

## **APPROVED GATEWAY 3 REPORT**

**Contract Title:** Individual heating & Gas Contract Price Per Property

**Date of Approval:** 21<sup>st</sup> December 2012

**Approved by:** Gerri Scott- Strategic Director of Housing

**Author:** David Lewis

<b>Item No</b>	<b>Classification:</b> Open	<b>Date:</b> 19th December 2011
<b>To</b>	Strategic Director of Housing Services	
<b>Report title</b>	<b>Gateway 3 - Variation Decision</b> Individual Heating & Gas Contracts – Areas D, E, F & G "Individual Heated Dwellings"	
<b>Ward(s) or groups affected</b>	All	
<b>From</b>	Head of Maintenance and Compliance	

## RECOMMENDATIONS

### THE STRATEGIC DIRECTOR OF HOUSING SERVICES IS ASKED TO:

1. Approve the variation to the existing D, E, F & G "Individual Heated Dwellings" contracts with T. Brown Group Ltd and OCO Ltd by moving to a Price Per Property payment model for tenanted dwellings for a period of 18 months from 1<sup>st</sup> April 2012 to 30<sup>th</sup> September 2013.
  - Individual Heating & Gas – Area D Contract with T Brown Group Ltd;
  - Individual Heating & Gas – Area F Contract with T Brown Group Ltd;
  - Individual Heating & Gas – Area E Contract with OCO Ltd; and
  - Individual Heating & Gas – Area G Contract with OCO Ltd.
2. Note that the 4 (four) contract variations will deliver savings of £1.471m per annum and a total of £2.2m over 18 months.
3. Note that the terms and conditions of the 4 (four) contracts remain unchanged with the variation applying to the payment mechanism only.
4. Note that a Risk Pot of £721k will be established to deal with exceptional, unexpected or excluded items, with any underspend being reinvested in the heating programme.
5. Note that the contracts have provision for two one year extensions covering the period from 1<sup>st</sup> October 2013 to 30<sup>th</sup> September 2015 and that an evaluation report assessing the success of this contract variation will be presented in October 2012, recommending the future direction of the contracts.

## BACKGROUND INFORMATION

6. The annual cost of the 4 (four) contracts are as follows;
  - T.Brown Group Ltd - Area D "Gas. Individual Heated Dwellings" £1,800,000.00 per annum. £9,000,000.00 total contract value for 5 years. Borough and Bankside, Bermondsey.
  - T.Brown Group Ltd - Area F "Gas. Individual Heated Dwellings" £930,000.00 per annum. £4,650,000.00 total contract value for 5 years. Peckham, Nunhead and Peckham.

- OCO Ltd – Areas E “Gas. Individual Heated Dwellings” £1,400,000.00 per annum. £7,000,000.00 total contract value for 5 years. Rotherhithe and Walworth.
  - OCO Ltd - Area G “Gas. Individual Heated Dwellings” £1,300,000.00 per annum. £6,500,000.00 total contract value for 5 years. Camberwell and Dulwich
7. The initial tender process for each contract involved Phillip Pank and Partners who prepared the tender documentation and assisted in the initial tender evaluation for a one off fee basis. They have not undertaken any further services in relation to the management and valuation of these 4 (four) contracts.
  8. Each of the 4 (four) contracts have a facility to extend for 2 years, in 2 one year increments.
  9. Each of the 4 (four) contracts commenced on the 1<sup>st</sup> October 2008 for a fixed term of 5 years. The 4 (four) contracts provide heating and gas services to the Housing Services Department’s stock served by individual heating systems.
  10. Contrary to the industry norm, each of the 4 (four) contracts were procured on a bespoke Schedule of Rates (SOR) rather than inclusive Price Per Property (PPP). While measurement of costs can be tracked by individual rates it requires considerable administrative support and intensive contract management. Equally important is the fact that the schedule of rates drive an order driven culture with the contractor being rewarded for generating large volumes of orders and not incentivised to reduce orders and complete work satisfactorily first time. This approach has also led to the council focusing on ensuring that bottom line budgets balance rather than examining the true costs of works and the efficiencies that can be achieved by a more challenging approach.

### **What is Price Per Property (PPP)?**

11. In a PPP model, a fixed price is paid for gas servicing and maintenance (breakdown) for each property irrespective of the number of repairs or visits completed. Sometimes this is known as a 3 star contract. Where boiler replacement is included in the fixed price this is known as a 5 star contract. (Lambeth Living recently let a contract of this type - this is not proposed here as the council wishes to retain full control of this aspect of work). The PPP approach is compatible with high volume maintenance work. For individual heating systems in tenants’ dwellings (some 25, 823 properties), when including servicing, more than 64,000 orders are placed each year. In a PPP model there is cost certainty (any exclusions in the contract for, say non-standard items are dealt with through a Risk Pot – see para 26). The council is clear what it has to pay, the contractor is clear as to what they will receive and are incentivised to complete work properly first time, every time.
12. The key risks are around the PPP being set at the wrong level, whether too high or low. By setting it too high the council potentially pays more than is affordable leading to budget overspends. This is usually due to insufficient historical knowledge of the stock and its needs. Setting it too low could mean that the contractor cannot cover their costs which could cause them financial difficulties. In recent months a contractor elsewhere in London has gone into administration for this very reason.
13. Market intelligence and commercial understanding was therefore important in establishing whether a PPP model would work for the council. In early 2011, Engineering and Compliance engaged the services of an independent Gas Consultant (Gas Advisory Services Ltd). Gas Advisory Services Ltd is one of the leading consultants in this specialist field and have a proven track record in the delivery of service improvements. They have previously worked for the council and have an exceptional record nationally. After initial discussions, both OCO and T Brown agreed that Gas Advisory Services Ltd were the right independent experts to provide advice. It was agreed that costs would be shared equally between all three parties (OCO, T Brown and the council). Total costs to date are £9.5k

(the council's share being just over £3k). Given the value, Gas Advisory Services were procured through a single supplier appointment. Gas Advisory Services Ltd's brief was to undertake an independent analysis of the existing heating contract in relation to its overall service provision in both cost and quality, benchmark against similar organisations/peers and, working with the council's commercial team, provide recommendations on whether PPP would work for the council and the extent of efficiencies, service improvement and savings that could be delivered.

