

## **CABINET**

**7 JULY 2015**

### **GATEWAY 3 REPORT CONTRACT AWARD: HOUSING REVENUE ACCOUNT (HRA) ESTATE SERVICES (CARETAKING)**

Portfolio Holder: Councillor Howard Doe, Deputy Leader and Housing and Community Services

Report from: Richard Hicks, Acting Director, Regeneration, Community and Culture

Author: Janet Elliott, Category Manager  
Simon Davis, Neighbourhood Services Manager

#### **Summary**

This report seeks permission to award a contract to the service provider to deliver the Housing Landlord Service Estate Services function (Caretakers), as set out within Section 4.2 of the Exempt Appendix.

Cabinet approved the decision to proceed with this procurement on 2 December 2014 (decision 185/2014).

This Gateway 3 Report has been approved for submission to Cabinet after review and discussion at the Regeneration Community and Culture Directorate Management Team Meeting on 14 May 2015 and the Procurement Board on 17 June 2015.

This is a high profile service, which attracts significant interest from residents.

#### **1. Budget and Policy Framework**

- 1.1 The estate service function (Caretakers) is subject to charges applied via tenant rent accounts and leaseholder service charge accounts.
- 1.2 Any cost incurred by a landlord for undertaking work to a communal area, which is normally the responsibility of tenants, is expected to be fully recharged to tenants via service charges. The value of the whole service in 2013/2014 was £507,464. This included corporate horticultural services, running of 4 offices, and window cleaning, all of which are not included in the scope of this contract. The comparable value of the whole service therefore is currently £366,022. Please refer to the Exempt Appendix Financial Analysis for further details.

- 1.3 Service charges are expected to increase annually in line with inflation, but with the caveat that an authority is expected to fully recover the cost of providing the service.
- 1.4 As part of the 2012-2013 budget setting, above inflation increases of 15% a year were agreed for three years in order for the estate services to be fully recharged to residents by 2014/15.
- 1.5 Although the estate services cost is now fully recoverable from tenants and leaseholders, the cost of providing this service was high when benchmarked, and was not offering customers value for money.
- 1.6 It is intended that the service provider, through innovation, good management and skill and experience, shall aim to deliver the service below the tendered figure, demonstrating savings on the target price. At quarterly intervals the actual spend will be validated and reconciled and any savings will be shared on a 50/50 basis between the service provider and Medway, to its residents' service charges; prices for the following year will be set at the lower value. The profit share is also subject to achieving the relevant key performance indicators set out in the contract documents. Should the service provider spend more than the target price, they will carry that loss.

## **2. Service Background Information**

- 2.1 One of the key priorities of the housing service in Medway is to provide high quality cost effective services. As a landlord Medway has a duty to ensure the communal areas of its housing stock are kept tidy and safe.
- 2.2 1,294 tenanted and leasehold flats and Homes for Independent Living sheltered homes receive the estates services.
- 2.3 In 2012 an independent review was commissioned by an external company to assess the costs of the service, how it was delivered and resources needed to maintain this service. The review concluded that the service was expensive and did not represent value for money.
- 2.4 A residents' survey carried out in 2013 by Medway shows a satisfaction level of 76% for internal cleaning and 71% for external cleaning. Cleanliness of external and internal cleaning was one of the biggest concerns for residents. Overall, residents' satisfaction for the housing landlord service is at 85%.
- 2.5 This highlights that estate services standards are significant issues for residents and are affecting overall satisfaction with the housing service for the Council as a whole.
- 2.6 The current operating model has been reviewed over the last 2 years, and there are opportunities to streamline this service, improve performance and subsequently increase customer satisfaction. The tendering of this contract

has been successful in achieving this. Details can be found in section 3 of this report Business Case Outputs.

- 2.7 This is a key frontline service with high customer interest and involvement. The Council has an active estate services tenant forum, leaseholders forum and homes for independent living forum that all meet regularly with officers to review service provision, performance and obtain customer feedback.
- 2.8 Two representatives of the tenants' forum reviewed the tender submissions and sat on the interview panel as part of the quality assessment. Tenants were also involved in shaping part of the specification and of particular importance to them were apprenticeships and opportunities for the local community.
- 2.9 There are significant additional areas that the new contract will include and the ability to deliver and meet the standards expected by customers is key to the success of the delivery of the contract. Please see section 3 Business Case and Opportunities
- 2.10 As a landlord the Council has various mandatory, statutory and legal obligations it must meet. These include:
- Various Health & Safety legislation to maintain properties in a safe manner
  - The Control of Asbestos Regulations 2012
  - Tenants' handbook (sets out the Council's obligations and timescales)
  - The landlord covenants on the part of the Council contained in leases granted by the Council
  - Health and Safety at Work Act 1974
  - Control of Substances Hazardous to Health Regulations 2002
  - The Management of Health and Safety at Work Regulations 1999.

