AGENDA ITEM NO 3
REPORT NO 445/11

ANGUS COUNCIL

NEIGHBOURHOOD SERVICES EXECUTIVE SUB-COMMITTEE – 14 JUNE 2011

HRA HEATING REPLACEMENT PROGRAMME 2012 TO 2018 - PROCUREMENT AUTHORITY APPROVAL REQUEST

REPORT BY DIRECTOR OF CORPORATE SERVICES

ABSTRACT: Report seeking authority for the proposed procurement where the maximum value of the contract is above the Chief Officer’s delegated authority limit.

1 RECOMMENDATIONS

It is recommended that the Executive Sub-Committee:

(i.) approve the estimated total cost of £2,560,000 for the heating replacement programme over a two year period 2012 to 2014 with provision for possible extensions to 2018 (estimated to cost a total of £8,100,000 at outturn prices);

(ii.) approve the procurement authority, as contained in this report, in accordance with the process stated in section 16.8 of the Financial Regulations;

(iii.) note that the funding for the initial 2 year period of this project (amounting to £2,560,000) will come from the ‘general’ heating budget identified in the HRA Financial Plan approved by the Neighbourhood Services Committee on the 8 February 2011 (report nr 113/11 refers). Further provision will be required within future years’ HRA Capital budgets should the contract extensions ultimately be actioned;

(iv.) note the financial implications included in Section 5 of this report.

2 INTRODUCTION

The current heating replacement contract has been in place since April 2006, including extensions and expires on 31st March 2012. A new contract is needed to continue with the rolling heating replacement programme.

Prior to 2002 procurement was carried out on an individual basis using various small to medium sized contracts with full drawings and bills of quantities. This was labour intensive for the Contract Administrators and meant a large amount of resources was required to handle a high volume of properties and a large number of individual contracts.

In 2002 the procurement method was changed to surveys based tender documentation which meant that higher volumes of properties could be procured with a reduction in the number of contracts required. This method has been successfully used for the last 9 years or so.

This report details the funding arrangements and procurement options for the Heating Replacement Programme 2012 to 2018 that fall within the procurement authority requirements.
contained in Financial Regulation (FR) 16.8. Approval of this report would mean that, subject to
the overall project costs following receipt of the tenders being within the approved budget then,
the contract and further extensions to the contract can be accepted without approval by the
relevant Committees. This procurement is not considered to be a “major procurement” in
accordance with the new arrangements therefore tender evaluation and award information
reports will be provided to the Head of Finance as required by FR 16.8.6.

3 DESCRIPTION OF WORKS

The works comprise stripping out existing heating installations, and the installation of new gas
fired boilers / heating systems, together with all associated builder work, woodwork, plumber
work, electrical work, plaster and roughcast work, roofing work, painter work and asbestos
removal work.

The contract is to be predominantly for gas heating installations though there will be some new
electric heating installations along with a small number of rewires. The initial two year contract
will comprise in the region of 515 gas heating installations, 50 electric heating installations and
25 rewires. Future extended contracts if extended on a two yearly basis will contain equivalent
numbers of installations and rewires.

The contract is to be fixed price for a 2 year contract period to run from 1 April 2012 until 31
March 2014. Thereafter the option exists for the contract to be extended for two further 2 year
periods at a time up to 31 March 2018.

4 PROCUREMENT AUTHORITY

Objectives

This programme continues the Council’s heating replacement programme which has been
ongoing for the past ten years and demonstrates the Council’s commitment to continuous
improvement of the authorities housing stock.

Programme

It is anticipated that the procurement process will begin in May 2011 with survey works to
various Council housing properties. The placing of an advert for the proposed supply on the
Public Contracts Scotland web portal will be carried out in July 2011. The subsequent tenderer
selection process will be carried out in accordance with the Financial Regulations and
appropriate EU Regulations as the estimated contract value is in excess of the EU Procurement
threshold for construction works.

Following the finalisation of the list of tenderers, tender documents are to be issued in mid
October 2011 and returned in late November 2011. Once the tenders have been assessed an
acceptance will be issued to the lowest acceptable tenderer by February 2012. The contract is
anticipated to start on site 1 April 2012. The initial contract period is for two years and would be
complete by 31 March 2014.

The contract may be extended for two further 2 year periods at a time up to 31 March 2018.

Procurement Options

The preferred procurement process is based on tendering the works using survey information
for each property enabling tenders to be submitted on a price per property basis using the
survey information and the contract specification contained in the contract documents. This
procurement process is a hybrid which has standard conditions of contract and specifications
but does not have drawings or bills of quantities.
Due to the previous positive experience of this process by the Housing and Property divisions a rolling 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 using fluctuations due to the volatile nature of raw material prices relating to these types of works combined with wage increases.

The current contract which ends on the 31 March 2012 was procured on the basis of report nr 262/05 approved by the Housing Committee on the 3 March 2005.

The Heating Replacement programme is a continuing long term process and housing properties have not been fully identified beyond the initial two year contract. The level of price information contained in the contract for the first two years will provide enough cost information to enable further extensions to the contract up to 31 March 2018.

Collaborative procurement opportunities are being investigated on an ongoing basis with the Tayside Procurement Consortium. The recommended procurement process would be capable of accommodating the requirements of other public bodies provided they did not significantly affect the project programme. The opportunity could be taken to migrate to an alternative collaborative procurement process, if available, at the conclusion of the initial two year contract period.

It is the recommendation of the Head of Property that the most appropriate procurement option for delivering this project in the established timescales and to deliver the stated objectives is to utilise the approach detailed above.

This will ensure that Angus Council has complete control of the procurement process thereby obviating any delays; ensure that the project will fulfil client requirements and use the experienced resources already available within the Housing and Property divisions.