14. PPP is now proposed for individual tenanted dwellings only. Communal systems providing heating to leaseholders have S20 implications which would prevent PPP being introduced at this stage for these properties. The existing schedule of rates will therefore continue to be used for this type of work.
15. The exercise was both wide-ranging and detailed. This variation report seeks approval of the recommendations as detailed within the consultant's report (see Appendix 1).
16. Details of any previous variations/contract extension(s).

Approval date variation/extension agreed	Nature of variation/extension	Cost of variation/extension	Approved By
N/A	N/A	N/A	N/A

## Key Issues for Consideration

### Performance to Date

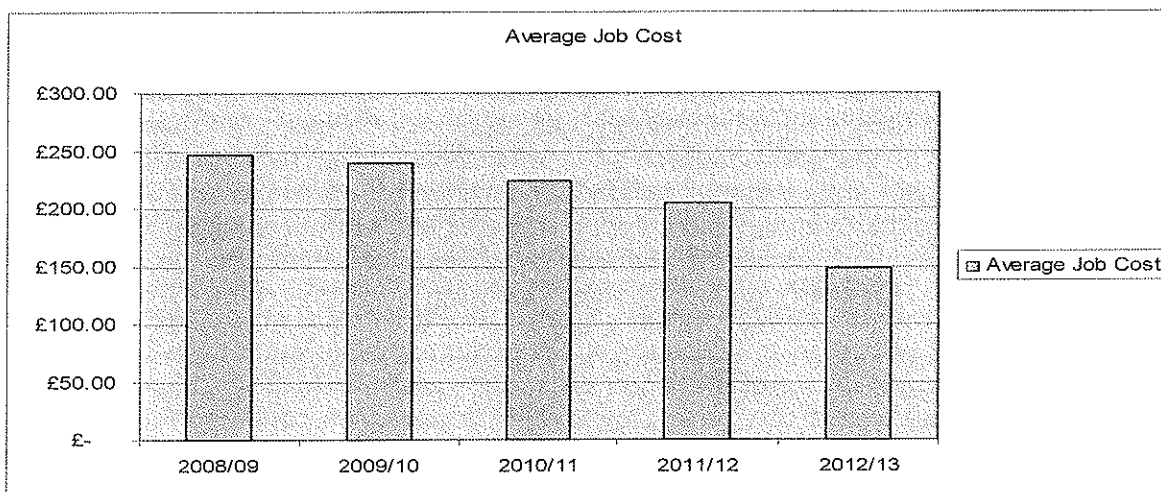
17. As mentioned above, the 4 (four) contracts have been in operation since October 2008. Performance to date is mixed. Positively, gas servicing achieved 100% compliance for the first time ever to the end of March 2011 and continues to perform exceptionally well. Appointments kept and customer satisfaction continue to achieve above 90%. In addition, both T Brown and OCO know the borough very well and are exceedingly responsive when dealing with the numerous issues that arise throughout the winter with the council's ageing heating stock. However, "getting it right first time" delivery remains a concern with performance to date at 62% against a target of 70% (T Brown achieve 59% and OCO 68%). This is well below the contractual key performance indicator target and an area that must be improved. The proliferation of boiler parts make first time fix more challenging but the council believes it can be improved. PPP incentivises contractors to complete jobs properly first time and to a high standard to avoid repeat visits. Whether they visit one or ten times, the payment remains the same. Contract performance indicators are already in place for the 4 (four) contracts and as part of the annual review, additional challenge and focus will be placed on "right first time" performance. The expectation of this change is that savings will be delivered and performance improved.

## Key Aspects of Proposed Variation

18. The nature of the proposed variations is to change elements of the contracts from a SOR model contract to a PPP model contract. This will only cover individual systems and will not affect communal heating systems or works to communal tanks. There will be no revision to the 4 (four) contract completion dates.
19. The total value of the 4 (four) contracts plus any previous variation plus this proposed variation is £27,100,500, representing an estimated saving of £2.2m over 18 months. The annual saving is £1.471m.
20. This variation as a % of the total contract value and previous variations as noted above is minus 8.1%.

## Reasons for Variation

21. The 4 (four) contracts currently contain a detailed suite of SORs against which the contractor values work completed per work order. Under this system, fixed costs are hard to maintain for individual property repair, service and maintenance. This traditional approach to cost control creates high levels of administration and requires inspection resource at the front end of the process.
22. The average historic job costs in 2008/9 were £247.36. This has reduced to £224.47 for the last financial year, this year the average is £205.00. See chart below. Whilst good progress has been made over the last four years in reducing the price per property by robust contract management, additional savings beyond the current £205 PPP are not envisaged, without structural change to the payment mechanism.



23. The PPP model will be governed by an annual fixed sum; this rate will be apportioned to each qualifying property and paid to the appropriate contractor. This payment will be due regardless of the amount of work carried out within each property and/or the number of visits the contractor makes to each property.
24. The scope of works included within the fixed annual rate and those works excluded are detailed within Appendix 2 of this report.

25. As stated above, this variation will not affect properties served via the council's communal heating schemes. The repairs, servicing and maintenance of these properties will continue to be costed via the contracts' existing suite of SOR's. The number of individually heated properties affected by this variation is 25,823.

