

<b>TITLE OF REPORT</b> Housing Repairs DLO - Material Supply [18-034] <b>CONTRACT APPROVAL</b> <b>Key Decision No. CHE S141</b>	
<b>CPIC MEETING DATE (2022/23)</b>  <b>7th November 2022</b>	<b>CLASSIFICATION:</b>  Open with exempt appendix  If exempt, the reason will be listed in the main body of this report.
<b>WARD(S) AFFECTED</b> - All wards	
<b>CABINET MEMBER</b> - Councillor McKenzie	
<b>KEY DECISION</b> - Yes <b>REASON</b> - Significant financial value and affects two or more wards	
<b>GROUP DIRECTOR</b> - Rickardo Hyatt, Climate Homes & Economy	

## **1. CABINET MEMBER'S INTRODUCTION**

- 1.1. This paper sets out the contract award for the Building Materials contract to support our in house DLO team within Building Maintenance for our Housing repairs services. The strategy and approach to this procurement was agreed previously at the Procurement Board and has been followed in accordance with the agreed procurement process.
- 1.2. The contracts, split into various lots for building material types, represent good value for money in a challenging economic environment. The social and environmental impact of the delivery of these contract arrangements has been duly considered and supports the Council's strategic objectives, contributing positively to the local socio-economic community and moving towards a net zero approach.
- 1.3. These building materials supplies will support the growing in-house DLO team to deliver repairs and maintenance services for our residents across the Council's housing stock. There is sufficient flexibility within the contracts to allow for further growth of the DLO, which is in line with our ambition and strategy. The continued growth of the in house service provision will provide an element of protection from external economic factors, in terms of contractor costs associated with the delivery of repairs and maintenance services.

## **2. GROUP DIRECTOR'S INTRODUCTION** *[Rickardo Hyatt]*

- 2.1. The building materials supply contract arrangements support the Housing repairs section's internal building maintenance operations. On an annual basis, the council in-house repairs contractor (DLO) undertakes approximately £19m of repairs & maintenance across the boroughs housing stock and spends approximately £3m on materials. It is anticipated this spend will increase in future years as it is intended the DLO will expand its range of repair activities, insourcing housing repair works currently undertaken by external contractors in areas where it can offer equal or better value.

Hackney Procurement Board previously approved re-tendering these supply arrangements through the central purchasing consortium Procurement for housing [Pfh] Framework using mini-competitions for specific trade packages including

- 1) Lot 1 Plumbing
- 2) Lot 1 Heating
- 3) Lot 2 gas spares
- 4) Lot 3 General building
- 5) Lot 4 electrical

- 2.2. This report seeks approval to award new contracts (first and second supplier for each package) in accordance with the outcome of this approved tendering process.
- 2.3. The second ranked supplier will only provide materials that the top ranked supplier cannot supply and/or non-basket items if better value. If after 28 days of formal notification that performance falls below 90% of any Primary KPI target measure, it still does not meet required performance the council may obtain supplies from the second supplier until the KPI measure is recovered to the council's satisfaction.
- 2.4. There remain two further trade packages that are yet to be procured. They will be subject to a further award report to be approved at HPB. These are as follows:
  - Tools plant & Ironmongery (£216k annual spend) for which a direct award is proposed as the current supplier is included in the Pfh framework Lot 9. We wish to retain this supplier as it provides an excellent quality of service, is local which facilitates local pick up and enables operatives to take unusual components direct from site for matching alternatives and can in emergencies deliver within a 2 hr time frame. Current supplier rates will be benchmarked to ensure better value than established framework rates
  - Paint (£189k annual spend), which is subject to mini competition within the Pfh decorative solutions framework. This package was not tendered at the same time as the rest because Pfh were in the process of retendering the decorative solutions framework.