The Head of Finance is satisfied that the chosen procurement strategy will deliver these objectives and that this procurement is not considered to be a ‘major procurement’ within the meaning of FR 16.8.4.

Whole Life Costing

The Gas Maintenance section of the Housing division has integrated whole life costing within its approach to the specification of this project. The use of new condensing boilers will result in significantly reduced energy costs for the tenants and help the Housing division to meet its carbon dioxide emission targets.

Due to the nature of the contract 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. The Housing and Property divisions will ensure that, where possible, any material specified includes an element of recycled content.

The specification has also incorporated the Sustainable Timber Policy approved by the Corporate Services Committee on the 23 October 2008 (report 1040/08 refers) ensuring that all timber or timber materials required for this contract will be from sustainable sources.

Contract Award basis

The completed tenders returned to the Council will be evaluated and the contract will be awarded on the basis of the lowest acceptable price, in accordance with the conditions of contract, to the Council.

Risk Management
An assessment has been undertaken for this project and due to the nature of the works a detailed risk assessment is not considered to be required. Other than the normal risks inherent in carrying out a project of this size and complexity, no other significant risks have been identified. The Property division has extensive experience of delivering projects in a timely manner and every measure will be taken to ensure that through effective project management the project is delivered on time and on budget.

### 5 ALLOWANCE IN ESTIMATES AND FINANCIAL IMPLICATIONS

The estimated total cost for Heating Replacement Programme is:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
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<tbody>
<tr>
<td>New Heating Installations Contract 2012 to 2014</td>
<td>£2,300,000</td>
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<tr>
<td>New Heating Installations Extension to Contract 2014 to 2016</td>
<td>£2,400,000</td>
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<tr>
<td>New Heating Installations Extension to Contract 2016 to 2018</td>
<td>£2,500,000</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>£7,200,000</strong></td>
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<td>Allowance for professional fees, supervisory, travel and administrative expenses</td>
<td>£590,000</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>£7,790,000</strong></td>
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<tr>
<td>Decoration and disturbance allowance</td>
<td>£210,000</td>
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<td>Allowance for statutory payments and sundry expenses</td>
<td>£100,000</td>
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<tr>
<td><strong>Estimated total cost (at out-turn prices)</strong></td>
<td><strong>£8,100,000</strong></td>
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The HRA Financial Plan as approved at the special rent setting meeting of the Neighbourhood Services Committee on 8 February 2011 (report 113/11 refers) contains an allowance of £2,560,000 for ‘general’ heating system upgrades covering the period to 2014 - i.e. the initial 2 year contract period. Allowing for allocation of the fees, decoration and statutory payments elements to the 3 potential contract phases, the initial 2 year phase is estimated to cost £2,560,000 and can therefore be met from the allowance in the approved Financial Plan.

The ‘later years’ column of the approved Financial Plan indicates further heating system replacement costs of £3,660,000 - some £1,880,000 short of the overall funding required for this project should both contract extensions ultimately be actioned. It will be necessary therefore to review this project as part of each of the next few years’ rent setting budget processes to ensure that the HRA Financial Plan is appropriately prioritised to ensure funding is allocated to allow the completion of each contract phase. The HRA Financial Plan will therefore be amended at its next review to reflect the estimated total cost for this project.

On the assumption that the capital funding required for the initial 2 year contract period (£2,560,000) is met from borrowing, members should note the estimated loan charges in line with the Housing Long Term Affordability exercise will be calculated over an average 25 year period. The following table shows what the loan charges will be at certain points over the borrowing write off period.
<table>
<thead>
<tr>
<th>Year</th>
<th>2012/13</th>
<th>2016/17</th>
<th>2021/22</th>
<th>2026/27</th>
<th>2026/27</th>
<th>2026/27</th>
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</table>

Estimated loan Charges

<table>
<thead>
<tr>
<th>Year</th>
<th>2012/13</th>
<th>2016/17</th>
<th>2021/22</th>
<th>2026/27</th>
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As noted above loan charges have been calculated in line with the assumptions within the Housing Long Term Affordability Strategy. The Strategy includes the specific £2,560,000 allowance for 'general' heating.

Accordingly as the current approved capital programme has been determined to be affordable, the loan charges noted above can be contained within the loan charges provision in the Housing Revenue Account.

However to accommodate the additional potential spend of £5,540,000 beyond the current approved financial plan period to 2013/14, a revision to the financial plan may be necessary. This is to ensure the overall financial plan is within the parameters set out in the Long Term Affordability Strategy and will be carried out during the Financial Plan’s next review.

6 HUMAN RIGHTS ACT IMPLICATIONS

There are no Human Rights Act implications specific to this report.

7 EQUALITIES IMPLICATIONS

The issues dealt with in this report fall within an approved category that has been confirmed as exempt from an equalities perspective.

8 CONSULTATION

The Chief Executive, the Head of Law and Administration, the Head of Finance and the Director of Neighbourhood Services have been consulted in the preparation of this report.

9 CONCLUSION

The Executive Sub-Committee is recommended to:

(i.) approve the estimated total cost of £8,100,000 for the heating replacement programme over a two year period the two year period 2012 to 2014 with provision for extensions to 2018 (at outturn prices) and

(ii.) approve the procurement authority, as contained in this report, in accordance with the process stated in section 16.8 of the Financial Regulations

REFERENCES

<table>
<thead>
<tr>
<th>Committee</th>
<th>Date</th>
<th>Report</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>03/03/11</td>
<td>262/05</td>
<td>Procurement of Gas Servicing, Maintenance and Replacement Systems</td>
</tr>
</tbody>
</table>
BACKGROUND PAPERS

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing the above report.

Property/JWP/IGH – 6050/1128