

Homes and Neighbourhoods
Housing Property Services
222 Upper Street
N1 1XR

Report of: Executive Member for Homes and Neighbourhoods
Meeting of: Executive
Date: 24 October 2024
Ward(s): All
Report No: I029021

Subject: Procurement strategy for the repair and maintenance of communal mechanical systems and installation works

1. Synopsis

- 1.1. This report seeks approval to procure four contracts covering the maintenance of communal gas, boosted water systems and low carbon mechanical systems and communal ventilation, serving existing Council housing estates, and planned new building housing blocks across Islington. The contracts will also include the option to undertake installation works where required.

2. Recommendations

- 2.1. To approve the procurement strategy to procure and award contracts for the maintenance and repair of housing mechanical systems as set out in this report.
- 2.2. To delegate authority to award the contracts to the Acting Corporate Director of Homes and Neighbourhoods, following consultation with the Executive Member for Homes and Neighbourhoods.

3. Background

3.1. Nature of the service

- 3.1.1. Under the Landlord and Tenant Act 1985, the Council has an obligation “to keep in repair and proper working order the installations in the dwelling-house for space heating and hot water.” Communal heating, communal ventilation, and boosted water services are provided to residents in council homes connected to these communal systems.
- 3.1.2. There are approximately 4,800 dwellings served by 65 communal heating systems. The proposed housing contracts will also include the maintenance of heating and hot water services to 30 community centres, 5 reception centres, 4 concierges, 62 boosted water sites and the maintenance of 134 communal ventilation sites.
- 3.1.3. There are also a further ten additional planned new build housing sites which are due to be added to this contract once the completed works are handed over to the Council.
- 3.1.4. One contractor is currently responsible for all housing related works including the communal heating, hot water, communal ventilation, boosted water maintenance and repair works. The current contract ends on 18 May 2025.
- 3.1.5. This procurement is required to replace the current contract when it comes to an end. Feedback from residents has highlighted a need for better outcomes and greater resilience than the current contract provides. For these reasons the intention is to move away from the current arrangement where one contractor is responsible for all the heating, hot water, and communal ventilation maintenance responsibilities.
- 3.1.6. The proposed new arrangements are:
 - i. To procure two separate contracts for communal heating installations and maintenance similar to the Council’s domestic gas servicing contract which is split into north and south of the borough.
 - ii. To procure a separate borough wide communal ventilation contract.
 - iii. To procure a BMS maintenance contract to undertake additional BMS work not included in the current BMS contract. The Council has recently installed a new BMS (Building Management System) which provides remote operation details on the performance of communal heating plant rooms. This contract concludes in June 2026. A new contract can then be procured to start when the current contract concludes in June 2026 for all BMS works.

iv. To procure an asset tagging contract. To ensure better outcomes, contractors will be required to provide the Council with robust up-to-date asset information on all new major plant and equipment fitted and when it is nearing the end of its life expectancy. The introduction of bar code asset tagging will ensure better records of plant and equipment are maintained. Asset tagging with essential component details will be implemented when major plant and equipment parts are installed. This will allow the Council to capture details and dates of all major components installed providing reliable information for the programming of future works.

3.1.7. The contract will include the SFG 20 online maintenance specification platform as part of the technical specification requirement. Previous contracts included SFG 20 in the technical specification requirements. SFG 20 is the industry technical standard for all mechanical maintenance requirements.

3.1.8. The addition of new communal low carbon heating and hot water installations such as those being installed at Bevin Court will require contractors capable of maintaining low carbon installations along with traditional gas installations. Maintenance of low carbon installations will therefore be required in this procurement and will be set out within the specifications for the procured contracts.

3.2. **Estimated Value**

3.2.1. It is proposed to procure 10-year term contracts for each of the housing communal heating and the ventilation contracts with a break clause for either side as an option at year two, year five and year eight.

3.2.2. The actual spend for the previous two financial years and anticipated spend for this financial year on the existing housing contract is:

Contract Year	Revenue Cost	Capital Cost	Total Cost
2022/23 Actual Contract Spend	£1,910,543	£325,993	£2,236,536
2023/24 Actual Contract Spend	£2,249,370	£904,141	£3,129,078

2024/25 Estimated Contract Spend	£2,276,300	£904,141	£3,180,441
----------------------------------	------------	----------	------------

3.2.3. Costs for the maintenance of the communal ventilation sites which are currently managed under the same communal heating maintenance contract are detailed below:

Contract Year	Communal Ventilation
2022/23 Actual Contract Spend	£37,844
2023/24 Actual Contract Spend	£90,888
2024/25 Estimated Contract Spend	£100,000

3.2.4. With additional requirements it is challenging to accurately predict a precise value for the proposed new contracts. The anticipated budget for all the works is expected to increase from the current budget of £3,180,441 to circa £4,500,000 per annum which will increase annually for the duration of the contract to reflect consumer price index inflation.

