

EXETER CITY COUNCIL

SCRUTINY COMMITTEE - COMMUNITY 17 JANUARY 2012

NEW APPROACH TO MANAGING BUILDING CONTRACTS

1. PURPOSE OF THE REPORT

- 1.1 To outline for Members the new arrangements being trialled for the delivery of the housing kitchen, bathroom and gas central heating replacement.

2. BACKGROUND

- 2.1 Members will recall that the housing kitchen and bathroom refurbishment contract was won following a competitive tendering process by Connaught in 2009. Subsequently Connaught went into administration and Lovells took over a number of their contracts.
- 2.2 As the contract with Connaught had not been executed it could not simply be novated but following a period of intense negotiation a short term contractual arrangement was reached with Lovells. This 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.
- 2.3 Lovells withdrew from the contract in August 2011 before the formal tendering process had been completed. Not unsurprisingly officers had been keen to ensure that when a new contract was put in place it was robust such that further disruption to the programme of work be avoided. This has meant that more time was spent verifying the suitability of the prospective tenderers. To the extent that officers went through the tender requirements with each of the prospective tenderers so that any bid would be made in cognisance of all potential costs.
- 2.4 Despite this, when tenders were received the lowest tender was below that which both Connaught and Lovells considered viable. Because of this it was considered that there was a serious risk of a new contract again ending prematurely. Following consultation with the Leader and the PFH for Housing the tender process was ended and the bidders were informed accordingly. An alternative approach which had been shown to work well for the Rennes House heating system was introduced on a trial basis.

3. NEW APPROACH METHODOLOGY

- 3.1 Rather than subjecting the work to a tender process to obtain a prime contractor, Council officers have negotiated with contractors on a sub-contract basis to develop a public private partnership model which will be trialled for six months when a decision will be made to either end or extend the arrangement.
- 3.2 There are three projects involved in this pilot, which will be managed by officers within the Contracts Unit with the unit assuming the role of Principal Contractor. They will drive, partner and supervise private building companies to deliver installations to a required programme on time and to an agreed budget. This pilot will not be involved in long term contracts, but will commission works in small units (10 at a time) at negotiated rates and ensure delivery will be achieved. The pilot will be

primarily concerned with value for money bids and measured in terms of achieving delivery and quality rather than price alone. The pilot will have flexibility whereby action can be taken if necessary to “hire and fire” contractors, to ensure the delivery and quality is maintained.

3.3 The installation projects are;

Kitchens
Bathrooms
Gas Central Heating

The present contractors engaged as partners are;

Spectrum (Locally based medium to large Company) – all projects
DR Jones (locally based small to medium Company) – all projects
KSE (Exeter, small gas company) – Gas central heating installation
MD Builders (Exeter, small building company) – Kitchen & Bathrooms*

* this company passed all our prequalification requirements but was omitted from the tender list previously because they were considered too small to take on the amount of work at that time.

3.4 Ultimately, in arranging work in this way, it has to be accepted that rates will not be driven down by economies of scale and therefore rates will be higher for letting smaller quantities of work. However, the increased flexibility built into the arrangements enables the employment of contractors, both large or small, in order to achieve delivery demands

3.5 In order to achieve best value, rates have first been set by the in-house Principal Quantity Surveyor, based on previously tendered rates and these have been used as basis for negotiation for the partnership pilot.

3.6 Appendix I details the movement in rates from the original base level when the previous contract was let, through the time when the work was “won” by Connaughts and Mears at rates that have seen been proven to be unsustainable rates, to the rates as negotiated now.

3.7 It can be seen that for this pilot, whilst across the three project streams there is an average increase of 3.04% from the previously unsustainable rates (where contractors walked away for the job), when compared to previous sustainable levels, this pilot will deliver on average savings of some 30% on those prices. Additional costs will accrue of course within the council.

3.8 For the period of the pilot, Contracts Unit are managing the approach from within their existing staff although there is a greater level of officer time devoted to housing with a commensurate reduction in officer time on non-housing work. If the initial success of the pilot is maintained and it is extended, additional resources will be necessary to manage the new arrangements.

3.9 Members will be aware that it has previously been reported to this Committee that the programmes of work would not restart before the New Year. However, due to this new approach being implemented, the following work already has been completed prior to the New Year:

Five kitchens refurbished
Three bathrooms refurbished
Three green gas central heating installations
Three boiler changes

4. COMMENTARY ON THE APPROACH

- 4.1 Formal tendering processes have clearly produced nominal cost savings by driving down prices. It is equally clear that, in such cases, such prices cannot be sustained resulting in contractor failure with the resulting disruption to the programmes, tenant dissatisfaction and reputational damage to the Council.
- 4.2 The adoption of the pilot approach increases the price marginally but arguably also increases value for money as continuity of the programme is guaranteed. Where one of the contractors fail or under perform, work could be switched to the other contractors or additional contractors appointed.
- 4.3 The pilot is being monitored on an on-going basis with a monthly oversight meeting with the Council Leader, PFH for Housing and the Acting Head of Housing and Head of Contracts. It is expected that a decision on the future of the pilot will be taken in March such that it can be ended or extended in the new financial year.
- 4.4 If the anticipated savings identified in Appendix I are realised, the number of additional units that can be fitted, also shown in the Appendix, are substantial.
- 4.5 The pilot enables the Council to appoint sub contractors that are locally based, although that is not a determining factor, bringing much needed jobs and prosperity to the region.

5. RECOMMENDED

That Members note the initial progress made on the pilot and support its continuation subject to a report detailing projected costs and benefits to a future meeting of the Committee.

ACTING HEAD OF HOUSING SERVICES

S:PA/LP/ Committee/112SCC5
4.1.12

COMMUNITY & ENVIRONMENT DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling this report: