

R&M procurement - Options appraisal

Introduction

This appraisal establishes the features and benefits of how the WCC R&M service could be delivered and is defined in 10 categories below.

Essentially there are 4 options.

- 1) **Lead Contractor** – A single Contractor delivering the service with directly employed management, approx. 80% directly employed operatives and sub-Contractors to undertake specialist and planned works
- 2) **Managing Contractor** – As a Lead Contractor but with no directly employed operatives. All works will be delivered by Sub- Contractors.
- 3) **SME's** - A range of smaller specialist contractors.
- 4) **DLO** – Direct labour organisation

The Repairs service could be brought in house by a Direct Labour Organisation (a 'DLO'). However, a DLO would require a considerable period of time and investment to establish and implement. A minimum of two years is a realistic timescale.

An indication of the process as a minimum:

- Development of a dedicated IT system
- Recruitment of 3-4 managers and 5-6 supervisors
- Recruitment of approx. 60 operatives (heating engineers, plumbers, electricians, carpenters, plasterers, bricklayers, decorators)
- Procurement of transport (vans)
- Setting up a depot and office base
- Public procurement of a material supply chain (builders merchants, heating suppliers)
- Public procurement of specialist Contractors

Establishing a DLO is a significant undertaking. The level of up-front capital investment is considerable with no certainty as to when a break-even point will be reached. Many of the work streams within the repairs service and capital works programme may not be delivered by directly employed staff. This might require the DLO to sub-contract elements of the capital works programme, the gas servicing, electrical and part of the voids work streams which would bring the business plan for operating a DLO into question.

Should a DLO be considered a credible option then a very detailed options appraisal should be conducted as a business case would need to be presented to ELB and then Cabinet for approval to progress. Given the timescales to establish a DLO from the point of cabinet approval the existing contracts would need to be extended.

Based on the aforementioned detail the references to implementing a DLO is stated within this narrative and is not further developed below.

1) IT implementation

The interfacing of IT and respective systems is a critical aspect of the success of this procurement. It is essential that WCC owns and reconciles data to validate performance.

- **Lead Contractor** - R&M Contractors (both Lead and Managing Contractors) have invested significant sums into state-of-the-art digital IT systems that support the operation of a modern repairs service. Systems are geared to take a call from a resident, accurately diagnose the repair required (often with the aid of video and photographs), schedule an appointment and confirm the arrival date and time, all within a single call. Their systems include for portals where residents can order a repair online if they prefer. The same systems record and collate all expenditure for materials and labour against each job number, record KPI performance, completion times, alerts for when repair targets are due to go over time, resident satisfaction, operative productivity and van trackers. The systems offer residents Uber style maps showing where their operative is and when they are expected to arrive.
- **Managing Contractor** – As per Lead Contractor
- **SME's** - If WCC were to deliver the Repairs Service by way of SMEs, it will be necessary to employ eight to ten individual Contractors to deliver the required range of trades (carpentry, plumbing, gas servicing & repairs, electrics, bricklaying, roofing, plastering, drainage, glazing, door entry systems, etc). Having a series of SMEs to deliver each R&M work stream disaggregates the IT into a series of

different systems, each with considerably less sophistication and functionality than can be provided by a specialist repairs Lead Contractor.

When SMEs are employed by a Lead Contractor, they can interface with the Lead Contractor's systems and are issued PDA's so they effectively operate as an extension of the Lead Contractor's directly employed staff. SMEs on their own are unlikely to have that level of IT support. Performance management and data reconciliation would be a significant task and very likely require a dedicated post to manage this.

2) Prime cost of repairs

This considers the estimated cost in terms of prime cost (labour and materials) for repairs only.

The average number of repairs per inc gas over the past 5 years is **19555**.

The average no of repairs per tenanted property is 3.7 for tenanted properties and 3.4 for all tenures. This would include communal works. Social Landlords with stock in good condition typically carry out between 2.5 and 3 repairs per property, per year.

Applying the average sector Price Per Repair (PPR) value of £170 based on the repairs volumes above, the cost to the HRA to deliver the service would be ITRO **£ 3.3m**. This would include communal works.