## Risk Pot

26. A Risk Pot of £721,000 has been provided to deal with issues which are not a direct result of the contractor's actions, namely;
- A) Calls where contractor arrives and there are no funds on the Gas Meter;
  - B) Calls where Decent Homes contractors have undertaken works and the Term Contractor has attended to remedy a fault;
  - C) Calls where there is possible misuse by residents that have resulted in damage to the heating systems;
  - D) Calls where power/ gas failures attributable to the suppliers have occurred;
  - E) Works orders incorrectly raised against the Heating Contract; and
  - F) Excluded, exception or non-standard items.
27. A prudent assessment has been made of the value of the Risk Pot to ensure sufficient provision is made. While this is a relatively large Risk Pot, in the first year, extra caution is proposed. In the event that the Risk Pot is an over provision, the underspend will reinvested into the programme.
28. A contra-charge will be applied to other service providers for charges the council incurs as a result of non-adherence to agreed business rules. A good example is charges incurred because of misdiagnosis or duplicate ordering of repairs at the front end by Vangent. At the moment either the council bears these costs or the contractors do not charge. In the future, both contractors will need to provide robust and transparent evidence of these cases and the council will reimburse them (from the Risk Pot) then pursue Vangent for these costs. At the moment the number of instances is unknown. There is lots of anecdotal evidence but the test will be backing this up with hard facts.
29. The scope, preliminaries, delivery and the form of contracts will remain the same. The payment mechanism is the only proposed change; this will provide greater cost certainty and less administration in valuing the works and delivering the service. The JCT form of contracts allow for variations to the contracts by mutual agreement under section 3.5.
30. The proposed variation will reduce formal process administration of the 4 (four) contracts for both the council and T Brown and OCO, and will provide the council and its residents with a better value for money service which offers a way forward for continuous improvement.
31. More effective administration of the 4 (four) contracts will also allow client resources to be more focussed towards quality and customer interaction as cost controls are fixed. If agreed, this variation will allow officers to gain tangible intelligence of the strength and weaknesses of this type of arrangement and will aid future procurement decisions. This will also allow us to benchmark against other organisations that operate this type of service.
32. An additional benefit is that during the life of the 4 (four) contracts both a SOR and PPP model (if agreed) will have been used to deliver the service. On re-procurement the council

will be able to take an informed view of the model that offers the best value and service for residents.

### **Contractors' Perspective**

33. There is little doubt that the 4 (four) contracts have been lucrative for T Brown and OCO, with average costs per property being more than £200 over the last four years. The council has made it clear that based on these current costs, extensions would not be considered in 2013 as it is believed that the council could achieve better value by retendering. Gas Advisory Services Ltd advise that a sustainable PPP of £135-£155 could be achieved through re-procurement. Whilst there have been some tough negotiations with OCO and T Brown, they have both fully signed up to the new reduced price. Their only condition is that the replacement programme is preserved at 7% of the budget i.e. £4m a year. This level of renewal is consistent with the commitment made in the Housing Investment Programme to 2016 so this has been agreed in principle. It is hoped that the reduction in price combined with improved service delivery will lead to the two year contract extension being exercised for each contract. The council, of course, cannot formally confirm extension at this stage. However, if the promised savings and performance improvements are delivered, there will be a compelling case to approve extension. It is proposed that an evaluation report is prepared for October 2012 to assess the success or otherwise of the new arrangements, 6 months in, with recommendations on the way forward. This will allow sufficient time to complete a procurement exercise should a decision be taken not to extend.
34. It is worth noting that OCO and T Brown will need to amend the pay arrangements for their engineers, by moving from a productivity and bonus arrangement to a salary with customer based key performance indicators. Internal consultation and implementation of that change will take at least 12 weeks. If PPP is to be implemented by 1<sup>st</sup> April 2012, this report will need to be approved in December 2011.

### **Future Proposals for this Service**

35. The existing 4 (four) contracts will expire on the 30<sup>th</sup> September 2013; however, there is an option to extend them for a further two years. Providing OCO and T Brown's performance is of an acceptable level, the council intends to take advantage of the extension option. Any proposed extension of the contract will be the subject of a separate Gateway 3 report.

### **Alternative Options Considered**

36. Two alternative options were considered:

- Do Nothing;
- PPP +

Details of the options comparison are contained within Appendix 1.

### **Policy implications**

37. The service, repair and maintenance of buildings is a fundamental requirement, since the council must ensure that it meets all of its statutory regulatory compliance obligations.

### **Contract management and monitoring of the contract going forward**

38. To ensure the proposed change has a positive effect upon service delivery to residents, the contract KPIs will be reviewed with the focus being on a tenant's journey from the job ordering through to completion and overall resident satisfaction, including ensuring that appointments are kept and works are completed at the first visit.
39. The council's Engineering and Compliance Team (the team) will monitor T Brown's and OCO's performances via a combination of pre, intermediate and post inspections based on a 10% sample. The team will confirm customer satisfaction and quality check the works to ensure the council is receiving best value. By changing our technical resource priorities from cost control to quality and tenant satisfaction the service will be enhanced.
40. The 4 (four) contracts will be monitored and managed financially via an in-house team of Quantity Surveyors, under the leadership of the Commercial Manager.
41. To ensure transparency, the council intends to engage the services of an independent third party consultant to provide feedback on T Brown and OCO's performances and the performance of the council's in house contract management team.
42. In addition, monthly contract meetings are in place along with a heating core group at a strategic level attended by senior council managers and directors from OCO and T Brown. Residents will shortly be asked to join this group.

### **Community Impact Statement**

43. This decision has been judged to have no or a very small impact on the local people and communities. An effective, responsive and cost efficient heating service is important to all residents who receive it. The proposed changes to the way the service is monitored and paid will ensure that residents receive a more customer focussed heating service.

