

Report for Resolution

Report to Executive
19 January 2005

Report of Chief Executive Officer

Subject CityCare Contract G – Housing Upgrades

ITEM

8

Purpose

To explain the background to complaints by leaseholders in flats and maisonettes about the costs charged to them and the basis of calculating the charge when work is undertaken by sub-contractors to CityCare. To outline new arrangements for competitively tendering planned maintenance and improvement work to the external fabric and common areas of flats and maisonettes including the supply and fitting of PVCu windows and associated building works and products.

Recommendations

That the Executive:

- (a) note that CityCare are prepared to forgo their contractual exclusive rights to all planned maintenance and major repair work to the external fabric and common areas to flats and will not pursue any claim under the contract to future payments related to such work.
- (b) approve that in future all such work will be let after an open competitive process and that this has implications for the nature and scale of client staff resources.
- (c) note that further work is needed to determine the best way to package the tender or tenders, the nature of the specifications and resulting contracts, and the supervision and management of such contracts; and that the City Council does not have in-house expertise to undertake this work and will need to commission external assistance.
- (d) note that leaseholders will be charged a fair and reasonable proportion of the both the direct costs of the work and the costs of commissioning and managing the work.
- (e) note that how such a fair proportion of the costs of commissioning and managing the work should be calculated will be subject to consultation with leaseholder, tenants, the Leader and the Executive Member before being finalised.
- (f) authorise the Director of Housing & Revenue Services to make ex-gratia payments to leaseholders on a case by case basis equivalent to half of the cost of any 'CityCare additional percentage' that has been charged to them for works done by sub-contractors under Contract G - Housing Upgrades (i.e. excluding the window contract).

- (g) note that there is work already at various stages of progress, some ready to start on site, and that transitional arrangements will have to be agreed to deal with this.
- (h) note the transfer of work from Contract G - Housing Upgrades to other more appropriate housing maintenance and repair contracts.
- (i) approve in principle that planned maintenance and modernisation of Council homes should move to an output specification.
- (j) approve the commissioning of external assistance to: determine the best form of pricing and the introduction of additional competition in the new arrangement; and to overcome current deficiencies in the client functions of identifying priorities and programming work.
- (k) note that the Director of Housing and Revenue Services will bring a report to the next meeting with recommendations to strengthen the senior management capacity in Housing Landlord Services in light of the considerable pressures and challenges facing the Service in the future.

Financial Consequences

The financial consequences of this report are:

The new arrangements outlined in the report can not be accomplished without external advice and assistance on work programming, contract packaging, pricing and competition mechanisms, tender evaluations, support in negotiating with bidders etc. Repair, maintenance and improvement work will be procured through a competitive process compliant with EU regulations. The costs of the external advice and assistance and of the procurement process are not known but can be met from existing housing revenue and, if appropriate, capital budgets. The recommendation to authorise ex-gratia payments will involve expenditure estimated at £60,000 which can be met from existing budgets.

Corporate Objective/Service Plan Priority

The report helps to achieve the corporate objective to earn a position of community leadership – able to champion social justice and equality by being and open, responsive, efficient and effective organisation delivering high-quality services. and the corporate priority to improve the quality of our contact with residents by embedding ‘customer care’ as an imperative for every Service.

Contact Officers

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Background Documents

Notes of meetings and reports to the Member Working Party, Corporate Committee and Council regarding externalisation of City Works.

Report

Introduction

1. The Executive is fully aware that leaseholders have been dissatisfied with the charges that they have been asked to pay for works undertaken to the external fabric and common areas or services as part of the City Council's planned maintenance or major repairs programmes, particularly the percentage added by CityCare to work undertaken by sub-contractors. Considerable adverse publicity has resulted over a period of time for both the City Council and CityCare as a result of the current arrangements. I have been asked to prepare a report on the options available to resolve the situation.
2. In addition, as a result of a question initially put to the Director of Housing & Revenue Services and then raised at the October 2004 meeting of Council, various detailed issues have been investigated and are subject to a separate report elsewhere on the agenda which is exempt from public inspection because it concerns individual employees.
3. The issues are complex and of necessity this report is long as Members need to understand the way in which the contract with CityCare is constructed and some of the background. This report therefore:
 - (a) sets out background information to the CityCare contract as a whole;
 - (b) explains how this has impacted on leaseholders together with the proposed resolution which has been agreed with CityCare and is recommended for approval by the Executive;
 - (c) explains the need for interim arrangements for work that is in progress but not yet 'on site';
 - (e) explains the need for further fundamental changes to the works and services agreements in contract that relate to planned maintenance, major repairs and modernisation of Council Housing.
4. Members are aware that CityCare is a company set up specifically to carry out the service contracts with the City Council, the shares of which were originally owned by Morrison and Service Team and now by AWG and Cleanaway.

