

ANGUS COUNCIL

COMMUNITIES COMMITTEE – 15 AUGUST 2017

ANNUAL SERVICING AND MAINTENANCE OF HRA GAS HEATING INSTALLATIONS 2018 UP TO 2024 – PROCUREMENT AUTHORITY APPROVAL REQUEST

REPORT BY HEAD OF TECHNICAL AND PROPERTY SERVICES

ABSTRACT

Report seeking authority for the proposed procurement as the maximum value of the contract is above the Chief Officer's delegated authority limit.

1. RECOMMENDATIONS

1.1 It is recommended that the Committee:

- (i) approves procurement authority for the annual servicing and maintenance of HRA gas heating installation from 2018 up to 2024 detailed in this report in accordance with section 16.8 of the Financial Regulations;
- (ii) approves the estimated total cost of £7,050,000 (at out-turn prices) as detailed in **Appendix 1**.

2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN/SINGLE OUTCOME AGREEMENT/CORPORATE PLAN

2.1 This report contributes to the following local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016:

- We have a sustainable economy with good employment opportunities
- Angus is a good place to live in, work and visit
- Our natural and built environment is protected and enjoyed

3. BACKGROUND

3.1 In order to comply with the current gas regulations Council properties containing gas boilers must be serviced and any urgent repairs carried out on an annual basis. In addition to the servicing of gas boilers the opportunity is taken to include other annual servicing requirements in Council housing properties including servicing unvented hot water cylinders, mechanical ventilation heat recovery units, carbon monoxide alarms and smoke detectors.

3.2 Prior to 2001 the servicing and maintenance of heating systems were carried out in one contract awarded on a lowest price basis. The council experienced problems using this single contract approach with one contractor going insolvent and another not performing. This led to the council having to put emergency measures in place and to determine the employment of the non-performing contractor involved which led to delays in servicing gas boilers.

3.3 Since 2001 the works have been split into two contracts to ensure that there are no breaks in the maintenance regime. The Council is then in a position to react quickly if one of the gas maintenance contractors defaults on their contract. The annual gas maintenance regime can be maintained by the other contractor until permanent arrangements are put in place. The Council is therefore protected from being put in a position where it can be prosecuted under the current Gas Safety legislation.

- 3.4 The current servicing arrangements have generally resulted in 100% of all the Council properties being serviced within the required annual period. In some instances where this has not been possible a few properties have had their servicing schedule delayed. This has been monitored by the Councils gas team within Housing and the appropriate action taken to ensure access is arranged.
- 3.5 This procurement will ensure the Council's housing stock is properly maintained and the Council complies with the current statutory regulations. This includes meeting the standards contained in Housing Regulations and complying with the Gas Safety (Installation and Use) Regulations 1998.

4. PROCUREMENT AUTHORITY PROPOSAL

- 4.1 The current annual maintenance of heating systems contracts, including extensions, have been in place since April 2012 and expire on 31 March 2018. A new contract arrangement is required to continue with the rolling annual maintenance of heating systems programme.
- 4.2 It is proposed that the annual gas servicing contract arrangement is procured in the same successful manner with two contractors appointed to carry out the servicing. The initial contract will be for 2 years with an option to extend for up to 4 years. With this arrangement if one contractor defaults on their contract then the Council are in a position to meet its statutory obligations by employing the other contractor until permanent arrangement are put in place. This is intended to achieve high quality installations, and good value through economies of scale. Full details of the methodology, scope and parameters are contained in **Appendix 1**.
- 4.3 In accordance with the process stated in Section 16.8 and 16.24.16 of the Financial Regulations, if members approve this report it would mean that the contract and further extensions to the contract can be accepted without the need for further committee approval. In accordance with the current arrangements the contract award will be the subject of an 'Information Report'. This procurement is not considered to be a "major procurement" in terms of Financial Regulation 16.8.4.

