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|------------------------------------|--------------------------------|--|---|
| Item No. N/a | Classification: Open | Date: 2 December 2019 | Decision Taker: Cabinet Member for Housing Management and Modernisation |
| Report title: | | Gateway 3 Extension to the Lift Maintenance Contract A&B | |
| Ward(s) or groups affected: | | All | |
| From: | | Strategic Director of Housing and Modernisation | |

RECOMMENDATIONS

1. That the cabinet member for housing management and modernisation approves the variation of Contract A (north of the borough) Lift Maintenance Contract to Liftec Lifts Ltd (Liftec) to extend the term of the contract for a period of 2 years from 2 January 2020 at an estimated cost of £3.51m.
2. That the cabinet member for housing management and modernisation approves the variation of Contract B (south of the borough) Lift Maintenance Contract to Guideline Lift Services Ltd (Guideline) to extend the term of the contract for a period of 2 years from 2 January 2020 at an estimated sum of £2.72m.
3. That the cabinet member for housing management and modernisation notes the shortening of the notice period provision to be given to Liftec and Guideline from 6 months to 2 months for this variation.

BACKGROUND INFORMATION

4. A Gateway 2 report was approved on 22 July 2014 to award two Lift Maintenance contracts for the north and south of the borough for a period of five years with the option to extend by a further two years to Liftec and Guideline.
5. The scope of the contracts encompasses the following work streams for Housing and Modernisation:
 - Responsive repairs to passenger and disability lifts.
 - Monthly planned preventative maintenance of passenger lifts.
 - Bi annual planned preventative maintenance of disability lifts.
 - Minor refurbishment of passenger and disability lifts.
 - Supplementary tests.
 - Maintaining asset registers.
 - Builders work in connection with services.
6. The separation of Contracts A and B across a geographical split of the borough (north and south) facilitates better logistical service coverage and given the number of lift assets across the borough, the appointment of a single contractor for the works would not be appropriate.
7. The contracts were for an initial period of five years from 2 January 2015. The annual cost for Contract A was estimated at £1.763m and for Contract B was estimated at £1.432m plus the option to extend by a further two years making a total estimated contract value of £12.341m and £10.024m respectively. The

contracts contain the provision for the contractors to provide back-up to each other that ensures that the council is able to meet its obligations to residents.

8. The actual expenditure to date against the original Gateway 2 approval is shown below:

| Lift Maintenance Contract - Area A (North) - Liftec | | | | | |
|--|------------|--------------------------------|-----------------------------------|------------------------------------|-----------------------------|
| Period | | Original Gateway Approval (£M) | Total Expenditure Contract A (£M) | Breakdown of expenditure | |
| | | | | Actual spend against North Revenue | Spend against Capital North |
| 02/01/2015 | 31/03/2015 | 0.441 | 0.288 | 0.228 | 0.060 |
| 01/04/2015 | 31/03/2016 | 1.763 | 1.418 | 0.777 | 0.641 |
| 01/04/2016 | 31/03/2017 | 1.763 | 1.382 | 1.137 | 0.245 |
| 01/04/2017 | 31/03/2018 | 1.763 | 1.224 | 0.792 | 0.432 |
| 01/04/2018 | 28/03/2019 | 1.763 | 1.681 | 1.097 | 0.584 |
| 01/04/2019 | 30/09/2019 | 0.881 | 0.450 | 0.450 | 0.000 |
| Totals | | 8.374 | 6.443 | 4.481 | 1.962 |

| Lift Maintenance Contract - Area B (South) - Guideline | | | | | |
|---|------------|--------------------------------|-----------------------------------|------------------------------------|-----------------------------|
| Period | | Original Gateway Approval (£M) | Total Expenditure Contract B (£M) | Breakdown of expenditure | |
| | | | | Actual spend against South Revenue | Spend against Capital South |
| 02/01/2015 | 31/03/2015 | 0.358 | 0.123 | 0.123 | 0.000 |
| 01/04/2015 | 31/03/2016 | 1.432 | 0.756 | 0.756 | 0.000 |
| 01/04/2016 | 31/03/2017 | 1.432 | 1.290 | 0.603 | 0.687 |
| 01/04/2017 | 31/03/2018 | 1.432 | 1.040 | 0.596 | 0.444 |
| 01/04/2018 | 28/03/2019 | 1.432 | 1.290 | 0.722 | 0.568 |
| 01/04/2019 | 30/09/2019 | 0.716 | 0.252 | 0.252 | 0.000 |
| Totals | | 6.802 | 4.751 | 3.052 | 1.699 |