Background

5. In 1997/98 following financial difficulties and threatened intervention from the District Auditor the City Council decided to externalise the City Works Department and explore all possible options including partnerships, joint ventures and a trading company. The Council's objectives were to:

- NCC receives quality services that demonstrate value for money over the contract period;
 - significant risk is transferred to the private sector reducing NCC's liability;
 - services are affordable by NCC both initially and over each year of the contract term with guaranteed efficiency savings in each of the future years;
 - NCC receives full value for the assets of the DLO business and will share in any excess operating profit, or any disposal of non-council business activity;
 - That DLO employees are provided opportunity within a specialist company focused and experienced in delivering services to local authorities;
 - Contract services are now clearly defined and performance measured against key criteria with incentives to encourage consistent high quality standards; and
 - The DLO as a business remains intact and is able to grow profitably and contribute to regional economic development through direct and indirect employment.
6. Following a competitive process in accordance with European Union procurement regulations, 18 expressions of interest were received in October 1998 from which 3 were short-listed, a joint expression of interest from City Works, May Gurney was automatically pre-qualified as a fourth bidder, and two further candidates were also pre-qualified and held as reserves in the event of a bidder withdrawing. By January 1999 all of the original short-listed bidders had withdrawn and been replaced by the reserve bidders. In February 1999 the Council decided that City Works should not pursue its bid and to continue with May Gurney as a bidder. Accord PLC were appointed in August 1999 as conditional preferred bidder. They subsequently sought variations to terms disadvantageous to the City Council and which the Council regarded as settled. Exploratory discussions with what became CityCare established that a position could be reached from which exclusive negotiations could be held. A further detailed evaluation was undertaken after these exploratory discussions and after Accord PLC had the opportunity to state their final position. This further evaluation resulted in CityCare becoming the preferred bidder and finally ratified by Council in January 2000.
7. The Contract lasts until 2010 and is in the form of Externalisation Agreement and 24 Works and Services Agreements (listed in Appendix A). The terms 'agreement/s' and 'contract/s' are used interchangeably to refer to both the overall arrangement and the 24 specific arrangements.
8. Bidders were initially invited to submit against the specifications used for City Works (as a result of Compulsory Competitive Tendering) on the basis of variations to the existing price schedules used by City Works. They were encouraged to propose moves to innovative output contracts during the 10

year term of the contract. Bidders were concerned about being bound for 10 years to the input specifications and variations to the pricing schedules which had been developed over time with City Works and were considered not to reflect the actual costs of service. Discussions with the bidders confirmed that significant benefits could be achieved by commencing the contract on an output based approach and the tender period was extended to allow more time for proposals to be developed.

9. Notwithstanding the additional time allowed, bidders were reluctant to commit resources to developing proposals because of the then involvement of City Works as a bidder and the difficulties in securing effective disclosure of relevant information. They were also concerned that it was likely that each bidder would produce very different proposals which the City Council would find it difficult to evaluate on a 'like for like' basis.
10. These concerns resulted in the City Council developing output based documentation for 11 of the 24 contracts for which the bidders proposed an annual service charge. Housing repairs and maintenance, housing upgrading, repairs prior to painting and external painting remained amongst the input contracts priced on variations to the schedules of rates existing with City Works.
11. To evaluate the tenders the Council developed a Tender Evaluation Base (TEB) that reflected the costs incurred by the City Council for services provided by City Works adjusted for inflation. For those contracts that remained input based the costs were broadly similar to the specifications and Schedule of Rates used with City Works. For those contracts that moved towards output specifications the costs were generated from the prices and budgets adjusted for reallocation of service requirements between contract packages, enhanced service specifications, delivery in line with service requirements rather than the general custom and practice of City Works, and transfer of risk.
12. A quasi-bid was developed by the City Council's advisors to: provide confidence on key aspects of the bidders' submissions; provide a financial template against which to compare and validate the bidders' proposals, and reduce 'tender creep' during the bidding process.
13. Both the final bids provided better value than the TEB without taking account of the risk transferred from the City Council and substantially so when risk transfer was priced. The City Care bid was assessed as realising net savings to the City Council over the life of the contract of £3.6m compared to the TEB.
14. There was, however, an 'affordability gap' in the early years of the bid which City Care agreed to address by bringing forward the savings that would be generated in years 5 to 10 (subject to protection in the event that the volume of work reduced).
15. The relationship between the City Council and CityCare was intended to be on the partnership model with the objective of working together to deliver continuously improving services to the people of Norwich.

