

<b>Item No.</b> 11.	<b>Classification:</b> Open	<b>Date:</b> 17 July 2012	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Gateway 1 Long-term Repairs and Maintenance Contract	
<b>Ward(s) or groups affected:</b>		Various Wards	
<b>Cabinet Member:</b>		Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	

## **FOREWORD – COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING MANAGEMENT**

Delivering an excellent repairs service is fundamental to improving customer satisfaction with the council. The council is committed to delivering a repairs service that it, and residents, can be justly proud of. The council aspires to treat every resident as if they were a member of one's family and, as the repairs service is one of the most important interactions with our residents, the procurement of a new contract is an ideal opportunity to make this commitment a reality.

Good progress has been made in improving the repairs service. Tough decisions have been taken on who provides and manages the service in the borough. This demonstrates that the council will not shy away from taking decisions that will improve the service to residents and deliver our ambition of providing one of the best repairs services in the country.

I have taken a personal lead in improving the repairs service. I chair an effective Repairs Core Group; have led the review of communal repairs provision and have overseen the response to Housing and Community Safety scrutiny sub-committee's recommendations. There is also evidence that costs and complaints are reducing, delivering right first time improving and contract management becoming more robust.

However, the service still has a very long way to go before it is truly delivering the service residents deserve. There are still too many instances of the service going wrong and when it goes wrong it tends to do so badly. All too often it is frustrating for residents to access the service or be kept advised of progress resulting in many repeated contacts. This has to be improved. This procurement will provide a new style service, which truly puts the customer first, one that challenges service improvement and aspires to deliver a greatly improved repairs service for residents.

This procurement also provides the opportunity for the council to review the delivery arrangements for Southwark Building Service (SBS). There is no doubt that SBS is getting better. New managers are in place, performance is improving and the service is becoming more efficient. It is, however, still early days and there is long way to go on the improvement journey. For this reason, I am not recommending that the repairs service should be brought fully in-house. Rather, there is the potential that subject to cost, viability and capacity for some further services to be internalised. This will be considered fully at contract award.

The foundations of an excellent repairs service are in place. This will be built upon over the coming months and years.

## **RECOMMENDATIONS**

That Cabinet is asked to:

1. Approve the procurement strategy outlined in this report for the procurement of a repairs and maintenance contract covering Camberwell, Peckham, Peckham Rye, Nunhead and Dulwich for an annual value of up to £11m to commence from 3 October 2013 for five years with the option to extend for a further period up to five years (three plus two years), subject to performance, making an estimated contract value of £110,000,000.
2. Note that whilst all repairs and maintenance services are to be included in this procurement, two elements, namely the out of hours service and works to empty properties, might be suitable to be provided in-house as noted in paragraphs 21, 23-24 below. A decision will be made on this in the subsequent contract award report.

## **BACKGROUND INFORMATION**

3. Repairs and maintenance in the south of the borough has been provided by Morrison Facilities Services Limited (MFSL) under the current contract since June 2009. The council served six months notice of its intention to terminate the contract on 2 April 2012 which expires on 2 October 2012.
4. In April 2012 the Deputy Leader and Cabinet Member for Housing Management approved the procurement strategy to put in place an interim 12 month contract from 3 October 2012 until 2 October 2013. The approved strategy was to use the Watford Community Housing Trust repairs and maintenance framework. Tenders are currently being evaluated and contract award is expected in July.
5. Putting in place the 12 month interim contract has provided the council with the space and time it requires to work through the options available for the long-term delivery of the repairs service.

## **Lessons Learned**

6. A full review of the repairs and maintenance contract has been undertaken and the following issues were identified. Essentially there were five key lessons to learn from the MFSL contract that will be considered when putting in place alternative arrangements.
7. The contract was procured with a separate and additional lump sum element for direct and indirect overheads, profit and staffing costs. Schedule of rate items were charged separately. The rationale being that as the contract progressed the contractor would undertake an annual review of the lump sum and as efficiencies were achieved, leaner systems delivered and materials procured more cheaply, savings would be shared equally 50/50 with the council. This proved difficult to achieve and there was little incentive for the contractor to drive out cost savings and then share 50% of it with the council.
8. The schedule of rates were meant to be measured at net cost, therefore any cost savings that the contractor received should be shared 50/50. This was again difficult to measure and achieve.