3.2.5. Global events like the war in Ukraine have resulted in significant increases in material costs during 2022 and 2023. There is however an expectation that costs will stabilise in 2024/ 2025. While the focus is to provide greater contract resilience, it is likely additional costs may be incurred by splitting the borough into two smaller communal heating maintenance contracts with out of hours emergency cover and a separate communal ventilation contract. This along with the inclusion of low carbon maintenance works and a BMS maintenance contract will contribute to increased costs for the whole service provision.

3.2.6. The anticipated values of each of the new contracts assuming the each run their full 10-year term (excluding indexation) is as follows:

Contract name	Estimated annual value	Total estimated contract value
Communal Heating Contract North	£2,000,000	£20,000,000

Communal Heating Contract South	£2,000,000	£20,000,000
Communal Ventilation Contract	£150,000	£1,500,000

3.2.7. The anticipated value of the interim Building Maintenance Systems (BMS) hardware systems contract and asset tagging contract.

Contract name	Total estimated contract value
BMS Interim Contract	£200,000
Asset Tagging	£300,000

3.2.8. The Council benchmarked its procurement strategy against that of another London borough with similar communal heating requirements. This council also elected to contract with more than one heating contractor to ensure adequate resilience is maintained across the contracts. To ensure the best outcomes are achieved, consultation with the industry by way of preliminary market engagement, will take place to capture feedback on the proposed procurement arrangements.

3.2.9. Council leaseholders will also be consulted about the new housing works contracts in line with requirements of the Landlord and Tenant Act 1985. A resident forum will also be set up to ensure residents can contribute to the process and provide input to the procurement process and proposed contract arrangements.

3.3. **Timetable**

3.3.1. Key dates to complete the procurement process.

- Approval of procurement strategy - 30 October 2024
- Publication of tender documents – November 2024
- Evaluation of tender Returns – November 2024
- Final Stage Leaseholder Consultation – December 2024-January 2025
- Award of contract – March 2025
- Start of new contract – May 2025

3.4. **Options appraisal**

3.4.1. Four options to procure the works have been considered:

- To deliver the works in-house
- To run a competitive tender exercise

- To call-off from an existing Islington Council framework agreement
- Mini competition using an existing third-party framework agreement.

3.4.2. The strengths and weaknesses of each of these options include.

Options For Appraisal	Benefits	Drawbacks
In-house delivery	By having an in-house team, the Council would be in control of the contract management, staff development and work continuity.	<p>The Council does not have the required specialist skills in house to be able to undertake works of this nature.</p> <p>The Council does not currently employ qualified site-based engineers who can undertake commercial gas, commercial heating, low carbon or communal ventilation works.</p> <p>The nature of work varies so the Council would need to resource and plan for the busiest part of the year which may not represent the best value for money.</p> <p>Given the current shortage of commercial heating engineers in the market, it would not be possible to recruit and resource all the resources needed to meet the requirements of these new contracts.</p>
Competitive Tendering Exercise	Using this procurement route the Council can have more flexibility and control over the procurement process particularly at the selection stage.	<p>A standalone full tender process would take longer to complete and evaluate.</p> <p>There is a risk that no or limited numbers of suitable tenders are received which would mean a delay due to</p>

Options For Appraisal	Benefits	Drawbacks
	<p>This option enables the Council to develop precise specification of its requirements and selection and award criteria based on quality and cost and select and award to contractors based on these. It can also test the market and demonstrate best value.</p>	<p>the need to retender the work. The Council would seek to mitigate this risk by engaging in preliminary market engagement.</p>
<p>Call off the existing Council capital programme framework agreement</p>	<p>Using the existing Housing framework for ventilation works would reduce the time required to complete the procurement process as approvals are already in place enabling works to start on site sooner if required.</p> <p>Contractors on the framework agreement have already been assessed for suitability and capability.</p>	<p>Existing framework agreement would have to include provision for all the works required. The current agreement does not have provision for all the proposed works such as communal heating, but it does have provision for communal ventilation.</p>
<p>Mini competition using appropriate external framework agreements, such as Fusion21 and NHS Hard Facilities Management.</p>	<p>Using a suitable framework agreement will allow the works to be tendered with contractors who are familiar with work of this nature.</p>	<p>This option means the contractors that are considered for the project are limited to those on the framework agreement.</p>