Mechanisms in the contract that were designed to ensure value-for-money include:

- guaranteed savings through the contract by prices rising by 90% of inflation each year and price reductions of 2.25% in each of the first two years and of 0.25% in every year thereafter;
 - each contract to be benchmarked twice in the contract period and consequential adjustments made to contract prices;
 - use of a performance management system leading to financial penalties and ultimately termination of the contract (Members are reminded of comments in previous reports about the actual efficacy of the PMS);
 - CityCare achieving and maintaining accreditation to ISO 9001 (Quality Assurance) and compliance with ISO 14,001 (Environmental) within the first two years of the 10 year period;
 - The expectation that the parties would work together to translate as many of the remaining input specifications as possible to “output” contracts.
16. The City Council's desire to secure the transfer of all of the activities of the City Works Department as an entire concern was ambitious and unprecedented. Negotiations with two bidders failed before contractual terms were agreed with CityCare. The climate prevailing in local government at the time was very different to that which we experience today. It is clear from the reports and notes of meetings that the parties felt the need to plan for the eventuality of continued enforced reductions in City Council expenditure resulting in reduced contract values.
17. As explained above, for those contracts which remained on input specifications, the bidders could only propose variations to the Schedule of Rates (SoR) in use with the then City Works. It is, to say the least, exceedingly unusual to deal with major planned maintenance programmes and modernisation (upgrading) of properties through a long-term contract based on SoR.
18. The prices submitted were calculated to cover, over the ten-year life of the contract, the costs of the works ordered by the City Council together with the overhead costs of operating and developing the company (including management fee payments of up to 3% to the two parent companies and investment in new plant, machinery and equipment); and also to recover the ‘mobilisation’ costs of starting the contract such as: redundancy payments as a result of restructuring the workforce, costs of becoming an ‘admitted body’ to the Local Government Pension Scheme, one-off training, branding, setting up new systems, achievement of Quality Assurance and of Safety schemes. These calculations were based on assumptions about the volume of work to be ordered by the City Council or generated from third parties.
19. Under the terms of the contracts CityCare has, until 2010, the **exclusive** right to carry out the work covered by the scope of the works and service

agreements either directly or, with the agreement of the Council, through nominated or approved sub-contractors.

20. In order to protect the contractor in the event of a reduction in the amount of work ordered by the Council and to ensure value for the Council and residents in the event that the amount of work ordered by the Council or won from other parties increased, a 'volume change mechanism' is provided for in the contract. The way this mechanism was intended to work was to increase or reduce each of the SoR prices in the year following a change in volume. The SoR adjustment is calculated by a complex formula.
21. The volume of work has increased substantially since contract inception, work ordered by the City Council increasing by 33.7% (a total of £16.6m) between 2000-01 and year 2004-05. To work as intended, volume change calculations have to be done immediately at year end. However, due to the complexity of the calculations, adjustments to SoR prices have not been progressed on a timely basis. Therefore the calculation for 2000-01 and 2001-02 resulted in SoR price reductions going forward from 2002-03 and a cash refund to the City for the previous years. Refunds received to date total £150,000. SoR price adjustments and cash refunds to be made for 2002-03 and 2003-04 are currently being calculated.
22. At the City Council's request, CityCare have commissioned an independent appraisal of their financial performance as a basis for progressing discussions about less complex and more transparent alternatives to the current volume change mechanism. Any recommendations arising from those discussions will be reported to Executive in due course.
23. There is no provision in the contract for payments to the contractor other than through the Schedule of Rates (SoR) which mainly apply in the input contracts or through Annual Service Charges which mainly apply to the output contracts. However, the contract does provide that CityCare can use nominated or approved sub-contractors (and a list of sub-contractors formed part of some works and services agreements). It had been established practice for the old City Works Department to use specialist and other sub-contractors. The workforce that transferred to CityCare would not, therefore, have all the skills to enable the company to undertake all of the work directly.
24. The contract that is the subject of this report is an input specification and so from this point I refer to issues relating to subcontractors and SoR prices. The contract does not anticipate that much work would be let outside of the SoR and refers to such work as being priced broadly in line with the SoR. It appears to have been assumed that any sub-contracted work would be paid under the SoR.
25. In the absence of any explicit provision within the contract as to how sub-contractors would be paid, in 2001 the then Contract Administrator and the lead accountant agreed a basis for payment. This allowed for CityCare's calculation of their general overhead costs and mobilisation costs expressed as a percentage of the value of the anticipated work to be applied to the sub-contractors' prices. This calculation was set out in the Financial Model underpinning their Standard Compliant Offer.

