

Item No.	Classification: Open	Date: 16 January 2014	Meeting Name: Strategic Director of Housing and Community Services
Report title:		Gateway 2 - Contract Award Approval Rouel Road Estate Replacement of Underground Low Temperature Hot Water Heating and Secondary Hot Water Services Mains	
Ward(s) or groups affected:		Grange and South Bermondsey Wards, Bermondsey Area Housing Office	
From:		Head of Major Works	

RECOMMENDATIONS

1. That the strategic director of housing and community services approves the award of the Rouel Road Estate Replacement of Underground Low Temperature Hot Water Heating and Secondary Hot Water Services Mains contract to Vital Energi Utilities Ltd in the sum of £2,630,645 for a period of 42 weeks.

BACKGROUND INFORMATION

2. The planned procurement strategy was the subject of a Gateway 1 report which was approved on 12 February 2013. The approved competitive tendering procurement strategy was followed.
3. This is a **Key Decision**.
 - The tendered cost of the contract is £2,630,645 for a period of 42 weeks.
 - (plus a 2 week lead in period).
 - There is no specific extension built in to the contract.
 - The contract price is not index linked.
4. External Consultants, David Miles and Partners (DMP) were appointed on 19 November 2012 to act as Employers Agent for this project in accordance with Contract Standing Orders 5.2.
5. There have been delays to the original project timings that were advised within the Gateway 1 report. The main reason for the slippage to the original project plan are due to the following:
 - It was discovered that not all leaseholders received the Notice of Intention (NOI) when initially issued on 07 March 2013 and therefore the council's Home Ownership Unit had to issue further notices resulting in another 30 day consultation period. The NOI observations were completed on 27 May 2013.
 - There were a number of tender enquiries which had to be addressed.
 - A tender addendum for legal disrepair work was added in. DMP were instructed to produce a tender addendum for insulation work to the communal heating risers in blocks 39 – 185 and 91 - 137 Woolstaplers Way. Additional time was allowed for the specification to be produced and for tenderers to consider and price the additional works.

Procurement project plan (Key Decision)

6. See table below:

Activity	Completed by/Complete by:
Forward Plan for Gateway 2 decision	January 2014
Approval of Gateway 1: Procurement Strategy Report	12 Feb 2013
Issue Notice of Intention	07 Mar 2013
Invitation to tender	21 June 2013
Closing date for return of tenders	28 Aug 2013
Completion of evaluation of tenders	11 Oct 2013
Issue Notice of Proposal	08 Nov 2013
DCRB Review Gateway 2:	08 Jan 2014
Notification of forthcoming decision	10 Jan 2014
Approval of Gateway 2: Contract Award Report	20 Jan 2014
Scrutiny Call-in period and notification of implementation of Gateway 2 decision	31 Jan 2014
Alcatel Standstill Period (if applicable)	N/A
Contract award	03 Feb 2014
Add to Contract Register	03 Feb 2014
Contract start	17 Feb 2014
TUPE Consultation period	N/A
Contract completion date	08 Dec 2014
Contract completion date – if extension(s) exercised	N/A

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

7. There is a need to replace the existing secondary underground heating pipe network as it is in very poor condition and constantly undergoing repair to overcome leaks and bursts. The failing underground pipe work was installed circa 1977 when the estate was built and has far exceeded its expected life.
8. The current leaks on the network are compensated by the pressurisation unit located in the boiler house which is constantly introducing fresh water into the system. This is causing corrosion and damage to the communal system as a whole including the boilers and all associated plant.
9. The new underground distribution pipe network will eliminate service failures caused by underground bursts and greatly reduce maintenance costs.

10. 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.
11. Central Government is promoting the provision of district heating and promoting it as a major way of helping tackle climate change and reduce fuel poverty. This project confirms the council's ongoing commitment to the use and promotion of community heating.

Key/Non Key decisions

12. This report deals with a key decision.

Policy implications

13. In conjunction with the Government's commitment under the Kyoto Protocol (mandatory reduction of carbon emissions), Central Government has undertaken to reduce the countries carbon emissions by 50% come 2050. The Government views the promotion of community heating systems as playing a key role in achieving this target.
14. The promotion of community heating will play a key role in:
 - Tackling fuel poverty
 - Reducing carbon emissions
 - Tackling climate change
15. The council's Climate Change Strategy (approved by the executive in 2006) set a long term target to reduce borough-wide carbon dioxide emissions by 80% of current levels by 2050. The council's strategy promotes the adoption and development of communal and district heating systems as the principle means of reducing CO2 emissions across the borough.