### **3. RECOMMENDATION(S)**

To award the following five trade packages supply term contracts via the Pfh framework agreement as four year contracts [2+1+1] to the first and second highest scoring suppliers as set out in appendix A:-

- 1) Lot 1 - Plumbing supplies
- 2) Lot 1 - Heating supplies
- 3) Lot 2 - gas spares
- 4) Lot 3 - General building supplies
- 5) Lot 4 - electrical supplies

(Ten contracts in total as detailed at 2.3, 4.1 and 9.2.)

### **4. RELATED DECISIONS**

- 4.1. Business case 18-024 approved at Hackney Procurement board meeting 12/08/21. agenda item 8 approving the re-tendering of these arrangements on a 4 year [2+1+1] arrangement using mini competitions within the Pfh material supply framework, awarding 1st and 2nd suppliers to each lot.

### **5. REASONS FOR DECISION/OPTIONS APPRAISAL**

- 5.1 To maintain the council's statutory obligations and its intention to provide an excellent repairs service to tenants the Housing services in-house repairs team require a flexible and robust material supply chain which will deliver good value and a high quality service in accordance with our KPI criteria as listed at 10.2

Awarding these contracts will secure the in-house housing repairs team long term supply arrangements at competitive market rates, at a time of volatile supply and pricing.

Appointing two suppliers within each supply category will maintain continuing market tension throughout the life of the arrangements and provide a live alternative supplier enhancing supply resilience if any supplier performance becomes an issue.

Recruiting suppliers within the Pfh framework accesses the significant buying power of an organisation which purchases in excess of £100m per year together with [at no cost to Hackney] ongoing support and price management including

- Attending quarterly contractor review meetings
- Supporting the monitoring & managing of SLA's & KPI's
- Maintaining the agreed price lists
- Providing a robust price review process and challenging increases in accordance with the framework agreement. This provides an enhanced degree of price certainty, transparency and avoids cost drift.
- Pfh's strong market presence facilitates close relationships with key manufactures enabling enhanced discounts and tailored solutions through the supply chain to enhance value for money
- Quantum billing – all material billing onto one platform to simplify processes and reduce transaction costs

Previous arrangements have shown that long term material procurement involving high volumes, fluctuating prices often sensitive to international commodity market trends coupled with ongoing variations in client requirements and changes to specifications etc. can introduce a considerable divergence in the purchasing list away from that included in any initial tendering arrangement and without the competitive tension a gradual move away from best value.

Using the Pfh framework arrangement with its prescribed mechanisms for introducing new items and supplier price reviews based on evidenced cost increases and Pfh market intelligence has previously proved very effective in maintaining value.

In addition Pfh's considerable market presence and strong relationship with manufactures has enabled detailed intelligence from manufacturers in corroborating suppliers requested price increases and given influence in arranging discounted rates directly with manufacturers

## 5.2 ALTERNATIVE OPTIONS (CONSIDERED AND REJECTED) - see section 8

- outsourcing the stores function
- open tendering
- direct award through the Pfh Framework

## 6. PROJECT PROGRESS

### 6.1. Developments since the Business Case approval.

There have been considerable disruption and inflationary pressures on the construction material supply market since the initial business case.

The tendering process is now complete and we are ready to make awards.

### 6.2. Whole Life Costing/Budgets:

These material purchases are funded from income generated from undertaking repairs ordered through existing housing repairs and planned maintenance budgets. Should those budgets be amended, repairs spend and the resulting material spend would be adjusted accordingly

### 6.3. SAVINGS

The Pfh frameworks purchase in excess of £100m per year and provide significant buying power, delivering competitive pricing.

A Pfh analysis provided indicated tendered rates represent an overall 9% saving on our 2021/22 supply rates based on a 77% match of items [number of items matched for lot 4 electrical was limited]

As a consequence of the data breach in October 20 the tender material basket was based on the 2019/20 material purchase quantities and prices being the latest full year of purchasing data.