Leaseholders

26. The City Council has 7,959 of flats and maisonettes, (47.9% of our total stock) ranging from 15 storey tower blocks to 2 storey walk-up flats. When tenants of flats exercise their right-to-buy they become leaseholders. There are currently 2,265 leaseholders (i.e there are a total of 10,224 households in blocks of flats where the Council is the freeholder of which 77.8% are tenants and 22.2% are leaseholders. The City Council maintains and improves the fabric of the blocks and needs to charge a fair proportion of maintenance and improvement costs to leaseholders. Work to the fabric of the blocks includes the maintenance, repair and replacement of: lifts; roofs; eaves; rainwater goods; windows; entry systems; staircases etc.

Windows

27. When the City Council decided to specify that windows should be replaced with PVCu units City Care declined to undertake the work. In accordance with EU procurement regulations the City Council invited tenders for the supply and fitting of PVCu windows and related components such as fascia boards, soffits, and rainwater goods for properties making up the 2001/2002 programme. Anglian Windows provided the lowest satisfactory tender and were awarded the contract for a SoR that covers the range of items. Unfortunately the procurement documentation had not included for extension of the contract to further properties and, in order to avoid delay to the programme and disappointment to tenants who were expecting their windows to be replaced an arrangement was agreed whereby the work reverted to CityCare and Anglia Windows became a nominated sub-contractor. CityCare charge 5% on top of the Anglian Windows tendered prices (adjusted by for inflation each year) for which they co-ordinate and supervise the works.
28. This impacts on leaseholders as it is prudent for the Council to replace all windows in a block when deemed necessary for the majority to be replaced. Leaseholders are charged the costs of the replacement windows for their flat and a share of access costs and other costs associated with the work.
29. When windows are replaced the Council considers whether it is sensible to also carry out other work to the block of flats to make optimal use of scaffolding and the fact that labour will be on site. For example roof line work(fascias, soffits, damaged roof felt) is carried out , wooden or asbestos boards replaced with PVCu to avoid the need for future maintenance. Housing Technical officers determine whether is cost effective to carry out this work in one programme. Where possible access and other costs can be shared between the contractors carrying out the work. Currently CityCare coordinate and supervise the work on site.
30. Some leaseholders have argued that some of the roofline work is not required and that serviceable items are being replaced. As explained above, Housing Technical should be able to demonstrate that, the most cost-effective approach is being taken.
31. Some leaseholders argue that the roofline work it is expensive compared to quotes they have obtained from other contractors. The competitive procurement resulting in the selection of Anglia Windows demonstrates that the prices are competitive and the windows are particularly 'keen'. As a SoR

contract covering a number of items it is inevitable that some SoR prices will be less “keen” than others. A leaseholder who replaced their own windows and were subsequently charged a proportion of the cost of roofline work may pay on the less ‘keen’ prices would not benefit from the “keen” window prices.

32. In response to these concerns the Director of Housing & Revenue Services has reviewed prices charged to leaseholders for roofline work done within the window contract. The apportionment of scaffolding and other access costs has been adjusted and reduced. Costs of any rainwater goods replaced for a second time in 10 years have been refunded. Anglian Windows suggested a change in the specification that has reduced prices for PVCu roofline products by 12%.
33. The proposals below for how work to the external shell of flats and maisonettes should be done in the future impact on the existing contract as explained in that section.

Repairs prior to painting and external painting.