### **Sustainability considerations (Including Economic, Social and Environmental considerations)**

44. Both OCO and T Brown are ISO 1401 accredited and have set annual recycling targets for the operations they undertake. Both companies also operate an apprenticeship scheme.

### **Resource implications**

45. The proposed variation will have a positive impact on resources.

### **Financial Implications (FIN0667)**

46. The change in the heating contract from a schedule of rates to a price per property (PPP) model will reduce the current average job cost from £205 to a fixed amount of £148 per property, allowing cost certainty, as well as providing an improved service through incentives for the contractors to complete jobs right first time every time and to a high standard, avoiding repeat visits.



47. The overall saving to the Maintenance and Compliance team by changing the payment model for this contract will be £750k per annum, which meets the savings target required for the Heating contract for 2012/13 and onwards. As this is a new form of contract for LB Southwark, a contingency fund of £721k (15%) of the new contract amount will be set aside to cover exceptional, unexpected or excluded items. This is a reasonable amount for contingency in the circumstance. Any funds not used from the risk pot will be reinvested back into the heating investment programme. Where erroneous jobs have occurred as a result of other contractors or the tenants, all efforts will be made to recoup monies from the responsible contractor or individual.
48. The budget available for future years is £10,381,093, of which £4,543,248 relates to the individual heating systems, with the remaining portion being used for communal heating, and other necessary costs, including plant monitoring and any external consultant's costs to review the contractor performance.
49. The current budget allocation within SAP will need to be updated to reflect the changes in the contract and allow better monitoring of the new contract.

### **Investment Implications**

50. N/A

### **Legal Implications**

51. See comments from the Strategic Director of Communities, Law and Governance below.

### **Consultation**

52. There has been no resident consultation with regards to this proposed variation. Leaseholders are not affected by this variation as these contracts are for tenanted properties only.
53. Officers from the council together with the council's appointed consultant have consulted with OCO and T Brown over a period of 10 months. The results of these meetings are contained in the Gas Advisory Services Ltd report attached as Appendix 1.

### **Other implications or issues**

54. There are no other implication issues of note.

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

### **Strategic Director of Communities, Law & Governance**

51. The Strategic Director of Communities, Law & Governance ("SDCLG", acting through the Contracts Section) has advised officers in connection with the proposed variation of the existing contracts and notes the content of this report.
52. The report is clear as to the nature and scope of the variation and also confirms that, in all other respects the conditions of the contracts will remain unchanged. The SDCLG will advise and assist officers as required in formalising the variations once approved.
53. Section 3(1) of the Local Government Act 1999 requires best value authorities to make arrangements to secure continuous improvement in the way in which they exercise their functions, having regard to a combination of economy, efficiency and effectiveness. The report explains the savings and efficiencies which the Council expects to achieve from the proposed variation of the contracts and the measures which are to be taken in order to manage and monitor service delivery and to inform future procurement decisions. This proposal is, therefore consistent with the Council's statutory duty.
54. The decision to approve the Recommendation contained in paragraph 1 is one which can be taken by the Strategic Director of Housing Services in line with Contract Standing Orders.

### **Finance Director**

55. See financial implications.

### **Head of Procurement**

56. Included in this report.

### **Head of Home Ownership**

57. There are no service charge implications to leaseholders as the proposals affect individual heating systems only.
58. The Council currently offers home owners the opportunity to buy into the gas servicing contract for a fixed fee of £88.50. The fee covers a full service of the gas boiler and an inspection of all other internal space heaters. A Gas Safety certificate is issued to the homeowner. An annual service of all gas appliances is a requirement of the lease and certificates should be provided to the Council on request.
59. As part of the service currently offered to home owners, should repairs be necessary, they can be arranged directly with the contractor.
60. The Council used to offer a repairs service as well as an annual service for a higher fee. Although this was popular with home owners, this service was stopped in 2008 as it proved problematic to administer for both the contractor and the Council's staff.
61. It is essential that the Council continues to provide a gas servicing contract to homeowners under the varied contract to provide a price per property. As the service will not include repairs the cost of gas servicing only will need to be agreed as part of this contract

variation. Home owners will have to be consulted on any difference in the current negotiated price for this service.

**FOR DELEGATED APPROVAL**

Under the powers delegated to me in accordance with the Council's Contract Standing Orders, I authorise action in accordance with the recommendation contained in the above report.

Signature ..... *GCLH SCOT* ..... Date..... *21.12.11* .....

Designation ..... *STRATEGIC DIRECTOR HOUSING SWITCH* .....

**BACKGROUND PAPERS**

Background Papers	Held At	Contact
<i>Gateway 1 – Procurement Strategy Approval Report Gateway 2 - Award Report</i>	<i>Engineering &amp; Compliance, 160 Tooley St, London. SE1</i>	<i>Derek Anyimiah - 53043</i>
<i>Contract Register Update Form</i>		

**APPENDICES**

Appendix number	Title of appendix
<i>1</i>	<i>Proposals for 3 star contract for LBS – Report by Gas Advisory Limited</i>
<i>2</i>	<i>Inclusions and Exclusions in the 3 star contract</i>

**AUDIT TRAIL**

<b>Lead Officer</b>	<i>David Lewis, Head of Maintenance and Compliance</i>		
<b>Report Author</b>	<i>Gavin Duncumb, Commercial Manager</i>		
<b>Version</b>	<i>V5</i>		
<b>Dated</b>	<i>14th December 2011</i>		
<b>Key Decision?</b>	<i>no</i>	<b>If yes, date appeared on forward plan</b>	<i>N/A</i>
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>			
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>	
<i>Strategic Director of Communities, Law &amp; Governance</i>	<i>yes</i>	<i>no</i>	

