



Report of: Executive Member for Housing and Development

Executive	Date: 19th September 2019	Ward(s): All
		Non-exempt

SUBJECT: Procurement Strategy for Domestic Gas Boiler Installations, Servicing and Repairs

1. Synopsis

- 1.1 This report seeks pre-tender approval for the procurement strategy in respect of borough-wide domestic gas boiler installations, servicing and repairs provision in accordance with Rule 2.7 of the Council's Procurement Rules.
- 1.2 The intention is to award three contracts:
 1. Back-up service for domestic gas boiler responsive repairs and servicing for the north of the borough to support the in-house gas team;
 2. Delivery of domestic gas boiler responsive repairs and servicing in the south of the borough and;
 3. A contract for domestic gas boiler installation renewals, both planned and reactive, throughout the borough.

2. Recommendations

- 2.1 To approve the procurement strategy for the provision of domestic gas boiler installations, servicing and repairs as outlined in this report.
- 2.2 To authorise the Corporate Director of Housing, in consultation with the Executive member for Housing and Development, to take the decision to award the contracts.

3. Background

3.1 Nature of the service

The Council is responsible for undertaking the annual servicing of every domestic gas boiler in its tenanted properties, along with responsive gas repairs and any gas installations (both planned and reactive). The annual gas servicing compliance figure is a key performance indicator for the Council. Gas safety is an area which carries substantial risk due to the implications of service failure and the high volumes involved.

The Council's Housing Property Services division currently provides the gas service in the north of the borough and has done so since insourcing this in June 2014. A separate contract was procured for the domestic boiler installation programme in the north of the borough, with a back-up service to the in-house team for repairs and servicing including out of hours' emergency cover.

The contract for the gas service in the south of the borough was originally procured by Homes for Islington (HFI). This contract was novated to the Council when HFI was insourced.

The Council wishes to procure three contracts for domestic gas installations, servicing and repairs. The current contracts come to an end on 31st May 2020 and any options to extend them have now been exercised.

The procurement will be split into three Lots. The three services will be procured through one tender process to award contracts to one or a maximum of two contractors. Providers may apply for Lots 1 to 3, but any single provider will only be awarded a maximum of two contracts for example Lot 1 and Lot 3 or Lot 2 and Lot3. The services cover the requirements as follows.

Lot 1: Back-up to in-house Gas Team for Domestic Gas Repairs and Servicing (north of the borough)

Currently the Council's gas service provides approximately 13,500 responsive repairs and gas servicing to 10,040 tenanted properties per annum in the north of the borough as part of the Council's statutory obligations under the Gas Safety (Installation and Use) Regulations 1998. The in-house service has operated since 2014 with the support of contractors providing a back-up service, including for out of hours emergency cover.

The in-house team has had substantial difficulties in recruiting to the level that would enable it to negate the requirement for a back-up contractor, and currently the team is operating at 63% of staffing level. However, the Council is committed in maintaining and developing the gas in-house team by "growing our own" and has recruited three apprentices who are currently undergoing training.

In order to support the in-house team, it is necessary to procure a back-up contractor who can provide additional support during busier 'peak' times to ensure that the Council complies with its repairing obligations as a landlord. It is crucial that tenants' homes are heated and that the Council can respond quickly and efficiently to breakdowns and repairs.

It is therefore recommended that such support is maintained but with a view to reviewing at the initial three-year stage where optional extensions are available.

Lot 2: Domestic Gas Boiler Responsive Repairs and Servicing (south of the borough)

One contractor manages the delivery of approximately 10,600 responsive repairs and gas servicing to 9,386 tenanted properties per annum in the south of the borough. The current contract arrangement is a "3-Star Contract", where the contractor is paid a set fee to undertake the annual service and all repairs are included irrespective of the number of visits, which incentivises the contractor to get it right first time and delivers good value for money. We recommend one contractor is maintained to provide a service on the same "3-Star Contract" basis with a view to reviewing the situation after three years.

Lot 3: Domestic Gas Boilers - planned and reactive installation/renewal

Domestic gas boiler installation arrangements, both planned and reactive, are currently delivered through a combination of the back-up contractor in the north and the external contractor in the south of the borough. The new arrangement will combine these two areas of work and the service will be delivered through a separate contract. The in-house team does not currently have resources or expertise in this area. A separate installation contract will ensure enough resources are available to undertake any boiler installations, inclusive of those arising from the return of the PFI2 street properties to the council in 2022/23.

3.2 Estimated Value

The contracts are funded from the Housing Revenue Account (HRA).

