

Report of: Executive Member for Housing and Development

Meeting of:	Date	Ward(s)
Executive	21 May 2015	All
Delete as appropriate	Exempt	Non-exempt

SUBJECT: Procurement strategy for communal heating maintenance and responsive repairs including out of hours cover

1 Synopsis

- 1.1 This report seeks pre-tender approval for the procurement strategy in respect of the communal heating fully comprehensive maintenance and responsive repairs contract including out of hours cover in accordance with Rule 2.5 of the Council's Procurement Rules.
- 1.2 The council has an obligation to provide heating and hot water to circa 4,500 communally heated properties. The existing contract comes to an end on 31 March 2017. The contract will cover servicing, maintenance and responsive repairs.

2 Recommendations

- 2.1 To approve the procurement strategy for the communal heating maintenance and responsive repairs contract including out of hours cover as outlined at paragraph 1.1.
- 2.2 To note the Executive will be asked to approve the award of the contract at the conclusion of the procurement process.

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 heating water." Communal mechanical services (heating, ventilation and water) are provided for residents on councils estates who are served by communal boiler systems.
- 3.1.2 The existing contract is an open book Term Partnering Contract which Homes for Islington entered into in April 2007 and which was novated to the Council in April 2012. The existing contract attracts expenditure of circa £1.5 million per annum.

- 3.1.3 The contractor is required to provide a responsive repairs service to respond to and rectify any failure to the gas fired heating and/or hot water systems, including the Landlord's gas services to the designated systems. This includes the distribution pipework, radiators, valves, associated water systems and electronics forming part of the equipment.
- 3.1.4 The contractor will also be required to carry out the annual servicing and testing of all gas fired boilers and other appliances, together with the Landlord's Gas Safety Records for each communal boiler equipment room, plus the individual gas boilers to Community Centres. The contract will include the planned preventative maintenance (PPM):
- To communal boiler houses and equipment
 - To communal housing ventilation systems
 - To housing boosted water systems.

The modernisation and replacement of equipment is outside the scope of this contract and is included in the capital programme.

- 3.1.5 The proposal is to adopt a JCT Measured Term form of contract where PPM works will be an all-inclusive fixed contract sum and the responsive repair aspect will be priced using a schedules of rates. The National Housing Federation Schedule of Rates will be used with a yearly percentage adjustment in line with the "Consumer Price Index" (CPI). There will also be rate allowances for specialist items of work not covered by the national schedule of rates.
- 3.1.6 Funding for the arrangement will come from the Housing Revenue Account (HRA). The contract has an estimated value of £1.5m per annum reflecting the current budget requirement. The initial contract term will be for five years, with the option to extend for an additional three years, then two years (total ten years).

3.2 **Estimated Value**

- 3.2.1 The spend for the last two years of the communal heating maintenance contract was:
- 2012/13 £1,219,383
2013/14 £1,303,929.
- 3.2.2 The forecasted budget for the current financial year 2014/15 is £1,521,200.
- 3.2.3 The new all-inclusive communal heating contract will provide a platform for producing more accurate spend forecast figures for future years and ensure that best value is achieved for residents of communally heated housing estates. While the estimated value of the new contract is £1.5m per annum there is the expectation that the history of capital investment in the communal heating systems over past years will result in a reduction in the communal maintenance costs following the procurement of an all-inclusive contract.
- 3.2.4 The Council will use the data collected from the existing contract to prepare a specification that is transparent to the bidders and give an up to date asset/equipment schedule, including condition and life expectancy. This will enable bidders to submit tenders that are both accurate and competitive with respect to a comprehensive maintenance contract, thus providing a benchmarked service on all maintenance works in place of the existing open book arrangement.
- 3.2.5 The main advantages of adopting this approach are:
- value for money encouraged
 - risk mitigated
 - allows simplification of internal management requirements
 - making the contract more audit friendly
 - clearly defining response times required
 - anticipated improvement in resident satisfaction with the service.

3.2.6 All affected leaseholders will be consulted through a formal Section 20 consultation process once approval to proceed has been obtained. There is a statutory duty for consultation of leaseholders and recognised tenants' associations (RTAs) before the council can enter into a long-term agreement for the provision of services. If the consultation does not take place, the council is unable to recover service charges above the level of the statutory minimum amounts, and any additional costs would need to be met by the council.