Our analysis of the planned awards showed an increase of between 2% and 11% on those historic 2019/20 basket rates for individual lots and an overall increase of **6.4%** [£143k]. Given those rates are now over 24 months old, the intervening inflationary pressures and current volatility in the construction material supply market, these new arrangements are considered good value securing a long term supply at competitive market rates.

A 6.4% increase on the historic 2019/20 material basket rates is considered acceptable given

- Brexit issues continue to fuel supply challenges.
- Covid restrictions have introduced considerable disruption and inflationary pressures to manufacturing and supply chains. These

remain ongoing in many lower income countries [with limited vaccination levels] which supply many raw materials and in China which is a substantial manufacturing base.

- The war in Ukraine and resulting mounting energy prices and supply challenges has triggered further inflationary pressures.

Building cost information service [BCIS] advised construction costs increased by 10% in the year April 21 to April 22. Pfh market survey [Q2 2022] suggested price growth was between 6-10% for the same period with an expectation of further 6 to 12% increase in the next 6 to 10 months before prices level. Potentially a 22% increase over April 21 pricing levels.

The new framework rates will be fixed for 3 months Lots 1 & 2 and 12 months Lots 3 & 4 and subsequently maintained within a strict evidenced based price review process managed by Pfh. Given the inflationary increases since the basket rates were established and forecast increases within the fixed price period the tendered rates are considered to represent value for money.

Additionally the Framework provides the facility to undertake ongoing reviews of alternative products within the supply lots to achieve additional value and the four year contract term is expressed as 2+1+1 so that after the first year when arrangements have settled down it will be possible to undertake a soft market test against other supply frameworks and consider if better value might be available by a formal tendering exercise during year 2

## **7. SUSTAINABILITY ISSUES**

### **7.1. Procuring Green**

All the supply arrangements include a significant quality element within the bids valued at 60% of the final evaluation. This element required bidders to demonstrate an environmental policy and action plan and membership of an independent environmental accreditation scheme such as ISO 14001, BES6001.

In addition bidders were required to demonstrate how they will support and follow the councils net zero energy strategy including

- developing an electric fleet [and in the interim to use high blended renewable biofuels]
- carbon offsetting
- support Hackney in reducing embodied carbon in the housing stock by supporting us in identifying and introducing
  - # increasing the use of materials from re-used sources to 35%
  - # materials that can be reused at the end of life
  - # using sustainably sourced timber

**7.2. Procuring for a Better Society** [economic]

All bidders have confirmed any staff employed on this contract will be paid at least the Living wage foundation rate.

Within their quality bid all Suppliers have detailed how they will

- a) Promote the use of SME organisations throughout the supply chain for the delivery of these services
- b) notify employment opportunities within this arrangement with local agencies
- c) encourage the supply chain to pay as a minimum the living wage foundation rate
- d) offer training programmes, work placements, apprenticeships and trainee opportunities

**7.3. Procuring Fair Delivery** [equality]

The tender documents require all bidders to confirm and evidence if requested that they

- a) Have adopted Policies ensuring compliance with equalities and diversity law including instructions for recruitment, training & promotion.
- b) ensure all staff comply with equality & diversity law
- c) take all reasonable steps to encourage applications from groups that are underrepresented in the workforce for all employment opportunities in relation to the contract
- d) Exercise due diligence to ensure and warrant that no slavery or human trafficking exists in the supply chain
- e) Have a whistleblowing process that allows staff to report concerns about how their employer deals with workforce matters in their workplace.

**7.4. Equality Impact Assessment and Equality Issues:**

No equalities issues were identified in the Primas.

The renewal of the building maintenance material supply contracts will impact the housing repairs service but it is not expected to impact any group of people in particular

**8. ALTERNATIVE OPTIONS (CONSIDERED AND REJECTED)**

The proposed award arrangements are to support the current in-house stores model. Alternatives considered were

- a) **Outsourcing the stores.** Inviting an external supply organisation to either take over our own store and supply Hackney operatives through this building or provide operatives with materials from an external builder's merchant counter.