The anticipated total value of each contract will be:

- a) Lot 1: Back-up to in-house gas team for domestic boiler responsive repairs and servicing (north of the borough) £11.97m (based on £1.71m average per annum)
- b) Lot 2: Domestic boiler responsive repairs and servicing (south of the borough) £9.31m (based on £1.33m average per annum)
- c) Lot 3: Domestic Gas Boilers - planned and reactive installation/renewal £16.45m (based on £2.35m per annum).

The estimated maximum values for Lots 1 and 2 are based on actual spend over the past two years plus an estimated amount for PFI2 tenanted properties coming back in July 2022. The estimated value of Lot 3 may not be entirely reflective of the spend in future years considering the difficulty in predicting how many PFI2 street properties will require boiler replacements when they return to the Council's direct management in 2022/23.

The above contracts will be let for an initial term of three years with provision for up to two extensions of two years each (3+2+2) for a maximum contract duration of seven years.

There is a financial risk in relation to potential legal disrepair claims if the Council does not maintain its statutory obligation to keep its residential properties in good repair.

3.3 Timetable

The following deadlines must be reached:

Approval for the procurement strategy	19 September 2019
Current contracts expire	31 May 2020
Publish contract notice	October 2019
Return date for Tenders	November 2019
Tender award report	December 2019
Corporate Director approval of contracts award	January /February 2020
Anticipated contract start	1 June 2020

These contracts are not subject to Section 20 consultation.

3.4 Options appraisal

Having one in-house gas team servicing the whole borough was considered. This option would be extremely difficult to deliver given that, with only the north of the borough currently insourced, we are still only running at 63% resourcing levels (12 out of 19 posts filled). The reality is that this area of operations is extremely competitive and all providers, whether local authority or private contractor, struggle to maintain adequate staffing resource. There would therefore be unacceptable risk to tenants' safety in pursuing this option. The other likely consequence of insourcing the service to the whole borough would be that we have to procure expensive back-up arrangements for the whole borough rather than just the north, increasing the financial pressures on the service and the whole of the HRA.

Collaboration with neighbouring boroughs was also explored but this is not currently considered a viable option given the overriding priority to maintain 100% compliance levels and our challenging 24-hour response target for gas repairs.

Procuring the services via a framework agreement was explored but none were identified that offer the Council the flexibility required to deliver the service, nor offer best value.

It was therefore decided that the preferred option is to procure three contracts using a one stage competitive Open Tender as this can deliver best value overall and meet service requirements.

3.5 Key Considerations

Delivering social value to Islington residents will be a contractual obligation on the selected provider. Their performance will be monitored at regular contract meetings and will be a consideration in any decision on contract extension. Social value contributions will include work experience placements, job shadowing and training opportunities for residents. A clear set of rigorous social value targets will be included in the contract specification. These will be agreed with the Council's iWork team and will focus on job opportunities for local residents, especially those who are disadvantaged in the labour market.

London Living Wage will be included as a condition of the contract. However, the current market pays above London Living Wage for roofing operatives.

Staff from the existing contractors delivering this contract may be subject to TUPE regulations as part of this procurement.

Best Value

The service will implement a robust performance monitoring framework so that value for money, quality, outcomes and cost effectiveness can be assessed. The monitoring framework will include activity levels, evidence of outcomes achieved, as measured against the desired service KPI outcomes in the service specification. Expenditure against the service budget will also be required. Service user feedback and use of resources will be monitored by commissioners on a scheduled basis and as required. Regular contract monitoring reviews will take place and the provider will, quarterly, submit information on the service provided. This process allows for continuous improvement and service development.

3.6 Evaluation

The tender will be conducted in one stage, known as the Open Procedure, as the tender is 'open' to all organisations who express an interest. The Open Procedure includes minimum requirements which organisations must meet before the rest of their tender is evaluated.

The contract will be awarded to the Most Economically Advantageous Tender (MEAT). The proposed award criteria will be based on quality 30% and cost 70%.

The evaluation criteria will be broadly similar for all the contracts, although they will be tailored to specific areas. The specific, tailored evaluation criteria will be published clearly for each individual contract in the advert. The broad areas of evaluation will be:

Lot 1 and 2

- Proposed approach to mobilising, resourcing and implementing the delivery of the works/services within timescales 10%
- Proposed approach to customer service, delivering equalities and social value 10%
- Proposed approach to Health & Safety 10%

Lot 3

- Proposed approach to mobilising, resourcing and implementing the delivery of the works/services within timescales 10%
- Proposed approach to customer service, delivering equalities and social value 10%
- Proposed approach to quality management 10%.

