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| CABINET PROCUREMENT & INSOURCING COMMITTEE COMMUNAL HEATING SYSTEMS - CONTRACT AWARD CONTRACT APPROVAL KEY DECISION NO. CHE S144 | |
| CPIC MEETING DATE: 5 December 2022 | CLASSIFICATION: Open Report and Appendix C with Exempt Appendices A and B If exempt, the reason will be listed in the main body of this report. |
| WARD(S) AFFECTED: All wards | |
| CABINET MEMBER: Cllr McKenzie - Cabinet Member for Housing Services and Resident Participation | |
| KEY DECISION: Yes REASON: Affects two or more wards and involves significant spending | |
| GROUP DIRECTOR: Rickardo Hyatt - Group Director, Climate, Homes and Economy | |
| CONTRACT VALUE, <u>both</u> Inclusive of VAT and Exclusive of VAT (for the duration of the contract including extensions): | £2m per year or up to £20m Incl VAT at the standard rate. |
| CONTRACT DURATION (including extensions e.g. 2 yrs + 1 yr + 1 yr): | 5 years + 1yr + 1yr + 1yr + 1yr + 1yr (total up to 10 years) |

1. CABINET MEMBER'S INTRODUCTION

- 1.1. The Council is passionate about its housing stock, and committed to the aims and principles of social housing. It is both a privilege and a duty to repair and maintain the Council's homes and estates, where more than 30,000 tenants and leaseholders live and are their beating heart.
- 1.2. In 2019 we published a long term vision for our homes, in a new Housing Asset Management Strategy, and began work to procure new contracts to deliver that work, which would deliver on the ambitions of that document as well as the Council's wider objectives in making Hackney fairer, safer and more sustainable.
- 1.3. Our communal heating systems are one of the most important services we deliver to residents, and it is a priority that they are maintained and invested in to be as efficient and reliable as possible.
- 1.4. The Council has also increased its ambitions on reducing carbon use and now is committed to be Net Zero by 2040. This contract will contribute to this aim as it will enable us to invest in lower carbon communal heating systems.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1. This report summarises the reasons for awarding a contract to cover capital works to the communal heating systems. The contract will be for an initial term of five years with the option to extend up to a further five years.
- 2.2. About one in ten of our homes are supplied by communal heating, and ensuring that we maintain these is an essential service. The Council's DLO is responsible for the servicing and maintenance to enable the day to day operations of these communal systems. This contract covers capital investment to upgrade and improve these systems to ensure they are efficient and reliable. Therefore, work that is associated with day to day operations, will continue to be managed in house and for specialist one off investment we will be able to draw on wider contractor experience.
- 2.3. The Council's existing communal systems are all run on gas boilers. In future, this contract will also enable the Council to replace these with lower carbon systems to contribute to the Net Zero strategy.
- 2.4. This contract award report is presented following a two stage open tender procedure, which attracted a good response from the market and we are confident that it will lead to a successful contract.

3. RECOMMENDATION(S)

Cabinet Procurement and Insourcing Committee is recommended to :

- 3.1 Approve the Award of the contract for Communal Heating Systems to Bidder 1 in Appendix A (Exempt) for a term of 5 years with an option to extend the contract for up to a further 5 years at a maximum value of £20m.**

4. RELATED DECISIONS

- 4.1. March 2019: Approval of the Housing Asset Management Strategy 2019-2027, by Cabinet on 25 March 2019. This provides an overarching framework for investment decision-making across the Council's homes and estates. It sets out the ambitions that Hackney has for the quality of its homes and the priorities that will be established to ensure that the limited available resources are directed at the greatest need.
<http://mginternet.hackney.gov.uk/ieListDocuments.aspx?CId=111&MID=4332#A132478>
- 4.2. June 2019: Approval of the Business Case for Construction Contracts for Planned Capital Works to Hackney Council Housing, by Cabinet Procurement Committee (now Cabinet Procurement and Insourcing Committee) dated 11 June 2019. This provides the approach to be adopted to reprocure the planned capital works projects.

