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## Meeting of the Executive

6<sup>th</sup> May 2008

### Report of the Director of Housing and Adult Social Services

## Gas Servicing - Future Procurement.

### Summary

1. To provide the Executive with details of the recent procurement exercise undertaken and suggested future direction for the gas servicing and maintenance works to council dwellings.
2. To agree the amended repairs partnership Service Level Agreement (SLA) which details the framework and performance standards of the partnership ensuring that this approach will improve the quality, productivity and cost of the service to customers and the Council.

### Background

3. In November 2003 the Housing Executive Member agreed a two-fold approach for gas servicing with an external contractor undertaking all works in the City area and Neighbourhood Services (NS) undertaking all works in the Acomb area under a partnering agreement based on the contract specification for the external contract. The external contract expired on March 31<sup>st</sup> 2008 and hence this report presents the future direction.
4. The vast majority of all other responsive maintenance type repairs are carried out by NS under the Housing Repairs Partnership agreed by the Executive in November 2004. This partnership was established to remove the traditional adversarial roles of client and contractor and promote a joint responsibility by both parties for the success of the partnership. This change has fostered a close working relationship that has made significant strides of improving performance to customers whilst reducing duplication in processes and also the management structure. This Partnership is based upon a charging mechanism of the actual cost to the authority of the works and does not include any profit.

### Procurement Hierarchy

5. The procurement options for the gas servicing works have been assessed against the Council's Service Procurement Hierarchy, as set out in the Rollo Report 'A Strategy for Assessing Service Procurement Options' which members have previously approved as the procurement framework for the council, with a

recommendation on placement of the service at **Level Two – existing provider with Improvement Plan.**

6. The strategy for assessing this procurement option not only reflects Best Value principles but also looks beyond individual reviews and services to consider an overall view in order to obtain the best possible result for the Council and its customers. Based upon this strategy compliance with the 'Rollo' Report was sought in its guiding principles of transparency, robustness, control and ownership, customer focus, flexibility, affordability, deliverability, and corporate issues.
7. In line with the policy, if the recommended option is approved, the council will be choosing not to either, renew the current external contract for the provision 60% of this service, or undertake a fresh tendering process, or procure services from the existing framework, choosing instead to develop its own existing in-house service to provide 100% of the supply required. If the recommendation is approved, the councils will not be tendering the works therefore there is no legal obligation to competitively tender the service, however we must be mindful of best practice/VFM issues when satisfying ourselves of the 'competitiveness' of our in-house provision.
8. When considering the predicted future level of service, the gas servicing works have been evaluated against a range of key service criteria; acceptable price, acceptable quality, high customer satisfaction and capacity for continuous improvement. In addition to these service criteria consideration has been given to the number of contractors / service providers to engage to deliver this vital service. Officers have reached the view that it would be in the interests of the council and its customers to have a single service provider.
9. The provision of the service by a single provider will remove the potential for different service levels to customers as a result of employing two providers. NS have constantly provided a level of higher customer satisfaction than external contractors including issues such as communication and reliability. Managing external contractors requires a strong technical client presence and a significant amount of administration to administer the terms of the contract, manage performance and administer staged and invoiced payments. The heavily regulated nature of the gas industry places a large emphasis upon the interpretation of the provider, reducing the providers to one removes any difficulties associated with different interpretations of the regulations and the subsequent contractual discussions that this has often caused. Over a number of previous contracting arrangements the Authority has found that as a result of different interpretations of gas regulations, a consistent level of service to all customers is not achieved. Managing the process is a difficult and time consuming process which detracts from the true aims of the service to deliver the best possible service to our customers.
10. A key element of this evaluation of the service took the form of a cost analysis of the works against a range of external providers available to the Authority through a procurement route via the Northern Housing Consortium (NHC). The Northern Housing Consortium, of which the City of York Council is a member, have a procurement arm aimed at the development and delivery of business solutions to

meet the needs of its membership. These solutions are Official Journal of the European Union (OJEU) compliant collaborative framework agreements let under the European Union Procurement Directive, and accessible by any current or future consortium member organisation. In essence enabling its members to deliver efficiencies as a result of bringing together their buying power.

