

CAERPHILLY HOMES TASK GROUP - 22ND MAY 2014

SUBJECT: WHQS INTERNAL WORKS CONTRACTS

REPORT BY: INTERIM CHIEF EXECUTIVE

1. PURPOSE OF REPORT

- 1.1 To advise on the outcome of the tender process for the internal works contracts, the benchmarking of the tender rates, the dialogue with contractors, and to recommend a course of action.

2. SUMMARY

- 2.1 In accordance with the agreed contract structure for the WHQS Programme, approved by the CHTG / Cabinet Sub Committee in September 2012, the internal works were the subject of a procurement process during 2013. The tendered discount rates received raised concerns about value for money and affordability. A dialogue with the contractors who submitted compliant tenders has resulted in revised rates. These revised rates have been benchmarked by the Council's cost consultants ChandlerKBS. Despite the improved rates the estimated works cost across the three lots is around 10% higher than the Savills cost plan which is the basis of the WHQS business plan. The report outlines a number of considerations relating to the WHQS Programme and puts the estimated cost increase into context. The report recommends acceptance of the revised tender rates.

3. LINKS TO STRATEGY

- 3.1 The Welsh Housing Quality Standard (WHQS) is intended to ensure that all local authority and housing association homes are improved and maintained to achieve specified standards.
- 3.2 The Single Integrated Plan 2013-2017 has a priority to "Improve standards of housing and communities, giving appropriate access to services across the County Borough."
- 3.3 The Council's Local Housing Strategy "People, Property, and Places" has the following aim:

"To provide good quality, well managed houses in communities where people want to live, and offer people housing choices which meet their needs and aspirations."

4. THE REPORT

- 4.1 The proposed contract structure for the WHQS Programme was agreed in September 2012. In respect of the internal works it was proposed that around half of the works would be undertaken by the in house work force and the other half by contractors. Based on the Savills stock condition survey the estimated cost of the internal works is £91.5m of which £49.8m is intended to be awarded to contractors.

4.2 Three main contractors were to be appointed one to each of the three housing areas, Eastern Valleys, Lower Rhymney Valley, and Upper Rhymney Valley, with the contractor's programme being over 6 years from 2014.

4.3 Procurement

4.3.1 During the course of 2013 there has been a procurement process to select contractors to carry out the internal improvement works consisting of kitchens, bathrooms, rewires, and central heating. Prior to the tender process commencing, a number of events were held to engage with the supply chain and to ensure the market was informed of the tender opportunity.

4.3.2 The procurement process was undertaken in line with Band E of Standing Orders for Contracts and due to the value followed EU Procurement Directives utilising the restricted tender procedure. The OJEU notice was placed on 22nd January 2013 and 45 companies requested the Pre Qualification Questionnaire (PQQ). The selection criteria at PQQ were based on the top five scoring bidders proceeding to the Invitation to Tender (ITT). Due to a number of tied bids 7 companies were issued with the ITT. It was agreed that the tender evaluation would be based on:

- | | |
|---------------------|-------------|
| • Tender compliance | Pass / Fail |
| • Quality | 60% |
| • Price | 40% |

The quality criteria consisted of:

- Supply chain
- Supply partner
- Works mobilisation plan
- Community benefits
- Experience and knowledge
- People

4.3.3 The evaluation methodology was set out in the ITT. Tenderers could bid for all three lots but could only be awarded one lot. Tenders were returned on 4th October 2013. Only three tenders were received as follows:

<u>Lot</u>	<u>Company</u>
1,2,3	Contractor A
1,2,3	Contractor B
2,3	Contractor C

4.3.4 The evaluation process was undertaken in three sections and included assessment of qualitative, community benefit, and commercial aspects of the tender submissions, and was undertaken by a team of tenants and officers who were allocated to work on one of the sections.

4.3.5 In respect of the commercial information tenderers were asked to submit Adjustment Percentages for the work value bandings as provided within the ITT. The Adjustment Percentages are applied as a plus or minus against the National Schedule of Rates (NSR) and the CCBC Schedule of Rates (CCBC – SR) for Asbestos Removal and Disposal; and Damp Proofing and Specialist Works. There were no separate Adjustment Percentages for the NSR and the CCBC – SR; the Adjustment Percentages tendered against the work value bandings apply to both schedules of rates.

4.3.6 The completion of the evaluation process resulted in the proposal to award the lots as follows:

Lot 1 Eastern Valleys	Contractor A
Lot 2 Upper Rhymney Valley	Contractor B
Lot 3 Lower Rhymney Valley	Contractor C

4.3.7 The timeline envisaged that the contract award would be made by 16th December 2013 with a three month mobilisation period January to March 2014 and contract commencement April 2014.