5. REASONS FOR DECISION/OPTIONS APPRAISAL

- 5.1.1 The proposed Communal Heating Systems contract is required to ensure that Hackney Council meets its statutory requirements as a landlord and ensures the council can invest appropriately in these systems to ensure they are efficient and effective. The contract covers capital investment and will enable Hackney to replace or upgrade its communal boilers where necessary, as well as commission new systems or decommission existing systems, where this is demonstrated to be the most viable option for the particular homes.
- 5.1.2 The contract will cover all of the housing stock, though at present only about 1 in 10 homes are supplied on a communal network. The inclusion of all homes in the contract scope ensures the council has the opportunity to create future communal systems, should that be the best option.
- 5.1.3 The contract includes provision for the replacement of existing gas boilers with alternative technologies, to contribute to the council's wider net zero strategy.

- 5.1.4 The contract will ensure that the council can fulfil its obligations under the Heat Meter Regulations 2014.
- 5.1.5 The contract carries some provision to provide back up to the DLO on testing and repairs of communal boiler systems. This gives extra capacity for busy periods, and will mitigate the risk of service disruption.
- 5.1.6 Careful consideration has been given to the appropriate length of the contract. In reaching the conclusion thought was given to ensuring that Hackney could build a beneficial long-term relationship with the successful bidders and the opportunity to ensure value for money as well as contain future procurement costs. As a result, the contract is for an initial term of 5 years with an option to extend up to a further 5 years.

5.2 **ALTERNATIVE OPTIONS (CONSIDERED AND REJECTED)**

5.2.1 Option 1 - Procuring Works as part of Main Planned and Cyclical Works (rejected)

The option of procuring the necessary works through the main planned and cyclical framework was considered but this was discounted on the basis that it was important to engage directly with appropriate heating contractors rather than undertaking the work through a main contractor with the need for Hackney to meet additional overheads and profits in respect of the main contractor.

5.2.2 Option 2- Procuring Works directly with Heating Contractors (accepted)

This option involves going directly to the heating contractors that have the necessary competence and experience to undertake the required works. This ensures that there is a reduced line of communication between Hackney's officers and the contractor's staff as well as a more efficient contract. This option was the recommended approach.

5.2.3 Option 3- Insourcing the work (rejected)

The DLO currently does the majority of the servicing and repair work to communal boilers. It was examined if they could carry out major capital works in house. This was examined in detail as part of the business plan report from 2019. It was discounted for a few reasons; this is too large a volume of work to take on entirely, it is complex for the DLO to take on work where the technologies are expected to change as they may not have the resources to keep pace with new systems, and mainly because of limitations in recharging leaseholders for capital works carried out by the DLO. These works are expected to involve significant leaseholder recharges, and certainly usually over the £250/unit consultation threshold. For these reasons this option was rejected.

6. PROJECT PROGRESS

6.1. Developments since the Business Case approval.

The original estimated contract value was listed as £7m - £8m over the first 5 years. That implies £14m - £16m over the full potential contract period of 10 years, but this has been increased to £20m to reflect the inflationary pressures in the market, and the potential for an increased need to invest in low carbon technologies.

6.2. Whole Life Costing/Budgets: Funding is available for the work that would be undertaken through these contracts. The estimated value of the contract across the initial 5-year term is £2 million per year. The contract term may be extended to up to 10 years giving a maximum value of £20m.

6.3. SAVINGS

The new contracts will ensure that Hackney is achieving the current market rates for the proposed works. There are no cashable savings arising from this contract but there may be cost avoidance savings resulting from planned preventative maintenance programmes leading to a reduction in reactive repairs.

7. SUSTAINABILITY ISSUES AND OPPORTUNITIES, SOCIAL VALUE BENEFITS

7.1. Procuring Green

The winning bidder:

- is accredited for the installation of solar PV and heat pumps
- has members of their team who have successfully completed PAS 2035:2019 Retrofit Assessor Training / Accreditation, which will assist in the delivery of Energy Efficiency funded works and assist in achieving sustainability targets.
- recycles and reuses where possible, often giving equipment to local colleges for training purposes.
- adopts reasonable measures to prevent air, ground, water and noise pollution.
- educates its staff and its supply chain about how best to separate waste and maximise recycling opportunities.
- monitors energy usage at its head office, recording gas, electricity usage, and solar PV generation
- has a target that all waste is recycled with zero to landfill.
- has a target to reduce their own energy consumption by 20% in 22/23
- has a target of zero infringements of environmental regulations

- operates an ultra-low emission zone compliant fleet of vehicles containing hybrid cars and electric vans.
- Is reviewing the feasibility of using hydrotreated vegetable oil for its diesel vehicles, which could reduce their CO2 emissions by up to 90%.
- employs a sustainability officer
- has a waste management agreement with GBN Services who are able to recycle 100% of waste materials.
- Provides advice on energy efficiency and fuel poverty, including alternative means of heating i.e., heat pumps, controls and lighting, solar PV, battery storage, improved thermal insulation, smart sockets and water saving measures.