Options For Appraisal	Benefits	Drawbacks
	<p>For example, Fusion21 Lot 6 covers: <i>Design, installation, servicing, maintenance and testing of commercial heating systems and other mechanical/electrical installations. The scope of this lot includes a full range of heating systems including, but not limited to, gas, LPG, oil, solid fuel, electric, district heating, HVAC, hot water generation plant, heat interface units or renewable technologies.</i></p> <p>Using an existing framework speeds up the procurement process enabling works to start on site sooner.</p> <p>Contractors on the framework agreement have already been assessed for suitability and capability.</p> <p>The use of mini-competition would help the Council achieve best value for money.</p> <p>The Fusion21 Framework team will undertake some of the in-house procurement tasks requirements and provide support with the resolution of queries or</p>	<p>There may be a charge to use the Framework.</p>

Options For Appraisal	Benefits	Drawbacks
	contractual issues that may arise.	

3.4.3. Following the above options appraisal, the recommended option is to procure the new communal heating contracts via further competition exercises using the Fusion 21 Heating, Renewables and Electricals framework agreement, Lot 6 Commercial Heating. For the BMS work the proposal is to use a direct award on the NHS Hard Facilities Management 2 Service level agreement. The procurement of recent similar works and services using this Framework resulted in an efficient and cost-effective solution to identify suitable contractors to undertake these works.

3.5. Social Value

3.5.1. Delivering additional social value to Islington residents is a key contract consideration. A clear set of rigorous social value measures and targets will be included in the procurement documents and social value will form an essential element of the quality evaluation.

3.5.2. The Fusion 21 framework agreement includes a social value credit and delivery plan process. Contractors on the agreement can deliver social value under a range of areas pre-indicated by the Council's 'social value operational group' to ensure feasibility, relevance and actual needs are met. Contractors will be assessed and measured by their answers to social value method statement questions in which they will detail their plans to provide the social value that they indicate in bid returns.

3.5.3. Contractors will have to demonstrate description of potential employment opportunities which will include creating apprenticeships, training, and work experience for residents to support contract delivery. The contractor will be expected to work in partnership with Council iWork team to ensuring vacancies are targeted at local people and people underrepresented in the construction industry.

3.5.4. In addition, we anticipate contractors will offer to provide Continuous Professional Development opportunities for Council employees, particularly in relation to low carbon technologies and will include provision for training for all relevant Council employees on new systems being implemented. They will also be expected to help residents understand and use any changed or new systems installed in their homes.

3.5.5. Contractors will also be expected to demonstrate how they will implement activities to reduce emissions and waste, maximise recycle of materials on site and source materials locally.

3.5.6. To support effective delivery, the contracts will include a provision for comprehensive resident engagement to be developed in conjunction with the Council. As contractors

will be interacting with Council residents, they will also be expected to undertake the Council Make Every Contact Count and safeguarding training.

3.5.7. **London Living Wage**

3.5.8. A requirement for payment of the London Living Wage will be included as a call-off contract condition. The current market rate pays above London Living Wage for Mechanical and Electrical engineers.

3.5.9. **TUPE**

3.6. The requirements of TUPE will apply for these contracts.

3.7. **Evaluation**

3.7.1. These contracts will be competitively tendered through a mini competition exercise in accordance with the conditions set out in the relevant framework agreement used. The Council will develop technical specifications and method statement questions specific for the works and services to be procured under each contract.

3.7.2. The Council will evaluate submissions using the following award criteria:

40% Cost

60% Quality, of which 20% will be allocated to Social Value

3.7.3. Quality sub-criteria:

- Proposed approach to Social Value (20%)
- Proposed approach to mobilisation and delivery of the contract (10%).
- Proposed approach to quality management (10%).
- Proposed approach to integration with Islington IT systems (10%)
- Proposed approach to resourcing the contract and health & safety (10%)

3.8. **Business Risk and Opportunity**

3.8.1. Procurement takes longer than anticipated to appoint new contractors is a significant risk.

Mitigation- A robust procurement plan has been developed for this project and the project is being closely managed to ensure key milestones are met. Should an unexpected event delay the completion of the procurement a contingency option will be to agree a potential short term contract extension with the current contractor or to appoint another contractor by direct award via Fusion 21 for the interim period.

3.8.2. Having insufficient numbers of contractors interested in bidding for the contracts is a risk to the contract.

Mitigation Obtain early confirmation of interest from contractors on the framework agreement prior to commencing the tender process. The Council intends to run a contractor engagement event in July to discuss the opportunity with prospective contractors from the framework. Should no or insufficient numbers of contractors bid

for any contract the Council will look to use another framework agreement or procurement route to procure the works.