**Advantages**

- Lets experts run the store, freeing up management time in DLO.
- Potential access to innovation / technological gains.
- Stock control becomes supplier risk

**Disadvantages**

- This would be contrary to the councils strategic aspiration to insource services where practical
- This would have TUPE implications
- Limits access to upstream supply chain and opportunities for further improvements / savings, for example dealing directly with manufacturers.
- Incurs supplier stores overhead costs
- Requires significant ICT integration - tends to lock clients into supplier arrangements as in-house expertise and IT is lost.
- Previous experience of limiting to single national supplier led to problems with managing merchants only supplying own brand inferior items or requiring additional fees to provide suitable materials from alternative manufactures
- Supplier depot location, if in an outlying location, will introduce extra travelling costs to operatives.

- b) **Open tendering** of material supply requirements was considered but would require an extensive pre qualification selection process to guarantee suitable suppliers and to restrict the number of final tenderers in order to make the final evaluation process manageable as typically many proposed equal alternative supply items are offered and must be considered against the tender specification.

This approach, when previously used, resulted in a lack of client control over the product delivery & price list.

Given the size of the total basket of items to [approximately 1,000 items] a large open tender may be an unattractive investment of bidders' resources.

Open tendering would not provide the input support from Pfh and benefits of a framework arrangement as detailed 7.4 a&b

- c) **Direct award through the Pfh Framework** – an option exists to make direct awards to the first ranked supplier in each Pfh material Lot based on the initial framework competition. However, mini-competitions enable Hackney to refine the shopping basket of material items, ensuring the winning suppliers provide best value based on Hackney's specific forecast quantities of individual products rather than the Pfh general basket. It also provides the opportunity to refine the material specifications to more closely reflect Hackney specific requirements.



A direct award misses an opportunity to undertake mini-competitions and potentially enhance value for money. All mini-competitions are benchmarked against the main framework rates to ensure equal or better value.

- d) **Alternative Frameworks.** Consideration was given to alternative framework consortiums. There are limited alternative frameworks available and evidence is lacking that these would offer improved vfm. Also this would lose the benefit of Pfh’s detailed knowledge of our purchasing and the support this brings in refining the product shopping basket. Additionally, several of the existing suppliers remain in the new framework arrangement ensuring the mini competition should deliver equal or better value than current arrangements.
- e) **Multiple Frameworks** the possibility of undertaking tenders in tandem through more than one framework to provide a wider competition was not pursued as
- It was considered unwise to introduce the complexity of managing multiple procurements in tandem
  - Pfh have a proven track record of delivering value
  - Pfh alone can provide historic purchasing data currently unavailable from our own systems since the cyber-attack in October 2020

However it is proposed the four year contract term be expressed as 2+1+1 so that after the first year when arrangements have settled down it will be possible to undertake a soft market test against other supply frameworks and consider if better value might be available by a formal tendering exercise during year 2.

## 9. TENDER EVALUATION

### 9.1. Evaluation:

The tender evaluation team consisted of the Purchasing & stores manager, the chief estimator and the procurement category manager. Price evaluation was initially undertaken independently by Pfh.

All Pfh Frameworks suppliers have been recruited through OJEU compliant tenders

Tender evaluation was based on 60% quality and 40% price.

	<b>QUALITY EVALUATION</b>	
A1	Living wage Foundation rate compliance	Pass / Fail
A2	Business Continuity & disaster recovery plan in place	Pass / Fail
A3	Health & safety accreditation	Pass / Fail

A4	Quality Management accreditation	Pass / Fail
A5	Social Responsibility Policies & practices	Pass / Fail
A6	Proposed solution	10%
A7	Management of core stock	7%
B1	Supply Chain	4%
B2	Delivery & capability requirements	10%
B3	Contract management & service delivery	6%
B4	Social value	7%
B5	Environmental sustainability	5%
B6	Waste management	5%
B7	IT requirements	6%
	<b>Total quality element</b>	<b>60%</b>

