

Item No.	Classification: Open	Date: 17 February 2015	Meeting Name: Strategic director of housing and community services
Report title:		Combined Gateway 1&2 Procurement Strategy Approval and Award of Contract: Aylesbury Estate – Estate Wide Underground Heating Mains Replacement 2013/14 (Emergency works)	
Ward(s) or groups affected:		Walworth Area, Faraday Ward	
From:		Head of Major Works	

RECOMMENDATIONS

1. That the strategic director of housing and community services formalises her prior approval for the procurement strategy outlined in this report seeking exemption from Contract Standing Orders (CSO) as provided in CSO 4.9.
2. That the strategic director of housing and community services formalises her prior approval for the award of the Aylesbury Estate, Estate Wide Underground Heating Mains Replacement 2013/14 (Emergency Works) via an Order placed under the Individual District Heating Contract with T Brown Group Ltd on 31 July 2013 in the sum of £3,220,800 for a period of 52 weeks.

BACKGROUND INFORMATION

3. The Aylesbury Estate ('the estate') is one of Southwark's largest housing estates and the majority of the dwellings associated with the estate (2,434) have their heating and hot water services supplied via the district heating system. Regeneration of the estate has commenced and is due to be completed in approximately 18 years from now. However, there is a need to continue to provide a reliable heating and hot water service for the residents during this transitional period.
4. Prior to the works, a majority of the underground heating mains distribution network serving the estate were original from the time of its construction (circa 1970). Some sections had been replaced piecemeal over the last 15 years but the remaining original sections were failing due to excessive corrosion. There is no back up provision and therefore the estate is totally reliant on the underground mains for the supply of heating and hot water services.
5. The district system is split into two: primary mains from the central boiler house serving the satellite thermal sub-stations (known as plant rooms), and secondary mains from the sub-stations to each individual block. The primary circuit supplies heat energy at a higher temperature and pressure to the thermal sub-stations where it is converted to safer lower temperatures for distribution to the individual properties.
6. Both parts of the original network were in very poor condition and in dire need of replacement. The works were deemed essential in order to guarantee continued service.

7. The original sections in question were of 'pipe in pipe' construction. This type of construction makes identifying where a leak has occurred almost impossible as it is not evident from the exterior exactly where the leak is. They were also completely encased in asbestos insulation and therefore too high a risk to attempt any repairs.
8. The severity of the situation came to a head in winter 2013 when the primary main from the boiler house which supplies heat energy to the plant rooms serving Missenden, Gayhurst, Hambledon, Chiltern, Chartridge, Bradenham and Ellison House failed resulting in intermittent loss of heating and hot water from January 2013 through to March 2013. This section of main was renewed to overcome the immediate problem but following this, the council decided that all remaining original sections dating back to the estate's construction had to be renewed in order to maintain an acceptable service.
9. On 31 July 2013, an Order was placed under the Individual District Heating Contract with T Brown Group Ltd to replace the remaining original sections of underground heating mains across the estate. These were as follows:

Primary underground heating mains pipe work:

- Boiler house to Latimer E
- Missenden valve pit G to Missenden plant room F
- Missenden plant room F to Missenden plant room G
- Missenden plant room G to Gayhurst plant room H
- Gayhurst plant room H to above ground section located over footbridge at Portland Street.
- Chiltern plant room J to Chartridge plant room K
- Wendover plant room D to Ravenstone plant room X

Secondary underground heating and hot water services pipe work:

- Missenden plant room F to Missenden block 256-299
- Missenden block 256-299 to Missenden block 300-313
- Missenden plant room G to Missenden blocks 1-43 and 44-75
- Gayhurst plant room H to Gayhurst blocks 62-79, 80-144, 146-162 and Hambledon block 1-20
- Taplow plant room A to Northchurch blocks 1-20, 21-40, 41-56, 57-76
- Wendover plant room C to Wolverton block 126-151

Secondary hot water services pipe work only:

- Wendover plant room B to Wolverton blocks 60-84, 85-104 and 105-125
- Ravenstone plant room X to Winslow block 1-30

10. In January 2014, the major works team were advised by the Aylesbury Area Housing Office that Missenden block 300-313 had been completely decanted of permanent tenancies and was now only being used for temporary accommodation. Based on this information, it was decided to omit the section of mains supplying this block resulting in a cost saving of £177,550. At the time of writing this report only three out of the thirteen flats are still occupied as

temporary accommodation. The existing mains serving this block are still in operation, however if failure should occur, temporary heating and hot water can be provided in the form of electric storage heaters and unvented electric hot water heaters until the block is fully decanted.

