

Report Title: **Reactive and Planned Maintenance Contracts for the Operational Building Portfolio managed by Corporate Property Services.**

Forward Plan reference number (if applicable): n/a

Report of: **Julie Parker, Director of Corporate Resources**

Wards(s) affected: **All**

Report for: **Key Decision**

### **1. Purpose**

1.1 To outline the future options available for the efficient delivery of an integrated reactive and planned maintenance system across the operational building portfolio managed by Corporate Property Services.

1.2 To seek Cabinet Procurement Committee endorsement for the preferred option and the action plan for the delivery of the proposals

### **2. Introduction by Councillor Adje, Cabinet Member**

2.1 The proposals outlined in the report seek to improve upon the effectiveness and enhance on value for money for the Council against current provision by Homes for Haringey.

### **3. Recommendations**

3.1 It is recommended a Managing Agent be appointed to coordinate and manage the delivery of planned and reactive services across the operational building portfolio.

3.2 That John Rowan and Partners continue to support the delivery of the integrated maintenance contract with support, guidance and advice from the Construction Procurement Group.

3.3 That the current reactive maintenance contract with "Inspace Maintain Ltd" be extended for a period of 6 months, until the new contract is in place for the 1<sup>st</sup> September 2008.

3.4 That the estimated Consultancy, Contractor costs and the impact statement on Homes for Haringey detailed in Appendix B are noted.

Report Authorised by: **Dinesh Kotecha, Head of Corporate Property Services**

Contact Officer: **Stuart Evans, Corporate Landlord Manager;**

#### **4. Director of Finance Comments**

4.1 The Director of finance has been consulted in the production of this report and notes that the proposal for an integrated reactive and planned maintenance contract should help deliver increased efficiencies and improve VFM for the Council. Any potential revenue savings outlined in paragraph 8.1 will help to achieve the Council's overall savings target.

#### **5. Head of Legal Services Comments**

5.1 This report recommends for a Managing Agent to be appointed to coordinate and manage the delivery of planned and reactive services. This would be done through a tender process that would comply with EU tendering requirements. This would require Homes for Haringey to novate existing term contracts. The Managing Agent, once appointed, would however have to ensure that all contracts comply with any EU and CSO requirements when being renewed.

5.2 The report also recommends that the current reactive maintenance contract with "Inspace Maintain Ltd" be extended for a further six (6) months period, while waiting for the Managing Agent to be appointed and that the contract with "John Rowan and Partners" who are to provide support in the next stages of development and procurement of an integrated reactive and planned maintenance system be extended. Both Contracts are below the EU threshold for works and services respectively and the Procurement Committee has the power under CSO 13.2 to approve the proposed extension.

5.3 The Head of Legal Services confirms that there is no legal reason preventing Members from approving the recommendations in paragraph 3 of this report.

#### **6. Head of Procurement Comments**

6.1 The Construction Procurement Group has been involved in the process of developing options and supporting this project from its inception.

6.2 A detailed options appraisal has been done, and providing there is sufficient demonstrated evidence of the method of selecting the recommended option, supports the recommendation to appoint a managing agent.

6.3 This option is a standard response for this type of service, and other local authorities have adopted a similar method for the management of property. Visits are planned to other authorities to share best practice information and to substantiate the selected option process. Further information will then be provided to illustrate the assumed benefits, and will be reported back to future Cabinet Procurement Committee Meetings.

6.4 Extension of the Inspace Maintain Ltd contract for a further six months will extend the value of the contract by £200k. This contract was let as a majority works contract (rather than services) and therefore remains under the threshold for works values.

6.5 Extending contracts without fully exploring and testing the market would not normally

be the preferred course of action. However, under the circumstances, there is clearly a longer term plan underway to put in place a more robust and longer term solution.

6.6 In summary, the Head of Procurement supports the recommendations to Members made at paragraph 3 of this report.

## **7. Comments from Homes for Haringey.**

7.1 “Homes for Haringey” (Design and Engineering) are the contract administrator and contractor for a number maintenance contracts for properties managed by “Corporate Property Services” that are covered by the proposals set out in this report. If the services currently provided by HfH are placed with an external contractor with effect from 1<sup>st</sup> October 2008, there will be a loss of income to Homes for Haringey. The costs and staff implications of this are detailed in “Appendix B” item 3 and 4 of this report.

## **7. Background**

8.1. Since the 2<sup>nd</sup> April 2007 the policy of Corporate Management of Property (CMP) has changed the way in which buildings are managed and operated. Directorates are no longer responsible for the “Hard Facilities Management Services” to their buildings. (i.e. building structure, mechanical and electrical services). A small team within Corporate Property Services now facilitates the delivery of these reactive and planned maintenance programmes using term contracts.

8.2 The building portfolio which is managed under the CMP processes comprises operational buildings within:-

- Offices, Call Centres & Customer Services Centres
- Children’s and Family
- Adult Social Services
- Recreation
- Adult Learning, Libraries & Culture
- Urban Environment Depots
- Other areas such as Commercial buildings, Community Centres and Leisure Centres may be included.