3.3 **Timetable**

- 3.3.1 The existing contract has been extended until the end of March 2017 so that the new contract must be concluded and ready to commence on 1 April 2017. There is a statutory obligation to obtain gas safety certification (CP15) on all existing communal boiler houses on an annual basis, requiring a continuity of service between contracts.
- 3.3.2 A procurement plan has been prepared with a start date for the new communal maintenance contract of 1 April 2017. This timescale has been set to ensure continuity of the existing service, allow sufficient time to carry out a full procurement process and allow adequate time for mobilisation.

3.4 **Options appraisal**

- 3.4.1 Three possible options have been identified for this work.
- 3.4.2 Works carried out by the in-house Mechanical and Electrical Team. The existing engineers have experience in procuring and running mechanical contracts. They do not have the technical background or skills to physically carry out the maintenance works required under this contract. This option is therefore considered not viable.
- 3.4.3 Join an external framework. Camden Council is leading on a procurement exercise for a Mechanical and Electrical framework. This procurement process is in the advanced stages and there is insufficient time to complete the leaseholder consultation and be part of the full collaboration. There is also an issue around not having adequate control of procurement outcomes in this very high profile service. This option is therefore considered unsuitable.
- 3.4.4 Procure a new contract. The proposal is to procure a new contract to carry out the communal planned and preventative works across the entire borough. This contract will be competitively tendered. There is a known market for this type of service therefore it is proposed that a two-stage restricted procedure will be followed. The value of this contract means that this will be advertised on the Official Journal of the European Union (OJEU).

3.5 **Key Considerations**

- 3.5.1 The contract supports the Council's Corporate Plan in terms of ensuring decent, suitable homes, and ensuring services are delivered efficiently and well. The contract will include a requirement for the contractor to take on apprentices and encourage the employment of local labour and the use of local suppliers. The London Living Wage will be a condition of this contract.
- 3.5.2 The contract will be designed to ensure the Council achieves best value from the contract. A comprehensive all inclusive contract rather than an open book approach will put the onus on the contractor to provide an extremely high quality service to the client's properties and for the residents in those properties. This includes satisfactorily completing orders within specified time periods, parity of organisation IT systems, good customer liaison, timely completion of statutory inspections, efficient and accurate paperwork, prompt submission of accounts and a response to complaints received in line with the LBI customer complaints procedure requirements.
- 3.5.3 The contractor will ensure that all elements of the boiler house equipment are well maintained, and running efficiently to reduce energy consumption, reduce disruption to the service to the end users and improve the life expectancy of the equipment, thus providing an economic, social and environmentally

sustainable service. The contractor will need to work with new technologies, energy efficient equipment in conjunction with Bunhill Phase I and II District Heating Network, to interface with the existing communal heating systems.

- 3.5.4 Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended) will apply to this contract.

3.6 **Evaluation**

- 3.6.1 The tender will be conducted in two stages, known as the restricted procedure, as the tender is 'restricted' to a limited number of organisations. The first stage selection criteria through a Pre-Qualification Questionnaire (PQQ) establishes whether an organisation meets the financial requirements, is competent and capable and has the necessary resources to carry out the contract. The PQQ is backwards looking and explores how the organisation has performed to date, its financial standing, information about their history and experience.
- 3.6.2 A limited or 'restricted' number of these organisations meeting the PQQ requirements as specified in the advertisement are then invited to tender (ITT). The second stage is the ITT is now forwards-looking using award criteria. Tenders are evaluated on the basis of the tenderers' price and ability to deliver the contract works or services as set out in the evaluation criteria in order to determine the most economically advantageous offer.
- 3.6.3 It is proposed that the contract shall be awarded to the most economically advantageous tender on the basis of 60% quality and 40% cost.
- 3.6.4 Due to the nature of the maintenance requirements there is already a good understanding of costs and it is therefore proposed to have a higher (60%) quality percentage to provide a more detailed and in-depth evaluation of the proposed service delivery.
- 3.6.5 The proposed award criteria are:

Service delivery 20% - resourcing (availability of labour), responding within timescales, 'right first time', programme of planned maintenance
Communication 20% - council and residents (including vulnerable people, and residents who do not have English as a first language), complaints/compliments
Record keeping and asset management boiler house data 20% - Integration with existing council systems.

3.7 **Business Risks**

- 3.7.1 The contractor will need to ensure that the annual certification is maintained. This is being assessed at ITT stage (award criteria – service delivery).
- 3.7.2 In order to ensure an efficient provision, the service will need to be fully integrated with the Council's existing Information Technology systems (assessed at ITT stage).
- 3.7.3 This is a maintenance and responsive repairs contract. The efficiencies of existing boiler houses must be maintained to ensure maximum lifespan. The Council will ensure that this is done with the use of Inspections, reports, monthly meetings, up to date asset information and unplanned site visits.
- 3.7.4 Remodelling the service away from open-book partnering offers the opportunity to ensure the Council achieves better value for money.
- 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 sign the Council's 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. The adequacy of these measures will initially be assessed by officers and the outcome of that assessment will be reviewed by the Council's Procurement Board.