Finance Director	<i>no</i>	<i>no</i>
Head of Procurement	<i>yes</i>	<i>yes</i>
Cabinet Member	<i>no</i>	<i>no</i>
<b>Contract Review Boards</b>		
Departmental Contract Review Board	<i>yes</i>	<i>no</i>
Corporate Contract Review Board	<i>no</i>	<i>no</i>
<b>Date final report sent to Constitutional Support Services</b>		<i>N/A</i>

**BACKGROUND DOCUMENT – CONTRACTS REGISTER UPDATE FORM – GATEWAY 3**

Mandatory : Please complete the following details:

Details	Original	Extension 1	Extension 2
Contract Name	Gas. Individual Heated Dwellings Area D.		
Contract Description	Provision of Building Services		
Fixed Price or Call Off	Call off		
Contract Lead Officer (name)	Chris Baxter		
Contract Lead Officer (phone number)	020 7525 3012		
Department	Housing Services		
Division			
Business Unit	Engineering and Compliance		
Estimated Contract Award Date	July 2008		
Supplier(s) Name(s)	T.Brown Group Ltd.		
Contract Total Value	£ 9,000,000.		
Contract Annual Value	£1,800,000.		
Contract Start Date	1 <sup>st</sup> October 2008		
Contract Review Date – 18 months before initial contract end date	N/A		
Initial Contract End Date	30 <sup>th</sup> September 2013		
Contract End Date if extension options utilised	30 <sup>th</sup> September 2015		
Number of Contract Extensions	2		

OPTIONAL: If available, please complete the following details:

Services/Supplies/Works Contract – delete as appropriate. EU CPV Code – if appropriate and available	
SAP Vendor Number	

**BACKGROUND DOCUMENT – CONTRACTS REGISTER UPDATE FORM – GATEWAY 3**

Mandatory : Please complete the following details:

Details	Original	Extension 1	Extension 2
Contract Name	Gas. Individual Heated Dwellings Area E.		
Contract Description	Provision of Building Services		
Fixed Price or Call Off	Call off		
Contract Lead Officer (name)	Chris Baxter		
Contract Lead Officer (phone number)	020 7525 3012		
Department	Housing Services		
Division			
Business Unit	Engineering and Compliance		
Estimated Contract Award Date	July 2008		
Supplier(s) Name(s)	OCO Ltd		
Contract Total Value	£7,000,000.		
Contract Annual Value	£1,400,000.		
Contract Start Date	1 <sup>st</sup> October 2008		
Contract Review Date – 18 months before initial contract end date	N/A		
Initial Contract End Date	30 <sup>th</sup> September 2013		
Contract End Date if extension options utilised	30 <sup>th</sup> September 2015		
Number of Contract Extensions	2		

OPTIONAL: If available, please complete the following details:

Services/Supplies/Works Contract – delete as appropriate. EU CPV Code – if appropriate and available	
SAP Vendor Number	

**BACKGROUND DOCUMENT – CONTRACTS REGISTER UPDATE FORM – GATEWAY 3**

Mandatory : Please complete the following details:

Details	Original	Extension 1	Extension 2
Contract Name	Gas. Individual Heated Dwellings Area F.		
Contract Description	Provision of Building Services		
Fixed Price or Call Off	Call off		
Contract Lead Officer (name)	Chris Baxter		
Contract Lead Officer (phone number)	020 7525 3012		
Department	Housing Services		
Division			
Business Unit	Engineering and Compliance		
Estimated Contract Award Date	July 2008		
Supplier(s) Name(s)	T.Brown Group Ltd.		
Contract Total Value	£.4,650,000.		
Contract Annual Value	£930,000.		
Contract Start Date	1 <sup>st</sup> October 2008		
Contract Review Date – 18 months before initial contract end date	N/A		
Initial Contract End Date	30 <sup>th</sup> September 2013		
Contract End Date if extension options utilised	30 <sup>th</sup> September 2015		
Number of Contract Extensions	2		

OPTIONAL: If available, please complete the following details:

Services/Supplies/Works Contract – delete as appropriate. EU CPV Code – if appropriate and available	
SAP Vendor Number	

**BACKGROUND DOCUMENT – CONTRACTS REGISTER UPDATE FORM – GATEWAY 3**

Mandatory : Please complete the following details:

Details	Original	Extension 1	Extension 2
Contract Name	Gas. Individual Heated Dwellings Area G.		
Contract Description	Provision of Building Services		
Fixed Price or Call Off	Call off		
Contract Lead Officer (name)	Chris Baxter		
Contract Lead Officer (phone number)	020 7525 3012		
Department	Housing Services		
Division			
Business Unit	Engineering and Compliance		
Estimated Contract Award Date	July 2008		
Supplier(s) Name(s)	OCO Ltd		
Contract Total Value	£6,500,000.		
Contract Annual Value	£1,300,000.		
Contract Start Date	1 <sup>st</sup> October 2008		
Contract Review Date – 18 months before initial contract end date	N/A		
Initial Contract End Date	30 <sup>th</sup> September 2013		
Contract End Date if extension options utilised	30 <sup>th</sup> September 2015		
Number of Contract Extensions	2		

OPTIONAL: If available, please complete the following details:

Services/Supplies/Works Contract – delete as appropriate. EU CPV Code – if appropriate and available	
SAP Vendor Number	





**Proposals for 3\* Contract**  
for  
**London Borough of Southwark**



**Submission** **Prepared by**  
**Gas Advisory Services Limited**

**Date: November 2011**

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## Section One

### 1.0 Introduction

Gas Advisory Services Limited (GAS) were commissioned by LBS to undertake an independent analysis of the existing Gas Service and Maintenance contract in relation to its overall service provision in both cost and quality as benchmarked against similar organisations, supported by existing procedures/arrangements that have been adopted to fulfil the Landlords current legal/essential and desirable responsibilities under the Gas Safety (Installation and Use) Regulations 1998 (GSIUR 1998).

