AGENDA ITEM NO 5
REPORT NO 447/11

ANGUS COUNCIL

NEIGHBOURHOOD SERVICES EXECUTIVE SUB-COMMITTEE – 14 JUNE 2011

ANNUAL SERVICING AND MAINTENANCE OF HRA GAS HEATING INSTALLATIONS 2012
UP 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 £1,663,000 for the two year period 2012 to 2014 with provision for possible extensions to 2018 (estimated to cost a total of £5,300,000 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 an allowance of £903,000 has been made for expenditure in 2011/2012 relating to the current contracts within the Planned Maintenance Programme of the HRA Revenue Repairs and Maintenance 2011/12 budget which was approved by the Neighbourhood Services Committee on the 8 February 2011 (report nr 113/11 refers). Provision will be required within future years’ Planned Maintenance Programme budgets to accommodate the annual expenditure on the new contracts;

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

2 INTRODUCTION

The current annual maintenance of heating systems contracts, including extensions, have been in place since April 2006 and expire on 31st March 2012. A new contract arrangement is required to continue with the rolling annual maintenance of heating systems programme.

Prior to 2001 the servicing and maintenance heating systems was 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.

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.
Council is therefore protected from being put in a position where it can be prosecuted under the current Gas Safety legislation.

The contracts have also been awarded on a most economically advantageous tender basis rather than on price alone to ensure that, in this case, quality of service provision was properly reflected in the tender assessment process.

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 servicing and maintenance works are to be split into two contracts as follows.

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 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 except for Forfar and Kirriemuir.

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

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 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 Forfar and Kirriemuir only.

- The annual inspection of unvented electric hot water cylinders in Forfar and Kirriemuir.
• The provision of new or replacement carbon monoxide detectors in individual houses in Forfar and Kirriemuir.

Both contracts are 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 contracts to be extended for two further 2 year periods up to 31 March 2018.

4 PROCUREMENT AUTHORITY

Objectives

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

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

Programme

It is anticipated that the procurement process will begin in July 2011 with the placing of an advert for the proposed supply on the Public Contracts Scotland web portal. 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 October 2011 and returned by late November 2011. Once the tenders have been assessed, acceptances shall be issued to the most economically advantageous tenderers by late January 2012. The contract is anticipated to start on site 1 April 2012 after an eight week Construction Design and Management planning lead-in period. The initial contract period is two years and would be complete by 31 March 2014.

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

Procurement Options

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 due to the 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.

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.

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. This procurement process
built on the experience gained from previous contracts. The procurement option is a hybrid process which combines standard conditions of contract, specifications and schedule of rates.

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 resource 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 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.

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. 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 most economically advantageous tender to the Council, in accordance with the conditions of contract.

The tenders will be evaluated on the basis of most economically advantageous tender having regard to the following criteria which are weighted according to importance. Price to be given a weighting of 70%, with the other quality related criteria listed below to be given a total weighting of 30%.

• Management and Supervision
• Resources
• Administration
• Adaptability
• Quality and Performance
• Level of Technology
• Staff Training and Awareness

Risk Management

A risk assessment is being undertaken for this project and has initially identified risks associated with the delivery of the servicing contract in order to comply with the current Gas Safety legislation. The Housing and Property divisions 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.

5 ALLOWANCE IN ESTIMATES AND FINANCIAL IMPLICATIONS

The estimated total cost for the Annual Servicing and Maintenance of Gas Heating Installations 2012 to 2018 is:

Annual Servicing and Maintenance of Gas Heating Installations – 2012 to 2014 - Contracts 1 and 2  £1,600,000

Annual Servicing and Maintenance of Gas Heating Installations – 2014 to 2016 – Extensions to Contracts 1 and 2  £1,700,000

Annual Servicing and Maintenance of Gas Heating Installations – 2016 to 2018 – Extensions to Contracts 1 and 2  £1,800,000

£5,100,000

Allowance for professional fees, supervisory, travel and administrative expenses  £200,000

Estimated total cost (at out-turn prices)  £5,300,000

These estimates exclude staffing and administration (Housing’s Gas Maintenance Team) costs.

An allowance of £903,000 is contained within the Planned Maintenance Programme of the HRA Revenue Repairs and Maintenance 2011/12 budget which was approved by the Neighbourhood Services Committee on the 8 February 2011 (report nr 113/11 refers).

Members are asked to note that the above estimated costs produce an estimated average annual cost range of £830,000 to £935,000 - assuming a straight pro-rata of the fees element over the three potential phases of the contract.

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 a continuation of the current level of provision is expected to be sufficient to cover the initial 2 years of the contract. Should the extension options be actioned, the budget provision will require to be reviewed for its continued sufficiency.

The expected cost of the initial contract phase (£1,663,000 after applying the fees on a pro-rata basis) will accordingly be factored into the Housing Revenue Account during the upcoming 2012/13 rent setting budget process.
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 £5,300,000 for the two year period 2012 to 2014 with provision for extensions to 2018 (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

REFERENCES

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Colin McMahon
DIRECTOR OF CORPORATE SERVICES

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/DH – 6050/1126