- 3.9 The following relevant information is required to be specifically approved by the Executive in accordance with rule 2.6 of the Procurement Rules:

Relevant information	Information/section in report
1 Nature of the service	To provide heating and hot water to c.4,500 communally heated properties including servicing, maintenance and responsive repairs. See paragraph 3.1
2 Estimated value	The estimated value per year is £1.5m. See paragraph 3.2
3 Timetable	Anticipated key dates: Advert to be published in November 2015 ITT to be published in January 2016 Contract award November 2016 Mobilisation period Contract start date 1 April 2017 See paragraph 3.3
4 Options appraisal for tender procedure including consideration of collaboration opportunities	This contract will be procured using the two-stage restricted procedure. See paragraph 3.4
5 Consideration of: Social benefit clauses; London Living Wage; Best value; TUPE, pensions and other staffing implications	LLW will be a condition of the contract. Any costs associated with TUPE must be managed within the existing budget. See paragraph 3.5
6 Evaluation criteria	Quality 60% Cost 40%. The award criteria price/quality breakdown is more particularly described within the report. See paragraph 3.6
7 Any business risks associated with entering the contract	There are mitigating factors to all risks identified. See paragraph 3.7
8 Any other relevant financial, legal or other considerations.	See paragraph [4.1]

4 Implications

4.1 Financial implications

- 4.1.2 The report indicates (at 3.2.3) that the estimated value of this re tendered contract will be in the region of £1.5m per annum & £7.5m over the 5 yr term of the contract. The 2015-16 HRA repairs

budget & longer term HRA business plan include provision of £1.55m per annum in respect of communal heating maintenance & repairs.

4.2 Legal Implications

- 4.2.1 The council has an obligation to keep its communally heating installations for the supply of heating and hot water to its housing estates in repair and in good working order (Part 2 of the Housing Act 1985; section 11 of the Landlord and Tenant Act 1985; tenancy conditions and rtb lease) Accordingly the council has power to procure and enter into a communal heating maintenance and responsive repairs contract as to ensure that the council meets its contractual and statutory repair and maintenance obligations (section 1 of the Local Government (Contracts) Act 1997).
- 4.2.2 The proposed contract is a public works contracts for the purposes of the Public Contracts Regulations 2015. The threshold for works contracts for full application of the Public Contracts Regulations 2015 is currently £4,322,012. (Estimated value over period of contract).The contract proposed to be let will therefore exceed the financial threshold and will need to be advertised in OJEU. The contract will be procured using the restricted procedure in accordance with the rules relating to that procedure set out in the regulations
- 4.2.3 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.)

4.3 Environmental Implications

- 4.3.1 Environmental implications associated with a maintenance and repair contract for the communal heating include resource usage, waste generation and travel. Repairs and maintenance of the heating systems will require the use of materials – the purchase of which should take into consideration the embedded emissions of the material types used. The works will also generate waste, which the contractor will be legally required to dispose of in accordance with the waste hierarchy, prioritising reuse and recycling. The contractor will be required to travel to site as part of their work. Whilst this cannot be planned in cases of emergency repairs, general maintenance schedules should be planned to minimise travel, reducing the potential for emissions and congestion.
- 4.3.2 The maintenance contract also has an indirect environmental impact related to energy efficiency; a well-maintained system has the positive aspects of being more efficient, using less energy (therefore reducing carbon emissions and being cheaper to run) and having an increased life expectancy. An effective interface between the communal systems and the Bunhill heat network is important, as it will further increase the efficiency of both systems, with the associated benefits of reduced emissions and fuel costs.

4.4 Resident Impact Assessment

- 4.4.1 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.
- 4.4.2 The initial screening for a Resident Impact Assessment was completed on 23 March 2015 and this did not identify any negative equality impacts for any protected characteristic or any human rights or safeguarding risks.

5 Conclusion and reasons for recommendations

- 5.1 It is proposed that a new contract is procured to provide a fully inclusive communal heating maintenance and responsive repairs service including out of hours cover to meet the Council's obligations as a landlord to maintain its heating and hot water systems.
- 5.2 This report seeks approval to procure a new contract to be in place by 1 April 2017 on the basis of the strategy outlined in this report.

Final report clearance:



Signed by: Executive Member for Housing and Development Date: 6 May 2015

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