GAS are of the understanding that the existing contract was let on the 1<sup>st</sup> October 2008 for a 5 year duration with a further 2 year option to extend given the necessary performance review criteria being met by both incumbent contractors namely OCO and T Brown.

Following their commission GAS visited the following:

- Housing Client (Property Services)
- OCO (Gas Term Contractor)
- T Brown (Gas Term Contractor)

Separate meetings with Management staff involved in the day-to-day supervision of the contract for the Housing Client were interviewed, as were representatives of the individual contractors' management team at their respective premises.

An independent series of contractual/operational questions as prepared by GAS and LBS were put to the responsible persons of each organisation and feedback noted accordingly.

To facilitate the above GAS were provided with historic data of the contracts currently being undertaken together with supporting statistical information.

Existing arrangements/relationships between the client and contractor are managed under a JCT term contract utilising individual schedule of rates and were recorded as satisfactory, however certain areas of concern have been noted by internal staff with regards to the additional works being claimed presently, together with the supporting information/communications required by operational staff from both contractors.

The objective of this report is to clearly define the current value for money offered by the existing contract in place with both T Brown and OCO.

Upon the outcome of the above it is the intention of the client to have exploratory meetings with the two incumbent contractors regarding any best value additions that are agreeable to all parties by way of a 3\* or comparable addendum to contract which will include an updated suite of key performance indicators in order to continuously improve existing service delivery to tenants.

Please see below a schedule noting the dates and outcome of meetings.

<b>Date</b>	<b>Description</b>	<b>Outcome</b>
Thursday 24/02/2011	Initial meeting with client to discuss strategic options for 3* contract	Agreed with client
Wednesday 06/04/2011	Further consultation with client regarding current issues with SOR contract	Agreed with client
Thursday 02/06/2011	Meeting with OCO to discuss contract conditions	Ongoing
Monday 13/06/2011	Meeting with T Brown to discuss contract conditions	Ongoing
Tuesday 21/06/2011	Meeting with T Brown to discuss contract conditions	Ongoing
Tuesday 26/07/2011	Meeting to provide and discuss draft report	Ongoing
Thursday 08/09/2011	Meeting with contractors, to discuss inclusions and exclusions	Ongoing
Thursday 22/09/2011	Further meeting with contractors	Ongoing
Wednesday 28/09/2011	Third meeting with contractors	Ongoing
Wednesday 02/11/2011	Fourth contractor meeting to discuss and agree final 3* contract amount	Completed and agreed
Monday 14/11/2011	Fifth meeting with both contractors to discuss KPI suite	Ongoing
Wednesday 07/12/2011	Sixth meeting with contractors to finalised both contractor and client KPI's	

## SECTION TWO

### 2.0 Findings

#### 2.1 DOMESTIC INDIVIDUAL

Our initial discussions with the client have identified in their opinion a contract which does not offer best value for money given that it is a SOR type contract whereby fixed costs are hard to maintain for individual property service/ maintenance costs, it has also become evident that this type of contract creates a high level of bureaucracy with its high demand of administrative resources.

Comments received from the Housing Services Department were as follows:

- Duplicate Orders - Usually down to call centre not checking the property history
- Incorrect schedule of rates applied
- Default process is extremely vague and not formalised in existing contract
- Over booking of schedule of rate items

However it must be recognised that this existing contract allows for a "pay as you go" works regime of which some individuals will argue is not restricted by a fixed cost approach and promotes replacement of controls etc instead of repair after repair processes being undertaken as a cost alternative by the contractor.

Notwithstanding the above GAS are of the firm believe that a contract in any format will only be as good as the regime of compliancy upheld within the organisation and the specific works of which it relates to.

Therefore options available to Southwark Council were debated as follows:

##### 1) **Do NOTHING**

High AJC's being experienced with additional high admin resources VFM not realised through market testing.

##### 2) **3\* Contract**

Consider 3\* type contract arrangements with fixed costs for both servicing and more importantly maintenance whereby all associated works to include replacement of ancillary equipment within properties are included.

### 3) 3\* Plus Contract

As above albeit consider additional added value responsibilities to the incumbent contractors of which same can be negotiated and others added to the final cost of any 3\* plus fixed 'cost arrangements'.

Please note exclusions to 2+3 will apply to include in particular new boilers/appliances and unvented/Bespoke cylinders and/or as agreed with the CA.

**It was duly agreed by all that a 3\* contract option should be explored to offer LBS and its residents an exemplary service at a best value price.**

GAS were provided with all domestic and non domestic contract material of which was duly analysed and the following deduced:

- Existing contract offers a prescriptive approach with clear definition of requirements, albeit large in nature of content
- KPI's are included
- Time scales on delivery of individual works clearly defined
- Technical scope clearly defined and itemised
- Health and safety guidance and procedures included
- Tenants charter listed

#### Not Included

Legionella Risk Assessment in domestic dwellings for first year analysis and associated remedial works.

#### Conclusion

Body of existing contract has good description of works and requires little adjustment.

New contract will require definition of 3\* contract and associated inclusions/emissions.

## **2.2 Vangent Call Centre**

Both contractors expressed deep concern with regards to the lack of control over the way in which repair/emergency calls are received and the associated priority given to same.

It would appear from information given again by both contractors that orders are raised of which their timing and prioritisation give little consideration to the contractor and on occasion orders are raised and cancelled again of which creates inefficiency and concern for both company's when considering a fixed cost 3\* type contract arrangement with Southwark Council.

## **2.3 Decent Homes Repair Orders**

Where works are undertaken by other installation contractors, it would appear that both contractors are requested on occasion to visit call back installation repairs on behalf of others particularly outside of normal working hours. This again is a concern for both contractors when considering a 3\* fixed price contract and therefore needs to be considered for exclusion outside of the general scope of works as contained within the proposed new gas service/maintenance contract document.