34. Leaseholders can be charged for the cost of repairs and painting of any external woodwork in their block which is carried out by CityCare priced on a SoR. The volume of work and hence the value of the contract has significantly decreased as metal and wooden windows are replaced. This led the Director of Housing & Revenue Services to renegotiate an increase in the schedule of rates prices under the volume change mechanism.
35. Leaseholders have raised concerns about the cost, charging mechanism and quality of the work carried out. Following discussions with leaseholders consideration is being given to allowing leaseholders to complete minor repairs and painting tasks to their properties. Where condition is satisfactory no work would be ordered and charged by the City Council.

Other work

36. The majority of other work resulting in a charge to leaseholders is generally contained in Contract G – Housing Upgrades. Work to access doors; drainage; paving and some pitched roof to low rise flats are generally done directly by CityCare and charged either in accordance with the SoR (originally set in the contract and adjusted in accordance with the volume change mechanism) or to a price negotiated with reference to SoR and other known prices. Flat roofing and major structural repairs (e.g. concrete cladding to blocks) are generally done by sub-contractors and charged with the additional percentage from CityCare (in accordance with the arrangement introduced in 2001 as explained above).
37. Leaseholders are unhappy with this situation for two main reasons:
 - they feel that prices charged by CityCare are not competitive and the City Council could achieve lower prices from other contractors;
 - the percentage added by CityCare to the sub-contractors prices .
38. As explained above, when bidding for the contract, CityCare were able to vary the SoR prices then in operation with City Works. Some of the rates

result in a financial loss to the company, some to a fair return and some are highly profitable. Within a mixed programme of work, 'swings and roundabouts' should result in an overall fair return to CityCare and value-for-money for the City Council. Leaseholders tend not to be affected by work done under SoR pricing which are disadvantageous to CityCare (and therefore provide a 'balance') such as heating installations.

39. Since the inception of the contract leaseholders have tried to argue that the statutory provisions requiring landlords, in some circumstances, to obtain two competitive quotations for work the cost of which will be recharged to leaseholders apply. The City Council's position has been that CityCare were awarded the work through a competitive procurement process and that there is, therefore, no need to obtain quotations on individual items of work. In 2003 the law was amended to recognise long-term arrangements such as the CityCare contract and to disapply the quotations duty in these cases. There remains considerable statutory protection for leaseholders against unreasonable or excessive charges.
40. Although legally defensible and arrived at through competitive procurement, the SoR pricing of work undertaken directly by CityCare can be argued to be unfair to leaseholders compared to tenants as leaseholders get at best minimal benefit from work undertaken at rates favourable to the client and at best minimal benefit from the price adjustments arising from the volume change mechanism.
41. In the absence of any explicit provision in the contract for dealing with payments to CityCare for work undertaken by sub-contractors, I have advised CityCare that the Council will not continue with the arrangement agreed in 2001. CityCare do not accept that the approach now adopted by myself and the Head of Legal Services is in accordance with the contract. There will need to be further detailed discussions about how to deal with this issue across all the Works & Services agreements.
42. There is, however, complete accord between the City Council and CityCare that it is not in the best interests of either party nor of tenants and leaseholders to have continued controversy. CityCare are prepared to forgo their exclusive right under the contract to undertake works to the fabric of blocks of flats to allow all such work to be subject to open competitive tendering. Furthermore, they will not pursue any claim under the contract for future payment relating to such work.
43. The constructive, mature and pragmatic attitude taken by CityCare is greatly appreciated and will enable rapid progress to be made with what could otherwise have been an intractable issue.
44. The final programme of works for 2005/6 has not been determined but it is estimated that the value of work to external shell and communal parts of flats and maisonettes in 2005/06 is £1.4million. As mentioned above, letting new competitive contracts for this work will impact on the arrangement with CityCare to coordinate roofline works with replacement of windows subcontracted to Anglian Windows. CityCare have requested that the arrangement should be ended. It will therefore be necessary to also tender the window contract either as a specialist windowing contract or as an element in the external shell package. Further work will need to be

undertaken to determine the best way to package the tender or tenders, the nature of the specifications and resulting contracts, and the oversight and management of such contracts. The City Council does not have in-house expertise to undertake this work and will need to commission external assistance.

45. In addition to paying a fair and reasonable share of the costs of the works let under the new open, competitive arrangement, leaseholders will also be charged a fair and reasonable amount of the costs of commissioning and managing the work. There are a number of options under consideration for how such a charge might be calculated which will be subject to consultation with leaseholder, tenants, the Leader and the Executive Member before being finalised.