5. FINANCIAL IMPLICATIONS

- 5.1 The gas maintenance servicing in 2017/18 is funded an overall allowance of £2,662,000 for Planned Maintenance works contained within the HRA Revenue Repairs and Maintenance 2017/18 budget which was approved by the Communities Committee on the 14 February 2017 (report nr 70/17 refers).
- 5.2 Out of a total cost of £7,050,000, the expected cost of the initial 2 year contract phase £2,200,000 will accordingly be factored into the Housing Revenue Account during the upcoming 2018/19 rent setting budget process. Whilst provision related to the outcome of the tender returns will be required within future years' Planned Maintenance Programme budgets to accommodate the annual expenditure on this project, members will note that an adjustment to the current level of provision is required to cover the initial 2 years of the contract starting in 2018/19. Details of the financial implications are contained in **Appendix 1**.

6 OTHER IMPLICATIONS

Risk/ Mitigating Actions

- 6.1 An assessment is being undertaken for this procurement and has initially identified risk associated with the ensuring continuous delivery of the gas servicing and testing over the contract period to allow the Council to comply with current regulations. Currently no other significant risks have been identified. Technical and Property Services and Housing have extensive experience of procuring contracts of this nature in a timely manner and every measure will be taken to ensure that these contracts are effectively managed. The initial assessment has identified the following risks:

<u>Risk</u>	<u>Mitigating Actions</u>
Continuity of Service/ Ensuring Bidding Opportunity	Splitting into two contract lots by geographical area and restricting award of one contract lot per contractor. Two year contract duration with the option to extend for up to a further four years in total.
Ensure Local SME Involvement	Advertisement of the bidding opportunity and alerting local suppliers of the bidding opportunity prior to publishing the contract notice.

NOTE: The background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to any material extent in preparing the above report are:

- Communities Committee 14/2/17 Report No 70/17 – 2017/18 Housing Revenue Account Estimates Incorporating Rents, Charges and St. Christopher’s Site Rentals

REPORT AUTHOR: Ian Cochrane, Head of Technical and Property Services

EMAIL DETAILS: Communitiesbusinesssupport@angus.gov.uk

List of Appendices

Appendix 1 – Procurement Authority Request

APPENDIX 1 - PROCUREMENT AUTHORITY

Scope of Contracts

1 The servicing and maintenance works are to be split into two contract lots as follows.

2 The works in Contract 1 comprise the following:

The annual servicing of residential and commercial gas appliances and gas central heating systems along with the provision of landlords records for all Angus Council housing, except for Forfar and Kirriemuir. This also includes change of tenancy safety checks and any ad-hoc servicing and landlord's records required for the same areas.

Continuous breakdown and emergency cover for residential gas appliances and gas central heating systems for all Angus Council housing, including Forfar and Kirriemuir.

The provision of new gas appliances, fittings and gas central heating systems to replace condemned or obsolete systems in individual houses by instruction from the Contract Administrator. This is also to include the provision of a service for the renewal of fittings and controls etc along with a general repair service. This to apply to all areas, except for Forfar and Kirriemuir.

The annual inspection of unvented electric hot water cylinders and MVHR units, except for Forfar and Kirriemuir.

The provision of new or replacement carbon monoxide and smoke detectors in individual houses to all areas, except for Forfar and Kirriemuir.

3 The works in Contract 2 comprise the following:

The annual servicing of residential and commercial gas appliances and gas central heating systems along with the provision of landlords records for Council housing in Forfar and Kirriemuir. This also includes change of tenancy safety checks and any ad-hoc servicing and landlords' records required for the same areas.

The provision of new gas appliances, fittings and gas central heating systems to replace condemned or obsolete systems in individual houses by instruction from the Contract Administrator. This is to also include the provision of a service for the renewal of fittings and controls etc along with a general repair service. This to apply to Forfar and Kirriemuir only.

The annual inspection of unvented electric hot water cylinders and MVHR units in Forfar and Kirriemuir.

The provision of new or replacement carbon monoxide and smoke detectors in individual houses in Forfar and Kirriemuir.

4 Both contracts are to be fixed price for a 2 year contract period to run from 1 April 2018 until 31 March 2020. Thereafter the option exists for the contracts to be extended for up to two further 2 year periods until 31 March 2024.

Objectives

5 The proposed servicing and maintenance contracts are a continuation of existing contract practice which has been ongoing for many years and demonstrates the Council's commitment to properly maintaining the authorities heating installations contained in its housing stock.