9. Profits were to be adjusted (up or down) subject to performance on key performance indicators. The main problem with this was the way Key Performance Indicators (KPIs) were measured changed substantially during the contract, therefore profits were never adjusted.
10. There were explicit clauses limiting sub-contracting but these were not effectively controlled and managed. As a result, at its highest, up to 70% of work was sub-contracted. This led to difficulties in quality management. Differential rates of pay of sub-contractors also meant that some sub-contractors were not always financially motivated to deliver the best possible service.
11. The contract was a traditional measured term Joint Contracts Tribunal (JCT) contract with partnering principles overlaid. The criteria for moving to partnering arrangements were not clearly defined and therefore were never implemented.

### **Summary of the business case/justification for the procurement**

12. The repairs and maintenance contract provides an essential service to council residents in the south of the borough.
13. The council must have in place means to continue to deliver the repairs and maintenance service to ensure its landlord and legal obligations are fulfilled.
14. The contract duration of initially five years plus the option to extend for a further five years (with the extension made up of an initial three years followed by a further two year extension) achieves a balance between ensuring price competitiveness and allowing sufficient time to develop, improve and embed service delivery. It also affords the council the opportunity to take a view about its service delivery at the end of the initial five years.

### **Market considerations**

15. The repairs and maintenance market is long established and well developed. Pre-market briefing of known providers will generate significant interest from contractors. Given the value, an OJEU compliant process will need to be followed.
16. With economy (in the UK and the rest of Europe) still slow to recover after the downturn and given current knowledge of the market for this type of service, it is anticipated that proposals will be highly competitive.

### **Options for procurement including procurement approach**

17. The following options have been considered before determining the procurement strategy set out in this Gateway 1 report.
18. **Do nothing** – This is not an option open to the council. The contract with MFSL terminates on 2 October 2012 and the interim contract ends on 2 October 2013. The council will need to have in place alternative means to deliver the repairs service and fulfil its legal obligations.
19. **Shared Services** – There are no other neighbouring local authorities currently seeking a shared service arrangement for this type of work. Some no longer have housing stock and for those that do, their contracts are in general ring-

fenced arrangements with their internal workforce or external contractors. This has therefore been excluded as an option.

20. **The council provides all or some of these services in-house through Southwark Building Services (SBS)** – This has been carefully considered. There are two options, full internalisation of the service or further incremental internalisation. Any decision has to be guided by the current and future state of SBS. SBS has recently reorganised and downsized the workforce by circa 27% and are in the process of introducing new technology and delivery model. The drivers were to increase productivity, improve service delivery and improve its cost base having been, at its highest, 20% more expensive than MFSL. Delivery of repairs quickly and right first time remain a challenge. Performance is improving at an even pace but is still some distance away from where it needs to be. It will therefore be some time before SBS is able to fully expand its operating base.
21. If a decision to internalise was taken too soon there is a genuine danger that service delivery could suffer. In respect of further incremental internalisation, SBS does have some ability and capacity to take elements of additional repairs and maintenance work. This would offer the benefit of building SBS' capacity for a potential full in-house delivery model in the future. Delivery of the out of hours emergency service or repairs to empty properties (voids) may be suitable for SBS particularly as the former is an area of strength. Further internalisation of one or both of these services is desirable but would be subject to the ability of SBS to demonstrate effective mobilisation, value for money and capacity. This will be dealt with in detail in the subsequent contract award report. The approach to explore this as an option is recommended.
22. **Use an existing framework agreement** – The council is already using the only live OJEU compliant repairs and maintenance framework in country, that procured by Watford Community Housing Trust, to deliver the interim repairs contract from October 2012. This framework expires in July 2014 and therefore is not suitable for long-term delivery of repairs. Moreover, there are complications and potential difficulties in recovering costs from leaseholders when using frameworks for longer than 12 months because any service charge for minor repairs in the housing areas concerned would be limited to £100 per annum. This has therefore been excluded as an option.
23. **Go out to tender** –The value of the contract is above OJEU and given that neither shared services, full in house provision or frameworks are an option, this work has to be subject to an OJEU compliant procurement process. In noting the options discussed in paragraph 21 above however, it is recommended that each tendering contractor provides two clearly marked up tenders. One that clearly identifies costs for the delivery of the whole repairs and maintenance service and one that separately identifies the costs associated with the delivery of the out of hours service and voids. This will enable the council to extract these costs and compare them with in house provision before making a final recommendation in the subsequent contract award report. This option is therefore recommended.
24. **Summary of recommended option** – a hybrid approach is recommended which explores the potential for further services being internalised to SBS, namely the out and hours and/or voids and that this be subject to SBS' ability to demonstrate effective mobilisation, value for money and capacity, with the remaining services being delivered through an external contractor. The