Charges paid by or billed to leaseholders.

46. Under the new arrangements proposed in this report, the practice charging leaseholders on the basis of the sub-contractors prices with an additional 'CityCare percentage' calculated from the Financial Model that underpinned their Standard Compliant Offer accepted by the Council in January 2000 will end. The costs of the works prices achieved through letting new tenders together with the costs of commissioning and managing the work may not be lower than the costs achieved under the present arrangement. However, the costs will be easier to demonstrate to and justify to leaseholders when charging them a fair and reasonable proportion.
47. Much of the planned maintenance and improvement work to the fabric of blocks of flats is long-term in nature. This agreement to change in the mid-term of the contract means that there will be an inequitable situation between leaseholders according to whether work was done in the past five years or under the future arrangement. The rationale for the practice of charging an additional 'CityCare percentage' is difficult for leaseholders to understand (although it has a logic in terms of the financial model underlying the contract, the operation of the volume change mechanism, the partnership ethos and the circumstances prevailing at the time). It has generated considerable ill-will amongst a significant group of stakeholders – 1 in 5 of flats in blocks owned by the City Council.
48. In view of the decision not to apply the practice in the future, the Executive may wish to consider making a gesture of good will to leaseholders who have been charged on this basis in the past. It is recommended that the Director of Housing & Revenue Services should be authorised to make ex-gratia payments to leaseholders on a case by case basis equivalent to half of the cost of any 'CityCare additional percentage' that has been charged to them for works done by sub-contractors under Contract G - Housing Upgrades (i.e. excluding the window contract) since 2000. The total value of the relevant CityCare additional percentage charged to leaseholders over the period is £120,000.

Interim arrangements

49. The new arrangements will take some months to implement. The City Council will need external expertise to advise on the final contract packaging and other arrangements proposed in this report. The procurement of contractors for the repair, maintenance and improvement of

the external shell and communal areas of flats and maisonettes (including window replacement) will take a minimum of 6 months to complete. As Members know, the timescales for procurement processes can become protracted for reasons outside the City Council's control.

50. A decision needs to be taken about how to deal with the work that would have been commissioned in the period between now and the new arrangements becoming operational. The Director of Housing & Revenue Services has examined the work that would have been done in the next twelve months and advises that there are no proposed schemes that could not be postponed for up to 12 months.
51. The new arrangements will enable a better planned and more continuous work programmes that will to some extent compensate for the delayed start. Responsive programmes are to be transferred to other contracts and will enable any urgent work that arises to be dealt with.
52. A number of schemes (see Appendix B) were in preparation and put on hold until this report was prepared and considered by the Executive and the outcome of the investigation referred to in the introduction to this report was known. Many are combination schemes, where roofing, external structural work and window contracts are all due to be carried out at the same time. As work was due to start in 2004-5 tenants and leaseholders have been advised that the work is to be carried out. In the case of window contracts, the properties have been measured for the new windows, and leaseholders advised of the estimate of the cost of the works to them.
53. It is recommended that the Director of Housing and Revenues Services be authorised to negotiate interim arrangements for the completion of the schemes. The works would be ordered through CityCare, who would arrange sub contractors for the works they did not carry out directly. Windowing and associated PVCu work would be carried on the same terms as the current arrangements. CityCare will organise the tendering, procurement, programming of works, including the agreement of construction methodology, liaise with tenants and leaseholders, ensure compliance with CDM obligations and other health and safety requirements, produce final cost statements and invoices. They would also be responsible for the rectification of any defects identified in the defects liability period. CityCare have offered to carry out the above tasks on the non-windowing element of this work for a fee percentage in line with industry norms for this type of work. This is on the understanding that the value of this work would not be included in the volume change mechanism. If this is agreed, leaseholders will be charged the sub contractor's prices plus no more than 15% for CityCare's main contractor role.

Works and services agreements relating to planned maintenance, major repairs and modernisation of Council Housing;

54. Most of the work relating to planned maintenance, major repairs and modernisation of Council Housing is included in Contract G – Housing Upgrades. The competitive procurement of new contracts for work to the external fabric and common areas of flats and maisonettes has a major impact on the volume of work in this contract. Other work in Contract G brings homes up to the Government's Decent Homes standard together with

work that is responsive in nature and could be better incorporated into other housing maintenance contracts.