11. External consultants, Pellings LLP (Pellings) was appointed to provide the CDM Coordinator (CDM-C) function required for these works on 23 July 2013 in accordance with Contract Standing Order 5.2.
12. External consultants, David Miles & Partners (DMP) was commissioned to act as contract administrators on 24 July 2013 in accordance with Contract Standing Order 5.2. DMP's brief is set out in paragraph 35 below.

Summary of the business case/justification for the procurement

13. The works provided for the renewal of all original sections of primary and secondary underground heating mains across the estate which were heavily corroded and in poor condition. Renewing these sections has greatly reduced the risk of service failure in future and has also increased the overall efficiency of the system.

KEY ISSUES FOR CONSIDERATION

Options for procurement route including procurement approach

14. Due to the urgent nature of the works and the fact that time was of the essence, a full tender process could not be undertaken. Some of the works required were not covered by the council's two existing Individual District Heating contracts' schedule of rates which required a price testing exercise to be done by obtaining quotes from the two existing Individual District Heating term contractors – T Brown Group Ltd and OCO Ltd.
15. Prior to obtaining quotes, the two existing Individual District Heating contracts were checked to ensure that these works could be ordered and that the contracts had capacity to deal with these works. A maximum order value of £25k was noted under each contract for which approval would be required.

Procurement project plan (Key decision)

16. See table below:

Activity	Complete by
Completion of quotation documentation	14 May 2013
Invitation to quote	15 May 2013
Closing date for return of quotations	22 May 2013
Issue of Notice of Intention (Schedule 3 Partnering)	21 June 2013
Completion of evaluation of quotations	26 June 2013
Placement of Order	31 July 2013
Forward Plan	1 Sept 2014
Notification of forthcoming decision	30 Sept 2014
Approval of combined GW1&2 Award Report Contract award	2 Oct 2014
Scrutiny Call-in period and notification of implementation of combined GW1&2 decision	10 Oct 2014
Contract start	31 July 2013
Initial Contract completion date	28 July 2014

Description of procurement outcomes

17. There was a need to replace the remaining existing sections of underground district heating distribution pipe as it was in very poor condition and leaking in many places. The failing underground pipe work was installed circa 1970 when the estate was built and had far exceeded its expected life.
18. The leaks on the network were compensated by the pressurisation unit located in the boiler house which was constantly introducing fresh water into the system. This was causing corrosion and damage to the communal system as a whole including the boilers and all associated plant.
19. The new underground distribution pipe network will eliminate service failures caused by underground bursts and greatly reduce maintenance costs.
20. The new installation will be fitted with a leak detection system which will provide the council's maintenance engineers with the ability to rectify faults quickly and easily before they result in major costs or disruption to the residents.

Development of the tender documentation

21. A specification was developed prior to quotation and was attached to the Order raised on 31 July 2013 to T Brown Group Ltd under their existing Individual District Heating Contract.

Key/Non Key Decision

22. This report deals with a key decision.

Policy implications

23. The council, as a social landlord, has legal obligations to provide heating and hot water to its housing stock. These works will ensure that the council meets its obligations.
24. In conjunction with their commitment under the Kyoto Protocol (mandatory reduction of carbon emission), Central Government has set certain targets. The targets are to reduce the countries carbon emissions by 50% come 2050. The Government views the promotion of community heating as playing a key role in achieving these targets.
25. Local Authorities are required to demonstrate, via their Home Energy Conservation Act (HECA) returns, that they are actively striving towards and achieving reductions in carbon emissions. This demonstration will be greatly assisted via Southwark Council's commitment to sustain and improve its community heating installations.
26. The promotion of community heating will play a key role in:
 - Tackling climate change.
 - Tackling fuel poverty.
 - Reducing carbon emissions.
27. The original underground pipe network was installed circa 1970 and service failures had increased due to its poor condition. The new mains will considerably reduce the high levels of water leakage which had previously occurred and thus improve the system's overall efficiency.

