



## **Key Decision Report of the Corporate Director of Housing**

<b>Officer Key Decision</b>	<b>Date: 26 November 2019</b>	<b>Ward(s): Mildmay Ward</b>
-----------------------------	-------------------------------	------------------------------



## **SUBJECT: Contract Award for Communal Heating Works to Hathersage Court**

### **1. Synopsis**

- 1.1 This report seeks approval to award a contract to carry out communal heating works to Hathersage Court in accordance with the Council's procurement rules.
- 1.2 The Council seeks to appoint a communal heating contractor to undertake urgent works at Hathersage Court. This work includes the installation of a new temporary plant room external to the block which will be used to service Hathersage Court Communal Heating network. The proposal is to connect the communal heating system into the new build Combined Heat and Power Plant on Hathersage Court once it is operational.

### **2. Recommendation**

- 2.1 To approve the award of a contract to Cenergist to undertake the new communal heating installation at Hathersage Court as outlined in this report.

### **3. Date the decision is to be taken:**

26 November 2019

## 4. Background

### 4.1 Nature of the service

The Council maintains individual gas boilers in tenants' properties at Hathersage Court Newington Green, N1. The block is an LPS block (Large Panel System Block). In 2017, the government issued guidance requiring all large panel system blocks be surveyed to ensure the buildings were structurally secure i.e. able to withstand an explosion of a specific pressure or load referred to as equivalent static pressure without the damage being disproportionate to the cause.

Where blocks contain a gas supply, they need to withstand a loading pressure of 5 psi (34kN/sqm) or if gas is absent 2.5 psi (17kN/sqm). Hathersage Court has recently been subject to a detailed structural survey by structural engineers to consider the behaviour of the block in the event of accidental loading and advise on the future of the block from a structural engineering perspective.

The block is a seven storey block. Following their investigations, the structural engineers have confirmed that the gas supply must be removed from the building. Twelve months has been set aside to undertake this requirement and it has led the Council to escalate the matter and to develop an emergency plan to deal with the findings which includes, the removal of all gas cookers, the introduction of electrical cookers, the installation of temporary gas supply isolator valves and an upgrade of the electrical infrastructure.

It also requires the removal of all gas boilers and the installation of a new communal heating system. Investigations have identified communal heating as the most suitable option to replace the existing individual gas boilers. Once the communal boiler and associated works are complete, the individual gas supply can be disconnected and removed from the building. The urgency of the work does not allow the council sufficient time to procure a contractor to carry out the work in the usual way.

### 4.2 Estimated Value

The estimated value for all the heating works is £1,221,000.00 which will be paid over the duration of the works. This equates to a cost of circa £17,696 per dwelling which is similar to communal heating works on a recent project undertaken by the council.

Savings were identified following a value engineering exercise and these savings are reflected in the new price. The initial flue design considered a self-supporting structure fixed to the block over the seven floors. The revised flue location has provided an opportunity to make savings and reduce the overall programme of work. Distribution pipework within the flats was surveyed and are considered to be in acceptable condition to reuse. This has resulted in a further savings.

These costs are in part offset by capital resources already allowed for in the 30 year HRA Business Plan to replace the individual boilers which now will not be required.

### 4.3 Timetable

It is anticipated that works will begin on site in January 2020 to ensure all the communal heating works are completed by the end of July 2020.

A resident consultation process will be undertaken prior to commencement of works and a resident a drop-in session is scheduled early November 2019 where further information will be shared with residents.

### 4.4 Options appraisal

Three possible alternatives have been considered for this work:

- Option 1 – Communal heating connected to a temporary boiler plant room
- Option 2 – Individual electric boilers or other individual electric solution
- Option 3 – Communal heating connected to either a ground- or air-source heat pump

The Council has a policy of installing communal heating wherever practical as this is the most cost-effective means of providing heating which a) contributes to the Council's aim to minimise fuel poverty, b) minimises the instances of damp and condensation and c) minimises carbon usage. Option 1, adopting a communal heating solution due to its carbon efficiency, low running costs and relatively short installation programme, is consistent with the Council's current policy. The new build scheme includes the installation of a combined heat and power engine, which enables better carbon efficiency than standard communal heating systems, and it would be feasible to connect to this on its completion, thereby contributing to an even greater extent to the Council's net zero carbon targets. Option 2, an electric solution, would result in higher heating bills for residents and would therefore be a negative contributor to the Council's fuel poverty alleviation aims. On Option 3, the ground- or air-source heat pump solution was considered, but discounted due to the strict timetable to complete the works and the very high and real risks of not meeting the July timeframe. Additionally, there would be a risk that the deep drilling necessary for the installation of ground-source pumps may compromise the footprint of the new build scheme. On air-source heat pumps, we found that the technology would be likely to require an element of electrical top-up as well as there being risks around the availability of space for the pumps. For these reasons the conclusion was that option 1 should be progressed.