55. There has been a substantial increase in the volume of work from the initial estimate at April 2000 of £4.9m per year to an actual value 2003/4 of £9.5m.
56. In agreement with CityCare it is proposed to transfer the following works from Contract G to other repairs contracts using existing prices or agreeing new prices.

Type of work	Estimated Value in 2004/5	Comments
Major Works to Void properties	£575,000	Transfer to responsive repairs contract (F).
Responsive Drainage Works	£105,000	Transfer to responsive repairs contract (F).
Responsive rewiring	£100,000	Transfer to responsive repairs contract (F). The need for responsive rewiring often emerges when other responsive work.
Obsolete heating replacement arising when properties are serviced or a repair request is made the need to replace systems or individual parts is identified.	£1,100,000	The volume of expenditure and the balance with planned replacements needs to be investigated. Transfer to Gas Servicing Contract (K).
Damp proof & subsidence remedial work	245,000	Transfer to responsive repairs contract (F).
Total	£2,125,000	

57. The practices in operation between the client and contractor are ineffective, highly inefficient and do not accord with recognised best practice and the recommendations of 'Rethinking Construction'.
58. In January 2004 the joint meeting of the CityCare Board and Corporate Management Team were extremely concerned to learn that the client would survey every property in a proposed works package to provide a specification and order for each individual address and that the contractor would then provide prices for each individual address. Having been

informed that attempts by the Director of Housing and the Managing Director of CityCare to change such practices had not succeeded, the meeting resolved that the situation was unacceptable to both parties and instructed the Director of Housing and the Managing Director to ensure that revised methods of ordering and pricing were in place by July 2004.

59. Work to develop new approaches has been underway since that decision and 'running' improvements made include:
- When installing new kitchens and bathrooms City Care now do a pilot of each type of property and a 'lump sum' price for that property type is calculated. All the other properties of this type are then ordered using this price. This replaces the detailed use of schedules of rates and variations on each individual property.
 - CityCare now have the authority to redefine work needed to modernise void properties up to certain limits (subject to a percentage check by the client) so avoiding time consuming and duplicated effort by the client.
 - CityCare now identify the need for water main renewal and plan and programme the work with the client checking a percentage of the work.
60. The Director of Housing and the Managing Director concluded that to provide better value for money, eliminate wasteful duplication, and provide a better service to tenants and leaseholders, Contract G should be more radically changed and moved to an "output" specification. They recommend that:
- The client role will be to set the priorities; specify the required work to be carried out; determine the budget available in each year; and organise the work into suggested work programme packages of property types / locations. These decisions will be based on stock condition survey and other information, which will also be made available to the contractors. The client will specify the minimum standards to be achieved in terms of customer care, quality of workmanship and design, quality of materials and contract administration.
 - The contractor will carry out the surveys and other investigations they need to establish the nature and extent of work in each of the programme packages identified by the client and provide a price. This will include consultation with tenants, design, permissions etc (currently carried out by the client). Housing staff would still be available for tenants to contact at any time if problems remained unresolved.
61. This should achieve a significant improvement to work programming to provide for a continuous stream of work that allows skilled staff teams to be developed and retained. This will have significant benefits to all parties.
62. The client will audit to ensure the standards and value for money is achieved.

63. A list of the type and estimated value of works remaining in contract G and proposed to move to an output specification is given below.

Work Description	Estimated Value	Comment
Rewiring programme	£660,000	One of the major causes of failures to meet the decent homes standard is the age/condition of wiring.
Modernisation (Decent homes)	£2,200,000	Includes all necessary improvements to 350 homes
Modern heating systems	£1,000,000	It is hoped that this figure will increase as a result of the investigation into the high costs of ad-hoc replacement of heating systems.
Preventative maintenance and other programmes.	£500,000	Programmed maintenance to roofs, drainage, water services, planned upgrades of sheltered scheme & environmental works

64. It is clearly in the interests of both parties to the contract and of tenants and leaseholders to realise the potential of moving to an output specification and adopting as far as possible 'rethinking construction' principles.

65. The way in which work would be priced under the new arrangements needs to be agreed and the City Council will want to ensure that we can:

- demonstrate value for money;
- deal with any poor performance by the contractor with minimum disruption to tenants and overall programme.