**PRICE EVALUATION 40%** - A pricing schedule of specific material items and quantities was offered for each of the five packages. This schedule was based on the housing repair service 2019/20 purchases as subsequent 20/21 data was lost in data breach in October 20. This schedule of 3,919 items [£2.97m] was then reviewed and minor / low spend items omitted to make the pricing exercise more manageable and attractive to bidders. The schedule was then issued to the in-house repair managers to review and adjust based on local knowledge, changing specifications and future requirements. This resulted in an updated reduced basket of 971 items which accounted for 87% [£2.59m] of material spend.

Bidders were required to price at least 90% of all items in order to be evaluated. Additionally for the pricing element of the submission to be evaluated, bidders had to gain a minimum of half of the 60% quality mark available. All bidders met these conditions

Price score calculation was lowest cost submitted for each package gaining the full 40% mark and other bids awarded scores based on the calculation (Lowest Cost / bid Cost) x Weighting

example (£10,000 / £11,000) x 40% = 36.4%

	Number of bidders for each Package	
i)	Lot 1 Plumbing	5

ii)	Lot 1 Heating	3
iii)	Lot 2 Gas spares	3
iv)	Lot 3 Building materials	3
v)	Lot 4 Electrical	5

## 9.2. Recommendation:

The award of five material supply framework arrangements within the Procurement for Housing framework agreement as four year contracts [2+1+1] to first and second suppliers as set out below and in appendix A. (Ten arrangements in total.)

Note the second ranked supplier will only provide materials

- that the top ranked supplier cannot supply and/or
- in the event that the top ranked supplier's performance fails to meet Hackney's KPI requirements
- non-basket items if better value.

<b>Lot 1 Plumbing</b>	Quality	Price	Total	Rank	Award
Supplier A	40	40	80	1st	<b>1st supplier</b>
Supplier I	39	38	77	2nd	2nd supplier
Supplier C	43	33	76	3rd	
Supplier K	44	29	73	4th	
Supplier E	35	34	69	5th	

<b>Lot 1 Heating</b>	Quality	Price	Total	Rank	Award
Supplier K	44	40	84	1st	<b>1st supplier</b>
Supplier C	43	38	81	2nd	2nd supplier
Supplier I	39	35	74	3rd	

<b>Lot 2 Gas spares</b>	Quality	Price	Total	Rank	Award
Supplier K	44	40	84	1st	1st supplier
Supplier C	43	38	81	2nd	2nd supplier
Supplier H	30	32	62	3rd	

<b>Lot3 Building Materials</b>	Quality	Price	Total	Rank	Award
Supplier G	45	40	85	1st	<b>1st Supplier</b>
Supplier I	39	31	70	2nd	2nd supplier
Supplier E	35	32	67	3rd	

<b>Lot 4 Electrical</b>	Quality	Price	Total	Rank	Award
Supplier F	46	40	86	1st	<b>1st Supplier</b>
Supplier B	48	35	83	2nd	2nd supplier
Supplier J	36	35	71	3rd	
Supplier E	35	30	65	4th	
Supplier D	35	28	63	5th	

## 10. CONTRACT MANAGEMENT ARRANGEMENTS

### 10.1. Resources and Project Management (Roles and Responsibilities):

This procurement is a retendering of an existing supply arrangement and will be managed with the existing established Client team led by Bob Brown - Purchasing & stores manager

A suite of Service level agreements and KPI's are included in the contract arrangements. The contract arrangements require suppliers to provide reports on KPI and Service level agreement performance at monthly & quarterly review meetings. The housing repairs section is also currently implementing ROCC software which will enable us to monitor supplier performance. In addition Pfh provides analysis and contract management support as part of their service [free of cost to the council].

The contract arrangements include specific named supplier personnel who will be available for escalation if issues develop.

