

<b>Item No.</b> 19.	<b>Classification:</b> Open	<b>Date:</b> 12 December 2017	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Gateway 0 - Strategic Options Assessment for Responsive Repairs and Maintenance Works	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Councillor Stephanie Cryan, Deputy Leader and Cabinet Member for Housing	

## **FOREWORD - COUNCILLOR STEPHANIE CRYAN, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING**

Our residents deserve an outstanding repair service and whilst some improvements have been made over the last 4 years we must continue to explore new ways to improve these vital services, to provide value for money and to deliver a service that works for everyone.

With our current repairs contracts ending in October 2018, this Gateway 0 gives the Council a real opportunity to explore an in house delivery model that can be responsive to our residents needs and improve on the service that is currently being delivered.

With increasing financial pressures it is only right that we explore the financial viability of an in house option whilst procuring chargeable repairs to demonstrate best value to our homeowners.

Over the next few months the Council will explore what an in house delivery option would cost and the service it can provide to our residents and provide an update to Cabinet in March 2018.

## **RECOMMENDATION**

That the Cabinet:

1. Notes that the ending of the housing repairs contracts in October 2018 provides the council with an opportunity to review the way in which these services are offered and to consider new and more effective delivery models.
2. Instruct officers to develop detailed plans that would allow all non chargeable repairs and associated works to be undertaken by the council's in house trading service for housing repairs (SBS) for an initial period of 12 months with effect from October 2018.
3. Requests a progress report to Cabinet in March 2018 setting out a proposed new service delivery model, project plans, full risk assessments and a full business case in support of the delivery of the service by SBS.
4. Notes that due to the requirement to have arrangements in place for chargeable repairs by 3 October 2018, preparation for the procurement process for these contracts has started and will be tendered subject to the approval of this report.

## BACKGROUND INFORMATION

5. Southwark housing has the largest social housing stock in London and with circa approximately 100,000 building repairs ordered and completed every year. The housing stock has a wide range of architectural types from Victorian properties to large purpose built concrete blocks.
6. The building repairs and maintenance of council housing stock is split into two geographical areas covering the north and south of the borough. The north is served by the in house direct labour organisation, SBS, through a Service Level Agreement (SLA). The south is served by Mears Ltd (Mears) through a long-term Measured Term Contract (MTC).
7. The SLA with SBS commenced on 3 June 2009 for a 7-year period with the option to extend up to a further three years, and is due to expire on 2 June 2019.
8. The contract with Mears commenced on 3 October 2013 for an initial five-year period, with the option to extend for a further five years (three years plus two years) for total estimated value of £110m. The initial period is due to expire on 2 October 2018.
9. Both SBS and Mears provide the following services across all trades to housing residential buildings;
  - Day to day building responsive repairs.
  - Void.
  - Out of hours emergency repairs.
10. The council set a number of KPI's which to date neither Mears nor SBS have been able to meet in full. Although some progress is being made on this and especially by the in house contractor, there are concerns as to whether an external contract will be able to deliver the improvements sought.
11. SBS and Mears deliver building repairs and maintenance to communal areas to the housing stock which are chargeable to leaseholders. Both Mears and SBS rely on sub-contractors to deliver communal repairs and voids. It is recognised that action will be needed in any event by both contractor and client to manage work differently to reduce this reliance.
12. The initial term of the Mears contract is due to expire on 2 October 2017 and it was necessary for Asset Management to review the current responsive repairs and maintenance service to provide options that would best meet future service requirements.
13. On 13 September 2017 Mears were informed that the council would not be extending the long-term repairs and maintenance contract and therefore this would come to an end on 2 October 2018.
14. On 2 October 2017, the strategic director of housing and modernisation approved a number of Gateway 1 reports to procure contracts for the following chargeable repairs and maintenance services to commence on 3 October 2018.

Contract Title	Estimated Value	Duration
Communal repairs (North & South)	North: £600,000 per annum	2 + 1 years
	South: £700,000 per annum	

Contract Title	Estimated Value	Duration
Roofing and Rainwater (North & South)	North: £650,000 per annum	2 + 1 years
	South: £650,000 per annum	
Fire Protection (North & South)	North: £500,000 per annum	3 years
	South: £500,000 per annum	
Metal Works	£350,000 per annum	5 years

15. Preparing for the procurement of the above contracts was essential in order to have these services in place to meet the deadline of 3 October 2018 and meet its legal obligation to consult leaseholders under Section 20 (S20) of the Landlord & Tenant Act.
16. The estimated budget for non chargeable repairs and maintenance is £14.4m per annum.
17. Due to the significant value of the services and its implications to the repairs and maintenance service this report is being presented to Cabinet.