### **3. PROCUREMENT PROCESS**

#### **3.1 Procurement Process Undertaken**

- 3.1.1 The formal retender of the HRA Estate Services Contract followed the EU Open procurement process and commenced with the issue of the OJEU notice on 30 December 2014.
- 3.1.2 As part of this process a clarification meeting was held on 19 January 2015 that all providers could attend; the service manager gave a presentation detailing the specification and proposed operating model, and providers were able to clarify any element of the tender documentation.
- 3.1.3 50 companies expressed an interest and 5 tender submissions were received on 20 February 2015.
- 3.1.4 The majority of service providers who subsequently did not submit a tender advised, that although they were very keen to work with Medway, commercially the contract was too much of a risk, as the price ceiling

applied was challenging, and the costs related to the TUPE transfer of the Estate Service team were high.

3.1.5 Mobilisation of the new contract with the preferred supplier will start on 20 July 2015 and end on 28 August 2015.

### 3.2 Evaluation Criteria

3.2.1 The evaluation criteria set was Most Economically Advantageous Tender (MEAT), based upon a mixture of quality and price. The ratio used was 40% quality and 60% price. The table below shows the breakdown of the evaluation criteria:

Evaluation Section	Criteria	Weighting
Pricing Evaluation	Tendered Rates	60%
Quality Evaluation	Capability	35%
Quality Clarification with Bidders' existing clients	Clarification of experience and capability	0% - included within the Quality Evaluation
Applicant Interviews	Clarification of experience and capability	5%

3.2.2 Delivery of an effective estate service contract is key to high levels of customer satisfaction across the whole of the Landlord Service. The impact of a poorly performing service is clearly poor satisfaction, badly kept estates, poor PR for the Council and Members and an increase in complaints.

### 3. BUSINESS CASE

#### 3.1 Delivery of Procurement Project Outputs / Outcomes

The following procurement outcomes/outputs identified as important at Gateway 1 to the delivery of this procurement requirement have been appraised in the table below to demonstrate how the recommended procurement contract award will deliver said outcomes/outputs.

Outputs / Outcomes	How will success be measured?	Who will measure success of outputs/ outcomes	When will success be measured?	How will recommended procurement contract award deliver outputs/outcomes?
<b>1. Customer Satisfaction</b>	Customer feedback/satisfaction cards/Repairs and Estate Services Forums.	Neighbourhood Services Manager	Monthly via Performance Management Framework (PMF) and contractor monitoring meetings. Bi monthly at resident forums.	<p>Customer feedback via twitter, SMS, online satisfaction surveys, breakfast club meetings and mystery shopping</p> <p>Monthly KPI monitoring</p> <p>Proactive communications with residents via introductory letters, newsletters, estate champions, dedicated 24/7 hotline number</p>
<b>2. Value for Money</b>	Benchmarking via formalised and informal sharing of data with other housing organisations.	Performance Management Hub	<p>Quarterly reports to Neighbourhood Services Manager</p> <p>Quarterly Strategic Maintenance Meetings</p>	<p>Streamlining of processes</p> <p>Improved value for money reflected in services charges to customers</p> <p>Improvements lead to higher quartile performance in terms of benchmarking</p> <p>4 existing caretaking offices will be closed. One of which is being</p>

				<p>surveyed with a view to redeveloping as a 1 bedroom flat</p> <p>Sale of existing vehicles</p>
<b>3. Cost of the service to be covered by service charges</b>	Annual service charge accounts to leaseholders and on tenant rent accounts	Head of Housing Management and principal accountant	Annually when budgets are set each February	Service charges will be recalculated and sent to leaseholders. These will fully cover the cost of the service. Leaseholders will see a reduction compared to previous years
<b>4. Response times to responsive cleaning tasks</b>	Performance Matters Framework	Performance Management Hub	Monthly operational Meetings with Contractor	<p>KPI monitoring</p> <p>Out of hours provision</p> <p>Responsive service provision</p>
<b>5. High performing service and achievement of KPIs</b>	Performance Matters Framework	Performance Management Hub	Monthly operational Meetings with Contractor	<p>Improved and consistently high service</p> <p>KPI monitoring at strategic and operational performance monitoring</p> <p>Annual customer service action plan to be agreed with Medway</p> <p>Provision of new modern equipment for the start of the service</p>
<b>6. Local labour</b>	Employment Training Plan at Strategic Quarterly Meetings	Neighbourhood Services Manager	Quarterly Strategic Meetings with Contractor	All operatives will be from the Medway area.
<b>7. Apprenticeships</b>	Employment Training Plan at Strategic Quarterly Meetings	Neighbourhood Services Manager	Quarterly Strategic Meetings with Contractor	1 apprentice per £1m spend (minimum)

