

EAST AYRSHIRE COUNCIL

POLICY & RESOURCES COMMITTEE – 25 NOVEMBER 2004

REVENUE MAINTENANCE AND PROPOSALS FOR FUTURE DELIVERY OF CAPITAL PROGRAMME/BUILDING AND WORKS OPERATIONS UPDATE

Joint Report by Depute Chief Executive/Executive Director of Corporate Support and Executive Director of Neighbourhood Services

1. PURPOSE OF REPORT

- 1.1 To advise the Committee of progress in implementing the review of the Council's contractual arrangements in relation to the property repairs and maintenance service, including elements of the capital programme and to make recommendations for future contractual arrangements.

2. BACKGROUND

Phase 1

- 2.1 The background to this issue, as laid out below and as further referenced in paragraph 3 of this report, reflects the information provided to the Housing Committee on 3 November 2004 as contained in the report by the Executive Director of Neighbourhood Services.
- 2.2 In 1997/98 the Building and Works Direct Labour Organisation (DLO), which was part of the Commercial Operations Department incurred an operating deficit of £1.167m and in doing so failed to meet the agreed financial objectives set by statute. The Scottish Office through the then Secretary for State took action under section 19B of the Local Government Planning and Land Act 1980 preventing the Council from carrying out building maintenance work from 1 June 1999 unless there was an acceptable recovery plan.
- 2.3 To ensure that the Council was able to maintain its maintenance obligations to Council house tenants and to Council tax payers generally in terms of delivering value for money and quality services, the Council decided to radically review the delivery of revenue maintenance and capital works. The Council took decisive action to ensure that the then building maintenance contracts for Council housing and capital works were secured and delivered after the 1 June 1999. The approach put forward by East Ayrshire Council and agreed by the Scottish Office was to

develop a mixed economy of provision for building maintenance and capital work contracts.

- 2.4 The recovery plan was developed by external consultants and East Ayrshire Council. The approach agreed upon was that the DLO would get two thirds of revenue maintenance contracts and one third of capital maintenance contracts as of right with the private sector receiving one third of revenue maintenance contracts and two thirds of capital works contracts. The DLO was not allowed to tender for any capital work above a £500,000 limit. This approach along with a number of specialist single trade contracts that were outsourced had the effect of increasing the amount of work undertaken by the private sector to 35%.
- 2.5 In April 1999 the Kilmarnock South and Doon Valley multi trade building maintenance contracts were awarded to Central Building Contractors Ltd. During the same period the DLO underwent major changes which included the reduction of the work force by one third, the renegotiation of employee terms and conditions and the introduction of contract prices that linked DLO rates to those of private sector (benchmarking). These actions, in addition to a mixed economy of provision allowed, the DLO to project a surplus of £229,000 in 1998/99 and therefore secured the continued existence of the DLO. Over the following four years Building & Works through improved management increased their surplus from £28,000 in 2000/01 to £800,000 in 2003/04. In recognition of Building & Works turnaround the Scottish Executive rescinded the Section 19B Notice in August 2002.
- 2.6 East Ayrshire Council took the decision to maintain the current contractual arrangement until such times as a more comprehensive review of property repairs and maintenance contracts could be undertaken.

Phase 2

- 2.7 On the 28 November 2002 the then Director of Homes & Technical Services submitted a report to Policy & Resources Committee on the Property Repairs and maintenance service with specific reference to the contractual arrangements to be adopted by the Council in the future. The report sought to inform the debate around the various Best Value options to be considered for future building maintenance contractual arrangements in the light of changes within the governance of the industry and made recommendations on the arrangements for the next round of tendering, including retention of the existing multi-trade contracts along with re-tendering of various specialist and single trade contracts. It also made recommendations on the time-table and strategy for undertaking of a comprehensive review of procurement routes, packaging, and innovative arrangements for securing Best Value for the Repairs Service.