## KEY ISSUES FOR CONSIDERATION

### Future service requirements and outcomes

18. Asset Management has carried out market research to see how other council's and social landlords deliver repairs and maintenance and has found that other councils and housing providers still use a variety methods to deliver their repairs services as follows:
  - I. in house delivery;
  - II. outsource incorporating responsive and capital works in one large contract;
  - III. mixture of in house and out sourced contracts;
  - IV. outsource for responsive repairs and frameworks for capital works.
19. Delivery models selected by organisations are often designed around the client structure, business objectives and the geographic locations of its housing stock. There is no generic model which consistently delivers success.
20. Past experience in Southwark of service delivery by large external companies has been variable, and the contracts have either not been extended or have been terminated early. Previous external large repairs and maintenance contracts have consistently struggled to meet the council performance targets.
21. The insourcing of internal repairs will allow the council to test new delivery and pricing models such as Price per Property (PPP) and Price per Void (PPV), without being tied to formal contractual specifications that would require variations in order to test new ideas.
22. A directly delivered service will allow the council to reduce administration, stop duplication of effort and provide the opportunity to review the current hard Client/Contractor split, moving to a truly 'One Council' service, putting the residents at the heart of the way the service is delivered.
23. The council has a legal duty, as a social housing landlord, to maintain its housing properties and meet its policy obligations.

24. It is essential that any future repairs service complements its asset management investment programme to avoid duplication and provide efficiencies in service delivery and cost. Any new service must:
- work towards an improved service for residents learning what works well and what has consistently failed and the reasons why, including how residents access the service;
  - have backup arrangements in place to ensure service delivery;
  - have flexibility to meet future demands and financial pressures;
  - have arrangements in place for at least 3 years;
  - provide best value and bench mark, as evidence, against other providers;
  - separate responsive repairs for minor faults and allow planned works to be incorporated into asset management's strategy;
  - allow the right repair and investment decisions for the asset at the right time using the best vehicle for delivery;
  - maintain SBS and provide it with the option to tender for leasehold chargeable works;
  - ensure costs are recoverable from leaseholders by tendering chargeable works through long term qualifying agreements;
  - ensure that any future repairs service co-ordinates seamlessly with other housing measured term contracts such as heating and water, communal lighting and door entry;
  - enable repairs to be ordered by residents digitally;
  - provide new pricing mechanisms that can reduce administration cost to the council and provider; and
  - incorporate the requirements of the council's fairer future procurement strategy, including apprenticeships and opportunities for local residents.
25. There is a high demand for affordable housing and properties that become void need to be let to the council lettable standard in order that the council can receive an income on its assets.
26. The council also has a demand for providing temporary accommodation to residents who are homeless and reduce the need for the council to use private bed and breakfast facilities. Any future repairs service must ensure that repair and maintenance works respond to the quick turnaround times to avoid the council incurring additional costs.
27. It is essential that the council has an emergency repairs service to serve its housing portfolio in order to keep residents and building safe and free from any potential hazards or incidents.
28. The council has a legal responsibility for assessing the needs of residents and providing adaptations/alteration works so that they can continue to enjoy their homes.
29. Housing also has sheltered housing units and hostels that need to be maintained to prevent risk to vulnerable residents.

### **Market Considerations**

30. External providers are experienced in tendering for large contracts especially when national schedule of rates are used. Regardless of what price/ quality ratio is utilised

to evaluate tenders, officers have experienced that providers will assess the strength of the client and price the tender to win rather than to deliver the contractual obligations and performance requirements. Both Mears and SBS have struggled to make the current MTC/ SLA financially viable

31. Increasing the annual spend with SBS will allow the service to become viable as fixed costs will be spread over a larger service and peaks and troughs in work flow will be less volatile, increasing the ability to maximise staff productivity and reducing reliance on sub-contractors address peaks in work.

### **Strategic service delivery options and assessment**

32. A SWOT analysis of the proposed service delivery model is set out below

#### **Strengths**

The service will be entirely managed and delivered by council officers with a shared vision of putting the resident at the heart of the service and applying the Fairer Future Promises'

Easy identification of service provider for contact centre, residents and council officers

Leasehold costs recoverable due to competitive tendering and consultation for all chargeable works.

Reduction in procurement work and associated costs.