11. The NHC gas servicing procurement process was based on a standard specification that mirrors CYC's current gas servicing and maintenance contract. Four contractors were appointed by NHC to cover the Yorkshire & Humber area, details of the contractors are set out in annex a.
12. The contractors were appointed based on a standard gas servicing / maintenance specification against which they provided a maximum cost per property for carrying out the work as set out within the specification. Any additional requirements not set out within the specification which authorities may require of their contractor to comply with are over and above the maximum cost per property. The maximum cost for the contractors are outlined in confidential Annex A.
13. The standard specification used by NHC mirrors CYC's specification for the works and therefore the maximum costs set out at annex a provides us with a means of demonstrating and testing the 'competitive' cost and value of a the in-house service, but in the context of taking account of the wider strategic procurement issues that directly impact on the future shape and scope of existing or future in-house services across the Council. The costs of partnering with NS have therefore been benchmarked against the rates set out within the consortiums gas servicing contract and found to be in the range of external contractor costs, see Annex A.
14. When testing the competitiveness of procuring the services via the Housing Repairs Partnership it is important to ensure that any additional costs or efficiencies that are linked to any of the potential providers of the services are clearly set out along with the rationale and any assumptions that have been made.
15. A key criteria which CYC Housing Services require of its maintenance contractors is that they have a local base. This criteria has been established for a number of reasons, the key ones being:
  - Difficulties that have been previously experienced where contractors do not have a local base, particularly in relation to face to face contact and access to key staff; who have not had a local base.
  - When considering this particular contract, it is felt that the need for a local base is critical when considering the responsiveness of the contractor given the often emergency nature of the work;
  - Also when considering the principal associated with sustainable procurement, having a local base will considerably reduce the travel time and journeys associated with completing the work, thus reducing the carbon emissions linked to the delivery of this work.

16. None of the contractors who were appointed by NHC have a local base within York. Given that we are not tendering the service (as outlined in Para 7), we have not approached the external contractors to find out their direct costs associated with the establishment of a local base or if they would pass those cost on to the council as the client. However, our experience of working with other external contractors has been that set up costs are passed on to the council as the client either directly or indirectly. To determine an indicative cost associated with the establishment of a local base for benchmarking purposes, an existing capital works contractor, working within the gas industry has been approached to ascertain what they feel the costs would be associated with the establishment of a local base to carry out gas servicing and maintenance work to 7612 properties. This indicative costs is set out in Annex A.
17. As well as additional costs that will have to be borne by and external contractor, the additional costs that will be borne by CYC as a result of the service being provided by an external contractor. Where works are carried out by external contractors, there are Quantity Surveying (QS) costs associated with valuation and payment of works carried out. The previous external contract covered approximately 60% of the works and equated £26.5k per annum in QS fees, if all the work was to be procured via an external contractor this would rise to just over £44.1k per annum, and increase of £17.6k. There would also be additional client related technical costs within Housing Services to enable us to effectively managing the work on site. Our current staffing structure is based on the current 60/40 split. If all the work was externalised we would need to appoint an additional two members of staff to provide the increased client function. These additional costs would not be required if the service is provided via the Housing Repairs Partnership, due to internal procedures on payment of works between council departments and the partnering nature of the Housing Repairs Partnership.
18. If the works are procured via the Housing Repairs Partnership, there are additional savings of £15.3k that will be realised as a result of the internal accounting and invoicing procedures. Whilst these savings are non-cashable as they relate to a proportion of two administrative roles within the Housing Service Asset Management Team, alternative work not related to the gas servicing contract will be carried out by the individuals. Details of these have been provided in Annex A.
19. When comparing NS costs against the four contractors from the NHC tender exercise, the gross cost based on the standard specification, NS were the second most expensive. When considering the net costs i.e. taking into account additional contractor costs and council savings, NS were the second cheapest. Details of these costs are set out in Annex A. The additional cost associated with procuring this works via the Housing Repairs Partnership can therefore be established by taking the difference between the net costs of the cheapest contractor and NS as the second cheapest and multiplying the difference by the number of properties that receive the gas servicing works. In cash terms this equates to £21K per annum.
20. However, it is expected that efficiency savings arising from improved joint working are achievable which will off set this small increase in costs, however, these are unquantifiable at this point in time and as such have not been taken into account.

## **Consultation**

21. Officers in Neighbourhood Services and Procurement have been consulted in producing this report.

## **Options**

22. Option 1 - Approve the amendment to the Housing Repairs Partnership to include the whole of the gas servicing for the city. This is the recommended option.
23. Option 2 – Not approve the amendment to the Housing Repairs Partnership and request officers to undertake a formal tendering process for the servicing and maintenance of the Councils gas heating appliances in it homes.

## **Analysis**

### **Option 1**

24. It is considered that if the whole service is brought together under the Housing Repairs Partnership efficiencies can be delivered across the whole end to end process that will significantly reduce cost and increase performance. These efficiencies would not be deliverable under a traditional contract.
25. Delivering the service via the repairs partnership places the authority in a much stronger position regarding a number of the guiding principals set out in Para 6. It clearly enhances our ability to control and take ownership of the service, ensuring that a constant service is provided to all customers.
26. It is proposed to fully integrate the delivery of the service by integrating the traditional client and contractor roles with both Housing and NS staff working together in a single team. In order to reduce job role duplication for both Housing and NS staff there will be the requirement to redefine a number of officers duties. A single co-located team will be operationally resourced and jointly managed by Housing & NS to deliver this service made up of officers from both Housing and NS, this will speed up decision making and reduce duplication. Following evaluation of the new ways of working it is expected there will be changes to the permanent establishment which will be recommended through the appropriate channels. Adopting this approach will result in streamlining the processes, stripping out duplication from the system and increase the quality of the service that we provide to our customers.
27. With a joint management arrangement between Housing and NS, lines of communication will become much clearer and shorter with response times to decisions or changes reducing. NS have historically undertaken the role of an emergency fallback contractor where other contractors are unable to deliver on issues relating to gas and hence their services are tailored to deliver the flexibility required.

