

<b>Item No.</b> 12.	<b>Classification:</b> Open	<b>Date:</b> 14 May 2013	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Gateway 2 – Contract Award Approval Long-term Repairs and Maintenance contract	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	

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

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

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

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

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

## **RECOMMENDATION**

Cabinet is asked to:

1. Approve the award of the repairs and maintenance contract covering Camberwell, Peckham, Peckham Rye, Nunhead and Dulwich (and borough wide temporary accommodation) to Mears Ltd for an annual value of up to £11m to commence from 3 October 2013 for five years with the option to extend for a further period up to five years (three plus two years), subject to performance, making an estimated contract value of £110,000,000.

## BACKGROUND INFORMATION

2. Arising from the termination of the repairs and maintenance contract with Morrison Facilities Services Limited on 2 October 2012, the council put in place interim arrangements to deliver the service for 12 months from 3 October 2012. Following competition, Mears Ltd were appointed from the Watford Community Housing Trust repairs and maintenance framework.
3. Putting in place this 12 month interim contract provided the council with the space and time it required to work through the options available for the long-term delivery of the repairs service. This was considered to be acting reasonably as it balanced the combined needs of continuing to provide a repairs service with delivering a high quality and value for money service, while also allowing the opportunity to shape and redefine future repairs service delivery.
4. The procurement strategy for the long-term repairs and maintenance contract was approved by Cabinet on 17th July 2012 and the procurement project plan is set out below.
5. **Procurement project plan (Key Decision)**

Activity	Completed by/Complete by:
Issue Notice of Intention	01/06/12
Approval of Gateway 1: Procurement Strategy Report	17/07/12
Invitation to tender	16/10/12
Closing date for return of tenders	14/01/13
Completion of evaluation of tenders	28/02/13
Issue Notice of Proposal	11/03/13
Forward Plan for Gateway 2 decision	08/04/13
DCRB Review Gateway 2	08/04/13
CCRB Review Gateway 2	11/04/13
Notification of forthcoming decision – despatch of Cabinet agenda papers	03/05/13
Approval of Gateway 2: Contract Award Report	14/05/13
Scrutiny Call-in period and notification of implementation of Gateway 2 decision	22/05/13
Alcatel Standstill Period (if applicable)	07/06/13
Contract award	10/06/13
Add to Contract Register	10/06/13
Publication of award notice in Official Journal of European (OJEU)	10/06/13
Contract start	03/10/13

Activity	Completed by/Complete by:
TUPE Consultation period	N/A
Contract completion date	02/10/18
Contract completion date – if extension(s) exercised	02/10/23

## KEY ISSUES FOR CONSIDERATION

### Description of procurement outcomes

6. The works will affect the properties in the south of the borough, namely those in Camberwell, Peckham, Nunhead, Peckham Rye and Dulwich (including borough-wide temporary accommodation).
7. The works comprise of all day to day repairs and maintenance to both residential and non-residential housing stock. In summary the work includes:
  - Demolitions and alterations;
  - Excavation and earthwork;
  - Concrete and brickwork repairs;
  - Asphalt work;
  - Roofing;
  - Woodwork and timber treatment;
  - Damp proofing;
  - Metalwork;
  - Plumbing;
  - Mechanical installations;
  - Floor, wall and ceiling finishes;
  - Glazing;
  - Painting and decorating;
  - Drainage;
  - Fencing;
  - Paving;
  - Window repair/replacement;
  - Asbestos removal;
  - Ventilation works;
  - Electrical works;
  - Planned maintenance;
  - Project management and supervision.
8. The proposed works are based on the term brief specification, preliminaries and a range of challenging key performance indicators.
9. The additional objectives to be delivered from this contract comprise of:
  - Achieving high levels of resident satisfaction
  - Delivering repairs right first time every time
  - Limited recalls and call backs and duplication

- Residents treated with respect as though they were members of one's own family
- A constant and relentless drive for value for money
- Accessible and visible customer services catering for all residents' needs
- Keeping residents constantly informed of service progress and being fully involved in service improvement
- Responding quickly to service failure and learning from complaints
- Motivated and highly focussed workforce committed to delivering the excellent service residents deserve

### **Policy implications**

10. An excellent responsive repairs service puts residents at the heart of service delivery. This contract was procured in this context and one that challenged service improvement and aspired to deliver a greatly improved repairs service for residents.
11. In 2011, the council's Housing and Community Safety scrutiny sub-committee carried out a review of the housing repairs service. The report's findings made uncomfortable reading:

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

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

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

12. The sub-committee made 13 recommendations to improve housing repairs and over the past two years, the council has worked closely with its repairs contractors to respond fully to the recommendations as well as carrying out its own service improvement programme. The council now wishes to build on these improvements for the future.
13. The council shares a corporate commitment to deliver a repairs service that it, and residents, can be justly proud of. The council aspires to treat every resident as if they were a member of one's family and, as the repairs service is one of the most important interactions with the Borough's residents, the procurement of this contract is an ideal opportunity to make this commitment a reality.
14. The quality of the repairs and maintenance service is crucial to improving overall customer satisfaction with the council. This contract award will help create a new style service, which truly puts the customer first. Residents tell us that the repairs service has a long way to go to truly meet their expectations. They have also told us that a 'right first visit' approach is what really matters to them. In appointing a long-term partner the council was particularly seeking one that would go the extra mile to deliver fantastic customer service and who would always do what they said they will do.
15. The council has already reorganised the way in which it works to ensure that repairs is given a sufficiently high profile to drive the necessary continuous

improvement. Firstly, a new Housing Services department was created in January 2011 to ensure a dedicated focus on the services received by residents of the council's housing. Secondly, a new division concentrating on day to day repairs and compliance went live in September 2011. Thirdly, an interim repairs contractor, Mears Ltd, was appointed in October 2012. All of this activity has already brought about significant improvements, particularly around repairs right first time, customer satisfaction, complaints escalation, sub-contracting and contract management.

16. However, despite these changes, the repair service is still a bottom quartile performer. The council has commenced the process of moving the repairs service into upper quartile performance and challenging targets have been set in order to achieve this. It is the council's expectation that the long-term partner will hit the ground running and build on the progress achieved to date.
17. One of the areas where the council needs to improve is to recognise that leaseholders are our customers too. This is particularly important in a Borough like Southwark where leaseholders make up a quarter of our residents, and pay significant service charges for communal repairs. The repairs contractor must be prepared to deliver an equally excellent service for both leaseholders and tenants.

### **Packaging Strategy**

18. The approach to packaging was set out in procurement strategy approved by Cabinet in July 2012. In essence, all repairs and maintenance services were included in this procurement; however two Work Elements, namely the out of hours service and works to empty properties, were separately evaluated to determine whether delivery was better placed through the in-house contractor, Southwark Building Services (SBS) or external provision.
19. Packages were therefore divided into three Work Elements:
  - Work Element 1 – Responsive repairs and maintenance
  - Work Element 2 – Emergency works outside of normal working hours
  - Work Element 3 – Works to empty properties
20. At the outset of the procurement process, contractors were advised that the award decision for these services involved a decision being made on the model of service delivery to be adopted for the repairs and maintenance service in the south of the borough i.e. totally outsourced service (where the contractor provides all Work Elements) or partially outsourced service (where the contractor and the Council will deliver Work Elements). To enable the final stage in the process, SBS were invited to submit proposals in relation to Work Elements 2 and 3 only.

### **Tender process**

21. The tender process has followed the requirements of the EU Procurement Regulations (Restricted Procedure). The evaluation of tenders was based on the Most Economically Advantageous Tender, with 70% of marks based on quality and 30% on price. The council's standard evaluation criteria is based on 70% price and 30% quality.