2.8 Policy and Resources Committee agreed to the following actions:-

- To undertake a root and branch review of the various procurement routes and packaging options with a view to introducing best value arrangements tailored to address the needs of end users and do away with redundant practices and procedures.
- To set up an inter-departmental working group to oversee the review.
- The appointment of a review consultant with responsibility for drawing up and undertaking a timetable for consulting departments, the market place, tenant groups and other authorities.
- To negotiate contract rates with CBC on their multi trade contracts for the next twelve month period together with an additional six traditional services.
- That Building & Works would operate to the agreed private sector bench marked prices for their multi-trade contracts with an additional six traditional services.
- That a number of pro-active and specialist services be re-tendered for a one year term with two possible one year extensions.
- That two external gas maintenance contracts be re-tendered for a one year term with two possible one year extensions.

Phase 3

2.9 On the 18 December 2003, at a Special Policy and Resources Committee, the Director of Homes & Technical Services submitted a report advising members of the progress made against the recommendations of the previous Policy and Resources Committee of 28 November 2002 and outlining recommendations for future contractual arrangements.

2.10 Progress by then included the following:-

- Contract rates were re-negotiated with CBC up to the end of their current contract (June 2004) on terms favourable to the Council when compared with market fluctuation at that time.
- Similarly, further negotiations took place with the DLO resulting in rates even more favourable than those applied by CBC for the remaining period of the four measured term maintenance contracts operated by the DLO.

- Pro-active and specialist trade services were re-tendered for a one year term with two possible one year extensions. These were awarded to a variety of companies.
- Two external gas maintenance contracts were re-tendered for a one year term with two possible one year extensions.
- The inter-departmental working group had been set up and met as required to oversee and drive forward the review.
- An external consultant had been contracted to undertake the review.
- The root and branch review was completed (see section 5) as reported to the Special Policy and Resources Committee on 18 December 2003.

3 REVIEW SCOPE & RECOMMENDATIONS

3.1 The comprehensive review looked at a range of issues including:-

- Value for Money
- Long term Partnering Arrangements
- Supply Chain Management
- Work types to be included in capital or planned versus response maintenance
- The historical situation
- The current contract split on a geographical basis
- The use of the Council's Building & Works organisation
- Consultations with Building & Works, External Contractors and tenants

3.2 Policy and Resources Committee agreed the following recommendations of the working group and consultants:-

- The Council should continue to adopt a mixed economy, for the management of its repairs contracts.
- The Council should award its housing repairs contracts to Building & Works, subject to a detailed and externally validated benchmarking

arrangement in relation to price and quality, and that the outcomes should be reported back to Committee.

- That the Housing Repairs Contract should include the work of fitting showers and hand-rails as part of the Aids and Adaptations process, the Council's out-of-hours emergency service for all of its buildings, and domestic gas work.
- That the Council should tender externally its repairs service for non-housing buildings and that Building & Works should be permitted to tender for this.
- That the non-housing repairs service should include the servicing of gas boilers and associated equipment.
- That the Council should continue to tender separately the specialist contracts which were previously the subject of tenders, and should continue to tender separately the Aids and Adaptations work for the installation of ramps and stair-lifts.
- That the Council should institute a range of framework or call off supply chain contracts for kitchens, bathroom fittings, boilers and other items used on a regular basis with a view to obtaining maximum value for money.

4. FUTURE DEVELOPMENT OF THE DLO

4.1 It is now the intention of the DLO to review its Business Plan for future years to ensure that this takes full account of all relevant developments since the previous operating arrangements were put in place in 1999 as referred to in paragraph 2 above. This process will specifically take account of and build upon:-

- The previous review of contractual arrangements and decisions taken in respect thereof
- The success of the DLO in winning the Non-Housing Property Portfolio Repairs and Maintenance contract
- The Local Government (Scotland) Act 2003
- The Council's proposed Corporate Procurement Strategy and related developments in European procurement law

4.2 In order to better achieve the decisions of the Policy & Resources Committee of 18 December 2003 and to best plan ahead for the future,

recognising the need for the Council to achieve Best Value and to maximise flexibility for both client and contractor in achieving the programming and completion of work, the undernoted is proposed.