recommendation of which services (if any) are internalised will be dealt with in the contract award report.

### Proposed procurement route

25. Procurement will be carried out in accordance with an EU Restricted Procedure. In response to the notices, contractors interested in tendering will be required to formally express an interest in order to receive a Pre-Qualification Questionnaire (PQQ).
26. There will be significant market interest in this contract. In accordance with the requirements of an EU Restricted Procedure a minimum of six contractors will be selected for the tender list. In achieving this, the council will construct a robust and rigorous PQQ process to ensure the highest calibre contractors are selected to move forward to the tender and final selection stage.

### Identified risks and how they will be managed

27. The table below identifies the key risks associated with this procurement, the impact of occurrence and the control in place to mitigate the risks.

R/N	Risk Identification	Impact	Risk Control
R1	Contract not procured on time	High	Sharpe Pritchard has been appointed as external legal advisors and an experienced procurement project manager is in place. A project board is also being chaired by the Strategic Director of Housing and Community Services
R2	Insufficient resource and expertise to undertake the procurement, including other specialist team such as Corporate Communication , Legal and Procurement	Medium	See above and all of the key support services are members of the project board
R3	Confusion amongst stakeholders about who is responsible for delivering repairs	Medium	A communication strategy will be produced.
R4	Security For Due Performance	Medium	Contractors will be required to provide Performance Bonds and Parent Guarantees (subject to ownership by a parent company)

R/N	Risk Identification	Impact	Risk Control
R5	Risk of leasehold challenge at the LVT	Medium	A reasonableness case will be constructed for the council to defend its position at LVT in the event that this is required.
R6	Challenges to procurement outcome by unsuccessful contractors	Low	Ensure procurement process is transparent and conducted in accordance with CSO governance and OJEU. Continually monitor and review compliance throughout the procurement process with all key procurement decisions approved by the Project Board.

## KEY ISSUES FOR CONSIDERATION

### Key /Non Key decisions

28. This report is a strategic procurement and is therefore a key decision.

### Policy implications

29. An excellent responsive repairs service puts residents at the heart of service delivery. This contract is being procured in this context and one that challenges service improvement and aspires to deliver a greatly improved repairs service for residents.

30. In 2011, the council's Housing and Community Safety sub-committee of the Overview and Scrutiny Committee carried out a review of the housing repairs service. The report's findings make for uncomfortable reading:

*There needs to be a new culture of openness and transparency between officers, members and tenants with respect to the Housing Repairs Service.*

*Contractor performance has been allowed to drift to the point where missed appointments are commonplace and repairs are left cancelled or incomplete. This cannot be allowed to continue.*

*KPIs appear to have been used, in the main, to project a positive image of the service to members and tenants. This 'presentational' approach needs to come to an end.*

31. The sub-committee made 13 recommendations to improve housing repairs and over the past 14 months, the council has worked closely with both of its repairs contractors to respond fully to the recommendations as well as carrying out its

own service improvement programme. The council now wish to build on these improvements for the future.