28. NS have been undertaking this service since November 2003 albeit on a lesser volume and have proved themselves to be reliable and are improving their levels of service in a continuous trend. Although this does include an expansion it is not considered to be one which would be undeliverable within their existing management resources.
29. By extending the Housing Repairs Partnership it allows for a fully integrated team, jointly managed, made up from the traditional client and contractor roles. While the potential future savings this is expected to achieve cannot yet be accounted for there are a number of targeted areas of improvement officers shall seek to take advantage of. This includes issues such as a shortening of communication lines seeking authorisation replacing this with a focus upon 'getting the job done', an increase in operatives productivity and single point of contact management for the service.
30. When considering the potential for service improvements, as set out in the key service criteria set in Rollo, specifically, Highest Quartile Quality, High Percentage on Time and Capacity for Continuous Improvement, the Housing Repairs Partnership has shown significant continual improvement since its launch in July 2005 with a reduction of all average repair response times since then as depicted below.

<b>Average time to complete repairs</b>	<b>Current performance</b>	<b>2006/07 outturn</b>	<b>2005/06 outturn</b>
Emergencies	0.47 days	0.95	3.53
P1's (3 working days)	3.69	4.15	7.65
P2's (25 working days)	12.9	14.31	17.61
Urgent repairs	1.79	1.94	3.86
Non-urgent repairs	8.75	9.68	13.90

31. No direct customer satisfaction surveys are undertaken for the NSO heating team, however, the Annual Housing Service Monitor shows improved satisfaction levels with the repairs service globally of which NSO undertake the majority of the works, this currently stands at 84% satisfaction rating. In addition to this in October 2007 the repairs partnership has started to carry out monthly satisfaction surveys of a representative sample of customers who have had repairs completed within the last month. These surveys have shown customer satisfaction with the service NS provide as average of 86%.
32. Within the partnership there have been significant strides made in the area of health and safety in NS Building Maintenance as a whole of which the Domestic Heating section is part of. Building upon existing 'Safe Systems of Work Procedures' NS have produced a document 'Safety Management System'

highlighting potential risks and thus control measures for all activities expected to be carried out in the building maintenance department.

33. As a result of the inclusion of the gas servicing work into the partnership, the Service Level Agreement (SLA) has been amended to reflect this change, see Annex B. However the key elements of the SLA remain:
- **Objectives of the partnership;** including maintaining high customer satisfaction, reducing duplication, increasing efficiency, continual financial control, encouraging through example and placing the customer at the forefront of the service whilst involving them in the monitoring and milestone decision making process's.
  - **Mutual Responsibility;** both partners will carry a mutual responsibility for the current level of and ongoing improvement of service provided to customers and members as well as each other.
  - **The Pricing Framework;** Housing & Adult Social Services will provide Neighbourhood Services with a long term commitment of ongoing business through which they can have the confidence to plan for the future. Neighbourhood Services shall in return charge actual cost for each job based on a zero profit margin of labour rate, materials, and plant with a fixed percentage overhead cost, this shall be undertaken using open-book accounting.
  - **Joint Performance Measures;** A robust Performance Framework around cost, speed of delivery, management of void properties, quality and customer care is essential to inform and facilitate continuous service improvement. The performance indicators for these will measure jointly the partnership rather than individually Housing & Adult Social Services or Neighbourhood Services again reinforcing the mutual responsibility of each partner.
34. The Partnership will require an Improvement Plan which will be linked to the Housing Services and Neighbourhood Services Improvement Plans, and reflect the Audit Commission requirements for stock investment and asset management. This approach will provide consistent criteria for assessing and measuring the effectiveness and efficiency of specific parts of the housing service. The Rollo Report 'A Strategy for Assessing Service Procurement Options', outlines that where a recommendation on placement of the service at Level Two – existing provider with Improvement Plan that the improvement plan is included in the SLA. Schedule 6 of the SLA set out the principals of any improvement plan, Annex C set out the detailed improvement plan linked to the gas servicing process.

## **Option 2**

35. The provision of the service via external contractors was considered when discussion were first held within Housing Services during 2007. At this point in time, the Northern Housing Consortium published the outcome of their consortium procurement process for gas servicing which gave actual tender prices for the

work in question. Following discussion within the service, it was felt that external contractors could provide the service, but many of the efficiencies and improvements in customer service would be difficult to achieve as we would still have the traditional client / contractor roles.

