

EXETER CITY COUNCIL
SCRUTINY COMMITTEE - RESOURCES
20 JUNE 2012

EXECUTIVE
3 JULY 2012

NEW APPROACH TO MANAGING BUILDING CONTRACTS –
TOTAL PROJECT DELIVERY INITIATIVE

1. PURPOSE OF THE REPORT

- 1.1 To seek approval to continue the initiative for the delivery of the housing kitchen, bathroom, gas central heating and boiler replacement for up to four years, following a successful six month trial period.
- 1.2 To seek approval to examine the practicality of extending the initiative to cover working budgets in respect of PSL's, Extralet and disabled adaptation programmes.

2. BACKGROUND

- 2.1 Since 2009, delivery of domestic kitchen and bathroom refurbishment through external contractors has become increasingly problematic. The contract was originally awarded to Connaught in 2009, following a traditional competitive tendering process. Regrettably, Connaught went into administration in the latter part of 2010 and Lovells took over the contract in December 2010 on a short-term basis with similar prices and unit installation periods. This action both secured the employment of most of the staff employed by Connaught and enabled the kitchen and bathroom contract to recommence whilst a further formal tendering exercise could be completed.
- 2.2 In conducting the re-tendering process, officers had been keen to ensure that whenever any new kitchen and bathroom contract was put in place it was to be robust to so ensure that risk in terms of further disruption to the programme of work would be eliminated. This meant that more time was needed to properly verify the suitability and capability of the prospective tenderers to deliver what was required in the best value interest of the council. So officers went through the tender requirements, with each prospective tenderer, to transparently establish that any bid would be made in cognisance of all potential costs and demanded rates of completion.
- 2.5 However in August 2011, before this wider formal tendering process could be completed, Lovells withdrew from their short term contract. Lovells stated that they could not sustain the work at Connaught price levels and could not complete the required number of installations at the rate desired.
- 2.6 New tenders were sought but, when tenders were received, the lowest tender comprised prices set at an even lower level than that which both Connaught and Lovells considered viable. So, following consultation with the Leader and the PFH for Housing, the tender process was abandoned and the bidders informed accordingly.
- 2.7 At the same time, August 2011, Mears signalled that they were withdrawing from their long term contract of gas installation for which they had been employed since May 2010. Mears stated that they had suffered sustained significant losses due to their previously tendered rates for this work and so then considered such were not sustainable for the company.

- 2.8 Somewhat fortuitously over this period of contractor withdrawal, an alternative approach to delivering programmed work had been developed, tested and successfully completed by the Contracts team. This was in relation to the installation of new energy efficient replacement electric heating at Rennes House. The project was successful because it utilised a contractor of known expertise and capability with a long history of delivering good quality reasonably priced work to the council in good time. Success being defined in terms of cost, completion in short time and on time and, most rewardingly, tenant satisfaction.
- 2.9 We considered how this alternative approach, named Total Project Delivery (TPD), could be exploited to deliver other programmes of work which had become problematic. TPD being essentially a controlled method of utilising several separately targeted budgets to better guarantee the delivery of work programmes. This idea was approved to be trialed for a general six month period ending March 2012, for the housing kitchen, bathroom, gas central heating and boiler replacement budgets.

3. LESSONS LEARNED FROM THE PILOT TPD APPROACH

- 3.1 Formal tendering processes in the past on these projects have produced nominal cost savings by driving down prices to low levels but often ultimately involving some sacrifice of quality. From recent experiences it is equally clear that such prices cannot be sustained resulting in contractor failure and the consequential disruption to work programmes, tenant dissatisfaction and reputational damage to the council.
- 3.2 Using the traditional competitive tendering route, where one contractor is appointed, may deliver reduced prices particularly at the outset, but then delivery is reliant on that one contractor carrying out the entire programme of work. We have however recently experienced, as detailed above, that in tough financial times this approach may carry with it undesired risk.
- 3.2 The adoption of the TPD approach may involve some increases in price, from unsustainable levels, but arguably also increases value for money as continuity of the programme is better guaranteed. TPD provides that if one of the employed contractors fails or under performs, work can be switched to the other contractors or additional contractors appointed. So the TPD approach delivers sustainability for programmes of work.

4. EXTENDING TOTAL PROJECT DELIVERY (TPD) APPROACH

- 4.1 This initiative involves Contracts taking the role of Project Manager. Work would be offered in small parcels to several approved contractors to so enable better control and monitoring of delivery. Best value prices would be derived through market testing, based on previously sustainable tendered rates, or mini-competition and incorporating the setting of realistic times for delivery.
- 4.2 When operating TPD, work will be tailored and controlled to match budgets available, so no budget would overspend. As costs for units of work will be readily available in advance of work being instructed, the numbers of units planned to be completed would be easily estimated by officers and therefore planned for. In this way the TPD provides for the continuous monitoring of costs and expenditure combined with flexibility and adaptability of approach in how and what we deliver.

- 4.3 ECC Contract Regulations, Government procurement Regulations and European Legislation all effectively demand that fair competition is used to engage all suppliers so that they are able to deliver work demanded in a best value way. The traditional route for achieving fairness is to seek tenders, as it is presumed that this will both deliver equability and best value. However, as shown from our recent experiences above, this is perhaps not always the case. An opportunity of a better way to proceed could be through this TPD initiative, where cost and best value is controlled and ensured as explained in 4.1 above and, by making the work open to all ECC prior approved contractors, we drive competition. By not using the normal tendering route for appointment, we remove those tendering costs normally incurred by suppliers, which means this method of procurement is more inclusive, for various sizes of company and can also provide better opportunities for more locally based suppliers to be involved.
- 4.4 European Legislation sets financial thresholds for project value, above which work must, for example, be widely advertised throughout Europe. With the TPD method, packages of work are offered against each individual project budget. The total value of work offered under a TPD method, against an individual budget, will not be allowed to exceed the set European threshold. That is why the TPD will be limited to a maximum of 4 years.
- 4.5 The TPD method is therefore designed for each TPD project to only run for a period up to a maximum of 4 years, or until either the budget runs out or if the European threshold will be breached. When each project budget is exhausted, the success of the initiative would be reviewed.
- 4.6 Any fluctuations to rates due to inflationary increases will be assessed and set each year by the Principal Quantity Surveyor using nationally accepted published industry indices.
- 4.7 The 6 project budgets proposed for this continuation and/or extension of TPD would be as below with estimated numbers of installed units to be completed:

Budget head	Units completed
Kitchens	902
Bathrooms	871
Gas Central Heating	223
Boiler replacement	1801
Disabled Adaptations	331
PSL and Extralet work	as demanded

A more detailed breakdown is provided in the Appendix to this report

- 4.8 The present already ECC approved select listed contractors engaged are;
- Spectrum (Locally based medium to large Company)
 - DR Jones (locally based small to medium Company)
 - MD Builders (locally based small Company) –
 - KSE (locally based small to medium Company)

However the TPD allows for any other contractor who is ECC approved to be appointed as and when required as demand arises.

- 4.9 To comply with sound procurement practise and council contract regulations or European legislation in full, it will be required that each of the installation projects be advertised individually. As each chosen project budget would fit within European regulation, and with the desire of the council to encourage the employment of local SME's, it is proposed that all required advertising would be via the Council's own website. This will also assist in terms of the probity of the procurement process. The advertisement would stay live on the web site up to 6 months prior to the end of each project, that being either when the budget is exhausted or after 4 years, whichever is the soonest. The advertisement would fully outline the requirements of working on a TPD basis.
- 4.10 Each TPD appointed contractor would have been assessed to ensure they meet and can achieve normal council standards. Those standards to include health and safety requirements, meeting council standard financial criteria, having adequate insurances and having commitment to social policies, such as equal opportunities.
- 4.11 In order to achieve best value, rates would first be researched, market tested and set by the in-house Principal Quantity Surveyor, based on previously received appropriate tendered rates. These rates would be used to set sustainable rates with all potential contractors to be employed. Alternatively, if tendered rates are not considered appropriate, are out of date or not sustainable, then a mini-tendering process between the then present applicants may be utilised to determine a more appropriate competitive level of rates to be charged.
- 4.12 On initial application each applicant would be given (electronically) copies of all contract information for the type of works they wish to undertake, within which would be detailed proposed rate information for the types of work applied for. This would allow each applicant to make an informed decision prior to incurring any resource expenditure in seeking to be part of the council's TPD method. Each applicant would be explicitly informed that the nature of TPD dictates that only a certain number of contractors will be employed (in proportion to the work content available) at any one time on any type of works. Each applicant would be informed that inclusion on the Council select list would not guarantee that any work would necessarily become available under the scheme nor that if work was available that they would necessarily be selected ahead of any other applicant on select lists.
- 4.13 The six installation projects currently proposed to be involved in this TPD initiative would be project managed by officers within Contracts in close liaison with appropriate client officers. They would drive, partner, negotiate with and supervise the work of private building companies, to deliver installations to the required programmes on time and to the agreed budget. Long term contracts would not be involved, but work will be commissioned in small packages (e.g.10 units at a time) at prior set rates to better ensure service delivery can be achieved and sustained. The TPD initiative will be primarily concerned with delivering value for money through achieving delivery and quality rather than just price alone. Working in this way, with several contractors and with smaller units let each time, TPD would have in-built flexibility to take action as necessary to appoint or disengage contractors (or let them withdraw if it is not working for them) to ensure both delivery and quality is maintained.
- 4.14 In carrying out the TPD method, it has to be seen that this initiative remodels what tendering and project management and supervision we do already. We do not envisage more in-house resources would be needed for same. In terms of payment of work, payments would be made using existing financial systems but on a per order basis, which should allow contractors more certainty of payment to so assist cash flow.

5.0 CONCLUSION

5.1 Ultimately, in arranging work in this way it has to be accepted that rates will not necessarily be driven down by economies of scale and therefore levels of rates will likely see a marginal increase because of letting work in limited quantities. However, the increased flexibility built into the arrangements would also provide the flexibility to employ additional contractors, either large or small, in order to achieve delivery demands. Working in terms of smaller packages of work may nevertheless bring a derived benefit in encouraging local companies (rather than larger national companies) to become involved who will likely then take the opportunity to seek to utilise existing local workforce resources, bringing much needed jobs and prosperity to the region.

6. RECOMMENDED

6.1 That Scrutiny Committee – Resources and Executive

- 1) note the initial progress made on the TPD pilot; and
- 2) support its continuation and extension for up to 4 years, or until respective budgets involved are exhausted, subject to annual review and approval by the Assistant Director.

ASSISTANT DIRECTOR HOUSING AND CONTRACTS

Local Government (Access to Information) Act 1985 (as amended)

Background papers used in compiling this report:

None.