32. The council shares a corporate commitment to deliver a repairs service that it, and residents, can be justly proud of. The council aspires to treat every resident as if they were a member of one's family and, as the repairs service is one of the most important interactions with the Borough's residents, the procurement of a new contract is an ideal opportunity to make this commitment a reality.
33. The quality of the repairs and maintenance service is crucial to improving overall customer satisfaction with the council. This procurement is looking for a new style service, which truly puts the customer first. Our residents tell us that the repairs service has a long way to go to truly meet their expectations so the council is looking for a freshness of approach.
34. The council has already reorganised the way in which it works to ensure that repairs is given a sufficiently high profile to drive the necessary continuous improvement. Firstly, a new Housing Services department was created in January 2011 to ensure a dedicated focus on the services received by residents of the council's housing. Secondly, a new division concentrating on day to day repairs and compliance went live in September 2011. All of this activity has already brought about significant improvements, particularly around repairs right first time and customer satisfaction.
35. However, despite these changes, the repair service is still a bottom quartile performer. The council is looking to move the repairs service into upper quartile performance and challenging targets have been set in order to achieve this. It is the council's expectation that the new long-term partner will hit the ground running and deliver a quality service from day one of the new contract.
36. One of the areas where the council needs to improve is to recognise that leaseholders are our customers too. This is particularly important in a Borough like Southwark where leaseholders make up a quarter of our residents, and pay significant service charges for communal repairs. Our new contractor must be prepared to deliver an equally excellent service for both leaseholders and tenants.
37. Our residents have told us that a 'right first visit' approach is what really matters to them. The council is looking for a contractor who will go the extra mile to deliver fantastic customer service and who always do what they say they will do. A robust procurement and evaluation process will ensure that only the very best contractor is selected that is able to match the council's ambitions.
38. In summary, the procurement of this contract must enable the council to build upon its successes to date and take the repairs service to the next level, including:
  - Achieving high levels of resident satisfaction
  - Delivering repairs right first time every time
  - Limited recalls and call-backs and duplication
  - Residents treated with respect as though they were members of one's own family.
  - A constant and relentless drive for value for money
  - Accessible and visible customer services catering for all residents' needs.

- Keeping residents constantly informed of service progress and being fully involved in service improvement.
- Responding quickly to service failure and learning from complaints
- Working to deliver the key outputs of the customer access strategy

### 39. Procurement project plan (Key decision)

Activity	Complete by
Forward Plan (if Strategic Procurement)	2 April 2012
Issue Notice of Intention	1 June 2012
DCRB/CCRB/CMT Review Gateway 1: Procurement strategy approval report (this report)	18 June 2012 28 June 2012
Draft report to Cabinet Agenda Planning	2 July 2012
Final report to Cabinet Agenda Planning	4 July 2012
Notification of forthcoming decision - Five clear working days (if Strategic Procurement)	10 July 2012
Approval of Gateway 1: Procurement strategy report (this report)	17 July 2012
Scrutiny Call-in period and notification of implementation of Gateway 1 decision	27 July 2012
Completion of tender documentation	27 July 2012
Advertise the contract	30 July 2012
Closing date for expressions of interest	7 September 2012
Completion of short-listing of applicants	27 September 2012
Invitation to tender	1 <sup>st</sup> October 2012
Closing date for return of tenders	7 January 2013
Completion of evaluation of tenders	28 February 2013
Clarification meetings	N/A
Issue Notice of Proposal	1 March 2013
DCRB/CCRB/CMT Review Gateway 2: Contract award report	11 March 2013 21 March 2013
Notification of forthcoming decision (five clear working days)	7 April 2013
Approval of Gateway 2: Contract Award Report	16 <sup>th</sup> April 2013
Scrutiny Call-in period and notification of implementation of Gateway 2 decision	End- April 2013



<b>Activity</b>	<b>Complete by:</b>
Alcatel Standstill Period (if applicable)	1- 10 <sup>th</sup> May 2013
Contract award	13 <sup>th</sup> May 2013
Contract mobilisation	13 <sup>th</sup> May – 2 <sup>nd</sup> October 2013
Contract start	3 Oct 2013
Contract completion date	2 Oct 2018
Contract completion date (with extensions)	2 Oct 2023

### **TUPE implications**

40. The report author has sought the advice of the legal department which has advised that the TUPE 2006 regs will apply if the long-term contractor is different to the interim contractor once the interim contract ends in October 2013. Circa 80 directly employed staff and a small number of sub-contractor staff may transfer to the incoming repairs and maintenance contractor who will be required to carry out TUPE consultation and negotiations directly with the interim contractor and the individuals in the workforce. Contractors will be asked to price their tenders with TUPE allowed for. There will also be interim contractor staff who are members of the Local Government Pension Scheme and further advice will be sought from the council's actuaries.