### 4.5 Key Considerations

Economic, environmental and sustainable considerations have been taken into consideration. Timeframes available to undertake the work has also been considered. The key driver for these works is to remove gas from the building by July 2020 and to ensure residents are safe.

This is a stand-alone works contract and TUPE does not apply.

The London Living Wage will be a condition of this contract.

## 4.6 Evaluation

The works at Hathersage Court need to begin as soon as possible. The Council's Procurement Rules allow for exceptions where there are "...good operational and financial reasons,,, such as an emergency where serious financial loss or loss of life may be concerned..." (Rule 3.2). The risk of health and safety of residents may be considered to provide adequate operational reasons in this case. The commissioning team have therefore sought approval for an exception to the Procurement Rules in order to appoint a suitable contractor.

Cenergist have a previous record with the Council for undertaking similar works and have demonstrated appropriate experience and competence. They have previously worked on another estate where they helped the Council with emergency major works following plant failure, providing new communal heating services to residents.

From our experience, this contract also represents value for money. Evidence obtained has indicated that the costs submitted for the proposed works are in line with what would be expected should the works be tendered on the London Tender portal. Similar communal heating works have been undertaken by the council on the Redbrick Estate which resulted in a final account cost of circa £17,000 per property. The cost of the communal heating works by Cenergist for Hathersage Court is £17,700. The block is a LPS structure which added additional cost to the contract.

## 4.7 Business Risks

Failure to progress the works could put the safety of all residents, public and workforce at risk and carries a reputational risk for the Council. The gas transporter Cadent have indicated if a gas leak does occur the gas supply to the building will be isolated and turned off. Cadent have indicated in this scenario gas will not be switched back on. If this situation does arise residents connected to gas will have no heating or hot water until a new heating system is put in place. Failure to progress the works could also result to a financial risk in relation to compensation to all those affected.

Procurement challenge: The evidence obtained has indicated that the costs submitted for the proposed works are in line with what the council would expect to pay should the works be tendered on the London Tender portal.

Time to implement project planning and contract mobilisation: Previous experience has highlighted that the technical set up and contractor mobilisation can take considerable time to ensure the contract is appropriately set up to deliver the service and contract objectives. The award of this contract seeks to minimise delay to the start of works on site and removal of gas from the building.

## 4.8 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.

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

<b>Relevant information</b>	<b>Information/section in report</b>
1 Nature of the service	Communal Heating Works including communal heating plant room, distribution network and domestic installations.  See paragraph 4.1
2 Estimated value	The estimated value for all the heating works is £1,221,000 which is to be paid over 44 weeks.  See paragraph 4.2
3 Timetable	<ul style="list-style-type: none"> <li>• 13<sup>th</sup> November 2019 – Meeting with residents</li> <li>• January 2020 – Start of Heating works on site</li> <li>• 30<sup>th</sup> July 2020 – End of Heating works</li> </ul> <p>See paragraph 4.3</p>
4 Options appraisal for tender procedure including consideration of collaboration opportunities	<p>Three possible options have been considered for this work:</p> <ul style="list-style-type: none"> <li>• Option 1 – Temporary Communal Gas boilers</li> <li>• Option 2 – Individual electric boilers or other individual electric solution. This solution was discounted on financial grounds.</li> <li>• Option 3 - Ground Source Heat Pump. This solution was discounted due to the strict timetable and risks associated with potential delays.</li> </ul> <p>See paragraph 4.4</p>
5 Consideration of: Social benefit clauses; London Living Wage; Best value; TUPE, pensions and other staffing implications	<ul style="list-style-type: none"> <li>• Risk to safety of residents</li> <li>• Economic sustainability and Best Value</li> <li>• Environmental sustainability</li> </ul> <p>TUPE does not apply.</p> <p>See paragraph 4.5</p>
6 Award criteria	Employment Regulations Act 1999 (Blacklist) See paragraph 4.8
7 Any business risks associated with entering the contract	<ul style="list-style-type: none"> <li>• Financial risk in relation to compensation to all affected.</li> <li>• Procurement challenge.</li> <li>• Time to implement project planning and contract mobilisation.</li> </ul> <p>See paragraph 4.7</p>

8 Any other relevant financial, legal or other considerations.	See paragraphs below [5.1, 5.2, 5.3, 5.4]
--	---

## 5. Implications

### 5.1 Financial implications:

The estimated cost of the communal heating system installation plus associated works at Hathersage (comprising 69 units of which 16 are leaseholders) is £1.221m.