The total number of tenanted properties is 5152. Applying the sector average Price Per Property (PPP) rate of £395.00 the cost to the HRA would be ITRO **£ 2.1m**

This would not include exclusions or communal works. Applying a sector average of approx. £330 per property for exclusions and communal works an additional £1.8m should be added making a total prime cost for all repairs of **£3.9m**

The spend associated with delivering responsive repairs based on a SOR pricing mechanism at WCC over the past 5 years is as tabled below

	2023/24	2022/23	2021/22	2020/21	2019/20
Responsive Repairs	4,447,128.00	4,454,340.00	2,951,083.00	2,516,583.00	2,074,489.00

$(4,447,128.00+4,454,340.00 / 2 = 4,450,734$

$(4,450,734 / 19555 = 228)$

Based on the past two years spend being a fair reflection of current prime costs the average repair cost is **£228** using a SOR pricing mechanism.

3) Overall cost for delivering the service

The figures below reflect a recent contract procurement with a Lead Contractor by a LA with 4500 tenanted properties and 500 leasehold properties for a PPP and PPV contract.

Cost of repairs inc exclusions	1800000
Cost of voids inc exclusions	1500000
Cost of gas servicing	750000
Cost of EICR's	310000
Prelims, overheads and profit	1200000
Provision of contact centre	250000
Miscellaneous items	100000
Total	5910000

Average cost per property **£1310.00** (5.9m / 4500)

As a gauge, applying the average cost of £1310 to WCC (5152 properties) the total revenue expenditure would be ITRO **£6.7m** for a PPP contract with a lead contractor.

The HRA spend for 2023/2024 is tabled below which largely applies to a SOR /PPV contract with two primary contractors.

Cost of repairs	4,447,128.00
Cost of voids	1,396,000.00
Cost of gas servicing	inc in cyclical
Cost of EICR's	inc in cyclical
Cyclical	1,396,000.00
Provision of contact centre	0.00
Miscellaneous items	0.00
Total	7,239,128

Average cost per property **£1405.11** (7.2m/5152)

4) Process for managing R&M works

- **Lead Contractor** - Relies on the contractor's IT system interfacing with the Council's. The contractor's system schedules the repair and confirms the appointment with the resident electronically, tracks completion and KPI performance, and reports back to WCC's system. Presents an option for resident's repairs reports to go directly to the contractor via a portal.
- **Managing Contractor** – As per Lead Contractor
- **SME's** – A service with 6-10 SME's would be very complex to administer via a portal . The option for resident repairs reports to go directly to the contractor via a portal would be major task for IT to develop the API's and interfaces. It would not be so easy for residents to navigate hence the effective approach would require The Hub to raise orders to multiple contractors. This could increase the risk of incorrect diagnosis, issuing orders to the wrong contractor , jobs raised on incorrect budget codes and the potential for delays and inconvenience to residents.

5) Simplicity of administering a pricing mechanism

- **Lead Contractor** – Would most likely be based on PPR / PPP and PPV contract that makes for simpler administration and cost certainty. Exclusions would need to be managed well to ensure that contractor's monthly valuations were accurate. Risk needs to be mitigated by setting a clear exclusions list, agreeing a value cap on each order and introducing a mechanism where the rate can be re-visited if the volume of repairs exceeds +/- 5% of the stated number. Can encourage contractors to do the bare minimum if not managed effectively. However, returning to complete poorly effected repairs is expensive for a contractor and impacts the non- productive cost ratio. A good suite of OPI's will identify poor performance
- **Managing Contractor** – As per Lead Contractor
- **SME's** – Usually managed through a SoR contract that would require survey and measurement pre and post completion to ensure cost accuracy. Unless well managed, there is a risk of 'rate building' by the Contractor if jobs are not surveyed or evidenced at the outset. Would require WCC to conduct a robust process of scrutiny to ensure validity of jobs. WCC would only pay for the actual scope of work for each repair or void based on a tendered %age adjustment against the NHF SoR. A good suite of OPI's will identify poor performance. WCC will need to publicly procure 6-10 SMEs to deliver each trade/works program.

6) Complexity of the procurement and compliance of new regs

- **Lead Contractor** – Will require a single public procurement. The new regs require WCC to report to central government on 3 KPI's monthly which encourages contractors to succeed.
- **Managing Contractor** – As per Lead Contractor
- **SME's** – Will require six to eight separate public procurements for each of the required trades which will be time consuming. The new regs require WCC to report to central government on 3 KPI's monthly which encourages contractors to not fail. This could be problematic with a broad range of SME's.