3.8.3. Prices in tender returns are higher than anticipated.

Mitigation: The Council has employed the services of a specialist consultant to accurately gauge the anticipated value of the new contracts and have reviewed the estimated values with the internal finance team. To mitigate a higher price than anticipated some flexibility should be set aside in the financial provision for this potential increase in contract cost.

3.8.4. There is a risk that any of the procured contractors fail to perform their contract to the required minimum standard.

Mitigation: The Council will support the new contractors to mobilise successfully. It will ensure a fair but robust contract management process starts early in the life of the new contracts and is maintained throughout the contract direct term. Each of the north and south maintenance contracts and the ventilation contract will include provision to appoint a further contractor for additional contractor support should the need arise.

3.8.5. This procurement presents an opportunity to procure contracts which delivers better outcomes for residents and the Council.

3.9. 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.

3.10. The Following relevant information is required to be specifically approved in accordance with the rule 2.8 of the Procurement Rules:

Relevant Information	Information Selection in Report
1. Nature of Service	To undertake maintenance and replacement works to communal plant. See paragraph 3.1
2. Estimated value	The estimated annual value for the contract is circa £4,000,000 - £4,500,000. The agreement is proposed to run for a period of 10 years with an option for either side to break the contract after 2 and 5 and 8 years. See paragraph 3.2

Relevant Information	Information Selection in Report
3. Timetable	As outlined in the report See paragraph 3.3
4. Options appraisal for tender procedure including consideration of collaboration opportunities	The contract will be competitively tendered by using an external framework agreement. See paragraph 3.4
5. Consideration of: <ul style="list-style-type: none"> • Social benefits clauses. • London Living Wage. • TUPE, pension, and other staffing implications 	Social value benefits sought. London Living Wage will apply. TUPE will apply to this contract. See paragraph 3.5.
6. Award criteria	40% Cost 40% Quality 20% Social Value See paragraph 3.7
7. Any business risks associated with entering the contract	Business risks and mitigation are identified within the report. See paragraph 3.8
8. Any other relevant financial, legal, or other considerations	Financial considerations See paragraph 4

4. Implications

4.1 Financial Implications

- 4.1.1. This report seeks approval for the procurement strategy for communal heating maintenance and installation, communal ventilation system maintenance, as well as extra arrangements relating to the building management system works and an asset tagging contract. It should be noted that the asset tagging element is a new area of activity.
- 4.1.2. The existing areas of activity are all delivered through one main budget heading within the Housing Revenue Account. The total spend in these areas is set out in the table in section 3.2.2. Total spend in 2023/24 was £3.129m including revenue and capital works. The total budget provision within the HRA was £2.108m revenue, with

a capital budget allocation of £1m. Projected costs in 2024/25 total £3.180m, (£2.276m revenue and £0.904m capital) with sufficient budget provision within the HRA overall (£2.276m revenue and £1m capital).

- 4.1.3. The proposed procurement approach will result in an estimated total annual cost of £4.175m from 2025/26 as set out in section 3 of the paper. This is made up of £4m for heating systems maintenance, £150k for ventilation systems maintenance and annual costs of £25k for asset tagging. Of this total, it is estimated that approximately £1.35m will be funded from capital. This means that the overall procurement approach represents a pressure of £0.549m, i.e. £2.88m revenue costs against the existing budget of £2.276m. The overall capital budget for Communal Heating works in 25/26 is £2.572m, works identified within this procurement will be funded from this budget.
- 4.1.4. The procurement exercise includes an interim arrangement for maintenance works for the building management system. It is anticipated that the costs of this will be in the region of £200k up to end of June 2026, at which point this activity will be included within the BMS licencing contractual arrangements. A separate procurement paper will come to the Board in due course to cover this.
- 4.1.5. The procurement exercise also includes provision for the introduction of asset tagging. The on-going annual element of this is factored into the costs quoted in 4.1.3, however there is also a one off up-front investment requirement of £0.300m. The one-off investment can be met from the HRA contingency budget.
- 4.1.6. The procurement exercise highlights that it is anticipated that annual inflationary uplifts in line with CPI are expected. Whilst the HRA Business Plan assumes CPI inflation on budgeted costs, it is good practice for contract managers to negotiate this with suppliers on an annual basis.
- 4.1.7. The report highlights (3.1) that there will be a cost pressure on the HRA arising from this procurement exercise. This is being driven by a number of factors. Moving from one contractor to two is expected to provide improvements in terms of service delivery and responsiveness of the contractors, however, this comes at a premium with reduced economy of scale.
- 4.1.8. It is anticipated that the introduction of two contractors should improve service delivery for residents, which should also in-turn reduce the compensation payments the service are required to make in the event of service failures. We have not factored any reduction in compensation costs into this analysis, however, it is something that should be monitored following commencement of these arrangements.
- 4.1.9. There is also the impact of evolving heating systems that are factored into the new arrangements, for example the low-carbon systems the organisation is moving

towards. Again, whilst improving environmental factors, these increase the costs to the Council.