7.2. Procuring for a Better Society

- 7.2.1 Bidders were required as part of the tender process to pay the London Living wage.
- 7.2.2 An e-auction was conducted in respect of social value with the winning bidder pledging to provide the following resources: 100 hours of management time (4 - 7 years' experience). 50 Laptops with mice. 75 hours of IT support & development. 100 Wi Fi dongles. 10 Local apprenticeships and 100 hours of Executive time (10 years +).
- 7.2.3 The full results for every bidder are set out in the Exempt Appendix B attached.

7.3. Procuring Fair Delivery

- 7.3.1 The successful bidder has demonstrated during the ITT evaluation how they would support Hackney's diverse communities and backgrounds and ensure how their delivery of this contract will give consideration to the needs of Hackney's various community groups, vulnerable residents and people whose first language is not English, as well as their engagement and communication processes.
- 7.3.2 They have confirmed how they would induct and monitor their supply chain (where applicable) and demonstrate their commitment to adhere to the criteria set out under the Prompt Payment code.
- 7.3.3 The contract documents will include details on their commitment to resident engagement and customer care as well as their approach and method used to ensure their contract delivery will be tailored to Hackney's expectations through workshops designed to build solid working relationships with the

client in partnership and where relevant, encourage the participation and input from resident representatives.

7.4. Equality Impact Assessment and Equality Issues:

7.4.1 The winning bidder has said that their team has a multilingual workforce who undertake mandatory Equality and Diversity training and who will call on their experience in delivering works for Hackney over the past 25 years. They will:

- Utilise 'Google Translate' to support resident communications
- Provide literature in braille where required
- Provide access to the Sign Language Bureau
- Avoiding servicing and installations on religious holidays.

7.5 Social Value benefits

7.5.1 An e-auction was conducted in respect of social value with the winning bidder pledging to provide the following resources: 100 hours of management time (4 - 7 years' experience). 50 Laptops with mice. 75 hours of IT support & development. 100 Wi Fi dongles. 10 Local apprenticeships and 100 hours of Executive time (10 years +).

7.5.2 The full results for every bidder are set out in the Exempt Appendix B attached.

7.5.3 Delivery against social value commitments is managed through the duration of the contract via one of the contract KPIs. As part of the contract arrangements, the council has engaged an external firm to host an e-auction during the tender process, and this later becomes the mechanism to report on delivery against these commitments during the contract period. It will be reported quarterly to the Strategic Core Group as one of the contract KPIs.

8. TENDER EVALUATION

8.1 Evaluation:

8.1.1 In accordance with the strategy as set out in Section 3.1(i) of the Capital Works Procurement Strategy (NHP78), on 11th June 2019, a Find a Tender Notice, No. 2022/S 000-007126 was published on 16th March 2022. Pro-Contract Reference - DN576503. The notice set out that the Authority would be following the Restricted process as described by the Public Contracts Regulations 2015.

- 8.1.2 There were 47 companies who expressed a general interest in bidding for this contract. 32 of those companies did not respond, opted out or otherwise did not complete the Selection Questionnaire (SQ) but, on 25th April 2022, 15 Companies did complete and submit an (SQ). The names of the companies who applied are contained in an exempt Appendix A which is attached.

Quality comparison stage:

- 8.1.3 Fifteen (15) applicants passed the minimum (mandatory) standards qualification stage and were then scored for selection quality by an evaluation panel of 7 Authority officers. The officers held the following positions:

- Project Manager - Mechanical and Electrical
- Mechanical and Gas Services Manager - Asset Management
- Mechanical and Gas Services Manager - Asset Management
- Health & Safety & Risk Manager
- Sustainability Officer
- Client Liaison Officer
- Senior Health & Safety Advisor

4 of the 15 applicants were then taken through to the tender (ITT) stage.

Tender Stage (ITT)

- 8.1.4 Evaluation Criteria had been set as: 50% Price and 50% Quality

- 8.1.5 4 bids were received.