Quotation process

28. Quotes were sought from the council's two existing Individual District Heating term contractors - T Brown Group Ltd and OCO Ltd as explained in paragraph 14 above. The contracts include for elements of capital works for district heating pipe work repair including sections of renewal. The works in question are defined as section renewal. The contractors were requested to provide a price for the design, supply and installation of the replacement pipe work and all associated mechanical, civil and builders works.

Evaluation

29. Two quotes were returned to 160 Tooley Street on 22 May 2013. The prices submitted were as follows:

Section	T Brown Group Ltd	OCO Ltd
Main mechanical works	£3,220,800.00	£4,094,534.75

30. The quote evaluation process was assessed on 100% price only by three members of the council's Major Works team which included a Quantity

Surveyor (QS) (who will provide full quantity surveying services for this scheme).

31. T Brown Group Ltd's pricing submission was cheaper than OCO Ltd and an Order was placed on 31 July 2013 under T Brown Group Ltd's existing Individual District Heating Contract in the sum of £3,220,800 for a period of 52 weeks.

TUPE/Pension implications

32. As these were new works carried out by a contractor via an Order under its existing Individual District Heating contract, it is considered that TUPE would not therefore apply.

Plans for monitoring and management of the contract

33. T Brown Group Ltd's Individual District Heating Contract is managed on a day to day basis in-house by the council's engineering and compliance team. The work relating to this Order is being managed by the appointed mechanical and electrical project manager and senior mechanical engineer from the council's major work's team.

34. DMP's duties included but were not limited to the following:

- Check contractors design and provide comment.
- Provide technical advice to client and contractor.
- Manage the works and attend site twice weekly (and as and when required).
- Chair monthly contract progress meetings and take and distribute minutes.
- Provide full contract administration and supervision.
- Carry out quality control inspections.
- Provide monthly progress reports.
- Clerk of works duties.
- Witness testing and commissioning.
- Monitor contract programme.
- Attend resident meetings including evening meetings if required.
- Ensure full compliance with Employers Requirements.

Identified risks and how they were/ will be managed

35. Specific risks identified, impact, likelihood and mitigation controls for this Order under T Brown Group Ltd's Individual District Heating Contract are outlined below:

Risk	Impact	Probability	Mitigation
Poor performance or poor quality workmanship	Medium	Low	There have been regular monthly site meetings with T Brown Group Ltd to review performance. DMP acted as the

			<p>contract administrator, provided full mechanical supervision and established a process of quality control and inspect works.</p> <p>The contract provided for a 12 month defects liability period for all works undertaken.</p> <p>A retention of 2.5% of the overall contract sum will be held for the 12 month period following practical completion of the works.</p>
Company goes into liquidation or administration.	High	Very low	<p>Works are due to complete in 52 weeks.</p> <p>A performance bond is already in place under T Brown Group Ltd's Individual District Heating contract.</p>

Other considerations (For Housing Department works contracts only)

36. This report seeks the strategic director of housing and community services to formalise her prior approval for the award of works via an Order under T Brown Group Ltd's Individual District Heating contract as it had been considered that there were no alternative viable options due to the urgent nature of the works.

Design Specification Compliance

37. The council has a standard specification for the installation of underground heating mains which was last updated in May 2011. T Brown Group Ltd was provided with a copy of this document at quote stage.

Leasehold Implications

38. Formal legal consultation with leaseholders was undertaken. Specialist Housing Services served the estate's leaseholders with section 20 notices under schedule 3 of the regulations on 24 June 2013.

Community impact statement

39. The work proposed under this Order was to replace all remaining original sections of primary and secondary underground heating mains pipe work serving the Aylesbury Estate which falls within the Faraday ward of the borough. The impact of the works to the residents in the immediate proximity of the site was medium and did not involve them being decanted.

