 2019 until its expiry on 31<sup>st</sup> March 2021.
- 10.2 To enter into the final year extension to the existing 5+5 year of Responsive Repairs and Voids contract for the West area for the period 1<sup>st</sup> April 2020 until its expiry on 31<sup>st</sup> March 2021.
- 10.3 To commence a 'Market Sounding Exercise' to influence the procurement options for a responsive repairs service from 1st April 2021. which will include increasing the volume of work delivered through Leeds Building Services.

## **11.0 BACKGROUND DOCUMENTS<sup>1</sup>**

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.