ITT Quality (50%)

- 8.1.6 After basic compliance tests had been carried out by procurement officers, the 4 quality submissions were evaluated by the following 7 Authority officers:

- Project Manager - Mechanical and Electrical
- Mechanical and Gas Services Manager - Asset Management
- Mechanical and Gas Services Manager - Asset Management
- Energy and Sustainability Officer - Asset Management
- Client Liaison Manager - Asset Management
- Health & Safety & Risk Manager
- Senior Health & Safety Advisor

ITT Price (50%)

- 8.1.7 The pricing submissions were evaluated by a separate team from the quality evaluation team. Price was evaluated after the quality had been evaluated

and moderated so that the team who evaluated the quality submission could not be aware of the prices submitted. Submitted prices were evaluated and checked by:

- Senior Procurement Category Manager - Construction
- Quantity Surveyor - Asset Management

Final scores are as set out below:

| | | |
|---|----------|---------|
| BASIC QUALITY - (Without Social Value) RANKED - OF 45% | | |
| 1 | Bidder 1 | 32.10 |
| 2 | Bidder 2 | 30.50 |
| 3 | Bidder 3 | 28.90 |
| 4 | Bidder 4 | 28.50 |
| | | |
| SOCIAL VALUE SCORES - RANKED - OF 5% | | |
| 1 | Bidder 3 | 5.00 |
| 2 | Bidder 1 | 4.94 |
| 3 | Bidder 2 | 2.93 |
| 4 | Bidder 4 | 1.88 |
| | | |
| TOTAL - Quality with Social Value - RANKED - OF 50% | | |
| 1 | Bidder 1 | 37.04 |
| 2 | Bidder 3 | 33.90 |
| 3 | Bidder 2 | 33.43 |
| 4 | Bidder 4 | 30.38 |
| | | |
| ITT PRICE - Ranked Scores - OF 50% | | |
| 1 | Bidder 4 | 50.0000 |
| 2 | Bidder 3 | 49.8858 |
| 3 | Bidder 1 | 49.8475 |
| 4 | Bidder 2 | 48.5273 |
| | | |
| WINNER - COMMUNAL BOILERS RANKED | | |
| 1 | Bidder 1 | 86.89 |
| 2 | Bidder 3 | 83.79 |
| 3 | Bidder 2 | 81.96 |
| 4 | Bidder 4 | 80.38 |

8.2 Recommendation:

Following a comprehensive and robust evaluation resulting in the scoring set out above it is recommended that Bidder 1 in Appendix A (Exempt) is awarded the contract.

9. CONTRACT MANAGEMENT ARRANGEMENTS

9.1. Resources and Project Management (Roles and Responsibilities):

- 9.1.1 The Communal Boiler Contract will be managed by a Mechanical and Gas Service Manager along with the Mechanical Clerk of Works (COW). The Mechanical Services Manager is the overall project manager for the Term Alliance Contract and is the point of escalation should a matter arise that is unable to be resolved at the monthly operational meetings. Such matters are escalated to the Monthly or Strategic Core Meeting.
- 9.1.2 Robust client briefing documents, specifications and schedules of rates will be used to minimise client variation and also by using the technical skills, knowledge and expertise of the officers managing these works to ensure a good standard of contract management is applied at all times.
- 9.1.3 Performance is monitored via quarterly Strategic Core Group Meetings. As well as providing a forum for discussion of strategic contract issues, the contract Key Performance Indicators (KPI) will be reported. The results will be collected in accordance with the Contract's KPI document. An annual review of the KPI results will be used to decide whether an extension term, in the form of an extra year, will be granted to the appointed Provider. Up to 5 extensions may be granted, depending on the performance in the first five years. This is to incentivise good performance throughout the term of the contract.
- 9.1.4 The KPIs have initial targets to start, and enhanced targets after two years; this is to ensure continued performance.
- 9.1.5 The setting of annual programmes of capital work, and the letting of individual orders under the contract are done by approval of Cabinet or Capital Monitoring Board. This is as individual contracts involve significant expenditure. The Council's Contract Management Board monitors overall contract progress, including spend levels, and contractor performance. This Board has responsibilities to agree that extensions are awarded in line with the contract provisions, to ensure that the spend on the contract is within the contracted sums and to recommend initiating procurement of a replacement contract in suitable time should the maximum spend or awarded term be approaching an end.

