



CAERPHILLY HOMES TASK GROUP – 10TH DECEMBER 2015

SUBJECT: SMALL LOTS – REVIEW OF CONTRACT ARRANGEMENTS

REPORT BY: CORPORATE DIRECTOR - COMMUNITIES

1. PURPOSE OF REPORT

- 1.1 To propose changes to the contract arrangements for external works in the Eastern Valleys. The report is seeking the views of CHTG prior to its presentation to Policy and Resources Scrutiny Committee and Cabinet.

2. SUMMARY

- 2.1 The external works within the Eastern Valleys are being undertaken through a series of small lots contracts. Experience over the last 2 years has given rise to concerns that if continued reliance is placed on this method alone there are significant risks that this part of the WHQS programme will not be delivered by 2020. A review of the contract arrangements has concluded that the external works on 2 large estates (Cefn Fforest and Ty Sign) should be undertaken by alternative means and there is an opportunity to link this with the procurement of new contract arrangements for external works in the Lower Rhymney Valley.

3. LINKS TO STRATEGY

- 3.1 The Welsh Housing Quality Standard is intended to ensure that all local authority and housing association homes are improved and maintained to achieve specified standards. It is a Welsh Government requirement that the WHQS is achieved by 2020.
- 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 aims:
“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 contract structure for the delivery of the WHQS Programme was approved by CHTG/Cabinet Sub Committee in September 2012.
- 4.2 The new Public Contracts Regulations came into force in February 2015 and continue to provide the same option for disaggregation of spend into small contracts up to the value of £833,400 for works as long as the total value of all such contracts does not exceed 20% of the value of the main contract or contracts tendered for the same requirements. The application of small contracts was seen as an opportunity for part of the WHQS Programme to be

delivered by local companies with a beneficial effect on the local economy. It was estimated that the value of work that could be awarded under the small lots amounts to £17.5m. This was broadly the estimated value of external works in the Eastern Valleys.

- 4.3 It was envisaged that around 20 small contracts would be tendered on a more limited basis. There was a cautionary note at the time of the original report that there would need to be a limit on the overall numbers of contracts awarded due to the resource implications for procurement, contract preparation and management.
- 4.4 As the detail of the small lots contracts has developed it has become necessary to break the packages down into smaller value lots in order for the smaller Caerphilly based businesses to be able to tender for work. As a consequence over the first two years (2014/15 and 2015/16) there will be 21 contracts. With the estimated value of work to be awarded over the remaining 4 years of the programme, which includes a large spike in 2018/19, there will be a proliferation in the number of contracts to be procured and managed, possibly in the region of 30 to 40 contracts. There will be particular management issues on the two large estates of Ty Sign and Cefn Fforest where multiple contracts will be necessary. It is unlikely that existing staff resources will cope with this large increase in contracts which will have to be tendered and works completed within the four year timeframe 2016/17 to 2019/20.
- 4.5 Furthermore experience with the small lots contracts to date has raised a number of concerns. There have been 10 small lots contracts tendered to date. The aggregate cost of these 10 have a tendered value 60% higher than the Savills cost plan budget. This results in an average spend per property of £12,268. This compares with a cost plan average of £5,000 per property.
- 4.6 Contract packages are tendered on the basis of value bands and there has been a disappointing response to a number of the contracts that have been tendered. The construction sector is currently buoyant with many more opportunities available and there appears to be capacity problems within the market which is contributing to the reduced number of tenders being received, compounded by demand for skilled construction workers.
- 4.7 There have been time overruns on nearly all the contracts. At the end of October 2015 only one contract of 53 properties in Markham has been completed. Although 6 more contracts are due for completion by December 2015 they all form part of the 2014/15 programme.
- 4.8 The first contract for 2015/16 has been awarded for 21 properties in Ynysddu/Cwmfelinfach. A further 11 contracts have still to be tendered for the 2015/16 small lots programme. These have been delayed due to the necessity to re-survey following the introduction of revised guidance for external works in light of concerns about cost escalation. The majority of the 2015/16 small lots will run into the 2016/17 financial year.
- 4.9 The original objectives of ensuring local contractors get the opportunity to tender for WHQS work remains an important aim. However, given the time pressure on delivering the WHQS programme in its entirety by March 2020 it is necessary to re-examine the practicality of delivering all the external works in the Eastern Valleys through the mechanism of small lots. With the large number of additional contracts forecast there is a big risk this will not be manageable within the staff resources currently available. Furthermore there would appear to be a cost premium to deliver works through a large number of small contracts and this may be difficult to sustain given the cost pressures on the programme generally.
- 4.10 The Ty Sign estate in Risca is scheduled for external works in 2016/17 (Lower) and 2018/19 (Upper) with a budget estimate of circa £6m affecting some 450 properties. To undertake this scale of work via small lots could involve 12 separate contracts all with associated resource implications for procurement, contract preparation and management. Given all the concerns highlighted leads to a conclusion that a different approach is now required that will provide greater certainty in respect of delivery by March 2020 and that will be simpler to administer and less staff resource intensive.
- 4.11 Although the overall estimated value of work is much lower there will be similar challenges on

the Cefn Fforest estate where 320 properties will have external works undertaken.