The contract arrangements provide that if within 28 days of any formal notification that performance falls below 90% of any Primary KPI target performance the supplier does not meet required KPI the council may obtain supplies from the second tier supplier until performance is recovered to the council's satisfaction. This provides an ongoing live backup capacity.

## 10.2. Key Performance Indicators:

To maintain the council's statutory obligations and its intention to provide an excellent repairs service to tenants the Housing services in-house repairs team require a flexible and robust material supply chain which will deliver good value and a high quality service.

The contract arrangements include 7 Key performance indicators and 25 Service level agreements which set the standards the council requires from suppliers in order to meet these intentions. These will be monitored at monthly intervals.

	<b>Main KPI Targets Set</b>	<b>Monitoring</b>
	<b>Primary KPI's</b>	
1.	Core stock availability 98%	report provided at Monthly meeting
2.	Material delivery on time & in full 98%	report provided at Monthly meeting
3.	Rectify missing items in 1 day 98%	report provided at Monthly meeting
4.	Price change [in accordance with contract] 98%	report provided at Monthly meeting
5.	accuracy of invoices 99%	report provided at Monthly meeting
6.	Health & safety 100%	report provided at Monthly meeting
	<b>other KPI's</b>	report provided at Monthly meeting
7	Trade counter - max wait 15 minutes 95%	report provided at Monthly meeting
8	Communication 98%	report provided at Monthly meeting

## **11. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES**

- 11.1. The increase in price, 6.4% on 2019/20 prices represents good value for money in the current circumstances where inflation and material shortages have been inflating prices at a substantial rate.
- 11.2. The budget is available for the current level of spend, however the HRA has been under substantial pressure to accommodate increasing costs to deliver the same service. The budget and spend will be monitored closely and any variances will be investigated

## **12. VAT Implications on Land & Property Transactions - not applicable**

## **13. COMMENTS OF THE DIRECTOR, LEGAL, DEMOCRATIC & ELECTORAL SERVICES**

- 13.1. Paragraph 2.7.7 of Contract Standing Orders states that, in respect of procurements with a risk assessment of "Medium Risk", Cabinet Procurement and Insourcing Committee will determine the award of contracts above the value of £2m. The estimated maximum value of the contract in this Report is above £2m so therefore Cabinet Procurement and Insourcing Committee can agree the recommendation in this Report
- 13.2. Details of the procurement process undertaken by officers are set out in this Report.

## **14. COMMENTS OF THE PROCUREMENT CATEGORY LEAD**

14. 1 The commissioning exercise to appoint suppliers to deliver to the specified trade packages utilised the Procurement for Housing (PfH) framework agreement. This procedure is allowable under Public Contract Regulation 2015 and its application followed clear procurement and legal guidance and advice throughout the process.

14.2 The call-off contract tender brief was issued to all suppliers appointed to the relevant lots on the PfH framework. Bids were received as detailed in this report and a single stage tender and evaluation exercise was carried out. Clarifications were responded to successfully.

14.3 The challenges of fast rising construction material and supply prices and general economic uncertainty have posed significant challenges in the market. This framework agreement seeks to mitigate price fluctuations by adopting price review periods [Quarterly for lots 1&2 plumbing & heating and annually for lots 3&4 building & electrical]. Suppliers must evidence to Pfh any price increases they wish to claim. Pfh considers these using their own market intelligence indices to test the validity of any claimed increases. Pfh decision on fluctuations is final. This is set out in the call off terms & conditions and contract schedule 3 pricing matrix. The detailed pricing review process is set out in the overarching framework arrangement.

14.4 It is the opinion of the procurement team that this exercise followed a compliant process and has resulted in the Most Economically Advantageous Tender recommendation that meets the CPIC approved business case. Six suppliers are appointed under ten contracts to deliver to five separate trade categories

**APPENDICES**

**EXEMPT** - exempt appendix A tender evaluation matrix

**BACKGROUND PAPERS - None**

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

**Description of document (or None)**

*Note: All Background Papers listed will be published on the Council website.*

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