22. However, for repairs and maintenance the cornerstones of a successful service are repairs delivered on time, completed right first time and achieving high levels of resident satisfaction. The driver is therefore much more focussed on quality outcomes rather than price. As such the council's standard evaluation criteria was reversed to 70% quality and 30% price. This sent out a clear message to the market that the council expects a high quality repairs service and not simply the cheapest one.
23. The contracts were advertised in the Official Journal of the European Union (OJEU) on 31 July 2012. A total of 53 contractors requested a copy of the council's Pre-Qualification Questionnaire (PQQ) in response to the OJEU advertisement.
24. In order to qualify for the Invitation to Tender Stage (Stage Two), all contractors had to demonstrate that they were financially viable and technically capable of delivering the contract.
25. The Council received a total of 11 completed PQQs (21% return) by the closing date on Friday 7 September 2012.
26. PQQ's were evaluated by an evaluation panel consisting of officers from Maintenance and Compliance, Specialist Housing Services with overview and challenge by Northgate Public Services. The PQQ was the first stage test to ensure organisations were capable of delivering the contract. The evaluation process involved a robust and thorough assessment of technical capability. Four areas were tested and organisations needed to pass all four to be invited to stage two, the Invitation to Tender (ITT). The four areas used for PQQ assessment were:
  - Financial – Experian checks (credit rating test) and Turnover Tests (an assessment of turnover to ensure organisations were of the appropriate size to deal with the value of the contract for which an expression of interest had been made).
  - Equality and Diversity – must meet the Council's standards.
  - Health and Safety – must meet the Council's standards.
  - Technical questions about delivering a repairs and maintenance service (detailed method statement were required and scored by the Evaluation Panel) – must meet the Threshold.
27. Following this thorough process, a total of five contractors were rejected because of failing to meet the required standard. Contractors failed because they were unable to demonstrate the appropriate experience, expertise, track record or financial capacity to deliver the contract.
28. On Tuesday, 16 October 2012, Invitation to Tenders were sent to six contractors. SBS were also invited to submit proposals in respect of Work elements 2 and 3.
29. The closing date for returned tenders was Monday 14 January 2013. However, one contractor withdrew before the closing date.
30. A series of tender clarification questions were received. The issues ranged from clauses in the technical specification through to clarification about TUPE. Questions were responded to quickly and circulated to all contractors.

31. On 14 January, the remaining five contractors returned the ITT along with SBS.

### **Tender evaluation**

32. In accordance with the Gateway 1 report, two evaluation panels were established; one to deal exclusively with quality and the other with price. The quality panel consisted of the same combination of officers that undertook the PQQ assessment as set out in paragraph 26 above. The price evaluation panel consisted of Quantity Surveyors from Potter Raper Partnerships, the council's external cost consultants. For probity, panels were kept separate so that quality and price could be independently reviewed. Both evaluation panels were challenged and facilitated by Northgate Public Services.

33. Given the packaging strategy outlined above, the evaluation panel first focused on evaluating the five submissions of the external contractors to confirm the highest ranked contractor. The subsequent steps of the evaluation process are set out in paragraphs 40 and 41 below.

### **Price Evaluation**

34. The 30% weighting for price was sub-weighted across the three Work Elements as follows:

	<b>Work Element</b>	<b>Sub-Weighting %</b>
1	Responsive repairs and maintenance	17.5
2	Emergency works outside of normal working hours	1
3	Works to empty properties	11.5

35. A Price Evaluation Model was designed to help the council carry out a robust evaluation of price. The model was prepared using historical data in relation to the service and predicted annual spend levels. The weightings used were based on the annual value of each Work Element. Works were valued in accordance with the NHF Schedule of Rates.

### **Quality Evaluation**

36. The quality assessment was based on six main tender questions which covered all aspects of repairs and maintenance delivery. The score was based on the contractors' submissions, but this was clarified (and its veracity and accuracy verified) by the following methods:

- At a clarification meeting
- By responses to clarification questions (if any)

37. As mentioned above, the verification process involved a clarification meeting and responses to clarification questions. No issues of contradiction or uncertainty arose from this process.

### **Combined Price and Quality Scores**

38. Once the evaluation of both price and quality was completed the scores were added together. Mears Ltd were the highest ranked contractor following evaluation and represented the Most Economically Advantageous Tender and could be recommended for Work Element 1 – Responsive repairs and maintenance.
39. However, for Work Element 2 – Emergency works outside of normal working hours and Work Element 3 – Works to empty properties, award would be subject to comparison with SBS, as identified in the packaging strategy detailed in paragraphs 18-20 above.

### **Comparison with SBS for Work Elements 2 and 3**

40. Southwark Building Services were required to submit proposals, including costs, for the delivery of both these Work Elements. The SBS submission was evaluated and scored using the same methodology used for the five other contractors for these Work Elements. The evaluation panel considered this submission and compared it to the final scores of Mears Ltd.
41. Mears Ltd scored higher than SBS for both Work Elements. This perhaps reflects the position that SBS is on an improvement journey that is focussed on improving the repairs service in the north of the borough and there is still some way to go and much to do.

### **Recommended Contractor**

42. Overall, Mears Ltd was ranked first when compared to the four external providers and were ranked first when compared to SBS for both Work Elements 2 and 3.
43. Accordingly, Mears Ltd is recommended for contract award for all three Work Elements in Camberwell, Peckham, Peckham Rye, Nunhead and Dulwich (including borough-wide temporary accommodation).