8.3 The reactive maintenance programme is delivered through a 12 month measured term contract with “Inspace Maintain Ltd”. This contract operates against a defined Service Level Agreement which is being used to deliver greater customer satisfaction, higher levels of performance and improved value for money.

8.4 The planned maintenance programme is provided through Homes for Haringey (HfH), with a much generalised SLA, utilising a combination of direct labour and term contractors. Service contracts are placed with various contractors and a management fee is charged for this service. The service is split across several functional groups within HfH; the processes are open looped with minimal tracking and performance

monitoring. Corporate Property Services does not hold information on these term contactors; this information is held by HfH.

- 8.5 John Rowan and Partners (JRP) have been contracted to support the development of the first stage procurement strategy to deliver CMP. This work is now completed with the award of the contract to Inspace Maintain Ltd; for which they are continuing to performance monitor on our behalf. We propose to continue with JRP to support the next stages of the development and procurement of an integrated reactive and planned maintenance system at an estimated consultancy cost of £45k
- 8.6 It is proposed to build on the works that have been completed during the implementation of the CMP project in order to achieve improved economies of scale. The reactive maintenance works delivered during 2007/08 are being evaluated together with the planned maintenance works. A review of "Best Practice" has been undertaken in conjunction with JRP which is outlined in this report. (See appendix 1)
- 8.7 This proposal will extend the SLA, s which have implemented across the recently awarded Reactive Maintenance to the combined maintenance contract. These will be based on response times, quality of work, costs performance incentives and customer satisfaction levels.
- 8.8. This paper now seeks Cabinet Procurement Committee endorsement in order that a tender package can be developed and contractors can be invited to tender through the "Official Journal of the European Union" processes.
- 8.9 On the basis that Cabinet Procurement Committee accepts the recommendations within this report, the SLA between HfH will need to be revised in line with the amended scope of the services to be provided by them and the managing agent. This will be addressed as soon as possible thereafter.
- 8.10 The contract with the managing agent will be managed by Corporate Property Services (CPS), and will ensure that all performance criteria are met. Any under-performance issues will be immediately addressed by both CPS, working in conjunction with Construction Procurement Group.
- 8.11 In terms of managing the performance of the new managing agent contract, the following processes will be considered:
  - Clear and specific criteria will be outlined in the tender documents accompanying the OJEU process;
  - All tenderers will be evaluated against performance criteria, and only those with robust performance management criteria will be considered to go forward;
  - The new contract will require regular performance meetings to take place, with all parties to attend and present KPI information.

- 8.12. Recognising that there will be a heavy reliance on just one strategic partner, the procurement process will be detailed enough to ensure that the selected bidder has sufficient capacity and capability to manage this contract. Additionally, this process will fully consider contingency opportunities in the unlikely event that the above performance monitoring processes fall short of Council standards and expectations.
- 8.13 If the contracts under-perform to such an extent that contract termination is necessary, then the Construction Procurement Group's framework agreements will provide short-term, interim continuity.

## **9. Analysis**

- 9.1 The reactive maintenance contract under CMP has been optimised under a single supplier. The planned maintenance works however are currently provided through a wide diversity of contractual arrangements managed through HfH. It is proposed that the delivery of the planned and reactive maintenance to the operational building portfolio be combined into one single package.

### Objectives:-

- To achieve an improved economy of scale with a 5% target cost saving over the current systems.
  - To improve the planned to reactive maintenance ratio to 70:30. (i.e. currently 50:50) to derive costs savings.
  - To deliver improved quality of service and levels of customer satisfaction by the implementation of an integrated contract.
- 9.2 In conjunction with JRP a review of the options available to achieve the above objectives has been undertaken (see appendix 1). The options that have been considered are as follows:-
- 9.2.1 Do Nothing  
This is not a viable option, since the current reactive maintenance contract is for 12 months and requires renewal from the 1<sup>st</sup> April 2008. Homes for Haringey also require firm commitment on our future requirements so they can develop and optimise their business planning; at the same time Corporate Property Services need to have their maintenance programmes on a firmed basis.
- 9.2.2 Internal Management Model  
This option would require the recruitment of new staff and the restructuring of the existing resources to deliver the managed services through a system of term contracts. This option has been discounted on the basis of the timescales needed to implement and the historical difficulties of recruiting staff with the required skills for this type of work.
- 9.2.3 Managing Contractor  
This option would package the planned and reactive maintenance works under a single contractor. However we are of the opinion that due to the diversity of the portfolio and the current contractual

arrangements the implications of selecting a Managing Contractor in this instance would not be beneficial. The transitional change would be difficult to manage and disruptive due to the knowledge and experience of these buildings residing with many of the existing term contractors. This option has also been discounted at this time.

#### 9.2.4 Total Facilities Management

The responsibility for the provision of building services and for the general management would be placed in the hand of a single organisation. We consider that at this time this would be an extremely high risk strategy, since all our “eggs would be in one basket” It would be very difficult to implement an exit strategy should anything go wrong or the selected organisation went into liquidations. Also due to the poor condition and limited information currently available across the building portfolio. This option has also been discounted at this time.