### **Development of the tender documentation**

41. A range of tender documents will be developed and will include a specification, preliminaries, pricing documents, evaluation methodology and criteria for weightings, working in conjunction with Sharpe Pritchard and internal support staff. Development of the tender documents will take full account of the lessons learnt set out in paragraphs 6 – 11 above.
42. The form of contract to be used will be JCT Measured Term Contract with a clearly defined and measurable partnering overlay, which will be subject to amendment as directed by the council's legal department. The foundation of the pricing documents will be based on a fully inclusive schedule of rates with no lump sum. There will be the ability to review the framework for payment, to focus more on outputs and customer service, during the life of the contract based on achieving pre-agreed criteria. Service Level agreements will be developed for any additional elements of the service to be brought in-house to SBS. The detail will be set out in the Gateway 2 award report.
43. All tender documents will be approved by the Project Board before issue.

### **Advertising the contract**

44. The contract will be advertised by way of an official notice that will be published in OJEU.
45. Subsequent to publication of the OJEU Notice, the contract will also be placed on the council's website

### **Evaluation**

46. The council's standard evaluation criteria is based on 70% price and 30% quality. This achieves a balance between cost and the quality of service delivery. However, for repairs and maintenance the cornerstones of a successful repairs and maintenance service are repairs delivered on time, completed right first time and achieving high levels of resident satisfaction. The driver is therefore much more focussed on quality outcomes rather than price. And while there are other ways of achieving good quality without reducing the price criteria, such as excluding very low priced bids and having minimum thresholds, this approach is not considered sufficiently robust to achieve the desired outcome for this contract.
47. As such it is proposed to reverse the council's standard evaluation criteria to 70% quality and 30% price. This sends a clear message to the market that the council expects a high quality repairs service and not simply the cheapest one. The risk of the council having to pay more for the service is mitigated by the fact that the repairs and maintenance market is currently extremely competitive. Given the value of this contract, the market is expected to price tenders very keenly so even with the emphasis on quality, the council still expects to achieve value for money. This is important generally and will be of particularly important to leaseholders.

### **Community impact statement**

48. Repairs and maintenance is a universal service that is offered to all tenants and residents of the Borough. The proposal is to procure an OJEU compliant contract to ensure there is a continuation of service when the interim contract comes to an end.

### **Sustainability considerations**

49. The contract will adhere to the council's Sustainability Policy. Where possible, materials purchased will be from sustainable sources. However, the overriding decision on material selection will be that materials conformity to BS and IS standards to ensure maximum safety and suitability.
50. Sustainability goals will be set for the contract and where possible the contractor will be required to carry out (and evidence) the following:
  - Re-use of materials that can be recycled or reclaimed on site
  - Avoidance of environmentally damaging materials
  - Avoidance of materials that are potentially harmful to humans.

## **Social considerations**

51. Contractors will be required to demonstrate that they operate an Equal Opportunity Policy and that they are fully aware and compliant with council's own Equal Opportunity Policy. The successful contractor is also expected to meet the London Living Wage (LLW) requirements. For this contract, the quality improvements are expected to be a higher calibre of multi-skilled operatives employed that are able to contribute to delivering high levels of resident satisfaction and repairs completed right first time, and it is therefore considered that best value will be achieved by including this requirement. As part of the tender process, bidders will be required to confirm how productivity will be improved by payment of LLW. On award, the associated quality improvements and cost implications will be monitored as part of the annual review of the contract.
52. Contractors will be required to demonstrate how they will assist the council in providing local employment opportunities and ensure they are able to deliver a comprehensive apprenticeship programme over the term of the contract.

## **Project Management**

53. Procuring this contract by October 2013 is an ambitious but nonetheless achievable timescale. To mitigate this risk, an experienced procurement project manager has been appointed reporting directly to the Head of Maintenance and Compliance to lead this procurement. Formal governance is through a project board chaired by the Strategic Director of Housing and Community Services where all key procurement decisions will be made. Sharpe Pritchard have been appointed as external legal advisors.