### **Plans for the transition from the old to the new contract**

44. As the incumbent contractor mobilisation is more straightforward. Nevertheless, mobilisation is still very important to ensure a smooth transition takes place between the interim and new contract. There are a number of new initiatives to be delivered through the contract and it is important that these are delivered. These include: sub-contracting for non-specialist works to be reduced to 10 per cent (in year two of the contract); moving to two hour and Saturday morning appointment slots and an increase in post inspections. A mobilisation project team will be established to work through the key differences between the two contracts and ensure arrangements are in place from 3 October 2013.

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

45. There will be robust arrangements in place to monitor the contract. Strategically, The Head of Maintenance and Compliance will hold monthly meetings with the Mears Ltd regional director, to review performance and other key areas. In addition, the repairs core group, chaired by the Deputy Leader and Cabinet

Member for Housing and attended by residents and senior officers, also meets monthly and will challenge performance and track improvement plans. Operationally, the contracts will be managed by the council's repairs and maintenance and commercial teams. At least monthly formal contract meeting will be in place and performance measurement will be through a key suite of performance indicators.

### Identified risks for the new contract

46. The table below identifies a number of risks associated with this contract procurement, the likelihood of occurrence and the control in place to mitigate the risks.

R/N	Risk Identification	Likelihood	Risk Control
R1	Contract award delayed	Low	Strong project management structure in place to avoid. As the award is to the incumbent a delay would not effect service continuity given the five months between award and contract start.
R2	Ineffective Mobilisation & Transition from Old to New Contract	Low	Mobilisation project team will be established to ensure the smooth transition between contracts.
R3	Risk of a successful challenge by an unsuccessful contractor	Low	All decisions signed off by the Procurement Project Board. All key documents signed off by corporate procurement and legal. External legal advisers and cost consultant advice also provided. When combined a robust and thorough procurement process has been undertaken.

### Community impact statement

47. Repairs and maintenance is a universal service that is offered to all tenants and residents of the Borough. The proposal to appoint Mears Ltd at this time will ensure there is sufficient time to mobilise and plan a smooth transition between the old and new contract.

### Social considerations

48. Mears Ltd are on the council's approved lists and have carried out a substantial amount of major works for the council. Mears Limited are fully aware and compliant with council's own Equal Opportunity Policy. Mears Ltd have confirmed that they pay the London Living Wage. Compliance and added quality benefits will be monitored throughout the duration of the contract. Mears Ltd are have committed to providing at least six apprenticeships in each year of the contract and will also continue to recruit labour locally and work with local small and medium size enterprises.

### **Sustainability considerations**

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

### **Market considerations**

51. Officers believe the market has been adequately tested based on the tenders received from five of the six invited contractors that returned the tender documents.
52. Mears Ltd will be encouraged to make use of local labour wherever possible as is common practice.
53. Mears Ltd:
  - a. Is a private organisation and
  - b. Employs more than 13,000 staff

### **Financial implications (SB-FIN0768)**

54. The report seeks to award the repairs and maintenance contract covering the south of the borough to Mears Limited with effect from 3 October 2013. In order to address the long-standing issues of a poor quality repairs service and increase resident satisfaction, contract evaluation is based on 70% quality, 30% price, which is a departure from the norm. The base budget available for this contract is circa £11m per annum for 2013/14 and will remain so for the foreseeable future, subject to inflationary uplifts.
55. The contract is subject to annual price uplifts based on the BMI index which will need to be contained within the base budget available. Expectations are that over time as the WDS and other planned maintenance programmes increase, reactive repairs will show a decline which will reduce the budgetary need and allow for service redirection.

### **Second stage appraisal**

56. In the current economic climate the construction industry is volatile. By way of mitigation against any risks, the council arranged for a second stage financial appraisal to be undertaken by RSM Tenon on Mears Ltd. The company is placed at a very low risk status.