Given that WCC will be one of the first LA's to procure under the new procurement regs the detail of what is required by central government is yet to be fully understood. WCC will be commissioning Trowers and Hamlins to provide legal advice and support to ensure strict compliance with the new regs

7) Assuring quality of service for residents

- **Lead Contractor** – Lead Contractors seek to deliver a resident facing service supported through sophisticated IT systems and Resident Liaison staff. Lead Contractor's systems are well equipped to communicate with residents regarding appointments, satisfaction and general updates. Residents would have a single point of contact. A good suite of OPI's will identify poor performance and stats would relate to one provider. Residents often get to know contractor's operatives who attend to undertake repairs. This supports the safeguarding policy as well as reporting on serious defects such as damp and mould. It would be relatively straightforward for WCC to manage safeguarding and serious defect reports.
- **Managing Contractor** – As per Lead Contractor. However, relationships between residents and operatives are not so likely to be established as sub-contractors workforces tend to be more transient.
- **SME's** - SME's are more likely to be focused on delivering the job they've been instructed to repair. Often do not have IT systems suitable for residents to track their arrival or manage appointments. The communication with residents in terms of appointment confirmation and satisfaction could be confusing if SME's are tasked to conduct this. Residents may also be confused over which contractor is appointed to attend when making follow up enquiries. Residents could call in and The Hub would follow up with the appropriate contractor which could be time consuming. A good suite of OPI's will identify poor performance although reconciling performance stats would be more difficult. Managing safeguarding and serious defect reports from operatives would be less straightforward for WCC to manage.

8) Process for managing the contract and overall performance

- **Lead Contractor** –The implementation of a robust but relevant suite of KPI's in association with a keenly drafted Term Brief should enable effective contract management. Establishing a holistic approach with the delivery of repairs, voids and planned works will require careful management but should be more straightforward with a single contractor. TAC 1 is widely regarded as one of the best term contracts available and has been drafted specifically for both repairs services and planned works programmes. The two-stage order process is particularly useful for planned works. It establishes an obligation on both parties to collaborate in the best interests of the programme. The monthly core group meetings will include residents which ensures participation with the development of the service.
- **Managing Contractor** – As per Lead Contractor
- **SME's** –Whilst a robust suite of KPI's and a keenly drafted Term Brief will aid effective contract management, this will be less straightforward than with a single contractor. Establishing a holistic approach with the delivery of repairs, voids and planned works will require robust management and has a greater propensity to fail. TAC 1 would be less well suited to managing a range of SME's as collaboration will not be easy to manage hence the various contracts might need to be influenced by penalty clauses. JCT MTC is broadly recognised as a 'safe pair of hands' contract by Contractors and Clients alike and is well suited for traditional repairs contracts. However, it has no contractual requirement to collaborate and no formal processes for innovation. It doesn't provide for a Core Group so joint decision making or problem solving is less established. JCT MTC is less suited for planned works programmes.

9) Ability to resource the contract

- **Lead Contractor** – The current Property Services establishment once at full complement is suitably resourced to manage a single contract. One area of weakness is the reconciliation of contractor's valuations for repairs works and would require a QS or cost auditor to be recruited. The cost to the HRA of this additional post would be ITRO of £70k
- **Managing Contractor** – As per Lead Contractor
- **SME** - The current Property Services establishment is inadequately resourced to manage a range of 6-10 SME's. Managing a range of 6-10 SME's will require an effective and a holistic approach. It is not possible at this point to fully define but could require the recruitment of 3 additional CM's and 3 CLO's to manage and administer. It is likely that a data analyst would be required to ensure that data is managed effectively and therefore KPI's stats are reported. Given that this option would likely follow the SoR route there would

be a need to recruit 1-2 QS's. It would be likely that less APS' would be required and that 3 might focus on void works approvals and significant defects only. The cost to the HRA of these additional posts would be ITRO of £420k

10) Ease of ensuring sustainable localism with small/specialist Contractors

- **Lead Contractor** – The Lead Contractor would be instructed by WCC to consider local SME's as a first port of call when assembling their supply chain. WCC would support the Lead Contractor in holding joint 'Meet the Buyer' events and introducing known suppliers with a good track record. A quarterly meeting will be set up where the local SME's, the Lead Contractor and WCC attend to discuss operational and commercial performance. It is in WCC's interest that local SME's are performing and are not being commercially disadvantaged but equally are delivering value. The Lead Contractor would lead on sourcing best value for WCC. Key SMEs, particularly the gas servicing contractor, will have a place at the decision-making table by being invited to join the Core Group
- **Managing Contractor** – As per Lead Contractor.
- **SME** - Local SME's would be the delivery source so this would be assured. WCC would need to lead on ensuring that SME's are providing best value.