Long Term Proposed Position

- 4.3 The long term position being proposed is an arrangement whereby Building & Works will enter into a partnership arrangement with a single private sector partner who would take up a balance of the total Repairs and Maintenance and capital works requiring to be undertaken, without prejudice to the Building and Works Business Plan.
- 4.4 It is further proposed that, given the preparatory work which requires to be undertaken to achieve such an arrangement and the currency of the existing Non-Housing Property Portfolio contract, the Council aims to have the mechanism effective from April/July 2007.

Medium Term Arrangement

- 4.5 As an interim measure to allow the Council to prepare properly for the full partnering arrangement outlined above, it is proposed that we put into place from April/June 2005, a Schedule of Rates based Framework Contract, again with one external contractor, covering capital works which exceed Building and Works' capacity.
- 4.6 The scope of the contract would be related to surplus capital works above the value of £10K and below £150K. All capital works below the minimum value would be undertaken or otherwise managed by the DLO or by the extended family of sub-contractors which is intended to be put in place by the Business Planning process outlined above. All work of a value in excess of £150K will be tendered on an individual basis.
- 4.7 It is considered that these interim arrangements constitute an appropriate stepping stone to the more comprehensive partnering arrangements which it is intended to put in place in the longer term as outlined at paragraphs 4.3 and 4.4 above and as reported to the Housing Committee on 3 November 2004. It is also considered that this approach preserves both core revenue and capital works below £10K to the DLO in accordance with the revised policy approach set out within this paper.
- 4.8 Further, if the Committee agrees to accept the recommendations of the Housing Committee to lift the previous constraints on the DLO's operations previously imposed in 1999 and as set out in this report, the DLO will be in a position to further develop its capacity to undertake further capital works during the lifetime of the proposed contract. The purpose of this approach, therefore, is to ensure that there is in place an external

contractor who can supplement the programme as it develops whilst allowing the DLO the flexibility required to evolve its business.

5. LEGAL IMPLICATIONS

- 5.1 The various processes and recommendations set out in this report will assist in ensuring ongoing compliance by both the DLO and the Council with all relevant legal requirements.

6. POLICY IMPLICATIONS

- 6.1 The actions proposed within this report will further ensure that the Council achieves its policy objective of delivering property repairs and maintenance and capital contracts through a mixed economy model as agreed at the Special Meeting of the Policy & Resources Committee on 18 December 2003.

- 6.2 The provision of both the housing maintenance and capital contracts by building and works links directly to the core themes of the East Ayrshire Community Plan, these include

Improving Opportunity:

- The provision of local jobs that injects money in to the local economy.
- The provision of modern apprenticeships schemes.

Eliminating Poverty:

- Specifically fuel poverty through improvements to the energy efficiency of Council houses.

Improving Health

- Through the provision of better quality, safer, better insulated and more fuel efficient Council houses.

7. FINANCIAL IMPLICATIONS

- 7.1 None arising directly from this report.

8. RECOMMENDATIONS

- 8.1 It is recommended that the Committee:-

- (i) agrees to maintain the current strategy of delivering property repair and maintenance and capital contracts through a mixed economy model
- (ii) agrees, in principle, to allow Building and Works the opportunity to undertake an increased level of capital works from 2005/06 onwards subject to benchmarking
- (iii) agrees to continue to monitor the quality and value for money offered by Building and Works through significant benchmarking exercises carried out and validated by external consultants
- (iv) agree to remit to the Depute Chief Executive/Executive Director of Corporate Support to initiate an appropriate tendering process to secure involvement of an external contract in the future delivery of the capital programme in respect of those works above £10K and below £150K and which are excess to the capacity of the DLO on the basis of an initial 2 year contract with 2 further 1 year optional extensions as set out in further detail in paragraph 4 of this report.
- (v) notes the intention to move to a partnership arrangement as described in paragraphs 4.3 and 4.4 of this report and in this regard remit to the Depute Chief Executive/Executive Director of Corporate Support to report back with fuller details and proposals in due course.

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Director of Corporate Support

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12 November 2004

BACKGROUND PAPERS

1. Report to Policy and Resources Committee of 28 November 2002.
2. Report to Special Policy and Resources Committee of 18 December 2003.
3. Report to Housing Committee of 3 November 2004.

For further information on the content of the report contact Elizabeth Morton,
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