## **Consultation and Communication**

54. Given the importance of the repairs service it will be vital that a clear communication and consultation strategy is in place that sets out what, when and how the council will communicate to and involve staff, residents, resident groups, members and other stakeholders. Officers in Maintenance and Compliance are developing this strategy with the communications team. In addition, residents from Homeowners and Tenants Councils will join the Procurement Project Board and take part in the evaluation and selection of the winning contractor.

## **Plans for the monitoring and management of the contract**

55. The contracts will be managed by the council's repairs and maintenance and commercial teams. Monthly contract meetings will be in place and performance measurement will be through a key suite of performance indicators, which will include resident satisfaction, right first time completion and appointments made and kept.

## **Financial implications (SB-FIN0704)**

56. The termination of the contract with MFSL Facilities Management and subsequent long term tendering process will have financial consequences for the council. These will include additional expense arising from the engagement of external legal advisors and additional resources to project manage the process.

These costs are estimated at £150k and will be met from HRA reserves. The tendering of the long term contract and subsequent interest generated in securing the tender, should lead to competitive pricing for the contract, but this will be dependent on the market conditions prevailing at the time of tender. There is a risk that prices could increase but equally that the competitive nature that a five year contract with option to extend for a further five years could result in lower prices than the current price. An increase or decrease in cost of 5% on the base budget of £11m could mean an increase or decrease in cost of £550k annually.

57. As well as the potential increase or decrease in cost for the contract, there could also be an impact on the programme of savings generated by Maintenance and Compliance for the financial year 2013/14, when reductions of £687k were anticipated from reductions to the contract amount for MFSL. It would be anticipated that any potential increase to the cost of the contract arising from inflationary pressures as measured through the BMI, would need to be contained within the base budget. These issues would need to be dealt with through the tendering process and through the budget setting process. Although these costs are estimated at present, work will be carried out to identify and produce full cost implications as the process proceeds through each Gateway level.

#### **Legal implications**

58. These are contained in the supplementary advice from the Director of Legal Services.

#### **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

##### **Director of Legal Services**

59. This report seeks the Cabinet's approval to the procurement strategy for the repairs and maintenance contract for the south of the borough (as noted in paragraph 1). As the estimated value of the contract exceeds £15 million, then this is a Strategic Procurement under Contract Standing Orders (CSOs), and approval is therefore reserved to the Cabinet.
60. At this value the contract is subject to the full tendering requirements of the EU Procurement Regulations, and therefore must be tendered fully in accordance with those Regulations. Paragraph 25 confirms that a restricted EU procurement route is to be followed, which meets the requirements of those Regulations and the council's own CSOs.
61. The Cabinet is asked to note that 2 of the services (out of hours and works to empty properties) might be suitable to be provided by SBS. The tender process will therefore accommodate a hybrid approach, one including all services and the other with these 2 services removed, to allow the council to consider how these 2 services might best be provided. This will be considered in the gateway 2 report.

##### **Strategic Director of Finance and Corporate Services (NR/F&R/3/7/12)**

62. This gateway report recommends that the Cabinet approves the procurement strategy for the repairs and maintenance contract covering Camberwell, Peckham, Peckham Rye, Nunhead and Dulwich to commence from 3rd October 2013 for five years with the option to extend for a further period up to five years

(three plus two years) and note that the out of hours service and works to empty properties, might be suitable to be provided in house.

63. The Strategic Director of Finance and Corporate Services notes the financial implications contained within the report. Officer time to effect the recommendations will be contained within existing budgeted revenue resources.

#### **Head of Procurement**

64. This report is seeking approval of the procurement strategy for the Repairs and Maintenance contract covering the south of the borough.
65. Paragraphs 17 – 23 describe the procurement options that have been considered for the delivery of these services and paragraph 24 confirms that a hybrid approach will be taken. A competitive process will be undertaken with exploration of internalising an element of the service. Whilst the bidders' ability to deliver all aspects of the service will be assessed through the process it may be possible that not all elements will be awarded. The recommendations surrounding contract award will be fully captured in the gateway 2 report.
66. With a contract of this size and nature, EU regulations apply. The report confirms that a restricted process will be followed which is in line with the regulations and satisfies the council's contract standing orders.
67. The timeline for the project is ambitious but achievable provided the appropriate resources are available when necessary. The report confirms that the project will be supported by external and internal resources. Paragraph 53 outlines the project governance arrangements that will be in place throughout the project.
68. The evaluation methodology for this procurement will be based on a weighted model in favour of quality. Whilst this is not in line with the Council's current approach, the justification for this is contained in paragraphs 46 – 47.