9. The performance for both contracts against the key performance indicators (KPIs) set in 2018 are set out below.

10. This report is seeking approval for a 2 year extension for each contract to 1 January 2022 as discussed with the strategic director of housing and modernisation and the strategic director of finance and governance on 4 April 2018 and 1 June 2018 respectively and as recommended in the Annual Performance Review report presented to DCRB on 29 April 2019.
11. Due to a delay in progressing this report to approval stage, the council was unable to give the contractors at least 6 months written notice to extend the contracts (as set out in clause 7.5 of the supplemental provisions section of the contract) and the necessary approval is being sought in this report to shorten the notice period at paragraph 3. Although the contractors were aware of the council's intention to extend the contracts, both contractors confirmed on 5 July 2019 their written agreement to the receiving 2 months written notice for this variation.

KEY ISSUES FOR CONSIDERATION

Key Aspects of Proposed Variation

12. The nature of the proposed variations is to exercise the option in the contracts with Liftec and Guideline to be extended for a period of 2 years. The revised completion date will therefore be 1 January 2022.
13. The reason for the extensions is to ensure that the council has access to lifts maintenance contracts and complies with the law; manage the council's housing stock to ensure resident and other user safety; and to reduce financial and reputational risks to the council.
14. The estimated value of the proposed variation to the Liftec contract is £3.51m combined with the actual expenditure and estimated expenditure for the remaining period of the initial contract term is £6.99m bringing the total to £10.5m. The value of this extension as a percentage is estimated to be 33% of the revised contract value.
15. The estimated value of the proposed variation to the Guideline contract is £2.72m combined with the actual expenditure and estimated expenditure for the remaining period of the initial contract term is £5.23m bringing the total to £7.95m. The value of this extension as a percentage is estimated to be 34% of the revised contract value.

Reasons for Variation

16. The services delivered through these contracts enable the council to meet its obligations as a social housing landlord to ensure the provision of a lifts maintenance service.
17. Both contracts are demonstrating high levels of performance against the KPIs set and continue to provide a value for money service.

Future Proposals for this Service

18. The current contracts are under review to consider what improvements should be made and the necessary approval will be sought in respect of the future procurement.

Alternative Options Considered

19. The following alternative options to these extensions were considered by the council's asset management team:

- Do Nothing – This is not available as the council is required to maintain its lifts (See Para 13)
- Procure new contracts – there is a risk that re-procurement would increase prices in line with those seen across the industry therefore reducing Value for Money currently achieved from the current contracts. The council would need to commence a procurement exercise immediately to be able to comply with procurement regulations', undertaking a tender exercise at a time of economic uncertainty which might have a further detrimental impact on Value for Money of these contracts
- Bring the service back in-house – This is a specialist engineering function for which the necessary skills, knowledge, equipment and workspace facilities are not available in-house as an economically viable package.

Identified risks for the Variation

20. The table below identifies the specific risks associated with these contracts, the likelihood of occurrence and the controls in place to mitigate the risks.

| R/N | Risk Identification | Likelihood | Risk Control |
|-----|---|------------|---|
| R1 | Liftec and/or Guideline are unable to fulfil the requirements of the contract e.g. poor performance, leading to the need to terminate the contract. | Low | In the event of both contractors failing, the council's approved list of contractors will be used to distribute works while the contract(s) are re-procured. |
| R2 | Liftec and/or Guideline cease trading, go into administration or liquidation. | Low | The two (2) separate contracts provide back-up facilities to each other. A performance bond was obtained from both Liftec and Guideline. Please see financial checks in paragraph 42 below. |
| R3 | Risk of disruption to supply chain following UK's departure from the European Union. | Medium | The electrical and lifts contracts team and the commercial team are monitoring the situation and liaising with Liftec and Guideline to ensure there is no disruption to the service. The electrical and lifts contracts team will liaise with the council's insurance department regarding this risk. |

Policy implications

21. The provision of the lifts maintenance services is required in order that the council fulfils its duties and obligations as a landlord and employer and ensuring that premises have step free access and are fully accessible.