## **Legal implications**

57. Please see concurrent from the director of legal services

## **Consultation and Communication**

58. Before and during the procurement process presentations were made to both Tenants and Home Owners Councils. In addition representatives from both Councils have been involved in the procurement process. Further presentations are scheduled to be made to Tenant and Homeowners Council after the Cabinet decision. Further consultation with tenants and resident associations will be part of the mobilisation process.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Head of Procurement**

59. This report is seeking approval from cabinet for the award of the housing repairs and maintenance contract covering Camberwell, Peckham, Peckham Rye, Nunhead & Dulwich (and borough wide temporary accommodation).
60. The report confirms that the procurement strategy set out in the previously approved Gateway 1 report has been followed with a full restricted EU competitive process being undertaken.
61. The report describes the evaluation process that was carried out and that tenders were evaluated using a weighted model to determine the most economically advantageous tender (MEAT).
62. This procurement process was designed to assess whether the contract would achieve best value through a completely outsourced service or partially outsourced service with elements delivered by in-house resources. The contract was therefore split into three lots covering, general repairs, out of hours emergency works and works to void properties and the in house provider was asked to submit proposals for two of the three elements.
63. The evaluation process is outlined in paragraphs 32 to 41. After assessing the quality and price of the external tender submissions, a further stage was included for two of the lots. At this stage, a comparison was made between the highest ranked external submission and the internal submission. Paragraph 43 of the report confirms that the result of the comparison led to the recommendation to award all elements of work to an external organisation.
64. The report sets out plans for the transition in 44 and paragraph 45 describes how the contract will be managed and monitored throughout the life of the contract.

### **Director of Legal Services**

65. This report seeks the cabinet's approval to the award of the repair and maintenance contract to Mears Limited as further detailed in paragraph 1. As the estimated contract value is £110m, this award relates to a strategic procurement and the decision is therefore reserved to the cabinet.

66. The nature and value of the services to be supplied under the contract are such that the procurement is subject to the full application of the EU procurement regulations. As noted in paragraph 21, a full EU tendering process has been undertaken in accordance with the restricted procedure. The council's criteria for award of this contract is on the basis of the most economically advantageous tender, details of which are noted at paragraph 22. Following evaluation the tender submitted by Mears Limited was judged to represent the most economically advantageous tender for the 3 work elements. As part of the process, SBS were also invited to submit proposals for work elements 2 and 3, which were then compared with the highest scoring bid. The outcome of this additional evaluation is that Mears Limited are recommended for award of all 3 work elements.
67. Contract standing order 2.3 requires that a contract should only be awarded if the expenditure involved has been identified. Paragraphs 54 and 55 confirm the financial implications of this award.

**Strategic Director of Finance and Corporate Services (FC13/024)**

68. This report seeks approval for the award of the repairs and maintenance contract covering Camberwell, Peckham, Peckham Rye, Nunhead and Dulwich (and borough wide temporary accommodation) to Mears Ltd.
69. This The Strategic Director of Finance and Corporate Services notes the financial implications in paragraphs 54 and 55 and that the budget required for this service will need to be identified in the Housing revenue Account in future years, including an inflationary awards.

**Head of Specialist Housing Services**

70. This contract is a Qualifying Long Term Agreement under the terms of the Commonhold and Leasehold Reform Act 2002. Consultation has been undertaken under schedule 2 of the regulations appertaining to the above Act. Notice of Intention was served on 1 June 2012. Notice of Proposal was served on 6 March 2013.
71. The consultation period for the Notice of Proposal ended on 14 April 2013 and 40 observations were received. The issues raised ranged from the balance between cost and quality in evaluation; quality of work and the arrangements in place for monitoring the contract. No issues were raised that would suggest that the contract should not be entered into.

**BACKGROUND DOCUMENTS**

Background documents	Held At	Contact
Gateway 1 Long-term Repairs and Maintenance Contract <a href="http://moderngov.southwark.gov.uk/ieListDocuments.aspx?Cid=302&amp;Mid=4245&amp;Ver=4">http://moderngov.southwark.gov.uk/ieListDocuments.aspx?Cid=302&amp;Mid=4245&amp;Ver=4</a>	Maintenance and Compliance, 160 Tooley Street	David Lewis 0207 525 7836

## APPENDICES

No	Title
None	

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	
<b>Lead Officer</b>	Gerri Scott, Strategic Director of Housing and Community Services	
<b>Report Author</b>	David Lewis, Head of Maintenance and Compliance	
<b>Version</b>	Final	
<b>Dated</b>	1 May 2013	
<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>
Head of Procurement	Yes	Yes
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate	Yes	Yes
Head of Specialist Housing Services	Yes	Yes
<b>Contract Review Boards</b>		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
<b>Cabinet Member</b>	Yes	Yes
<b>Date final report sent to Constitutional Team</b>		1 May 2013