SBS will become financially viable

Maximise meaningful apprenticeships within the council

Running this delivery model for a one year trial ensures the council has the ability to change approach quickly should the service fail to meet the performance standards and cost effectiveness required

Improved asset information as one schedule of rates will be in operation.

Improved liaison with the contact centre will reduce avoidable contact.

One service provider across the borough will improve the consistency of service delivered to residents.

#### **Weaknesses**

No competitive tendering for internal, emergencies, voids, legal disrepair and aids and adaptation works, therefore costs would have to be based on historical data and open book accounting so costs not formally tested in the market, although this can be sought from the 'Housemark' benchmarking club

Heavy reliance on SBS to have a sustainable business model and ability to deliver.

Removes benchmarking of performance between in-house and competitively tendered external providers.

No back up arrangements for voids, disrepair or aids and adaptations.

#### **Opportunities**

Client structure would be structured for an intensive post inspection regime for

repairs that affect leaseholders with a light touch for internal works.

The council has the ability to explore alternative pricing mechanisms (Price per void/ Price per property etc.)

The council can re-define KPIs to measure performance and change these without the need for formal contract negotiations.

The council will capture accurate actual costs for delivering repairs and maintenance.

Joint working party between Environment and Social Regeneration and Housing and Modernisation will be able to:

- Agree performance and programme for implementation.

- Explore new delivery models

- Review and streamline all existing business processes

- Flexible response to changing priorities, legislation and policies.

The contact centre's role can be reviewed with the potential for savings and increased efficiency.

### **Threats**

TUPE issues for the council bringing Mears staff into the organisation.

SBS fail to deliver the contract on a sustainable profitable basis.

Sudden changes in the volumes of work streams can cause commercial pressures to the council and the SBS.

Pressure on HRA budget.

Emergency out of hours works will need to be restricted to below S20 threshold otherwise the council could be at risk of challenge and not recover its costs.

### **Delivery**

33. Bringing the non chargeable repairs work in house will have significant implications and there is much work to be undertaken relating to;
  - TUPE
  - De-mobilisation and mobilisation
  - Communication with residents and other stakeholders
  - Implications for the contact centre
  - Access to the repairs service by residents.
34. In order to make sure that this work can be delivered by the start date of October 2018, the Director of Asset Management and the Director of Environment have been working under the guidance of the Strategic Director of Finance & Governance in order to develop a full project plan and to set out the details of a new service delivery model and financial implications. It is recommended that this preliminary work be brought under the governance of a Steering Board chaired by the SDFG, involving both client and contractor side, together with Modernisation and Finance officers who will be supporting the process.
35. In order to provide assurance to Cabinet that sufficient progress is being made to guarantee a successful transition, it is proposed that a report is brought to Cabinet in March 2018 setting out a more detailed plan, including progress on the service delivery model and financial implications.

## Policy Implications

36. This report relates to the council's Fairer Future Promise of quality affordable homes and improving housing standards.
37. The Council has a commitment to ensure the repairs service improves.

## Recommended Strategic Delivery Option

### Identified risks for the service options

The identified risks are listed below:

No	Risk	Description and Mitigation
1	Delays in delivering the preferred option.	<p>Chargeable repair procurements have commenced to ensure contracts are in place on 3 October 2018.</p> <p>In-sourcing repairs will have a dedicated project manager assigned and a strategic review board with strategic directors representing finance, housing and environment and social regeneration.</p> <p>The chargeable repairs contracts procured can be used in emergency situations whilst full procurement is undertaken.</p>
2	TUPE	A dedicated internal TUPE lawyer and a senior member from HR will assist with the TUPE process.
3	Budgets	Any option will need to be contained within the existing HRA budgets for repairs and maintenance. Forecasting and budget monitoring will be implemented and risk of over/ under spending will be actioned. A number of business rules will be introduced and monitored monthly.
4	Provider fails to deliver minimum level of service	Quarterly reviews of performance would be monitored and dealt with in accordance with the SLA/ Contract terms.
5	SBS can not deliver on a sustainable basis.	The proposal to 'trial' this arrangement will be supported by rigorous review against agreed delivery and improvement plans. In the event that progress is not shown at the point of a six month review, then external procurement processes will be triggered in order to provide an alternative service provision in a timely manner.
6	No back up arrangements for voids, disrepair or aids and adaptations.	The Council's Approved list of contractors would be used to obtain competitive tenders to deliver these services as a back up arrangement

### **Key/Non Key decisions**

38. This is a key decision.

### **Next Steps**

39. There are a number of significant financial implications that will need to be identified and processes implemented to identify expenditure and maintain cost control.