Tender process

16. As outlined in the Gateway 1 report approved on 12 February 2013, Contract Standing Orders requires a minimum of five (5) contractors to be invited to tender from the council's works Approved List. On this occasion, five (5) contractors were invited to tender for these works. The tenders were issued on 21 June 2013 with instructions to return the completed tender by 12:00 noon on 26 July 2013. An extension of time was granted to allow tenderers additional time to consider clarifications which were raised shortly after the tenders were issued. The tender return date was extended to 12:00 noon on 09 August 2013. During this period, the council's Maintenance and Compliance division requested for heating related disrepair work on the Woolstaplers block to be added to the tender. A further extension of time was granted to incorporate this addendum and allow tenderers time to consider and price the additional works. To accommodate this, the tender return date was extended to 12:00 noon on 28 August 2013.
17. No nominations were made by leaseholders.

Tender evaluation

18. Tenders were evaluated on the basis of M.E.A.T (most economically advantageous tender) in line with Contract Standing Orders, on the basis of 70:30 price and quality.
19. Five (5) tenders were returned to 160 Tooley Street on or by 12 Noon on 28 August 2013 and were opened on 30 August 2013. Tender sums (TS) in ascending order, are as follows:

	Contractor	(TS) With tender addendum	(TS) Without tender addendum
1	Contractor 1 (Vital Energi Utilities Ltd)	£2,630,645.00	
2	Contractor 2		£2,642,579.74
3	Contractor 3	£2,758,818.69	
4	Contractor 4		£3,690,870.00
5	Contractor 5	£3,761,535.17	

20. All priced documents submitted were checked for arithmetical errors and general compliance with the tender requirements. This was addressed in the Tender Report (see Appendix 1). Contractor 4 did not provide a breakdown of addendum 5. DMP sought clarification on this point from Contractor 4 who confirmed on 25 September 2013 that their overall tender sum is £3,690,870. The submission from Contractor 2 failed to meet the minimum requirement set out in the quality bid and although addendum 5 was not priced, no further clarification was sought as their bid did not satisfy the minimum requirements.
21. The estimated cost for the works provided in the Gateway 1 report was (£3,317,275) significantly higher than the costs of the works submitted by Vital Energi Utilities Ltd.
22. The Gateway 1 report set out an estimated contract period of 59 weeks. Within their submission, the tenderers were required to provide a programme of works. Vital Energi Utilities Ltd issued a 42 week programme of works. The council's mechanical and electrical (M&E) project manager is satisfied that this is sufficient time because a majority of the work will be done during the summer months when the heating services on the Estate will be off. This shorter period could account for a lower than estimated contract sum.
23. As a separate submission within their returns, tenderers were required to provide information to support their Quality Submission that demonstrates their ability to fulfil the requirements of the contract and demonstrate experience in similar project types.

Summary Cost and Quality Evaluation				
Rank	Organisation	Quality Score (out of 30)	Price Score (out of 70)	Total Score (out of 100)
1	Contractor 1 (Vital Energi Utilities Ltd)	27	70	97
2	Contractor 3	20	67	86
3	Contractor 2*	1	69	70
4	Contractor 4	8	50	58
5	Contractor 5	9	49	58

*Contractor 2 did not meet the required minimum score threshold in their quality bid as set out in the Tender Evaluation Assessment Criteria.

24. Vital Energi Utilities Ltd scored the highest, with a combined cost/quality total score of 97/100 points. The table in paragraph 23 above shows scores for all tenderers.
25. Five (5) contractors were invited to tender for the works and all returned tenders. As such, the council's M&E project manager considered that the market has been adequately tested. The cost/quality evaluation concludes that Vital Energi Utilities Ltd offer the most economically advantageous compliant tender. In accordance with the tender evaluation methodology, it is recommended for the acceptance of the tender submitted by Vital Energi Utilities Ltd in the sum of £2,630,645.
26. The date for acceptance of the above tenders will expire on 28 February 2014.