This scheme is not currently included in the capital programme.

The costs are offset in part by capital resources already allowed for within the capital programme (included in the 30 year HRA business plan) in respect of major repairs/replacement of individual boilers totalling £500k this is reduced by £250k to allow provision, over the long term, for future major repairs to the newly installed communal heating system.

Hence the net capital budget pressure arising totals £971k.

In the short term (i.e. the current financial year 2019-20), this additional cost can be accommodated within available HRA resources. However, over the long term, it is possible that this growth item will result in delays to other planned capital projects. Any impact arising will be considered and addressed as part of the ongoing review process in relation to both the capital programme & 30 year HRA business plan.

At this stage it is assumed that none of these works will be deemed recoverable from the 16 leaseholders.

### 5.2 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 may enter into contracts with providers of such services/works under section 1 of the Local Government (Contracts) Act 1997.

The proposed contract is to remove gas supply from Hathersage Court and install a new communal heating system which is classified as a 'works' contract for purposes of the Public Contracts Regulations 2015 (the Regulations). The total estimated value of the contract is £1,221,000. The threshold for application of the Regulations is currently £4,551,413 for works contracts. The value of the proposed contract is below this threshold. Contracts below this threshold must be procured in compliance with the principles of equal treatment, non-discrimination and transparency underpinning the Regulations.

The Council's Procurement Rules also require works contracts over the value of £1,000,000 to be subject to a formal competitive tender process with a minimum of five (5) written competitive tenders (Rule 1.7.2, Table 2(b)(iv)(b)). The proposed procurement strategy is to award a contract without competition to Cenergist to undertake the urgent communal heating works

The value of the contract and the existence of a competitive market for suppliers means that there is a significant risk of procurement challenge in not complying with procurement rules. However, the council's Procurement Rules allow for exceptions where there are good

operational and financial reasons (Rule 3.2). The reasons set out in the report may be considered to provide adequate operational reasons. The Corporate Director making the Key Decision to approve the procurement strategy will need to satisfy herself that the proposals represent value for money.

An appropriate proportion of the costs of the contract are recoverable from the leaseholders of the relevant properties pursuant to the service charges provision of their leases subject to the consultation requirements of section 20 of the Landlord and Tenant Act 1985 and the Consultation Regulations having been carried out.

### **5.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

The removal of existing boilers and the installation of the temporary communal boiler house and pipe network will have environmental implications that include material and energy use, waste generation and contractor journeys, as well as ongoing energy use by the new system.

Two zero emissions options for the heating systems were considered; a ground source heat pump solution and individual electric boilers. However, due to the urgent nature of the heating works, a ground source heat pump solution is considered to involve a high risk of delays. The electric boilers solution has also been discounted on financial grounds due to the high running costs to residents.

Once operational, the new communal boiler will adhere to stricter environmental regulations and will be subject to a better maintenance regime than the individual boilers. There may also be the option to connect it to the new build combined heat and power plant on the site once it is operational.

### **5.4 Resident Impact Assessment:**

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.

The removal of individual gas boilers and replacement with a communal gas system at Hathersage Court could result in tenants paying less for the maintenance and fuel. This is because it is generally cheaper to maintain a communal heating than an individual heating system. The Council bulk purchases gas at a cheaper rate where savings can then be passed on to residents. This will allow tenants to receive lower heating costs helping to reduce incidences of fuel poverty. In terms of usage thermostatic controls will be fitted within each dwelling as part of the installation to ensure heating can be controlled within. There will be no negative impacts on any of the protected characteristics.

## **6. Reasons for the decision:**

6.1 The council needs to remove the gas supply from Hathersage Court by July 2020 and provide a new form of heating by then. It will do this by appointing Cenergist to undertake communal heating works to Hathersage Court as outlined in this report.

## **7. Record of the decision:**

7.1 I have today decided to take the decision set out in section 2 of this report for the reasons set out above.

### **Signed by:**

Corporate Director of Housing

Date

Report Author: Garrett McEntee  
Tel: 0207 527 2536  
Email: Garrett.McEntee@islington.gov.uk

Financial Implications Author: Lydia Hajimichael  
Tel: 0207 527 5160  
Email: Lydia.hajimichael@islington.gov.uk

Legal Implications Author: Ramani Chelliah, Chief Contracts Lawyer  
Tel: 0207 527 3085  
Email: Ramani.chelliah@islington.gov.uk