6 These servicing and maintenance contracts ensure the Council meets its statutory requirements as a landlord in the relevant Housing Regulations, under the Gas Safety (Installation & Use) Regulations 1998 and within the current Building (Scotland) Regulations.

- 7 It is proposed that the project is divided into two lots as identified in the Scope of Contracts section above. The split of the project into lots will ensure that there are no breaks in the gas servicing and maintenance regime. Splitting the project into two lots also provides opportunity to local and national contractors including SME's to bid for the contracts.
- 8 The tender evaluation process will be carried out in accordance with Financial Regulations for contracts over £500k in value and be carried out as set out in Sections 19 to 23 of this report. The contracts will include community benefit clauses to encourage participation in apprenticeships and community benefit engagement by the successful bidders and exclude bidders who use prohibited (black) lists.

Sourcing Route/ Collaborative Opportunities

- 9 Collaborative procurement opportunity details relating to this project were passed to Tayside Procurement Consortium (TPC) on the 4 July 2017. Confirmation was received on the 5 July 2015 that based on the size, type and timescale of the proposed programme there are currently no opportunities for collaborative procurement. Future opportunities for collaboration have been identified by TPC, these will be reviewed and if appropriate the migration over to a collaborative contract will be considered as part of any revised procurement strategy.
- 10 The preferred procurement process is based on tendering the works using schedule of rates and a contract specification contained in the contract documents. As part of this process and in line with previous experience, a two year contract is considered the most beneficial to the Council in this case. It ensures a break in the contract where the decision can be taken to renew a contract based on the contractor's performance. It also allows for a re-evaluation of the tender prices when arranging a contract extension without automatically using fluctuations which are difficult to predict due to the volatile nature of raw material prices combined with wages.
- 11 Based on the anticipated high level of responses that is expected the preferred option is the application of a two-stage tender process. By restricting invitations to tender to a maximum of up to six bidders this promotes equality and creates an attractive business opportunity for bidders.
- 12 To manage the risk to Angus Council, the tenderer who submits the most economically advantageous tender for Contract 1 will not be awarded Contract 2. This ensures there are no breaks in the maintenance regime. The Council is then in a position to react quickly if one of the gas maintenance contractors defaults on their contract. The annual gas maintenance regime can be maintained by the other contractor until permanent arrangements are put in place. The Council is therefore protected from being put in a position where it can be prosecuted under the current Gas Safety legislation.
- 13 The project will be advertised on Public Contracts Scotland (PCS) during September 2017 in line with Council policy. Any capable local contractors will be identified and steps taken to alert them to the bidding opportunity prior to advertisement of the project. The procurement will be carried out in accordance with the Council's Financial and appropriate EU Regulations as the estimated contract value is in excess of the EU Procurement threshold for works of this type.
- 14 Procurement will be via a two stage 'restricted' process which will require contractors to submit the standard European Single Procurement Document (ESPD (Scotland)) under the Procurement (Scotland) Regulations 2016. Those bidders who satisfy the minimum thresholds set and communicated within the Contract Notice will be invited to submit a tender. The evaluation methodology is set out in Section 20 of this report. The tender documentation will incorporate Angus Council conditions, contract specific preliminaries, pricing documents, community benefit clauses, fair working practices question, pre-construction information pack and specification of requirements.
- 15 Following the evaluation of the ESPD, it is anticipated that invitations to tender will be issued in November 2017 and returned during December 2017. Tenders will be evaluated in accordance with Section 22 of this report and the projected date for award of contract is March 2018 with the contracts commencing in April 2018. The contract period is for 2 years up to March 2020 with an option to extend up to two further 2 year periods until March 2024.

Sustainable Procurement Considerations

- 16 The Gas Maintenance section of the Housing team has integrated whole life costing within its approach to the specification of boilers in new installations by using the information on costs involved in maintaining different types of boilers and equipment. The information is used in specifying types of boilers for various Housing contracts and ensures that ongoing maintenance costs are minimised.
- 17 Due to the nature of the contracts it is not possible to identify sufficient materials with a high recycled content. Therefore the target of 10% by value of recycled content in property related construction projects valued over £1 million cannot be achieved on a measurable basis. Technical and Property Services will ensure that, where possible, any material specified includes an element of recycled content.
- 18 The successful bidder will be required to meet the community benefits requirements as specified and set as proportionate and relevant to the subject matter of the contract.