<b>8. Sustainability and Environment</b>	Monitoring of Sustainability Plan	Neighbourhood Services Manager	Monthly operational Meetings with Contractor  Quarterly Strategic Meetings with Contractor	Cleaning process will follow BICS standard – all operatives will receive training to achieve this level  Proposals to use electric vehicles
<b>9. Health and Safety</b>	Contract monitoring meetings.	Neighbourhood Services Manager	Contractor's regular in-house H&S Audits reported to strategic meetings  Bi-annual external audits of H&S compliance of contractors processes.  Medway's H&S Team.	HRA compliance officer will ensure processes and procedures are adhered to
<b>10. Development of Operatives using PDAs</b>	Contract monitoring meetings.	Neighbourhood Services Manager	Monthly operational Meetings with Contractor	New service provider will issue all operatives with PDAs to record operational duties. These records will be used to calculate concise service charges
<b>11. Number of post inspections</b>	Performance Matters Framework	Performance Management Hub	Monthly operational Meetings with Contractor	Service provider will attend estate inspection Quality inspections to be carried out weekly Develop relationship with Mears Ltd to report directly any maintenance issues that may be spotted
<b>12. Reduction in Overheads</b>	Strategic Quarterly Meetings	Neighbourhood Services Manager	Annually when budgets are set each February	Monitored through open book accounting at quarterly budget meetings

## 4. RISK MANAGEMENT

### 4.1 Risk Categorisation

<b>1. Risk Category: Service delivery</b>	<b>Likelihood: D</b>	<b>Impact: III</b>
<b>Outline Description:</b> Customer satisfaction reduces during the start of the new contract, quality of work drops and frontline performances dips		
<b>Plans to Mitigate:</b> Regular operational meetings will take place with the preferred contractor to agree KPIs around customer satisfaction and service delivery and to measure performance. A robust mobilisation plan will be agreed with the contractor to ensure continuity of service and maintain current high performance levels		
<b>2. Risk Category: Cultural Change</b>	<b>Likelihood: D</b>	<b>Impact: III</b>
<b>Outline Description:</b> Transfer of the Estate Services team to the preferred contractor – cultural change and possible risk as Medway will lose management of the client function from September 2015		
<b>Plans to Mitigate:</b> Clear roles and responsibilities will be agreed during the mobilisation period, as well as clear processes and procedures to be agreed by both parties in the partnership. The team being transferred will have full induction with the preferred contractor prior to September 2015. The preferred contractor has a robust training programme for the transferring team and additional team members who could be used to cover staff shortages		
<b>3. Risk Category: Commercial</b>	<b>Likelihood: D</b>	<b>Impact: II</b>
<b>Outline Description:</b> Budgets exceeded – performance affected and contract is viewed as failing by senior members of both teams		
<b>Plans to Mitigate:</b> Commercial model and open book accounting reviews. Regular budgetary reviews; contractor to take greater responsibility for budgetary controls		
<b>4. Risk Category: Health &amp; Safety</b>	<b>Likelihood: D</b>	<b>Impact: I</b>
<b>Outline Description:</b> Breach of H&S compliancy leads to death of resident/employee/contractor or critical injury		
<b>Plans to Mitigate:</b> There is a dedicated Compliancy Officer in post within the Housing Landlord Service to monitor statutory obligations and risk assessment method statements; robust performance data in place to regularly review and monitor compliancy; meetings between respective H&S and operational teams.		



<b>5. Risk Category: Reputation/Political</b>	<b>Likelihood: D</b>	<b>Impact: II</b>
<b>Outline Description:</b> Ineffective or poorly managed contract may lead to poor levels of customer satisfaction, leading to increased queries or complaints to Members. Additionally tenants may perceive Members to be at fault in terms of poorly managed service.		
<b>Plans to Mitigate:</b> Effective and robust management arrangements in place for contract management with suitably skilled staff. Monthly operational meetings and quarterly strategic meeting will take place with the HRA Management and the preferred contractor		
<b>6. Risk Category: Commercial</b>	<b>Likelihood D</b>	<b>Impact III</b>
<b>Outline Description:</b> The appointed contractor goes in to administration		
<b>Plans to Mitigate:</b> As part of due diligence carried out during the prequalification stage of the procurement process, all accounts were checked and are satisfactory. In addition all service providers were asked to confirm their tendered price was sustainable for the full contract period, and all confirmed this. During the contract period as part of the contract management process, open book accounting will be in operation		

## **5. SERVICE COMMENTS**

### **5.1 Financial Comments**

- 5.1.1 The procurement requirement and its associated delivery, as per the recommendations at Section 8, will be funded from residents' rents and service charges.
- 5.1.2 Further detail is contained within Section 2.1 Financial Analysis of the **Exempt Appendix** that accompanies this report.