- 4.1.10. The proposed evaluation methodology is 60%/40% in terms of quality/cost. This is consistent with many other similar contracts in the mechanical and electrical engineering categories, and therefore seems reasonable.
- 4.1.11. Overall, the recommended procurement approach within this report represents an HRA budget pressure of £0.549m per annum on existing activity, as well as one-off costs of £0.300m for asset tagging and £0.200m for extra BMS maintenance works. This represents a significant increased pressure on the HRA. Plans must be developed to identify further areas of savings in the HRA MTFS process to cover budget pressures from the new contracts. It should be noted that approximately 30% of Communal Heating costs are recoverable from leaseholders, as such, the on-going bottom line pressure to the HRA is c£0.385m.

4.2 Legal Implications

This strategy sets out the Council's intentions to call-off from the Fusion 21 Heating, Renewables and Electricals Framework, Lot 6 Commercial Heating and for the BMS work the proposal is to use the NHS Hard Facilities Management 2 Service level agreement.

In both cases, it is imperative to check:

- i. that the Council are named as a contracting authority in the contract notice, such that they are entitled to call-off/use the framework;
- ii. that the framework was procured compliantly and
- iii. that the framework duration is of a period that allows for a call-off in the timeframe as set out in this report.

The Fusion 21 Framework and call-off terms and the NHS Hard Facilities Management 2 Service Level Agreement terms must also be reviewed by Legal to ensure that adequate protections (i.e. performance monitoring, default rectification, termination, insurance and liability) are included in favour of the Council and that there is an ability to amend the call-off terms to include social value, London Living Wage and termination/break provisions as set out in this strategy.

The Council must ensure that it complies with all consultation duties as set out in the Landlord and Tenant Act 1985 and seek advice from the Council's Property legal team as appropriate.

4.3 Environmental Implications

The new contract will need to consider the zero-carbon strategy set by the Council to reduce CO² emissions in the borough. To promote the reduction of fossil fuel the proposed new contract will require contractor capability to undertake both traditional gas and low carbon works. This will include a requirement to maintain equipment such as heat pumps and other low carbon infrastructure.

4.4 The contract will also need to meet the requirements on new legislation such as the 2023 Energy Act, Building Regulation Part L and the new CP1 code of practice (2020) which sets out minimum standards code of practice to ensure heat networks meet their energy performance targets.

4.5 More use of the recently installed BMS system will help ensure faults are diagnosed and addressed in a timely manner and will help identify where further system improvements and efficiencies can be made.

4.6 Equalities 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.

4.7 An Equalities Impact Assessment was completed on 21 May 2024. The main findings found that the new contract will have an overall positive impact on both internal and external stakeholders with the addition of an additional contractor. The addition of the BMS will help contractors identify and address breakdowns sooner resulting in less disruption to residents. As with any new contract the assessment identified challenges in the early part of the contract when new contractors familiarise themselves with the works required. The full Equalities Impact Assessment is appended.

5 Conclusion and reasons for recommendations

5.1 The current communal heating and ventilation maintenance contract expires on the 18 May 2025. Feedback from residents has highlighted a need to identify improvements and greater resilience in this contract. The proposal is to procure two maintenance contracts for the north and south of the borough consistent with the current domestic gas safety to include low carbon works and a separate communal ventilation maintenance contract.

5.2 The procurement of a separate BMS contract will pick up works not included in the current BMS contract which expires in June 2026. Other resilience measures include the use of the on line SFG20 maintenance specification platform and asset tagging of equipment to ensure better records are maintained of replacement components. It is anticipated the new contracts will bring improved resilience and high levels of customer satisfaction.

Appendices:

- Equalities Impact Assessment.

Final report clearance:

Signed by:

Acting Corporate Director of Homes and Neighbourhoods

Date: 1 October 2024

Authorised by Executive Member for Homes and Neighbourhoods

11 October 2024

Report Author: Garrett McEntee

Tel: 020 7527 2354

Email: Garrett.McEntee@islington.gov.uk

Financial Implications Author: Adam Coates

Email: Adam.coates@islington.gov.uk

Legal Implications Author: Rita Collins

Email: <mailto:rita.collins@islington.gov.uk>

Environmental Implications Author: Steven Henn

Email: <mailto:ClimateActionTeam@islington.gov.uk>