Plans for the transition from the old to the new contract

27. Not applicable.

Plans for monitoring and management of the contract

28. The contract will be managed on a day to day basis by DMP. The finances will be managed and monitored by the council's M&E project manager.
29. In addition to DMP, there will be a senior mechanical engineer, a customer relationship officer and an M&E project manager from the council's Major Works team allocated to this project.
30. Monthly progress meetings will be held with Vital Energi Utilities Ltd and chaired by DMP, to monitor the progress of the works throughout the contract period. Both DMP and the senior mechanical engineer will carry out regular checks on the standard and quality of the work being carried out on site and ensure that they are carried out to the council's specification. DMP will provide monthly financial reports and valuations.

Identified risks for the new contract

31. It is confirmed that Vital Energi Utilities Ltd will provide a Performance Bond for this contract and the costs are included in the cost of their tender.
32. Vital Energi Utilities Ltd has confirmed that they have a parent company known as Vital Holdings Ltd and therefore a Parent Company Guarantee will be obtained for this contract.
33. Specific risks identified, impact, likelihood and mitigation controls for this contract are outlined below:

Risk	Impact	Probability	Mitigation
Does the company have enough previous experience of similar successfully delivered works	Medium	Low	Vital Energi Utilities Ltd has provided a list of successfully delivered schemes for Southwark and other Local Authorities together with other information within their tender submission Quality Bid.
Poor performance or poor quality workmanship.	Medium	Low	Regular meetings to review performance scheduled from the outset. Establish processes of quality control and works inspections before sign off. The contract provides for a 12 month defects liability period for all work undertaken.
Company goes into liquidation, administration or ceases trading.	High	Low	A Performance Bond and Parent Company Guarantee will be obtained and the council will re tender the works if necessary.

Other considerations (For Housing Department works contracts only)

34. The council has a standard specification for the installation of underground heating mains which was last updated in May 2011. DMP was provided with a copy of this document at design stage and issued this with the tender documents.

Community impact statement

35. The work proposed under this contract is to replace all of the secondary sections of underground district heating pipe work serving the estate.
36. The impact of the works to the residents will be medium and will not involve them being decanted. The connections from the new to the existing above ground pipe work will require a number of interruptions to service delivery (exact amount and timescales cannot be confirmed at this time). These interruptions will be pre-planned and adequate notice provided. In addition, the contractor will be advised

that the works on site must be phased to ensure that each planned interruption to service does not exceed a 24 hour time period.

37. Upon completion, the works will help increase the level of service delivery provided to the residents for the communal heating and hot water service and will meet the commitment of the Executive Committee to maintain a reliable heating service. In addition, the works will also help reduce the energy costs for the Estate's communal heating system.
38. It is anticipated that residents will be receptive to the works. There will however be some concern over the timescales for the project, particularly in regard of outages as a result of the changeover from existing to new.
39. The Estate's heating system is set up to operate when the external ambient temperature drops below 17°C therefore, it is anticipated that the heating circuit will be off but on standby for most of the summer period. Vital Energi Utilities Ltd will programme a majority of the changeovers during the summer months when the Estate's heating is off, thereby minimising inconvenience to residents. The new secondary hot water services pipe work will be installed along side the existing heating pipe work whilst the existing hot water services are still in place and operational. This process will enable the contractor to change over the hot water services pipe work from existing to new in each block in under 12 hours. Once the new hot water services are in place, the redundant hot water services pipe work will be removed and the new secondary heating services pipe work installed in its place. In the event of inclement summer weather and the outside ambient temperature falling below 17°C, residents will be offered temporary electric fan heaters to use during the changeover period.
40. Overall the undertaking of these works has been judged to have little or no significant impact on local people and communities. There will be temporary closures to some of the estate's foot paths while excavation works are being undertaken, however this will be kept to a minimum.

Economic considerations

41. The full cost of the contract (including fees and the like) is £2,874,153. The contract period is 42 working weeks.
42. Where possible, Vital Energi Utilities Ltd will be using local companies in their sub-contracting and supply chain arrangements.