40. Completion of the works will increase the level of service delivery provided to the estate's residents in relation to the provision of the communal heating and hot water service.
41. These works were judged to have little or no impact on local people and communities.
42. The works will uphold the landlord's obligated responsibilities to maintain the Aylesbury Estate's district heating installation. All original sections of the old underground heating mains pipe work which was failing and could not be repaired have now been replaced. Benefits to residents will include improved service delivery and less disruption to services leading to a better quality heating and hot water service.
43. The work was managed by the council's major works team together with DMP.

Economic considerations

44. The full cost of the Order (including fees and the like) is £3,770,446. The period is 52 weeks.

Social considerations

45. The council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that, where appropriate, our contractors and sub-contractors pay staff at a minimum rate equivalent to the LLW rate. At the time that this contract was procured, the council was not an officially accredited LLW Employer. Since the submission of T Brown Group Ltd's quote, they have confirmed that they meet the LLW requirements and this will apply to the placement of this Order.

Environmental considerations

46. The pre insulated pipe work which complies with the council's specification for underground mains replacement is not manufactured in the UK. This meant that the materials had to be shipped over which in turn will have an environmental impact. However, the pipe that was specified and installed has a very high level of insulation and is therefore very thermal efficient. This alone will help reduce CO₂ emissions and the running cost of the heating and hot water on the Estate.
47. The existing redundant pipe work has been left buried in the ground so there was reduced waste to manage. The trenches were backfilled with part of the original earth and the remainder was transported and disposed of at a licensed site.

Staffing/procurement implications

48. There is no specific staffing or procurement implications.

Financial implications

49. Expenditure for this scheme was met from the Aylesbury PPM allocation.

Second stage appraisal (For construction contracts over £250,000 only)

50. The works were carried out under the council's existing Individual District Heating Term contract and therefore no second stage appraisal was sought.

Legal implications

51. The report confirms that due to the urgent nature of these works, the necessary action was carried out under CSO 4.9, quotes were obtained from the council's 2 Individual District Heating contractors and that adequate financial provision has been made to fund the expenditure associated with the delivery of this project. There are no other specific legal implications arising at this stage.

Consultation

52. Due to the urgent nature of the works, there was no prior formal consultation with residents. At the start of the works, the Area Housing Office and local Tenants & Residents Associations were notified and letters advising of the works were sent to all properties served by the estates district heating system.

Other implications or issues

53. Not applicable.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

54. As the value of this contract is below the current EU threshold for works, no formal procurement concurrent is required.

Director of Legal Services

55. The legal implications are contained within the main report. At this value, no legal concurrent is required.

Strategic Director of Finance and Corporate Services (JN09/14)

56. The report is requesting the Strategic Director of Housing and Community Services to ratify her previous approval to the works order under the individual district heating contract to T Brown Group Ltd for the Aylesbury Estate. Estate Wide Underground Heating Mains Replacement 2013/14 (Emergency Works) in the sum £3,220,800.

Head of Specialist Housing Services (For Housing Contracts only)

57. These are works of repair and are therefore rechargeable to leaseholders under the terms of their leases. There are 292 leaseholders that will be affected by the works. In accordance with the Landlord and Tenant Act 1985 (as amended) section 20 notices of intention were served on the 24th June

2013 and expired on the 1st August 2013. There were 4 observations received and these were responded to in writing. The observations were not of a nature that would impact on the award of the contract. The estimated cost per leaseholder for the works is £1,524.64.

FOR DELEGATED APPROVAL

Under the powers delegated to me in accordance with the council's Contract Standing Orders, I authorise action in accordance with the recommendation(s) contained in the above report.

Signature Gerri Scott Date 26.2.15
Gerri Scott, Strategic Director of Housing and Community Services

BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Contract file	Major Works, Housing and Community Services	John Marengi Ext. 52902

APPENDICES

No	Title
	N/A

AUDIT TRAIL

Lead Officer	David Markham, Head of Major Works
Report Author	John Marengi, M&E Project Manager
Version	Final
Dated	17 February 2015
Key Decision?	Yes

CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER

Officer Title	Comments Sought	Comments included
Head of Procurement	Yes	Yes
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Specialist Housing Services	Yes	Yes
Cabinet Member	N/a	N/a
Date final report sent to Constitutional Team		26 February 2016