#### **Head of Home Ownership Unit and Tenant Management Initiatives**

69. The cost of communal repairs to blocks and estates are rechargeable to leaseholders as a service charge. The contract would be a qualifying long term agreement and therefore statutory consultation under section 20 of the landlord and tenant act 1985 (as amended) is required. Notices of intention were served under schedule 2 of the regulations. Observations closed on 5 July. A total of 80 observations were received. A number of the responses received were unrelated to the intended contract - of the ones that are relevant the main points are summarised below:
- Contract length and size - Leaseholders expressed concerns about having a 5 year contract on a large portion of the council, there were suggestions for shorter contracts on smaller areas.
  - Contract type - Leaseholders stated that long term agreements have a tendency to allow the contractor to carry out work as they see fit without enough supervision.
  - Pricing and competitiveness - Leaseholders commented on the prices that may be arrived at using a contract of this type and the subsequent competitiveness.
  - Contract management - Questions were asked of the management of the new contract - how would the work be raised, carried out and inspected.

Comments were made about whether these processes had improved since the 2009 internal audit.

70. All observations have been responded to in full. In addition 15 leaseholders have visited the offices of Home Ownership Services at 376 Walworth Road to discuss the proposed contract and inspect the available documentation. Confirmation of the closure of the observation period and a summary of the observations received will be appended to this report prior to it being submitted for approval.
71. Home Ownership Services agrees with the recommendation to remove the lump sum element, as this proved difficult to administer for service charges and caused problems in justifying the resultant total cost of individual repairs service charged to leaseholders. It was also difficult to identify the total cost of any job in order to identify whether or not further statutory consultation was required.
72. The Head of Home Ownership and Tenant Management Initiatives notes the proposal to consider internalising the service in the future. This would mean that the service was no longer a qualifying long term agreement, and so would not require statutory consultation. However, any qualifying works (items of repair which could cost a leaseholder more than £250 as a service charge, inclusive of fees) would then have to be separately tendered and full statutory consultation carried out under schedule 4 of the regulations, requiring both pre and post tender consultation.
73. The Head of HO&TMI notes the recommendation to evaluate the procurement of this contract on a 70/30 quality price split, and understands the rationale behind this. However, with this proposal there is a low risk of a negative impact on the collection of the full service charge for communal repairs if the chosen contractor has tendered at higher rates than the other contractors. If challenged at the Leasehold Valuation Tribunal there is a potential low risk that the service charge for individual repairs is reduced to the amounts quoted by the lowest tendering contractor, which will have a negative impact on the HRA. However, it is acknowledged that this risk is low and in any event a reasonableness case will be constructed for the council to defend its position at Leasehold Valuation Tribunal in the event that this is required.
74. At the council's appeal to the Lands Tribunal for its major works partnering contracts, the President confirmed that a detailed schedule of rates was sufficient to comply with paragraph 6b of schedule 2 of the regulations governing section 20. By using an extensive schedule of rates and rigorous pricing mechanism the council will be able to carry out full section 20 without having to apply to the LVT for dispensation.
75. In order to accurately construct service charges it will be necessary to ensure that the contract requires repairs orders to be raised against block and estate, with accurate descriptions of the work carried and the exact location of each repair.

## BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
None		

## APPENDICES

No.	Title
None	

## AUDIT TRAIL

<b>Cabinet Member</b>	Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	
<b>Lead Officer</b>	Gerri Scott, Strategic Director of Housing and Community Services	
<b>Report Author</b>	David Lewis, Head of Maintenance and Compliance	
<b>Version</b>	Final	
<b>Dated</b>	17 July 2012	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Procurement	Yes	Yes
<b>Contract Review Boards</b>		
Departmental Contracts Review Board	Yes	Yes
Corporate Contracts Review Board	Yes	Yes
<b>Cabinet Member</b>	Yes	Yes
<b>Date final report sent to Constitutional Team</b>		5 July 2012