## **2.4 Existing Engineers Pay Structure**

The above was discussed with both contractors stating that in general a 6-8 week lead in period will be required to negotiate a new structure for individual payment for all operatives. The existing contract payment structure is led by what an individual engineer reports on their appropriate documentation in line with the agreed schedule of rates for each item.

Under the proposed contract it is our belief that the chosen option for payment will be by way of a salary to each individual engineer of which will be incentivised under new schemes to be mobilised by both contractors within the timescales noted previously.

## **2.5 Contract Inclusions/Exclusions**

As noted within the current ECON contract there are no exclusions as the contract requires a "supply and do everything" principle.

Both contractors are anxious that the terms of engagement for the new contract are reconsidered and a table is agreed as appropriate highlighting exclusions associated within a typical 3\* type contract.

In particular the following were of most concern.

Other areas of which will require agreement are:

- 1) **Control of servicing programme** by Contractors in order that they can have flexibility in providing resource to meet Landlord responsibilities under section 36 of GSIUR 1998.

This would mean the existing servicing programme being owned by the Contractor of which is common place in most RSL's today.

- 2) **Planned/reactive boiler replacements.** In order to agree a 3\* contract both contractors will require a guarantee on budgets available to undertake these works, together with an assurance of a minimum of 7% boiler replacement in order to support a 15 year life span of existing boilers and on the understanding that the client has a confirmed commitment to asset renewal/update so as not to unreasonably require the contractor to repair boilers and their associated controls unfairly.

Before commencement of such agreements as stated above, it is understood by both contractors that a procedure and agreed recorded status of each existing boiler/asset would be analysed and given a priority for renewal purposes as follows: -

- a. Contains Asbestos
- b. Over 15 years old from manufacture and/or has serious known defects/non performance
- c. Under 15 years, however parts are obsolete of which, evidence has been provided by contractor to the contract administrator

Whereby status a and b are recorded this should assist in the automatic administration and agreement of what individual asset should be replaced in accordance with the 15 year replacement cycle, or as agreed.

### 2.5.1 Associated Costs

It is our opinion that the associated costs of a 7% replacement programme would equate to 1807 new boiler installations each year given 25,823 individual properties have central heating installations.

Therefore budgetary requirements of an estimated £4,000,000 would be required assuming that a typical new boiler installation is £2,250 per property.



## **2.6 Risk Pot**

Over arching the above concerns/observations as recorded at the meetings held between GAS and the individual contractors.

It has been requested that a 'Risk Pot' be set up in order that should the existing call centre Vangent not administer in good faith appointments in accordance with the new contract addendums then this could be used to compensate the individual contractor whereby evidence clearly demonstrates this to be the case in particular emergency calls raised, cancelled and re-prioritised as currently realised by both.

Please see Appendix 2 Exclusions and Inclusions to proposed contract.

## **2.7 Bench Marked 3\* Contract Prices**

It is currently our understanding that taking into account all works undertaken by the contractors in relation to Planned Preventative Maintenance works to include associated repairs that the average job cost (AJC) is equivalent to an estimated sum of £205.00 as provided by the client and individual contractors.

GAS have procured numerous gas service and maintenance contracts under OJEU procurement procedures taking into account bespoke requirements of individual clients regarding Quality and Cost on service level provisions.

Prices do vary given the location and complexity of the works required, together with individual KPI standards tailored to clients and the needs of their residents but a sustainable price of £135-£155 can be achieved.

Recent fuel and metal prices will need to be taken into account for the proposed settling point for the new agreement and it is with this in mind that we have agreed with the client that a £148.00 per property 3\* contract price should be a fair and reasonable starting point for consideration, noting any job activity price inclusions as described in Appendix 2.

## **2.8 Key Performance Indicators**

Contract Key Performance Indicators will be reviewed to ensure the resident perspective is refocused and reinforced.

## **2.9 Implementation**

Implementation of the proposed 3\* contract will require the necessary time for both contractors to introduce internal payment procedures and working practices before commencement.

Therefore it is envisaged that from negotiations previously undertaken between the client, contractor and GAS in line with the meeting schedule contained in this report, and upon successful agreement the earliest implementation date would be 1 April 2012.

## 2.10 Proposed Benefits

The objective of this process for change is for both the client and their tenants to experience a better value for money service which offers a way forward for continuous improvement.

As discussed before this proposal we will assist the client to be more efficient and effective on the administration of the contract due to the bureaucracy of the existing contract and its associated paper trails for invoicing etc.

## Section Three

### 3.0 Conclusions

GAS are of the opinion that the existing contractors namely OCO and T Brown have naturally some serious concerns regarding the change of contract conditions mid way through their respective contractual agreements.

Notwithstanding the above both contractors have been transparent in the information that has been provided and have come to the table to negotiate and reason their concerns with regards to continuous service delivery at a fixed 3\* contract price that will not be at the detriment of the existing service they provide to the tenants.

Negative perceptions by the contractors to the maintenance works as controlled by the call centre Vangent will need to be assessed and a form of measurement utilised if their anxieties are not to be recognised.

Both contractors have concluded that given the existing social market activities, their long relationships with Southwark Council and the Benchmarking related costs as prepared by GAS that they are prepared to enter into an agreement by way of an addendum to the contract conditions given that certain written assurances are agreed with the client as detailed within this report (Section 2 Findings refer).

It is therefore without hesitation that GAS would offer the following recommendations to the client in order that a "Best value" approach maybe experienced by the Council without any service delivery areas of concern being experienced in the future by both the Council's employees and their tenants.

### 3.1 Proposed Savings

GAS are of the considered opinion that should a fixed price 3\* contract be agreed between both parties that the following financial benefits can be realised.