Procurement Procedure and Contract Award Criteria

- 19 The procurement of the contract will follow a two-stage 'restricted' tender procedure as the best means of procuring the works. There is anticipated to be a high degree of interest in tendering for the Lots and based on similar projects this process will allow the Council to select a list of up to six of the most appropriate bidders to receive tender documents within each Lot.
- 20 The first stage pre-qualification assessment using the ESPD (Scotland) document will address:
- Pass/ fail assessment against minimum requirements for: suitability (business probity, absence of relevant convictions, etc.), economic and financial standing, quality assurance schemes and environmental standards.
 - Scored evaluation of: Technical & Professional Ability; previous relevant experience, level of resources/capability, environmental management measures.
- 21 The second stage will comprise issuing tender documents to those bidders who satisfy the minimum qualification thresholds set out in 20 above. The tender returns will be evaluated in line with the following contract award criteria.
- 22 The tenders will be evaluated on the basis of the most economically advantageous tender (MEAT) having regard to the following criteria which are weighted according to importance. Price is to be given a weighting of 70%, with the other quality related criteria listed below to be given a total weighting of 30% in accordance with the Financial Regulations.

Quality Criterion

- Management and Supervision – 5%: Tenderers to identify number, role, qualifications and management of staff who are to deliver the requirement.
- Resources and Administration – 5%: Tenderers to identify project management and project administration processes.
- Quality and Performance – 5%: Tenderers to identify process and procedures to ensure quality and performance of the contract is maintained at appropriate levels.
- Level of Technology - 5%: Tenderers to identify digital systems and processes that can be applied to the requirement and will assist the Council in achieving its commitment to be digital by 2020.
- Community Benefit – 5%: Tenderers to identify additional community benefits to be provided as part of this procurement to meet the Councils' requirements.

- Fair work practices – 5%: Tenderers to confirm how they commit to Fair Work Practices for workers (including any agency or Sub-Contractor workers) engaged in the delivery of the Contract.

23 Once the tenders have been evaluated, as noted above then acceptances will be issued to the tenderers providing the highest MEAT score in each of the two Lots. If the same tenderer receives the highest score in both contract lots they will be awarded Lot 1 as the largest Lot with the second place tenderer being awarded Lot 2.

Financial Implications

24 The estimated total cost for the Annual Servicing and Maintenance of Gas Heating Installations 2018 to 2024 is:

Annual Servicing and Maintenance of Gas Heating Installations – 2018 to 2020 - Contracts 1 and 2 including all fees and charges	£2,200,000
Annual Servicing and Maintenance of Gas Heating Installations – 2020 to 2022 – Extensions to Contracts 1 and 2 including all fees and charges	£2,300,000
Annual Servicing and Maintenance of Gas Heating Installations – 2022 to 2024 – Extensions to Contracts 1 and 2 including all fees and charges	£2,550,000
	<hr/>
Estimated total cost (at out-turn prices)	<u>£7,050,000</u>

25 These estimates exclude staffing and administration (Housing Gas Maintenance Team with Technical and Property Services) costs.

26 The gas maintenance servicing in 2017/18 is funded an overall allowance of £2,662,000 for Planned Maintenance works contained within the HRA Revenue Repairs and Maintenance 2017/18 budget which was approved by the Communities Committee on the 14 February 2017 (report nr 70/17 refers).

27 Members are asked to note that the above estimated costs produce an estimated average annual cost range of £1,100,000 to £1,275,000 over the three potential phases of the contract.

28 Whilst provision related to the outcome of the tender returns will be required within future years' Planned Maintenance Programme budgets to accommodate the annual expenditure on this project, members will note that an adjustment to the current level of provision is required to cover the initial 2 years of the contract starting in 2018/19. The future budget provision will require to be reviewed on an ongoing basis.

29 The expected cost of the initial 2 year contract phase amounting to £2,200,000 will accordingly be factored into the Housing Revenue Account during the upcoming 2018/19 rent setting budget process.