Contract management and monitoring

22. The service has a team of dedicated competent lift technical officers who carry out daily joint inspections to ensure quality and compliance with the contract specifications, and produce monitoring reports in line with CSOs.
23. The electrical and lifts contracts manager and lift engineers manage the contracts and are responsible for authorising works, inspecting quality and monitoring the performance of the contractors. One of the engineering and compliance quantity surveyors manages commercial aspects of the two contracts. The engineering and compliance quantity surveyor reviews the monthly valuations and select jobs that require post inspections to ensure quality and financial accuracy. Monthly meetings are undertaken and recorded.
24. The major works lift project manager is responsible for all lift minor refurbishments.
25. Works orders are raised and managed through iWorld, where all information relating to orders will be contained. Liftec and Guideline are required to provide 10% post-inspections that are rigorously audited by one of the lift engineers.
26. The table below shows the KPIs set for the contracts.

| No | Key Performance Indicator (KPI) | Minimum Target Percentage % | Council's Aspirational Target Objective % | Liftec 2018 Actuals | Guideline 2018 Actuals |
|----|---|-----------------------------|---|---------------------|------------------------|
| 1 | Percentage of time passenger lifts are available to residents | 97 | 99 | 98.34 | 98.19 |
| 2 | Percentage of Emergency Orders commenced within stipulated timescales | 97 | 100 | 100 | 100 |
| 3 | Percentage of maintenance works completed within the agreed programme | 98 | 100 | 98 | 99 |
| 4 | Percentage of Orders which a default notice (recall order) has not been issued | 95 | 98 | 99 | 99 |
| 5 | Variation requests to be submitted via I World within 10 normal working hours * | 95 | 98 | No Longer Measured | |

| | | | | | |
|--|--|-----|-----|-----|-----|
| 6 | The provision of reports and certificates issued within the stipulated time periods | 95 | 98 | 96 | 95 |
| 7 | Obtaining spare parts and equipment to ensure that the lift is only out of service for the absolute minimum period of time | 95 | 98 | 97 | 99 |
| 8 | Response to queries/ complaints from residents and council officers to meet the council's Corporate Policy | 100 | 100 | 100 | 100 |
| * Note KPI No 5 is no longer recorded and reported, as following a review it was found to have no meaningful relevance to service delivery. | | | | | |

27. These KPIs are monitored and appropriate action is taken as necessary under the contracts. Target percentages are reviewed during the contract.

Community impact statement

28. Liftec and Guideline provide employment and apprenticeship opportunities to the local community. The contracts have secured existing jobs, particularly among those with dependents who enjoy the benefits of the contractor's flexible working policies, and continue to provide local young people with the opportunities for additional apprenticeships in this high skill sector.
29. Workplace experience is offered to local schools. This is organised by the engineering and compliance team.

Social Value considerations

30. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the well being of the local area can be secured. The social value considerations were included in the tender.
31. The apprenticeships are arranged jointly with the Southwark apprenticeship scheme and monitored by the electrical and lift contract manager.
32. Liftec currently has four apprentices enrolled onto the NVQ3/QCF programme for Lift Maintenance /Repair facilitated by L.I.T.S.
33. Guideline currently has 4 apprentices working in the London Borough of Southwark, one of which is a Southwark resident. They have all undertaken ER202 qualification and are due to start the NVQ 3 this year.

Economic considerations

34. The full cost to the council and the life span of the contracts are set out in paragraphs 1 and 2 of this report.

Social considerations

35. The council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that, where appropriate, contractors and sub-contractors engaged by the council to provide works or services within Southwark pay their staff at a minimum rate equivalent to the LLW rate. Both Liftec and Guideline have confirmed to the lift team that all relevant staff will continue to be paid a minimum of the LLW. Operatives pay is based on the Lift and Escalator Association Standard pay rates, which exceed the LLW.

Environmental/Sustainability considerations

36. All components and equipment, being replaced, will be disposed of in accordance with the latest Waste Electrical and Electronic Equipment Regulations (WEEE).
37. All recyclable packaging is set aside and disposed of via a recycling centre.
38. No hazardous materials are used.
39. Liftec and Guideline have been issued with the council's current asbestos register to avoid any risk of exposure to the contractor or the residents.

Financial implications

40. The table below details the annualised budgets for lifts covering the 2 year extension.

| Contract | 2020/2021 Revenue (£M) | 2020/2021 Capital (£M) | 2021/2022 Revenue (£M) | 2021/22 Capital (£M) | Total (£M) |
|------------------------------------|------------------------------|---------------------------|------------------------------|----------------------------|---------------|
| Liftec Contract A - North | £1.155 | £0.6 | £1.155 | £0.6 | £3.510 |
| Guideline Contract B - South | £0.759 | £0.6 | £0.759 | £0.6 | £2.718 |

41. Credit checks were carried out for Liftec and Guideline 7 November 2019. The council applies a credit score threshold of 41 and both companies currently exceed this.
42. There are budgets within housing and modernisation (H&M) for this contract. For 2018-19 the budget within H&M Asset Management was £1.834m for Liftec and Guideline combined. This is likely to remain unchanged for 2019-20. Other parts of the Council who access this contract will not have budget specifically for Lifts, and will charge these costs to their general Repairs & Maintenance budget or the costs will be part of a specific project or capital works budget. In 2018-19 the lifts budget within H&M recorded an overspend of £126k which was subsumed within the overall Housing Revenue Account.