#### 9.2.5. Managing Agent

This option would appoint a single agent to coordinate and manage the delivery of planned and reactive services across the building portfolio. Existing contracts would be novated under this agent and it would be their responsibility to control and generate best value situations. This may be by way of bulking trades and/or services in order to attract the calibre of supply chain that delivers best value. The agent’s fee would be based on a percentage of works completed, with incentives to reward improved performance and delivering best value. This option is the recommended course of action to take.

9.3 To achieve the objective of appointing a “Managing Agent” would require the close cooperation of the incumbent suppliers in particular “Homes for Haringey”. During the PQQ and tendering processes HfH would have the opportunity to tender for these works on an equal basis with the external market.

9.4 The provisional programme of work has identified that the development of a tender package and the process of tendering through the “Official Journal of the European Union” will take 12 months to complete. It is therefore estimated that this contract would be in place for 1<sup>st</sup> September 2008. This will therefore require transitional arrangements to be put in place from the 1<sup>st</sup> April 2008 of extending the existing reactive maintenance contract with Inspace Maintain Ltd by 6 months. Homes for Haringey will be required to provide detailed information on the existing term contracts.

## 10. Financial Implications

10.1 During 2007 the repairs and maintenance budgets have been pooled corporately within Corporate Property Services to deliver the reactive and planned maintenance services based on an assessment of priorities across the portfolio. The combined budget amounts to a sum of £1.4 million, during 2007/08 these monies are forecasted to be split as follows:-

	Annual Contract spend (£)	Annual saving @ 5%
Management & Consultancy within CPS (including Helpdesk)	400,000	
Reactive contract provided by Inspace Maintain Ltd	450,000	
Planned contract provided substantially by HfH.	550,000	
<b>TOTAL (Budget sum 2007/08)</b>	<b>1,400,000</b>	<b>70,000</b>

- 10.2 Appendix B, item 4 provides a summary of the current planned term contracts currently administered through homes for HfH. Most of these contracts terminate 31<sup>st</sup> march 2008, with a few 31<sup>st</sup> March 2009. As stated in the response from HfH most of the contractors would be content with them being novated. The only exception being the fire fighting equipment service supplier "FDAS", where the contract extends to the 31<sup>st</sup> march 2009. This issue could be solved by delaying its transfer for a further 6 months until the contract expires. There would therefore appear to be little or no costs to be incurred in this area. As part of the next stage of this project; work between HfH and John Rowan and Partners will explore the best and most economic route for this area.
- 10.3 Consolidating the contract into one package will deliver improved economies of scale and provide improved value for money service delivery. It will also enable more preventative maintenance to be targeted, such that areas of reactive works can be reduced.
- 10.4 We are currently paying approximately 18% to HfH on their elements of the Works. This is high and this can be reduced during the tender process. By economy of scale we aim to improve unit of work costs.
- 10.5 By way of restructuring the current maintenance systems we endeavour to ultimately develop a situation where planned/reactive works form a 70/30 ratio respectively. Through this we expect a Best Value situation to be represented and an overall saving of at least 5% to become evident.
- 10.6 One of the key objectives of the CMP initiative is to improve the management of budget spend on maintenance. Various investigations have been carried out with Procurement and Corporate Finance to identify previous years' spends on maintenance. These investigations have been inconclusive as the majority of the information was patchy and incomplete. This is mainly due to the fact that, previously these works were not always strictly coded against maintenance budgets. Whilst we are able to ascertain services' spend according to a SAP analysis, we cannot confirm their accuracy. Therefore it must be noted that these figures are an indication of spend rather than an exact figure.

- 10.7 The following information was collated from SAP, based on Services spend on repairs and maintenance account codes. As well as the SAP reports, an exercise was carried out in 2006, to decipher spend on reactive maintenance in 2006/2007. This information was then confirmed by service finance representatives. In cases where the total, as indicated in the investigations carried out for the purposes of this report, differ from the figures identified in previous exercises, the larger figure has been used.

<b>Service</b>	<b>2005/2006</b>	<b>2006/2007</b>
Environment	451,879.70	185,906.99
Social Services	68,112.77	185,000.00
Finance Services	913,307.89	825,065.25
Education	9,614.30	12,000.00
Chief Exec	305,643.01	250,083.62
<b>Total</b>	<b>1,748,557.67</b>	<b>1,458,055.86</b>

## **11. Conclusion**

- 11.1 It is proposed that a “Managing Agent” is appointed to deliver an integrated reactive and planned maintenance service to the operational building portfolio. The contract would be for four years with the option of extension for a further two years. The contract would operate against a defined “service level agreement” with the payments for the service incentive linked to deliver improved performance and value for money.
- 11.2 The key objectives are to deliver a highly responsive reactive maintenance service operating to a defined service level agreement; under pinned by a programme of planned maintenance works to ensure building services are safe and fit for purpose.

## **12. Use of Appendices / Tables / Photographs**

- 12.1 Appendix 1: Review of Options
- 12.2 Estimated Consultancy, Contractor Costs and Impact Statement on Homes for Haringey