4.12 It is advocated that the small lots programme should be curtailed and be limited to the smaller estates in the Eastern Valley which can be more easily parcelled into smaller contracts. Different contract arrangements should be adopted for the Ty Sign and Cefn Fforest estates. There is an opportunity to incorporate these two estates within the procurement of new contract arrangements for external works in the Lower Rhymney Valley which will avoid the need for a completely separate contract procurement.

4.13 During 2015/16 the small lots contracts have been tendered within three value bands:-

Band	Value Range
A	£ 50,000 - £200,000
B	£200,001 - £400,000
C	£400,001 - £800,000

4.14 In addition there is a location restriction which only allows the participation of contractors that have a Constructionline profile which show a location of work or branch office located within Caerphilly County Borough.

4.15 In view of the proposed changes to the small lots that will reduce the overall value of work to be offered over the remaining years of the programme it is also proposed that the value bands be amended to:-

Band	Value Range
A	£ 50,000 - £300,000
B	£300,001 - £750,000

The threshold between Band A and Band B may be subject to adjustment in light of research of those companies registered on Constructionline.

4.16 As tendered costs have generally exceeded the pre-tender estimate some flexibility has been allowed at the top of Band B as the overall limit set by the Public Contracts Regulations cannot be exceeded.

4.17 The location restriction should remain for the residual value of the small lots work as the Ty Sign and Cefn Fforest estates will be opened to a wider market.

4.18 The WHQS Project Board will continue to be consulted in relation to the award of any small lots contract with a final tendered sum that exceeds the upper limit of either Value Band range recognising that the maximum value of any small lot cannot exceed £833,400 and the decision to proceed will be made by the relevant officer under Delegated Powers.

4.19 A fresh approach should be made to the local market and all interested contractors will need to undertake a PQQ notwithstanding if one has previously been completed.

4.20 Constructionline will be used to generate the list of eligible contractors who will be invited to participate in the new selection process. On completion of the new selection process the value band contractor lists will be put in place for the remaining four years of the programme but will be subject to review in the event of limited tender returns.

5. EQUALITIES IMPLICATIONS

5.1 An EqIA screening has been completed in accordance with the Council's Equalities Consultation and Monitoring Guidance and no potential for unlawful discrimination and for lower level or minor negative impact have been identified, therefore a full EqIA has not been carried out.

6. FINANCIAL IMPLICATIONS

- 6.1 The estimated value of external works in the Eastern Valleys (based on the Savills cost plan) for the period 2016/17 to 2019/20 is £10.5m. If the Ty Sign and Cefn Forest estates are removed from the small lots programme there would be a reduction in estimated value of 65% to £3.6m. This would require a much smaller number of contracts to be awarded over the four year period to March 2020. The financial implications relating to individual contracts will be addressed at the time work packages are tendered.

7. PERSONNEL IMPLICATIONS

- 7.1 The proposed changes would result in a more manageable number of small lots contracts and place less strain on the staff resources within the Procurement and WHQS teams. This will help to reduce the risks of this part of the WHQS Programme not being completed by March 2020.

8. CONSULTATIONS

- 8.1 Comments received have been taken into consideration within the report.

9. RECOMMENDATIONS

- 9.1 The Caerphilly Homes Task Group recommend to the Policy and Resources Scrutiny Committee and Cabinet a reduction in the amount of work to be procured via small lots over the remaining period of the programme in view of the risks of not completing this by March 2020.
- 9.2 The external works on the Ty Sign and Cefn Fforest estates be incorporated within the procurement of new contract arrangements for external works in the Lower Rhymney Valley.
- 9.3 The adoption of 2 value bands is supported for small lots contract packages over the remainder of the programme period, subject to review in light of tender returns.
- 9.4 The Project Board continue to endorse the award of any small lot contract with a final tendered sum that exceeds the upper limit of either value band range where appropriate.

10. REASON FOR RECOMMENDATIONS

- 10.1 To agree a revised strategy for the small lots over the remaining programme period 2016/17 to 2019/20.

11. STATUTORY POWER

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

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