43. The capital budget of £1.2m per year identified in this report will come from the relevant Quality Homes Investment Programme (QHIP) budgets within the HIP. This will be funded from available HRA resources identified to fund the QHIP programmes.

Legal Implications

44. Please see the supplementary advice from the director of law and democracy.

Consultation

45. Not applicable.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (H&M 1/099)

46. The strategic director of finance and governance notes the contents of the report and is satisfied that the recommended approach does not in itself have any further budgetary implications.

Head of Procurement

47. That the strategic director of finance and governance approves the extension of two lift maintenance and repair contracts with Liftec Lifts Ltd and Guideline Lift Services Ltd for a period of 24 months commencing 2 January 2020.
48. The background information of the report explains that the existing contracts have the ability to extend for a period of 24 months.
49. Paragraphs 16 -17 detail the rationale for both extensions and confirms that both contractors are performing to a high standard against the KPI's established in the contract.
50. The report confirms that the future procurement strategy for these contracts will be available in early 2020 which is sufficient to ensure continuity of repairs maintenance to the councils lift assets when these contracts expire.
51. There would appear to be no reason why the council would not wish to continue with the current arrangements throughout the extension period.

Director of Law and Democracy

52. To be provided post CCRB. This report seeks the strategic director of finance and governance's approval to the extension of 2 lift maintenance contracts which are being performed by Liftec Lifts Ltd and Guideline Lift Services Ltd and to shorten the notice period provision from 6 months to 2 months notice. This report sets out the extent of the extension and the reasons why the extension of 2 years is necessary. As the value of the proposed variation is £1m or more but below £10 million, the decision to approve this variation is reserved to the strategic director of finance and governance after consideration by the CCRB of this report.

53. The nature of this variation is such that it is subject to the Public Contracts Regulations 2015 (PCR15). Regulation 72(1)(a) of PCR15 allows the council to vary the current contracts as this option was provided for in the initial procurement documents and does not alter the overall nature of the contracts. Paragraph 19 of this report confirms that a new procurement for these contracts will commence in early 2020.
54. CSO 2.3 requires that a variation decision may only be made if the expenditure involved has been approved. Paragraphs 43 and 44 of this report confirms the financial implications of this variation.

Director of Exchequer (for housing contracts only)

55. Section 20 notices of proposal were served on leaseholders under schedule 2 of the regulations on 21st March 2014. The consultation stated the contract length at 5 years with the option to extend to up to a further 2 years. This extension has therefore been correctly consulted on and there are no Section 20 leaseholder consultation issues with the extension.

BACKGROUND PAPERS

| Background Papers | Held At | Contact |
|--|---|---------------------------------|
| Gateway 1 - Procurement Strategy Approval Report - Lift Maintenance Contract | Housing & Modernisation, Asset Management | Gavin Duncumb, 020 7525 0685 |
| Link: http://moderngov.southwark.gov.uk/ieDecisionDetails.aspx?ID=3840 | | |
| Gateway 2 – Contract Award Approval Report - Lift Maintenance Contract | Housing & Modernisation, Asset Management | Gavin Duncumb, 020 7525 0685 |
| Link: http://moderngov.southwark.gov.uk/mglssueHistoryHome.aspx?Id=50001545&Opt=0 | | |

APPENDICES

| No | Title |
|------|-------|
| None | |

AUDIT TRAIL

| | | |
|---|--|--------------------------|
| Lead Officer | Dave Hodgson, Head of Asset Management | |
| Report Author | Rod Davies, Procurement Manager | |
| Version | Final | |
| Dated | 3 December 2019 | |
| Key Decision? | Yes | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments included |
| Strategic Director of Finance and Governance | Yes | Yes |
| Head of Procurement | Yes | Yes |
| Director of Law and Democracy | Yes | Yes |
| Director of Exchequer (for housing contracts only) | Yes | Yes |
| Cabinet Member | Yes | Yes |
| Date final report sent to Constitutional Team | | 3 December 2019 |