36. If this option is chosen, NS would continue to carry out the service for the whole of the city under the current financial waiver that is in place until an external contractor was appointed. It would also be possible to bring in emergency cover, however, past experience has shown that this would be very costly.

## **Corporate Priorities**

37. This tender exercise contributes to the Council's corporate priority to "Improve the quality and affordability of decent, affordable homes in the city".

## **Implications**

38. Implications arising from this report are:
39. **Financial** - The detailed financial implications are set out in confidential annex A attached to this report.
40. The recommended option is within the approved budget for the service, and it is expected that improvements made to managing the service will deliver further reductions in the actual costs, over and above those highlighted in Annex A.
41. The actual costs will continue to be closely monitored and any variations will be reported to members in the normal way through the service plan monitoring reports.
42. **Human Resources (HR)** - Due to the current moratorium on restructures it is not possible to embark on implementing the proposed structural changes. In order to undertake the pilot it will be necessary to assess the remuneration applied to the additional duties undertaken by staff until such time as it is possible to consult on permanent changes to the cross directorate teams. Any proposed changes will be undertaken in accordance with the City of York Council's Management of Change Policy and Procedures and full consultation will be required.
43. Discussions with the previous contractor have taken place regarding the Transfer of Undertakings (Protection of Employment) Regulations 2006 ('TUPE') and how these would affect the individuals who worked on this contract. Given that good gas servicing engineers are a limited resource, the contractor indicated that the individuals who were working on the contract were being absorbed in to other areas of their business, they were happy to do so and as such there would be no individuals transferring. The legal issues associated with TUPE are set out below in the legal implications.
44. **Legal** - Approving this report would amend the Housing Repairs Partnership.

45. Where work is brought back in-house from an external provider the Transfer of Undertakings (Protection of Employment) Regulations 2006 ('TUPE') are likely to apply. The effect of TUPE is that employees of the contractor who are assigned to CYC work (broadly speaking those who spend 50% or more of their time on CYC work) immediately before the in-sourcing would be automatically transferred to the employment of CYC. Pre-transfer terms and conditions of employment are protected by TUPE and the ability to dismiss post-transfer is curtailed.
46. That is not to say that employees will inevitably transfer even where TUPE applies. Individual employees are entitled to object to the transfer and the contractor may redeploy employees away from the transferring part of their undertaking. However, the costs associated with inheriting long serving employees may be significant should, for example, redundancies be necessary (it is also worth noting that any post transfer redundancies caused by over capacity should be made from a pool which includes existing comparable CYC employees so may be disruptive).
47. TUPE contains strict anti-avoidance clauses. Any agreement between the contractor and CYC that TUPE will not apply will be invalid. Whilst the risk of challenge may be low if the employees are happy to remain employed by the contractor, the risk cannot be discounted until after the transfer. Should CYC receive an indication that the contractor intends to re-assign its employees so that no-one is assigned to the transferring undertaking, and that the affected individuals are happy with that, further legal and HR advice should be sought. Such an indication, in itself, offers no legal protection against the risk of employees transferring. However, if the appropriate employee liability information, warranties and indemnities were received then it would be possible for CYC to safely assume that there will be no transferring employees.
48. **Information Technology (IT)** - Retaining the service in-house would allow all ordering, management and invoicing processes to remain within the authorities IM&T systems further reducing the time and cost implications of marrying up to an external contractor.
49. There are no **Property, Equalities** or **Crime and Disorder** implications arising out of this report.

## **Risk Management**

50. In compliance with the Council's risk management strategy the main risks that have been identified are those which could lead to the inability to deliver services (Operational) as this is an expansion of works to NSO leading to financial loss (Financial). With any works relating to gas appliances in customers homes there is also the (physical) risk to health from carbon monoxide poisoning/explosions that could lead to non-compliance with legislation (Legal & Regulatory) should there be an avoidable accident.

Measured in terms of impact and likelihood, all risks have been assessed at less than 16. This means that at this point the risks need only to be monitored as they do not provide a real threat to the objectives of this report.

## Recommendations

51. The Executive is asked to approve option 1, which involves in-sourcing the gas servicing work, and to approve the amendment to the Housing Repairs Partnership to include the whole of the gas servicing for the city.

Reason: To secure service quality and value for money on behalf of the council's tenants.

## Contact Details

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Report Approved

Date 24<sup>th</sup> April 2008

## Specialist Implications Officer(s)

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**Wards Affected:** *List wards or tick box to indicate all*

All

**For further information please contact the author of the report**

## Annexes:

Annex A – Confidential Financial Implications  
Annex B – Housing Repairs Partnership, SLA  
Annex C – Improvement Plan (Gas Servicing)