### **5.2 Legal Comments**

- 5.2.1 The Council has power to enter into contracts pursuant to the Local Government (Contracts) Act 1997 and the general power of competence in the Localism Act 2011.
- 5.2.2 As the procurement commenced before 26 February 2015 it will be regulated by the Public Contracts Regulations 2006.
- 5.2.3 This procurement has been categorised as High Risk procurement so the decision to undertake the procurement is a decision for Cabinet.

### **5.3 TUPE Comments**

- 5.3.1 TUPE will apply for the team of Estate Wardens from 1 September 2015. All bidders were required to apply to the Kent Pension Fund for Admitted Body Status as part of the tender submission.
- 5.3.2 The preferred contractor will have a local office in Gillingham, which adheres to the TUPE guidelines as these premises are within Medway boundaries.

### **5.4 Procurement Comments**

- 5.4.1 This procurement is for a service contract and followed an open procedure with advertisement in the EU journal, as the total value exceeds the threshold of £172,514 for such a contract
- 5.4.2 The procurement commenced in December 2014, prior to the publication of the latest Public Contract Regulations 2015 on 26 February 2015, therefore the Public Contract Regulations 2006 will apply.
- 5.4.3 The procurement process followed also followed the council's Contract Procedure Rules to achieve best value.
- 5.4.4 The additional clarifications sought from each service provider who submitted a compliant tender, adhered to the Public Contract Regulations 2006.
- 5.4.5 As with any new service contract, it is recommended that the Service Department manage the contract closely during the first months of operation to ensure a smooth transition for the delivery of the service and the transfer of the team of operatives under TUPE. The risk register in Section 4 of this report outlines the management and mitigation of these possible risks.

## 6. OTHER INFORMATION

### 6.1 Leaseholder Consultation

- 6.1.1 Under the provisions in the Commonhold and Leasehold Reform Act 2002 (Section 151), Medway Council as the landlord is obliged to consult with the tenants of any properties, which are subject to long leases, before entering into a long-term agreement for the provision of services. The new procedures provide for two separate 30-day periods for leaseholders to make observations.
- 6.1.2 All leaseholders were notified on 15 August 2014 of Medway's intention to start the procurement process prior to the OJEU notice being published. Further notices allowing for comment were issued on 18 May 2015, following receipt of the final tenders, and leaseholders will also be advised which supplier has been awarded the contract should this be approved at Cabinet on 7 July 2015.
- 6.1.3 Tenants and Leaseholders were also involved in the development of the specification they were also represented on the interview panel.

## 7. PROCUREMENT BOARD

- 7.1 The Procurement Board considered this report on 17 June 2016 and supported the recommendation as set out in section 8 of this report.

## 8. RECOMMENDATION

- 8.1 The Cabinet is recommended to approval of the contract award for the HRA Estate Services Contract in accordance with paragraph 4.2 of the exempt appendix, and achieving the outputs and opportunities described in Section 3 above.

## 9. SUGGESTED REASONS FOR DECISION

- 9.1 Approval of the contract will ensure the Council meets its obligations as a landlord to ensure the communal areas of its housing stock are kept tidy and safe. The preferred contractor has suggested improvements to the service, which will contribute to increasing the overall customer satisfaction for the housing landlord service in Medway.

### LEAD OFFICER CONTACTS:

<b>Name</b>	Simon Davis	<b>Title</b>	Neighbourhood Services Manager
<b>Department</b>	Landlord Services, Housing and Regeneration	<b>Directorate</b>	Regeneration Community and Culture
<b>Extension</b>	3832	<b>Email</b>	<a href="mailto:simon.davis@medway.gov.uk">simon.davis@medway.gov.uk</a>

<b>Name</b>	Janet Elliott	<b>Title</b>	Category Manager
<b>Department</b>	Legal and Corporate Services	<b>Directorate</b>	Business Support
<b>Extension</b>	1023	<b>Email</b>	<a href="mailto:janet.elliott@medway.gov.uk">janet.elliott@medway.gov.uk</a>

## BACKGROUND PAPERS

The following documents have been relied upon in the preparation of this report:

Description of Document	Location	Date
Gateway 1 Report HRA Estate Services	Available on the Council's website via:  <a href="http://democracy.medway.gov.uk/mqconvert2pdf.aspx?id=25369">http://democracy.medway.gov.uk/mqconvert2pdf.aspx?id=25369</a>	28 Oct 2014
HRA Capital and Revenue Budget 2015/2016 (incorporated with the Capital and Revenue Budget 2015/2016 report to Council)	Available on the Council's website via:  <a href="http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=122&amp;MId=2974&amp;Ver=4">http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=122&amp;MId=2974&amp;Ver=4</a>	Full Council Feb 2015

**Appendices:** Exempt Appendix