- Existing Average job cost per property £205.00
- Proposed 3\* contract price per property £148.00
- Estimated saving per property of £ 57.00

*Please note the agreed 3\* Contract price is inclusive of a 10-month service programme.*

Given the above an estimated annual saving would be as follows:

Individual Heated properties 25,823 X £57.00 = **£1,471,911.00 Maximum annual saving**

## Section Four

### 4.0 Recommendations / Actions Required

We would strongly recommend that active consideration be given to the implementation of all the subject matter as contained within this report, which has been formulated from our communications with client, contractors and their senior management to include frontline teams.

	<u>Action</u>
1. Agree 3* contract fixed price	(agreed on 2 <sup>nd</sup> November 2011)
2. Agree additional priced work activities for inclusion and/or as standalone schedule of rates	(agreed on 2 <sup>nd</sup> November 2011)
3. Discuss and agree terms of engagement of the notional "Risk Pot"	(agreed on 2 <sup>nd</sup> November 2011)
4. Agree all exclusions and inclusions as tabled by GAS in Appendix 1	(agreed on 2 <sup>nd</sup> November 2011)
5. Meetings with Vangent to discuss existing processes (tba)	(agreed on 2 <sup>nd</sup> November 2011)
6. Agree ownership of service programme by individual Contractors	(agreed on 2 <sup>nd</sup> November 2011)
7. Agree new boiler and central heating replacement fund, together with trigger points on replacement	(agreed on 2 <sup>nd</sup> November 2011)
8. Agree all works related to Decent Homes projects is taken from Risk Pot and/or original installers are instructed to undertake remedial works	(agreed on 2 <sup>nd</sup> November 2011)
9. Agree timeline for introduction making consideration for new contractor engineering pay structure	To be agreed April 2012 start
10. Consider and agree mobilisation plan to include the administration of same to ensure compliance with all agreed objectives.	To be agreed

Appendix 2

**Inclusions and Exclusions to Proposed 3\* Contract**

**Inclusions**

	Item	Additional Information	PPP
1	Repairs to heating and hot water appliances (to include component parts, radiators, valves and ancillary electrical controls) in individual gas supplied properties	Agreed 2 Nov 2011	<input checked="" type="checkbox"/>
2	Annual Gas Service for individual heating appliances that are the Landlords responsibility in line with manufacturers' requirements	Agreed 2 Nov 2011	<input checked="" type="checkbox"/>
3	No access	Agreed 2 Nov 2011	<input checked="" type="checkbox"/>
4	Power flushing to extend life of system	Agreed 2 Nov 2011	<input checked="" type="checkbox"/>
5	Standard cylinder replacements (i.e. 36x18 or 42x16)	Agreed 2 Nov 2011	<input checked="" type="checkbox"/>
6	Resident Liaison prior to works	Ten point plan on resident expectations to be drafted	<input checked="" type="checkbox"/>
7	Full suite of Key Performance Indicators (to be provided by contractor weekly/monthly) as noted within new Contract proposal	These will be incentivised & defaulted as agreed with client	<input checked="" type="checkbox"/>
8	Risk Pot to be considered by Client	To be used as deemed necessary by the Contract Administrator	<input checked="" type="checkbox"/>
9	Condensafe replacement on deterioration	Where found these will be referred for removal where possible	<input checked="" type="checkbox"/>
10	Gas Supply Re-runs	Agreed 2 Nov 2011	<input checked="" type="checkbox"/>
11	No Gas on meter (Under EC1/EC2 callout)	Agreed 2 Nov 2011	<input checked="" type="checkbox"/>

12	Annual servicing cycle	Agreed 2 Nov 2011	<input checked="" type="checkbox"/>
13	Condense Pump replacement on deterioration	Where found these will be referred for removal where possible	<input checked="" type="checkbox"/>
14	Agreed programme/budget for boiler replacements. A minimum of 7% of asset to be guaranteed by Client	To ensure Contract does not become onerous on repair for Contractors. Client will approve as budgets dictate.	<input checked="" type="checkbox"/>

## Exclusions

	Item	Additional Information	PPP
1	Void properties	To be done under existing SOR	<input checked="" type="checkbox"/>
2	Boiler replacements	Refer to GAS Item 1, 2 and 3 trigger points	<input checked="" type="checkbox"/>
3	Thermal stores	Cost plus, handling charge, plus labour	<input checked="" type="checkbox"/>
4	Non Standard Cylinder (i.e. Duplo)	Cost plus, handling charge (labour included)	<input checked="" type="checkbox"/>
5	Works instructed that should be included under investment programmes	E.G. window renewal that needs radiators to be moved	<input checked="" type="checkbox"/>
6	Evinox Boilers e.g. Pope House	To be discussed over 3 year exchange programme	<input checked="" type="checkbox"/>
7	Tenant Abuse (photographic evidence required)	To be undertaken under SOR, and claimed back by Housing Management	<input checked="" type="checkbox"/>
8	Latent defect items from investment (photographic evidence required)	See notes on Risk pot	<input checked="" type="checkbox"/>
9	Forced Entry servicing	As programmed by the client	<input checked="" type="checkbox"/>
10	Flue access panels as per TB008 (ED2)	Must be completed by December 31st 2012	<input checked="" type="checkbox"/>
11	Asbestos	However contractor still has Health & Safety requirements by law	<input checked="" type="checkbox"/>
12	Electric fires	Agreed	<input checked="" type="checkbox"/>
13	Additional builders works	Where appliances are unable to be accessed	<input checked="" type="checkbox"/>

14	Temporary heaters	Agreed	X <input type="checkbox"/>
15	Criteria for boiler referrals / replacements	Agreed see client matrix	X <input type="checkbox"/>
16	Scaffolding	Agreed	X <input type="checkbox"/>
17	Renewables	Agreed	X <input type="checkbox"/>