A GW1 will be presented to cabinet in January 2018 to approve the procurement strategy for the chosen option.

### **Service Delivery Project Plan (Key Decisions)**

<b>Activity</b>	<b>Complete by:</b>
Gateway 1/ Update Report	13/03/2018
Mears long term contract ends	02/10/2018
SBS SLA ends (SLA can be flexible and extended at anytime)	08/06/2019

### **Community impact statement**

40. These services affect all council tenants and leaseholders, support the council's commitment to providing affordable quality housing, and deliver its Fairer Futures objectives.

### **Social Value considerations**

41. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing any procurement process, how wider social, economic and environmental benefits that may improve the well being of the local area can be secured. Social value considerations and how the delivery of these services can benefit the local area are detailed below:

### **Economic consideration**

42. The economic considerations are to be in the appraisal process and will be reported in the GW1 report.

### **Social considerations**

43. Bringing the service in house will mean that all council policies in respect of responsible employment. London Living Wage and FORS will automatically apply. SBS would be required to apply these policies to any remaining sub-contractors.

### **Environmental/Sustainability considerations**

44. The environmental aspects and sustainability considerations are to be into the appraisal process and will be reported in the GW1 report.

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

45. The plans for monitoring the contract are being developed and will be reported in the progress report.

46. A balanced project team has been assembled to manage the project drawn from asset management, HR and legal.

### **Resource implications**

47. The resource implications are to be in the appraisal process and will be reported in the progress report

### **TUPE/Pensions implications**

48. A change in the provider of existing services, including in this case insourcing, is likely to amount to a Service Provision Change under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). However whether TUPE will apply and the extent to which it may result in the transfer of employees will depend on a number of factors, in particular whether there is change in identity from an incumbent provider to a new provider and, if so, how the existing provider organises its workforce to deliver the services under its current contract or sub-contract for these non-chargeable repair and maintenance works. The current and future arrangements under the seven chargeable contracts being procured via the approved gateway 1 reports, may also have a bearing on the TUPE implications of the proposal under this gateway 0.
49. Due diligence needs to be undertaken with the current providers to obtain a clearer picture of the TUPE implications for the gateway 1 stage and further legal advice will be sought in light of the result of that due diligence. If there is a transfer of employees to the council from an incumbent contractor then support will be also be sought from the council's human resources department at the earliest opportunity.

### **Financial implications**

50. Please see concurrent from the strategic director of finance and governance.

### **Legal implications**

51. Please see concurrent from the director of law and democracy.

### **Consultation**

52. Consultation between housing delivery staff has been undertaken to review what elements of the existing service work well and where improvements need to be implemented.

### **Other implications or issues**

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Finance and Governance**

53. The Strategic Director of Finance and Governance notes the content of the report outlining proposals for the delivery of the repairs and maintenance service for the council's housing stock from 3 October 2018, on the expiry of the current contractual relationship with Mears.
54. The proposed option is to in-source all non-rechargeable works comprising internal responsive repairs, emergencies, voids, disrepair and aids and adaptation (repairs only) for the whole borough, to Southwark Building Services (SBS) under a service level agreement (SLA). This would be for an initial trial period of twelve months, but subject to a six-month progress review.
55. This represents a significant structural change to the delivery of these services and for an operation of this scale (contract value c. £14.4m) will inevitably carry risk. These will include the management of the transition to the new arrangements,

stabilisation of the new service and the on-going management of performance and cost.

56. Historically, SBS trading performance has been variable with trading losses being repatriated to the HRA and the risk remains that this will continue given the scale of organisational transformation required within what is a relatively short timeframe. Officers are instructed to develop a full project plan and detailed service delivery model and report back to Cabinet in March 2018.
57. The Strategic Director of Finance and Governance also notes that procurement of the chargeable works contracts comprising communal, roofing and rainwater, fire protection and metal works has already commenced in order to meet the deadline of 3 October 2018 and legal obligations under S20 legislation. These contracts will be tendered and packaged by area – north and south, with the exception of metal works which is borough-wide. SBS will also be invited to tender for these works contracts.
58. Elsewhere on this agenda is the Housing Revenue Account - Indicative Rent Setting and Budget Report 2018-19, which cross-references this report. For budget planning purposes, it is assumed that the new arrangements will operate within the same budget parameters and the impact to the HRA in 2018-19 will be neutral. However, in the event of trading losses and/or cost over-runs, these will have first call against HRA reserves.