3.7 Business Risks

There is a risk that the quality of tenders may not be suitable, or that costs may exceed the allocated budget, which would risk the council having to re-advertise one or more of the Lots. There is a risk the council will fail to meet its statutory obligations if the contractors are not in place within the necessary timeframe. A robust procurement process and mobilisation plan is in place to ensure we meet our targets in a timely manner. In-house support will be made

available to assist the newly appointed contractors with set up requirements, particularly around IT.

Consideration was given to the possibility of offering gas services to leaseholders but, given the council's legal obligations to tenants and the challenges of maintaining high levels of compliance across the council's stock, this was judged to be too much of a risk.

We will be seeking delegated authority so that the Corporate Director of Housing can award the contracts to avoid delays in mobilising the new contracts within the restricted timescales and ensure continuity of service.

The reintegration of housing stock currently managed through PFI will impact on budget and potentially the scope of works. The budget has been modified to take account for this. ICT must integrate fully with the council's IT system. Mobilisation may include site visits and demonstrations to set up, integrate and test the system. Integration with the council's IT system will be built into the providers' specification.

3.8 The Employment Relations Act 1999 (Blacklist) Regulations 2010 explicitly prohibit the compilation, use, sale or supply of blacklists containing details of trade union members and their activities. Following a motion to full Council on 26 March 2013, all tenderers will be required to complete an anti-blacklisting declaration. Where an organisation is unable to declare that they have never blacklisted, they will be required to evidence that they have 'self-cleansed'. The Council will not award a contract to organisations found guilty of blacklisting unless they have demonstrated 'self-cleansing' and taken adequate measures to remedy past actions and prevent re-occurrences.

3.9 The following relevant information is required to be specifically approved in accordance with rule 2.8 of the Procurement Rules:

Relevant information	Information/section in report
1 Nature of the service	Provision of Domestic Gas installation, servicing and repairs to Islington Council's tenanted properties. See paragraph 3.1
2 Estimated value	<ul style="list-style-type: none"> a) Back-up to In-house Gas Team for Domestic Gas Servicing and Repairs (north of the borough) £11.97m (based on £1.71m average per annum) b) Domestic Boiler Responsive Servicing and Repairs (south of the borough) £9.31m (based on £1.33m average per annum) c) Domestic Gas Boilers - Planned and Reactive Installation/Renewal £16.45m (based on £2.35m per annum). <p>The agreement is proposed to run for a period of 3 years with two optional extensions each of 2 years. See paragraph 3.2</p>

3 Timetable	Advert: September 2019 Evaluation: November 2019 Award decision: by February 2020 Contract start date: 1 June 2020 See paragraph 3.3
4 Options appraisal for tender procedure including consideration of collaboration opportunities	A one stage competitive tender, using the Open Procedure, is the preferred option See paragraph 3.4
5 Consideration of: Social benefit clauses; London Living Wage; Best value; TUPE, pensions and other staffing implications	<ul style="list-style-type: none"> - Approach to social values included - London Living Wage - Best Value - TUPE implications See paragraph 3.5
6 Award criteria	The award criteria price/quality 70%-30% split is included within the report. See paragraph 3.6
7 Any business risks associated with entering the contract	<ul style="list-style-type: none"> - Lack of suitable tenders - Delay in awarding contracts - ICT Booking System integration See paragraph 3.7

4. Implications

4.1 Financial implications:

Lot1 – Backup contract to In-house Gas team (north of the borough)

The In-house Gas team is funded from the Housing Repairs budget (£32.93m in 2019/20). The budget allocation for Gas Service to the north of the borough is £4.11m. Within this allocation, £200k was earmarked to spend on subcontractors to back up the in-house team.

Owing to difficulties in recruitment, the backup service has been extensively used in the last few years causing substantial overspends in the budget (£680k overspend in 2016/17, £900k in 2017/18 & £1.1m in 2018/19). However, the overspends have largely been offset by the underspends in staffing and material costs. The only exception was in 2018/19 where the net overspend was £400k. It is worth noting that this overspend was contained within the overall Housing Repairs budget and did not cause any additional pressure to the Council.

The estimated contract value of Lot 1 consists of 2 parts:

1. £1.4m for existing properties in north of the borough
2. £300k for approx. 2500 PFI properties which will return to the Council in 2022/23

It is estimated there will be a budget shortfall of £400k to cover the part for existing properties. The shortfall is mainly due to the fact that an outsourced back up service is more expensive to procure and the costs cannot be fully compensated by the underspend in staffing and material costs. This funding gap will be considered alongside other resourcing issues in the HRA business plan review. The aim is to ensure all budget pressures can be contained within the available resources in the HRA.