4.4 **Commercial Assessment**

4.4.1 A review of the tendered discount rates offered by the three contractors raised concerns about affordability and value for money. A due diligence exercise was undertaken to benchmark the rates offered. An initial appraisal was done in house but then subsequently independently assessed by ChandlerKBS, the Council's cost consultants who have provided advice on all the WHQS procurements.

4.4.2 The conclusion drawn from this assessment was that even on the best discount rate offered this would result in the cost of the four internal components (kitchen, bathroom, rewire, heating) to be significantly above the Savills cost plan, which is the basis of the WHQS business plan.

4.4.3 As a consequence a dialogue has taken place with the three contractors to clarify the tender submissions and the application of the discounts to the NSR. The opportunity has also been provided for the contractors to submit varying discounts for the individual components as well as a combined discount where all four internal components are being renewed. A further period of time was allowed for the contractors to reconsider their commercial submissions.

4.4.4 All contractors have submitted significantly improved offers with some individual component rates being market competitive when compared to the benchmark rates. All contractors have now submitted differential rates for each individual component and a combined rate. Applying the new rates to the internal works identified within the Savills stock condition survey results in a cost increase of between 8% and 12% across the three contractors when compared to the cost plan. When the costs are aggregated across the three contracts and bearing in mind only one lot can be awarded per contractor the business plan would be underfunded by £4.97m, a 10% increase on the estimated value of the internal works contracts of £49.8m. The calculations take into account which contractor would be awarded to each lot and applies relevant contractors' rates to the number of components in each of the three housing areas and the combined rate to the relevant number of properties having all four internal components renewed.

4.5 **Variances**

4.5.1 While the estimated cost increase to the internal works contracts is significant it should be seen in the context of the overall value of the WHQS Programme which is in excess of £200m and other significant variances that include both savings and additional costs.

4.5.2 When decisions are made concerning individual properties additional costs may seem insignificant perhaps amounting to a few hundred pounds but when applied to the housing stock of 10,900 homes the variances can become very large. It is difficult to predict the cumulative impact of large variations as the Programme has another six years to run. The business plan is based on a 15% sample stock condition survey conducted in 2008. Between 2008 and 2012 approximately £50m was spent on improvements to the housing stock. The impact of previously achieved work will affect the programme going forward and during 2013/14 this has resulted in a saving of around £4.5m on the capital programme. Conversely the external works surveys have started to identify new problems not identified by the Savills survey that will have to be addressed to achieve WHQS that will require additional expenditure.

4.5.3 The summary below shows the additional costs and savings that have arisen since the retention business plan was approved in October 2011.

<i>Additional Costs</i>	<i>£m</i>
Internal redecoration where kitchens and bathrooms are replaced	2.5
Repair of outhouses and sheds	2.8
Rowan Place, major external works and damp rectification	3.7
Internal works contracts	4.97
External works contracts	2.0
Remedials to properties affected by saturated cavity wall insulation	6.0
Retaining walls, steps, and	
Health and safety works	5.0
CO detectors	2.0
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	28.97
 <i>Savings</i>	
Arbed	0.5
Community Energy Support Programme (CESP)	2.5
Energy Company Obligation (ECO)	1.44
Capital Programme 13/14	4.47
Cumulative HRA reserves	9.5
Potential over estimate for non traditional properties	7.0
Contingencies	3.0
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	28.41

4.5.4 There are some caveats to the above summary. The figures for the additional costs are broad estimates based on imprecise information and actual costs will be dependent on the requirements for individual properties which can only be determined by site surveys. The additional cost for the internal works contracts is an extra pressure but it is only an estimate based on the Savills data from 2008. The early indications are that the pattern of significant “previously achieved” improvements seen in the internal works programme for 2013/14 will be repeated in 2014/15 affecting both in house teams and contractors. The potential impact is less expenditure than currently estimated on internal works. It is anticipated that this will require adjustments to the master programme and affect the timing of work within some communities.

4.5.5 The external works tenders which relate to an estimated £20.5m of work in the Upper Rhymney Valley are still under review but a provisional increase has been included in line with the estimated increase on the internal works. The external works tenders may need to be the subject of a separate report in due course.