#### **Head of Procurement**

59. This report seeks the approval of cabinet of strategic assessment for the delivery of responsive repairs and maintenance works, namely to bring the non-chargeable elements of these services in-house to be provided by Southwark Building services for an initial period of 12 months. A pre-procurement report is required in Contract Standing Orders (6.3.1) for potential contracts with an estimated value of more than £10m. A detailed procurement strategy is intended to be informed by the results of a full risk assessment and business rationale which will be set out in a Gateway 1 report in due course.
60. This report also notes that preparation for the procurement of the chargeable works contracts comprising communal, roofing and rainwater, fire protection and metal works has already commenced and will be tendered subject to the approval of this report in order to meet the deadline of 3 October 2018 and legal obligations under S20 legislation. These contracts will be tendered and packaged by area – north and south, with the exception of metal works which is borough-wide. SBS will also be invited to tender for these works contracts.

#### **Director of Law and Democracy**

61. This report asks the cabinet to approve a number of recommendations relating to the future delivery of building repairs and maintenance works, and specifically instructs officers to develop detailed plans for all non-chargeable repairs and associated work to be undertaken by SBS as further detailed in paragraph 2. Contract standing order 6.3 requires that a pre-procurement assessment decision (gateway 0) is required for all services contracts with an estimated value of £10m or more, or for other strategically important contracts for services, goods or works.
62. There are no specific legal implications arising from this report. Legal officers from law and democracy will assist the asset management team as this project progresses, and will provide additional advice to cabinet when the progress report is brought in March 2018.

## Director of Exchequer

63. Those options that result in the separation of chargeable communal work from non chargeable repairs and maintenance address a long standing leasehold consultation problem with chargeable work carried out by SBS in the north of the borough. The directly appointed agreement to SBS was not a Qualifying Long Term Agreement (QLTA) under the terms of the Commonhold and Leasehold Reform Act. Under the consultation regulations, work that incurred a cost of £250 for leaseholders requires competitive quotes and a longer, two stage consultation process in order to comply. This has proved to be a substantial obstacle to the responsive nature of the service provided.
64. Those options that retain emergency response and disrepair under SBS may result in work to communal areas. Where this is the case there will be a risk around chargeability, because the nature of the work will not allow the competitive quotes and two stage consultation required for high cost work. There is allowance within practice and case law to accommodate emergency work in these circumstances; however the risk would be mitigated against by some market testing in this area to prove value for money.
65. The proposed contracts for communal, chargeable repairs will establish QLTAs for most work that is chargeable to leaseholders, enabling a more responsive service and a consultation process on more expensive work that is more appropriate to the service being provided.

## BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Gateway 1 Procurement Strategy Approval - Responsive Repair and Maintenance - Communal Repairs Contracts (North & South)	Housing & Modernisation, Asset Management	Gavin Duncumb 020 7525 0685
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/ielistDocuments.aspx?CId=302&amp;MId=5753&amp;Ver=4">http://moderngov.southwark.gov.uk/ielistDocuments.aspx?CId=302&amp;MId=5753&amp;Ver=4</a>		
Gateway 1 Procurement Strategy Approval - Responsive Repair and Maintenance – Metal Work Contract	Housing & Modernisation, Asset Management	Gavin Duncumb 020 7525 0685
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/ielistDocuments.aspx?CId=302&amp;MId=5753&amp;Ver=4">http://moderngov.southwark.gov.uk/ielistDocuments.aspx?CId=302&amp;MId=5753&amp;Ver=4</a>		
Gateway 1 Procurement Strategy Approval - Responsive Repair and Maintenance - Roofing and Rainwater Contracts (North & South)	Housing & Modernisation, Asset Management	Gavin Duncumb 020 7525 0685
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/ielistDocuments.aspx?CId=302&amp;MId=5753&amp;Ver=4">http://moderngov.southwark.gov.uk/ielistDocuments.aspx?CId=302&amp;MId=5753&amp;Ver=4</a>		

## APPENDICES

No.	Title
None.	

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Stephanie Cryan, Deputy Leader and Cabinet Member for Housing		
<b>Lead Officer</b>	Gerri Scott, Strategic Director of Housing and Modernisation		
<b>Report Author</b>	Gavin Duncumb, Commercial Manager		
<b>Version</b>	Final		
<b>Dated</b>	30 November 2017		
<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>	
Strategic Director of Finance and Governance	Yes	Yes	
Head of Procurement	Yes	Yes	
Director of Law and Democracy	Yes	Yes	
Director of Exchequer	Yes	Yes	
<b>Cabinet Member</b>	Yes	Yes	
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