Social considerations

43. In February 2012, the Council Assembly introduced plans to ensure that, where appropriate, contractors pay staff at a minimum rate equivalent to the London Living Wage (LLW) rate. Vital Energi Utilities Ltd has confirmed that they pay the LLW rate. On award, the quality improvements and cost implications will be monitored as part of the annual review of the contract.

Environmental considerations

44. The specialist material (pre insulated pipe work) required for underground mains replacement is not manufactured in this country. This means that the materials have to be shipped over which in turn will have an environmental impact. However, the pipe that is specified by the council 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.

45. The redundant underground pipe work will be left buried in the ground so there will be reduced waste to manage. The trenches will be backfilled with part of the original earth and the remainder will be transported to a licensed site for disposal. The redundant steel pipe work installed in the ducts below the blocks will be removed and recycled.

Market considerations

46. Due to the specialist nature of this work and taking account of the circumstances with the limited market available, the council's M&E project manager is satisfied that the market has been tested as well as possible and that the tender recommended for acceptance represents good value for money.
47. Past experience has shown that the vast majority of labour on site will be supplied from staff directly employed by the specialist sub-contractors appointed by Vital Energi Utilities Ltd. However, Vital Energi Utilities Ltd will be encouraged to make use of local labour wherever possible. Vital Energi Utilities Ltd will advertise the post of Resident Liaison Officer (RLO) to all residents on the Estate in the first instance.
48. Vital Energi Utilities Ltd:-
 - Is a private organisation.
 - Has between 225 & 250 employees.
 - Operates nationally.

Staffing implications

49. The council's Major Works team together with DMP will undertake the roles of project manger, construction project manager, mechanical engineer, Construction Design Management Coordinator (CDM-C), quantity surveyor and clerk of works.

Financial Implications

50. Expenditure for this scheme will be met from the Warm Dry Safe (WDS) Capital allocation.

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

51. A second stage appraisal was sought. The result showed that Vital Energi Utilities Ltd had an Experian Delphi score of 70 and were classed as below average risk for failure.

Legal implications

52. In line with the requirements of Contract Standing Orders, the report confirms that tenders were invited from contractors on the council's works Approved List (contractors who carry out these specialist works) 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

- 53. The two stage consultation process with home owners has been carried out and all observations addressed. Following approval of this report, letters will be sent out to all residents inviting them to a drop in session at the Rouel Road Tenants and Residents Association hall to address any queries or issues they may have in regards to the works.
- 54. Vital Energi Utilities Ltd will issue regular newsletters to all residents on the Estate throughout the contract period.

Other implications or issues

- 55. Not applicable.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

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

Director of Legal Services

- 57. The legal implications are contained within the main report.

Strategic Director of Finance and Corporate Services (CAP13/071)

- 58. The report is requesting delegated approval from the Strategic Director of Housing and Community Services to award the works contract package entitled "Rouel Road Estate Replacement of Underground Low Temperature Hot Water Heating and Secondary Hot Water Services Mains" to Vital Energi Utilities Ltd.

Head of Specialist Housing Services (For Housing contracts only)

- 59. S20 Statutory consultation under the legal requirements of the Landlord & Tenant Act 1985 (as amended) has been carried out in full, 17 observations were received and answered. Service charge implications for the 431 leaseholders across the estate will be invoiced on an estimated basis in 2014 and will bring into the HRA a gross of £767,200.88 including professional and management fees. The highest service charges will £1,790.19 and the lowest £999.77. Freeholder contributions will be invoiced upon final account, the current budget estimate would create a further service charge income of £130,638.70 based on the current stock of 71.

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 *Gavin Scott* Date..... *27.1.14*

Designation **Strategic Director of Housing and Community Services**

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
GW1 Report (open report) - Rouel Road Estate Replacement of Underground Low Temperature Hot Water Heating and Secondary Hot Water Services Mains	160 Tooley Street, SE1 2QH	John Marengi

APPENDICES

No	Title
Appendix 1	Further information is contained in the closed version of this report.

AUDIT TRAIL

Lead Officer	David Markham – Head of Major Works
Report Author	John Marengi – M&E Project Manager
Version	Final
Dated	16 January 2014
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
Departmental Contract Review Board	Yes	Yes
Cabinet	n/a	N/a
Date final report sent to Constitutional Team		27 January 2014