In relation to the part for PFI properties, additional budget will be made available to accommodate the increase in property numbers. Therefore, it is anticipated that this part of the contract will be fully funded.

Lot 2 Domestic Gas Boiler Responsive Repairs and Servicing (south of the borough)

The budget allocation for Gas service to south of the borough is £1.45m in 2019/20. It is anticipated that the budget provision will continue to be available in the foreseeable future. The value of the contract will therefore be contained within the budget without causing additional pressure to the Council.

Lot 3 Domestic Gas Boilers - planned and reactive installation/renewal

The value of the contract is funded within the Capital 10 year investment plan which assumes average resources of £4.4m per annum. The value of the contract will therefore be contained within existing resources without causing additional pressure to the Council.

4.2 Legal Implications:

The Council is responsible for undertaking the repair, maintenance and improvement of its housing properties and installations therein (Part 2 of the Housing Act 1985 and section 111 of the Local Government Act 1972). The Council has power to enter into contracts with suppliers of domestic gas boiler installation, servicing and repair works under section 1 of the Local Government (Contracts) Act 1997.

The Executive may provide Corporate Directors with responsibility to award contracts with a value over £2 million using revenue money and over £5 million using capital money (Council's Procurement Rule 16.2).

The proposed contract is a contract for domestic gas boiler installation, servicing and repairs. For purposes of the Public Contracts Regulations 2015 (the Regulations) this procurement is likely to be classified as a procurement for 'services' since the value of the proposed contracts for repairs and servicing (lots 1 and 2) is far greater than the value of the contract for boiler installation (lot 3). The total estimated value of the contract (all 3 Lots across a 7-year maximum term) is £37,726,000. The threshold for application of the Regulations is currently £181,302 for service contracts. The value the proposed contract is above this threshold. Contracts above this threshold must be procured with advertisement in the Official Journal of the European Union and with full compliance of the Regulations. The Council's Procurement Rules also require service contracts over the value of £181,302 to be subject to a formal competitive tender process. The proposed procurement strategy, to advertise a call for competition and procure the contract using a competitive tender process (open procedure), is in compliance with the principles underpinning the Regulations and the Council's Procurement Rules.

On completion of the procurement process the contract(s) for each Lot may be awarded to the highest scoring tenderer(s) subject to the relevant tenders providing value for money for the Council.

The contract is for a period in excess of 12 months and therefore will be qualifying long term agreements under section 20 of the Landlord and Tenant Act 1985. Accordingly, the Council will need to comply with the leaseholder consultation requirements applicable to long term qualifying agreements set out in the Service Charges (Consultation Requirements) (England)

Regulations 2003 (as amended).

4. Environmental Implications

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The main potential environmental impacts of the contract for domestic boiler installation, repairs and servicing are:

- Disturbance of biodiversity; some protected species live in and around the fabric of domestic dwellings, including nesting birds and bats. Staff working for the contractor should be trained to identify and deal with potential biodiversity risks.
- Emissions; the installed boilers will produce emissions during combustion. The contractor will be required to install only SEDBUK A or B - rated boilers (rated using the 2009 calculation). NO_x emissions should be minimised by ensuring that all newly-installed boilers are class 5 (European Standard EN 483:2000).
- Travel; carrying out works will involve travelling to different sites, which may result in tailpipe emissions and also contributes to congestion. The contractor should be required to ensure that zero or low emission vehicles are used, and to combine jobs to ensure effective route optimisation where possible.
- Use of materials; installation and repair works may require the use of new materials (e.g. piping). The contractor should seek to minimise the new of virgin products, and reuse existing materials where possible.
- Waste generation; installation and repair works are likely to generate waste products, some of which may be hazardous. The contractor has a duty of care to ensure that these are disposed of legally and that the waste hierarchy is followed to ensure the maximum rate of reuse and recycling.

4. Resident Impact Assessment:

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The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

A Resident Impact Assessment was completed on 13th June 2019 and the summary is included below. The complete Resident Impact Assessment is at appendix 1.

5. Reasons for recommendations:

- 5.1 The Council has a duty to maintain its statutory obligation to keep its residential properties in good repair. The current gas servicing contract expires on 31st May 2020. The procurement of a new contract is required to ensure continuous provision of this service.

Appendices: Resident Impact Assessment

Final report clearance:

Signed by:

Diarmuid Ward.

11 September 2019

Executive Member for Housing and
Development

Date

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