4.6 **Affordability**

4.6.1 The WHQS business plan is based on the Savills data from 2008. The stock condition was a 15% sample survey. It is not therefore unexpected that as the Programme moved forward there would be some significant variations. Due to the size of the stock the cost variations can be very large. It is impossible to predict an expected out turn on the budget in 2020 at this stage. The business plan has been updated to support the MRA application for 2014/15. This shows a borrowing requirement of £31.45m. The retention plan approved by the council in October 2011 prior to the ballot agreed borrowing of £39.3m to support the delivery of WHQS. There is currently some flexibility to absorb additional costs. There are some very big variances but the overall conclusion is that an estimated additional £4.97m is affordable. In reality based on experience to date the actual expenditure for internal improvements may be less than the budget estimate.

4.7 Slippage

- 4.7.1 The due diligence review of the internal works has caused a delay. If the decision is made to proceed with the contracts and allowing for the necessary mobilisation period a commencement on site should be possible by October 2014. There will therefore have been a six month delay to a major part of the planned programme for 2014-15. The extent to which the slippage can be caught up over the remaining period of the year will be dependent on the extent of the actual work that emerges from the property surveys, and discussions with the contractors on the planning and resourcing of the works.
- 4.7.2 Proceeding with the award of the internal works contracts is the only option that will avoid further slippage. Any alternative such as bringing more work in house or retendering will result in more time delay and uncertainty about how successful any such alternative might be. There would be a major risk that a significant part of the 2014-15 programme affecting internal improvements to in excess of 800 homes would not be delivered and cause knock on consequences for the remaining years of the programme to 2019-20.

5. EQUALITIES IMPLICATIONS

- 5.1 An EqlA screening has been completed in accordance with the Council's Equalities Consultation and Monitoring Guidance and no potential for unlawful discrimination and for low level or minor negative impact have been identified, therefore a full EqlA has not been carried out.
- 5.2 The implementation of the WHQS Programme will ensure compliance where appropriate with current Building Regulations and DDA requirements. The Council's procurement processes include equalities requirements and compliance by third party contractors undertaking WHQS work. In addition Part 7 of the WHQS requires that aids and adaptations are provided to meet the specific needs of individual households.

6. FINANCIAL IMPLICATIONS

- 6.1 The estimated value of the internal works due to be awarded to the contractors is £49.8m based on the Savills cost plan. An assessment undertaken by ChandlerKBS has concluded that generally market competitive rates have been submitted. The spread of rates between the three contractors for the same elements are much closer and within acceptable limits. The estimated additional cost of £4.97m is derived from the Savills stock condition survey and the limitations of this data have to be recognised.
- 6.2 ChandlerKBS has advised there may be the possibility of negotiating a further improvement to the discount percentages to the NSR if the contractors are provided with greater certainty of workload during the contract period. However current working arrangements and resource capacity place a constraint on how far in advance works instructions can be provided.

7. PERSONNEL IMPLICATIONS

- 7.1 The delivery of the WHQS Programme to a tight timescale is a major challenge and the issues that have arisen with the internal works contracts have been a setback. Notwithstanding the delay to the award of the contracts the property surveys have fallen behind programme. Steps have been taken to catch up and ensure that there will be the first two months of works ready to award to the contractors but thereafter there will be a need to ensure continuity of work. The latter is a requirement for both the in house work force and the contractors and with the increase in volume of work this is now identified as a major risk area. The Project Board are closely monitoring the situation and considering the need for contingency arrangements. This covers the input required by the surveyors, TLOs, and the OT officer. The situation is further hampered by slow progress with IT developments that would improve the efficiency of some of the current working practices.

8. CONSULTATIONS

- 8.1 No comments have been received that need to be incorporated within the report.

9. RECOMMENDATIONS

- 9.1 Taking into account all the considerations outlined in the report the internal works contracts are awarded as follows:

Eastern Valleys	Keepmoat
Upper Rhymney Valley	Vinci plc
Lower Rhymney Valley	Contract Services (South Wales)

- 9.2 Subject to the Council's ability to put in place arrangements that will provide greater certainty and longer advance notice of workload during the contract period negotiations are pursued with the contractors to achieve a further improvement to the discount percentage rates.
- 9.3 Following contract award discussion takes place with the contractors to explore how the slippage that has arisen on the 2013-14 internal works programme can be mitigated.

10. REASONS FOR THE RECOMMENDATIONS

- 10.1 To progress the WHQS Programme in accordance with the agreed contract structure, pursue measures to address slippage and value for money.

11. STATUTORY POWER

- 11.1 Housing Acts 1985, 1996, 2004. This is a Cabinet function.

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