66. As CityCare has contractual exclusive rights to the work, changes can only be achieved by mutual agreement. In light of the benchmarking provision in the current agreement CityCare are prepared to accept an element of open competition in the new arrangements.

67. Members are asked to note the transfer of work from Contract G to other appropriate housing maintenance and repair contracts and approve in principle that planned maintenance and modernisation of Council homes should move to an output specification.

68. The pricing of programme packages is made complicated by the poor information held by the client on the condition of individual properties; the fact that the Council has not traditionally operated programmes of life-cycle replacement of building components; and the number of properties which have not been modernised in the past as result of tenants' choices. This means that within any proposed programme package there could be a significant number of properties with building components/fittings of differing ages below that when replacement is needed - for example as may occur when a property has had extensive fire-damage repaired.
69. It would not be a good use of resources to replace components/fittings early in their life-cycle. Equally, it is sensible to replace as part of a programme components which, whilst newer than others, would need to be replaced before the next cyclical programme for the remainder of the package. At present such decisions are taken by Housing Technical Officers. Until the Housing Service have accurate stock condition data for each property there will be a continuing need for decisions to be taken about whether or not to undertake works to individual properties within a programme package and for prices to be adjusted accordingly.
70. Various options are under discussion for how work may be priced and how an element of competition can be introduced. These are complex matters if the optimum balance of overhead costs with transparency in demonstrating value is to be achieved. Although the Director of Housing and the Managing Director of CityCare have been working on this issue for a considerable time they are not yet in a position to present firm proposals because of pressures of other work, lack of expertise available to assist, and the lack of good programming information and practice.
71. The introduction of the CityCare contract in 2000 and the previous working arrangements with the City Works department means that the Housing technical team has little experience of managing different forms of contract or tendering processes.
72. Members will be aware of other very substantial priorities and pressures on the Housing Landlord Services for example the review of repairs and maintenance by the Housing Inspectorate of the Audit Commission; the Options Study; the implementation of Norwich Connect (which has been postponed until this year and will now be the last major phase); the pressing need for continued improvement in management of arrears and Areas of Intensive Management; extending the repairs appointment system; responding to the new policy and procedures for Anti-Social Behaviour.
73. It is clear that the City Council will not be able to make progress with the certainty and speed that is needed without additional expertise and resources. It is therefore recommended that priority is given to commissioning external assistance and that, if possible, this is done by inviting a small number of appropriate organisations to submit proposals.
74. Members are asked to note that the Director of Housing will bring a report to the next meeting with recommendations to strengthen the senior management capacity in Housing Landlord Services.

List of 24 works and service agreements

	Contract	Standard Compliant Offer Value (£)
A	Building Cleaning	335,638
B	Refuse Collection	1,475,681
C	Other Cleaning	932,729
D	Grounds Maintenance	2,440,158
E	Arboricultural Services	297,966
F	Housing Maintenance	6,579,252
G	Housing Upgrades	4,924,991
H	Repairs Prior to painting	3,151,095
J	Laundry Equipment Maintenance	20,454
K	Gas Appliance Maintenance	1,114,927
L	District Heating Maintenance	211,424
M	Solid Fuel Appliance Maintenance	46,128
N	Highways Construction	872,650
O	Highways Maintenance	955,852
P	Winter Maintenance	231,380
Q1	District Lighting	122,611
Q2	District Lighting Upgrades	120,390
R1	Landlords Lighting	191,116
R2	Landlords Lighting Upgrades	147,319
S1	Community Alarms Maintenance	58,627
S2	Community Alarms Upgrades	196,421
T	Building Jobbing Maintenance	753,100
V	Buildings Planned Maintenance	214,934
W	Buildings Repairs, Alterations and Maintenance	618,010
		26,012,853

Appendix B

Work to be included in interim arrangements

Location of work	Description of work	Estimated value excluding windows
Daryll Olace	Flat roofing, concrete screens and replacement windows.	£40,000
Colman Road	Roofing, Pointing and replacement windows	£164,000
Godric Place	Flat roofing and replacement windows	£84,000
Vale Green	Flat Roofing and replacement windows	£94,000
Brooke Place	Structural Work	£55,000
Heartsease & Mile Cross Towers	Louvres	£5,000
Winchester Tower	Roofing	£65,000
Heathgate	Minor structural and replacement windows	£50,000