9.2. Key Performance Indicators:

9.2.1 The KPIs are as follows:

| Main KPI Targets Set |
|---|
| 1. Customer Satisfaction – overall |
| 2. Major Works – Client Handover Pass Rate |
| 3. Time – Major Works completed on time |
| 4. Recalls to Major Works Defects during the Defects Liability Period |
| 5. Safety - Client H&S Inspections |
| 6. Predictability Cost |
| 7. Early Warning Notices Issued |
| 8. Safety – Provider's accident rate |
| 9. Social Value |
| 10. ITT Commitment Certification & Reporting |
| 11. ITT Commitment & Sustainability |

Appendix C sets out further detail.

9.2.2 All KPIs are monitored quarterly at the Strategic Core Group meeting. As far as possible, the data and analysis is produced by Hackney Council officers. This is an enhancement on previous contract arrangements; for example contractors were previously tasked with gathering resident satisfaction information. This will now be done by Hackney Council.

9.2.3 Each KPI can be Green, Amber or Red depending on performance relative to the target. The contract defines an overall performance requirement which is necessary to be awarded an extension to the term. This mechanism is designed to incentivise ongoing high performance throughout the term.

10. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

10.1. The application seeks to award an external contract to upgrade the Council's communal heating system; drawing on specialist one off investments and using wider contractor experience. The plan will enhance

the existing system over an initial period of 5 years with an option to extend annually thereafter up to a maximum of 10 years.

- 10.2. The planned programme has received funding following the recent budget exercise.

11. VAT Implications on Land & Property Transactions

This is not applicable to this contract.

12. COMMENTS OF THE DIRECTOR, LEGAL, DEMOCRATIC & ELECTORAL SERVICES

- 12.1. The works in this Report were assessed as High Risk by the Council. On 11th June 2019 Cabinet Procurement Committee agreed a Business Case in respect of the procurement strategy for Construction Contracts for Planned Capital Works to Hackney Council Housing. The works contracts proposed for award in this Report were part of such Business Case and therefore this Contract Award Report is being presented to Cabinet Procurement and Insourcing Committee for approval in accordance with paragraph 2.7.10 of Contract Standing Orders.
- 12.2 Details of the procurement process undertaken by the Council are set out in this Report.

13. COMMENTS OF THE PROCUREMENT CATEGORY LEAD

- 13.1 Officers have complied with all regulatory requirements governing the commissioning of the Communal Boiler Capital Works contract. The total estimated contract value mandated a Public Contracts Regulations 2015 prescribed procurement route. The 'Restricted Procedure' was adopted.
- 13.2 The tender exercise was carried out in accordance with Public Contracts Regulations 2015 and Public Procurement (Amendments) Regulations 2020. Prior to this exercise a business case, PRIMAS, RAT was approved. In tendering, Social Value was assured and KPI's measures incorporated. All in-tender and evaluation clarification questions have been closed out. The tender exercise has been transparent, fair, equal and non discriminatory.
- 13.3 It is the considered opinion of the procurement team that this exercise followed a compliant process and has resulted in the Most Economically Advantageous Tender recommendation and is assessed as meeting all necessary requirements to deliver these works satisfactorily.

APPENDICES

Exempt Appendix A - Detailed scoring of Bidders

Exempt Appendix B - e-Auction Results

Open Appendix C – Detailed KPIs

EXEMPT

By Virtue of Paragraph(s) 3 Part 1 of schedule 12A of the Local Government Act 1972 the appendices are exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

BACKGROUND PAPERS

None

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|---|--|
| Report Author | Sinéad Burke Head of Property and Asset Management 0208 356 1801 sinead.burke@hackney.gov.uk |
| Comments for and on behalf of the Group Director of Finance and Corporate Resources | Deirdre Worrell Director of Finance, Climate Homes and Economy 0208 356 7250 Deirdre.Worrell@hackney.gov.uk |
| Comments for and on behalf of the Director, Legal, Democratic & Electoral Services | Patrick Rodger: 020 8356 6187 Senior Lawyer, Legal Services patrick.rodger@hackney.gov.uk |
| Comments of Procurement Category Lead | Divine Ihekwoaba 0208 356 4881 Construction and Environment Category Lead divine.ihekwoaba@hackney.gov.uk |